

**CITY OF BURIEN
AGENDA BILL**

Agenda Subject: General Annexation Discussion with Questions and Comments from the Public		Meeting Date: September 26, 2011
Department: City Manager	Attachments: <ul style="list-style-type: none"> • Special Purpose District Impacts • Tax-exempt Property Analysis 	Fund Source: N/A Activity Cost: N/A Amount Budgeted: N/A Unencumbered Budget Authority: N/A
Contact: Mike Martin		
Telephone: (206) 248-5503		
Adopted Initiative: Yes No X	Initiative Description:	
<p>PURPOSE/REQUIRED ACTION: The purpose of this agenda item is to continue discussion on the potential annexation of most of the remaining unincorporated North Highline area between Burien and Seattle.</p> <p>BACKGROUND (Include prior Council action & discussion):</p> <p>Council has discussed at its last five meetings the potential annexation of most of the remaining unincorporated North Highline area between Burien and Seattle. At the September 12 meeting, Council indicated that they would like to have a specific time set aside to hear public comment on this issue. Time has been set aside for this purpose as part of this agenda item. Council will continue the discussion with information that staff has been able to gather in response to questions raised at previous meetings. The information in the attached document includes:</p> <ul style="list-style-type: none"> • Impacts of annexation to Burien or Seattle for Fire District 2 • Impacts for the Water and Sewer Special Purpose Districts should Seattle annex • Information on road and property taxes, and on the sales tax credit • Tax-exempt property analysis <p>OPTIONS (Including fiscal impacts):</p>		
Administrative Recommendation:		
Committee Recommendation: N/A		
Advisory Board Recommendation: N/A		
Suggested Motion: N/A		
Submitted by: Mike Martin		
Administration		City Manager
Today's Date: September 21, 2011	File Code: \\R\CC\Agenda Bill 2011\092611cm-1 Annexation Discussion.docx	

Potential impacts to Special Purpose Districts in Unincorporated North Highline upon annexation to Burien or Seattle

What are the impacts of annexation to Fire District 2?

The following is a summary of the impacts Fire District 2 believes would accrue to its current constituents if Burien annexes the North Highline area, as summarized from the District's August 17 letter to the City Council:

- 1) LEOFF 1 pension liability: The Fire District 2 Commission asserts there is an actuarial liability of \$1 million (one-time) needed to pay for the medical care of some 10 firefighters in Fire District 11 who have LEOFF 1 pensions.
- 2) Replacing District 11 fire stations: There are currently two fire stations in Fire District 11. Fire District 2 believes both would need to be updated or replaced. There have been no estimates for that work and no funding mechanism identified to pay for it.
- 3) Calls for service: Calls for service in District 11 are higher than in District 2. To provide a comparable level of response, District 2 would need to add one additional medical aid car at a cost estimated to exceed \$1 million annually.
- 4) Funding asset transfer: This is no longer an issue. Originally, it was believed that paying off a \$1.29 million bond sold by District 11 would become the responsibility of District 2. Research has shown that is not the case. That bond liability would remain with residents in the North Highline area.

What would the effect of a Seattle annexation have on Fire District 2?

From a financial perspective, the impacts identified above would not occur. However, Fire District 2 would need to build a new station in North Burien to protect that area. There would be no significant operational impacts.

What are the impacts for the Water and Sewer Special Purpose Districts should Seattle annex?

Water District 20

Seattle Public Utilities (SPU) has said they would be willing to contract with the water district but the district thinks that may only be for 3-5 years. Fifteen percent of the district is in the North Highline unincorporated area. That includes 1,750 hook-ups and 230 commercial accounts. If SPU takes over those customers, it would result in a loss of 21% of gross revenues. There would also be a capital cost to convert those customers to SPU. Rates would likely go up for Burien customers to make up for the lost revenue.

Water District 45

It is likely Seattle Public Utilities (SPU) would absorb Water District 45; current WD45 customers would become customers of SPU.

Southwest Suburban Sewer District

Because all of the wastewater from the White Center area flows to the Salmon Creek Plant (SWSSD), those residents would then be contract customers, just like the people who currently live in the Seattle - Arbor Heights neighborhood. Seattle Public Utilities sewer service is based off water consumption, plus what Southwest Suburban charges (\$19.61/mo), plus King County costs (Brightwater). Depending on water consumption, Southwest Suburban estimates that the typical residential bill would go up to \$70/month. Southwest Suburban currently charges a flat \$25.50 per month for residential customers.

Valley View Sewer District

A takeover by the City of Seattle would result in an immediate increase in rates for North Highline residents in the area taken over by Seattle, and would likely result in an increase for our non-Seattle customers (Burien, SeaTac, and Tukwila) when Seattle eventually takes over the area after 3-5 years of contract operations by Valley View.

