CITY OF SHORELINE

July 18, 2022

Geoffrey Dairiki
dairiki@dairiki.org

Dear Geoffrey Dairiki:

Thank you for your July 12 email regarding the Levy Lid Lift (LLL). The Mayor and City Council appreciate you taking the time to write and have asked that I respond to you on their behalf.

In your letter you note concern that the LLL will result in an increase in the City's Gross Revenue of 50% or more. At the $1.40 level, the LLL would result in projected property tax collections of $21 million, or an additional $3.7 million more than if the 2023 rate was simply raised by CPI. That increase is about 24% over 2022 property tax revenues. Because property tax makes up about 35% of the City's General Operating Revenues, which are projected at $53.8 million for 2023, the increase in the City's gross general revenues is much smaller at approximately 6.8%. It is also important to note that not all revenue streams grow with inflation, and that many of the City's costs increase at a rate above CPI. One such example of expenses rising faster than inflation is our contract with the King County Sheriff's Office for police services. The Police contract is anticipated to increase by approximately 14% in 2023 due to insurance costs, the implementation of body worn cameras, fuel costs, and salary increases.

You correctly state that the Levy Lid Lift allows for a one-time reset of the rate in the first year of the levy lid lift and that this increase is significantly greater than the anticipated rate of inflation when focused strictly on property tax collections. That is actually by design. The proposed rates were recommended based on an evaluation of the City's projected expenses to support modest increases in some areas of service (i.e., co-response of Police and behavioral health navigators) and to maintain service levels in other areas over the six-year LLL period. State law requires that a LLL ballot measure set a rate for the first year of the levy lid lift and then include a factor for future year levy (not the rate) escalation. The intent of setting the initial rate, along with the future levy escalation, is to ensure that the operating revenues over the six-year period are adequate to support the ongoing expenses in each year of the forecast. This aligns with the City's Financial Policy of the use of ongoing revenues to support ongoing costs.

This approach does create some one-time surpluses in the early years of the six-year LLL period. We anticipate that setting the levy rate at $1.40 for year one the LLL would generate approximately $15 million in one-time surplus over the first five years. Historically, the City has used one-time revenues to fund specific one-time needs, such as grant match requirements; construction of City Hall or other facilities; other infrastructure improvements such as in parks, streets and/or sidewalks; investment in technology systems for service efficiencies; purchase of equipment to support new services; and other one-time costs to support the delivery of the Council's adopted goals.

Prior to presenting a recommendation regarding the LLL to Council, staff convened a Financial Sustainability Advisory Committee to evaluate the options for the levy lid lift. The committee learned about the services supported by the LLL and the City's 10-year financial sustainability

model. Information on that Committee's work is available here:
https://www.shorelinewa.gov/government/departments/administrative-services/ten-year-financial-sustainability-project/financial-sustainability-advisory-committee-2022

Finally, you note that the Shoreline property assessment values are likely to increase significantly between 2022 to 2023 and that this increase will also generate additional revenue and therefore the rate could be lower than $1.40. The assessed valuation estimate is challenging because King County does not finalize assessments until after the City is required to adopt a resolution to the LLL on the November General Election ballot. We used an estimate of 12% increase in our forecast.

This week we received an updated preliminary estimate from King County that would place the assessed valuation increase at 17%. While this change alone might support a reduction in the rate, we also learned that the year-over-year change in CPI will be 10.14% versus the 6.67% we included in our financial model. These counterbalancing changes make the net outcome of the model similar, with a slightly positive impact that could support a reduction of $0.01 in the rate to achieve the same outcome. Since the final assessed valuation numbers may not be known until later this fall, I want to note that the rate included in the final ballot language will be a "maximum" rate that could be assessed in 2023 if approved by voters.

Council will be evaluating all these factors, the operational needs of the City, and the impacts to residents before making the final decision on the maximum rate to include with the LLL. If approved by voters, Council would set the actual rate for 2023 during their budget deliberations in the fall after evaluating specific budget needs.

Thank you again for contacting the City Council. If you would like to discuss this further, please contact me at (206) 801-2301 or slane@shorelinewa.gov. We very much appreciate feedback and suggestions.

Sincerely,

Sara Lane
Administrative Services Director

cc: Mayor and City Council
Debbie Tarry, City Manger