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# Washington Department of Revenue Property Tax Division

## 2016 Spokane County Levy Audit A Summary Report



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# Overview

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## Purpose

The primary purpose of this review by the Department of Revenue (Department) is to assist the Spokane County Assessor (Assessor) in their processes and procedures to ensure compliance with state statutes and regulations.

## Method of Calculation

The Department calculated the levy limits and rates for several of the taxing districts for the 2016 tax year. To determine whether an error occurred, the Department compared the amount levied for the district with the levy limit, the statutory rate limit, the amount authorized by each district's resolution, and the levy amount certified by the district.

## Information Reviewed

The Department reviewed the following information for the 2016 tax year.

- Resolutions adopted by the districts
- Levy certificates (budgets)
- Administrative and adjudicated refunds
- Ballot measures
- Levy limit worksheets
- The State levy letter

We do not review every taxing district's levy. We audited approximately 40 percent of the taxing districts. The scope of the audit did not include the review of earmarked funds.

## Taxing Districts Selected

The Department reviewed the following taxing districts for the 2016 tax year:

- Spokane County General Fund and Road
- Cities: Airway Heights, Deer Park, and Medical Lake
- Fire Districts: 1, 4, 5, 8, 11, and 12
- Moran Prairie Library
- Park and Recreation No. 5
- Cemeteries: Moran No. 3, Elk No. 4, Milan No. 5, and Waverly No. 6
- School Districts: Mead, Orchard Prairie, Nine Mile Falls, Central Valley, and Liberty

# Executive Summary

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## Introduction

The primary purpose of a levy audit by the Department is to assist the county assessor in successfully performing the duties associated with levying taxes for the districts within the county.

An effective audit of levy calculations consists of gathering information from the assessor's offices to determine the level of compliance with laws and rules, the accuracy of levy calculations, and the effectiveness of record keeping.

## Categories of Results

The Department has completed its review and grouped the results into two categories:

- The first category, *Requirements*, is of the greatest urgency for effective administration by the assessor, taxing districts, and the county legislative authority. A change is required to adhere to the law.
- The second category, *Recommendations*, requires the attention of the assessor. The Department believes the assessor could improve their performance and service to the public by making voluntary changes in procedures.

The Department based report requirements and recommendations on our review of the administrative procedures employed, existing state statutes and regulations, and areas we see opportunities to improve processes, procedures, and communication.

## Results

The Department identified 1 recommendation and no requirements directed toward improving the accuracy of the levy process.

The items identified may be specific to the assessor's duties, the taxing district duties, county legislative authority duties, or they may have shared components of responsibility. We have listed a summary of these items in the requirements and recommendation sections.

## Recommendations

1. The Department recommends the Assessor provide education to the Commissioners regarding the road levy shift process.

# Recommendations

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For the items listed as “Recommendations,” the Department believes the Assessor, taxing district, and/or county legislative authority could improve by making voluntary changes in procedure.

This section contains the recommendations we identified.

## County Road Levy Shift

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### Recommendation

The Department recommends the Assessor provide education to the Commissioners regarding the road levy shift process.

### What we found

Property tax resolutions adopted by the Commissioners do not balance amongst themselves.

Resolution No. 2015-1002 states the amount of funds the Commissioners wish to levy for the county general levy and county road levy and their desire to shift funds from the county road levy to the county general levy. The document references the pre-shift levy amount of \$51,200,000 for the county general levy plus an additional \$6,100,000 shifted from the county road levy. The document does not list a levy amount for the road levy less the \$6,100,000 shift amount.

Resolution No. 15-0943 authorizes a one percent increase in property tax above the actual levies made for these districts in the prior year. Since the Commissioners shifted funds between these two levies in the prior year (the 2015 tax year), a percentage of change greater than one percent is required to levy sufficient funds for the 2016 tax year to once again shift funds to the county general levy.

