

## **Frequently Asked Questions About 2016 Shoreline Levy Lid Lift**

### **1. What is a levy?**

Property tax systems can be either rate-based or levy-based. In a rate-based system, the taxing authority sets a tax rate. The rate is then multiplied by the assessed value of the property. In this manner, the tax is directly tied to the assessed value. Property tax collections increase or decrease with property values.

Washington State is one of two states that use a levy-based property tax system as opposed to rate-based system. Under Washington's levy-based system, state law allows a taxing district to collect a specified total dollar amount (the levy) per year. The county assessor calculates the tax rate by dividing the levy by the total value of all property within the jurisdiction. The tax rate is typically expressed in dollars per \$1,000 of assessed value. So, if the total value of property within a jurisdiction falls, the rate would increase to raise the same amount of money. If property values increase, then the rate would decrease to collect the same amount of money.

### **2. What does levy lid lift mean?**

Washington's property tax is a levy-based property tax system, which means state law allows a taxing district to collect a specified total dollar amount (the levy) per year. State law limits levy increases to 1% per year. The exception to this rule is the levy lid lift, which allows taxing jurisdictions to go to the voters to ask that the levy rate be increased (lid lift) to an amount equal to or less than the statutory maximum tax rate (\$1.60).

### **3. Why is the City seeking a levy lid lift?**

In 2010, Shoreline voters approved a basic public safety, parks and recreation, and community services maintenance and operations levy. The levy expires at the end of this year. The City is seeking to restore that levy.

State law requires the City to balance its budget; it must address any gap through increased revenues or reductions in costs. A reduction in costs means a reduction in services since that is primarily what the City provides. Restoration of the levy will help address forecasted budget gaps resulting from the cost of providing city services increasing faster than its revenue streams, particularly property tax.

The City's single largest source of revenue for operations is property tax. The amount the City can collect in property tax is limited to a 1% increase per year. Inflation, on the other hand, has no limit. Over the past six years (2011-2016) the consumer price index (CPI), which measures inflation, has had an average increase of approximately 2% per year. The City's costs have increased at an even higher rate. In the last six years, the City's costs have increased on average 4% per year. Examples of City costs that are different from the typical consumer's costs include road maintenance supplies (asphalt); criminal justice services, including jail and court services; infrastructure maintenance; police services; streetlights and signals; etc.

#### **4. Has the City taken steps to contain costs to maintain services?**

Yes. The City has made a number of budget and operational changes to help contain costs while maintaining services, including:

- Implementing an alternative health benefit policy.
- At times, making base budget reductions in areas such as training and travel, extra-help work positions, professional (contracted) services, supplies and other miscellaneous areas.
- Alternative delivery options (e.g. canine officer contract; bringing street sweeping and athletic field preparation in house.)
- Managing Jail Costs (e.g. using Yakima and SCORE instead of King County.)
- Joint supervision of Police Department shifts between Shoreline and Kenmore.
- Reduced staff by 9.34 FTE from 2008-2013 in response to the recession.
- Undertook cost of service and fee recovery evaluations for parks, permitting, and inspection functions to ensure that fee levels are appropriate.
- Using more on-line self-service options (e.g. recreation program registration.)
- Reduced irrigation in parks to support tree maintenance program.

#### **5. What is the City's financial position?**

City maintains fully funded reserves and a "rainy day reserve" to help in the event of a temporary downturn in the economy. The City maintains a Moody's AA+ bond rating and a Standard & Poor's (S&P) financial management rating of "stable."

#### **6. How much of my property tax goes to the City?**

In 2016, a typical homeowner will pay approximately 13% of their total property tax bill to the City of Shoreline. Eleven percent goes to the City to provide basic city services and the other 2% goes to pay debt service on the 2006 voter approved Parks Bond.

#### **7. How many votes are needed to pass the levy lid lift?**

A simple majority (50% +1) of voters is needed to pass the levy lid lift.

#### **8. Where will the money go?**

Property taxes collected by the City go into the City's General Fund, which funds most of the day-to-day services provided by the City. If Shoreline voters' approve the levy lid lift, the money collected will help fund police and emergency protection, including neighborhood patrols and crime prevention; help fund maintenance of parks, trails, playgrounds/playfields and the Shoreline Pool; and continue funding community services for seniors, youth, and individuals and families in need.

#### **9. How much will the levy cost me?**

A homeowner with a median home value (\$353,000 in 2016) would pay on average \$84 more per year over the six-year levy to maintain current services. That is approximately \$7 per month.

