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Washington Department of Revenue Property Tax Division

2016 Island County Levy Audit A Summary Report



Table of Contents

Overview.....	3
Requirements	5
Next Steps.....	10
Appendix – General Information	11
Appendix A	20
Appendix B	21

Overview

Introduction

This report contains the results of the Department of Revenue's (Department) audit of the Island County Assessor's (Assessor) levy calculations for the 2016 tax year.

The objectives of the audit are to assist the assessor in the levy process, to ensure that taxing districts levy the correct amount of property tax revenues, and to ensure that limits are not exceeded.

Purpose

The primary purpose of a levy audit by the Department is to assist the county assessor in successfully performing the duties associated with levying taxes for the districts within the county.

An effective audit of levy calculations consists of gathering information from the assessor's office to determine the level of compliance with laws and rules, the accuracy of levy calculations, and the effectiveness of record keeping.

Method of Calculation

The Department calculated the levy limits and levy rate for several of the taxing districts for the 2016 tax year. To determine whether an error occurred, the Department compared the amount levied for the district with the levy limit, the statutory rate limit, the amount authorized by each district's resolution, and the levy amount certified by the district.

Information Reviewed

The Department reviewed the following information for the 2016 tax year.

- Resolutions adopted by the districts
- Levy certificates (budgets)
- Administration and adjudicated refunds
- Ballot measures
- Levy limit worksheets
- The State levy letter

We do not review every taxing district's levy. We audited approximately 40 percent of the taxing districts.

The scope of the audit did not include the review of earmarked funds.

Taxing Districts Selected

The Department reviewed the following taxing districts for the 2016 tax year.

- County and Road
- City/Towns: Oak Harbor and Langley
- Fire Districts: 1,3, and 5
- Island County Hospital
- Cemetery District No. 2
- Port of Whidbey
- School District: Coupeville No. 204

Categories of Results

The Department has completed its review and grouped the results into two categories:

- The first category, *Requirements*, is of the greatest urgency for effective administration by the assessor, taxing districts, and the county legislative authority. A change is required to adhere to the law.
- The second category, *Recommendations*, the department believes the assessor could improve their current process by making voluntary changes in procedure.

The Department based the requirements and recommendations contained in this report on our review of the administrative procedures employed, existing state statutes and regulations, and areas we saw opportunities to improve processes, procedures, and communication.

Results

The Department identified two requirements and no recommendations directed toward improving the accuracy of the levy process.

The items identified may be specific to the assessor's duties, the taxing district duties, county legislative authority duties, or they may have shared components of responsibility. We have listed a summary of these items in the requirements section.

Requirements

For the items listed as “Requirements,” the Assessor must make changes in procedure to comply with law.

This section contains the following requirement topics:

Topic	See Page
Island County Hospital/Island County Hospital EMS	6
City of Oak Harbor	8

Island County Hospital/Island County Hospital EMS

Requirement

The Assessor is required to apply the authorized dollar increase and percentage of change, as stated in the taxing district's ordinance or resolution, to the district's previous year's actual levy amount.

The Assessor is required to calculate the levy limit using the correct prior year's levy rate or the last year the district levied property taxes.

What the law says

No increase in property tax revenue may be authorized without a public hearing and an ordinance or resolution that specifically states the increase in revenue, in both dollars and percentage of change. Exceptions to this requirement are increases of revenue due to the following additions: new construction, construction of wind, solar, biomass and geothermal facilities, improvements, and state assessed property. (RCW 84.55.120)

What we found

The issues found for the Hospital General and EMS are listed below:

- The Island County Hospital Commissioners (Commissioners) authorized an increase in property tax revenue of .251 percent on Resolution No. 361 for their general levy. The Assessor calculated the levy amount and levy rate for the general levy using a one percent increase over the previous year's actual levy rather than the authorized .251 percent increase.
- The Commissioners authorized an increase in property tax revenue of .251 percent on Resolution No. 363 for their EMS levy. The Assessor calculated the limiting levy amount and levy rate for the EMS levy using a one percent increase over the previous year's actual levy rather than the authorized .251 percent increase.
- When calculating the increase for new construction and state assessed property for the EMS levy, the Assessor used a prior year's levy rate of \$.499999995 instead of the actual rate of \$.50.

The Assessor did not use the previous year's actual levy amounts for the general and the EMS levy calculations. The following table lists the previous year's levy amounts used by the Assessor and the actual previous year's levy amounts.