When both of the documents provided by the Commissioners are reviewed together, the amounts the Commissioners intended to levy becomes more clear. The Department agrees with the Assessor's interpretation of the documents and amounts levied for these two districts.

### Action recommended

The Department recommends the Assessor takes the following actions:

- Contact the Commissioners to provide education regarding the road levy shift process.
  - Explain that the road district levy certification must include funds they wish to shift to the county general levy.
  - Explain why the percentage of change and dollar increase in the resolution for the road levy may appear to be greater than expected if the district completed a road levy shift in the prior year. Recommend that the Commissioners include language in this document explaining the shift.
  - Explain why the percentage of change and dollar increase in the resolution for the county general levy may appear to be smaller than expected if the district completed a road levy shift in the prior year. Recommend that the county legislative authority include language in this document explaining the shift.

## County Road Levy Shift, continued

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### **Why it's important**

Resolutions discussing property tax levies adopted by taxing districts is a method of providing transparency in government. When the resolutions adopted by districts provide clear information regarding their levies it ensures the the taxpayers within the district and the assessor calculating the levy limitations understand the action of the district.

## Next Steps

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### Follow-up

The Department is committed to the success of the Assessor by ensuring the levies comply with state statutes and regulations.

The Department will follow up in 2017 to review the corrections made. This will give the Assessor an opportunity to make and document the corrections and to provide information to the Department about any issues they encountered during the implementation process.

### Questions

For questions about specific recommendations in our report, please contact the contributing staff member listed below:

Levy and Appeals Auditor	Diana Burch	<a href="mailto:dianabu@dor.wa.gov">dianabu@dor.wa.gov</a>	(360) 534-1429
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For additional information contact:

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# Appendix – General Information

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## Introduction

General information provided to assist all assessors and taxing districts.

## Contents

This section contains the following topics:

- Regular Levy Limitation
- Refunds
- Excess Levy
- Timberland Assessed Value (TAV)
- Assessor Guidelines

## Regular Levy Limitations

### What are the statutory limitations?

Regular property tax levies are generally considered to be those levies that are subject to several statutory limitations.

The assessor must adhere to the following statutory limitations:

- Levy limit (a.k.a., 101 percent)
- Statutory dollar rate limit
- Amount authorized by resolution/ordinance
- District budget
- \$5.90 aggregate limit
- 1 percent constitutional limit

### Levy Limit

The amount of regular property taxes a taxing district can levy, other than the state, is limited to an amount that will not exceed the amount resulting from the following calculation:

- The highest amount that could have been lawfully levied by the taxing district in any year since 1985 for 1986 collection, multiplied by the limit factor; plus;
  - A dollar compensation calculated by multiplying the increase in assessed value of the district from the previous year attributable to:
    1. New construction,
    2. Increases in assessed value due to wind turbine, solar, biomass, and geothermal facilities if the facilities generate electricity,
    3. Improvements to property, and
    4. Any increase in assessed value of state assessed property,
 by the actual regular property tax levy rate of that district for the preceding year, or the last year the taxing district levied taxes.

The limit factors used in calculating the levy limit are defined in RCW 84.55.005 and WAC 458-19-005.

<b>If the district's population is...</b>	<b>Then the limit factor is...</b>
less than 10,000	101 percent.
greater than 10,000 and a finding of substantial need	the lesser of the substantial need factor or 101 percent.
for all other taxing districts	the lesser of 101 percent or 100 percent plus inflation.

### Reference:

- RCW 84.55.010
- RCW 84.55.0101
- WAC 458-19-020

## Regular Levy Limitations, continued

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### Statutory Rate Limit

The statutory rate limit varies by district. These limits are found in the various statutes for each type of district and in the *Property Tax Levies Operation Manual*. The levy amount for each district cannot exceed the statutory maximum rate. The statutory dollar rate limits for senior taxing districts can be found in RCW 84.52.043(1) and in the levy manual, chapter 3.

