

# Understanding Washington's Property Tax

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## Constitutional Requirements

- **All taxes** on real estate **must be uniform** within a taxing district.
  - Tax uniformity requires both an equal tax rate and equality in valuing the property taxed.
  - Limits ability to provide targeted property tax relief.
- Legislature may **exempt** property from tax.

# Property Tax: Budget- Based System

1. Taxing jurisdictions calculate levy authority
  - Limited to 1% year over year growth on existing properties; plus
  - The value of new construction and state assessed properties.
2. Property within the district is assessed
3. Levy rate calculated based on levy and assessed value (AV)
4. The levy rate is applied to individual assessed values

.....in other  
words

Local tax jurisdictions calculate taxes  
using the following:

$$\text{Levy Rate} = \text{Levy} / \text{AV}$$

However, the equation for a taxpayer  
is:

$$\text{AV} * \text{Levy Rate} = \text{Tax Due}$$

# 3 Limits on Levies



## 1st Limit:

Capping Increases in a  
District's  
Levy (Budget)



# How does the 1% levy limit work?

- **Levy Limit** = a cap on the growth of increases in a district's budget and the amount a district may collect.
- The limit is on the total **taxes** collected on existing properties, not the growth in property values or the rate of the tax.
- **I-747** = limits annual increases in regular property tax levies to 1%.

# How does the 1% limit work?

	<u>Value</u>	<u>Levy</u>	<u>Rate</u> <u>(per \$000)</u>
This Year	\$5,000,000,000	\$1,000,000	\$0.20
	105%	101%	
Next Year	\$5,250,000,000	\$1,010,000	\$0.19

## Second Limit: The \$10 Limit (1% Constitutional Limit)

- State and local regular levies may not exceed \$10 per \$1,000 of assessed value.
- Levies within the \$10 limit are termed "regular" levies.
- Levies that exceed the \$10 limit require voter approval and are called "excess" or "special" levies.

## Third Limit: \$3.60 and \$5.90 Statutory Limits

Statutory maximum regular property tax rates keep the combined state and local property taxes under the \$10 limit:

- **\$3.60 limit** – Maximum rate for the **state levy** for the common school.
- **\$5.90 limit** – Maximum rate for **junior taxing districts'** total levies for each tax code area.
- **\$0.50 of remaining capacity**

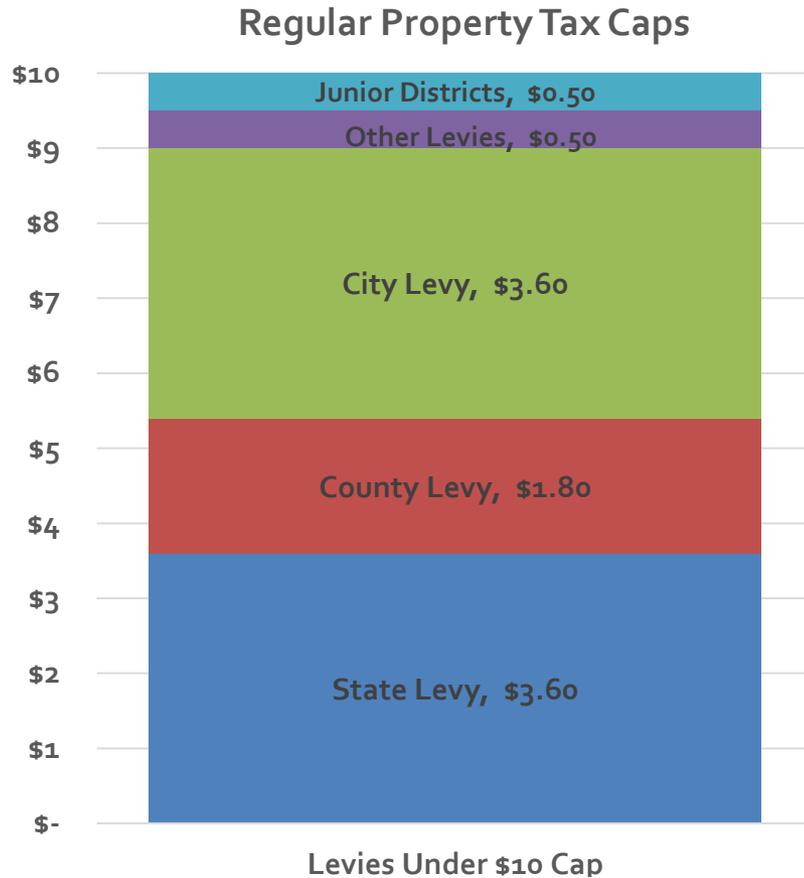
# Character of 2nd and 3rd Limits

## Both Limits,

- 2<sup>nd</sup> - \$10 constitutional limit and
- 3<sup>rd</sup> - the statutory maximum rates (\$3.60-state, \$5.90-local),  
are limits on the maximum rate.

