

**A LEGISLATIVE GUIDE TO
WASHINGTON STATE
PROPERTY TAXES**



2014

TABLE OF CONTENTS

Subject	Page
Introduction	1
How Much Money Does the Property Tax Generate and How is it Spent?	2
What Property is Taxable?	5
What are the Major Exemptions from Property Tax?	5
When Were These Exemptions Granted?	6
What Types of Property Tax Relief are Available to Retired Persons?	6
Exemption Program	7
Deferral Program	7
What Types of Property Tax Relief are Available to Low-Income Persons?	7
What are “Current Use” Valuations and “Open Space”?	8
What Types of Restrictions and Limitations are there on Property Tax Collections?	8
Uniformity in Taxation	8
One Percent Limit	9
The Limit (Inflation) Factor	12
How is Assessed Value Determined?	13
How is the Amount of Tax Levied by a Taxing District Determined?	14
How are Individual Property Taxes Determined?	14
Does Higher Assessed Value Necessarily Mean Higher Property Taxes?	15
How is Property Assessed and the Tax Collected?	17
What Does Equalization of Assessments Mean?	17
Are Public Schools Funded From Property Tax?	18
How do Washington State Property Taxes Compare?	19
What are Some of the Recent Legislative Changes to the Property Tax?	21
Glossary	27

Introduction

A Legislative Guide to Washington State Property Taxes is offered as a resource to members of the Senate, their staff, and other interested persons to provide an overview of the property tax system in this state. It describes the evolution and characteristics of our property tax structure and provides comparative and historical analyses.

The *Legislative Guide to Washington State Property Taxes* was prepared by the Senate Ways and Means Committee staff (within Senate Committee Services) and the Legislative Evaluation and Accountability Program (LEAP) to provide answers to many of the typical questions regarding property taxes. This *Legislative Guide to Washington State Property Taxes* is a summary of our property tax system intended to assist its readers in understanding basic terminology and gaining a historical and analytical perspective with which to evaluate potential reforms.

Questions concerning this report or requests for other documentation should be directed to:

Senate Ways and Means Committee

339 John A. Cherberg Building

Olympia, Washington 98504-0482

Telephone: 360-786-7715

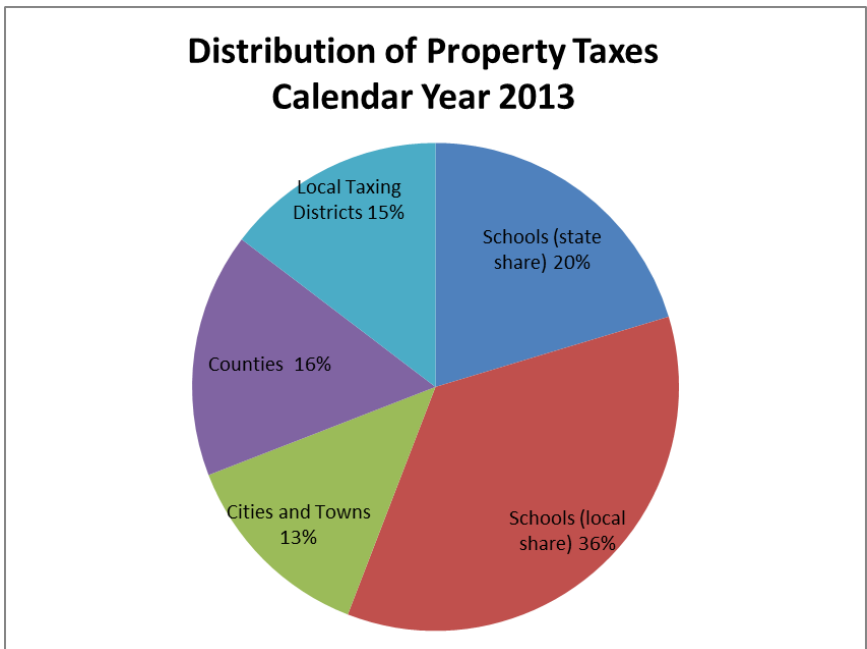
Fax: 360-786-7615

<http://www.leg.wa.gov/senate/scs/wm/default.htm>

How Much Money Does the Property Tax Generate and How is it Spent?

In 2013, Washington State taxpayers paid a total of \$9.5 billion in property taxes to local governments, state government and school districts. \$5.3 billion, 55.8 percent, of all property tax revenues collected both by the state and local governments are collected in support of K-12 education, with the state’s share being distributed entirely to public schools. Of this \$5.3 billion, \$1.9 billion was collected by the state, \$2.1 billion was collected via local maintenance and operations levies, and \$1.3 billion was collected via local levies for capital expenses and bonds.

The proportions displayed in the following chart represent the distribution of taxes collected from the “average” individual taxpayer in the state.

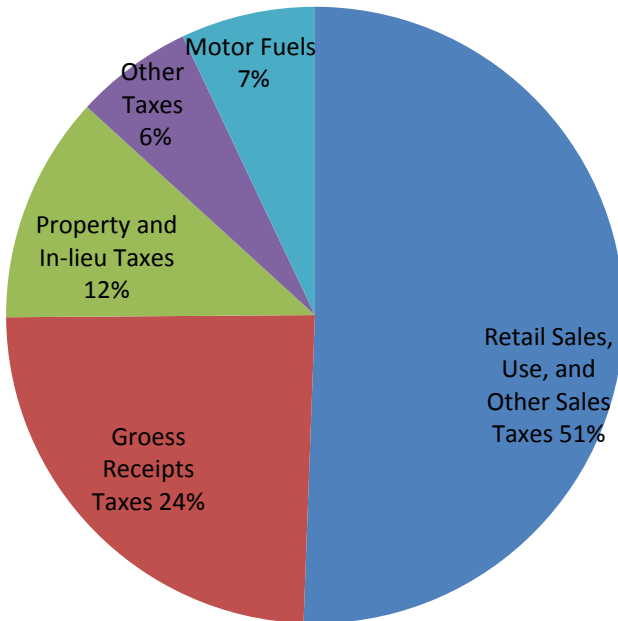


Source: Property Tax Statistics 2013, Department of Revenue

Property taxes are the largest source of tax revenue for local governments, generating about \$4.2 billion in 2013 (excluding local school levies). The state property tax, plus in-lieu taxes, are the third largest source of revenue to the state General Fund, generating approximately \$2 billion in the 2013 fiscal year, or about 12 percent of state tax revenues.