#### **10. Who decided to place a levy lid lift on the ballot?**

Earlier this year, the City Manager engaged a 13-member Financial Sustainability Citizen Advisory Committee (FSCAC) to review the City's finances and services, and provide a recommendation for how best to provide the financial resources needed to ensure the long-term delivery of basic services to the Shoreline community. The Committee reviewed the strategies adopted in the City's 10-Year Financial Sustainability Plan and identified City services that should be maintained, increased, and/or reduced to meet the needs of the Shoreline community.

The majority of committee members (11 of 13) supported resetting the levy rate to \$1.48 in 2017 (same rate approved by voters in 2010), and then pegging increases to inflation for the five years after that. Some members recommended resetting the rate even higher to \$1.60, while two members recommended keeping the rate pegged to inflation without a reset.

After receiving revised reports from the King County Assessor's Office that Shoreline's assessed values for 2016 would rise 10%, the City Manager recommended to the City Council that it restore the 2017 levy rate to \$1.39 instead of \$1.48.

On July 11, the Council discussed the levy lid lift and on July 25 unanimously voted to place the levy lid lift on the November 8 general election ballot.

#### **11. When will the vote on the levy lid lift be held?**

The levy lid lift will be on the November 8, 2016, general election ballot.

#### **12. What happens if the levy lid lift fails?**

If the levy renewal does not pass, the City will need to begin making decisions on reductions to basic city services starting in 2017. Over time, unless the City finds other revenue sources, the reductions to basic city services will grow and have impacts to those services. The City will prioritize services that will be reduced, which are likely to include programs the City is not legally required to provide, such as:

- neighborhood services
- the pool
- school resource officer (which is a Shoreline Police officer)
- communications
- parks maintenance
- recreation programs
- funding for cultural and historical programming

### **13. Is the levy lid lift related to development in station subareas?**

No. Development of private property anywhere in the City, including the station subareas, has and will continue to require developers to pay and make off-site improvements, such as street frontage (curb-gutter-sidewalk, amenity strips, and street overlay) as well as infrastructure improvements on-site, and utility (water, sewer, electrical) upgrades off-site and sometimes further down utility corridors if larger system improvement are needed. The City requires Transportation Impact Fees (TIF) from developments to contribute funding for larger area, capital projects such as street corridors. Future additional residents that live in these developments will be paying taxes for ongoing city and other governmental services.

The City currently offers a multi-family residential property tax exemption (PTE) program to encourage the provision of affordable housing. Multi-family developments are projects that have four or more attached units. These units can be either ownership or rental properties. The City only permits PTE on projects that have committed to rent 20% of the project's units at sale or rental prices that meet a specific threshold of affordability. Currently, station subareas are not part of the PTE program. Currently, the City only offers the PTE in the following seven areas:

- Aurora Ave. N. Corridor;
- Ballinger Way NE Commercial Area;
- Hillwood Commercial Area;
- North City Business District;
- Richmond Beach Commercial Area;
- Ridgecrest Commercial Area; and
- Southeast Neighborhoods Commercial Area.

### **14. How much has the City's property tax collections decreased as a result of the City's property tax exemption program (PTE)?**

Currently, there are three developments taking advantage of the City's property tax exemption program: Arabella (109 Units), Malmo (128 Units), and North City Development (4 Units) for a total of 241 Units. Only the value of the buildings is exempt from tax, the land value remains in the City's assessed valuation and is taxed. The City also receives both sales tax and utilities taxes as a result of the development itself and the occupied housing units.

We estimate that each multi-family housing unit generates about \$295 of additional tax revenue annually for the City, from Sales, Utility, and Property Tax. We estimate that the property tax exemption incentive reduces this amount by about \$95 per year per unit for the exemption period (10-12 years depending on the program). So for 2016, the City is collecting approximately \$23K less as a result of the City's multi-family property tax exemptions. Arabella's exemption

period ends in 2016, so the full value of that property will come on the rolls in 2017, reducing the number of units exempted to 132 or about \$13K.

It is important to remember these exemptions are offered for many purposes. Washington's legislature initially instituted the program to encourage multifamily housing, which provides a way to prevent urban sprawl. But the law now also serves as an incentive to build and ensure more affordable housing is developed in Shoreline. While the City only collects a small portion of property tax, the value of the exemption to the developer is a lot more than the City's portion. Without the incentive, the property may not have been developed at all or may not include affordable units. In addition to the ongoing sales taxes generated from new units, the City also receives one-time sales tax from the actual construction as well as permit and inspection fees that offset the development review and inspection. From a revenue perspective, even though we give up some revenue in the early years, the long-term positive impact is significant. These developments help spread the long-term tax burden to benefit all residents. From a social perspective, we are encouraging housing for residents who will help to sustain our community in years to come in a form that enables the region to manage growth responsibly.