

FEASIBILITY STUDY
for
PROPOSED EAST SAMMAMISH PLATEAU ANNEXATION
1989

Prepared for
THE CITY OF ISSAQUAH
By
THE GEORGETTE GROUP

December 1989

19-1

FEB 5 1990

SECTION III: REVENUE ANALYSIS**A. INTRODUCTION**

This chapter evaluates the major revenues that would be derived from the ESP Study Area if it annexed to the City of Issaquah, the major revenues now being collected by King County from the area, and the tax impact of annexation upon the typical homeowner.

The chapter is divided into the following sections:

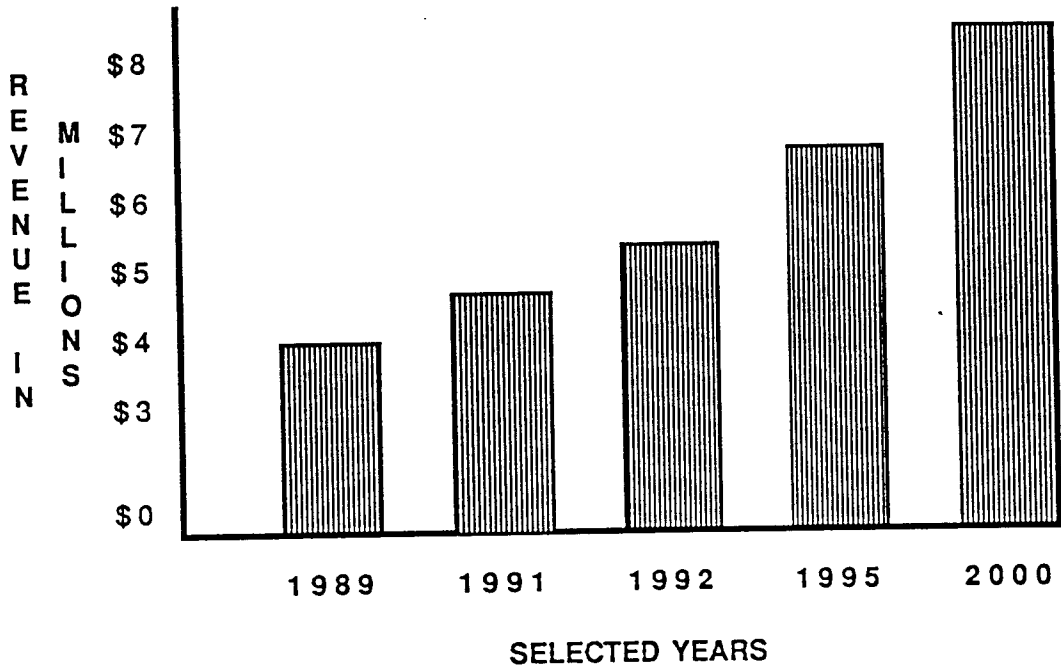
1. A comparison of revenue and expenditure projections for the ESP Study Area and an explanation of the 'transition year'.
2. An outline of the methodology and assumptions used in the revenue estimates, the incremental revenue impacts, and forecast assumptions for each of the eleven major revenue classifications:
 - Property Tax
 - Retail Sales and Use Tax
 - Utility Taxes
 - Real Estate Excise Tax
 - Business Licenses
 - Storm Drainage Charges
 - Shared Revenues
 - Licenses and Permits
 - Fines and Forfeits
 - Emergency Medical Service
 - Charges for Service
3. A comparison of current Issaquah tax rates with rates in the ESP Study Area. All major taxes have been evaluated, those that are common to both jurisdictions as well as those that apply to only one area.
4. An overview of other Washington State city tax rates for comparative purposes.
5. An evaluation of the annexation tax impact upon a typical ESP Area single-family homeowner; and,
6. An analysis of the current revenue impact of the ESP Area upon unincorporated King County, Fire District #10, Fire District #27, and the King County Library System.

B. COMPARISON OF REVENUES AND EXPENDITURES FOR THE ESP STUDY AREA

If the ESP Study Area were now within the City of Issaquah, it would generate roughly a total of \$4,319,000 in revenues using the 1989 tax base. The 1989 year is used because we need a base from which to project and this is the current budget year. This forecast analysis estimated all revenues on an annualized basis, not a cash flow basis. First year cash flow (1991) would be lower than annualized revenues shown due to lags in revenue receipts. Chart III-1-1 illustrates the growth in operating revenues which the City would realize as a result of the ESP annexation.

