



Lift the property tax cap

HB 2145

The artificial 1% property tax cap strips authority from city elected representatives and channels revenue generation efforts into other less reliable taxes and fees.

- 1 Community needs are outpacing revenues.
- 2 Increase options available to raise the arbitrary 1% limit.
- 3 Address structural funding deficits with a modest compromise.

1 Cities are extremely concerned about their revenue collections in the next five years. Current revenues are not enough for many cities to support community expectations and priorities. It's also getting more expensive for cities to buy the same goods and services. Consequently, city tax structures are not keeping up with either the traditional rate of inflation or actual growing costs. Most significantly, cities struggle to manage ever-increasing costs of basic services like complex public safety challenges, aging infrastructure, and responding to increasing public records requests.

For each 1% increase in the property tax limit, cities generate an additional \$70 million.

2 The 1% limit on annual increases has deeply strained many city budgets. But there are few (and only temporary) options available to increase the limit. Cities can implement a one-year or multiyear levy lid lift. A one-year levy lid lift provides a one-time "bump" in property taxes and may be used as the base to calculate the following year's 1% increase. Although the purpose of the levy lid lift need not 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 1% 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 of these options have the capacity to address structural and chronic budget deficits.

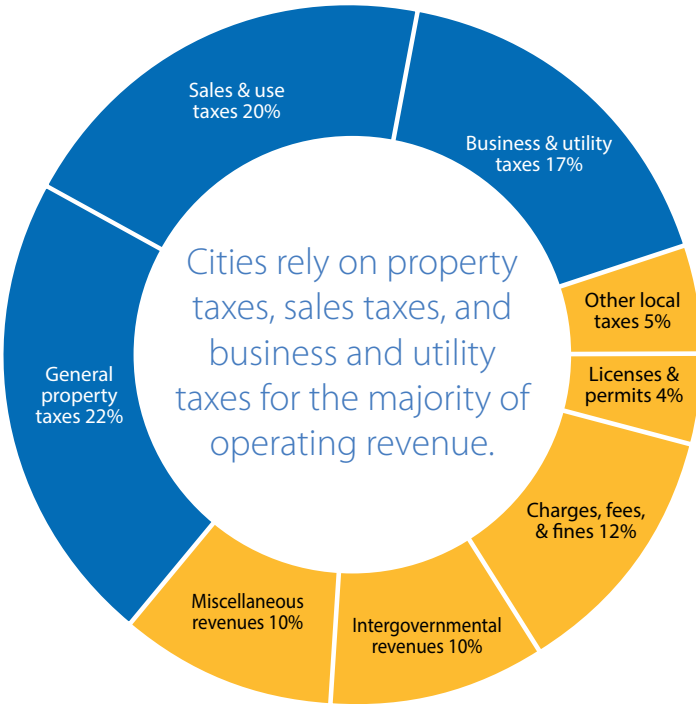
3 The devastating impacts of the tax cap continue to reverberate in city budgets. To make ends meet, cities cut services or rely upon more regressive revenue sources like sales taxes and fees. Over time, the deficit from the cap creates a structural budget gap that grows wider each year. Lifting the cap to a 3% annual limit is a modest compromise to increase funding flexibility and preserve critical city services. However, to truly address the decades of budget deficits and threatened city services, Washington state needs structural property tax reform.

Contact:

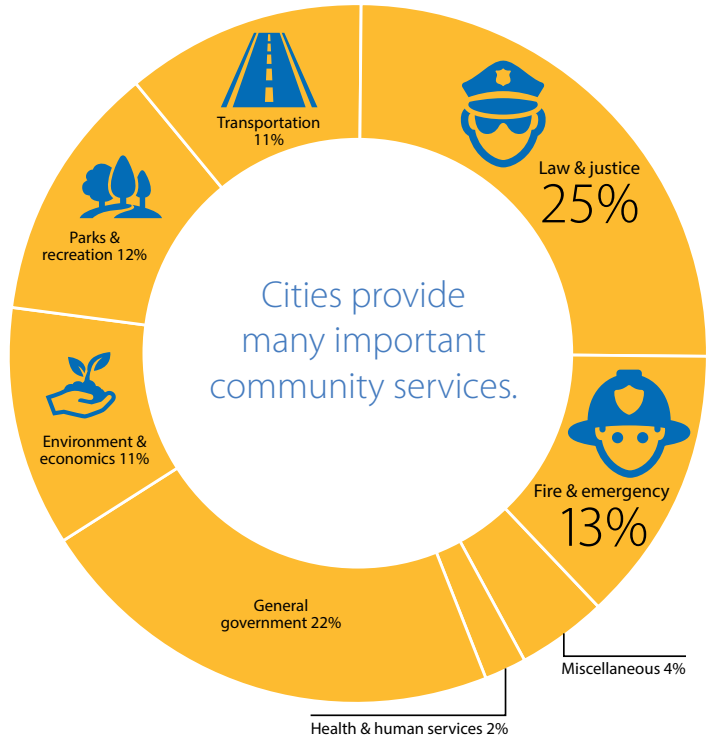
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Additional information



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



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In 1973, the Legislature responded to concerns that property taxes were rising too fast by passing a 106% annual cap. This means that property tax levies could not increase by more than 6% annually. Initiative 747 passed in 2001, which 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 1% limit. The limit is arbitrary because it's not tied to any service costs or needs and prevents revenues from keeping pace with inflation and population growth, which both rise faster than 1%.

Property tax is the single largest revenue source for cities in Washington state, comprising 22% of all city revenue.



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