

# **FINAL BILL REPORT**

## **I 747**

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### **C 1 L 02**

#### **Synopsis as Enacted**

**Brief Description:** *Limiting property tax increases.*

**Sponsors:** *By People of the State of Washington.*

**Background:** Under the state Constitution, aggregate property tax levies are limited to 1 percent of value, or \$10 per \$1,000 of assessed value, without a vote of the people. These levies are called regular levies. Each year, the regular property tax levies of taxing districts are limited to a percentage of the districts' highest levy of the three preceding years. The percentage is the limit factor.

The limit factor is equal to the lesser of 106 percent or 100 percent plus the percentage change in the implicit price deflator. However, a different limit factor applies in two instances. For a taxing district with a population of less than 10,000, the limit factor is 106 percent. A taxing district, other than the state, may provide for the use of a limit factor of up to 106 percent for the year. In districts with legislative authorities of four members or less, two-thirds of the members must approve the change. In districts with legislative authorities of more than four members, a majority plus one vote must approve the change.

Added to this is an amount equal to the amount of revenue that new construction, improvements to property, and changes in state-assessed property would have generated at the preceding year's tax rate.

To remove the incentive to maintain a high levy, taxing districts other than the state are assumed to have levied the maximum allowed since 1986. This additional capacity is known as levy "banking" or "stockpiling." The banked amount may allow a taxing district to increase its levy by a percentage greater than 6 percent.

Any levy by a taxing district in excess of the taxing district's limit requires voter approval. If such a levy is approved, it becomes the base for calculation of future levies, unless approved for only a limited time or purpose.

Initiative 722, approved by the voters in November 2000, changed this revenue limit to the lesser of 102 percent or 100 percent plus the percentage change in the implicit price deflator. Initiative 722 also eliminated the ability to bank capacity by repealing the 1986 law which authorized taxing districts to levy at the maximum amount allowed since 1986. On September 20, 2001, the state Supreme Court in *Burien v. Kiga* invalidated I-722 on the grounds that it contained more than one subject.

**Summary:** The annual property tax growth limit for a taxing district of less than 10,000 in population is reduced from 6 percent to 1 percent. For all other taxing districts, including the state, annual property tax levies are reduced from inflation to the lesser of 1 percent or inflation. If inflation is less than 1 percent, then a taxing district, other than the state, may

provide for the use of a limit of up to 1 percent for that year with a vote of the legislative body of the district. In districts with legislative authorities of four members or less, two-thirds of the members must approve such increases. In districts with more than four members, a majority plus one vote is required.

Initiative 747 does not change the requirement for voter approval of any levy in excess of the taxing district's limit.

***Effective: December 6, 2001***