

Revise the property tax cap

2025 | HB 1334 & HB 2049 & SB 5798: Revising the local 1% property tax limit



Update the arbitrary 1% local property tax cap to an optional rate not to exceed 3%.

Background:

The arbitrary 1% cap on annual property tax increases has compounded for decades, putting a strain on 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 have to 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.

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, and to address new and emerging issues like funding affordable housing and behavioral health interventions.

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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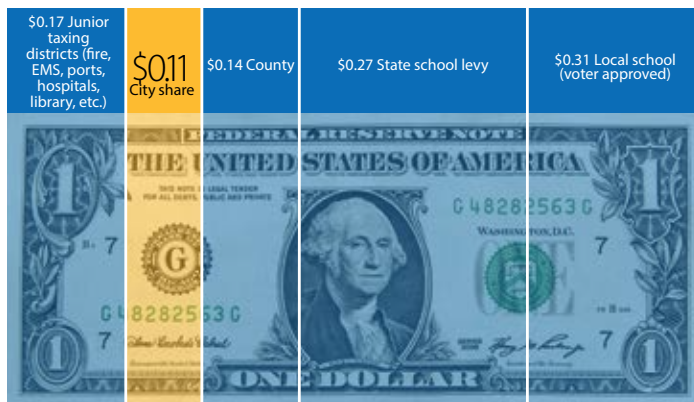
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Myth-busting: Responding to arguments against changing the cap

Increasing the limit up to 3% does not triple the property tax. Washington's property tax system is complex—tax rates are a function of how much revenue a jurisdiction can collect, combined with the overall assessed value. That means property tax increases aren't based on the increasing value of properties—Instead, increases are based on the amount of the *property taxes assessed* in the previous year.

Therefore, increasing a city's revenue cap generally equates to **less than \$20 per year** in increased costs for the average homeowner.

Additionally, cities receive just **11 cents** of every property tax dollar collected. The majority of taxes go towards state levies and voter-approved levies for schools. This small and sensible increased cap would have a small, but meaningful, impact on local budgets.



Source: Department of Revenue

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

Before 2001, local governments could increase their property tax revenue collections up to 6% per year, a limit that was adopted in 1973. In 2001, Initiative 747 created the 1% cap. Most vexingly, the 1% cap was chosen arbitrarily by initiative drafters with the intended goal of restricting government budgets.

The Washington Supreme Court later found I-747 unconstitutional, but nevertheless, the 2001 Legislature reenacted the 1% limit.

The arbitrary 1% property tax cap created a structural inflationary deficit in 2001

