

INITIATIVE 747 -- An act relating to limiting property taxes

Main Provisions

- Property taxes are reduced by limiting the growth of regular property tax levies.
- Local property tax districts with a population of ten thousand or less must limit property tax levy increases to one percent per year, unless the voters of the district approve by a simple majority vote an increase greater than this limit in an election.
- Local property tax districts with a population greater than ten thousand must limit property tax levy increases to the lower of one percent per year or the rate of inflation. This limit may be exceeded upon approval by a simple majority of the district's voters in an election.
- The state property tax levy may increase only by the lesser of one percent per year or the rate of inflation. The initiative makes no provision for exceeding this limit by voter approval.
- If approved by voters, Initiative 747 would take effect for property taxes due in calendar year 2002.
- The reduced limit factor in Initiative 747 applies to growth in the property tax base for existing property. It does not apply to growth in property tax levies due to increases in value resulting from new construction, improvements to property, and any increase in the value of state-assessed property.
- Initiative 747 does not apply to voter approved special levies, such as local school levies.

Fiscal Impacts on State and Local Governments*

The state will experience revenue loss of \$34,428,000 for the FY01-03 biennium. Local governments will lose \$115,246,000 over the same period. Loss to the state property tax will total \$226,923,000 for the FY 05-07 biennium while losses to local taxing districts will total \$571,496,000. The following table shows the revenue impact by fiscal year.

	State Loss	Local Loss
FY02	(\$8,569,000)	(\$28,769,000)
FY03	(25,859,000)	(86,477,000)
FY04	(46,753,000)	(148,415,000)
FY05	(71,270,000)	(214,863,000)
FY06	(97,363,000)	(285,748,000)
FY07	(129,560,000)	(363,910,000)

The local losses in property tax revenue reflect the impact on local regular property tax districts. These districts include, among others, counties, cities, counties, fire districts, library districts, hospital districts, cemetery districts and emergency medical service districts. State property tax revenues are dedicated to funding basic education.

Impact on Homeowners*

The limit on the growth rate for regular property tax levies in Initiative 747 will result in property tax reductions for property owners. Based on statewide average property tax rates, the owner of a \$150,000 home would realize a property tax reduction on state and local property taxes of approximately \$23 in calendar year 2002. That property tax savings would grow to \$126 in calendar year 2007.

Note: Estimates of property tax losses from the initiative were provided by the State Department of Revenue. All estimates are provisional and based on assumptions that are subject to change. These figures provide a sound estimate of the magnitude of the revenue losses in the aggregate.

Analysis

State and local regular property tax levies are limited in several ways. One limit on regular levies is on the annual rate of growth of the levy. The maximum property tax levy a regular property tax district is allowed to collect is calculated in two steps. First, the highest property tax levy of the three most recent years in the district is multiplied by the limit factor. Prior to Referendum 47, the limit factor was 106 percent, representing a levy growth limit of six percent. Second, an additional dollar amount is added that is calculated by multiplying the increase in the assessed value in that district resulting from new construction, improvements to property, and any increase in the assessed value of state-assessed property by the regular property tax levy rate of that district for the preceding year. The state and local regular levies are subject to other limitations that may prevent them from reaching this maximum levy amount.

Referendum 47, approved by Washington voters in November 1997, limited the growth rate of the state property tax levy to the lesser of 106 percent or 100 percent plus the rate of inflation. It limited the growth rate of local regular levies in property taxing districts with population of ten thousand or less to 106 percent. Local property taxing districts with populations greater than ten thousand were limited to levy growth of the lesser of 106 percent or 100 percent plus the rate of inflation by Referendum 47. Local property taxing districts with population greater than ten thousand were allowed to exceed growth of 100 percent plus the rate of inflation if, upon a finding of substantial need, the legislative authority of the property tax district approved a greater increase with a supermajority vote.

Initiative 722 reduced the 106 percent limits on growth for state and local regular property tax levies to 102 percent. I-722 was approved by the voters in November 2000 but was ruled unconstitutional by the Thurston County Superior Court in February 2001. The ruling was appealed and I-722 currently awaits a decision from the state Supreme Court.

Initiative 747 reduces property taxes by limiting the annual increase in the state and local regular property tax levies. Local property tax districts with a population of ten thousand or less must limit property tax levy increases to one percent per year, unless the voters of the district approve by a simple majority vote an increase greater than this limit in an election. Local property tax districts with a population greater than ten thousand must limit property tax levy increases to the lower of one percent per year or the rate of inflation. This limit may be exceeded upon approval by a simple majority of the district's voters in an election. The state property tax levy may increase only by the lesser of one percent per year or the rate of inflation.

The property tax levy limits in Initiative 747 do not apply to voter approved special property tax levies, such as local school district levies.

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