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# Washington Department of Revenue Property Tax Division

## 2017 Grays Harbor 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 Grays Harbor County Assessor (Assessor) in their processes and procedures to ensure compliance with state statutes and regulations.

### Method of Calculation

The Department calculated the levy limitations and levy rate for several of the taxing districts for the 2017 tax year. To determine whether an error occurred, the Department compared the amount levied for the district with the lesser of 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:

- Resolutions/Ordinances adopted by the districts
- Levy certificates (budgets)
- Administrative and adjudicated refunds
- Ballot measures
- Levy limit worksheets
- \$5.90 aggregate and 1 percent constitutional limits

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 district levies:

- Grays Harbor County General and Road
- Cities: Aberdeen, Elma, McCleary, Montesano, and Oakville
- Fire Districts: 2, 4, 5, 10, and 11
- Quinault Cemetery District
- Hospital District No. 2
- Port of Grays Harbor
- School Districts: Aberdeen No. 005, Cosmopolis No. 099, Elma No. 068, Hoquiam No. 028, and Oakville No. 400

# 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 property taxes for the districts within the county.

An effective audit of levy calculations consists of gathering information from the assessor's office 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. 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 bases requirements and recommendations in our reports on our review of the administrative procedures employed, existing state statutes and regulations, and areas we saw opportunities to improve processes, procedures, and communication.

## Results

The Department identified three requirements and no recommendations directed toward improving the accuracy of the levy process.

We have listed a summary of these items in the Requirements section.

## **Executive Summary,** continued

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### **Requirements**

1. The Assessor is required to certify the completed tax roll to the Grays Harbor County Treasurer (Treasurer) on or before January 15, and provide an abstract of the tax rolls to the Grays Harbor County Auditor listing the total amount of collectible taxes for each taxing district.
2. The Assessor is required to calculate the statutory maximum rate limit for each regular levy. To do this for cities or towns annexed to a fire and or library district, the Assessor must deduct the actual rate levied by the fire and or library district from \$3.60. If the city or town has a fire fighters pension fund, an additional \$0.225 is added to the previous calculation.
3. The Assessor is required to apply the authorized dollar increase and percentage of change, as stated in a separate ordinance or resolution provided by the taxing district, to the district's previous year's levy amount.

# Requirements

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For the items listed as “Requirements,” the Assessor must make changes in procedure to comply with law.

This section contains the requirements we identified.

## Tax Roll Certification

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### Requirement

The Assessor is required to certify the completed tax roll to the Grays Harbor County Treasurer (Treasurer) on or before January 15, and provide an abstract of the tax rolls to the Grays Harbor County Auditor listing the total amount of collectible taxes for each taxing district.

### What the law says

The county assessor must deliver the tax rolls to the county treasurer, on or before the fifteenth day of January, taking a receipt from the treasurer. The Assessor must also supply the county auditor with an abstract of the tax roll showing the total amount of tax collection for each taxing district. (RCW 84.52.080)

### What we found

The Assessor did not certify the extension of the tax roll to the Treasurer on or before January 15. The Assessor certified the extension of the tax roll to the Treasurer, with a receipt taken, on February 6, 2017.

### Action needed to meet requirement

The Assessor is required to take the following actions:

- Certify the completed tax roll to the Treasurer on or before January 15, including an acknowledgement of receipt from the Treasurer.

### Why it's important

State law directs the county assessor to formally certify the tax roll to the county treasurer. The use of this format enhances the transparency of levying property tax.

## Cities of Montesano and McCleary

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### Requirement

The Assessor is required to calculate the statutory maximum rate limit for each regular levy. To do this for cities or towns annexed to a fire and or library district, the Assessor must deduct the actual rate levied by the fire and or library district from \$3.60. If the city or town has a fire fighters pension fund, an additional \$0.225 is added to the previous calculation.

### What the law says

When a city or town is annexed to a fire and or library district, the city or town's statutory maximum levy rate is \$3.60 per thousand dollars assessed value, less the actual levy rate of the fire and or library district for that particular year, plus an additional \$0.225 per thousand dollars assessed value if the city or town has a firefighter's pension fund. (RCW 52.04.081, 41.16.06, and 27.12.390)

### What we found

The City of Montesano (Montesano) is annexed to the Timberland Regional Library (Library). The Assessor used an incorrect statutory maximum rate of \$3.1905320 when calculating the statutory maximum dollar amount for Montesano. The correct rate is \$3.2007390, \$3.60 minus the 2017 levy rate of \$0.3992610 for the Library. It appears the Assessor may have used a prior year's levy rate for the Library when calculating the statutory maximum rate for the district.

The City of McCleary (McCleary) is annexed to the Library. The Assessor completed the levy rate calculation for McCleary using the Department's highest lawful levy calculation form, in addition a county generated calculation form is completed as a double check. The Assessor used an incorrect statutory maximum rate of \$3.1905320 on the Department's form and listed the correct rate of \$3.200790 on the county form. It appears the Assessor may have used a prior year's levy rate for the Library when calculating the statutory maximum rate on the Department's rate calculation form.

