Proposition 1: 2022 Levy Lid Lift FAQs

At Shoreline City Council's regular council meeting on July 18, Council adopted Resolution No. 492, which places a levy lid lift on the November 8 general election ballot. If approved by Shoreline voters, Proposition 1 would maintain current levels of police and community safety services, including neighborhood safety patrols; traffic enforcement in school zones and neighborhoods; and community crime prevention programs. It would also enhance the RADAR Program by adding mental health professional teams to provide 24/7 response with police to community members in behavioral health crisis. Proposition 1 would also preserve safe, well-maintained, and accessible parks and trails; playgrounds and play equipment that meet safety standards; playfields and restrooms; and preserve recreation programs for youth, adults, families, and seniors. Proposition 1 would continue funding for community services for seniors, youth, and individuals and families in need, including homelessness response services. The levy would also sustain the City's code enforcement and customer response programs.

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 amount 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, with a levy-based system when the total value of property within a jurisdiction falls, the rates increase to raise the same amount of money, and when 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?

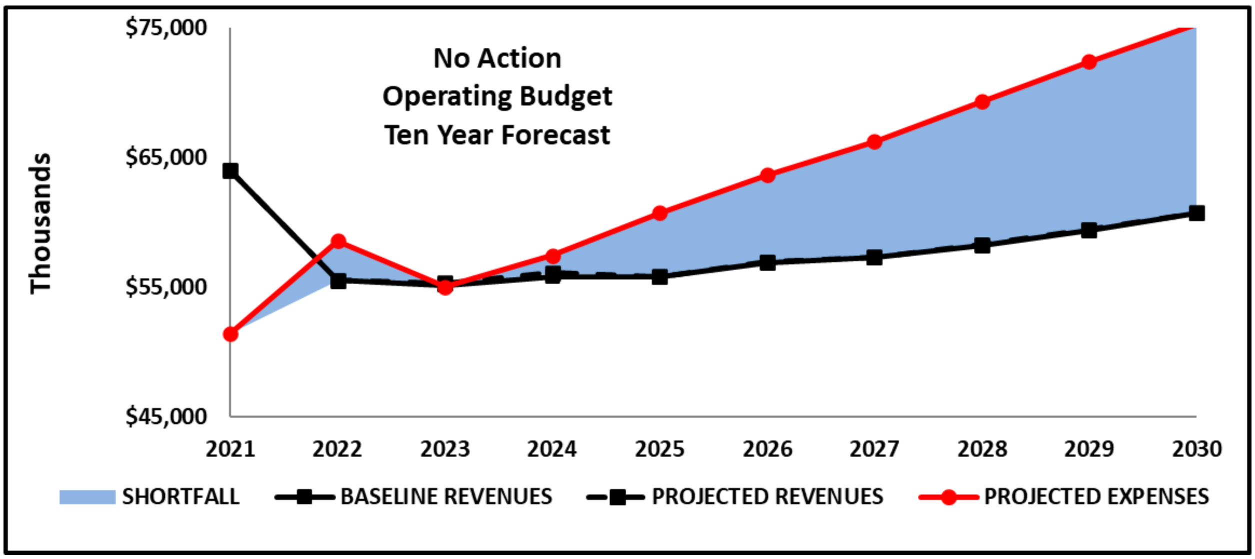
Under state law, levies can only last for a maximum of six years. In 2010 and again, in 2016, Shoreline voters approved six-year levy lid lifts for basic public safety, parks and recreation, and community services maintenance and operations. The most recent 2016 levy lid lift expires at the end of this year. The City is seeking to restore that levy lid lift.