The following chart shows the breakdown of state tax revenues.

State Government Tax Revenue Fiscal Year 2013



Source: Tax Statistics 2013, Department of Revenue

Local government consists of hundreds of separate taxing districts across the state. In addition to the state (a single taxing district for purposes of collecting the state levy), there are 1808 other local

taxing districts, including 39 counties, 281 cities and towns, 372 fire districts, 189 emergency medical service (EMS) districts, 80 ports, and 33 library districts.

What Property is Taxable?

Article 7, section 1 of the state Constitution defines property as everything that can be owned, whether tangible or intangible. The property tax is applied annually to the assessed value of all property unless it is specifically exempt by law.

The Constitution requires that taxes be uniform within a class of property. For property tax purposes, there are two broad classes of property, *real* and *personal*. *Real property* consists of land and buildings, structures, or improvements that are affixed to the land.

In general, everything else is referred to as *personal property*. Because the Legislature has exempted motor vehicles, household goods, and personal effects from the property tax, only personal property used in business is subject to the property tax.

What are the Major Exemptions from Property Tax?

The text of the original state Constitution declares, “[s]uch property as the legislature may by general laws provide shall be exempt.” It is this provision of the Constitution that allows the Legislature to grant property tax exemptions. Note that it allows the Legislature to exempt types of *property*; it does not allow the Legislature to exempt property based on its *owner*.

Any property tax exemption has the effect of slightly increasing the tax rate that owners of all other taxable property must pay by reducing the overall base of taxable property. This circumstance of causing one segment of taxpayers’ taxes to increase as a result of exempting the value of property of another segment of taxpayers is commonly referred to as a “*tax shift*.”

There are numerous exemptions from property tax, established either by statute or constitutionally. The largest exemption is for intangible property. This includes money, mortgages, notes, accounts, stocks and shares of corporations, trademarks, trade names, patents, copyrights, trade secrets, franchise agreements, licenses, etc.

Other exemptions include business inventories, household goods, most personal property, retired persons, churches, nonprofit hospitals, private schools and colleges, and agricultural products.

When Were These Exemptions Granted?

The exemption for intangible property was originally granted by the Legislature in 1925 and has been amended several times, most recently in 1997. The exemption for business inventories was passed by the Legislature and phased in over ten years, beginning in 1974. Motor vehicles were exempted from property tax in 1937, when the motor vehicle excise tax was enacted which has since been replaced by the vehicle license fee. As early as 1871, there were exemptions for household and personal effects, but the expanded exemption that individuals have today was granted in 1935. Churches and hospitals have exemptions that were granted prior to statehood, in 1854 and 1886 respectively. Computer software was exempted in 1991. Exemptions for agricultural products were subject to legislative changes in 1973 through 1984 when the current exemption for all such products was enacted. Private schools and colleges were exempted by the Legislature in 1925.

It is important to note that many of these exemptions were granted in statute by the Legislature. The state Constitution authorized other exemptions, such as exemptions for governmental entities, a \$15,000 exemption from tax on personal property for sole proprietors, and property tax exemptions for retired persons.

What Types of Property Tax Relief are Available to Retired Persons?

Property tax exemptions for retired persons (defined as seniors, disabled persons, and 100% disabled veterans) originated with a constitutional amendment in 1966 and have been modified by the Legislature many times since. A constitutional amendment was required because exemptions for retired persons are based on the owner of the property, not on the type of property.

Property tax exemptions are available to retired persons who meet income requirements and are retired. Exemptions include total exemptions for excess levies (voter-approved property taxes) or partial exemptions from regular levies.

Exemption Program

Homeowners 61 years of age and older may apply for an exemption from paying excess levies if their household income is \$35,000 or less. The property tax relief is available for taxes payable in the year after the application is made and every year thereafter. They are also exempt from regular levies on a portion of their home value if their income is \$30,000 or less. A further benefit for these homeowners with incomes of \$35,000 or less is that the taxable value of the property is frozen when the homeowners becomes eligible for the program.

Deferral Program

A related program allows homeowners at least 60 years of age with household incomes of \$40,000 or less to defer payment of all property taxes. These taxes may be deferred until the sale of the property or until the property ceases to be the permanent residence of the homeowner or surviving spouse.

Even though the eligibility requirements are broader for the deferral program than for the exemptions, only 624 people took advantage of the available tax deferral for 2012, compared to 112,733 receiving exemptions.

What Types of Property Tax Relief are Available to Low-Income Persons?

Deferral Program

During the November 2007 special session, the Legislature created a new property tax deferral program for households with a combined disposable income of \$57,000 or less. This program is similar to the existing property tax deferral program for retired persons, but the new program has no age or retirement due to disability requirement.

Under this new deferral program, eligible homeowners of any age may defer one-half of the property taxes and special assessments imposed on the homeowner's primary residence, if the first half taxes and assessments are paid by the April 30 due date. To qualify, the homeowner must have owned the residence for at least five years. The total amount of taxes deferred under this program may not exceed 40 percent of the homeowner's equity value in the property.

What are “Current Use” Valuations and “Open Space?”

