

Property Tax 101

Association of Washington Cities
Municipal Budgeting and Fiscal Management Workshop
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Deanna Gregory
Pacifica Law Group LLP

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Agenda

- Background and history of property taxes in Washington
- Constitutional requirements/limitations
- Budget based property tax structure
- Statutory limitations
 - Regular property tax levies – levy lid and levy lid lifts
 - Excess levies
- Practical impacts
- Wrap up

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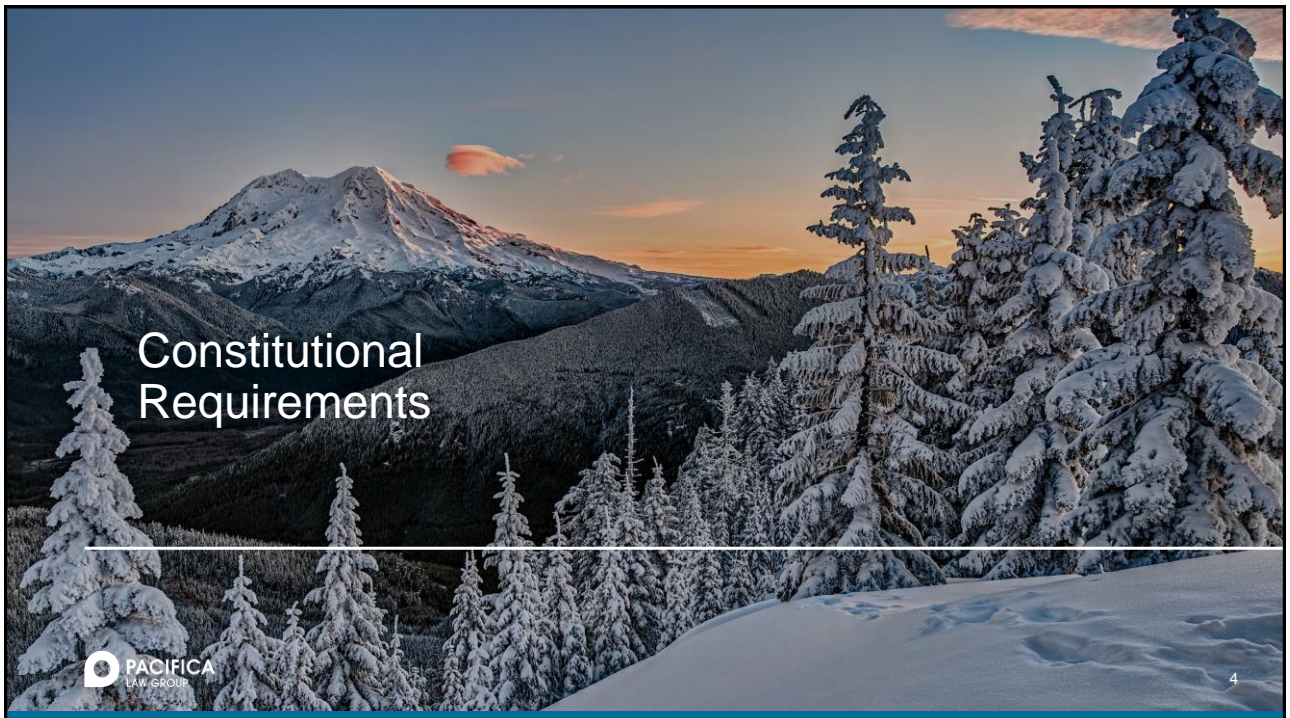
History of Property Taxes in Washington State

Overview

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

- Territory
- State Constitution, many amendments
- Statutory limitations, initiatives (Referendum 47 (lesser of inflation or 106%), I-722 (102%), I-747(101%))
 - *Burien v. Kiga*, 31 P.3d 659 (2001)
 - 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
 - Revenue Act of 1935
 - 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