Water and Sewer rates including Seattle Public Utilities

Special Purpose District	Rates	Change if Burien Annexes Yes/No
Water District #20	\$19.75 base rate per unit per month	NO
	Summer Rates \$2.50/CCF	
	Winter Rates \$1.50 /CCF	
Water District #45	\$17.50 base rate per unit per month	NO
	\$1.50 street light charge per unit per month	
	\$2.50/CCF for 1-10 ccf per month	
	\$3.50/CCF for 11-25 ccf per month	
	\$4.50/CCF for 26+ ccf per month	
	\$4.50/CCF for all irrigation water.	
Valley View Sewer	King County treatment charge \$36.10	NO
	District O & M charge \$10	
	\$46.10 total/month	
Southwest Suburban Sewer	\$ 25.50/month, flat rate	NO
<i>If Seattle annexes, residents in annexation area would likely be served by SPU for water, sewer, and garbage.</i>		
Seattle Public Utilities Rates		
Water		
Base Service Charge per month, per meter		
3/4" and less	\$13.25	
1"	\$13.65	
1.5"	\$21.05	
2"	\$23.35	
3"	\$86.35	
Residential Commodity Charge per CFF		
Off-Peak Usage (Sept. 16-May 15)	\$4.07	
Peak Usage (May 16th - Sept. 15th)		
Up to 5 CCF/month	\$4.38	
Next 13 CCF/month	\$5.19	
Over 18 CCF/month	\$11.80	
Sewer		
Rate per CCF	\$10.28	
Typical Monthly Residential Bill	\$53.46 (2011), \$55.54 (2012)	
Garbage		
Typical Monthly Residential Bill	\$34.75 (2011), \$37.00 (2012)	
<i>Waste Management provides similar service for \$29.97/month</i>		
Notes		
*1 CCF=100 cubic feet of water. There are approximately 748 gallons in 1 CCF.		

Other Questions

How much did Burien receive in Road Tax from the 1st annexation in 2010 and how much do we expect to receive in property taxes when the Road Tax converts to a Property Tax?

The City received \$1,763,955 in Road Tax for 2010. In 2011, the City expects to receive \$1,519,770 in Property Tax revenues.

How does the state sales tax credit work?

In response to the fiscal challenges posed by most large annexations, the Washington State Legislature provided a transitional funding to eligible annexing cities. That funding mechanism was codified in a bill with specific provisions for the North Highline Potential Annexation Area that allowed Burien or Seattle (whichever annexes the area) to recover up to \$5 million annually for 10 years.

This law authorizes a sales tax credit to assist cities with negative cost impacts resulting from the provision of municipal services to the annexation area. The revenue is a credit against the State share of the existing sales tax and not a new tax, hence "state sales tax credit." This allows a city to receive a portion of the state's share of the sales tax with no additional increase to the actual rate. The funding assists eligible cities by providing support for up to ten years, therefore providing communities with the time to integrate the new areas and implement policies designed to address the long-term fiscal impacts of annexations.

The way it works: By March 1 of each year, the City submits a letter to the State certifying the City's true and actual cost to provide services to the annexed area and provides the threshold amount for the next fiscal year, which is the amount that qualifies for the sales tax credit. The State adds the credit to the City's monthly sales tax distribution. If the City reaches a point where the revenues exceed the cost of providing services to the annexed area, the City notifies the State to suspend the sales tax credit for the remainder of the year.

MEMORANDUM

DATE: September 21, 2011
TO: Mike Martin; City Manager, City of Burien
FROM: Morgan Shook
RE: **DISCUSSION DRAFT:** Assessment of Property Tax Exemptions and Annexation

Overview

BERK completed a study for the City of Burien that assessed the net fiscal impact of annexation on the City's financial situation in August 2011. In concert with that study, the City would like BERK to inventory the amount of property tax exempt properties in the North Highline Annexation Area (e.g. Area Y) and discuss how these exemptions might impact the various taxing jurisdictions property tax collections upon annexation.

As public policy, King County and its taxing jurisdictions extend a set of property tax exemptions and deferrals to support goals promoting social welfare for the vulnerable and disadvantaged, and other public benefits.¹ In doing so, the exemptions remove taxable real property from a jurisdiction's tax base, leading to one or two effects:

- Due to the 1% legal limit in levy growth, these exemptions typically do not limit a local taxing jurisdictions' ability to collect their full amount of property tax, but in effect, spread the burden of the property tax to other commercial and residential tax payers.
- Potentially, the granting of the property tax exemptions keeps certain properties from redeveloping (where demand exists for higher and better uses and similar supply is locally constrained) since the desired effect of the exemption is the maintain the current use and/or resident of property from changing. The impact to the local taxing jurisdictions' property tax collections is the potential limitation on the amount of new construction add-on value a jurisdiction receives as a result of new development or redevelopment in a previous year that allows a jurisdiction to exceed the 1% limit.