A Constitutional amendment in 1968 established a *current use* assessment for *open space*, timber, and agricultural lands. Although not a tax exemption in the strict sense of the term, *current use valuations* reduce the tax burden on certain properties. As a result, the reduction “shifts” the tax burden to other taxpayers just as an exemption does.

The taxable value is based on how the property is currently used, rather than the market value (or the “highest and best use”) of the property. For example, the 2010 market value for all current use properties in the state is \$17.1 billion; in contrast, the 2012 current use value for these properties is \$4.9 billion. In 2012, there were 11,375,164 acres in current use classifications.

The *open space* program allows agricultural lands, timberlands, and other “open space” lands to be assessed according to their value as they are currently being used, rather than the market value. This “current use” value is typically much lower than market value and is, therefore, a tax benefit for the property owner.

“*Open space*” lands are lands which conserve natural resources, promote conservation, enhance public value and recreation, preserve visual quality, or have other legislatively identified attributes which are of public benefit. Agricultural and timber lands are subject to various requirements regarding size, use, and income.

When property is removed from the current use valuation program, either by the owner or the assessor due to a change in use, back taxes must be paid.

What Types of Restrictions and Limitations are there on Property Taxes?

The myriad of constitutional and statutory provisions regarding property taxes have served to create an interconnected system of property tax administration and collection. In order to understand the overall system and the rationale for its evolution, it is important to review the restrictions and limitations governing property taxes.

Uniformity in Taxation

Perhaps the most important principle of property taxation in our state is the uniformity of taxation. In the 1853 Organic Act establishing the

government of the Washington Territory, the U.S. Congress imposed a strong requirement for uniformity in taxation in order to prevent the territory's residents from imposing a disproportionate share of taxes on nonresidents. Uniformity of taxation continued as a fundamental principle in the state Constitution adopted in 1889.

The state Constitution includes a *uniformity clause*, which provides that “taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax.... All real estate shall constitute one class.” This means that taxes must be the same on real property of the same market value. Uniformity requires both an equal rate of tax and equality in valuing the property taxed. Many other states have differential tax rates or different value standards that depend upon the separate classifications of property. Such a system would not be constitutional in Washington.

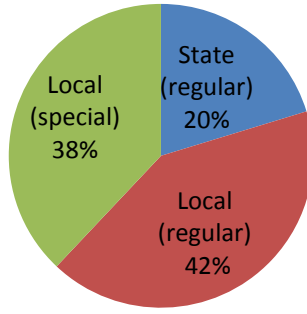
One Percent Limit (Ten Dollar Limit)

Beyond the principle of uniformity, the Washington State property tax system as we know it today really took shape in the early 1970s. In 1972, Washington State voters amended the Constitution to limit the annual amount of property taxes that may be imposed on an individual parcel of property to one percent of its true and fair value. By law, tax rates are stated in terms of dollars per \$1,000 of value. Therefore, the 1 percent limit is the same as \$10 per \$1,000. Under the constitutional amendment, the *one percent limit (\$10 limit)* may be exceeded only with the approval of 60 percent of the district's voters, with the exception of school districts which may pass a levy with a simple majority vote.

Taxes imposed under this limit are termed “*regular*” levies, while those outside the limit are “*excess*” or “*special*” levies.

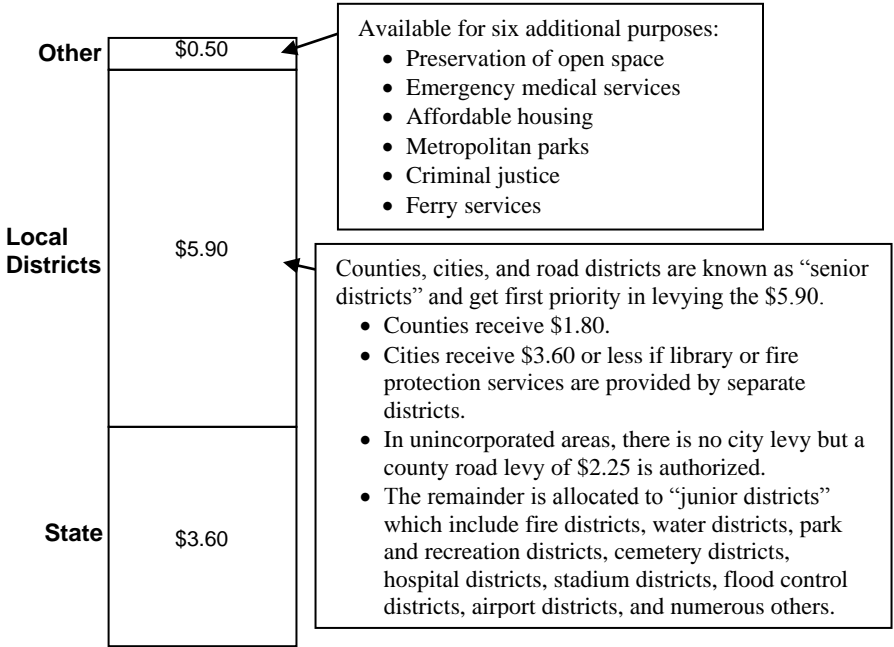
For statewide taxes due in 2013, 62.0 percent were regular levies and 38.0 percent were excess voter-approved levies. The majority of excess levies are school district levies. The following chart breaks down the statewide average regular and excess levies by type of taxing district.

2013 Regular and Special Levies



Source: Property Tax Statistics 2013, Department of Revenue

The one percent maximum rate for regular property taxes is limited further by a complex series of statutes. The \$10 limit is broken down as follows:



The Limit (Inflation) Factor

Local government taxing districts generally determine their property tax levy based on the revenue required to fund their budget for the following year. However, in 1971, the Legislature imposed a statutory limit on annual increases in local governments' revenues from property taxes. Under this limit, revenues from any district's *regular* property tax levy may not exceed 106 percent of the highest amount of revenue received from any levy in the preceding three years. Added to this is an amount to account for new construction and improvements. The 1979 Legislature extended this limit to the state property tax as well.