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Constitutional Requirements

- Property taxation (Article VII, §1)
 - Uniformity within classes of property
 - Must be uniform within the territory of the particular taxing district (e.g. each county, city, port)
 - Real estate is one class
 - Legislature may grant exemptions by general laws
 - 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 Limitations

- Assessed on true and fair value of property (Article VII, §2)
 - Property taxes are based on the assessed value (AV) – determined by tax assessor; may or may not represent market value
- 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
 - Prorationing
- 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 (M&O → enrichment)
 - Six-year levies for construction, modernization, or remodeling of school facilities or fire facilities (capital levies)

Statutory Limitations

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
 - Subject to a number of limitations
 - 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

For a city/local government:

Revenue \$\$ = tax rate x AV within jurisdiction

For a tax payer/property owner

Tax bill \$\$ = combined tax rate x property AV

Statutory Limitations

Statutory limitations on both rate and dollar amount

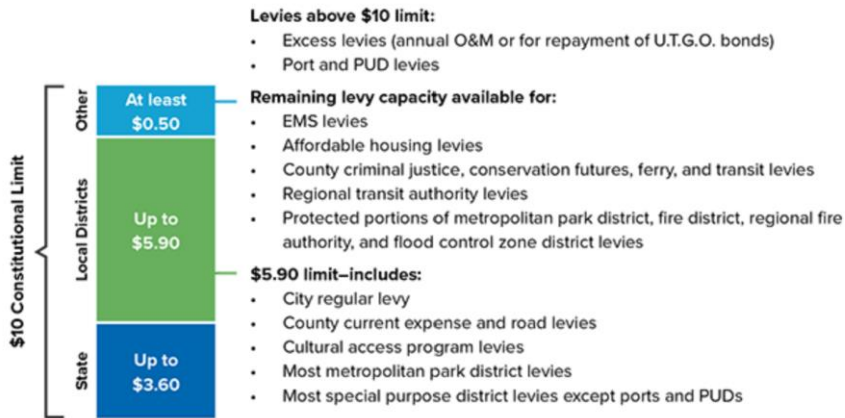
- Limits on tax rates
 - \$5.90 aggregate limit (RCW 84.52.043) on rate
 - Rate per thousand maximum limits for individual taxing district
- Limit on annual revenue growth
 - 101% limit on annual dollar amount

\$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.



Maximum 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

Maximum 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
- Library \$ 0.50
- MPD \$ 0.75

Many other examples

Maximum rates per thousand

Cities and Towns - Statutory Maximum Rate

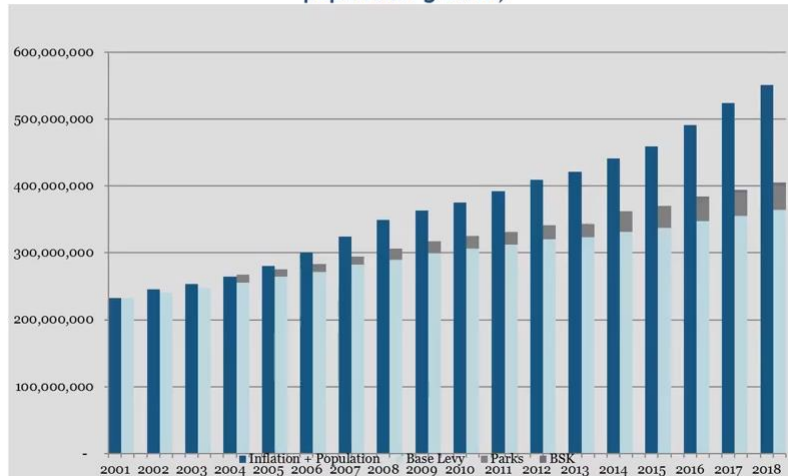
Example No.	No Annexation	Annexed to a Fire District	Annexed to a Library District	Participates in a Regional Fire Protection service Authority (RFA)	Firefighters' Pension Fund	Statutory Maximum Base Rate	Deduction to base Rate
1	X					\$3.3750	None
2	X				X	\$3.6000	None
3	X			X		\$3.3750	Less RFA's 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

