



Memorandum

DATE: July 15, 2022

TO: City Councilmembers

FROM: Debbie Tarry, City Manager
Sara Lane, ASD Director

CC: John Norris, Assistant City Manager
Christina Arcidy, CMO Management Analyst
Christy Hopkins, Budget Analyst

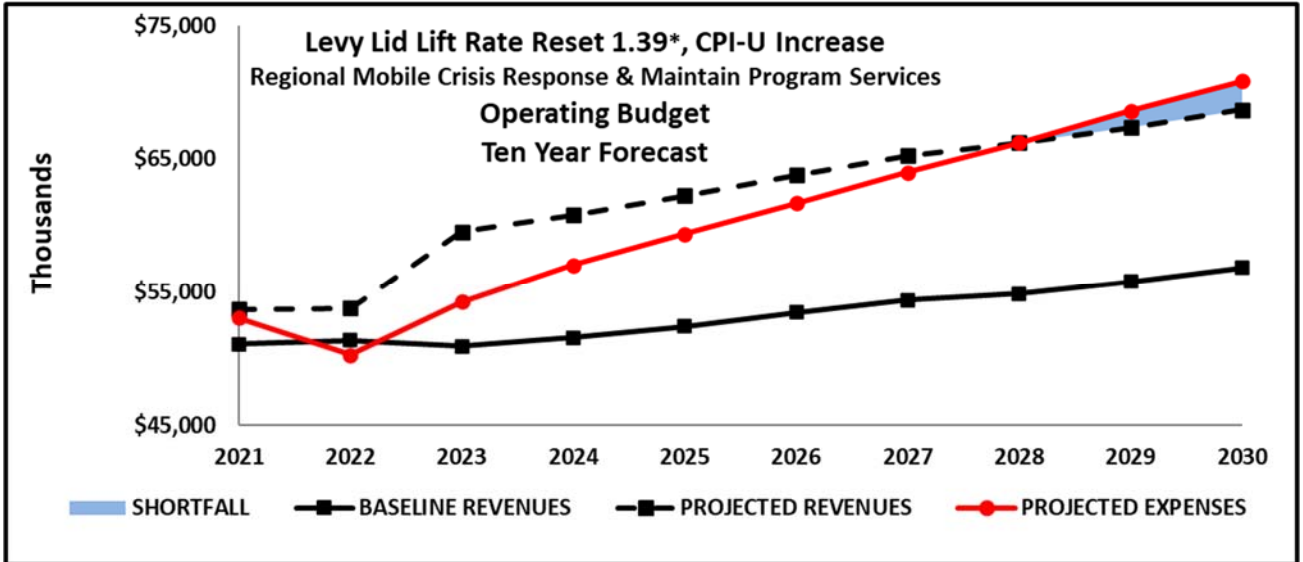
RE: Levy Lid Lift Update

Since the June 27 discussion on Resolution No. 492 to place a Levy Lid Lift on the November 8 ballot, we have received two critical pieces of new information: 1) preliminary projected 2023 assessed value (AV) increase from the King County Assessor, and 2) the June 2021-June 2022 CPI increase. Staff has re-run the 10 Year Financial Sustainability Model (10 YFSM) with this new data, and are providing you with an update ahead of the July 18 Council Meeting, where Council is scheduled to take action on the Levy Lid Lift Resolution.

Assessed Value Increase: The King County Assessor's Office has shared preliminary estimate of the increased the 2023 assessed value at 17% from the 2022 values instead of the 12% staff included in the 10 YFSM. This will take Shoreline's median assessed property value from \$625,000 in 2022 to \$731,250 in 2023. If the levy was set at \$1.40/\$1,000 AV, this would mean that the City would likely collect \$900,000 more in property tax revenue than was in the forecast. Please note that this is not the final assessed valuation and it may still change, but it provides a closer estimate than we had when we updated the forecast in May.

CPI Increase: The year-over-year change in CPI will be 10.14% versus the 6.67% staff included in the 10 YFSM update in May. Cost of living increases (COLA), for non-represented staff, and many of the City's contracts are tied to the annual CPI increase through contracts or by historical practice. Not all revenue streams grow with inflation, though many of the City's costs increase at a rate above CPI. One such example is the City's Police contract, which is anticipated to increase by at least 14% in 2023 due to increased liability insurance costs, the implementation of body worn cameras, increased fuel costs, anticipated salary cost of living adjustments (the Deputy Union is currently in negotiations for labor contracts that were to start in 2022), etc. If Council wanted to purchase the goods and services originally considered if the levy was set at

\$1.40/\$1,000 AV, Council could reduce the levy rate to \$1.39/\$1,000 AV. This takes into account the updated assessed value increase and the updated CPI increase.



*Same level of service previously proposed at 1.40 which includes Regional Mobile Crisis Response, Partial Funding of Emerging Issues and/or Support Services, and Park Maintenance.

