



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6193
November 29, 2022
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 6193: Second Reading and Adoption of the 2023 Property Tax Ordinances	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Receive and adopt the 2023 Property Tax ordinances as part of the 2023-2024 Biennial Budget.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. 2023-2024 Preliminary Budget available at: www.mercerisland.gov/budget . 2. Ordinance No. 22-20 (2023 Property Tax levy amount) 3. Ordinance No. 22-21 (2023 Property Tax levy increase)
CITY COUNCIL PRIORITY:	2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.

EXECUTIVE SUMMARY

This agenda item outlines a key final step in the City Council’s 2023-2024 Biennial Budget review process, which includes second reading and adoption of the 2023 property tax levy ordinances.

- Per Washington State law, the City Manager is required to deliver a balanced preliminary biennial budget for City Council review and approval. The City Council received the 2023-2024 Preliminary Budget on September 28, 2022, (Exhibit 1) and a copy was filed with the City Clerk.
- The 2023-2024 Preliminary Budget is focused on maintaining current service levels and providing critical investments to preserve City infrastructure.
- The property tax ordinances (Exhibit 2 and 3) assume the 1% maximum increase and passage of Proposition No. 1. Because collections under this parks levy lid lift will begin in 2023, the City will end the existing 2008 parks levy one year early as declared in [Resolution No. 1628](#).
- At the November 15 City Council meeting, the City Council conducted a first reading of Ordinance Nos. 22-20 and 22-21, adopted the 2023 water, sewer, storm water, and EMS rates, and the City’s annual budget contribution for the regional public safety radio system (NORCOM).
- All King County cities are legally required to submit an estimate of their 2023 property tax levies to the Metropolitan King County Council by November 30. The King County Assessor’s Office does not, however, provide each City with the final assessed valuation and new construction amounts for the new tax year until the second week of December.

The City Council is scheduled to formally adopt the final 2023-2024 biennial budget on December 6, 2022.

BACKGROUND

The City Council received the 2023-2024 Preliminary Budget on September 28, 2022, and a copy was filed with the City Clerk. Per Washington State law, the City Manager must deliver a balanced preliminary biennial budget to the City Council for review and approval.

At the October 3 City Council meeting (see [AB 6163](#)), staff introduced and reviewed key budget assumptions, policy considerations, and the budget development schedule. The presentation included a six-year forecast for the General Fund and Youth and Family Services Fund, illustrating how anticipated expenditures exceed revenues in both Funds beginning in 2023.

The first of two public hearings for the 2023-2024 biennial budget was held at the October 18 City Council meeting (see [AB 6169](#)). Staff walked through the staffing plans and summarized key highlights from Departmental work plans for the next two years.

The City Council approved the 2023-2028 Capital Improvement Program financing strategy at the October 18 City Council meeting, including using \$3.7 million in REET-2 reserves from the Street Fund to fund the Luther Burbank Dock and Waterfront Improvements project (PA0122) and \$1.6 million in ARPA funds to begin making critical investments in City facilities. The City Council also postponed consideration of the General Fund and YFS Fund budget proposals until Q2 2023.

At the November 1 City Council meeting, the City Council approved the six budget proposals tied to the Capital, Streets, and Utility Funds (see [AB 6177](#)).

On November 15, the City Council received a status update on the City's finances through the third quarter of 2022 (see [AB 6185](#)). Furthermore, the City Council conducted a first reading of property tax levy Ordinance Nos. 22-20 and 22-21 (see [AB 6184](#)), which set the property tax rate and amount the City will levy in fiscal year 2023. The City Council also adopted the 2023 water, sewer, storm water, and EMS rates, as well as the City's annual budget contribution for the regional public safety radio system (NORCOM).

ISSUES/ DISCUSSION

2023 PROPERTY TAX RESOLUTION & ORDINANCES

RCW Chapters 84.52 and 84.55 grant cities the authority to impose a local property tax. Revenues from property taxes are considered general government revenues and are allocated to the General Fund to be used for basic governmental services such as public safety, public works, parks, and/or administration.

Property tax is a budget-based tax, which means that the percent increase from year-to-year is applied to the amount of taxes collected in the prior year. Municipalities levying property tax in Washington can increase the property tax levy by up to 1% each year or by the amount of the implicit price deflator (IPD) – whichever is lower – plus the value of new construction.