In 1997, voters passed Referendum 47, which imposed additional requirements on the 106 percent limit. Under this provision, taxing districts with a population over 10,000 were only allowed to increase the regular levy by the rate of inflation or six percent, whichever was smaller. For a district to increase the levy by the full six percent, a super majority vote of the governing body in each district was required. In addition, Referendum 47 limited the growth of assessed values, by averaging large valuation increases over time. This averaging provision was subsequently thrown out by the Supreme Court in 1998 for being unconstitutional because of the requirement for "uniform" valuation of properties.

In 2000, voters passed Initiative 722, which limited future increases of taxable value to the lesser of inflation, or two percent per year. It also limited taxing district increases to 2 percent and rolled back certain property tax increases levied in the year 2000. However, the Supreme Court in 2001 ruled this initiative unconstitutional because it violated the Constitution's requirement that initiatives only involve a single subject.

In 2001, voters passed Initiative 747 (effective in 2002), which restricted taxing districts to a property tax increase of the lesser of inflation, or one percent. This limit is on the taxes collected and not on the growing value of the property. Thus, under Initiative 747, a taxing district could collect only one percent more than the previous year's cumulative total of property taxes assessed within its jurisdiction. Initiative 747 was drafted as a change to the 2 percent limit adopted in Initiative 722. In November 2007, the Supreme Court held that since Initiative 747 amended the two percent limit in Initiative 722 (which had previously been invalidated by the court), Initiative 747 did not set forth in full the law it amended as the Constitution requires. However, that same month, the Legislature met in special session and passed HB 2416, reinstating the one percent levy limit established by Initiative 747.

How is Assessed Value Determined?

There are three criteria used to value real property: *comparable sales*, *cost*, and *income potential*.

- *Comparable sales*: value is determined or estimated based on multiple sales of similar properties. Most residential property is valued using this method.
- *Cost*: value is determined based on the cost of replacing an existing structure with a similar one that serves the same purpose. This method is used to value new construction.
- *Income*: value is determined based on the income producing potential of the property. This method is often used to value business property.

For many years, assessment practices varied widely across the state, resulting in both constitutional and statutory changes intended to improve adherence to requirements for uniformity. In the early 1950s, with the imposition of the real estate excise tax, the state received more accurate data on actual sales prices of real property. This data revealed significant inequities between the assessed value and the actual market value among taxpayers living in different areas of the state. In 1955, the Legislature adopted a property revaluation cycle, requiring that revaluation occur a minimum of every four years.

Frequent revaluation of property during a time when property values are rapidly increasing improves uniformity, because property assessments more closely reflect the current value. Otherwise, recently revalued property is closer to current market values while property that has not been revalued lags far behind the market value. In addition, less frequent revaluation cycles can create rapid increases in property tax assessments. For example, if a property in a rapidly increasing market is revalued every four years, the assessed value will more dramatically jump after revaluation. To address these inequities, the legislature passed Substitute Senate Bill 5368 in 2009 which required annual revaluations in all counties by the year 2014. As of 2012, 31 counties revalue on an annual cycle and 7 revalue on a four-year cycle, with only one county on a two year cycle. Since several counties with large property bases revalue annually, the large majority of property in the state is revalued annually.

How is the Amount of Tax Levied by a Taxing District Determined?

A taxing district levies a property tax in the amount needed to fund its budget for the following year. By November 30th of each year, the amount of taxes to be levied by taxing districts are certified to the county assessor who computes the tax rate necessary to raise that amount of revenue. The county assessor calculates the tax rate necessary by dividing the total levy amount by the amount of taxable property in the district. This number is expressed in terms of a dollar rate per \$1,000 of valuation. For example, a rate of \$0.00025 is expressed as 25¢ per \$1,000 of assessed value. For the state levy (which is dedicated to the support of the common schools), the state Department of Revenue determines the amount of tax to be levied, apportions the tax to the various counties, and certifies the tax to the county assessors.

There are three main components to the property tax; the *levy*, *assessed value*, and *levy rate*.

- The *levy* is the total amount collected from the taxpayers by a taxing district. Currently, the taxing districts are only able to increase their levies by one percent per year.
- The *assessed value* and the *levy rate* are the tools that are used to distribute the property tax burden equally to all taxpayers.
- Assessed Value x Levy Rate = *levy*

Since levies are capped at one percent, actual property taxes received by a taxing district can only increase that much. The levy rates actually decrease so that the levy itself is limited to a one percent increase.

How are Individual Property Taxes Determined?

The tax on a particular property is calculated by multiplying its assessed value by the tax rate. Once the maximum allowable regular property tax levy amount is determined for a district under the one percent limit factor, the county assessor then calculates the necessary tax rate by dividing the total levy amount by the amount of taxable property (total assessed value) in the district. The rate is expressed in terms of dollars per \$1,000 of assessed value. The rate is multiplied by each \$1,000 in value for each parcel to determine the tax. An individual tax bill is the total of all such calculations for all of the individual districts levying tax on the particular property.

For example, for a parcel of property assessed at \$100,000, the tax would be determined as follows, assuming a tax rate of \$11.87:

$$\begin{array}{rclcl} \text{Tax Rate (per \$1,000)} & \times & \frac{\text{Assessed Value}}{1,000} & = & \text{Tax Due} \\ \\ \$11.87 & \times & \frac{\$100,000}{1,000} & = & \$1,187 \end{array}$$

The Constitution stipulates that property tax is to be levied against the “true and fair” value of property. Property assessment, or *valuation*, is the process by which the “true and fair” value is determined. In order to comply with the provisions of the Constitution, all taxable property must be assessed at 100 percent of its true and fair value unless the law specifically provides otherwise, such as with low-income retired persons. A county assessor makes these assessments for about 97 percent of the property in the state. The Department of Revenue makes the remaining three percent of the assessments.

