



**November 26, 2007**

## **Special Session on Property Taxes**

Dear friends and neighbors,

As you may be aware, **the Washington State Legislature will be holding a special, one-day session this Thursday in order to pass a law that limits the ability of local government to raise your property taxes to 1-percent.** In 2001, 58-percent of the voters in our state approved Initiative 747 which capped property tax increases at 1-percent, but a legal challenge led to a recent state Supreme Court decision overturning I-747 on a technicality. The court felt that state voters didn't really know what they were voting for.

When the court took up the issue last year, we called for a special session to codify the will of the people by fixing the technicality and passing I-747 into law. **It's taken the governor more than a year to act in the interest of the people, but now that the court decision has been made, she has finally heeded our call.** The good news is state legislators will already be in Olympia this week for our committee assembly days, so the special session on Thursday won't cost taxpayers anything. All indications are that we will pass a bill preventing local taxing districts from increasing property taxes more than 1-percent over the previous year.

The bad news is that there is a related issue called "banked capacity." Banked capacity refers to the right of a taxing district to increase its tax rate at some point in the future if it chooses not to impose the maximum possible rate in a prior year. **Basically local taxing districts can take the difference between 1-percent and what they would have charged had I-747 not taken effect in 2002 (generally about 6-percent), and "bank" it for collection at a later date.** That's potentially a 5-percent per year increase (plus compounded interest) from 2002 to 2007, which may result in each taxing district individually sticking taxpayers with upwards of a 30-percent increase. Taxing districts that were unable to increase taxes more than 1 percent since 2002 will be able to recalculate their maximum levies, which would cause a massive tax avalanche that could result in many homeowners losing their homes.

I've included more information on this issue at the bottom of this e-mail. I hope you read it, because it really will affect how much you will be paying each year in property taxes.

I may also be proposing an amendment during the special session that would **require local taxing districts to disclose exactly how much banked capacity they have**. I proposed HB 2649 in 2002, which passed unanimously in the House but died in the Senate, HB 1133 in 2003 and 2004, which again passed the House unanimously twice, but died both times in the Senate, and SB 5299 in 2005, which never even got a hearing. We can't leave taxpayers vulnerable to a huge tax bill by not addressing these important issues, but it does leave me with a very critical question.

## I Need Your Advice

**If the bill to limit property tax increases to 1-percent per year DOES NOT include any language barring taxing districts from collecting their banked capacity, *should I vote against it?*** Please send me your answer as soon as you can to either [mcarrell@hotmail.com](mailto:mcarrell@hotmail.com) or [carrell.mike@leg.wa.gov](mailto:carrell.mike@leg.wa.gov). I am eager to hear how you feel about this issue.

## Election year deadline fast approaching

I wanted to remind you that due to the election year restrictions, I won't be able to send you these e-mail updates from my Legislative e-mail address after November 30<sup>th</sup> of this year. However, when there are hot issues being debated in the Legislature, I feel it is my duty to keep you informed of what's going on and how it will affect you. This e-mail about the property tax special session is a perfect example of the kind of thing that I'll be prevented from sending you from my legislative e-mail account once the restrictions take effect. **That's why I'd like to continue sending you updates from my personal e-mail address ([mcarrell@hotmail.com](mailto:mcarrell@hotmail.com)) during session, which runs from January 14<sup>th</sup> to March 13<sup>th</sup>. If you are interested in continuing to receive these updates, you will need to send me an e-mail at [mcarrell@hotmail.com](mailto:mcarrell@hotmail.com) and I'll add you to my distribution list. Just click on my e-mail address to open a new e-mail to me, tell me that you want to sign up for my e-mail list, and then click "send" to send me your e-mail address.**

These restrictions apply to all state legislators, both senators and representatives. In fact, because representatives are up for election every two years (as opposed to every four years for senators), they are prevented from communicating with their constituents about half the time they are in office. Personally, I think it's unfortunate that these rules are so strict, but the state is very careful to not use public resources for campaign purposes. So after November 30<sup>th</sup> I will be sending out these updates from my home e-mail address.