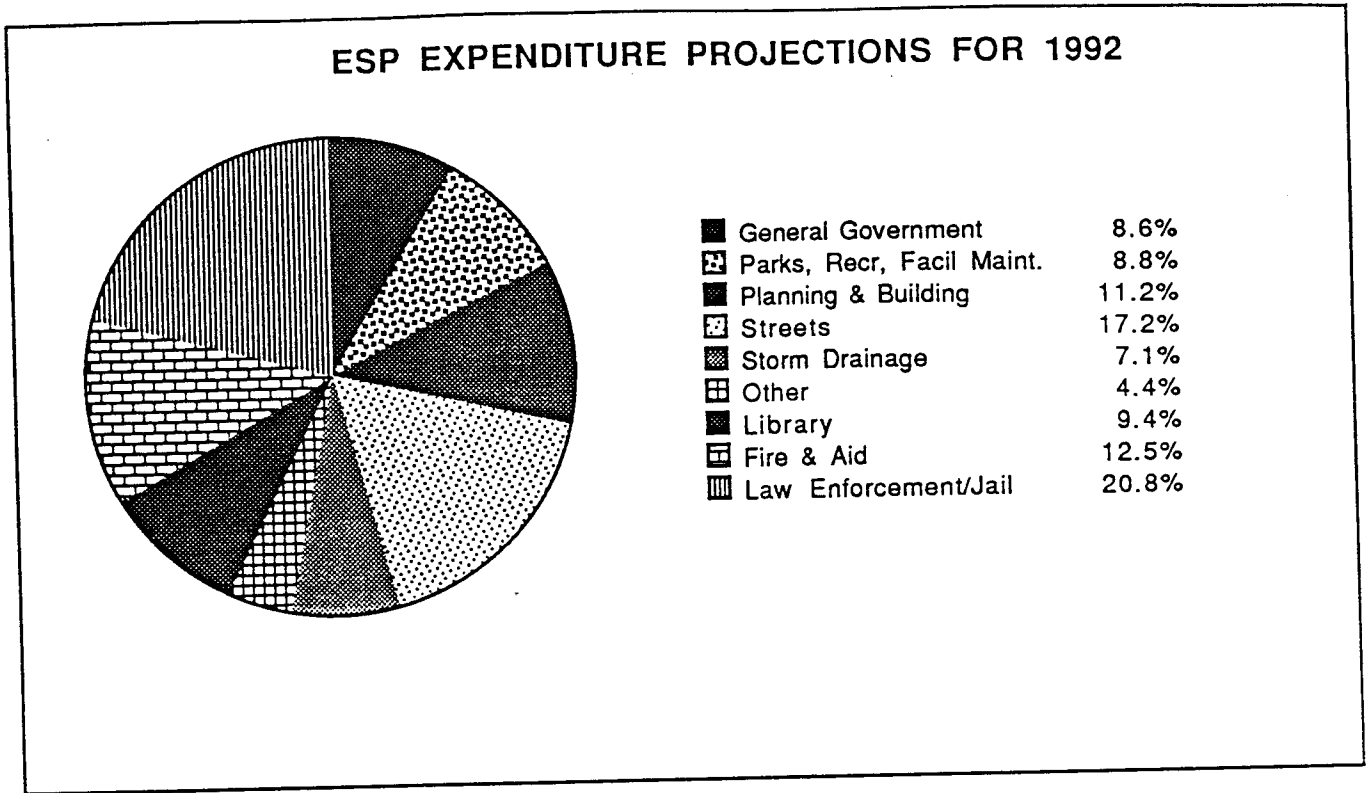
CHART III-1-1

OPERATING REVENUES DERIVED FROM THE ESP AREA
FOR SELECTED YEARS



Source: The Georgette Group

CHART III-1-2



Note: Pie chart is based on aggregating data from Table III-1-3.

Source: The Georgette Group

19-4

With a favorable annexation vote in September 1990, the City of Issaquah would assume jurisdiction over the ESP Study Area on January 1991. This would provide a transition year in which the Fire Districts and Library District now levying in the area would continue to do so, and they would continue to serve the area. The City of Issaquah would not levy their property tax on the ESP area until 1992, but would receive King County Road taxes levied on the area but not yet collected in 1991. Since the King County Road Tax rate is higher than the City's regular levy and the City would not be paying for fire and library service to the ESP area in 1991, the surplus of annualized revenues over expenditures would approach \$1.5 million (See Table III-1-1 for comparison of revenues and expenditures.)

The first year of normal operations would be 1992, with the City collecting its own levy in the ESP area and the City providing services to the area. Chart III-1-2 illustrates the way in which the annexation operating expenditure budget has been divided. (The data in this chart is taken from Table III-1-3) Growth in the tax base would increase the spread between operating revenues and expenditures to \$117,000 in 1995. Gas Tax distributions and Real Estate Excise Tax have been excluded from the operating revenue figures because the former is designated for Arterial Street improvements and the latter is designated for capital improvements. These additional revenues will grow from a total of \$493,000 in 1992 to \$784,000 by the year 2000.

The revenue and expenditure projections are considered conservative estimates, not wishing to overstate revenues or understate expenditures. The following assumptions are cited as reasons why these projections constitute a severe fiscal test:

1. Revenue projections have not included investment income, which is initially estimated at \$125,000, and can be expected to grow along with municipal revenue receipts.
2. Revenue estimates have not included mitigation contributions which would accrue to the City via the SEPA process and would be used for expenditures on capital projects.
3. Revenue estimates do not include utility taxes on water and sewer revenues in the ESP area. Utility service is assumed to remain with the current service provider, Sammamish Plateau Water and Sewer District.
4. Building and planning revenues are not projected on the basis of a high level of activity; the projections are based on the mid-range growth scenario. If the higher level of activity continues, consistent with the current development boom, building and planning revenues would exceed \$1 million per year.
5. Building and planning services are structured on a fee-for-service basis and as the need for these services increase, so the revenues to pay for them will be derived from service charges.
6. Expenditures are projected from the 1989 full service budget estimates, and not on lower or transitional levels of service. e.g. The Police Department budget included a full complement of 18 additional officers to serve the ESP area, while the hiring and training process may constrain the first years actual additional staff to a lower number.
7. Expenditure estimates include a worst case assumption for the KCLS library contract of a full \$0.50/\$1,000 assessed value beginning with the base year forward.

TABLE III-1-1
COMPARISON OF REVENUE / EXPENDITURE PROJECTIONS

	<u>Revenues¹</u>	<u>Expenditures²</u>
1991 2	\$4,874,000	\$3,939,000
1992	\$5,272,000	\$5,344,000
1993	\$5,697,000	\$5,685,000
1994	\$6,116,000	\$6,043,000
1995	\$6,536,000	\$6,419,000
2000	\$8,574,000	\$8,621,000

Notes:

1. All revenues except property taxes, real estate excise taxes and licenses/permits increase at the same rate as population. Property taxes follow the trend of assessed value which increases \$140 million for the 1990 levy, then \$100 million/year thereafter. Real estate excise taxes and licenses/permits increase at 6%/year. See Table III-1-2.
2. Expenditures, except library, increase an average of 6%/year to account for inflation and growth. Actual increases would vary from expenditure to expenditure, ranging from 4% - 10% per year. See Table III-1-3 and Chart III-1-2. The library forecast is based on the contract of \$0.50/\$1,000 assessed valuation.
3. The City would receive the County's Road Levy collected in 1991, the Fire Districts and the Library District would continue to collect their levies in 1991 and also continue to provide service to the ESP area.

