



Date: August 27, 2007

To: Mayor Degginger and Council Members

From: Jan Hawn, Finance Director
Robert Derrick, Economic Development Director

Subject: Tax rate comparison for businesses / impact of commercial development on property taxes

Several Council members expressed interest in comparing tax rates for Bellevue, Redmond and Seattle for small, medium, and large sized businesses. Council members were also interested in understanding the impact of commercial development on property taxes. Staff has created the following memo to help with these questions. This memo is intended as general background information, and is provided in a question and answer format to help Council answer citizens' questions about business taxes.

- Question 1: How do Bellevue **tax rates for business** compare with Redmond and Seattle? (pg. 3)
- Question 2: How do taxes for a typical **small, medium, or large sized business** compare between Bellevue, Redmond and Seattle? (pg. 4)
- Question 3: How is the **property tax rate calculated?** (pg. 5)
- Question 4: How does **new construction** affect Bellevue's property tax rate? (pg. 6)
- Question 5: How has the **growth in commercial property** impacted property tax rates? (pg. 7)
- Question 6: How has **Bellevue's property tax rate** changed over time? (pg. 8)

Although not specifically requested, we are also including the statewide comparisons of property, sales, gross receipts, and utility taxes to give a more complete picture of local tax rates.

- Question 7: How does Bellevue's **property tax rate** compare with other cities in Washington State? (pg. 9)
- Question 8: How does Bellevue's **sales tax rate** compare with other Washington cities, and how much of the sales tax collected in Bellevue goes to the City? (pg. 10)
- Question 9: How does Bellevue's **gross receipts tax (also known as B&O tax)** compare with other cities? (pg. 11)
- Question 10: How do Bellevue's **utility taxes** compare with other cities? (pg. 12)

Key Findings:

- Redmond and Bellevue's taxes for businesses are lower than Seattle's.
- Business taxes (gross receipts, employee hour fees, square footage tax) are different for Bellevue, Redmond and Seattle, making them difficult to compare.
- Growth in the value of existing property has played a bigger role than new construction in keeping property tax rates low.
- Growth in the value of residential property has played a bigger role than commercial property in keeping property tax rates low.
- Even with a 2% property tax increase, Bellevue's property tax rate fell again in 2007.
- Bellevue's property tax rate is the lowest in Washington State for cities with more than 30,000 residents.
- All major cities in Washington State levy 1% for sales tax, except Vancouver (which levies less).
- Bellevue's gross receipts tax rate (also known as B&O tax) is about average for cities collecting this tax in Washington State.
- Bellevue's utility tax rates are lower than the average rate for the largest Washington cities.

Question 1: How do Bellevue tax rates for business compare with Redmond and Seattle?

Answer: Property tax rates are lowest in Bellevue. There is no difference in local sales tax rates.

Comparison of 2007 Local Taxes -- Property & Sales Tax			
	Bellevue	Redmond	Seattle
Property Tax			
City Rate per \$1,000 Assessed Value (AV)	\$1.09	\$1.18	\$3.22
Local Sales Tax (County and City Portion)			
	1.0%	1.0%	1.0%

Compares local taxes between Bellevue, Redmond and Seattle. Taxes are current as of July 1, 2007. Prepared by the City of Bellevue Tax Office.

Bellevue's utility tax rates are lowest, except in the case of water/sewer/storm rates, which Redmond does not collect.

Comparison of 2007 Local Taxes -- Utility Taxes			
	Bellevue	Redmond	Seattle
Utility Taxes			
Electric*	5%	6%	6%
Natural Gas*	5%	6%	6%
Water / Sewer / Storm	5%	No	15.54% / 12.00% / 11.50%

Compares local taxes between Bellevue, Redmond and Seattle. Taxes are current as of July 1, 2007. Prepared by the City of Bellevue Tax Office.

**Without voter approval, the maximum allowable rate is 6%.*

Business taxes are difficult to compare, because Bellevue, Redmond and Seattle are taxing businesses in different ways. Seattle's are generally highest, followed by Bellevue and then Redmond. Redmond's are generally the lowest because they do not levy a gross receipts tax.