Thanks again for your understanding, and I'm looking forward to keeping you up-to-date throughout the session.

Also due to election year restrictions, **much of the material on my Legislative web site ([www.senatorepublicans.wa.gov/carrell](http://www.senatorepublicans.wa.gov/carrell)) will disappear after June 30<sup>th</sup>**, and I will only be able to send out two mailings beginning December 1 of this year. You should expect the first mailing, a "government guide" with lots of helpful information and phone numbers, around February or March. I recommend you keep it near your phone or with your phone book. The second mailing will be my end-of-session newsletter, and you can expect that around May.

### In Closing

**With the 2008 legislative session beginning January 14<sup>th</sup>, what issues do you think should be addressed?** I always appreciate your input, and it is my job to serve your needs, so please don't hesitate to contact me via my office or at home. It is a privilege to represent you in the Washington State Senate, and if you know of anyone who would also like to receive these e-mail updates, please feel free to have them get in touch with my office, either by phone or e-mail, to be added to the list. **Remember...if you would like to continue receiving these updates, please send me an e-mail at [mcarrell@hotmail.com](mailto:mcarrell@hotmail.com).**

- Office address:  
**109A Irv Newhouse Building  
P.O. Box 40428  
Olympia, WA 98504-0428**
- Office phone number: **(360) 786-7395**
- Home phone number: **(253) 581-2859**
- Legislative E-mail address: **[Carrell.Mike@leg.wa.gov](mailto:Carrell.Mike@leg.wa.gov)**
- **Home E-mail address: [mcarrell@hotmail.com](mailto:mcarrell@hotmail.com)**

Sincerely,



Mike Carrell  
28<sup>th</sup> District State Senator

**Budget Brief # 13 (11/19/07)  
Restoring I-747's Property Tax Limits**

*A look at the practical need for prompt legislative action.*

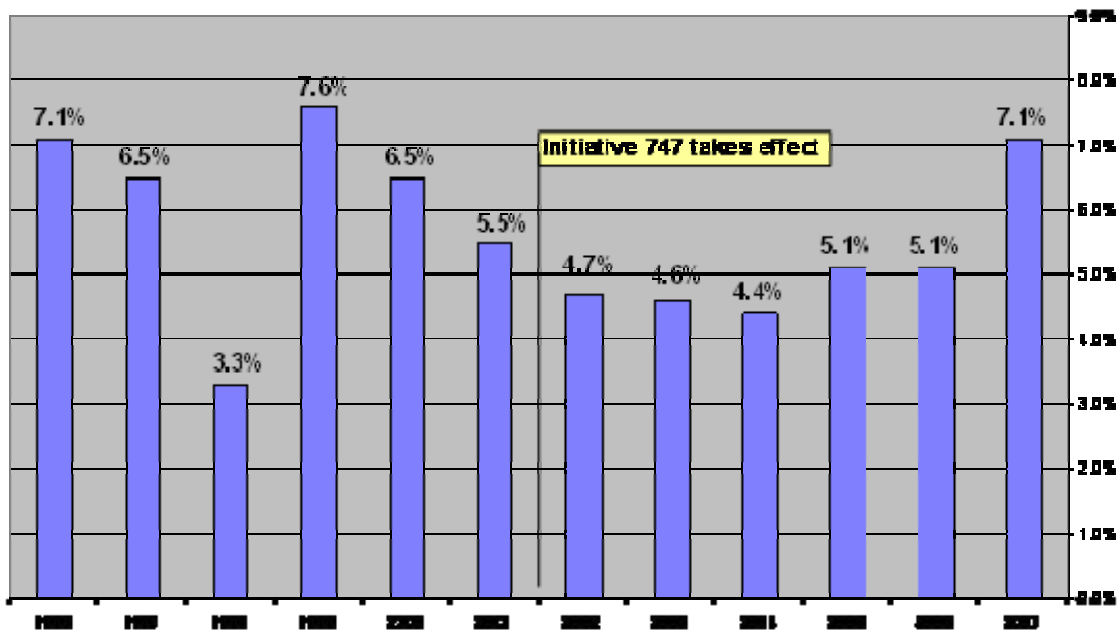
### **A. Initiative 747 has *not* unduly limited local governments' revenue growth**