Does Higher Assessed Value Necessarily Mean Higher Property Taxes?

No. Many individuals have seen rapid growth in their assessed values, but this does not necessarily equate to a rapid increase in their property tax bill. The amount that a local taxing jurisdiction may levy is limited to an increase of one percent per year.

With the levy only rising one percent per year, the effect of rapidly growing assessed values is a reduction in the levy rate. For example, if each and every parcel of property in a taxing district increased by exactly 30 percent, the actual tax rate due on each parcel of property would still only increase by one percent.

A property that does not increase in value as much as the other properties in a district may even see a reduction in taxes or will bear less of the burden of the levy. On the other hand, a property that increases in value at a greater rate than other properties in the district will bear a greater burden of the tax. It is how values grow in relation to other properties in the same district that determines whether the tax on a property increases or decreases.

In a district where values average 30 percent growth, a home with 10 percent value growth would actually see a reduction in taxes. Alternatively, in a district where values average five percent growth, a

home with 10 percent value growth would likely see a significant increase.

How is Property Assessed and the Tax Collected?

All property, except new construction, is assessed on its value as of January 1 of the assessment year and is listed on the tax rolls by May 31. For new construction, the value as of July 31 of the tax year is listed on the rolls. Notices of valuation changes are mailed to the owner of the property. If taxpayers disagree, they can appeal the valuation. Appeals of assessed values must be filed with the county board of equalization by July 1 or 30 days following the mailing of the notice of revaluation, whichever is later. However, the county legislative authority may authorize up to 60 days.

The treasurer in the county where the property is located collects property taxes. The treasurer is required to send each taxpayer a notice which must include the amount of tax owed, the value of both real and personal property, and the name and amount for each taxing district levying a tax. The notice must also separately state the amount of excess (voter-approved) levies. The county treasurer mails the tax bill to the “taxpayer” listed on the tax rolls, which may be a lending institution in cases where the property owner has provided that taxes are to be paid from a reserve account administered by the lending institution. The treasurers mail tax bills in early to mid-February. The first half of the tax is due by April 30; the second half by October 31. Given the timelines required for revaluation and billing, the taxes due in any particular year are based upon the assessed value from the preceding year.

What Does Equalization of Assessments Mean?

In the 39 counties in Washington State, there are differences in revaluation cycles and assessment practices. The state Constitution requires taxes on real estate to be uniform within a district. For the purpose of collecting the state property tax, the state is one district. Since differences in county assessment practices would result in the state property tax being applied non-uniformly across the state, the Department of Revenue estimates, in each county, the relationship between the assessed value and the actual market value.

The Department of Revenue then adjusts the state property tax rate according to the average appraised value for that entire county, but does *not* adjust assessed values for each property. As a result, the effective state property tax rate is different in each county. However, this rate multiplied by the assessed value results in a uniform tax across the entire state. This process is called “*equalization*.”

For example, if a parcel of property sold for \$100,000 (after deducting an amount for any personal property that may have been included in the sale) and its assessed value is \$90,000, the ratio of assessed value to market value would be 90 percent, determined as follows:

$$\begin{array}{rccccccc} \text{Assessed Value} & \div & \text{Market Value} & = & \text{Assessment Ratio} & & \\ \$90,000 & \div & \$100,000 & = & 90\% & & \end{array}$$

Are Public Schools Funded from the Property Tax?

The Washington State Constitution established basic education as the state's paramount duty. This duty has been reaffirmed in subsequent statutes and court decisions, which acknowledge that the *state* must provide sufficient aid to local school districts to fund basic education. Currently, almost one-half of the state General Fund budget is spent for public schools.

As mentioned earlier, the state property tax levy is dedicated for public schools and is frequently called the state school levy. The revenues are paid directly into the General Fund, along with all the other tax revenues that go to the General Fund.

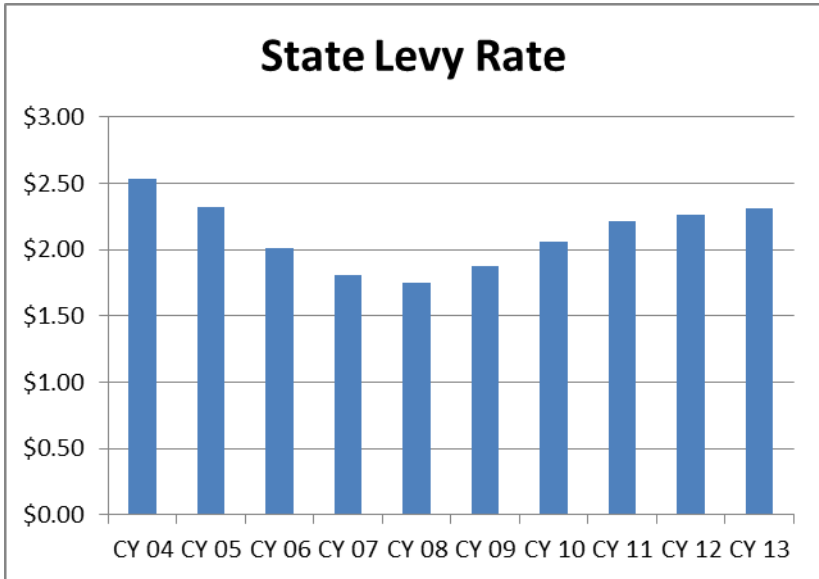
The state school levy provides about a quarter of the money in the General Fund that the state spends on public schools. In addition, revenues from the sales tax, business and occupation tax, real estate excise tax, and other sources support public schools (see the chart on page 4).