Impacts to median property owner: If the Council were to choose to put a maximum 2023 levy rate of \$1.39/\$1,000 assessed valuation in the proposed ballot measure, staff estimates that a homeowner of a median assessed valued home will pay \$2,194 more than under the No Action alternative over the six-year period, or an annual average increase of \$366 per year/\$30 per month. This option would increase City property tax collections beginning in 2023 and could eliminate the potential budget gap projected to occur in 2024 through 2028.

This scenario reflects the updated 17% change in assessed valuation and 10.14% CPI increase.

| Estimated impact to the median homeowner with Levy Lid Lift rate reset to 1.39 and CPI-U increase. | | | | | | | | |
|--|----------------|--------------------------|---|-----------|---|-----------------|------------------------------------|---------|
| Year | Assessed Value | Per \$1,000 (AV/\$1,000) | | Levy Rate | | City Assessment | Difference to No Action (1% Limit) | Monthly |
| 2023 | \$731,300 | \$731 | X | \$1.39 | = | \$1,016 | \$302 | \$25 |
| 2024 | \$751,700 | \$752 | X | \$1.42 | = | \$1,067 | \$336 | \$28 |
| 2025 | \$769,400 | \$769 | X | \$1.42 | = | \$1,094 | \$358 | \$30 |
| 2026 | \$791,200 | \$791 | X | \$1.43 | = | \$1,128 | \$378 | \$32 |
| 2027 | \$817,000 | \$817 | X | \$1.42 | = | \$1,161 | \$400 | \$33 |
| 2028 | \$843,000 | \$843 | X | \$1.41 | = | \$1,189 | \$420 | \$35 |
| Total over 6 Year Period 2023-2028 | | | | | | \$6,655 | \$2,194 | |

For reference the following table reflects the impact to Taxpayers as originally estimated at 1.40 with the 12% assessed valuation increase and 6.67% CPI. Under this scenario the average

annual increase was \$293 per year/\$24 month. It should be noted, that if staff were to develop a scenario using the average annual increase of \$293 per year/\$24 month, that it would no longer provide a projected balanced budget over the six-year period as a result of greater than anticipated rate of inflation.

| Estimated impact to the median homeowner with Levy Lid Lift rate reset to 1.40 and CPI-U Increase. | | | | | | | | |
|--|----------------|--------------------------|---|-----------|---|-----------------|------------------------------------|---------|
| Year | Assessed Value | Per \$1,000 (AV/\$1,000) | | Levy Rate | | City Assessment | Difference to No Action (1% Limit) | Monthly |
| 2023 | \$630,100 | \$630 | X | \$1.40 | = | \$881 | \$239 | \$20 |
| 2024 | \$647,700 | \$648 | X | \$1.43 | = | \$925 | \$268 | \$22 |
| 2025 | \$662,900 | \$663 | X | \$1.43 | = | \$948 | \$287 | \$24 |
| 2026 | \$681,700 | \$682 | X | \$1.43 | = | \$978 | \$304 | \$25 |
| 2027 | \$703,900 | \$704 | X | \$1.43 | = | \$1,007 | \$322 | \$27 |
| 2028 | \$726,300 | \$726 | X | \$1.42 | = | \$1,031 | \$340 | \$28 |
| Total over 6 Year Period 2023-2028 | | | | | | \$5,770 | \$1,759 | |

Additionally, we have received an inquiry from Councilmember Mork to provide a scenario that maintained current budget levels and added only the RADAR funding. This scenario was discussed in the June 13, 2022, staff report and Council meeting. The scenario assumed a reset of the levy rate to \$1.35/\$1,000 assessed valuation in 2023, with CPI increases in the levies for 2024 through 2028. We have updated the calculations for this scenario and determined that the rate would remain at \$1.35. However, the impact to homeowners when updated for the increased valuation has increased to a \$2,009 more than under the No Action alternative over the six-year period, or an increase on average of \$335 per year/\$28 per month.

| Estimated impact to the median homeowner with Levy Lid Lift rate reset to 1.35 and CPI-U Increase. | | | | | | | | |
|--|----------------|--------------------------|---|-----------|---|-----------------|------------------------------------|---------|
| Year | Assessed Value | Per \$1,000 (AV/\$1,000) | | Levy Rate | | City Assessment | Difference to No Action (1% Limit) | Monthly |
| 2023 | \$731,300 | \$731 | X | \$1.35 | = | \$988 | \$273 | \$23 |
| 2024 | \$751,700 | \$752 | X | \$1.38 | = | \$1,037 | \$306 | \$26 |
| 2025 | \$769,400 | \$769 | X | \$1.38 | = | \$1,064 | \$328 | \$27 |
| 2026 | \$791,200 | \$791 | X | \$1.39 | = | \$1,097 | \$347 | \$29 |
| 2027 | \$817,000 | \$817 | X | \$1.38 | = | \$1,129 | \$368 | \$31 |
| 2028 | \$843,000 | \$843 | X | \$1.37 | = | \$1,156 | \$387 | \$32 |
| Total over 6 Year Period 2023-2028 | | | | | | \$6,471 | \$2,009 | |

Updated Staff Recommendation: Staff now recommends that Council amend draft Resolution No. 492 to include a levy rate of \$1.39/\$1,000 assessed value due to the changes in assessed values and CPI.