

Property Tax Levy Lid Lift

Property Tax in Washington State

The Washington State property tax is one of the most complicated in the nation. Washington State has a budget-based system of property taxation. There are three main components to the property tax:

- Levy
- Assessed Value (AV)
- Levy Rate

As part of the budget process, the taxing jurisdiction established the amount of property tax revenue needed to fund the budget. That amount needed to fund the budget is called the levy. It is the total amount to be collected from taxpayers by a taxing district.

By November 30 of each year, the amount of taxes to be levied by taxing districts are certified to the county assessor who computes the levy rate necessary to raise that amount of revenue. The county assessor calculates the levy rate necessary by dividing the total levy amount by the assessed value of taxable property in the district. By law, this number is expressed in terms of a dollar rate per \$1,000 of valuation. For example, a rate of \$0.00025 is expressed as 25¢ per \$1,000 of assessed value. The formula for property tax collections is expressed as:

Levy = Levy Rate x Assessed Value (AV)

Property Tax Limits

Cities face two primary restrictions on their property taxes – a maximum regular property tax levy rate and a limit on the amount of additional property taxes they can levy in a year.

The Regular Property Tax Levy Rate

The maximum regular property tax levy rate in the City of West Richland is \$3.60 per thousand dollars assessed valuation (AV). For cities that belong to a fire district and/or a library district, the levy of the special district(s) must be subtracted from that amount. The library district levy has a maximum rate of \$.50 per thousand dollars AV and the fire district levy can be as high as \$1.50. Therefore, if a city belongs to both a fire district and a library district, and if these districts are currently levying their maximum amount, then the local levy rate can be no higher than \$1.60 ($\$3.60 - 1.50 - .50 = \1.60).

The City of West Richland belongs to a fire district levying \$1.50 per thousand dollars assessed valuation (AV). West Richland, however, is not annexed into the library

district. Library services are contracted with Mid-Columbia Libraries. The maximum levy rate for West Richland is currently \$2.10 ($\$3.60 - 1.50 = \2.10).

Property Tax Levy Increase – A Little History

In 1973, the legislature responded to people's concerns that property taxes were rising too fast by passing a law that established the 106 percent lid. What the 106 percent lid rule said was that your tax levy next year could be no more than 106 percent of your highest levy, beginning with the 1985 levy for 1986 taxes. An alternative way of stating it is to say that your levy could not increase by more than six percent.

Referendum 47

In November 1997, the voters approved Referendum 47, which put some new constraints on the allowable levy increase for some cities. Cities with a population of 10,000 or more could only increase their levy by the rate of "inflation" or six percent, whichever was less. "Inflation" is defined as the increase in the implicit price deflator (IPD) for personal consumption expenditures for the 12-month period ending in July as published in the September issue of the Survey of Current Business, a publication of the Bureau of Economic Analysis of the federal Department of Commerce. An exception was made if the city legislative body made a finding of "substantial need" in an ordinance or resolution passed by a majority plus one of the council or two out of three commissioners.

Cities with a population of less than 10,000 were not subject to this constraint. They could increase their levy by six percent (assuming this did not put them above their maximum tax rate) with a simple majority vote.

Taxes on new construction, changes in value of state-assessed utility property, and newly annexed property were exempted from the lid/limit factor for cities of any size and may be added to the tax levy that is requested under the lid/limit factor.

Initiative 747

In November 2001, the voters passed Initiative 747. Every mention of six percent was changed to one percent. All the provisions introduced by Referendum 47 are still there. Cities with a population of less than 10,000 can now increase their levies only by one percent. Cities with a population of 10,000 or more can increase their levies by the lesser of one percent or the percentage increase in the implicit price deflator.

If the implicit price deflator is less than one percent (which it was in 2015), then cities can use the substantial need provision to levy the entire one percent. However, this provision does not give these cities the same opportunity for increased revenue that it did when the maximum rate was six percent.

Levy Lid Lift

As discussed above, the passage of Initiative 747 in 2001 limited taxing jurisdiction with a population of less than 10,000 to an increase of one percent in their levy, plus taxes on new construction and increases in state-assessed utility valuation. Levy increases for municipalities with a population of 10,000 or more are limited to the lesser of one percent or the increase in the July implicit price deflator for personal consumption expenditures as published in the September issue of the Survey of Current Business.

One exception to the one percent rule is the levy lid lift. Taxing jurisdictions with a tax rate that is less than their statutory maximum rate may ask the voters to “lift” the levy lid by increasing the tax rate to some amount equal to or less than their statutory maximum rate. A simple majority vote is required.

Option 1: Basic Lift RCW 84.55.050(1)

1. **Purpose.** It may be done for any purpose, and the purpose may be included in the ballot title, but it need not be.
2. **Length of time of lid lift.** It can be for any amount of time, unless the proceeds will be used for debt service on bonds, in which case the maximum time period is nine years. To make the lift permanent requires language in the ballot title expressly stating that future levies will increase as allowed by chapter 84.55 RCW.

If the lift is not made permanent, the base for future levies will, at the end of the time period specified in the ballot title, revert to what the dollar amount of the levy would have been if no lift had ever been done. Note that the assessor will assume that the governing body would have increased its levy by the maximum amount allowed each year if there had been no lid lift.

3. **Subsequent levies.** After the initial “lift” in the first year, the jurisdiction’s levy in future years is subject to the 101 percent lid in chapter 84.55 RCW. This is the maximum amount it can increase without returning to the voters for another lid lift.
4. **Election date.** The election may take place on any election date listed in RCW 29A.04.321.

Option 2: Multiple/multi-year lid lift – RCW 84.55.050(2)

1. **Purpose.** It may be done for any limited purpose, but the purpose(s) must be stated in the title of the ballot measure, and the new funds raised may not supplant existing funds used for that purpose for any levy approved by the voters before July 27, 2009. “Existing funds” mean the actual operating expenditures for the calendar year in which the ballot measure is approved by voters. Actual

operating expenditures excludes lost federal funds, lost or expired state grants or loans, extraordinary events not likely to reoccur, changes in contract provisions beyond the control of the taxing district receiving the services, and major nonrecurring capital expenditures.

2. **Length of time of lid lift.** The lid may be “bumped up” each year for up to six years. At the end of the specified period, the levy in the final period may be designated as the base amount for the calculation of all future levy increases (made permanent) if expressly stated in the ballot title. The levy in future years will then be subject to the 101 percent lid in chapter 84.55 RCW. If the lift is not made permanent, at the end of the time period specified in the ballot title, the base for future levies will revert to what the dollar amount of the levy would have been if no lift had ever been done. Note that the assessor will assume that the governing body would have increased its levy by the maximum amount allowed each year if there had been no lid lift.
3. **Subsequent levies.** The lift for the first year must state the new tax rate for that year. For the ensuing years, the lift may be a dollar amount, a percentage increase amount tied to an index such as the CPI, or a percentage amount set by some other method. The amounts do not need to be the same for each year.

(Note that one cannot specify that the lift be to a specific tax rate for each year. A tax rate must be specified for the first year, like “increase the rate to \$3.10.” For ensuing years, however, the ballot measure cannot say something like “and raise the rate to \$3.10 in each of the next five years.”)

If the amount of the increase for a particular year would require a tax rate that is above the maximum tax rate, the assessor will levy only the maximum amount allowed by law.

4. **Election date.** The election date must be the August primary or the November general election.