The state school levy as we know it today was enacted in 1975. Prior to 1975, property owners paid a *local regular* school levy of \$3.60 per \$1,000. The local regular levy was replaced by the regular state levy and state aid was increased to replace the lost local revenue. Over the following few years, the state moved to fully fund basic education from the state General Fund.

How do Washington State Property Taxes Compare?

This section examines a number of comparative statistics regarding property taxes in Washington State, including comparisons with other states and historical comparisons to examine how property taxes have changed over time. The analysis is accomplished largely through the use of a series of graphic presentations.

The following chart shows the recent trends of the state property tax rate. The rate is statutorily limited to \$3.60 per \$1,000 of assessed value; however, it does fluctuate from year to year due to the interaction between property values and levy limitations. The rate in 2013 was \$2.31.

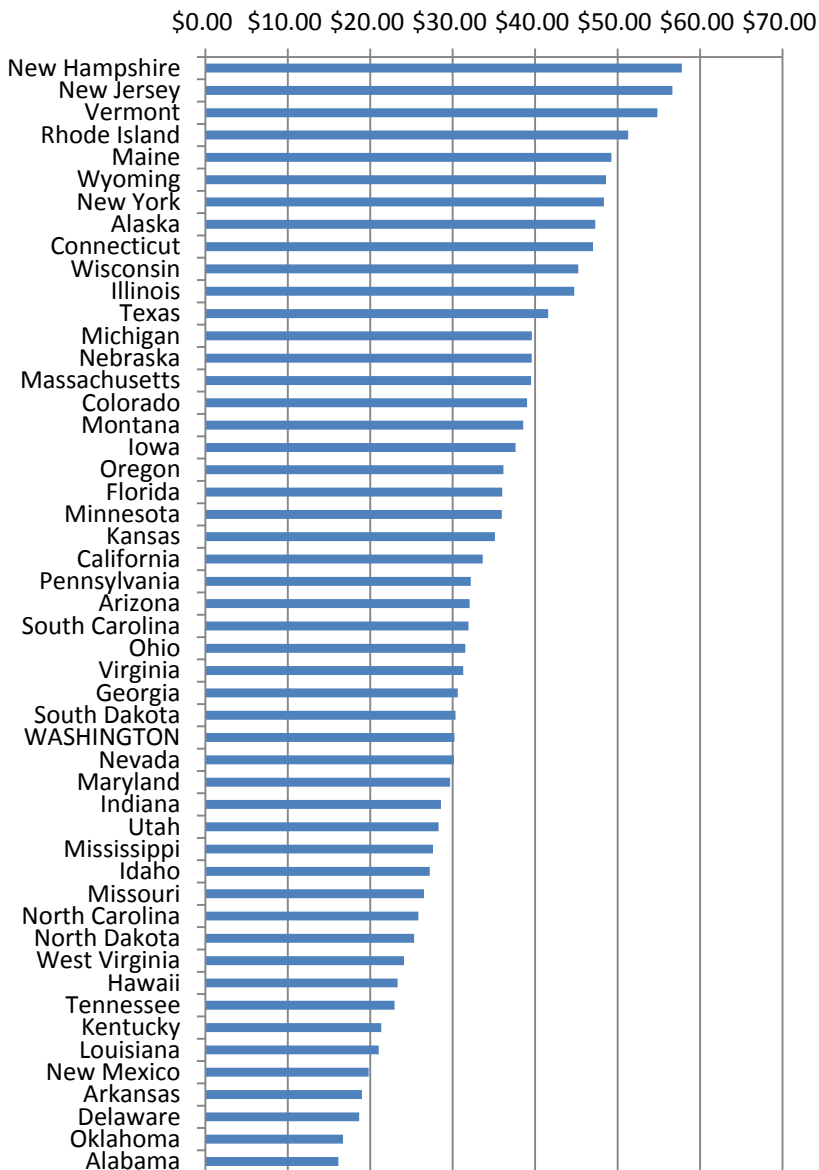


Source: Department of Revenue, Property Tax Statistics

The chart on the following page is a comparison among all states of property taxes relative to income. When compared to the other 49 states, state and local property taxes in Washington appear to be about in the middle. The most recent national information is from fiscal year 2011, at which time Washington ranked 31st in property taxes at \$30.21 per \$1,000 of personal income, below the national average of \$35.87.

Property Taxes Per \$1,000 personal Income

Fiscal Year 2011



Source: Department of Revenue, "Comparative State and Local Taxes 2011"

What are Some of the Recent Legislative Changes to the Property Tax?

Modifying Provisions Governing Local Improvement Districts (LIDs) Created by Irrigation Districts (2SHB 1416 -- Chapter 177, Laws of 2013)

Provisions governing irrigation district LIDs have been changed, including: (1) specifying that LID bonds do not constitute a general indebtedness against the issuing irrigation district; (2) authorizing LIDs to be comprised of noncontiguous territory and formed in a neighboring irrigation district; (3) establishing provisions governing what "improvement costs" in a LID must include; and (4) removing provisions allowing farm and agricultural land to be exempt from special benefit assessments of LIDs within irrigation districts.

Collecting Deferred Property Taxes (EHB 1421 -- Chapter 221, Laws of 2013)

Proceeds from the sale of property acquired by the county at a property foreclosure sale must first be applied to reimburse the county and then to pay the amount of deferred property taxes owed to the state.

County Property Tax Levies (ESHB 1432 -- Chapter 123, Laws of 2013)

County legislative authority may increase or reduce the Veteran's Assistance and county mental health property tax levies in the same proportion as the regular county property tax levy.

Property Taxation of Mobile Homes and Park Model Trailers (EHB 1493 -- Chapter 198, Laws of 2013)

A mobile home park landlord may request that the county treasurer remove outstanding taxes from the tax roll for certain abandoned or recovered manufactured/ mobile homes with values less than \$8,000.

