

Lift the property tax cap

2023 – HB 1670 & SB 5618



Revise the property tax cap to tie it with inflation (up to 3%) and population growth factors so that local elected officials can adjust their local property tax rate to better serve their communities.

Background:

The one percent limit on annual property tax increases is arbitrary, and continually strains city budgets. To make ends meet, cities cut services or rely upon more regressive revenue sources—like sales taxes and fees. Over time, the deficit from the cap has created structural budget gaps that grow wider for cities each year. Lifting the cap to a three percent limit is a modest compromise to increase funding flexibility and preserve critical city services.

The one percent property tax cap strips authority from city elected representatives and channels revenue generation efforts into other less reliable and taxes and fees. These revenues may also result in more regressive local tax structures.

Community needs are outpacing revenues. With inflation currently at the highest level in decades, cities are extremely concerned about revenues keeping up with the costs of goods and services for community expectations and priorities. The historical average Consumer Price Inflation (CPI), a common inflationary measure, has been about 2.4% for the last decade. Consequently, city tax structures are not even keeping up with the historical average rate of inflation, much less the actual growth of costs. Most significantly, cities struggle to manage ever-increasing costs of basic services like complex public safety challenges, aging infrastructure, and providing services to meet community needs.

continued on back ▶

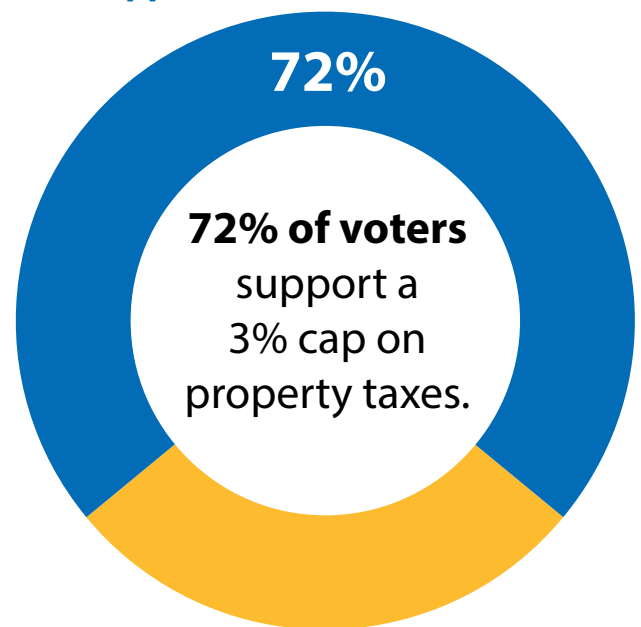
\$50 million

The amount that cities could generate in the first year of implementation of a revised cap, as estimated by the Department of Revenue.

Strong cities need:

- **Revisions to the property tax cap to tie it to inflation (up to 3%) and population growth factors** so that local elected officials can adjust their local property tax rate to better serve their communities.
- Support for the Washington State Tax Structure Committee's recommendation to **include structural property tax reform for local governments** in response to their research on the arbitrary one percent limit.
- **A fix to the structural deficit in our revenue and expenditure model caused by the current one percent cap**, which results in reliance on regressive revenues and artificially restricts use of property taxes to fund community needs.

Revising the property tax cap has strong public support



Source: Public opinion survey, commissioned by AWC, Dec. 2022.

Contact:

Candice Bock
Government Relations Director
candiceb@awcnet.org

Sheila Gall
General Counsel
sheilag@awcnet.org

Association of Washington Cities • 1076 Franklin St SE, Olympia, WA 98501 • 1.800.562.8981 • wacities.org



