



Property Tax Issue Brief

Limit annual property tax increases to inflation and population growth HB 1764 / SB 5772

Property tax is the largest revenue source for cities in Washington State comprising nearly 25% of all city revenue. This revenue supports critical city services, including infrastructure and public safety. Compared to sales tax, which fluctuates with the economy, property tax is much more stable.

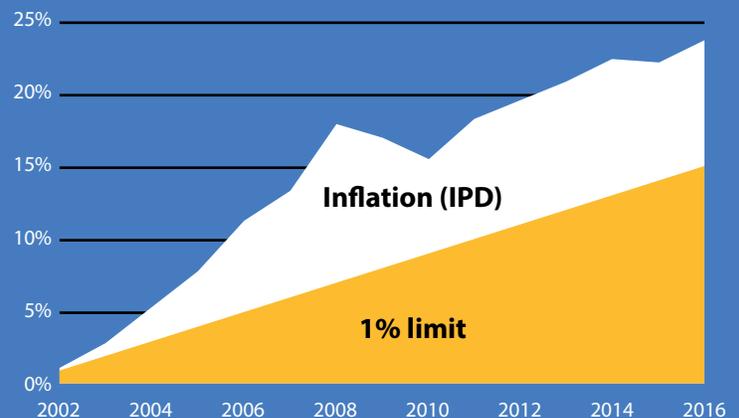
While this revenue is critically important for cities, it comes with challenges. Since 2001, when Initiative 747 was passed by voters, annual property tax increases have been capped at 1%, preventing it from keeping pace with inflation and population growth. Even after the Supreme Court found I-747 unconstitutional, the Legislature reenacted this problematic 1% limit. Cities have the option of levy lid lifts and excess levies. However, both require voter approval, and neither permanently change the annual percentage increase allowed.

HB 1764 / SB 5772 link annual property tax increases to inflation and population growth.

Strong cities need:

A limit to annual property tax increases reflecting inflation and population growth. The 1% limit fails to keep up with inflation. Since the limit was imposed, inflation has almost always exceeded 1%.

1% annual property tax increase fails to keep pace with inflation



More details

Limits on property tax increases

In 1973, the Legislature responded to concerns that property taxes were rising too fast by passing a 106% annual cap. This means that property tax levies could not increase by more than 6% annually.

Then, Initiative 747 passed in the November 2001 election. It limited regular property levies for all taxing districts to 101% of the previous year plus new construction. After the Supreme Court found I-747 unconstitutional, the Legislature reenacted this 1% limit.

The 1% limit on annual increases has significantly strained many city budgets. In the first five years, cities lost an estimated \$500 million in property tax revenue, and those impacts are ongoing. The result is an erosion of critical city services, including core infrastructure and public safety.

Other property tax limits

In addition to this 1% limit on annual increases, cities are also constrained by a statutory dollar levy rate that ranges from \$1.60 to \$3.60. The maximum regular property tax levy rate for most cities is \$3.375. As property values plummeted during and immediately after the Great Recession, a number of cities found themselves at their statutory maximum, and some saw actual declines in their property tax revenue.

Exceptions to the 1% limit

Some limited exceptions to the 1% limit are available to cities and towns. However, these options require voter approval and do not permanently change the annual percentage increase allowed.

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More details cont.

Limited exceptions to the 1% limit

Cities have the following options to exceed the 1% limit:

- **One-year levy lid lift:** This type provides a one-time “bump” in property taxes and may be used as the base for which to calculate the following year’s 1% increase. A simple majority vote is required. Although the purpose of the levy lid lift need not be stated, voters seldom approve a levy lid lift without a purpose specified.
- **Multi-year levy lid lift:** This option allows voters to approve an increase greater than 1% annually for a period up to 6 years. (For example, voters could allow a city to raise property tax by 2% each year for up to 6 years.) A simple majority vote is required. It may be done for any purpose, but that purpose must be stated in the title of the ballot measure. Again, voters rarely approve a lift unless dedicated for a specific purpose.
- **Excess levy:** An excess levy may be used to exceed a city’s statutory dollar levy limit. This option provides a temporary, one-year increase in the property tax levy. The revenue may be used for any purpose, but because it is a one-year increase, it is typically only useful for one-time expenditures. It is also subject to 60% voter approval with voter turnout requirements.

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