



Property Tax 101

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Municipal Budgeting and Fiscal Management Workshop
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Agenda

- Brief history of property taxes in Washington
- Statutory limitations
- Budget based property tax structure
- Property tax process and calendar
- Practical impacts and practice tips
- Wrap up



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History of Property Taxes in Washington State

Overview

Washington has evolved to become less dependent on property taxes (and ever more dependent on excise taxes, including sales taxes and B&O taxes)

- From establishment as a Territory in 1853 to the Depression years of the 1930s, property tax was the principal source of revenue for Washington State and local governments
- Authority to impose property tax found in State Constitution; have been many amendments
- Statutory limitations, initiatives (Referendum 47 (lesser of inflation or 106%), I-722 (102%), I-747(101%))
 - 2007 Legislature “reinstated” the I-747 one percent property tax limit factor adopted by the voters
- Decreasing reliance on property taxes; increasing reliance on excise taxes
 - In 1970 property taxes accounted for 86.5 percent of local tax revenues; by 2007 that percentage had declined to 57.8 percent. *DOR Washington Tax History*
 - Today heavily dependent on excise taxes – sales taxes and B&O taxes
 - Property taxes and excise taxes are imposed differently
 - Property taxes are based on changing property values and must be recalculated and reimposed each year
 - Excise taxes are imposed on certain activity, such as a taxable event

Property Taxes – Pros and Cons

Pro

- Very stable; very few big swings year to year
- Almost all property owners pay

Con

- Frequent target of citizen initiatives
- Regressive – same rate applies to all real property so greater impact to people on fixed and/or lower incomes
- Complicated and confusing
- Almost everybody hates it on principle

Property Taxes – Levy Amounts v. Levy Rates

Amount

- The total dollar amount of property taxes to be collected in one year

Levy Rate

- How much the individual property owner pays, expressed as a dollar amount per \$1,000 assessed value
- E.g. levy rate is \$2.30 per \$1,000

Constitutional Requirements

- Property taxation (Article VII, §1 of State Constitution)
 - Uniformity within classes of property
 - Property “shall mean, and include everything, whether tangible or intangible, subject to ownership”
- Purpose
 - All property taxes only for public purposes
 - State property taxes for the support of the common schools
- Fees, excise taxes, special assessments are not property taxes
- State taxes must be paid into State treasury

Constitutional Requirements - Uniformity

The State Constitution requires that taxing districts levy all property taxes at a uniform rate upon the same class of property within the taxing district's territorial limitations

- All real estate constitutes a single class.
 - As a result, all taxes imposed by a taxing district must be the same for properties with an equivalent fair market value
 - An exception applies for agricultural, timber, and open space land, which assessors value based on current use rather than fair market value
- The State Constitution exempts property of the United States, the State, counties, school districts and other local governments from taxation, and authorizes the State Legislature to exempt additional property
- The Legislature has enacted exemptions for tribal properties, nonprofit schools and colleges, hospitals, and churches, among others, subject to conditions

Constitutional Requirements – Aggregate Limitation

Assessed on true and fair value of property (Article VII, §2 of State Constitution)

1% limitation (aka the \$10 limit) of fair market value limit

- Aggregate limitation on all levies by state and taxing districts
 - Excludes property taxes by ports and public utility districts
- Prorating

Excess property taxes, outside 1% limitation

- Supermajority approval plus minimum voter turnout requirement
 - One-year levies for any lawful purpose
 - To pay unlimited tax general obligation bonds for capital purposes (other than replacement of equipment)
- Simple majority approval (2007 amendment)
 - Four-year levies for support of common schools or fire protection districts
 - Six-year levies for construction, modernization, or remodeling of school facilities or fire facilities (capital levies)