Comparison of 2007 Local Taxes -- Business Taxes			
	Bellevue	Redmond	Seattle
Business Taxes			
Gross Receipts (per \$1,000 of gross receipts)	\$1.50	No	\$2.15 or \$4.15*
Square Footage (\$ per square foot)	\$0.82	No	No
Employee Hours License Fee / Surcharge	No	Annual \$90 per FTE <u>or</u> \$0.047 per employee hour	Annual \$25 per FTE <u>or</u> \$0.013 per employee hour

Compares local taxes between Bellevue, Redmond and Seattle. Taxes are current as of July 1, 2007. Prepared by the City of Bellevue Tax Office.

**The \$4.15 rate is for service related industries*

Question 2: How do taxes for a typical small, medium, or large sized business compare between Bellevue, Redmond and Seattle?

Answer: When we compare the taxes for our example businesses, Bellevue's and Redmond's tax bills are lower than Seattle's. Bellevue, Redmond and Seattle all have different tax rates for business. Taxes for a business can also depend on things like:

- type of business (service, manufacturing, wholesale, etc),
- number of employees,
- value of the building(s) they are located in.

The businesses used in the following examples are hypothetical, and the calculated taxes are rough estimates. Assumptions used to calculate taxes are constant across all cities.

Small

Our small business is a tiny restaurant located in a strip mall. It does about \$300,000 in gross receipts a year, and has around 4 employees.

Small Business	Bellevue	Redmond	Seattle
Property Tax	660	710	1,930
Local Sales Tax	2,520	2,520	2,520
Utility Taxes	490	510	770
Business Tax	450	270	720
Total	\$ 4,120	4,010	5,940

Medium

Our medium business is a big box retail store. It does about \$40 million in gross receipts a year, and has around 90 employees.

Medium Business	Bellevue	Redmond	Seattle
Property Tax	18,570	19,980	54,750
Local Sales Tax	326,500	326,500	326,500
Utility Taxes	11,100	11,550	11,290
Business Tax	59,840	6,750	87,880
Total	\$ 416,010	364,780	480,420

Large

Our large business is in the service industry, and is located in a high-rise or corporate campus. It does about \$250 million in gross receipts a year, and has around 1,000 employees.

Large Business	Bellevue	Redmond	Seattle
Property Tax	24,790	26,670	73,110
Local Sales Tax*	n/a	n/a	n/a
Utility Taxes	21,130	19,620	27,240
Business Tax	374,000	90,000	1,062,500
Total	\$ 419,920	136,290	1,162,850

*Businesses in the service industry pay no sales tax

Question 3: How is the property tax rate calculated?

Answer: To understand property taxes, you need to be familiar with the three things the County uses to calculate a property tax rate:

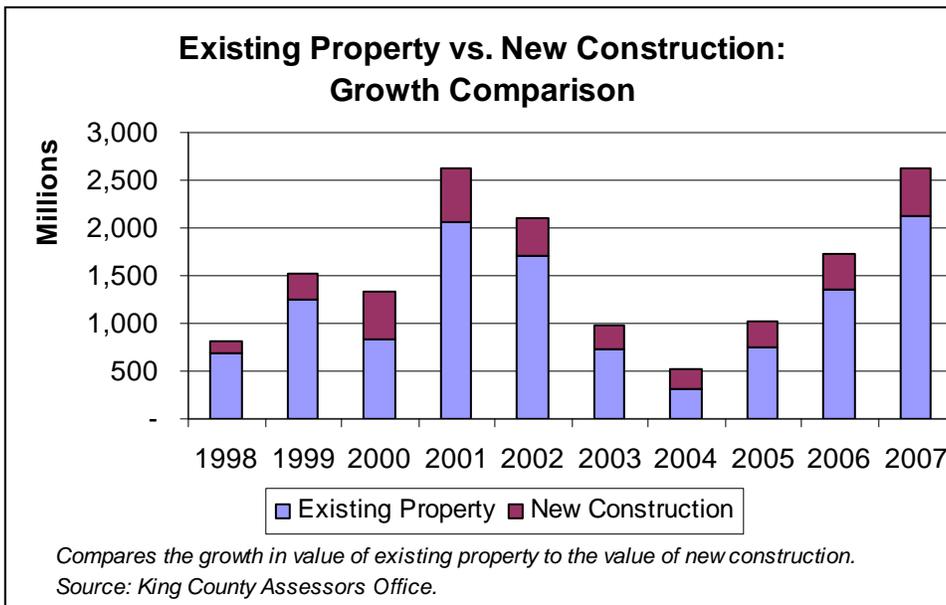
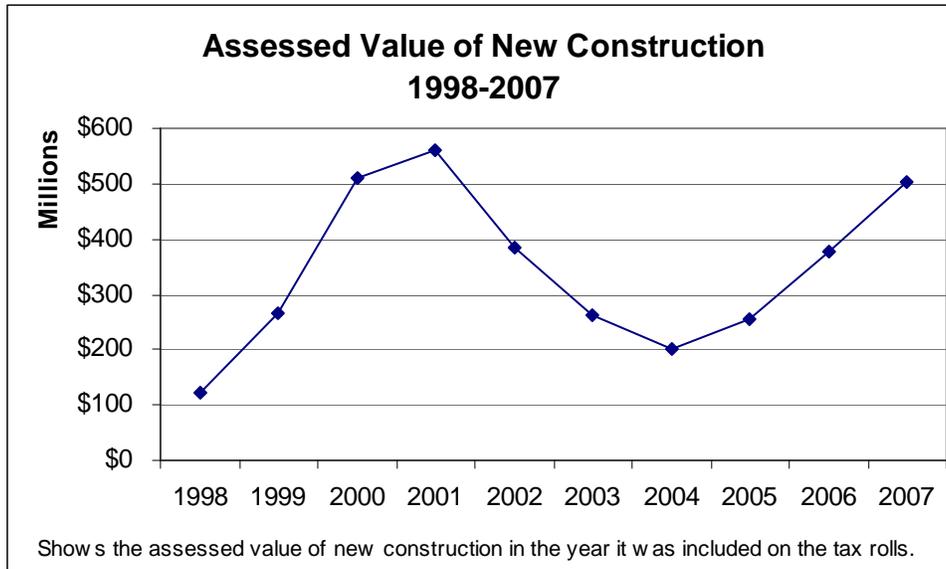
- Levy – the amount of property tax that can be collected by Bellevue in a given year. This amount is established on an annual basis through the passage of the City's property tax levy.
- Assessed Value (AV) – the assessed value of all property in Bellevue, as set by the King County Assessor's Office.
- Property Tax Rate – Rate paid per \$1,000 AV.

To calculate the property tax rate, divide the Levy by the AV and then multiply that number by 1,000. You can calculate a property tax rate for any city in Washington State using this method.

Calculating Bellevue's 2007 Property Tax Rate		
2007 Levy	2007 AV	Property Tax Rate
29 million	/ 26,600 million	= 0.00109 * 1,000 = \$1.09

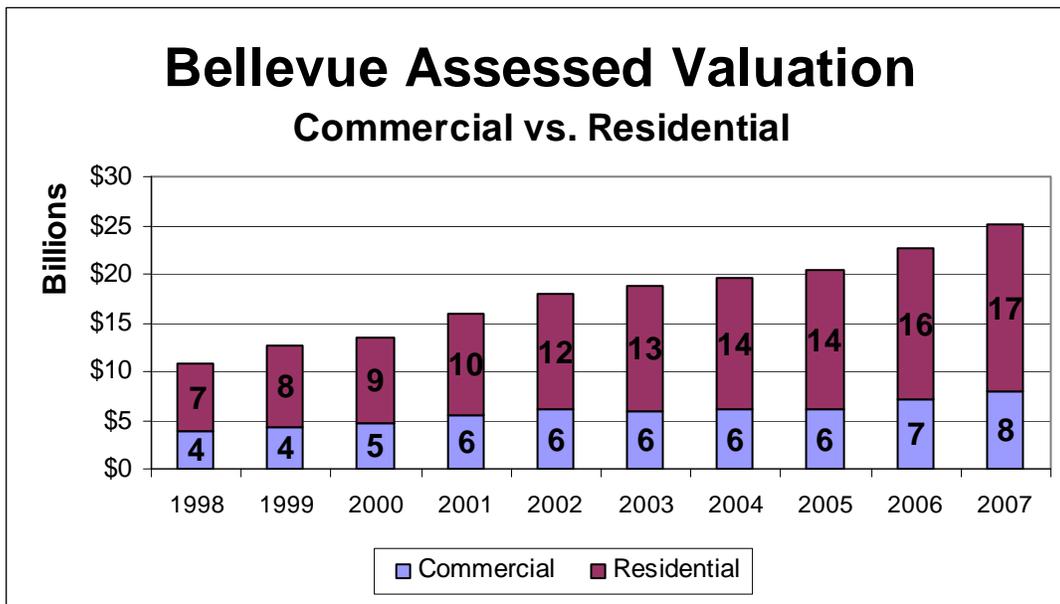
Question 4: How does new construction affect Bellevue's property tax rate?