Source: The Georgette Group.

C. REVENUE PROJECTION ASSUMPTIONS

Table III-1-2 shows revenue projections from 1991-1995 and the year 2000. This section describes these revenue sources, and the assumptions used in projecting them. Only major revenue sources are shown in the analysis. Gambling taxes, admission taxes, the leasehold excise tax, and other miscellaneous fees and charges are not significant factors in the ESP Area and therefore are not included in the analysis.

Property Taxes

The assessed value is derived from a search of the King County Assessor's 1989 Real Property files. The value of taxable personal property within the ESP levy codes has been added to the real property data. The total assessed value for 1989 is estimated at \$660,000,000(rounded).

TABLE III-1-2

ESP REVENUE PROJECTIONS 1989 - 1995 AND 2000

	1989	1990	1991	1992	1993	1994	1995	2000
<u>Revenues for Operations & Maintenance</u>								
Sales/Use Tax	\$568,000	\$624,000	\$680,000	\$732,000	\$788,000	\$840,000	\$892,000	\$1,120,000
Util./Frnc. Fee	\$497,000	\$546,000	\$595,000	\$640,500	\$689,500	\$735,000	\$780,500	\$980,000
Fines & Forf.	\$142,000	\$156,000	\$170,000	\$183,000	\$197,000	\$210,000	\$223,000	\$280,000
B & O Tax	\$ 32,660	\$ 35,880	\$ 39,100	\$ 42,090	\$ 45,310	\$ 48,300	\$ 51,290	\$ 64,400
EMS Revenues	\$113,600	\$124,800	\$ 0	\$146,400	\$157,600	\$168,000	\$178,400	\$224,000
Chgs. for Svcs.	\$110,050	\$120,900	\$131,750	\$141,825	\$152,675	\$162,750	\$172,825	\$217,000
Liquor Tax/Profits	\$130,320	\$154,212	\$169,416	\$184,620	\$198,738	\$213,942	\$228,060	\$292,134
Auto etc. Excise	\$169,920	\$201,072	\$220,896	\$240,720	\$259,128	\$278,952	\$297,360	\$380,904
Property Taxes	\$1,021,409	\$1,238,072	\$ 0	\$1,547,590	\$1,702,349	\$1,857,108	\$2,011,867	\$2,785,662
Storm Water Chg.	\$244,950	\$269,100	\$293,250	\$315,675	\$339,825	\$362,250	\$384,675	\$483,000
Gas Tax Street	\$144,000	\$170,400	\$187,200	\$204,000	\$219,600	\$236,400	\$252,000	\$322,800
Licenses/Permits	\$750,000	\$795,000	\$842,700	\$893,262	\$946,858	\$1,003,669	\$1,063,889	\$1,423,724
Road Tax	\$ 0	\$ 0	\$1,544,265	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL	\$3,923,909	\$4,435,436	\$4,873,577	\$5,271,682	\$5,696,583	\$6,116,371	\$6,535,866	\$8,573,623
<u>Revenues for Capital Items</u>								
Gas Tax Arterial	\$95,520	\$113,032	\$124,176	\$135,320	\$145,668	\$156,812	\$167,160	\$214,124
Real Estate Excise	\$300,000	\$318,000	\$337,080	\$357,305	\$378,743	\$401,468	\$425,556	\$569,490
TOTAL	\$395,520	\$431,032	\$461,256	\$492,625	\$524,411	\$558,280	\$592,716	\$783,614

Source: The Georgetown Group

19-1

TABLE III-1-3
ESP EXPENDITURE PROJECTIONS 1989 - 1995 AND 2000

Expenditures for Operations & Maintenance	1989	1990	1991	1992	1993	1994	1995	2000
Legislative	\$5,000	\$5,300	\$5,618	\$5,955	\$6,312	\$6,691	\$7,093	\$9,491
Executive	\$86,100	\$91,266	\$96,742	\$102,546	\$108,699	\$115,221	\$122,134	\$163,444
City Clerk	\$60,400	\$64,024	\$67,865	\$71,937	\$76,254	\$80,829	\$85,679	\$114,657
Finance	\$79,000	\$83,740	\$88,764	\$94,090	\$99,736	\$105,720	\$112,063	\$149,966
Legal	\$130,000	\$137,800	\$146,068	\$154,832	\$164,122	\$173,969	\$184,407	\$246,779
Municipal Court	\$24,000	\$25,440	\$26,966	\$28,584	\$30,299	\$32,117	\$34,044	\$45,559
Law Enfor/jail*	\$934,800	\$990,888	\$1,050,341	\$1,113,362	\$1,180,163	\$1,250,973	\$1,326,032	\$1,774,529
Parks/Rec	\$275,000	\$291,500	\$308,990	\$327,529	\$347,181	\$368,012	\$390,093	\$522,032
Bldg. Maint.	\$120,000	\$127,200	\$134,832	\$142,922	\$151,497	\$160,587	\$170,222	\$227,796
Planning	\$241,800	\$256,308	\$271,686	\$287,988	\$305,267	\$323,583	\$342,998	\$459,009
Building	\$260,400	\$276,024	\$292,585	\$310,141	\$328,749	\$348,474	\$369,382	\$494,317
Street	\$772,000	\$818,320	\$867,419	\$919,464	\$974,632	\$1,033,110	\$1,095,097	\$1,465,486
Storm Water	\$320,700	\$339,942	\$360,338	\$381,958	\$404,875	\$429,168	\$454,918	\$608,782
Other	\$196,300	\$208,078	\$220,563	\$233,796	\$247,824	\$262,694	\$278,455	\$372,636
Subtotal	\$3,505,500	\$3,715,830	\$3,938,779	\$4,175,106	\$4,425,612	\$4,691,148	\$4,972,617	\$6,654,483
Fire/Aid**	\$561,700	\$595,402	\$631,126	\$668,994	\$709,133	\$751,681	\$796,782	\$1,066,274
Library**	\$330,000	\$400,000	\$450,000	\$500,000	\$550,000	\$600,000	\$650,000	\$900,000
Total	\$4,397,200	\$4,711,232	\$5,019,905	\$5,344,100	\$5,684,745	\$6,042,829	\$6,419,399	\$8,620,757

Note

- * This excludes expenditures for police vehicles, uniforms, radio equipment, etc. since these represent an initial, one time capital outlay.
- ** The City has a variety of service options for these services.