In the case of the annexation, the property tax impacts of the local jurisdiction involve both effects described above. Upon annexation, the jurisdiction receives the total taxable assessed value in the annexation area as new construction for the purposes of calculating the property tax add-on value that allows a jurisdiction to exceed its legal limit. This amount is limited by the extent of non-taxable assessed value in the area. After annexation and the resetting of the property tax's legal limit, the

¹ Property tax exemptions and deferrals are available for senior citizens, limited income, damaged property, current use, and historic property. In addition, many social services and housing providers; libraries; day care centers, nursing homes and hospitals; schools and colleges; art, scientific and historical collections; fire companies; humane societies; musical and artistic associations; and, public assembly halls are granted exemptions. Most publicly owned lands are already exempt from the property tax.

DISCUSSION DRAFT: Assessment of Property Tax Exemptions and Annexation

burden of a smaller property tax base must be spread among the remaining non-exempt property tax payers of the now larger jurisdiction.

The issue outlined in the previous paragraph is a concern of annexing parties particularly among populations of residential property tax exemptions where residents demand the same, if not greater,² amount of services but do not support those services with corresponding tax revenue. In annexations, the property tax exemption subsidy to support these social and welfare policies can present a potential “cost” to the annexing jurisdiction as they seek to evaluate the marginal service costs and tax revenues needed support a larger jurisdiction.³

This analysis addresses two central questions:

- How much property tax exemptions exist in the annexation area? How does this compare to the jurisdictions that currently serve or would serve the area after annexation?
- How might some of the annexing jurisdictions be revenue impacted by the exemption of residential properties?

Findings: What is the amount and location of the exemptions?

BERK inventoried the amount of property tax exempt properties for:

- Annexation Area Y – North Highline
- City of Burien
- Fire District #2
- Fire District #11
- Highline School District

Exhibit 1 summarizes the total amount of real property exemptions in the areas noted above. The amounts area calculated using 2011 King County Assessor’s data and geospatial processing.⁴ Of the areas inventoried, Annexation Area Y has the largest relative amount of exempt real property with nearly 20% of the entire amount of real property in exempt status. This distribution is nearly twice that of the City of Burien’s. The County-wide figure is 13.8%.

² By nature of the challenges that many disadvantaged and vulnerable population confront.

³ BERK’s August 2011 annexation analysis for the City of Burien has accounted for these costs and revenue exemptions.

⁴ It should be noted that jurisdictional real property figures slightly vary from the King County Assessor’s 2011 Assessed Values used for levy calculations due to different quarterly sampling used in this analysis.

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Exhibit 1: Amount and Distribution of Real Property Exemptions - 2011

Area	Exempt Real Property	Total Real Property	Percent in Exempt Status
Annexation Area	\$252,640,000	\$1,359,098,000	18.6%
City of Burien	\$440,607,000	\$4,551,598,000	9.7%
Fire District #2	\$476,516,000	\$5,701,046,000	8.4%
Fire District #11	\$272,285,000	\$1,472,900,000	18.5%
Highline School District	\$1,722,287,000	\$11,743,730,000	14.7%
King County	\$43,463,873,000	\$319,512,085,000	13.6%

Source: BERK, 2011; King County Assessor, 2011.

Note: Values are rounded.

Hypothetically - assuming that all the exempt real property in the Annexation Area was to develop in 2011 at their current appraised values (and was within the taxing jurisdiction), the host jurisdictions could expect to see their one-time new construction levy add-on value in 2012 to their current expense levy at:

- Burien: \$393,000
- Fire District #2: \$379,000
- Fire District #11: \$379,000
- King County: \$214,000

Accounting for only those properties currently in residential use produces a slightly different picture. Exhibit 2 shows that accounting public lands, parks, and other exempt uses leaves residential exemptions as a much smaller proportion of the total amount of exemptions. In the case of the Annexation Area, the figure drops roughly 13% to 5.4%. However, this amount is still the highest relative to the other areas. It exceeds the current amount in the City of Burien as well as what is achieved County-wide.

Exhibit 2: Amount and Distribution of Residential Real Property Exemptions - 2011

Area	Exempt Real Property	Total Real Property	Percent in Exempt Status
Annexation Area	\$72,852,000	\$1,359,098,000	5.4%
City of Burien	\$76,875,000	\$4,551,598,000	1.7%
Fire District #2	\$83,035,000	\$5,701,046,000	1.5%
Fire District #11	\$73,228,000	\$1,472,900,000	5.0%
Highline School District	\$296,813,000	\$11,743,730,000	2.5%
King County	\$8,434,893,000	\$319,512,085,000	2.6%

Source: BERK, 2011; King County Assessor, 2011.