The IPD is used to measure inflation based on personal consumption. For fiscal year 2022, the Bureau of Labor Statistics set the Q2 2021 to Q2 2022 IPD at 6.457%, meaning the maximum levy increase the City of Mercer Island can take in 2023 is 1% (see the Department of Revenue's [IPD memo](#) to county assessors).

Proposition No. 1 Levy Lid Lift

In 2008, the Mercer Island community approved a parks levy, which fully funds operations and maintenance of Luther Burbank Park and supports operations and maintenance at all city parks, trails, open spaces, athletic fields, and recreation facilities. The current parks levy is set to expire at the end of 2023.

A 16-year renewal of the parks levy was on the November 8, 2022 General Election ballot for voter consideration. A renewed parks levy continues current funding for parks operations and maintenance while adding funding for playground replacements and Pioneer Park forest management.

As of November 21, results from the November 8, 2022 General Election indicate the successful passage of Proposition No. 1 by a 64.29% majority. The preliminary levy calculations for second reading and adoption of the property tax ordinances include the new Parks levy lid lift. Annual parks levy funding will increase from \$980,122 in 2022 to \$1,629,332 in 2023 as summarized in the table below.

Levy Elements	2022 Final Levy	2023 Preliminary Levy
Regular Levy		
Prior Year Levy	\$12,436,982	\$12,700,540
Plus 1% Optional Increase	124,370	127,005
Plus New Construction	139,188	115,000
Plus Re-levy of Prior Year Refunds	9,864	24,343
Total Regular Levy	\$12,710,404	\$12,966,888
Levy Lid Lifts		
2008 Parks Maintenance & Operations + 1%	980,122	-
Proposition No. 1: 2022 NEW Parks Levy Lid Lift		1,629,322
Total Levy Lid Lifts	980,122	1,629,322
Total Levy	\$13,690,526	\$14,596,210

The 2023 preliminary property tax levy includes two ordinances as required by State law:

1. Ordinance No. 22-20, which identifies the 2023 total property tax levy amount (Exhibit 2); and
2. Ordinance No. 22-21, which identifies the dollar and percent increase in the 2023 property tax levy relative to the 2022 levy (Exhibit 3).

For the 2023 tax year, the City's total property tax levy consists of the following elements:

- **Regular levy:** Funds general government operations, fire apparatus replacement, pre-LEOFF I firefighters' pension benefits, and LEOFF I retiree long-term care costs.
- **1.0 % optional increase:** Applies to the regular levy and represents the maximum increase the City Council can adopt for the coming year, excluding new construction and the re-levy of the prior year refunds.
- **New construction:** Represents the new and improved properties included in the property tax rolls. A preliminary estimate of \$115,000 is assumed for new construction pending final numbers from the King County Assessor's Office.
- **Re-levy of prior year refunds:** Represents the amount refunded to property owners who successfully appealed their property valuations by the Assessor's Office. This amount is re-levied in the following year to make the City financially whole.

- **2008 levy lid lift:** Approved by voters in November 2008 for parks maintenance and operations (a 15-year levy expiring December 31, 2023). This lid lift is not included in FY 2023 and will end one year early to avoid duplication as declared in [Resolution No. 1628](#).
- **2022 levy lid lift:** A 16-year renewal of the parks levy approved by voters in the November 8, 2022, General Election. The renewed parks levy continues current funding for parks operations and maintenance while adding funding for playground replacements and Pioneer Park forest management. This lid lift is included in FY 2023.

Preliminary Versus Final Levy Amount

All King County cities are legally required to submit an estimate of their 2023 property tax levies to the Metropolitan King County Council by November 30. The King County Assessor’s Office does not, however, provide each City with the final assessed valuation and new construction amounts for the new tax year until the second week of December.

As a result, cities adopt property tax levies for the coming year based on a preliminary assessed valuation and new construction amounts. When the finalized amounts are distributed by the Assessor’s Office in December, staff simply notify the Metropolitan King County Council of the corrected levy amount.

NEXT STEPS

ADOPTION OF 2023-2024 BUDGET

All final changes approved at this City Council meeting will be incorporated into the 2023-2024 Final Budget ordinance, which will be brought to the City Council for final review and adoption on December 6, 2022.

RECOMMENDED ACTION

Recommended motions:

1. Adopt Ordinance No. 22-20, appropriating funds and establishing the amount of property taxes to be levied for fiscal year 2023.
2. Adopt Ordinance No. 22-21, establishing the dollar amount and percentage increases of the regular property tax levy and the levy lid lifts for fiscal year 2023.