Statutory Requirements - Limitations

Statutory limitations on both rate and dollar amount

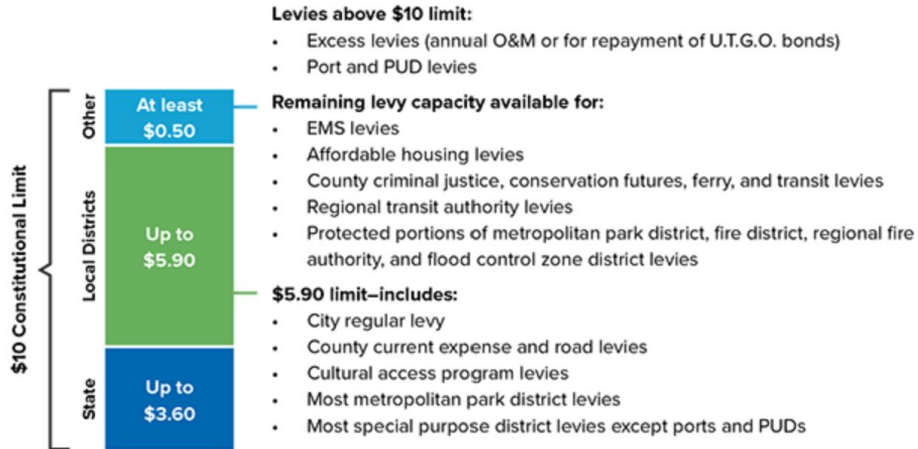
- Limits on tax rates
 - \$5.90 aggregate limit (RCW 84.52.043) on levy rate
 - Levy rate per thousand maximum limits for individual taxing district
- Limit on annual revenue growth
 - 101% limit on annual levy amount

Statutory Requirements - \$5.90 limit

\$5.90 limit is an aggregate limit on the total levy rate of local taxing districts.

- Excludes the State levy
- Applies to counties, cities and junior taxing districts
 - Does not apply to ports and public utility districts
 - Does not apply to excess levies
- List of specific exclusions including, among others:
 - Conservation futures levies under RCW 84.34.230
 - EMS levies under RCW 84.52.069
 - Affordable housing levies under RCW 84.52.105
 - Sound Transit ((ST3) property tax under RCW 81.104.175
- Prorating (aka cram down)
 - Specific sequence; WAC outlines; different sequence than for the 1% limit
 - Certain junior taxing districts may protect a portion of their levy from prorating
 - Metropolitan park districts
 - Fire protection/regional fire protection districts
 - Flood control districts

The following chart shows how the \$10 limit is allocated. The aggregate limit for cities, counties and most special districts is \$5.90 per \$1,000 assessed value.



Source: Municipal Research and Services Center, available at <https://mrsc.org/explore-topics/finance/revenues/property-tax>

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Maximum levy rates per thousand

With certain exceptions, taxing districts have specific statutory maximum levy rates for regular property taxes

- “Regular” property taxes (compare to excess property taxes)
- Most councilmanic or nonvoted
- General maximum rate per thousand by type of taxing district
- “Special” regular levies
 - Affordable housing
 - EMS levies
 - Conservation futures levies



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Maximum levy rates per thousand

- State \$ 3.60 (per \$1,000 market value)
- County \$ 1.80 or up to \$2.475 under certain circumstances
- Road \$ 2.25
- **Cities/towns \$ 3.375/\$3.60/\$3.825**
- Fire \$ 1.50 (or \$1.00 if imposes fire benefit charge)
- Library \$ 0.50
- MPD \$ 0.75

Many other examples

Maximum rates per thousand

The following chart further demonstrates statutory maximum base rate limits for city and towns:

Example No.	No Annexation	Annexed to a Fire District	Annexed to a Library District	Participates in a Regional Fire Protection Service Authority (RPSA)	Firefighters Pension Fund	Statutory Maximum Base Rate	Deduction to Base Rate
1	X					\$3.3750	None
2	X				X	\$3.6000	None
3	X			X		\$3.3750	Less RFA's Actual
4	X			X	X	\$3.6000	Less RFA's Actual
5		X				\$3.6000	Less Fire's Actual
6		X			X	\$3.8250	Less Fire's Actual
7			X			\$3.6000	Less Library's Actual Rate
8			X		X	\$3.8250	Less Library's Actual Rate
9			X	X		\$3.6000	Less Library's & RFA's Actual Rate
10			X	X	X	\$3.8250	Less Library's & RFA's Actual Rate
11		X	X			\$3.6000	Less Library's & Fire's Actual Rate
12		X	X		X	\$3.8250	Less Library's & Fire's Actual Rate

Regular Property Tax Annual Increase Limitations - Background

Regular property taxes are also limited to how much (the total amount to be collected) the taxing district can levy one year to the next

Limit on annual increases in the total dollar amount of the regular property tax levy

- Taxing district with a population of over 10,000 may increase its total regular property tax amount by
 - 101% of the amount levied in the prior year or the rate of inflation, whichever is lower, plus
 - new construction and limited other additions
- Impact is to restrict revenue growth year over year
- Greater impact for jurisdictions that are dependent on regular property taxes, or if municipal costs are increasing at a greater rate
- Limit is on the levy amount (total dollar amount levied); not levy rate (rate/\$1,000 of assessed value)
- 101% cap is referred to as the “levy lid”