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

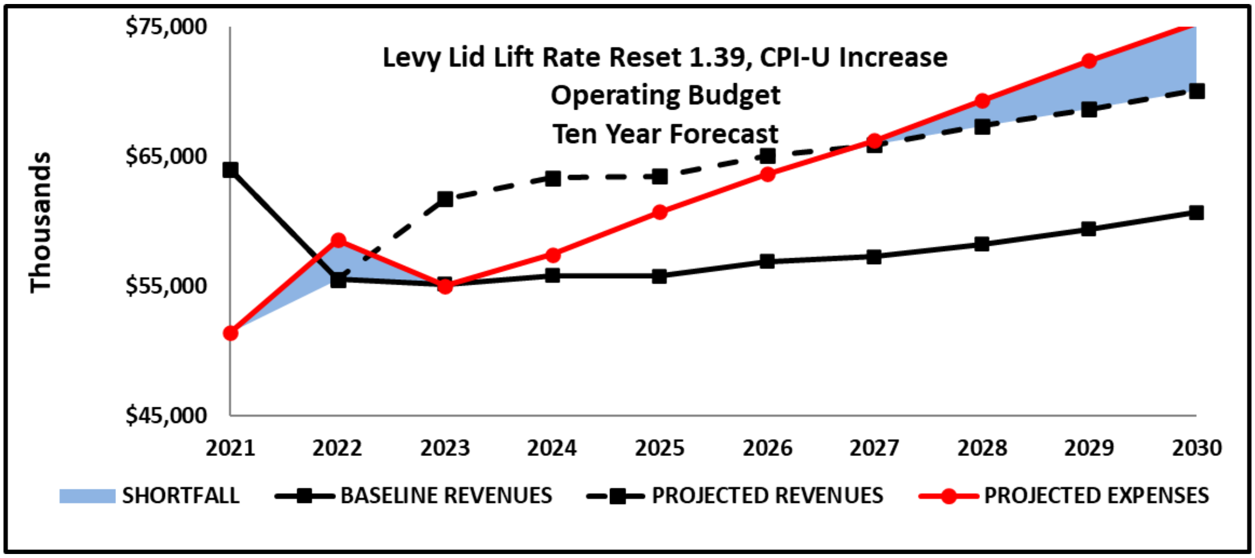
City provides. Restoration of the levy lid lift will help address forecasted budget gaps projected to start in 2024 due to the cost of providing city services increasing faster than the revenue streams, particularly property tax, to fund those services.

The City's single largest source of revenue for operations is property tax. State law limits the amount the City can collect in property tax to a 1% increase per year. Inflation, on the other hand, has no limit. Over the past six years (2017-2022) the consumer price index (CPI), which measures inflation, has increased more than 1% in most years. This year's CPI for the Seattle, Tacoma, and Bellevue region is 10.14%. Some major city expenses, such as our contract for police services and the cost of road maintenance supplies, such as asphalt, often increase at rates even higher than CPI. Because the City is required to pass a balanced budget, we must absorb any cost increases, which typically means providing lower levels of service.

If no action is taken (meaning there is no levy lid lift) and property tax increases remain at the statutory limit of 1%, the City is projected to develop a shortfall in 2024. To make up for any shortfall, the City will need to make service cuts.



If Proposition 1 passes, the current forecast projects the City being able to provide the current levels of service through the six-year term of the levy as seen in the chart below.



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

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

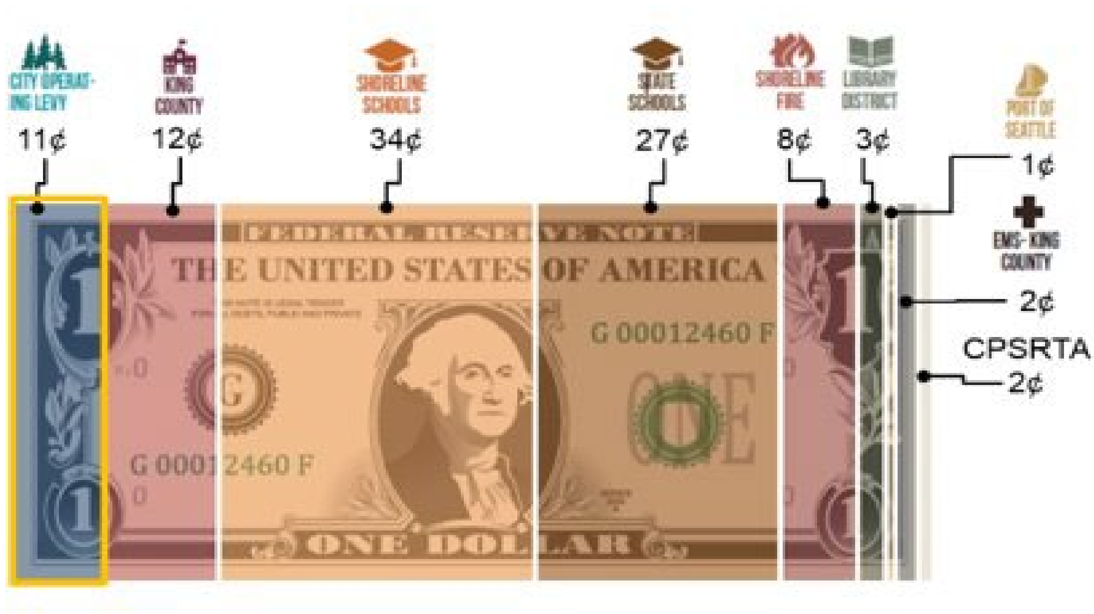
- Alternative delivery options (e.g., canine officer contract; bringing street sweeping, grounds maintenance, and athletic field preparation in house.)
- Managing Jail Costs (e.g., using lower cost contracts at Yakima and SCORE jails instead of King County Jail.)
- Joint supervision of Police Department shifts between Shoreline and Kenmore.
- Using more on-line self-service options (e.g., recreation program registration and permitting.)