I-747, approved by 58 percent of voters in 2001, limited taxing districts' annual property tax revenue growth to 1 percent plus the value of any new construction. Revenue increases above this required voter approval. I-747 is estimated to have slowed the growth of property taxes by \$1.6 billion since its enactment.<sup>1</sup>

Some contend I-747's 1 percent growth limit is unrealistic, asserting it prevents property tax revenue growth for local governments from keeping pace with inflation. That is erroneous.

Property tax collections have continued to be a strong, growing revenue source since I-747's approval, rising at an annual rate in excess of 5 percent due to new construction and voter-approved increases. This is more than twice the rate of inflation during that time frame.<sup>2</sup>

**Yearly Percentage Growth in Total Property Tax Levies – Statewide**



Source: Dept. of Revenue – January Tax Statistics 2010 (Table 7)

## **B. Much of the Tax Relief Granted by I-747 is in Jeopardy, Absent Legislative Action**

Earlier this month the Washington Supreme Court cast aside I-747, finding the initiative failed to put forth the correct version of the statute being amended.<sup>3</sup> This effectively renders I-747 void since its inception, putting in place the prior law which authorized local government annual increases up to 6 percent without voter approval. The potential effect is two-fold.

- o First, local districts may authorize levy growth of 6 percent in the future without voter approval. Small taxing districts (less than 10,000 people) may do so automatically. Larger taxing districts may go up to inflation automatically and up to 6 percent with a supermajority vote of the governing body.
- o Second, taxing districts have “banked capacity”. State law says if a local district does not tax up to its maximum authority, it retains that capacity for future use. Since I-747 has been ruled void from its inception, taxing districts have substantial banked capacity they can tap without voter approval.

Not all of the \$1.6 billion in tax relief is at risk. Banked capacity does not apply to the state levy.<sup>4</sup> And large local districts likely have banked capacity only up to inflation for the years I-747 was in place, as they can not go back in time and claim they would have had a supermajority to annually go up to 6 percent.

But it is clear that, absent legislative action, much of the tax relief resulting from I-747 is in jeopardy.

## **C. Need to Act Promptly**

Here are the key dates in the property tax cycle for local governments and taxpayers:

- o November 30 – Taxing districts must submit their budgets to their county council/commission, and the county council/commission must in turn certify the amount of taxes to be levied by each district.<sup>5</sup> The information is used by the county assessor to then set the tax rolls throughout the county.

- o January 15 – County assessors must deliver the tax rolls to the county treasurer, for the treasurer’s use in sending out property tax bills.<sup>6</sup> Local governments are eligible to deposit property tax payments received after this date.<sup>7</sup>
- o Early February – Property tax bills are typically mailed out.

**The 2008 Legislature convenes January 14, just one day before counties’ tax rolls are required to be complete and two weeks prior to property tax bills being mailed.**

Practicality dictates if the 1 percent limit is to be re-instated, then the earlier the better. Waiting until the 2008 regular session runs squarely into when local governments are finalizing their tax rolls and sending out tax bills.

Action during the upcoming November legislative assembly days provides a perfect opportunity to address this issue. Legislators are already scheduled to be in town, and such action would provide needed certainty to local governments and taxpayers.

### **Bottom Line**

**Should the Legislature act to re-instate the 1 percent property growth limit at a special session this month?**

1. Department of Revenue email from Director Cindi Holmstrom, 11/8/07.
2. The Implicit Price Deflator measure of inflation has averaged 2.35% since 2002.
3. Washington Citizens Action of Washington vs. State, No. 78844-8 (Nov. 8, 2007)
4. RCW 84.55.092.
5. RCW 84.52.070.
6. RCW 84.52.080(4).
7. RCW 84.56.010.