Likewise, limiting the previous analysis to residentially exempt real property in the Annexation Area and assuming they were to develop in 2011 at their current appraised values (and was within the taxing jurisdiction), the host jurisdictions could expect to see their one-time new construction levy add-on value in 2012 to their current expense levy at:

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- Burien: \$113,000
- Fire District #2: \$109,000
- Fire District #11: \$109,000
- King County: \$62,000

Summary maps in Attachment A show the locations of residential and non-residential property tax exempt properties.

Findings: What is the “value” of maintaining a disproportionate amount of exemptions in Area Y?

If annexation of the Area Y proceeds, the City of Burien would become the general government service provider to the area. Since the City is annexed in to Fire District#2 for fire protection, the annexation would extend the service of District #2 to Area Y replacing the current service provided by Fire District #11.⁵

As described above, annexation allows the new service jurisdiction to receive the total taxable assessed value in the annexation area as new construction for the purposes of calculating the property tax add-on value that allows a jurisdiction to exceed its legal limit in the year after annexation. Since Area Y has a higher relative amount of residential property tax exempt properties (compared to their existing and County-wide distributions), annexation of the area places a higher burden on the City of Burien and Fire District #2 to accommodate those residents’ service needs relative to supportive property tax revenues. Specifically, these jurisdictions forego some amount of new construction add-on value upon annexation by taking on this greater value of residential exemptions.

If Area Y had a similar County-wide percentage of residential exemptions (2.6% as opposed to 5.4%); the amount of real property in residential exemption status would drop from \$72,852,000 to \$36,973,000 (a difference of \$35,879,000). The levy add-on value of this difference would mean and additional \$58,000 to the City of Burien and \$55,000 to Fire District #2 in the year after annexation assuming a 2012 annexation and using 2011 current expense levy rates.

This value grows to \$78,000 for the City of Burien if Area Y’s rate of residential exemption status is similar to the existing city. The value grows to \$80,000 for the Fire District #2 if Area Y’s rate of residential exemption status is similar to the existing district.

Findings: Would annexation shift the property tax burden?

BERK’s annexation analysis showed that annexation would have a neutral impact in the long-term on the City’s existing residents (e.g. the ratio of costs and revenues would be similar to that of the existing City. **Current City tax payers would not be asked to “subsidize” the annexation and would see no shift in their tax burdens.**

This would be true of property tax payments as well. Property tax payers inside a new larger City would see their property tax rates recalculated based on a new, larger levy for the City. **All property tax payers in the larger City (e.g. Burien and the annexation area) would pay the same rate.**

⁵ Area Y is currently being served primarily by the Highline School District and annexation will not affect its levy collections.

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However, because this area does has a higher rate of non-taxable assessed value – particularly in the amount of residential assessed value, **property tax payers in the new larger City would be shouldering a larger regional burden for those exemptions (relative to the larger County as a whole).**

If the City were to annex the area 2012, the addition of residential exempt property into the City at a higher rate than currently exists in the County (5.4% versus 2.6%), the additional regional burden carried on a median house in a new larger Burien (estimated at \$232,000 in appraised value in 2011) would be roughly \$2.50 a year in 2014. The burden on the median commercial property (\$468,000) would be \$4.50 in 2014.

