

Property Tax Limit Factor

Draft v. 9-16-22

Background:

Washington law limits levy increases to the levy growth limits, often referred to as the “101% levy limit” or the “1% growth limit,” plus an increase in levy capacity by additional amounts for the following add-ons:

- New construction;
- Construction of wind turbine, solar, biomass, and geothermal facilities;
- Improvements to property; and
- Increased value of state-assessed property.

The inflation rate is calculated as the percentage change in the implicit price deflator (IPD) for personal consumption expenditures as published by the Bureau of Economic Analysis.

The limit factor is calculated as:

- For lower-population taxing districts (fewer than 10,000 residents), 101%;
- For higher-population districts, the lesser of 101% or 100% plus inflation; or
- For taxing districts who adopt a substantial need resolution (authorized under RCW 84.55.0101), up to 101% if the IPD is less than 1%.

“Prorationing” means the process of determining which taxing districts must reduce levies and by how much. This occurs because in addition to the limit factor, state and local levies are subject to a constitutional 1% limit on the total property tax levied on a particular property. Total local levies on a property also cannot exceed \$5.90 per \$1,000 of value. Whenever one of these limits is reached some junior taxing districts may be required to reduce or eliminate their property tax levies.

Concept modeled in 2020:

Changes the “limit factor” for the state levy to 100% plus the change in state population and inflation. If population decreases, then the population change is set to zero when calculating the limit factor. The modeling assumes increases in levy capacity for add-ons such as new construction will continue.

What we need from you:

The table below includes the item we need a **decision** on for proposal development.

| Decision | Options | Considerations/Recommendation |
|---|---|---|
| Should we set a minimum limit? <i>Decision needed by September</i> | <ul style="list-style-type: none">• Yes, negative growth stays at zero• No | Setting limits could avoid large revenue swings. Recommend setting minimum limit. |
| Should we set a maximum limit? <i>Decision needed by September</i> | <ul style="list-style-type: none">• Yes, cap growth• No | Setting limits could avoid large revenue swings. Recommend setting maximum limit. |