

Fiscal sustainability

2025



Revise the property tax cap to one that is tied to inflation and population growth with a limit of 3%.

Background:

The arbitrary 1% cap on annual property tax increases, compounded for decades, has strained many city budgets:

- The current cap has created a structural deficit in city revenue and expenditure models, leading to artificial restrictions on the use of property taxes to fund community needs.
- To make ends meet, cities cut services or rely upon more regressive, and less reliable, revenue sources like sales taxes and fees.

Lifting the property tax cap to an optional 3% limit is a modest compromise to increase funding flexibility, support local decisions, and preserve critical city services.

Cities face complex public safety challenges, escalating costs for aging infrastructure, challenges to recruit and retain employees, and ever-increasing service needs. Cities' revenues are not keeping up with the costs of goods and services to meet community expectations and priorities.

Cities are doing more with less

For every **one** city staff:

In 2001:



80

residents served

In 2023:



108

residents served

Source: Washington Employment Security Department

Strong cities need:

- **Revisions to the property tax cap to tie it to inflation and population growth, with a limit of 3%** so that local elected officials have the **option** to adjust their local property tax revenue to better serve their communities.
- **More flexible and councilmanic funding options** that can be tailored to the unique needs of each community.

The arbitrary 1% property tax limit is not tied to any actual service costs or needs, and it prevents revenues from keeping pace with inflation and population growth—both of which rise faster than 1%. With such limited options to address budget shortfalls, cities need a revised property tax cap to provide sustainable funding for basic needs such as law enforcement and fire services, as well as to address new and emerging issues like affordable housing and behavioral health.

Cities have done our best for more than 20 years to serve our residents with this arbitrary 1% limit, but we can't keep going without real harm to our communities. Now is the time for the Legislature to make this modest revision.

**3%
inflation**

The historical average CPI for the last decade, even with 2022 record high inflation.

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Myth-busting: Responding to arguments against changing the cap

Increasing the limit up to 3% does not triple the property tax. Cities are just 11 cents of every property tax dollar collected. The majority of property taxes go to state levies for schools and voter-approved local school levies.



Source: Department of Revenue

The average homeowner's increased cost would be less than \$20 per year.

Example of impact to homeowner of increasing a city's property tax revenue from 1% to 3%.

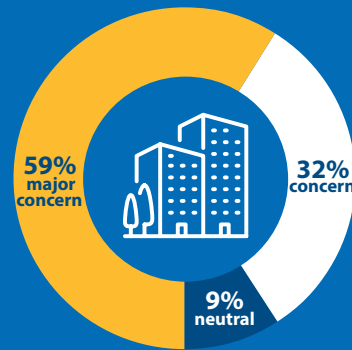


There are few (and usually only temporary) options available to increase the limit. Cities can implement a one-year or multiyear levy lid lift, which generally must be limited to a specific purpose to be approved by voters. Reliance on periodic voter-approved levies is an uncertain way to maintain a stable workforce and fund critical ongoing services like law enforcement and fire services, as well as street and other transportation maintenance. In addition, neither option can adequately address chronic, structural budget deficits.

History of the 1% cap

In 1973, the Legislature responded to concerns that property taxes were rising too fast by passing a 6% limit on annual property tax increases. In 2001, Initiative 747 (I-747) limited increases to regular property levies for all taxing districts to 1% above the previous year, plus increases in value due to new construction. After the Washington Supreme Court later found I-747 unconstitutional, the Legislature nonetheless reenacted the 1% limit.

90% of cities report that increased costs of city services are a concern in their community.



Source: 2024 AWC City Conditions Survey

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