ATTACHMENTS

Map 1: Annexation Area Property Tax Exempt Parcels

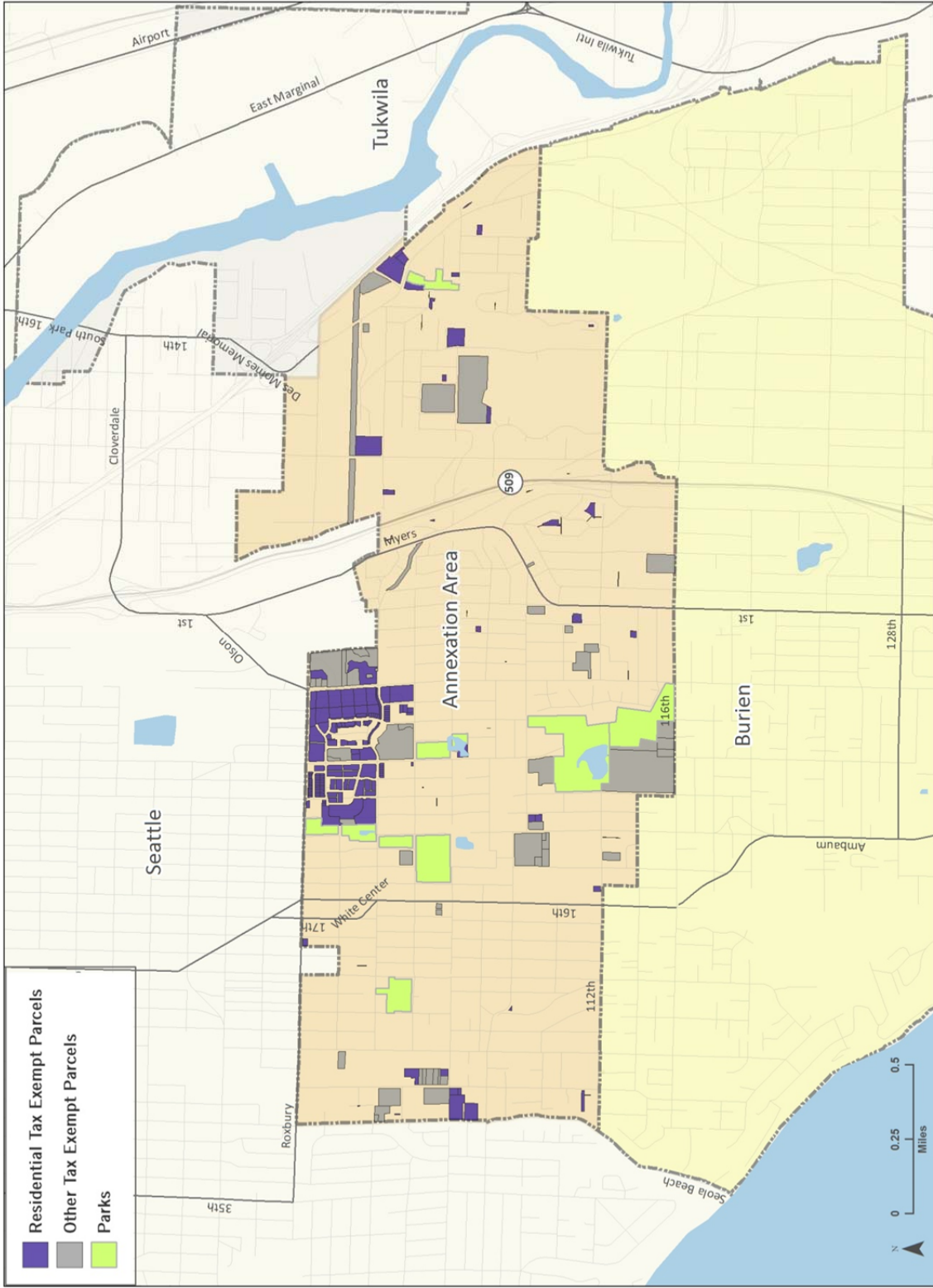
Map 2: Burien Property Tax Exempt Parcels

Map 3: Fire District #2 Property Tax Exempt Parcels

Map 4: Fire District #11 Property Tax Exempt Parcels

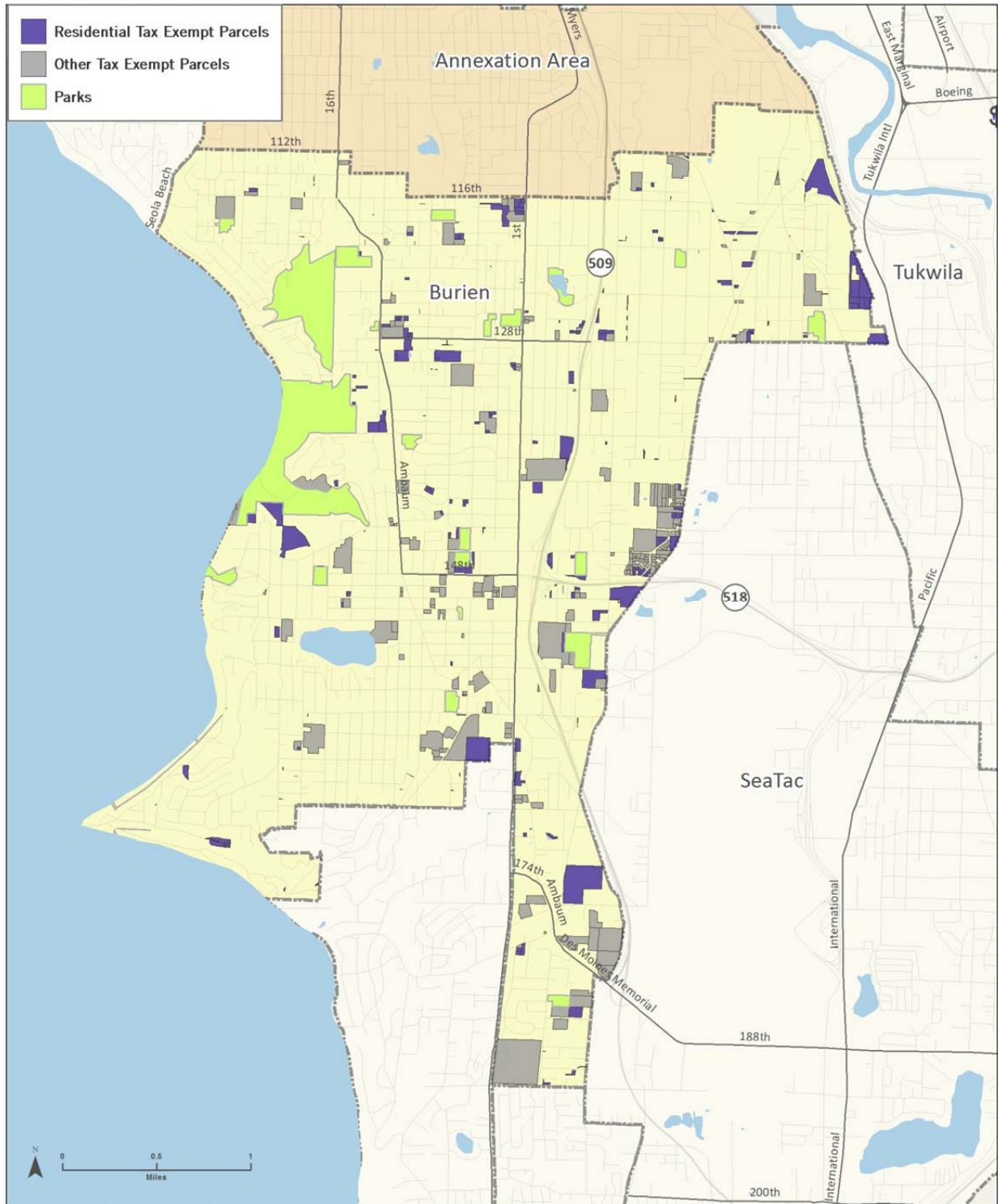
Map 5: Highline School District Property Tax Exempt Parcels