- 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
 - Eyman limit (Initiative 747 established a "101% levy limit"; Supreme Court struck down the initiative in 2007; State Legislature reinstated it)
- 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"

King County General Fund Property Taxes (revenue would be \$130 million more in 2017 had it kept up with inflation and population growth)



Increasing the 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
 - New exemption for tax increment financing
 - Exemptions related to State property tax increase post McCleary

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

Single-year lid lifts may be submitted to voters at any special, primary, or general election

Multi-year lid lifts may only be submitted at the primary or general election

Ballot measure may be submitted no more than 12 months before the tax will be imposed

- Will begin on January 1 of the following year

Anatomy of a Levy Lid Lift

Functionally has two key components –

(1) The number of years the city will “lift the levy lid”

- One time increase or multi-year increases for up to six years
- Refers to how many years the city will exceed the 101% cap

(2) Will the lift permanently adjust the city’s basis for calculating future levies or is it a temporary increase?

- Levy lid lifts may be temporary or permanent
- Levy lid lifts adjust the basis used to calculate subsequent levies
 - Temporary lid lift
 - Incremental increase from the levy lid lift will continue for a set number of years
 - Thereafter, the amount attributable to the levy lid lift will expire, and the city’s base will be restored to what it would have been had the levy lid lift never occurred (assuming that the city would have taken the full 101% in each year)
 - Provides temporary funding for program or project
 - Permanent lid lift
 - The levy amount of the last year that the 101% cap was exceeded will be used to as the basis to calculate subsequent levies (e.g. the city’s base will not revert to what it would have been if the lid lift was never approved by the voters)
 - The ballot measure must state that the increased amount will be used as the basis to calculate subsequent levies
 - *E.g. The 2024 levy amount will be the basis to calculate subsequent levies, per RCW 84.55.*

More Levy Lid Lift Considerations

Term is limited to nine years if used to repay debt

- If the limited purpose of the levy lid lift includes making redemption payments on bonds, the period for which the increased levies are made may not exceed nine years (exception for Thurston County)

Ballot measure requirements

- Ballot measure must state *the total regular property tax rate* in the first year
- Keep in mind changes in AV and other impacts to regular property tax rate
 - *Tips: Calculate estimated rate before levy lid lift, add on levy lid lift, consider impact of dip in AV, stress test and test again, be conservative in assumptions*

Certain exemptions must be explicitly stated

- Cities wanting to exempt qualifying seniors and persons with disabilities under RCW 84.36.381 must explicitly state so
 - *E.g. Qualifying seniors, veterans, and others would be exempt, per RCW 84.36.*

Levy Lid Lift Option 1: Single Year Lift

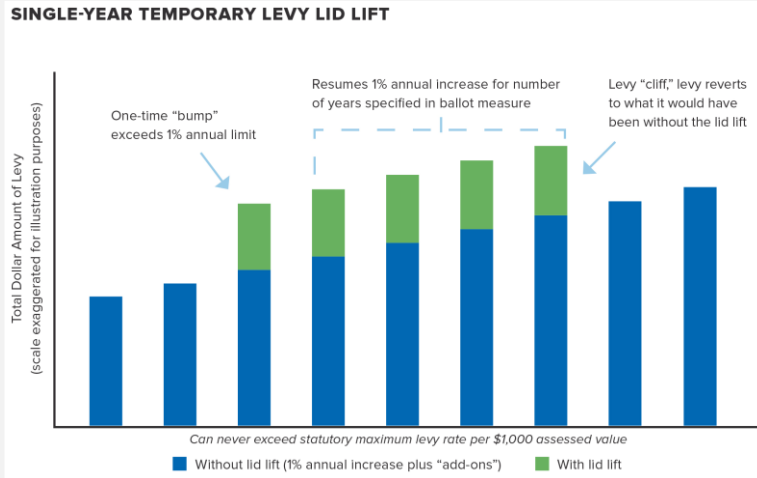
Option 1 permits a city to increase its regular property tax levy above the 101% limit for one year