Regular Property Tax Levy – Levy Limit

- “Limit factor” limits annual increases in the total dollar amount of regular property taxes to, basically, 101%
- Highest of the three most recent years plus an additional amount for
 - New construction/improvements
 - AV increases due to construction of certain wind turbine, solar, biomass, geothermal facilities
 - Exemption for tax increment financing
 - Exemptions related to State property tax increase post McCleary

****Sneak Preview****

Revenue Option - “Lifting” the 101% Levy Lid (RCW 84.55.050)

A taxing district can increase its regular property tax levy by drawing on banked regular levy capacity or seeking voter approval for a “levy lid lift”

Levy lid lift “lifts” or removes the 101% limit for either (a) one year or (b) up to six years, depending on the type of levy lid lift approved by the voters

- Authorized in RCW 84.55.050 (see also WAC 458-19-045)
- Requires simple majority voter approval (50% plus one); no validation requirements
- Authorizes an increase in the city’s *regular property tax* (not an excess property tax levy)
 - Subject to constitutional and statutory rate limitations
 - Can be authorized for any public purpose or a specific purpose

More on levy lid lifts to follow at “Ballot Measures & Revenue Tools”



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Excess Levies

Voter Approved One-Year Excess Property Tax Levy for any Purpose

Voter Approved Excess Property Tax Levy for Bonds

- Excess levy, no levy rate limit
- Levy revenue must be used to pay debt service on unlimited tax general obligation (“UTGO”) bonds
- Voters approve the UTGO bonds to finance certain specified projects described in the ballot measure, and the accompanying excess property tax revenue stream to repay the bonds
- Levy set at rate to pay debt service
 - Levy ceases once UTGO bonds are no longer outstanding
- Consumes UTGO debt capacity
 - While levy rate is not limited, the amount of UTGO bonds that can be issued is subject to statutory and constitutional debt capacity limitations
 - 2.5% of AV in the year that the bonds are issued for cities
- Can only be issued for capital projects, not the replacement of equipment
- May be submitted to voters no more often than twice in a calendar year



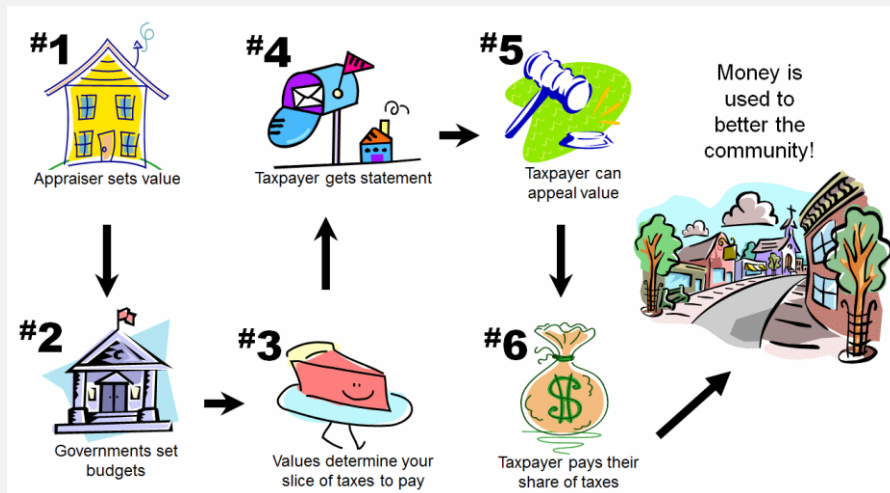
More on voted bonds to follow at “Ballot Measures & Revenue Tools”

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Property Tax Process

Property Tax Process



Budget-based property tax levies

Rates and Amounts. Washington taxing districts set property taxes through the budget process based on a budgeted dollar amount. This amount is subsequently converted into a levy rate per thousand of assessed value. There are legal limitations on both amount and rate.

- Levy amount
 - Taxing district sets total amount to be collected through annual budget process
 - Levy amount is certified to County Assessors by November 30 each year
- Assessed value (AV)
 - Taxable property within the taxing district
- Levy rate
 - County Assessors divide the levy amount by the AV to determine levy rate
 - Rate per thousand of AV
 - Subject to a number of limitations
- Overlapping taxing districts

Budget-based property tax levies

To levy property taxes, the city first budgets or estimates, as part of its annual budgeting process, the total **amount** of property tax revenue the city will seek for the upcoming year

- The city certifies this budget or estimate to the county

The County Assessor (the “Assessor”) determines the **rate** for the levy by dividing the city’s certified total levy amount by the assessed value of all taxable property within the city’s boundaries.