MAP 1: ANNEXATION AREA PROPERTY TAX EXEMPT PARCELS



DISCUSSION DRAFT: Assessment of Property Tax Exemptions and Annexation

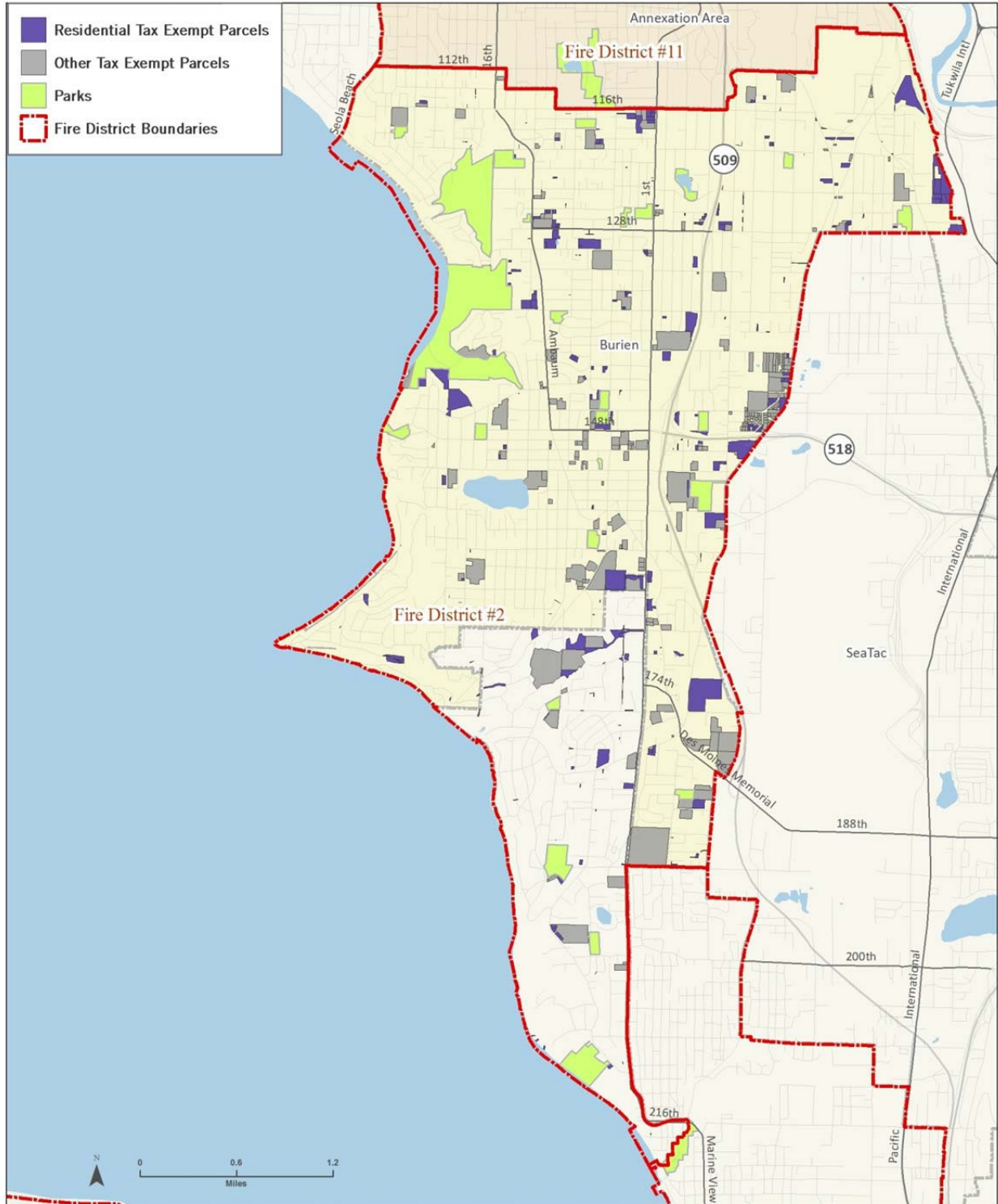