Answer: Bellevue chose to not take its allowable property tax levy increase from 1998 to 2006. During this period, rising AV caused property tax rates to decline. While new construction had an impact on rising AV, the real driver behind Bellevue's falling tax rate has been the growth in the value of existing property. Over the last 10 years, an average of 3/4ths of growth in AV has come from existing property, with the other 1/4th coming from new construction.



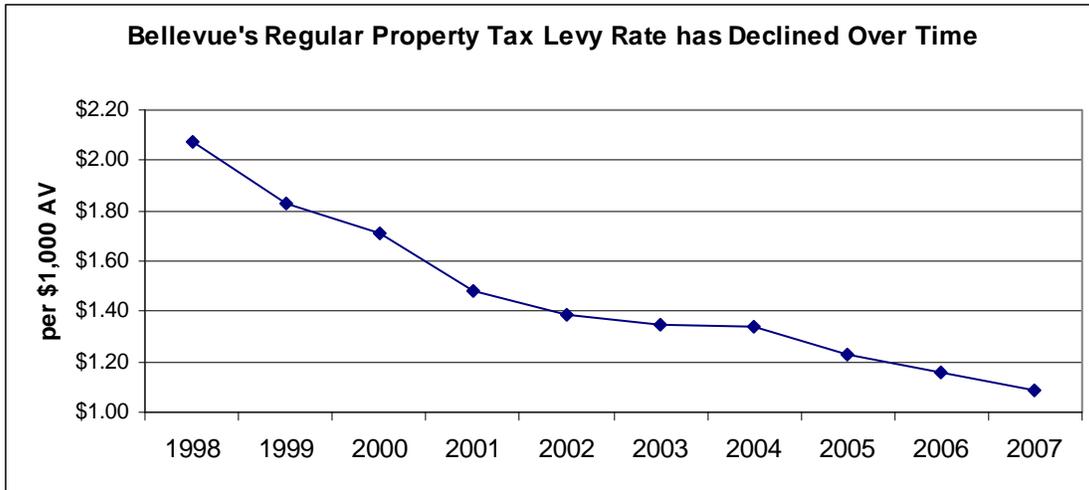
Question 5: How has the growth in commercial property impacted property tax rates?

Answer: The rising value of residential and commercial property has helped keep Bellevue's property tax rates falling over the last decade. But it was growth in the value of residential property, not commercial, that made the biggest impact. While the AV of commercial property increased by roughly \$4 billion over the last decade - from \$4 billion in 1998 to \$8 billion in 2007, the AV of residential property increased by roughly \$10 billion in the same period - from \$7 billion in 1998 to \$17 billion in 2007. Commercial property currently makes up 32% of Bellevue's 2007 AV.