These limits do not directly limit increases in a taxing district's budget (levy).

# Property Tax Limits

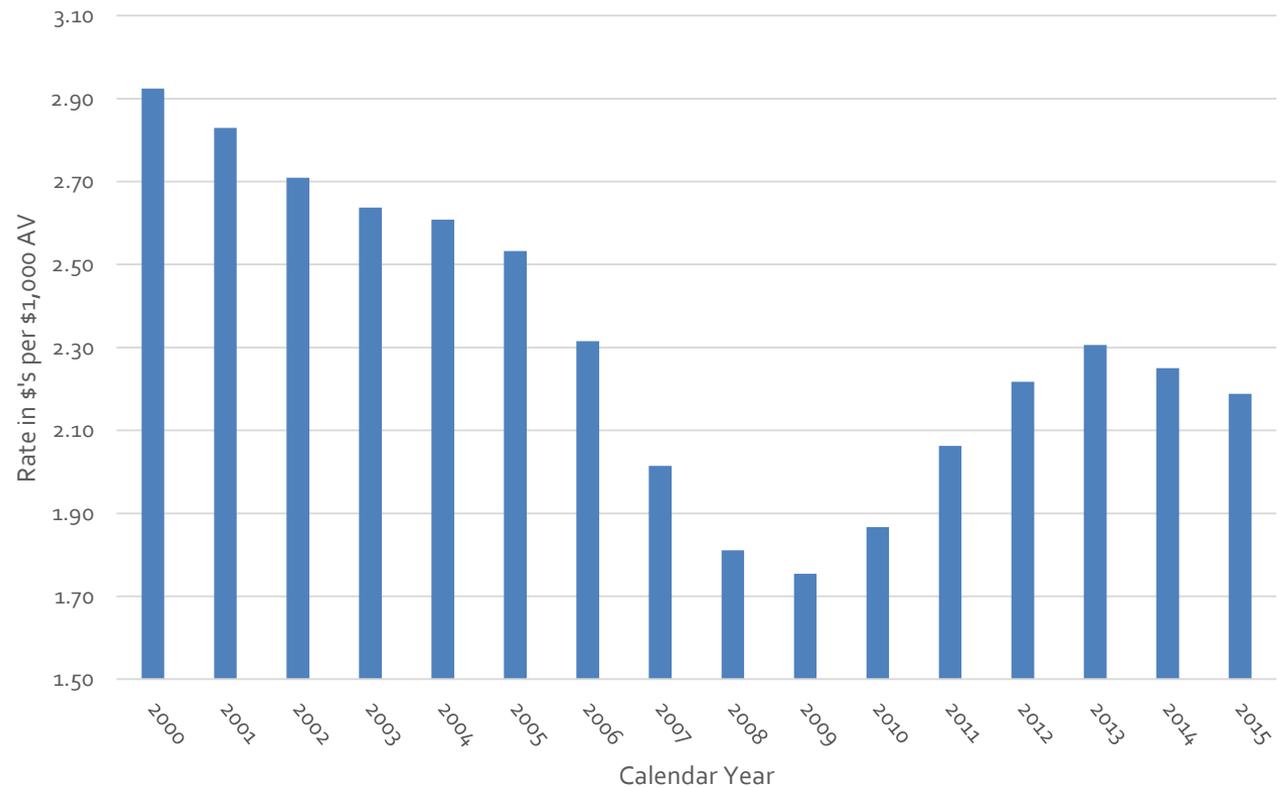


\* *School district M & O levies are considered excess levies are outside of this limit.*

# State Property Tax Rates

Due to 1% annual growth cap, property tax rates have declined over time.

State Property Tax Rate Over Time



# Local School District Excess Levies

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# State Constitution

- Article IX Section 1. It is the **paramount duty** of the state to make **ample** provision for the education of all children residing within its borders, without distinction or preference on account of race, color, caste, or sex.
- Article IX Section 2. The legislature shall provide for a **general and uniform** system of public schools.
- Article VII Section 2. gives school districts **authority to levy local property taxes** provided the voters of the district approve the levy.