- The Assessor then calculates each property owner’s tax liability for the levy by multiplying the rate by the value of the parcels belonging to the taxpayer, and sets forth each taxpayer’s liability on a “tax roll”
- As part of this process, the Assessor must confirm that the city’s levy complies with constitutional and statutory limitations, reducing or eliminating levies as required by law

Lastly, the Assessor conveys the tax roll to the County Treasurer, who collects the levy on the city’s behalf

Budget-based property tax levies - Illustration

\$15,000,000 levy amount and \$10,000,000,000 assessed value

Step 1: Divide the Assessed Value by \$1,000

$\$10,000,000,000 / \$1,000 = \$10,000,000$

Step 2: Divide the Levy by the Assessed Valuation (per \$1,000)

$\$15,000,000 / \$10,000,000 = \$1.50$ (the Rate)

Step 3: Apply the Rate to every \$1,000 of your homes AV

$\$500,000 / \$1,000 = \$500$

Step 4: Multiply the AV by the rate

$\$500 * \$1.50 = \$750$ Annual Property Tax

Property Tax Calendar

- By **November 30**, submit levy to County
- By first **Monday in December**, the County submits the district's certified levy amount request to the Assessor
- On or before **January 15**, the Assessor certifies and delivers to the Treasurer the tax roll, which lists all taxpayers subject to property tax, the assessed value of their property, and the amounts for the Treasurer to collect from each taxpayer
- On or before **March 15**, the Treasurer prepares annual statements of taxes due for each taxpayer, and sends the statements
- **April 30** of each year, all amounts due and payable but if the amount due from a taxpayer exceeds \$50, the taxpayer may pay one-half by April 30 and the balance by **October 31**
 - During a state of emergency declared by the Governor, the Treasurer may grant extensions of the due date of any taxes
- On or before the **tenth day of each month**, the Treasurer remits to the district its pro rata share of all taxes collected for the previous month

Property Tax Enforcement

Property taxes and all charges and expenses relating to the taxes constitute a statutory lien on the property taxed

- The lien attaches to the property from and including January 1 in the year of the tax levy until the tax is paid
- By law, the Treasurer may not commence foreclosure of a tax lien on real property until three years after the first delinquency

The lien on property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation, except for federal civil judgment liens and the possible application of the State “homestead exemption”



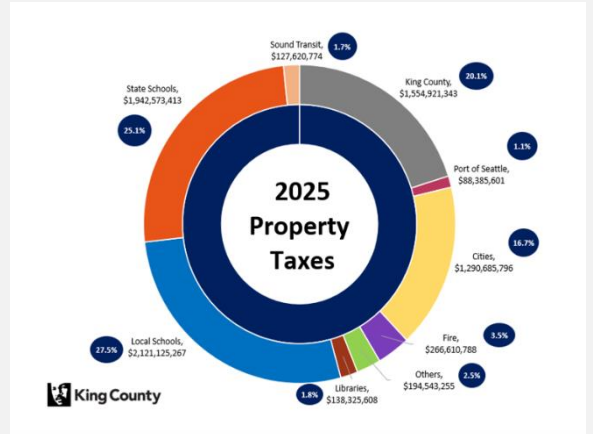
Myths and Confusion

Myths

- When my assessed valuation goes up the city gets more revenue
- If the city raises property taxes by 1% my entire tax bill will go up 1%
- If the city lifts the levy lid by 3% with voter approval my entire tax bill will go up 3%
- Cities can levy in any year up to the maximum \$3.60/\$1,000 of assessed value
- The city determines the tax rate, the Assessor determines my value and the city gets whatever revenue results
- My taxes go up every year
- All of the property taxes I pay go to the city

Practice Tip

- Educate, educate, educate (but not so much that it causes more confusion)



Practical Effects

Washington local governments rely more and more on excise taxes, as property tax revenues have been constrained by the 101% limitation. As levy rates decline, the constitutional 1% limit and the statutory \$5.90 limits are less relevant. More “room” under these limits on levy rates has allowed the Legislature to add new junior taxing district, and new “special” regular property taxes that are outline the \$5.90 statutory limit.

- Property taxes as declining share of local government budgets
- Increase reliance on excise taxes
- Implications for taxpayers (excise taxes are even less progressive than property taxes)
- Implications for local government (excise taxes are more volatile than property taxes or income taxes)
- Implications for tools such as tax increment financing



More on sales and other excise taxes to follow at “Ballot Measures & Revenue Tools”

Property tax impacts

Property taxes in a downturn and recovery

Washington State property taxes are subject to legal limitations that may slow the effects of a downturn but may place a drag on recovery.