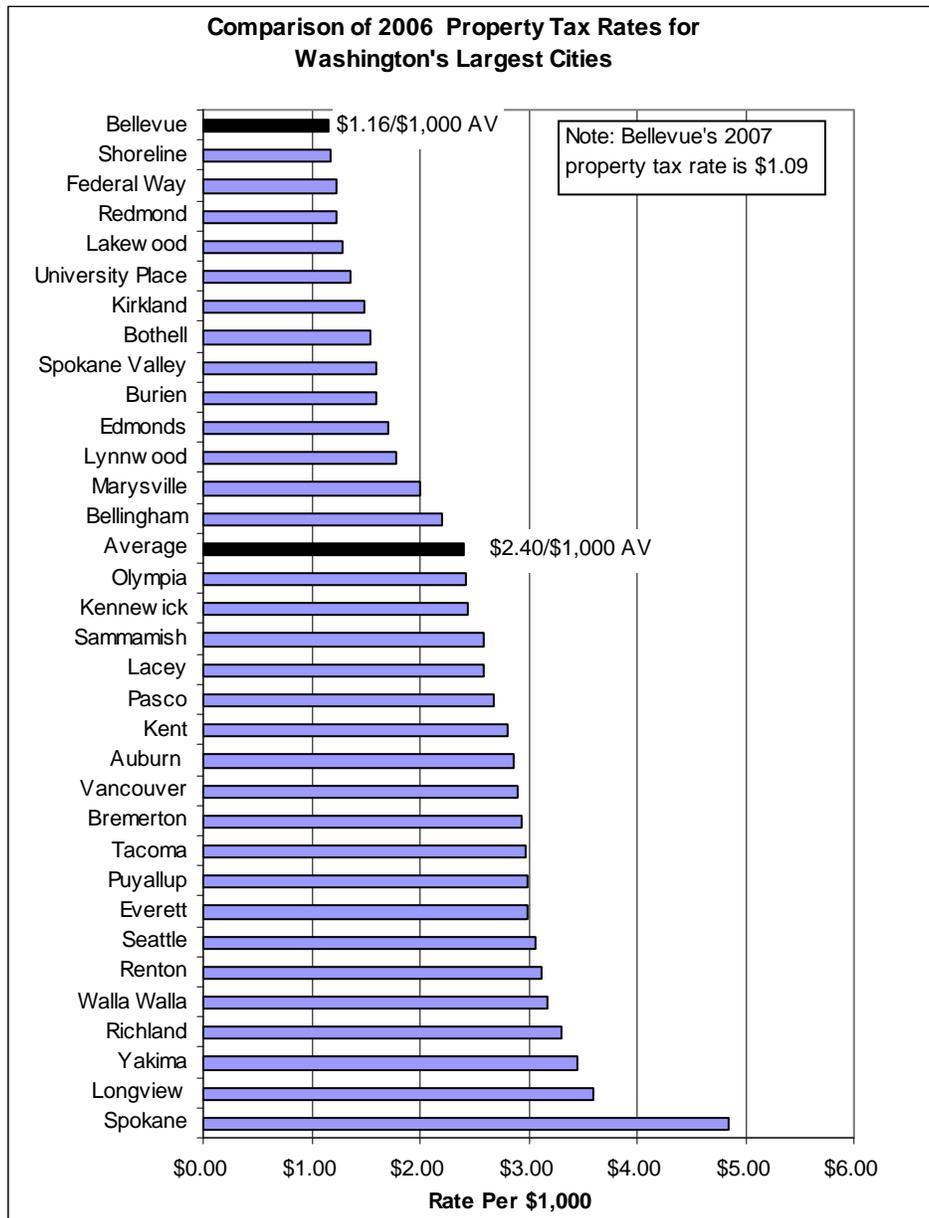
Question 6: How has Bellevue's property tax rate changed over time?

Answer: Bellevue chose to not take its allowable property tax levy increase from 1998 to 2006. During this period, rising AV has caused property tax rates to decline. The total Bellevue property tax rate has fallen from \$2.07 per \$1,000 AV in 1998 to \$1.16 in 2006. Even though Council raised property taxes by 2% in 2007, Bellevue's rate fell again to its current rate of \$1.09 per \$1,000 AV. This is due to the continued downward pressure on the rate from AV growth.



Question 7: How does Bellevue's property tax rate compare with other cities in Washington State?

Answer: The following table shows that, among Washington cities with populations of more than 30,000, Bellevue had the lowest property tax rate in 2006 (the most current year that state-wide comparative data is available). Bellevue benefits from having a relatively high property valuation for a city of its size and population.