# Doran I

## State Supreme Court 1978

- The state must make **ample** provision for the basic education program through a **regular and dependable tax source** instead of a heavy reliance upon annual local special tax levies
- "... (1) the level of funding provided by the state ... was not fully sufficient ... to fund the basic program of education offered by the district in accordance with state law;
- "... (2) Under existing state law, the Legislature has established a general and uniform system for the public schools ... but it has not (A) expressly defined basic education or determined the substantive contents of a basic program of education to which the children of this state are entitled in today's society or (B) provided a method for the fully sufficient funding of such education **without reliance on special excess levies.**"

# McCleary

## State Supreme Court 2012

In the January 2012 decision, the Court restated its prior holding in *Doran I* that **funding for Basic Education with local levy dollars violates article IX**, section 1, because levies are “wholly dependent upon the whim of the electorate,” are available on a temporary basis, and rely on the assessed valuation of real property at the local level.

The Court concluded...

- The state has **failed to** meet its duty under article IX of the state constitution to **make ample provision** for the education of all children in the state by consistently providing school districts with a level of resources that falls short of the actual costs of the basic education program.
- “The legislature must develop a basic education program geared toward delivering the constitutionally required education, and it must fully fund that program through **regular and dependable tax sources.**”

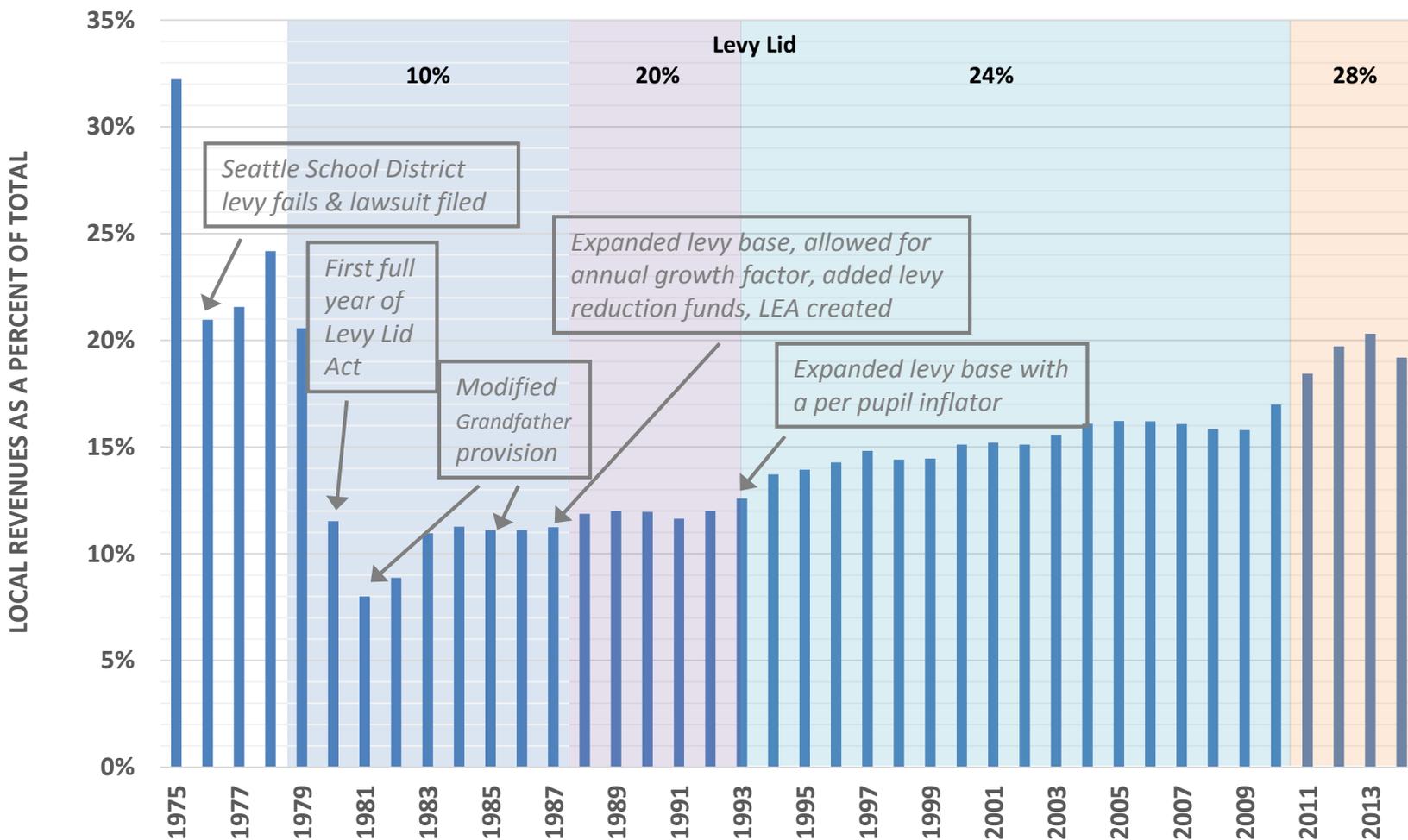
# School District Levies

- **Excess general fund levies** are one- to four-year levies used for day-to-day operations of the school. Such levies are also known as “**maintenance and operation**” (M&O) levies.
- Current law allows school districts to levy **28%** of school district revenues received from state and federal sources.
- Levy revenue **cannot** be used for the program of basic education.

Over time, the Legislature has modified the current school district levy system to expand district's levy authority.

- Levy Lid act of 1977
  - Capped funding at **10%** of school district's state's basic education allocation.
- Amendments to the Levy Lid Act of 1977
  - Allowed for the **grandfathering** of school districts with higher **levy authority**.
  - **Expanded revenue base** to include state categorical funds, federal funds, and state block grants.
  - Added a **per pupil inflator**.
  - Allowed for the temporary **ghost calculation** of unfunded I-732 and I-728 .
  - **Increased levy lid** from 10% to 24%. Current rate has been temporarily lifted to 28% and will expire in 2018. This is the so called "levy cliff."

# M&O levy revenues have been growing as a portion of total district revenues since the early 1980s



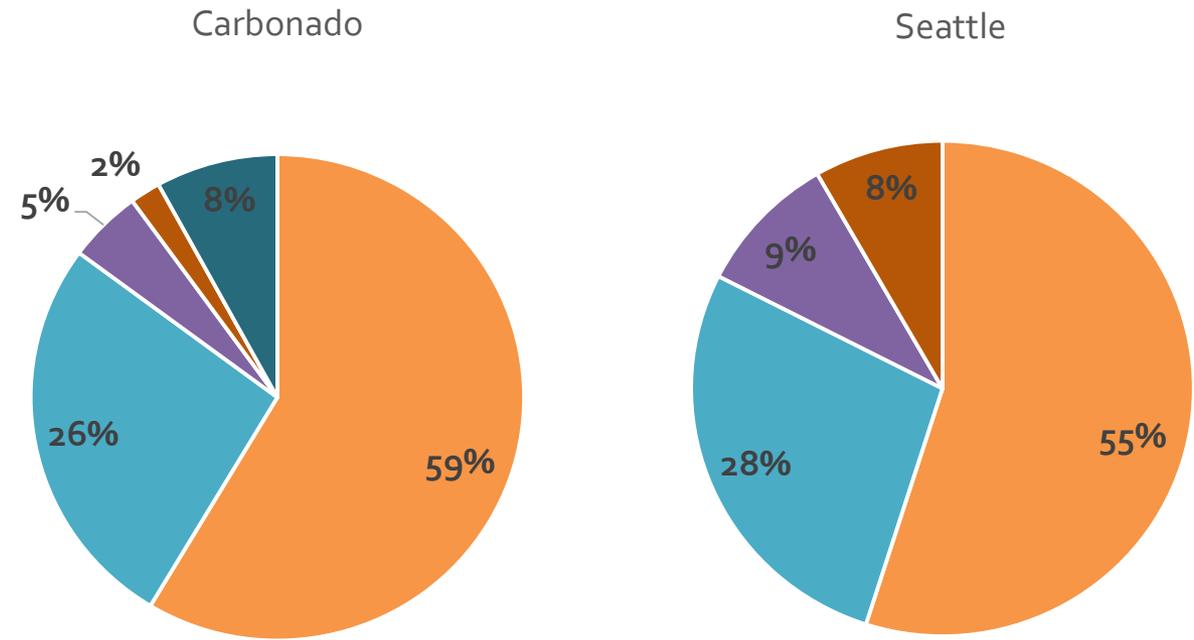
In the 2013-15 Biennium, **\$652 million** was provided for **Local Effort Assistance (LEA)**.