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 2022, a typical homeowner pays approximately 11% of their total property tax bill to the City of Shoreline. That money goes to the City to provide basic city services. In 2023, an additional 2% will go towards paying debt service on the 2022 voter approved Parks Bond.



2022 dollar

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 operating budget, which funds most of the day-to-day services provided by the City. If approved by Shoreline voters, Proposition 1 would maintain current levels of police and community safety services, including neighborhood safety patrols; traffic enforcement in school zones and neighborhoods; and community crime prevention programs. It would also enhance the RADAR Program by adding mental health professional teams to provide 24/7 response with police to community members in behavioral health crisis. Proposition 1 would also preserve safe, well-maintained, and accessible parks and trails; playgrounds and play equipment that meet safety standards; playfields and restrooms; and preserve recreation programs for youth, adults, families, and seniors. Proposition 1 would continue funding for community services for seniors, youth, and individuals and families in need, including homelessness response services. The levy would also sustain the City's code enforcement and customer response programs.

9. How much will the levy cost me?

A homeowner with a median home value (estimated for 2023 to be $731,300) would pay on average $366 more per year over the six-year levy to maintain current services. That is approximately $30 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 Advisory Committee (Committee) to review the City's finances and services and provide a recommendation for a potential levy lid lift. The Committee reviewed the City's budget and finances and heard from department directors about services impacted by the levy lid lift. All the Committee members agreed that the City Council should place a levy lid lift ballot measure on the November 2022 general election ballot.

On June 27, the Council discussed the levy lid lift and on July 18 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, 2022, general election ballot.

12. What happens if the levy lid lift fails?

If Proposition 1 does not pass, the City will need to begin making decisions on reductions to basic city services starting in 2023. 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,
- communications,
- parks maintenance,
- recreation programs,
- cultural and historical programing,
- human services, and
- homelessness outreach and support.

13. What about seniors on a fixed income?

Senior citizens or persons with disabilities may qualify for tax exemptions or tax deferrals. Contact the King County Assessor’s Office at 206-296-3920 or kingcounty.gov/assessor for information.

14. 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 improvements are needed. The City requires Transportation Impact Fees (TIF) from developments to contribute funding for larger area capital projects such as street corridors. These capital projects are identified as Eligible Growth Projects by City Council and reflects the City “growth pays for growth” policy. Future additional residents that live in these developments will be paying taxes for ongoing city and other governmental services. The City also requires Park Impact Fees (PIF) for all residential developments (single-family and multi-family) to pay for growth related demands for more park space and amenities. The City receives around $7,000 per unit in TIF and PIF from new developments. For example, a 300-unit multi-family housing project would pay about $2.1 million in TIF and PIF for parks and transportation projects.

15. How much has the City's property tax collections decreased because of the City's Multifamily Property Tax Exemption program (MFTE, also known as PTE)?

The City currently offers a multi-family property tax exemption (MFTE, also known as PTE) program to encourage the provision of affordable housing. Eligible projects have four or more attached units with at least 20% of the project's units at sale or rental prices that meet a specific threshold of affordability for 12 or 99 years. Participating projects are exempted from property taxes on the new improvements for 12 years, or 20 years for projects committing to affordability for 99 years. Either way, taxes on the land value, often the majority of a property's value prior to redevelopment, continue to be collected as do other sources of revenue which exceed the exemption. Currently, the City offers MFTE in the following nine areas:

- Aurora Ave. N. Corridor
- Ballinger Way NE Commercial Area
- Hillwood Commercial Area
- North City Business District
- Richmond Beach Commercial Area
- Ridgecrest Commercial Area
- Southeast Neighborhoods Commercial Area
- Shoreline North/185th St. Station Subarea
- Shoreline South/148th St. Station Subarea

The City's MFTE program has enrolled 14 projects representing the addition of 1,778 new multifamily units, including 473 affordable units provided within these new mixed-income multifamily communities.