Type of Levy	Incorrect Prior Year's Levy Amount Used in Levy Limitation Calculations	Prior Year's Actual Levy
General	\$924,199.45	\$931,104.44
EMS	\$4,653,292.46	\$4,600,624.82

- The use of a one percent increase, instead of the .251 percent authorized by the district, and an incorrect previous year's levy amount in the resolution limitation resulted in an overlevy error of \$6,805.56 for EMS.

Action needed to meet requirement

The Assessor must take the following actions:

- Calculate the resolution limit by applying the dollar and percentage increase as authorized in the taxing district's ordinance/resolution to the previous year's actual levy. The previous year's levy amount would include funds levied for refunding purposes, levy errors, levy error corrections, and adjustments for funds held due to highly disputed property appeals.
- Correct the overlevy of \$6,805.56 for the EMS levy.
- The taxing district must be notified of the levy error. If the correction in the succeeding year will cause a hardship for either the taxing district or taxpayers, the district may request the correction be made on a proportional basis over a period of no more than three years.
- Calculate the additional dollar amount increase for new construction and state assessed property using the prior year's levy rate.

Why it's important

To ensure the taxing districts do not levy more or less than their maximum levy amount allowable by law and the taxpayers pay the correct amount of property tax.

City of Oak Harbor

Requirement

The Assessor is required to apply the authorized dollar increase and percentage of change, as stated in the taxing district's ordinance or resolution, to the district's previous year's actual levy amount.

The Assessor is required to determine the statutory maximum levy rate for a city or town that is annexed to a fire or library taxing district on a yearly basis.

What the law says

No increase in property tax revenue may be authorized without a public hearing and an ordinance or resolution that specifically states the increase in revenue, in both dollars and percentage of change. Exceptions to this requirement are increases of revenue due to the following additions: new construction, construction of wind, solar, biomass and geothermal facilities, improvements, and state assessed property. (RCW 84.55.120)

When a city or town is annexed to a fire and or library district, the city or town's statutory maximum levy rate is \$3.60, less the actual levy rate of the fire and or library district for that particular year. An additional rate of \$0.225 per thousand dollars assessed value is added to the city's statutory maximum levy rate if they have a firefighter's pension fund. (RCW 52.04.081, 27.12.390, and 41.16.060)

What we found

The City of Oak Harbor (City) authorized an increase of .251 percent on Ordinance No. 1747. The Assessor calculated the levy amount and rate for the City based upon a one percent increase over the previous year's actual levy instead of the authorized .251 percent increase. This resulted in an overlevy error of \$15,363.81.

The City is annexed to the Sno-Isl Library District. The Assessor did not accurately calculate the statutory maximum rate for the City. The statutory maximum rate for the City should be \$3.1575019948, \$3.60 minus the Sno-Isl Library levy rate of \$.4424980052. The Assessor calculated the City's statutory maximum limit with a rate of \$3.1575019950.

Action needed to meet requirement

The Assessor must take the following actions:

- The Assessor must correct the overlevy of \$15,363.81 for the City of Oak Harbor.
- The taxing district must be notified of the levy error. If the correction in the succeeding year will cause a hardship for either the taxing district or taxpayers, the district may request the correction be made on a proportional basis over a period of no more than three years.

- The Assessor must use a maximum statutory rate of \$3.60 less the actual rate of the Sno-IsL Library District for their 2017 levy calculations.

Why it's important

To ensure the taxing districts do not levy more or less than their maximum levy amount allowable by law and the taxpayers pay the correct amount of property tax.

Next Steps

Follow-up

The Department is committed to the success of the Assessor by ensuring the levies comply with state statutes and regulations.

The Department will follow up in 2017 to review the corrections made. This will give the Assessor an opportunity to make and document the corrections and to provide information to the Department about any issues they encountered during the implementation process.

Questions

For questions about specific requirements or recommendations in our report, please contact the contributing staff member listed below:

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Appendix – General Information

Introduction

General information provided to assist all assessors and taxing districts.

Contents

This section contains the following topics:

Topic	See Page
Regular Levy Limitations	12
Refunds	16
Excess Levy	17
Timberland Assessed Value (TAV)	18
Assessor Guidelines	19

Regular Levy Limitations

What are the statutory limitations?

Regular property tax levies are generally considered to be those levies that are subject to several statutory limitations.