Source: The Georgetown Group

19-8

The estimate assumes the 1989 Issaquah regular tax levy rate of \$1.54759 per \$1000 assessed value. Annexation of the ESP Area would reduce the 1989 Issaquah general obligation bond levy rate of \$1.91376 per \$1000, if voters assumed the City's current bonded indebtedness.

If the ESP Area were in the City of Issaquah in 1989 and the City were collecting its regular levy, the ESP area would generate \$1,021,400 in new property tax revenues.

An analysis of assessed value trends for the Sammamish Plateau Water and Sewer District (as an indicator of ESP property value trends) indicates that the area has seen \$142 million in new construction (between July 1988 and July 1989) which will be added to increase the area's 1990 assessed valuation. Thus the 1990 assessed value estimate in this study is projected to grow by \$140 million and subsequent years are projected at a conservative \$100 million increase per year.

Retail Sales and Use Tax

The process of estimating sales tax revenues in a study area involves consideration of the economic structure of the area, growth and development trends, retail locations in the area and market competition. The study area is characterized by a growing number of residences, a high level of construction activity, sparse but growing retail shopping areas, some major building products establishments and competitive merchants in Issaquah and Redmond. The retail sales estimation process included:

1. A windshield survey of the study area to identify establishments that generate taxable retail sales and use transactions.
2. An estimation of establishments' floor areas, activity, acreage or other factors related to sales activity.
3. The Washington State Department of Revenue was consulted by the City to estimate taxable retail sales of major firms in the ESP Study Area.
4. Sales efficiency (sales/square foot) figures were obtained from several secondary sources such as firms' annual reports, national shopping center publications, local market studies and local retail managers.
5. Small cities with mainly residential development were identified in the Washington State Treasurer February 1989 Monthly Report, "Analysis of State Collected Revenues for Calendar Year 1988" and the cities' per capita sales and use tax were derived.
6. The average per capita revenues were \$42.48; however, since we wanted a conservative estimate, \$40 per capita was applied to the ESP Study Area to forecast retail sales and use tax revenues to the year 2000.

Revenue growth in the ESP Area is related to population and commercial growth in the market area, so sales and use tax revenues were projected to increase at the same rate as population.

The analysis assumes the current (maximum) local sales tax rate of 1% prevailing in both Issaquah and King County.

Taxable retail sales and use transactions are estimated to be \$67.6 million for 1989 in the ESP Study Area.

If the ESP Area were part of Issaquah in 1989, the City would receive an additional \$568,000 in retail sales and use taxes.

Utility Taxes

These estimates are derived from current development estimates (single family units, multi-family units, mobile homes, commercial, institutional, etc.) using generalized utility billing costs in the ESP Study Area. This was translated to a per capita figure of \$35.00 for projection purposes.

Taxes are assumed at current City of Issaquah rates (6.3% for utilities and 5% for cable TV franchise). Tax collections are based on telephone, electric, gas, garbage and cable TV. Water and sewer utility billings are assumed to remain with current service providers and not be subject to the city tax.

If the ESP Area were within the City of Issaquah in 1989, the City would collect \$497,000 in new utility tax revenues.

Revenue forecasts reflect consideration of the following growth factors in the ESP Area: rate of development, utility rate changes and conservation practices. Utility tax receipts are projected to grow at the same rate as population in the area.

Real Estate Excise Tax

The estimated rate of real estate turnover in unincorporated King County was derived from the 1989 King County budget. The rate was 8.4% of assessed value. This sales rate was compared with the estimated single family housing sales in ESP for the most recent 12 month period available. The sales rate of single family housing alone suggests a rate of over twice the King County average.

The real estate excise tax rate is 0.25% of the selling price, the same in unincorporated King County and the City of Issaquah.

The ESP Area is estimated to generate \$300,000 in real estate excise tax revenues during 1989. These revenues are designated by the State to be spent only on capital projects. While the level of real estate sales activity is volatile, real estate excise tax receipts are forecast to grow at 6% per year consistent with long term trends in the area.

Business Licenses

Issaquah's business license is based on \$30.00 for the initial license and \$20.00 for each annual renewal. The major business related revenue is from the Business and Occupation (B & O) tax collection on gross receipts.

The tax rate for general businesses is 0.06% of gross receipts while professional services are taxed at a rate of 0.1%.

If the area were within the City of Issaquah during the 1989 Budget year, there would be about \$33,000 in additional B & O tax receipts.

Comparison of the City's B & O tax revenues with its inventory of manufacturing, warehouse, retail and office space indicate average revenue of 11¢ per square foot. Since most business activity in the area is related to the area's resident population or local market, B & O tax revenues are expected to increase at the same rate as population growth.

Storm Drainage Charges

Current land use has been estimated from the King County Land Development Information System, field surveys, and King County Surface Water Management data.

Current Issaquah rates are \$3.50 per month for single family residences, and \$3.50 per 2,500 square feet of impervious surface coverage for more intensive development (apartments, office, commercial, etc). (see Section II-5 of this report) These rates were applied to the land use estimates for the ESP Study Area to yield \$245,000 in revenues for 1989.

Storm drainage utility receipts are forecast to grow with population in the ESP Study Area.

State Shared Revenues

These revenues consist of gas tax distributions, Liquor Board profits and liquor tax and motor vehicle, travel trailer and camper excise tax distributions to cities and towns in Washington State.

These distributions are estimated for budget purposes as per capita revenues, using the previous year's population estimates for the current year's revenue distributions. Therefore, the 1988 ESP population of 12,000 is used to determine the 1989 budget for state shared revenues.

If the City of Issaquah were collecting state shared revenues for the ESP Study Area in 1989, the total would be about \$540,000.