MAP 2: BURIEN PROPERTY TAX EXEMPT PARCELS



BERK Date: September, 2011
Source: BERK, King County

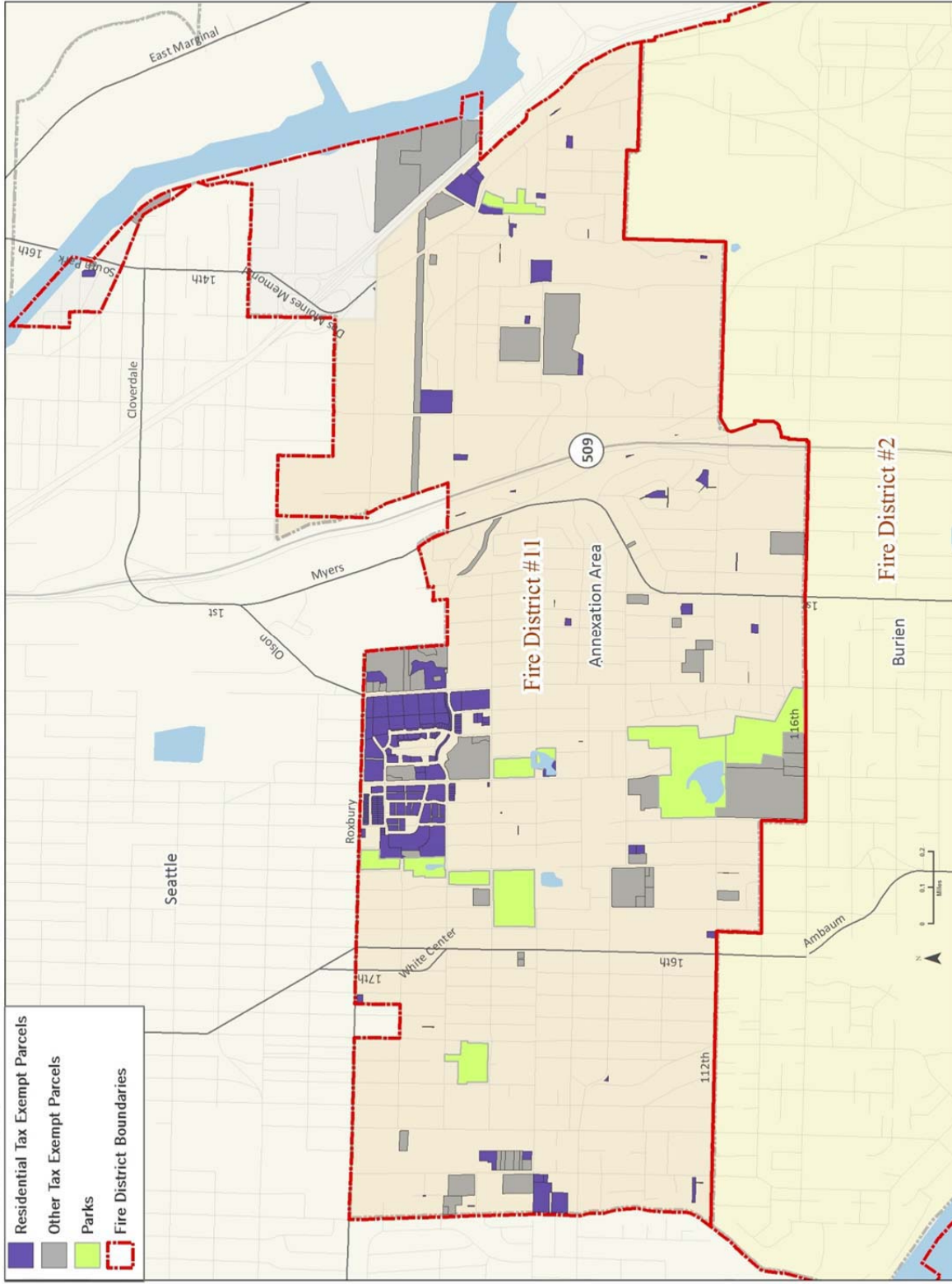
DISCUSSION DRAFT: Assessment of Property Tax Exemptions and Annexation