There were no levy errors as a result of the incorrect statutory maximum rates.

## Cities of Montesano and McCleary, continued

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### Action needed to meet requirement

The Assessor is required to take the following action:

- Calculate the statutory maximum rate each year for cities and towns annexed to a library and or fire district, beginning with the statutory maximum base rate allowed of \$3.60, then deduct the actual rate of the annexed library and or fire district. An additional \$0.225 will be added to the statutory maximum rate if the city has a firefighter's pension fund.

### Why it's important

The statutory maximum levy rate for cities annexed to a fire or library district must be calculated each year to ensure the city is not levying more or less than the law allows.

## Quinault Cemetery District No. 1

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### Requirement

The Assessor is required to apply the authorized dollar increase and percentage of change, as stated in a separate ordinance or resolution provided by the taxing district, to the district's previous year's levy amount.

### What the law says

No increase in property tax revenue may be authorized without a public hearing and adoption of a separate ordinance or resolution that specifically states the increase in revenue, in both dollars and percentage of change. Exceptions to this requirement are increases of revenue due to the following additions: new construction, construction of wind, solar, biomass and geothermal facilities, improvements, state assessed property, and refunds. (RCW 84.55.120 and WAC 458-19-085)

### What we found

Quinault Cemetery District No. 1 (Cemetery) authorized a .99 percent increase above their previous year's levy in a resolution dated October 9, 2016. The Assessor applied an increase of 1.99 percent when calculating the resolution limitation based on the dollar and percentage of change from the previous year's levy amount.

This resulted in an overlevy of \$51.11.

### Action needed to meet requirement

The Assessor is required to take the following action:

- Calculate the dollar and percentage of increase from the prior year's levy amount based on the dollar and percentage as stated in a taxing district's ordinance/resolution.
- Correct the Quinault Cemetery overlevy of \$51.11.
- Notify the taxing district of the levy error. If the correction in the succeeding year will cause a hardship for either the taxing district or taxpayers, the district may request the correction be made on a proportional basis over a period of no more than three years.
- Use the corrected 2017 levy rate, provided in Appendix A, when calculating the rate for the 2018 tax year as if the error had not occurred.

### Why it's important

To ensure the taxing districts do not levy more or less than their maximum levy amount allowable by law and the taxpayers pay the correct amount of property tax.

## 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 conduct a follow-up review in February 2018. This will give the Assessor an opportunity to implement the required changes, recommended changes, and to provide information to the Department about any issues they encountered during the implementation process.

### Questions

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

County Review 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
- Timber 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
  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. If an error occurred or an error correction was made in the previous year, use the rate that would have been levied had no error occurred

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

If the district's population is...	Then the limit factor is...
less than 10,000	101 percent.
greater than 10,000 and a finding of substantial need was made	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 Operations 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).

If truncating the levy rate for a bond levy results in a levy amount less than the amount requested by the district, the levy rate must be rounded up to ensure sufficient funds are levied for the repayment of the debt.

### 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)
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

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### Types of Refunds

There are two types of refunds:

- Adjudicated (court ordered)
- Administrative

Use this table to decide how to levy for a refund

If the refund is an...	Then...	And...
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

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### 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 excess 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.

# Appendix A

The following worksheet contains regular levy calculations for the districts with errors in this audit.

Levy Limit Calculation for District: Cemetery												
Assmt Taxes	Highest	Limit	Highest	State Assd	Tax Added	Annexed	Tax Added	Levy	Assd	Stat	<input type="checkbox"/>	Annexed to Library?
Year Due	Lawful Levy	Factor	Lawful plus	New Const	for	Value	for	Limit	Value	Rate	<input type="checkbox"/>	Annexed to Fire?
	Since 1985*		Increase		State Assd		Annex.			Max.	<input type="checkbox"/>	Firemen's Pension?
					New Const						<input type="checkbox"/>	Lid Lift?
2016 2017	5,178.94	1.00%	5,230.73	74,060	6.29	0	0.00	5,237.02	61,940,122	0.112500000000		
Actual Levy:							Summary of Levy Limits:					
Assmt Taxes	Previous	Lesser of	Previous Yr's	Tax Added	Tax Added	Authorized	Refund	Certified	Limit Per	Levy Limit	Authorized	
Year Due	Year's	Resolution's \$ or %	Levy plus	for	for	Levy by Res.		Budget	Stat. Rate	Plus Refund	Levy By Res.	
	Levy		Increase	State Assd	Annex.				Maximum		Plus Refund	
				New Const								
2016 2017	5,128.84	0.990%	5,179.62	6.29	0.00	5,185.91	59.65	6,120.00	6,968.26	5,296.67	5,245.56	
Assmt Taxes	Current Year's	Levy Correction	Total Levy	Actual	Actual Levy	Correct	Over/Under					
Year Due	Max Levy		w/ Correction	Amount	Rate	Levy Rate	Levy					
				Levied								
2015 2016					.0849909							
2016 2017	5,245.56	\$0.00	5,245.56	5,296.67	.0855127	.0846875	51.11					