Growth in these revenues is related to population and changes in state tax collections, so each distribution has been projected uniformly on a per capita basis. Some of these state shared revenues are earmarked for special purposes: the gas tax is to be used for the Street Fund and Arterial Street Fund and 2% of the Liquor Board profits and taxes are for the Alcoholism Program offered by Seattle-King County Health Department. (See Section III-10 of this report).

Licenses and Permits

These revenues include building permits, amusement licenses, special business licenses, street use permits, etc. The major revenue source in this group is building permits. The cost of a typical permit was derived by the City and was projected using the mid-range growth scenario. Other licenses and permits would constitute a minimal additional revenue source.

The analysis assumes current City of Issaquah license and permit fee schedules. If the ESP Study Area were within the City of Issaquah, the City would realize an additional \$750,000 in license and permit revenues during 1989.

While the level of construction activity tends to be volatile and follows the business cycle, the rate of increase is estimated to be 6% per year, following long term valuation trends.

Fines and Forfeits

These revenues include traffic and parking infraction penalties, court costs and fines. Revenues are estimated to be comparable to but less than the King County average. The per capita amount used in this study is \$10.00.

Current City fee schedules are assumed for the purpose of analysis.

If the ESP Study Area were served by the Issaquah Municipal Court, the 1989 increase in fines and forfeits would be \$142,000.

Since these revenues are estimated on the basis of a per capita factor, the revenue projections for fines and forfeits are based on the growth in the ESP population.

Emergency Medical Services

This revenue is paid to the fire service provider by the Emergency Medical Services Division of the Seattle-King County Health Department to help fund the fire department's basic life support (medical aid) services. (See Section II-3, Fire Service Analysis, for allocation formula).

E.M.S. revenues for the ESP Study Area were derived in the Fire Protection Analysis. If this revenue were expressed in terms of a current per capita factor, it would approximate \$8.00 per person.

If the City of Issaquah Fire Department were providing Basic Life Support services to the ESP area, it would receive roughly \$114,000 from E.M.S. in 1989.

Future E.M.S. revenues are expected to grow along with area's population, so the per capita factor was used to forecast these revenues.

Charges for Service

Major revenues include charges such as recreation fees; planning, zoning, and subdivision fees; etc. Recreation fees were identified in the Parks and Recreation Service Analysis, Section II-7. Development related charges, estimated in the 1989 Issaquah budget, were totaled and then the ESP building and planning workload impact (proportion) was applied to this total to derive new ESP revenues. Other minor revenues applicable to the ESP Study Area were estimated on a per capita basis.

Current Issaquah fee schedules were assumed in the revenue analysis.

If the ESP Study Area were served by the City of Issaquah, the City would realize an additional \$110,000 in revenues for charges for services.

Growth in Charges for Service revenues is most closely related to population trends in the area so the current revenue estimate was expressed as a per capita factor and projected in those terms.

D. TAX RATES: A COMPARISON OF ISSAQUAH WITH THE ESP STUDY AREA

If the ESP Study Area were within the City of Issaquah, the current residents in ESP would have a lower overall property tax rate; this would be lower than the current rate taxpayers are paying in either the ESP Fire District #10 service area or ESP Fire District #27 service area. Table III-1-4 presents tax rates for Issaquah, Fire District #10 and Fire District # 27.

When the ESP residents vote on the proposed annexation, they will also be voting on whether to assume the City's bonded indebtedness. This decision would affect the City's property tax rate; by spreading the general obligation (G.O.) bond levy among Issaquah and the ESP area taxpayers the City's existing levy rate would be reduced by about \$1.175 per \$1000 assessed valuation. (This is based on the City's 1989 Assessed values). This of course would require that the voters vote to assume this bonded indebtedness. To assume the bonded indebtedness, 60% of the voters have to approve the measure and the number of voters doing so must equal at least 40% of voter turnout in the previous election.

A recent analysis by the Issaquah Finance Department looked at the long-term effects of the combination of the following three events

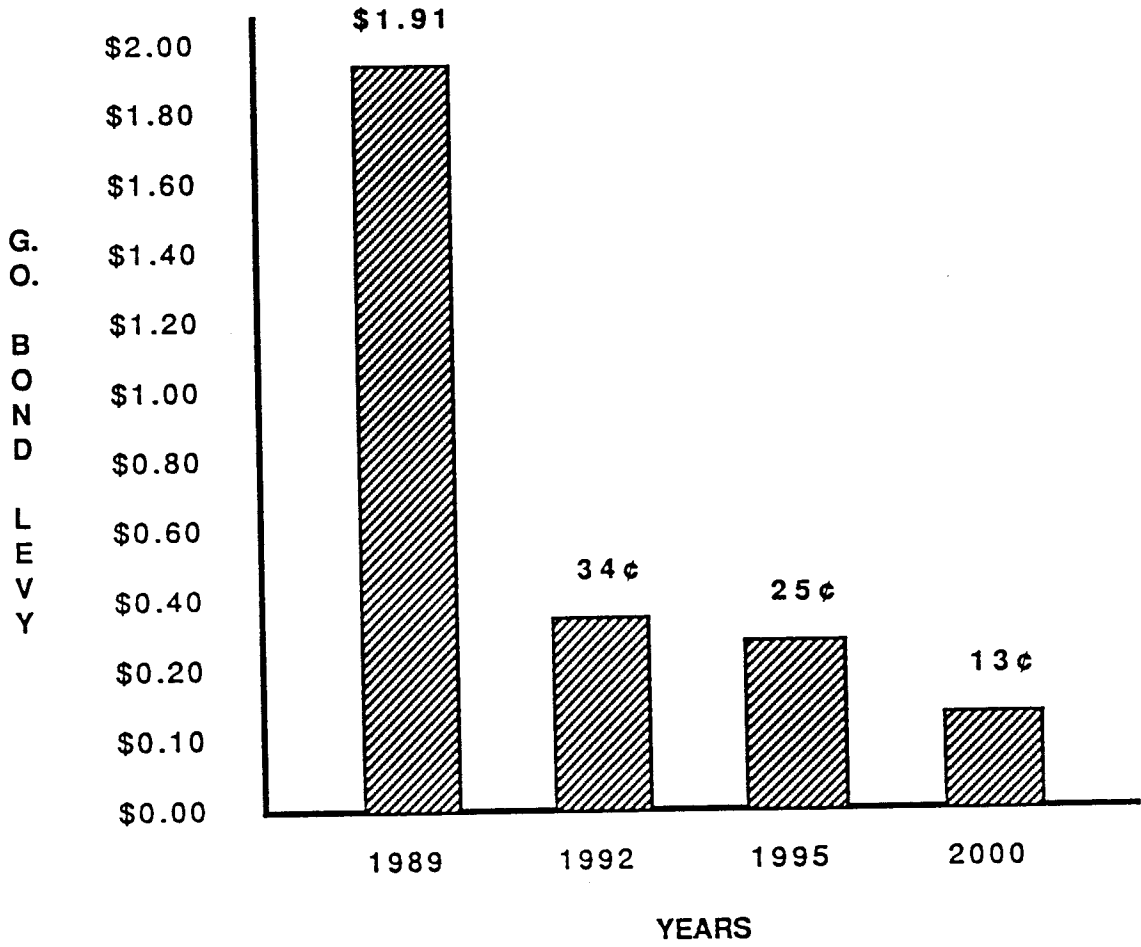
1. Retirement of the City's existing bonded indebtedness over time.
2. Growth in the assessed valuation in both the City and ESP area; and,
3. The assumption of the City's existing bonded indebtedness by taxpayers in the ESP area.