Creating Greater Efficiency in the Offices of County Assessors (HB 1576 -- Chapter 131, Laws of 2013)

County assessors are authorized to send assessments, notices, or other information via electronic means so long as the person entitled to the information agrees to receive the information electronically, and the assessor protects confidential information from unauthorized disclosure.

This information is exempted from disclosure under the Public Records Act.

Modifying the Property Tax Exemption for Nonprofit Fairs (E2SSB 5078 -- Chapter 212, Laws of 2013)

The real and personal property of a nonprofit fair association that was purchased from a county or city is exempt from property tax. Large nonprofit fairs with property valued at more than \$15 million are excluded from the exemption.

Administering Taxes for Publicly Owned Property (SSB 5444 -- Chapter 235, Laws of 2013)

The requirement that county assessors annually assess and send out real property valuation notices for publicly owned property that is exempt from taxation is removed. Those properties that are no longer exempt must now be valued and listed. A leasehold excise tax credit for certain leasehold interests in publicly owned real or personal property is eliminated.

Property Tax Refunds and Abatements (SSB 5705 -- Chapter 239, Laws of 2013)

County treasurers are authorized to: (1) accept payments on past due property taxes, penalties, and interest by electronic funds transfer on a monthly basis; (2) assess and collect tax foreclosure avoidance costs; and (3) reimburse taxing districts for taxes that are abated or cancelled.

Repealing an Obsolete Timber Tax Credit (SB 5806 -- Chapter 240, Laws of 2013)

Since 2004, all privately owned timber on state and local public land has been exempt from the property tax. Therefore, a credit for property tax paid on timber is obsolete. The credit is repealed.

Penalty and Interest Waivers Under Specified Circumstances (SHB 2149 -- Chapter 59, Laws of 2012)

A county's legislative authority may authorize its county assessor to waive the late filing penalties for all assessment years prior to and including 2011 for personal property tax if the taxpayer takes certain steps. Taxpayers may not seek a refund or otherwise challenge the amount of tax liability paid as a condition for receiving a penalty waiver if they receive penalty relief.

Modifying Exceptions to the Compensating Tax Provisions for Forest Land (ESHB 2501 -- Chapter 170, Laws of 2012)

The exception for the payment of back taxes on designated forest land when the transfer of property interests is for public use and enjoyment in a county with a population of more than 600,000 inhabitants is changed to include transfers in a county with a population of at least 245,000 inhabitants that borders Puget Sound, which currently includes Thurston and Kitsap Counties. In addition, the exception for removals of land that has been transferred from designated forest land to open space and then removed from the open space classification under one of the authorized exceptions is expanded from a county with a population of more than 600,000 inhabitants to a county with a population of at least 245,000 inhabitants that borders Puget Sound.

School District Financial Insolvency (SHB 2617 -- Chapter 186, Laws of 2012)

Criteria is established for a school district to be identified as financially insolvent as well as a process by which a financially insolvent school district may be dissolved and its territory annexed by or transferred to one or more contiguous school districts. Included are provisions relating to property tax levies, including: (1) levies for paying the bonded indebtedness of a dissolved school district; (2) extending any pre-existing levy of a school district to territory received from a financially insolvent school district; and (3) authorizing replacement or supplemental levies, upon voter approval, by a school district annexing or receiving territory from a financially insolvent school district. Additionally, for property tax purposes, the boundaries of a school district that annexes or receives territory from a financially insolvent school district must be established on September 1st of the year in which a levy is to be made for the enlarged school district.

Adjusting Voting Requirements for the Renewal of Emergency Medical Service Levies (SSB 5381 -- Chapter 115, Laws of 2012)

A six-year or 10-year emergency medical services (EMS) levy may be renewed with a majority vote rather than a supermajority vote. However, the initial imposition of a permanent EMS levy or a six or 10-year EMS levy must be by super-majority vote.

Creating Authority for Counties to Exempt from Property Taxation New and Rehabilitated Multiple-Unit Dwellings in Certain Unincorporated Urban Centers (SSB 6277 -- Chapter 194, Laws of 2012)

The property tax exemption is expanded to include eligible new, rehabilitated, or converted multiple-unit housing within residential targeted areas in urban centers. The exemption is expanded to include residential targeted areas located in the unincorporated area of a county if (1) that area is within an urban growth area under the Growth Management Act and contains an institution of higher education where at least 1,200 students live on campus during the academic year and (2) the county has an unincorporated population of at least 350,000. A property owner seeking a property tax exemption must commit to renting or selling at least 20 percent of multi-family housing units, located in an unincorporated area of a county, as affordable housing to low and moderate-income households.

Extending Property Tax Exemptions to Property Used Exclusively by Certain Nonprofit Organizations that is Leased from an Entity that Acquired the Property from a Previously Exempt Nonprofit Organization (SSB 6600 -- Chapter 76, Laws of 2012)

Property that is exempt under RCW 84.36.030 continues to be exempt when the property is transferred to an entity that would otherwise not qualify for the exemption if: (1) the entity was formed exclusively for the purpose of leasing the property to an organization that will use the property for exempt purposes under RCW 84.36.030; (2) the lessee uses the property for exempt purposes under RCW 84.36.030; (3) the immediate previous owner of the property had received an exemption under RCW 84.36.020 or 84.36.030; and (4) the benefit of the exemption inures to the benefit of the lessee organization.

Appeal Protections for Value Changes (ESHB 1826 -- Chapter 84, Laws of 2011)

A county board of equalization must waive the deadline for appealing the assessed value of property for property tax purposes under the following circumstances: the taxpayer's property was in a revaluation area; the property value did not change; the taxpayer was not sent a revaluation notice; and the appeal is filed within a reasonable time after the July 1 filing deadline.