The assessor must adhere to the following statutory limitations:

- Levy limit (a.k.a., 101 percent)
- Statutory dollar rate limit
- Amount authorized by resolution/ordinance
- District budget
- \$5.90 aggregate limit
- 1 percent constitutional limit

Levy Limit

The amount of regular property taxes a taxing district can levy, other than the state, is limited to an amount that will not exceed the amount resulting from the following calculation:

- The highest amount that could have been lawfully levied by the taxing district in any year since 1985 for 1986 collection, multiplied by the limit factor; plus
- A dollar compensation calculated by multiplying the increase in assessed value of the district from the previous year attributable to:
 1. new construction,
 2. increases in assessed value due to wind turbine, solar, biomass, and geothermal facilities if the facilities generate electricity,
 3. improvements to property, and
 4. any increase in assessed value of state assessed property,
 by the actual regular property tax levy rate of that district for the preceding year, or the last year the taxing district levied taxes.

The limit factors used in calculating the levy limit are defined in RCW 84.55.005 and WAC 458-19-005.

If the district's population is...	Then the limit factor is...
less than 10,000	101 percent.
greater than 10,000 and a finding of substantial need	the lesser of the substantial need factor or 101 percent.
for all other taxing districts	the lesser of 101 percent or 100 percent plus inflation.

Reference:

- RCW 84.55.010
- RCW 84.55.0101
- WAC 458-19-020

Regular Levy Limitations, continued

Statutory Rate Limit

The statutory rate limit varies by district. These limits are found in the various statutes for each type of district and in the *Property Tax Levies Operation Manual*. The levy amount for each district cannot exceed the statutory maximum rate. The statutory dollar rate limits for senior taxing districts can be found in RCW 84.52.043(1) and in the levy manual, chapter 3.

Reference:

- RCW 84.52.043
- Property Tax Levies Operation Manual,
http://dor.wa.gov/Docs/Pubs/Prop_Tax/LevyManual.doc, chapter 3

Truncating Levy Rates

The final certified levy rate cannot result in a levy amount that exceeds the statutory limitations. To ensure that the final levy rate results in a levy amount at or below the statutory levy limit for each taxing district the assessor must truncate the rate at the last digit (not round).

Resolutions/Ordinances

The amount authorized by a district in its resolution or ordinance is another limitation on taxation. If a district does not adopt a resolution, the district cannot levy more than it received in the previous year, other than the amount resulting from the following:

1. New Construction,
2. Improvements to property,
3. Wind turbines,
4. Solar, biomass, and geothermal facilities (if the facilities generate electricity), and
5. Increases in state-assessed property

The resolution or ordinance must state the increase over the previous year's levy in terms of percentage and dollars. The resolution is separate from the budget certification.

Reference:

- RCW 84.55.120
- <http://dor.wa.gov/docs/forms/PropTx/Forms/OrdinanceResolution.doc>

Regular Levy Limitations, continued

Levy Certification (Budget)

Taxing districts that wish to levy must certify a budget or budget estimate to the county legislative authority by November 30 of the assessment year. (*Note:* this does not apply if the assessor has not certified assessed values to the taxing district at least twelve working days prior to November 30).

The county legislative authority must certify the amount to levy for each of the taxing districts, including the county, to the assessor on or before November 30 of each year. However, the county legislative authority may elect to conduct its budget hearing on the first Monday in December, as permitted by RCW 36.40.071.

Reference:

- RCW 84.52.020
- RCW 84.52.070
- <http://dor.wa.gov/docs/forms/PropTx/Forms/LevyCertf.doc>

\$5.90 Limit

The \$5.90 limit applies to the total of most regular levies in each tax code area. The aggregate of the junior and senior taxing districts (excluding the state levy and a few others) cannot exceed \$5.90 per \$1,000 of assessed value.

RCW 84.52.010 provides the order in which taxing districts rates are prorated, in order to bring the aggregate rate down to \$5.90. The \$5.90 limitation does not apply to levies made by or for:

- The support of common schools (state levy)
- Port Districts
- Public Utility Districts
- Conservation Futures
- Criminal Justice
- Emergency Medical Services
- Affordable Housing
- Metropolitan Parks (if voters protect a portion of the levy from this limit)
- County Ferry Districts
- County Transit purposes

Reference:

- RCW 84.52.043

Regular Levy Limitations, continued

1 Percent Constitutional Limit

The 1 percent constitutional limit is based on true and fair value, unlike the \$5.90 limit, which is based on assessed value.

In 1972, the voters adopted a constitutional limit of 1 percent. This limits the amount of property taxes that may be imposed on an individual parcel (real or personal) of property without voter approval of 1 percent of its true and fair value.

The 1 percent limit applies to all regular levies (except port and PUD levies). It does not apply to excess levies approved by the voters.