The analysis shows the City's current bond levy rate of \$1.91 would decrease by 82% in 1992 to \$0.34. By the year 2000 the levy rate would decrease by a total of over 93% to only \$0.13. Chart III-1-3 illustrates the cumulative effect of these three factors over time.

Under the annexation process, the ESP area theoretically could vote not to assume the bonded indebtedness and still annex into the City, thereby not impacting the G.O. bonded indebtedness of the City. The vote on annexation needs a simple majority of the voters. After the vote on the annexation and the bonded indebtedness, the City Council meets to decide whether to accept the results of both of these votes and, if the annexation is approved, sets the date upon which it would become effective.

Currently, residents in the ESP Study Area pay the following property taxes. See Table III-1-4.

CITY OF ISSAQUAH: G.O. BOND LEVY RATE PROJECTION
WITH THE ESP ANNEXATION



Note: General Obligation Bond Levy is shown in \$/\$1,000 assessed valuation.

Source: The Georgette Group.

19-14

TABLE III-1-4

PROPERTY TAX LEVY RATE COMPARISON
(In dollars per \$1,000 assessed valuation)

<u>LEVY</u>	<u>1989 Issaquah</u>	<u>FD#10</u>	<u>FD#27</u>	<u>1989 Issaquah with ESP</u>
City	1.54759	NA	NA	1.54759
G.O.*	1.91376	NA	NA	\$0 to 0.73873 * *
Fire	NA	1.43850	1.03503	NA
Special Fire Bond	NA	0.34032	NA	\$0 to 0.34032 * * *
Library	NA	0.50000	0.50000	NA
Special Library Bond	NA	0.02980	0.02980	0.02980
King County Roads	NA	<u>1.71585</u>	<u>1.71585</u>	NA
TOTALS	\$3.46135	\$4.02477	\$3.28068	\$1.57739-\$2.65644

Notes:

- * The G.O. Bond levy will drop to \$1.41 by 1990 and will continue to decrease.
- * * This will depend upon whether the residents of ESP vote to accept the City of Issaquah's bonded indebtedness.
- * * * This will remain on the tax bill of those residents who formerly resided in FD#10 prior to the annexation, if approved.

Source: The Georgette Group.

The Issaquah City levy would replace what residents in the ESP Study Area are currently paying. Residents of the ESP could reduce their total property tax levy by a minimum of \$0.96 to a maximum of \$2.10/\$1,000 assessed valuation, depending upon which Fire District serves their property and depending whether or not residents of ESP vote on assuming the City's bonded indebtedness.

Other Tax Rates

Tax rates in unincorporated King County and the City of Issaquah are the same for the local sales and use tax at 1.00% and the real estate excise tax at 0.25%.

Gambling tax rates are similar in King County and Issaquah, ranging from 2% to 11% for the former jurisdiction and from 2% to 10% for the City. Gambling taxes were not found to be a significant revenue source in the ESP area, so they have not been quantified.

The City of Issaquah collects two taxes that King County does not: B & O taxes and utility taxes. Table III-1-5 shows a comparison of other local taxes such as sales and use tax, real estate excise tax and business taxes.

Leasehold excise taxes are collected by the State Department of Revenue on the annual lease payments of public properties in lieu of the property tax. All cities and counties levy up to 4% and 6% respectively. If an area is annexed to a city, the county still receives a 2% tax on the lease (6% - 4%), since the city tax is credited against the county tax. Leasehold excise taxes are not a significant revenue source in the ESP Study Area.

**TABLE III-1-5
COMPARISON OF TAX RATES**

<u>Taxes</u>	<u>Issaquah</u>	<u>King County</u>
Local sales & use (a)	1.00%	1.00%
Local real estate/excise	0.25%	0.25%
Local share leasehold excise (b)	4.00%	6.00%
Gambling (c)	2.00-10.00%	2.00-11.00%
B & O	0.0006-0.001%	NA (d)
Admissions	NA	NA (e)
Utilities	6.00-6.3%	NA
Franchise/Cable TV(f)	5.00%	5.00%

Notes:

- (a) King County receives 15% of the local sales tax collected within the City of Issaquah.
- (b) City tax is a credit against the county tax so the county continues to receive 2% of public property lease payments in lieu of the property tax.
- (c) Rate varies with type of gambling activity.
- (d) Both Issaquah and King County license and/or regulate certain types of business such as fireworks stands, amusement operations, etc.
- (e) King County has a taxing authority, but does not impose this tax.
- (f) Only recipients of cable TV pay the tax as part of the rate. It is not a separate line item on the billing.