#### Reference:

- RCW 84.52.043
- Property Tax Levies Operation Manual, [http://dor.wa.gov/Docs/Pubs/Prop\\_Tax/LevyManual.doc](http://dor.wa.gov/Docs/Pubs/Prop_Tax/LevyManual.doc), chapter 3

### Truncating Levy Rates

The final certified levy rate cannot result in a levy amount that exceeds the statutory limitations. To ensure that the final levy rate results in a levy amount at or below the statutory levy limit for each taxing district the assessor must truncate the rate at the last digit (not round).

### Resolutions/Ordinances

The amount authorized by a district in its resolution or ordinance is another limitation on taxation. If a district does not adopt a resolution, the district cannot levy more than it received in the previous year, other than the amount resulting from the following:

1. New Construction,
2. Improvements to property,
3. Wind turbines,
4. Solar, biomass, and geothermal facilities (if the facilities generate electricity), and
5. Increases in state-assessed property

The resolution or ordinance must state the increase over the previous year's levy in terms of percentage and dollars. The resolution is separate from the budget certification.

#### Reference:

- RCW 84.55.120
- <http://dor.wa.gov/docs/forms/PropTx/Forms/OrdinanceResolution.doc>

## Regular Levy Limitations, continued

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### Levy Certification (Budget)

Taxing districts that wish to levy must certify a budget or budget estimate to the county legislative authority by November 30 of the assessment year. (*Note:* this does not apply if the assessor has not certified assessed values to the taxing district at least twelve working days prior to November 30).

The county legislative authority must certify the amount to levy for each of the taxing districts, including the county, to the assessor on or before November 30 of each year. However, the county legislative authority may elect to conduct its budget hearing on the first Monday in December, as permitted by RCW 36.40.071.

#### Reference:

- RCW 84.52.020
- RCW 84.52.070
- <http://dor.wa.gov/docs/forms/PropTx/Forms/LevyCertf.doc>

### \$5.90 Limit

The \$5.90 limit applies to the total of most regular levies in each tax code area. The aggregate of the junior and senior taxing districts (excluding the state levy and a few others) cannot exceed \$5.90 per \$1,000 of assessed value.

RCW 84.52.010 provides the order in which taxing districts rates are prorated, in order to bring the aggregate rate down to \$5.90. The \$5.90 limitation does not apply to levies made by or for:

- The support of common schools (state levy)
- Port Districts
- Public Utility Districts
- Conservation Futures
- Criminal Justice
- Emergency Medical Services
- Affordable Housing
- Metropolitan Parks (if voters protect a portion of the levy from this limit)
- County Ferry Districts
- County Transit purposes

#### Reference:

- RCW 84.52.043

## Regular Levy Limitations, continued

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### 1 Percent Constitutional Limit

The 1 percent constitutional limit is based on true and fair value, unlike the \$5.90 limit, which is based on assessed value.

In 1972, the voters adopted a constitutional limit of 1 percent. This limits the amount of property taxes that may be imposed on an individual parcel (real or personal) of property without voter approval of 1 percent of its true and fair value.

The 1 percent limit applies to all regular levies (except port and PUD levies). It does not apply to excess levies approved by the voters.

#### Reference:

- RCW 84.52.050
- RCW 84.52.010
- Article 7, Section 2 of Washington Constitution

## Refunds

### Types of Refunds

There are two types of refunds:

- Adjudicated (court ordered)
- Administrative

Use this table to decide how to levy for a refund

<b>If the refund is an...</b>	<b>Then...</b>	<b>And...</b>
Adjudicated refund	the district is required to levy the refund	the refund is added to the district's levy.
Administrative refund	the refund levy is optional	the refund may be added to the levy only if the district requests the refund in its levy certification or budget.

*Note:* the statutory limit cannot be exceeded when adding a refund to the levy.