Reference:

- RCW 84.52.050
- RCW 84.52.010
- Article 7, Section 2 of Washington Constitution

Refunds

Types of Refunds

There are two types of refunds:

- Adjudicated (court ordered)
- Administrative

Use this table to decide how to levy for a refund

If the refund is an...	Then...	And...
Adjudicated refund	the district is required to levy the refund	the refund is added to the district's levy.
Administrative refund	the refund levy is optional	the refund may be added to the levy only if the district requests the refund in its levy certification or budget.

Note: the statutory limit cannot be exceeded when adding a refund to the levy.

Reference:

- RCW 84.68.040 (adjudicated refund)
- RCW 84.69.180 and RCW 84.69.020 (administrative refund)
- WAC 458-19-085 (adjudicated and administrative refunds)

Excess Levy

What is an Excess Levy

Excess levies are over and above the regular property tax levies.

- Excess levies require voter approval.
- Duration of excess levies is subject to limitations.
- Excess levies are not subject to the statutory limitations placed on regular levies.

Type of Levy	Taxing District	Duration
Bond	Most districts	Long term debt, usually 15-20 years
Maintenance & Operational (M&O)	School and fire districts	2-4 years
General	Most districts except school and fire districts	1 year
Technology	School	2-6 years
Transport Vehicle	School	2 years
Construction/Modernization/Remodeling	School and fire districts	2-6 years

Reference:

- RCW 84.52.052
- RCW 84.52.053
- RCW 84.52.056
- RCW 84.52.130
- <http://dor.wa.gov/content/GetAFormOrPublication/PublicationBySubject/PropertyTax/BallotMeasures/>

Timber Assessed Value (TAV)

What is Timber Assessed Value?

Timber assessed value determines each taxing district’s share of the timber excise tax revenue and in setting property tax levy rates. It serves as a substitute for the value that would be carried on the assessment roll if timber were taxable as real property for all bond and excess levy calculations.

Components of TAV

Based on taxes levied, acreage and assessed value of property in the Designated Forest Land Program (DFL) from the prior tax year, and the estimated public acreage available for timber harvesting (RCW 84.33.089), the assessor calculates the following values:

- Composite tax rate
- Forest land assessed value (FLAV)
- Average assessed value per acre on privately owned DFL

After making these calculations, the assessor has all the information necessary to complete the Timber Tax Distribution Priority 1, 2, and 3 worksheets. The priority worksheets list the individual taxing district’s TAV that is to be added to the district’s taxable value for levy calculations.

Tax Base

The assessor should ensure that the appropriate amount of TAV is included in the tax base for calculating excess levies.

If the levy type is...	Then use this percentage of TAV in the tax base...
Bond	100 percent
Capital Project	100 percent
Transportation Vehicle	100 percent
School M&O	50 percent of TAV or 80 percent of the 1983 timber roll, whichever is greater
All other excel levies	100 percent

Reference:

- RCW 84.52.080(2)

Assessor Guidelines

Introduction

The assessor generally calculates the property tax levy rate necessary to collect the amount of taxes levied for each district, within the limitations provided by law (WAC 458-19-010). Listed below are some of the guidelines for the assessor based on the taxing district's adopted documentation.

Determine the authorized levy amount

Use the table below to determine the authorized levy amount given certain situations.

When the taxing district submits...	Then...
a certified budget but no resolution	the district's levy is the lesser of the following: <ol style="list-style-type: none"> 1. Previous year's levy plus <i>any</i> increase resulting from new construction, improvements to property, wind turbines, solar, biomass, and geothermal facilities, if the facilities generate electricity, and the increased value of state-assessed property, 2. Current year's certified budget, 3. Levy limit (zero percent increase), 4. Statutory maximum amount.
a resolution, but no budget or levy certificate	the assessor does not have the statutory authority to levy on behalf of the taxing district.
a certified budget and resolution	the district's levy is the lesser of the following: <ol style="list-style-type: none"> 1. Previous year's levy <i>plus</i> the percentage increase authorized by the resolution <i>plus</i> any increase resulting from new construction, improvements to property, wind turbines, solar, biomass, and geothermal facilities, if the facilities generate electricity, and the increased value of state-assessed property, 2. Current year's certified budget, 3. Levy limit (up to 1 percent depending on the population of the district), 4. Statutory maximum amount.
neither a certified budget nor a resolution	the assessor does not have the statutory authority to levy on behalf of a taxing district.

Appendix A

The following worksheets contain regular levy calculations for the districts with errors in this audit.