Annexation by Regional Fire Protection Service Authorities (SHB 1854 -- Chapter 271, Laws of 2011)

Fire protection jurisdictions may annex into an adjacent regional fire protection service authority if the annexation is approved by a simple majority vote of the voters in the fire protection jurisdiction.

County and City Real Estate Excise Taxes (HB 1953 -- Chapter 354, Laws of 2011)

Each year through calendar year 2016, a city, town, and county may use the greater of \$100,000 or 35% of real estate excise tax revenues, but not exceeding \$1 million, to pay for the operations and maintenance expenditures of existing capital facilities.

Exempting Flood Control Districts (EHB 1969 -- Chapter 275, Laws of 2011)

For taxes levied for collection in 2012 through 2017, a flood control zone district in a county with a population of 775,000 or more with boundaries coextensive with a county may place up to \$0.25 cents of the district's \$0.50 cent levy outside the \$5.90 limit to avoid pro-rationing.

Contiguous Land under Current Use Open Space Property Tax Programs (SSB 5359 -- Chapter 101, Laws of 2011)

Contiguous parcels held by the same ownership may be combined to determine what size category and criteria apply to qualify for current use valuation as agricultural or forest land under the Open Spaces Taxation Act. To satisfy the same ownership requirement, the contiguous parcels may be owned by members of the same family, legal entities wholly owned by the members of the same family, or a combination of individuals and entities that are wholly owned by members of the same family.

Property Tax Exemption from Emergency Medical Services Levy (SB 5628 -- Chapter 365, Laws of 2011)

The portions of the City of Milton which are located in King County are exempt from the King County EMS levy in order to address complications from overlapping property tax jurisdictions. This is accomplished by exempting all real and personal property from a county EMS levy if the following requirements are met: (1) the property is located in a county with a population of more than 1.5 million; (2) the

property is located in a city included within two counties; and (3) the locally assessed value of the property in the portion of the city included is less than \$125 million.

Property Tax Exemption for Nonprofit Organizations (SHB 2402 -- Chapter 186, Laws of 2010)

Until 2020, tax exempt property belonging to churches and nonprofit public assembly halls or meeting places may be used for farmers markets for up to 53 days each year.

Glossary

Class of Property – The term is used in the state Constitution to describe a broad type of property. There are only two classes of property – real property (real estate) and personal property (everything else).

Comparable Sales Approach – A criterion which assessors use in determining the value of a parcel of property. In fact, it is the primary criterion that assessors are required to use in determining value. Assessors look at the dollar value of sales of comparable parcels of property.

Cost Approach – Cost (or replacement cost) is a criterion which assessors may use in determining the value of a parcel of property. In the absence of definitive data on comparable sales, assessors examine the cost, or replacement cost, of the parcel of property.

Current Use Valuation – A method of establishing the assessed value of a parcel of property which allows the assessor to determine value based on the use for which the property is currently utilized rather than the market value. Current use valuation allows an owner to reduce the tax burden on agricultural lands, timberlands, and open space lands. For example, agricultural lands may be valued based on their production, even though the property has a higher market value as commercial property or a housing development.

Equalization – A process by which the state Department of Revenue adjusts the state property tax rate within each county to account for differences in assessment practices between the 39 counties in which the state property tax is levied. Equalization is necessary to ensure that the state property tax is levied uniformly on taxpayers across the state.

Excess (or Special) Levy – Property taxes imposed in excess of the one percent constitutional limit which must be voter approved.

Income Approach – Income is a criterion which assessors may use in determining the value of a parcel of property. In the absence of definitive data on comparable sales, assessors estimate the income potential of a parcel of property and its effect on market value.

Indicated Ratio – The statistical ratio between the average assessed value of property within a county and the actual market value of property within the county. The indicated ratio for each county is determined by the state Department of Revenue on the basis of averages derived from sampling individual parcels within the county. Indicated ratios are used in equalizing the state property tax levy across the state to ensure uniform taxation.

Junior Districts – Taxing districts which can levy property taxes but which have a lower priority in levying property taxes than counties, cities, and road

districts. Junior districts include fire districts, library districts, water districts, park and recreation districts, hospital districts, cemetery districts, flood control districts, and numerous others.

Limit factor - A statutory limit approved by the voters in Referendum 47 defined as 100 percent plus the percentage change in the implicit price deflator for personal consumption (inflation).

One Percent Limit - A constitutional provisions limiting the annual amount of property taxes that may be imposed on an individual parcel of property, without voter approval, to one percent of its true and fair value.

Open Space – Open space lands are lands which conserve natural resources, promote conservation, enhance public value and recreation, preserve visual quality, or have other attributes which are of public value. Such lands are eligible for valuation based on current use rather than market value.

Personal Property – All property, tangible and intangible, which is not real property (real estate), is personal property.

Real Property – Real property consists of land and the buildings, structures, or improvements that are affixed to the land. Real property and real estate are used synonymously.

Regular Levy – Property taxes imposed under the constitutional one percent limit on levies are termed regular levies. Regular levies do not require voter approval.

Split Roll – Taxing one type of property differently than another type. The example most often cited is taxing commercial property differently than residential property.

Tax Shift – Causing one segment of taxpayers' taxes to increase as a result of exempting the value of property of another segment of taxpayers. For example, exempting a portion of residential property may cause taxes on commercial property to increase.

Uniformity Clause – Article 7, section 1 of the state Constitution requires that “[a]ll taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax...” Uniformity requires both an equal rate of tax and equality in valuing the property to be taxed. The Constitution also stipulates that real estate is one class of property.

Valuation – The process used by the assessor to determine the true and fair value, or the assessed value, of property. Another term for valuation is property assessment.

106 Percent Limit – A statutory limit imposed by the Legislature in 1971 (in 1979 for the state levy) that limits annual increases in property tax revenues for a taxing district from regular levies to no more than 106 percent of the highest

amount of revenue from any levy in the past three years. (see also **Limit Factor** above).