

Budget Tidbits... just the facts

Senate Republican Caucus

Budget Brief # 13 (11/19/07)

Restoring I-747's Property Tax Limits

A look at the practical need for prompt legislative action.

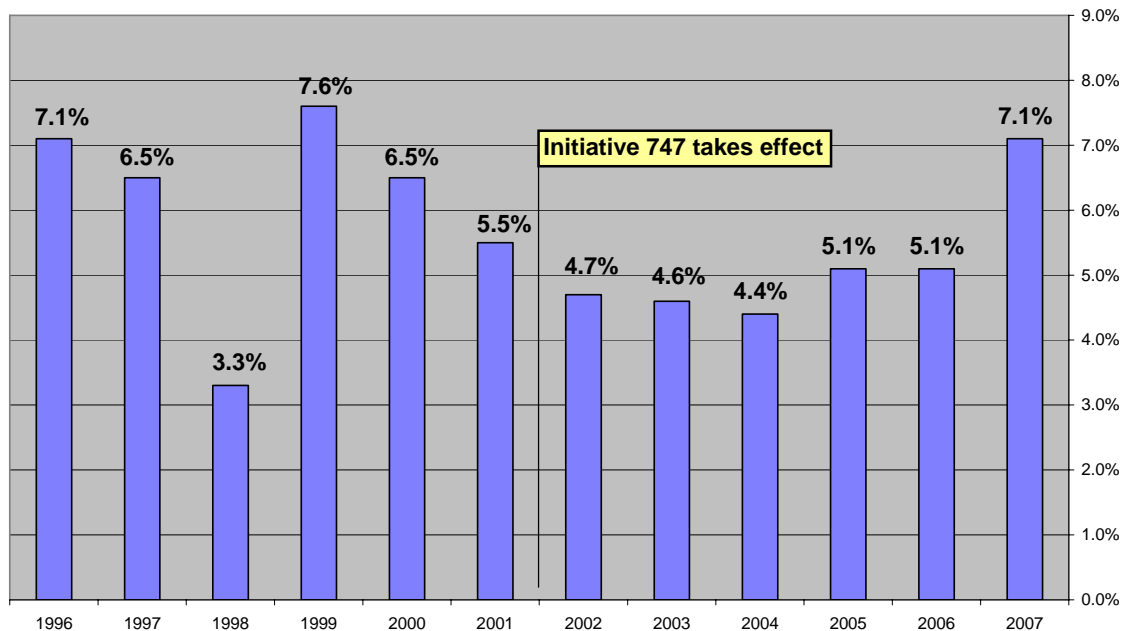
A. Initiative 747 has not unduly limited local governments' revenue growth

I-747, approved by 58 percent of voters in 2001, limited taxing districts' annual property tax revenue growth to 1 percent plus the value of any new construction. Revenue increases above this required voter approval. I-747 is estimated to have slowed the growth of property taxes by \$1.6 billion since its enactment.¹

Some contend I-747's 1 percent growth limit is unrealistic, asserting it prevents property tax revenue growth for local governments from keeping pace with inflation. That is erroneous.

Property tax collections have continued to be a strong, growing revenue source since I-747's approval, rising at an annual rate in excess of 5 percent due to new construction and voter-approved increases. This is more than twice the rate of inflation during that time frame.²

Yearly Percentage Growth in Total Property Tax Levies -- Statewide



Source: Dept. of Revenue -- Property Tax Statistics 2007 (Table 7)

B. Much of the Tax Relief Granted by I-747 is in Jeopardy, Absent Legislative Action

Earlier this month the Washington Supreme Court cast aside I-747, finding the initiative failed to put forth the correct version of the statute being amended.³ This effectively renders I-747 void since its inception, putting in place the prior law which authorized local government annual increases up to 6 percent without voter approval. The potential effect is two-fold.

- First, local districts may authorize levy growth of 6 percent in the future without voter approval. Small taxing districts (less than 10,000 people) may do so automatically. Larger taxing districts may go up to inflation automatically and up to 6 percent with a supermajority vote of the governing body.
- Second, taxing districts have “banked capacity”. State law says if a local district does not tax up to its maximum authority, it retains that capacity for future use. Since I-747 has been ruled void from its inception, taxing districts have substantial banked capacity they can tap without voter approval.

Not all of the \$1.6 billion in tax relief is at risk. Banked capacity does not apply to the state levy.⁴ And large local districts likely have banked capacity only up to inflation for the years I-747 was in place, as they can not go back in time and claim they would have had a supermajority to annually go up to 6 percent.

But it is clear that, absent legislative action, much of the tax relief resulting from I-747 is in jeopardy.

C. Need to Act Promptly

Here are the key dates in the property tax cycle for local governments and taxpayers:

- November 30 – Taxing districts must submit their budgets to their county council/commission, and the county council/commission must in turn certify the amount of taxes to be levied by each district.⁵ The information is used by the county assessor to then set the tax rolls throughout the county.
- January 15 – County assessors must deliver the tax rolls to the county treasurer, for the treasurer’s use in sending out property tax bills.⁶ Local governments are eligible to deposit property tax payments received after this date.⁷
- Early February – Property tax bills are typically mailed out.

The 2008 Legislature convenes January 14, just one day before counties’ tax rolls are required to be complete and two weeks prior to property tax bills being mailed.

Practicality dictates if the 1 percent limit is to be re-instated, then the earlier the better. Waiting until the 2008 regular session runs squarely into when local governments are finalizing their tax rolls and sending out tax bills.

Action during the upcoming November legislative assembly days provides a perfect opportunity to address this issue. Legislators are already scheduled to be in town, and such action would provide needed certainty to local governments and taxpayers.

Bottom Line

Should the Legislature act to re-instate the 1 percent property growth limit at a special session this month?

1. Department of Revenue email from Director Cindi Holmstrom, 11/8/07.
2. The Implicit Price Deflator measure of inflation has averaged 2.35% since 2002.
3. Washington Citizens Action of Washington vs. State, No. 78844-8 (Nov. 8, 2007)
4. RCW 84.55.092.
5. RCW 84.52.070.
6. RCW 84.52.080(4).
7. RCW 84.56.010.