- State money paid to eligible districts to **match excess general fund levies**.
- These payments **help school districts** with **above-average tax rates** due to low property valuations.
- “Eligible districts” are those districts with a 14 percent **levy rate that exceeds the statewide average** 14 percent levy rate. The district 14 percent levy rate is the tax rate needed to collect a levy equal to 14 percent of the district’s levy base.

# Example of Four Districts

Similar share of local dollars and per pupil expenditures, but very different levy rates.

SY 12-13	Carbonado	Seattle
Levy Rate	\$7.69	\$1.25
Per Pupil Expenditures	\$11,184	\$11,980
Enrollment (FTE)	170	47,565

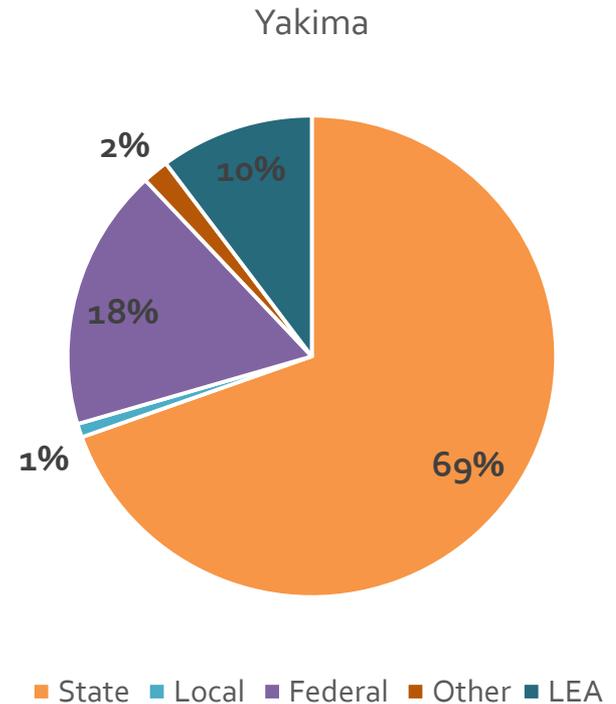
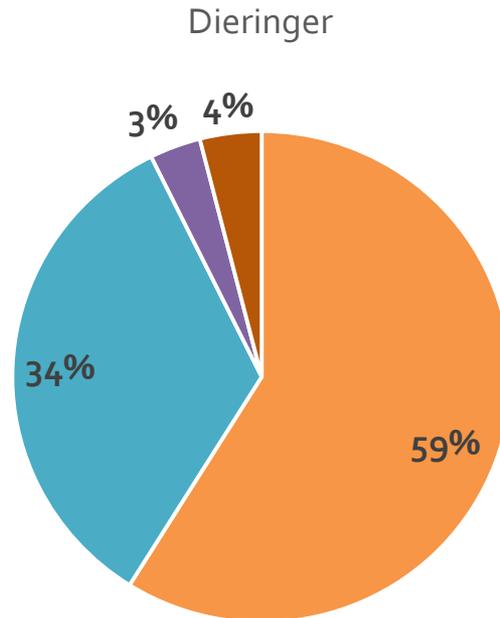


State Local Federal Other LEA

# Example of Four Districts

Similar levy rates and per pupil spending, but very different share of local revenue.

SY 12-13	Dieringer	Yakima
Levy Rate	\$3.80	\$3.13
Per Pupil Expenditures	\$10,481	\$10,461
Enrollment (FTE)	1,412	15,258



# Recent Proposals & Issues

- Modify 2018 school district M & O levy “Cliff” provisions
- Make other adjustments to school district M & O Levies (e.g. levy base, ghost revenue, etc.)
- Increase state property tax and make some kind of corresponding reduction to local levy capacity

# Appendix

# What Property is Taxed?

- All **real and personal property** is subject to the property tax, unless specifically exempted by law.
- Real property = land and the buildings, structures, or improvements that are affixed to the land.
- Personal property = all other property

# What is Assessed Value?

- **Assessed value (AV) =**  
100% of market value
- **“Market value” is:**
  - What a willing buyer would pay to a willing seller
  - Based on highest and best use of the property

# Property Tax Shift

Property tax shift = the shift of the property tax burden to other taxpayers in a district when property values change or property is exempted.

# Exceptions: Constitutional Value Limits

## Senior Property Tax Relief Programs

- Article VII, section 10

## Current Use Programs

- Article VII, section 11