Levy Limit Calculation for District: City of Oak Harbor												
Assmt Taxes	Highest	Limit	Highest	State Assd	Tax Added	Annexed	Tax Added	Levy	Assd	Stat	<input checked="" type="checkbox"/>	Annexed to Library?
Year Due	Lawful Levy	Factor	Lawful plus	New Const	for	Value	for	Limit	Value	Rate	<input type="checkbox"/>	Annexed to Fire?
	Since 1985*		Increase		State Assd		Annex.			Max.	<input type="checkbox"/>	Firemen's Pension?
					New Const						<input type="checkbox"/>	Lid Lift?
2015 2016	4,046,740.31	1.00%	4,087,207.71	14,486,309	36,851.33	0	0.00	4,124,059.04	1,637,380,904	3.157501994800		
Actual Levy:								Summary of Levy Limits:				
Assmt Taxes	Previous	Lesser of	Previous Yr's	Tax Added	Tax Added	Authorized	Refund	Certified	Limit Per	Levy Limit	Authorized	
Year Due	Year's	Resolution's \$ or %	Levy plus	for	for	Levy by Res.		Budget	Stat. Rate	Plus Refund	Levy By Res.	
	Levy		Increase	State Assd	Annex.				Maximum		Plus Refund	
				New Const								
2015 2016	4,061,649.16	\$10,194.74	4,071,843.90	36,851.33	0.00	4,108,695.23	14,134.27	4,264,000.00	5,170,033.47	4,138,193.31	4,122,829.50	
Assmt Taxes	Current Year's	Levy Correction	Total Levy	Actual	Actual Levy	Correct	Over/Under					
Year Due	Max Levy		w/ Correction	Amount	Rate	Levy Rate	Levy					
				Levied								
2014 2015					2.5438730301							
2015 2016	4,122,829.50	\$0.00	4,122,829.50	4,138,193.31	2.527324766	2.5179416041	15,363.81					
Excess Levy Calculation:												
Type & Yr	Budget	Refund	Total Levy	Real & Personal	TAV	Total Value	DOR	Total County AV x	County	County	Over/Under	
				Taxable Value			Levy Rate	DOR Rate	Levy Rate	Levy	Levy	
0 0	0.00	0.00	0.00	0.00	0.00	0.00	#DIV/0!	#DIV/0!	0.000000000000	0.00	#DIV/0!	

Appendix B

The following worksheets contain regular levy calculations for the districts with errors in this audit.

Levy Limit Calculation for District: Hospital EMS												
Assmt Taxes	Highest	Limit	Highest	State Assd	Tax Added	Annexed	Tax Added	Levy	Assd	Stat	<input type="checkbox"/> Annexed to Library?	
Year Due	Lawful Levy	Factor	Lawful plus	New Const	for	Value	for	Limit	Value	Rate	<input type="checkbox"/> Annexed to Fire?	
	Since 1985*		Increase		State Assd		Annex.			Max.	<input type="checkbox"/> Firemen's Pension?	
					New Const						<input type="checkbox"/> Lid Lift?	
2015 2016	4,705,280.44	1.00%	4,752,333.24	55,305,234	27,652.62	0	0.00	4,779,985.86	9,389,992,549	0.500000000000		
Actual Levy:							Summary of Levy Limits:					
Assmt Taxes	Previous	Lesser of	Previous Yr's	Tax Added	Tax Added	Authorized	Refund	Certified	Limit Per	Levy Limit	Authorized	
Year Due	Year's	Resolution's \$ or %	Levy plus	for	for	Levy by Res.		Budget	Stat. Rate	Plus Refund	Levy By Res.	
	Levy		Increase	State Assd	Annex.				Maximum		Plus Refund	
				New Const								
2015 2016	4,600,624.82	\$11,548.00	4,612,172.82	27,652.62	0.00	4,639,825.44	13,467.02	4,660,098.02	4,694,996.27	4,793,452.88	4,653,292.46	
Assmt Taxes	Current Year's	Levy Correction	Total Levy	Actual	Actual Levy	Correct	Over/Under					
Year Due	Max Levy		w/ Correction	Amount	Rate	Levy Rate	Levy					
				Levied								
2014 2015					.5							
2015 2016	4,653,292.46	\$0.00	4,653,292.46	4,660,098.02	.496283463	.4955586956	6,805.56					
Excess Levy Calculation:												
Type & Yr	Budget	Refund	Total Levy	Real & Personal	TAV	Total Value	DOR	Total County AV x	County	County	Over/Under	
				Taxable Value			Levy Rate	DOR Rate	Levy Rate	Levy	Levy	
0 0	0.00	0.00	0.00	0.00	0.00	0.00	#DIV/0!	#DIV/0!	0.000000000000	0.00	#DIV/0!	