### Reference:

- RCW 84.68.040 (adjudicated refund)
- RCW 84.69.180 and RCW 84.69.020 (administrative refund)
- WAC 458-19-085 (adjudicated and administrative refunds)

## Excess Levy

### What is an Excess Levy

Excess levies are over and above the regular property tax levies.

- Excess levies require voter approval.
- Duration of excess levies is subject to limitations.
- Excess levies are not subject to the statutory limitations placed on regular levies.

Type of Levy	Taxing District	Duration
Bond	Most districts	Long term debt, usually 15-20 years
Maintenance & Operational (M&O)	School and fire districts	2-4 years
General	Most districts except school and fire districts	1 year
Technology	School	2-6 years
Transport Vehicle	School	2 years
Construction/Modernization/Remodeling	School and fire districts	2-6 years

#### Reference:

- RCW 84.52.052
- RCW 84.52.053
- RCW 84.52.056
- RCW 84.52.130
- <http://dor.wa.gov/content/GetAFormOrPublication/PublicationBySubject/PropertyTax/BallotMeasures/>

## Timber Assessed Value (TAV)

### What is Timber Assessed Value?

Timber assessed value determines each taxing district's share of the timber excise tax revenue and in setting property tax levy rates. It serves as a substitute for the value that would be carried on the assessment roll if timber were taxable as real property for all bond and excess levy calculations.

### Components of TAV

Based on taxes levied, acreage and assessed value of property in the Designated Forest Land Program (DFL) from the prior tax year, and the estimated public acreage available for timber harvesting (RCW 84.33.089), the assessor calculates the following values:

- Composite tax rate
- Forest land assessed value (FLAV)
- Average assessed value per acre on privately owned DFL

After making these calculations, the assessor has all the information necessary to complete the Timber Tax Distribution Priority 1, 2, and 3 worksheets. The priority worksheets list the individual taxing district's TAV that is to be added to the district's taxable value for levy calculations.

### Tax Base

The assessor should ensure that the appropriate amount of TAV is included in the tax base for calculating excess levies.

If the levy type is...	Then use this percentage of TAV in the tax base...
Bond	100 percent
Capital Project	100 percent
Transportation Vehicle	100 percent
School M&O	50 percent of TAV or 80 percent of the 1983 timber roll, whichever is greater
All other excel levies	100 percent

### Reference:

- RCW 84.52.080(2)



## Assessor Guidelines

### Introduction

The assessor generally calculates the property tax levy rate necessary to collect the amount of taxes levied for each district, within the limitations provided by law (WAC 458-19-010). Listed below are some of the guidelines for the assessor based on the taxing district's adopted documentation.

### Determine the authorized levy amount

Use the table below to determine the authorized levy amount given certain situations.

When the taxing district submits...	Then...
a certified budget but no resolution	the district's levy is the lesser of the following: <ol style="list-style-type: none"> <li>1. Previous year's levy plus <i>any</i> increase resulting from new construction, improvements to property, wind turbines, solar, biomass, and geothermal facilities, if the facilities generate electricity, and the increased value of state-assessed property,</li> <li>2. Current year's certified budget,</li> <li>3. Levy limit (zero percent increase),</li> <li>4. Statutory maximum amount.</li> </ol>
a resolution, but no budget or levy certificate	the assessor does not have the statutory authority to levy on behalf of the taxing district.
a certified budget and resolution	the district's levy is the lesser of the following: <ol style="list-style-type: none"> <li>1. Previous year's levy <i>plus</i> the percentage increase authorized by the resolution <i>plus</i> any increase resulting from new construction, improvements to property, wind turbines, solar, biomass, and geothermal facilities, if the facilities generate electricity, and the increased value of state-assessed property,</li> <li>2. Current year's certified budget,</li> <li>3. Levy limit (up to 1 percent depending on the population of the district),</li> <li>4. Statutory maximum amount.</li> </ol>
neither a certified budget nor a resolution	the assessor does not have the statutory authority to levy on behalf of a taxing district.