- Effect of legal limitations in a downturn
 - Sudden decline in assessed valuations does not translate into reduced property tax revenues
 - Unless a county or city is already near or at its statutory rate per thousand
 - Some lag in collections as county treasurers provided extensions in state of emergency (RCW 84.56.020(10))
- Effect of legal limitations during a recovery
 - Limited ability to translate increased property values into increased property tax revenues
 - Except for bumps for new construction
- Compare, however, to boom/bust/volatility of sales taxes

Some differing experiences

Differences in tax reliance

Washington counties and cities differ in terms of dependence on sales versus property tax revenues.

- https://public.tableau.com/profile/mrsc#!/vizhome/SalesandPropertyTaxDependence_0/Dashboard1
 - MRSC mapping tool showing each city's relative reliance on sales or property taxes
 - Significant variation from city to city

Different jurisdictions' experiences with a downturn and recovery

The experience of Washington counties and cities during the Great Recession varied from jurisdiction to jurisdiction, depending on among other things how dependent a jurisdiction was on sales versus property tax revenues

- Sales tax-dependent jurisdictions experienced sharper decline but more robust recovery
- Property tax-dependent jurisdictions experienced more stability but capped/slow recovery

Varying reliance

Tax Reliance of Washington Cities

MRSC Resources

Wenatchee

Pop: 33,510
Property Tax: \$6,368,180
Sales Tax: \$7,402,230

Camas

pop. 21,810
Property Tax: \$11,007,755
Sales Tax: \$2,518,621

Lacey

pop. 47,540
Property Tax: \$1,449,952
Sales Tax: \$9,406,468

Washougal

pop. 15,560
Property Tax: \$4,152,520
Sales Tax: \$1,476,143

Yakima

pop. 93,410
Property Tax: \$17,676,090
Sales Tax: \$15,766,494

Battle Ground

pop. 19,640
Property Tax: \$2,747,180
Sales Tax: \$2,465,867

The two main sources of revenue for Washington cities comes from sales tax and property tax. The color of each city indicates the extent to which the city is reliant on one or the other of these two taxes for their overall tax revenue. Note, this map does not take into account other sources of revenue, such as shared revenue allocations, utility taxes, etc.

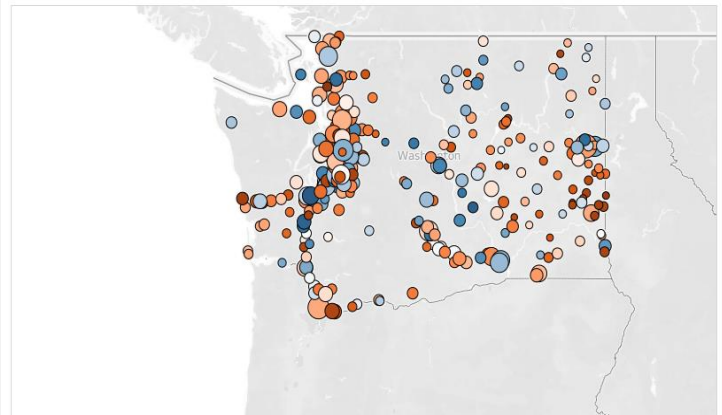
Data for this map uses the 2015 information from the Office of Financial Management (OFM).

Region

(All)



Relian...
Property ...



MRSC mapping, from 2015 OFM data



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Wrap Up – Thank you!

Resources:

- MRSC webinar presentation by Dwight Dively at <https://www.youtube.com/watch?v=vZlwa1YerK8>
- Department of Revenue, Property Tax Resources, <https://dor.wa.gov/about/statistics-reports/information-local-governments#proptax>
- Department of Revenue Property Tax Manual (2024), <https://dor.wa.gov/sites/default/files/2022-02/LevyManual.pdf>
- MRSC Property Tax Basics, <https://mrsc.org/explore-topics/finance/revenues/property-tax#:~:text=Regular%20Levy%20Rate%20Limits,its%20true%20and%20fair%20value.>
- MRSC Revenue Guide for Cities, <https://mrsc.org/getmedia/d3f7f211-fc63-4b7a-b362-cb17993d5fe5/Revenue-Guide-For-Washington-Cities-and-Towns.pdf?ext=.pdf>
- AWC Resources, <https://wacities.org/>

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