MAP 3: FIRE DISTRICT #2 PROPERTY TAX EXEMPT PARCELS



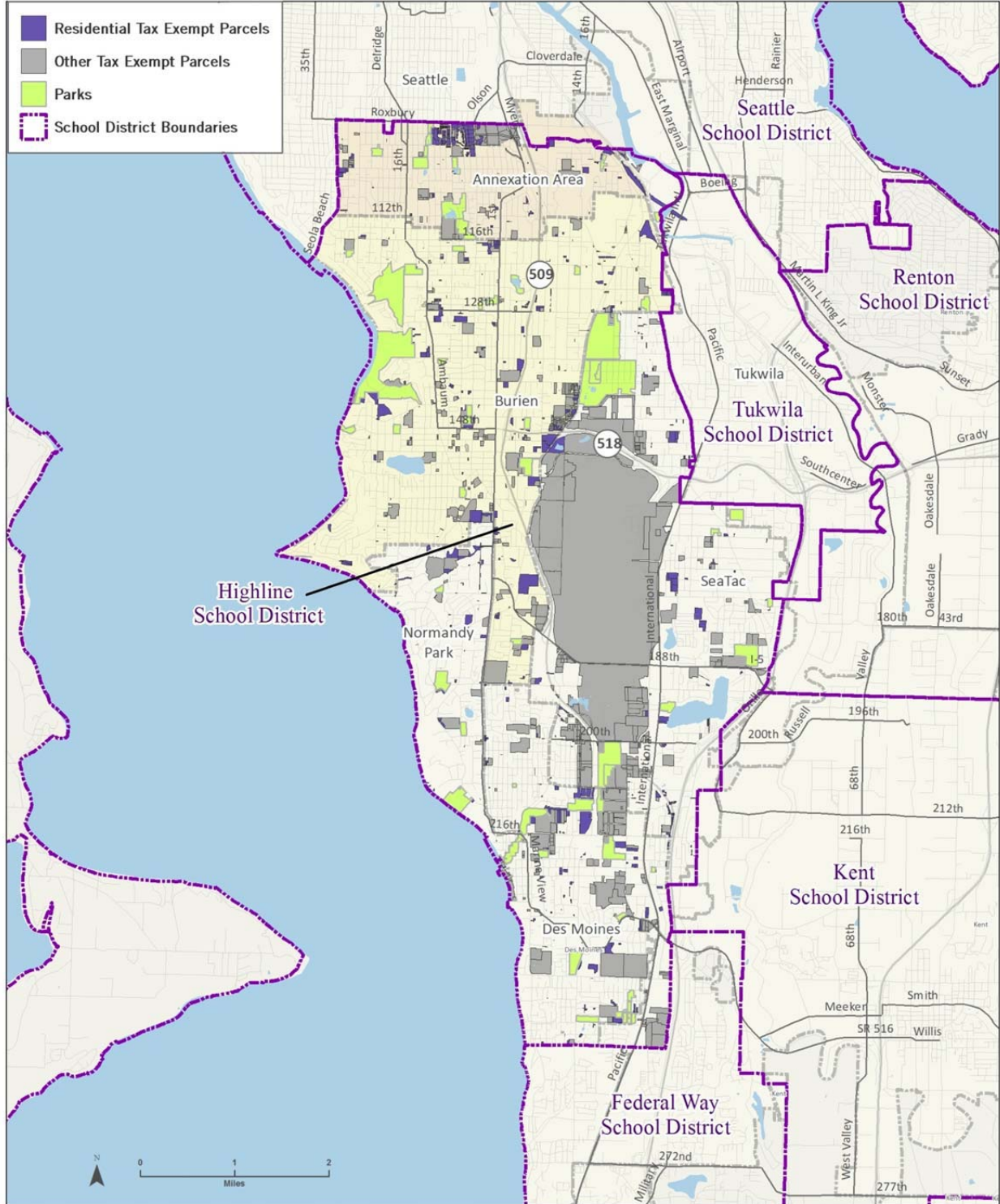
BERK Date: September, 2011
Source: BERK, King County

MAP 4: FIRE DISTRICT #11 PROPERTY TAX EXEMPT PARCELS



IBERK
Date: September, 2011
Source: BERK, King County

MAP 5: HIGHLINE SCHOOL DISTRICT PROPERTY TAX EXEMPT PARCELS



BERK Date: September, 2011
Source: BERK, King County