“One-Bump” increase

Regular property tax levy is increased in the first year only

- Can be used for any lawful governmental purpose
- Not required to state a purpose in the ballot
- Ballot measure must state the total regular property tax rate in the first year
- No supplanting restrictions
- Can be temporary or permanent

Levy Lid Lift Option 1(A): Temporary Single Year Lift (Illustration)



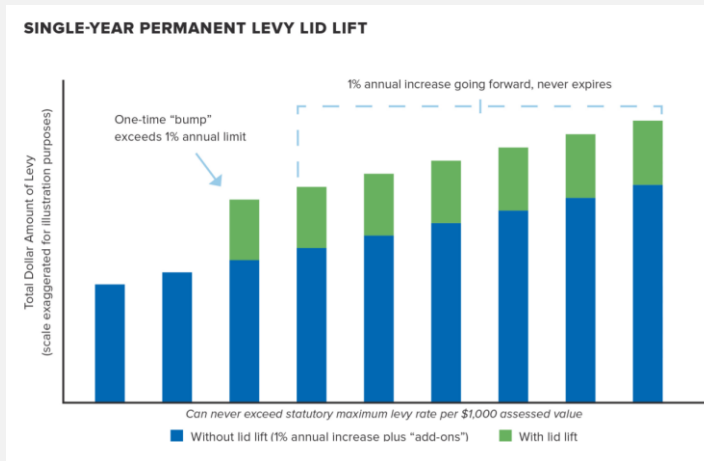
Source: Municipal Research Services Center, available at <http://mrsc.org/Home/Explore-Topics/Finance/Revenues/Levy-Lid-Lift.aspx>



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Levy Lid Lift Option 1(B): Permanent Single Year Lift (Illustration)



Source: Municipal Research Services Center, available at <http://mrsc.org/Home/Explore-Topics/Finance/Revenues/Levy-Lid-Lift.aspx>



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Levy Lid Lift Option 2: Multiple Year Lift

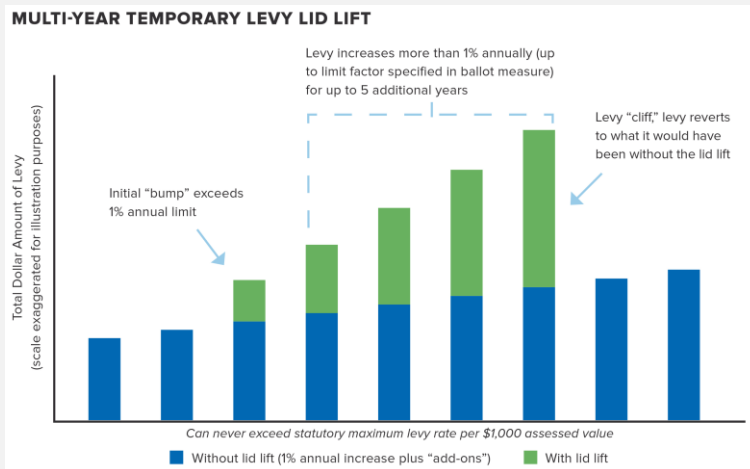
Option 2 permits a city to exceed the 101% limit in each year for up to six years

“Multi-year bump” increase

Regular property tax levy is increased above the 101% limit each year for up to six years; subsequent years are subject to the 101% limit

- Can be used for any lawful governmental purpose
- Ballot measure must state the purpose
- Ballot measure must state the total regular property tax rate in the first year, and limit factor or index that will be used for subsequent years
- No supplanting restrictions (recent amendment)
- Can be temporary or permanent