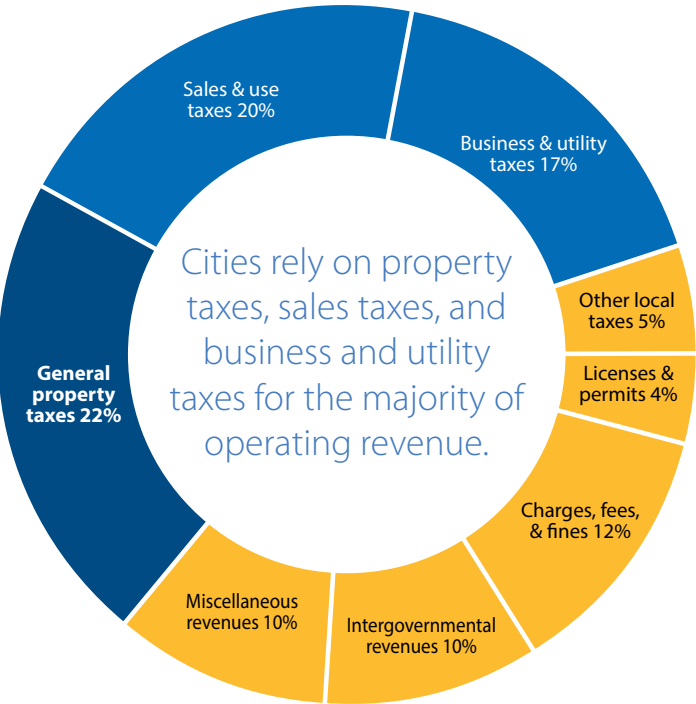
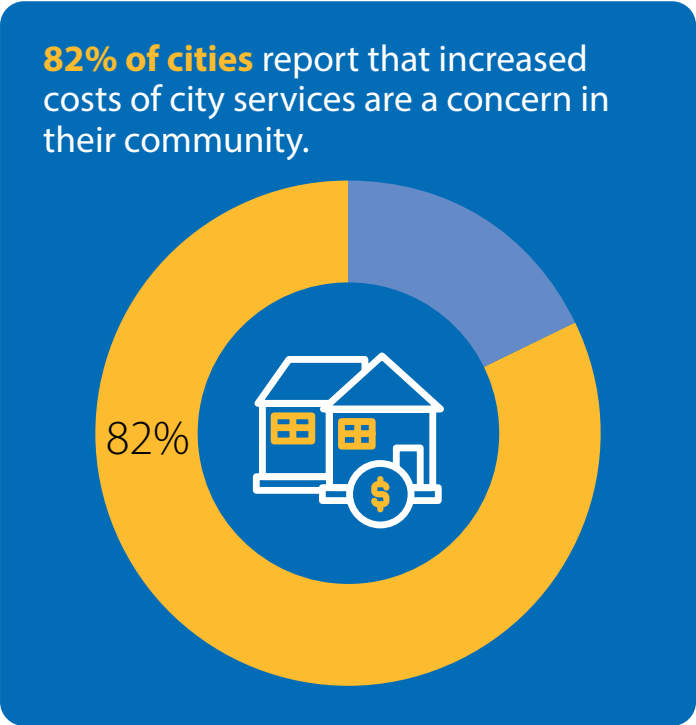
Copyright © 2023 by Association of Washington Cities, Inc. All rights reserved. | 02/01/23

There are few (and usually temporary) options available to increase the limit. Cities can implement a one-year or multiyear levy lid lift. A one-year levy lid provides a one-time “bump” in property taxes and may be used as the base to calculate the following year’s one percent increase. Although the purpose of the levy lid lift doesn’t need to be stated, voters seldom approve a levy lid lift without a purpose specified. A multiyear levy lid lift allows voters to approve an increase greater than one percent annually for up to six years. It can be done for any purpose, but the purpose must be stated in the title of the ballot measure. Unfortunately, neither option can address structural and chronic budget deficits.

In 1973, the Legislature responded to concerns that property taxes were rising too fast by passing a 106% annual cap. This meant that property tax levies could not increase by more than six percent annually. Initiative 747 (I-747) passed in 2001, which further limited regular property levies for all taxing districts to 101% of the previous year, plus new construction. After the Supreme Court found I-747 unconstitutional, the Legislature reenacted the one percent limit.

The arbitrary one percent property tax is not tied to any service costs or needs and prevents revenues from keeping pace with inflation and population growth—both of which rise faster than one percent. With such limited options to address budget shortfalls, and new needs, cities need a revised property tax cap.

2.4% inflation The historical average Consumer Price Inflation (CPI) for the last decade.



Source: State Auditor's Office; general fund, special revenues

Contact: **Candice Bock**
 Government Relations Director
 candiceb@awcnet.org

Sheila Gall
 General Counsel
 sheilag@awcnet.org