Source: The Georgette Group.

E. COMPARISON OF ISSAQUAH TAXES WITH OTHER WASHINGTON CITIES

Property Tax

Issaquah's property tax levy rate is lower than the twenty-six city average; however, it includes a \$1.91376 per \$1000 general obligation bond levy which will decline with growth in the City's assessed value and as bonds are retired. The City's G.O. Bond retirement schedule indicates that the annual cost of these bonds will decrease by 36% in 1991 and will decline a

total of 56% by the year 2000. The following illustrates the effect of bond retirements over time:

1989 is 100% of the excess levy of \$800,000
 1991 is 64% of the excess levy of \$512,000
 1995 is 60% of the excess levy of \$477,000
 2000 is 44% of the excess levy of \$348,000

Issaquah has a very low regular levy rate of \$1.54759 with only four cities (Hunts Point, Yarrow Point, Black Diamond and Clyde Hill) in King County having lower rates.

Utility Tax

Utility taxes are charged by many cities in Washington State and are limited to 6% of gross receipts unless voters approve a higher rate. Cities taxing above the statutory maximum are in the process of reducing their rates over a ten year period to conform with state law. Issaquah charges more than the statutory maximum and its average utility rate is less than the twenty-six city average summarized in the City of Bellevue Tax Survey. Table III-6 presents an excerpt from this study showing rates for several local cities.

B & O Tax

Issaquah collects B & O taxes ranging from 0.06% to 0.1% of gross receipts of businesses operating in the City. There are 120 cities in the State of Washington that impose a B & O and/or utility tax. Issaquah's B & O rates are lower than the average found in the City of Bellevue Tax Survey, see Table III-1-6.

TABLE III-1-6

SEATTLE METROPOLITAN AREA
 COMPARATIVE MUNICIPAL TAX RATES 1989

<u>City</u>	<u>Population</u>	<u>B&O Rate</u>	<u>Utility Tax Rate</u>	<u>Total Levy Rate*</u>
Auburn	32,460	NA	4.50%	\$3.83
Bellevue**	86,350	.130%	5.74%	2.22-2.28
Issaquah	7,440	.06%-.1%	6.26%	3.46
Kent	34,860	NA	4.06%	3.04
Kirkland	36,620	NA	5.00%	2.05-2.41
Mercer Island	20,380	.100%	6.40%	3.37
Redmond	33,400	NA	5.30%	2.93
Renton	38,480	NA	5.43%	3.75
Seattle	497,200	.224%	8.04%	3.95
Tacoma	162,100	.194%	7.60%	4.28
Average Rates (26 cities)	NA	.141%	6.37%	\$3.52

19-17

Notes:

- * Includes both General levy and G. O. bond levy.
- ** Bellevue has annexed into the King County Library System which collects its own \$.5298 per \$1000 levy in the City. The KCLS levy should be added to the city levy for a valid comparison.

Source: City of Renton 1989 Budget/City of Bellevue Tax Survey, the Issaquah 1989 Adopted Budget and The Georgette Group.

E. ANALYSIS OF TAX CHANGE FOR THE ESP STUDY AREA

Table III-1-7 compares the annual cost of taxes and storm water charges for the owner of a \$150,000 single family home in the ESP Study Area. The example shows the current taxes in the two fire districts serving the area and compares those taxes with what they would be in the City of Issaquah under two scenarios:

1. The voters in the ESP Study Area agree to assume the City of Issaquah's current bonded indebtedness.
2. The voters do not assume the City's bonded indebtedness.

In all cases, the total annual cost of taxes and charges would be lower in the City of Issaquah than ESP property owners are now paying. In Fire District #10 the reduction would range from \$86 if voters assumed the City's indebtedness to a savings of \$196 if they did not assume indebtedness. In Fire District #27 the savings would range from \$35 with the City's indebtedness to \$145 if the indebtedness was not assumed. Chart III-1-4 compares the 1989 annual cost to ESP taxpayers under current service providers versus their cost if they were being served by the City of Issaquah.

G. KING COUNTY AND SPECIAL PURPOSE DISTRICT REVENUES

Table III-1-8 shows the major revenues accruing to King County, King County Fire District #10, King County Fire District #27, and King County Library System from the ESP Area. Revenues that are collected only in the unincorporated areas of King County have been evaluated, since those are the ones which would be impacted by annexation.

Major King County revenues evaluated using the 1989 ESP tax base total \$3,416,000. The leasehold excise tax, gambling tax and other miscellaneous licenses and fees are minor revenue sources in this area and have not been evaluated.

Fire District revenues include the regular property tax levy, the EMS allocation and the bond levy for Fire District #10. The King County Library System revenues include the regular levy and the capital improvement levy. The Fire District bond levy and the Library District Capital Improvement levy will continue to be collected in the ESP Study Area regardless of the annexation decision.

TABLE III-1-7

ANNUAL COST COMPARISON FOR OWNER OF \$150,000 HOME WITHIN THE ESP STUDY AREA,
AFTER ANNEXATION TO THE CITY OF ISSAQUAH

	ESP POST ANNEXATION TAXES				ESP CURRENT TAXES	
	ASSUME INDEBTEDNESS*		NOT ASSUME INDEBTEDNESS		Fire D#10	Fire D#2Z
	Fire D#10	Fire D#2Z	Fire D#10	Fire D#2Z		
Property Taxes**	\$398	\$347	\$288	\$237	\$604	\$492
Cable TV	10	10	10	10	10	10
Telephone	15	15	15	15	0	0
Electricity	30	30	30	30	0	0
Gas	45	45	45	45	0	0
Garbage	8	8	8	8	0	0
Storm Water	42	42	42	42	30	30
TOTAL	\$548	\$497	\$438	\$387	\$634	\$532

19-19

Note:

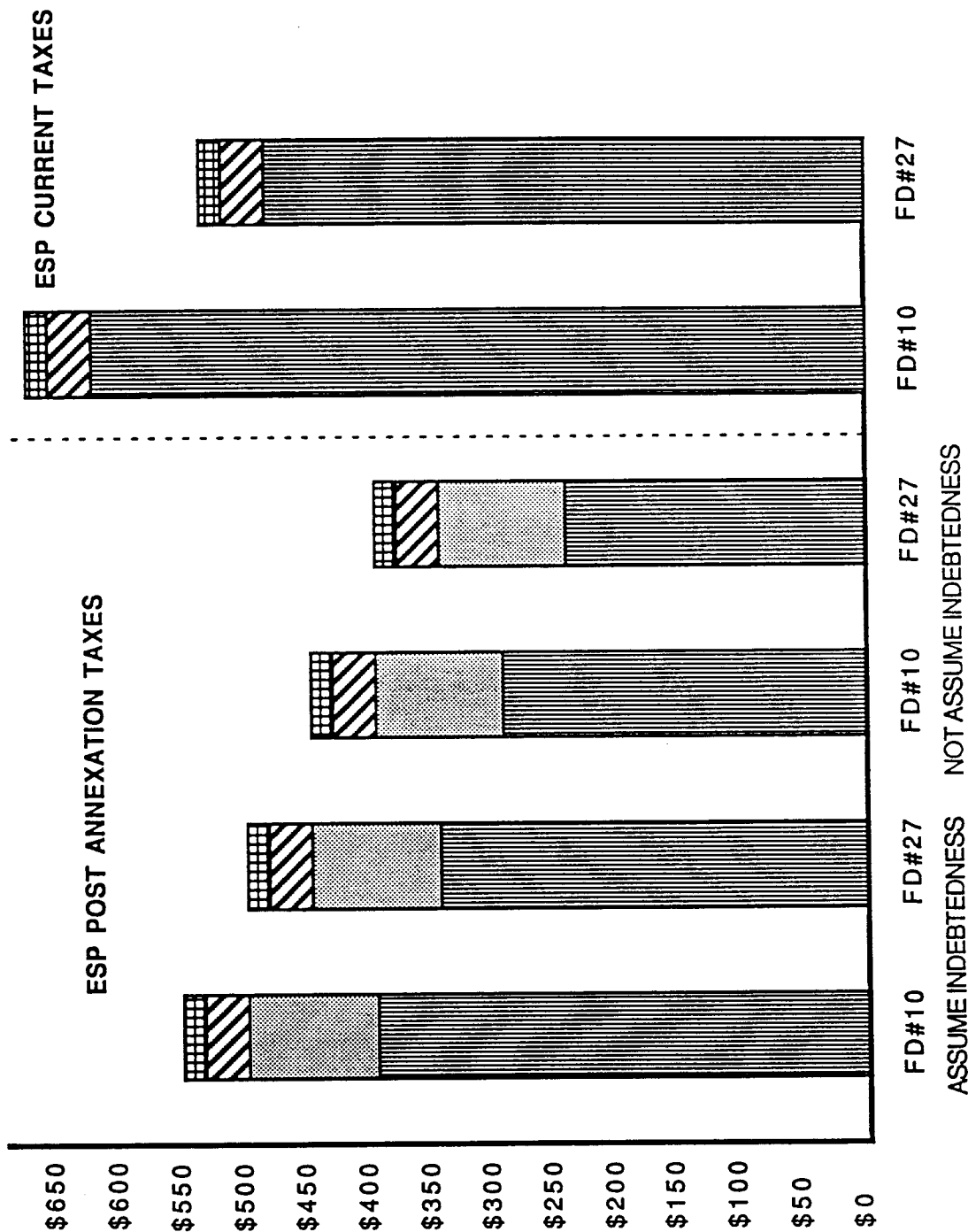
* Bonded indebtedness will be lower in 1992 and will continue to decline. This represents a worst case scenario and assumes the 1989 bond levy of \$1.91.

** See discussion under part D of this chapter.

Source: The Georgette Group.

Chart III-1-4

ANNUAL COST COMPARISON FOR OWNER OF \$150,000 HOME IN ESP AREA, AFTER ANNEXATION TO THE CITY



Property Taxes

Utility Taxes excluding water and sewer

Storm Water Charge

Cable TV Franchise Fee

Source: The Georgetown Group

The total revenue generated in the ESP Study Area including King County, Fire Districts and the Library System would be about \$5,026,000 in the 1989 base year.

TABLE III-1-8
KING COUNTY AND SPECIAL PURPOSE DISTRICT REVENUE ESTIMATES FROM THE
ESP STUDY AREA FOR 1989

<u>REVENUE SOURCE</u>	<u>ESP TAX BASE 1989</u>
Property tax (1) (road district)	\$1,132,000
Retail sales and use tax (2)	568,000
Real estate excise tax	300,000
Fines and Forfeitures (3)	151,000
Gas tax (4)	278,000
Liquor tax and profits	40,000
Surface water management service	200,000
BALD and planning fees	<u>747,000</u>
SUBTOTAL TO KING COUNTY	\$3,416,000
King County Fire District #10(5)	\$1,236,000
King County Fire District #27(6)	\$24,000
King County Library System(7)	<u>\$350,000</u>
TOTAL REVENUE	\$5,026,000

Notes:

- (1) \$1.71585/\$1000 assessed valuation
- (2) King County would continue to receive 15% of all taxable retail sales remittances from the City of Issaquah, i.e. 15% of the 1% retail sales tax.
- (3) \$10.60 per capita
- (4) \$19.60 per capita
- (5) \$1.4385/\$1,000 A.V. regular levy, plus \$0.34032/\$1,000 A.V. Capital improvements, plus the EMS allocation.
- (6) \$1.03503/\$1,000 A.V. regular levy, plus the EMS allocation.
- (7) \$0.50/\$1,000 A.V. regular levy, plus \$0.0298/\$1,000 A.V. Capital improvements.

Source: The Georgette Group