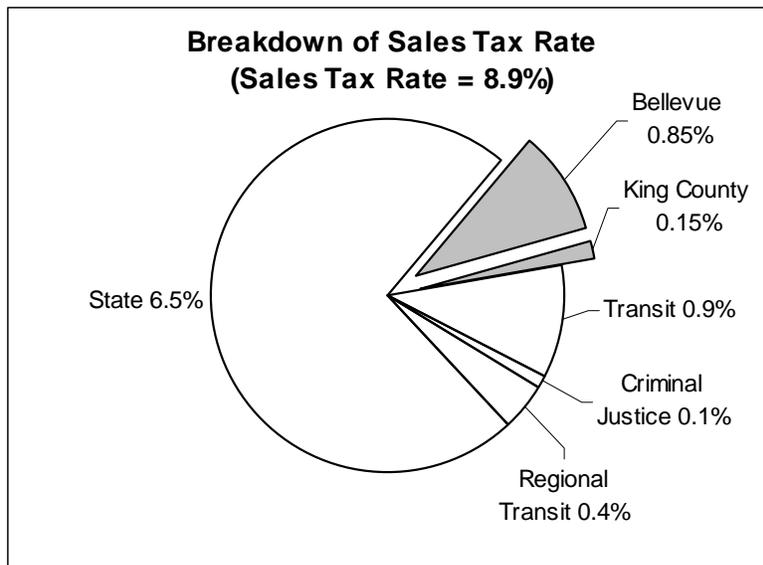


Question 8: How does Bellevue's sales tax rate compare with other Washington cities, and how much of the sales tax collected in Bellevue goes to the City?

Answer: All other major cities, except Vancouver, levy the full 1% that State law currently allows.

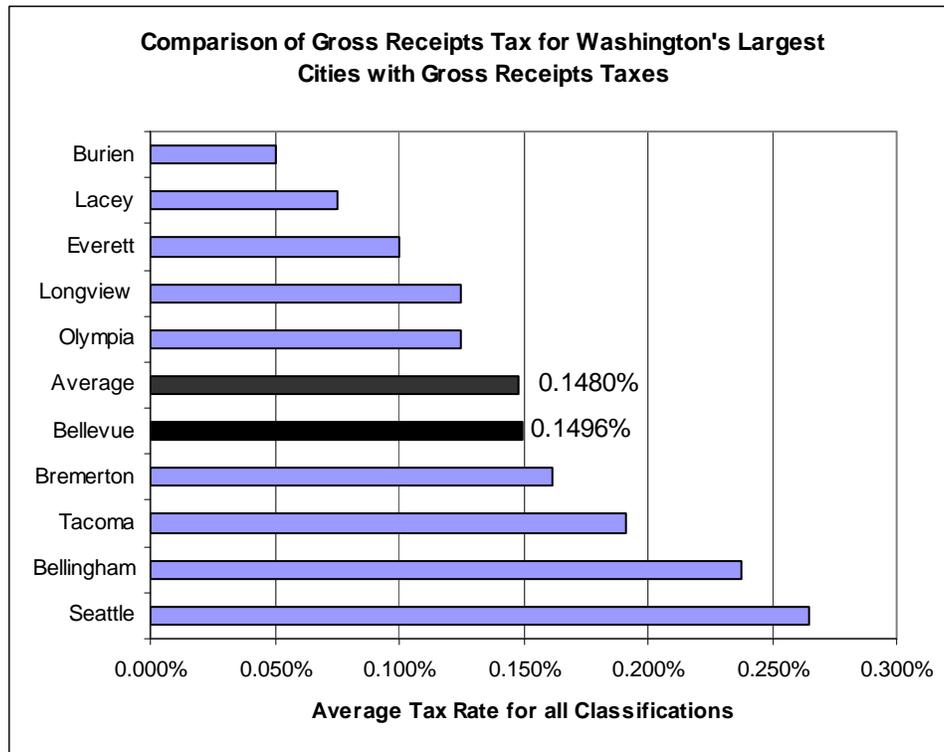
Bellevue levies the full 1%, but it collects only 0.85%. This is due to a State law that diverts 15% of a city's sales tax revenues to its county. For a \$100 purchase in Bellevue, \$1 in local sales tax is collected, with \$0.15 going to King County and \$0.85 going to Bellevue.

The sales tax rate in the City of Bellevue is currently 8.9%. The majority of sales taxes paid are remitted to the state. The following chart provides a breakdown of the relative share of sales tax.



Question 9: How does Bellevue's gross receipts tax (also known as B&O tax) compare with other cities?

Answer: Of the cities that levy a gross receipts tax, Bellevue's rate is about average. The following chart illustrates how Bellevue's rate compares with those Washington cities of more than 30,000 population that have a gross receipts tax.



Question 10: How do Bellevue's utility taxes compare with other cities?

Answer: The following table illustrates that in 2006, (the most current year that statewide comparative data is available), Bellevue's average utility tax rate was below the average for the largest Washington cities.