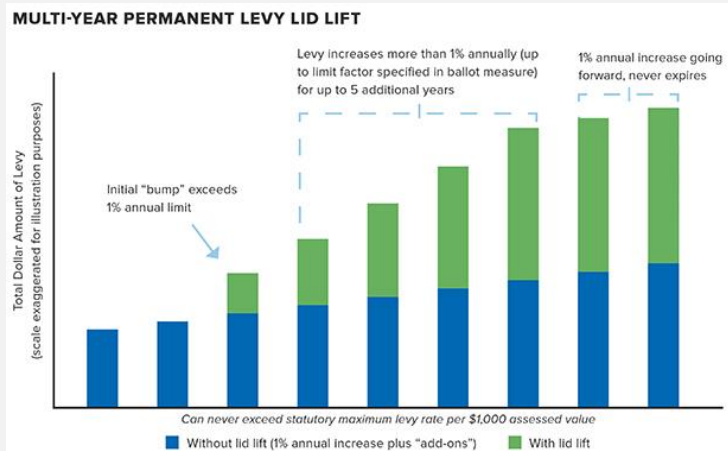
Levy Lid Lift Option 2(A): Temporary Multi-Year Lift (Illustration)



Source: Municipal Research Services Center, available at

<http://mrsc.org/Home/Explore-Topics/Finance/Revenues/Levy-Lid-Lift.aspx>

Levy Lid Lift Option 2(B): Permanent Multi-Year Lift (Illustration)



Source: Municipal Research Services Center, available at



<http://mrsc.org/Home/Explore-Topics/Finance/Revenues/Levy-Lid-Lift.aspx>

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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



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Ballot Measure Requirements

Local Measure General Ballot Title Requirements

- Main sections
 - o Identification of the enacting legislative body;
 - o A statement of the subject matter (no more than 10 words long);
 - o A concise description of the measure (no more than 75 words long); and
 - o A question (essentially, whether or not the proposition should be approved).

Other general ballot requirements to keep in mind

- For instance, single subject requirement

Statute governs content

- Number of nuances for levy lid lifts and UTGO bond measures, for instance
 - Consult with City Attorney and Bond Counsel



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

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 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



Varying reliance

MRSC Resources

Examples:

Sammamish
pop. 61,250
Property Tax: \$22,927,954
Sales Tax: \$4,200,799

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

Seattle
pop. 686,800
Property Tax: \$253,645,687
Sales Tax: \$200,596,110

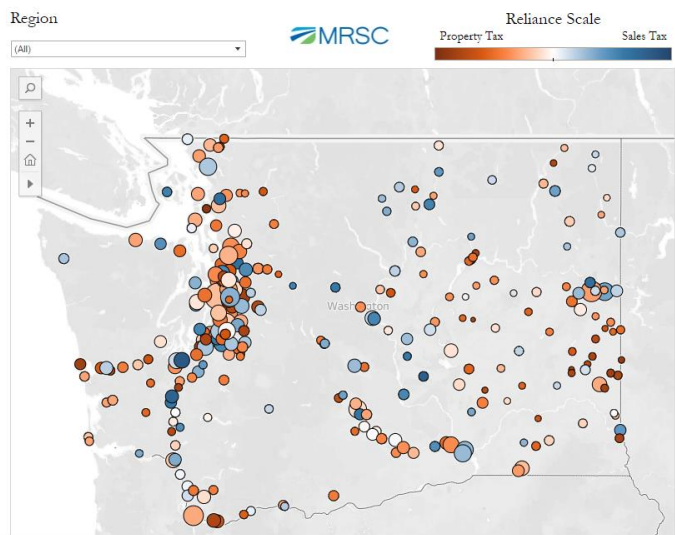
MRSC mapping, from 2015 OFM data



Tax Reliance of Washington Cities

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).



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, <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>

Contact Information:

Pacifica Law Group LLP
Deanna Gregory
deanna.gregory@pacificallawgroup.com
206.245.1716



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