We estimate that each new resident of a multi-family housing unit adds the following to the City's revenue each year :

- Sales & Use Tax: As new residents occupy the multi-family units, they buy goods in Shoreline that generate sales tax. On average, staff estimates that each resident of a multi-family unit generates approximately $166.85 per year of sales taxes in Shoreline.
- Utility Taxes: Residents of multi-family housing use a variety of utilities, which are subject to utility taxes and franchise fees. This includes water, wastewater, solid waste, electricity, natural gas, cable, telecommunications, and surface water. On average, staff estimates that each resident of a multi-family unit generates more than $100 per year in utility taxes.
- State Shared Revenues: Many of the state shared revenues distributed to the City are based on a per capita basis. Assuming that the average multi-family unit occupancy is two people per unit, each resident of a unit generates approximately $36.15 per year of state shared revenues.

Because these sources of revenue grow with population, MFTE projects can generate anywhere from 2 to 10 times more in City revenue during the property tax exemption period from those properties than what was collected prior to development. The value of the improvements to the property tax calculation typically represents an estimated increase of an additional 19-41% in City revenue from a participating project following the expiration of the exemption.

These exemptions are offered for many purposes. Washington's legislature initially instituted the program to encourage multifamily housing projects, which require significantly higher investment and often face challenges otherwise not experienced by lower-density, spread-out development known as "urban sprawl." The law now also serves as an incentive to build more affordable housing. While the City only collects a small portion of property tax, the exemption applies to all taxes on the improvements, including State, School District, and other taxing authorities. Without the incentive, the property may not have been developed at all or may not have included affordable units.

In addition to the ongoing sales taxes generated from the new residents, the City also receives one-time sales taxes from the actual construction, Real Estate Excise Taxes from the sale of project sites and, in most cases, completed projects at prices in the tens of millions as well as permit and inspection fees that offset the development review and inspection. From a revenue perspective, despite the initial exemption, the positive impact is significant immediately as well as in the long term. As for the tax burden, while there is a short-term potential shift to existing property taxpayers, these developments help increase the pool of taxpayers, spreading the long-term tax burden for the benefit all residents.

16. How much of the revenue from the levy lid lift would be considered surplus? What would the surplus be used for?

Based on current financial projections the levy would generate approximately $12.7M in the first few years that would not be needed to fund on-going expenditures. This is considered "surplus". The surplus from the levy lid lift would represent about 5% of the total six-year levy lid lift. Of course, this is a projection and it may change for a variety of reasons including operating costs that may be more expensive than projected.

Over the past 6 years, surplus funds from the levy have been used to provide support for essential one-time investments to support the delivery of City services. Over the life of the last levy, examples of how surplus funds were used to fund include investment in snow removal equipment; city maintenance facility; financial, permit tracking, and maintenance management software system replacement/upgrades; hazardous tree removal; youth and teen development program pilot; contributions to critical capital projects like park playground replacement, and to provide grant matching funds required for transportation projects.

The City's 10-year forecast accounts for expected on-going operating costs and does not include all potential one-time costs that the City will likely face over the forecast period. Instead, we use one-time revenues (surplus) to fund one-time costs.

17. Estimated impact to property owner of median valued home with and without levy lid lift.

Estimated impact to property owner of median home if no levy lid lift						
Year	**Assessed Value***	**Per $1,000 (AV/$1,000)**		**Levy Rate**		**City Assessment**
2022	$625,000	$625	X	$1.13	=	$706
2023	$731,300	$731	X	$0.98	=	$714
2024	$751,700	$752	X	$0.97	=	$731
2025	$769,400	$769	X	$0.96	=	$736

2026	$791,200	$791	X	$0.95	=	$750
2027	$817,000	$817	X	$0.93	=	$761
2028	$843,000	$843	x	$0.91	=	$769
Total over 6 year period 2023-2028						$4,462

*2023 is grown by 17% based upon July estimates from King County Assessors Office. Subsequent years are increased by projected AV increases.

Estimated impact to property owner of median home if Prop. 1 passes and levy reset to $1.39 and tied to inflation (CPI-U)								
Year	**Assessed Value***	**Per $1,000 (AV/$1,000)**		**Levy Rate**		**City Assessment**	**Difference to No Action (1% increase limit)**	**Monthly**
2022	$625,000	$625	X	$1.13	=	$706	N/A	N/A
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	Over 6 years $2,194	Avg. over 6 years $30