

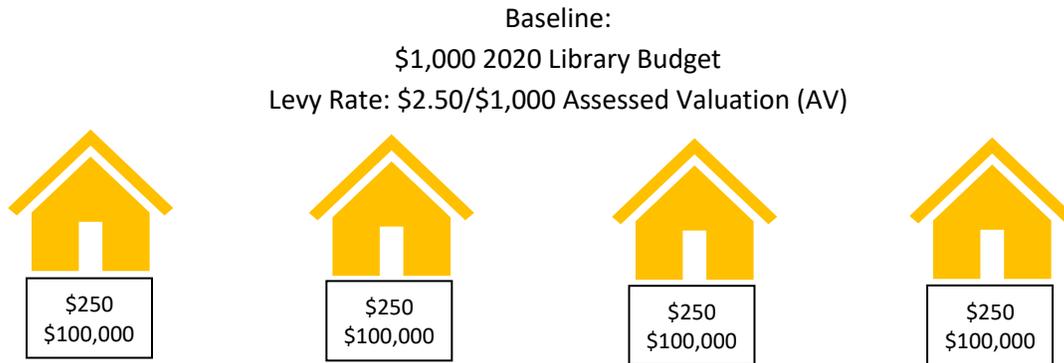


## Whatcom County Library System Property Tax Levy Explained

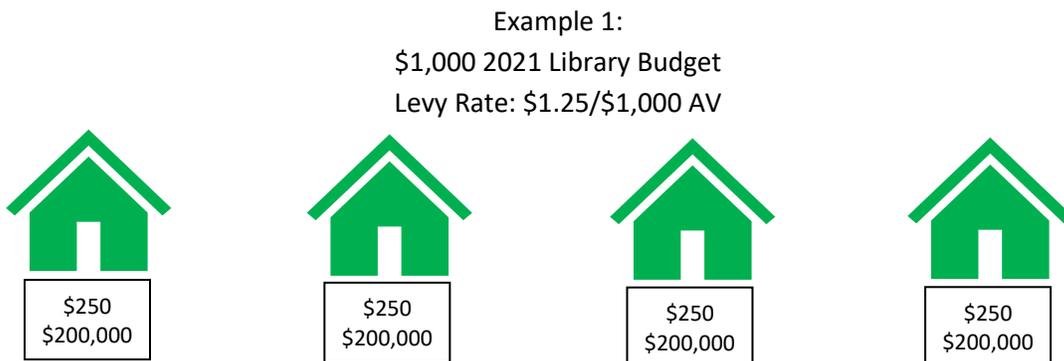
The Washington State property tax system is budget based. Revenues are set, determined, and increased in two ways: a) new or additional dollars are directed by voters or b) budget increases limited to 1% are passed by resolution or ordinance after public hearing by taxing district legislative authorities (i.e. Trustees, Commissioners, or County/City Councils).

### The Basics

Our imaginary rural library district consists of four homes, exactly the same and appraised by the Assessor at \$100,000. The library district's budget is \$1,000. To raise this amount, each homeowner must pay \$250. Four homes each paying \$250 raises \$1,000.



Assume that next year's budget remains \$1,000, but the Assessor increases the assessed valuation of all the homes to \$200,000 each. The taxes on each home do not change. To raise the \$1,000 budgeted amount each homeowner still must pay \$250. In this example, the assessed value of each home changes, but the property tax didn't change.



To be more realistic, assume the values on the homes change differently. One home maintains its value at \$100,000, two homes double to \$200,000, and the last home jumps to \$300,000. The average value of the four homes is still \$200,000. The taxes on the two homes that go to \$200,000 are unchanged. They are at the average and they each still pay \$250. Though its value remains unchanged, the lowest valued home sees its taxes decrease 50%. The home that jumped to \$300,000 in value sees its property tax go up to \$375, a 50% increase. In the end, we still only raise \$1,000 total to meet the budget.

Example 2:

\$1,000 2021 Library Budget

Levy Rate: \$1.25/\$1,000 AV



Example 2 demonstrates what happens when the assessed valuation of properties in the district increase. The levy remains the same, but the levy rate decreases. Example 3 below shows what happens if valuations decrease from our baseline. Two homes' valuations decrease to \$75,000 and the other two remain at \$100,000, for a total district valuation of \$350,000. If the district's assessed valuation goes down, the levy rate goes up. This can be an issue if a district is close to its statutory levy rate cap, as described below (see Statutory Limitations section).

Example 3:

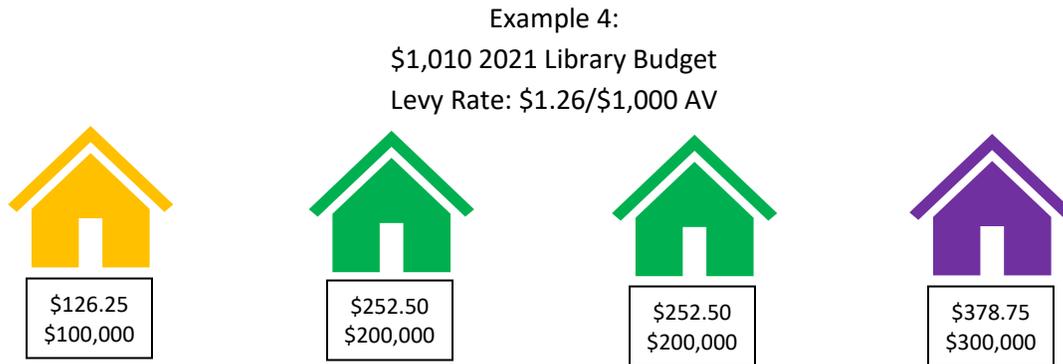
\$1,000 2021 Library Budget

Levy Rate: \$2.86 /\$1,000 AV



## The 1% Increase

Normally budgets don't stay the same – they increase. In 2000 Washington State voters approved Initiative 747, which limits annual budget increases to 1% unless voters approve a greater increase. In our imaginary library district, the \$1,000 budget can only increase 1% to \$1,010 the following year unless the voters who live in the district approve a higher increase. Example 4 illustrates how the 1% increase would be distributed across the properties as valued in Example 2.



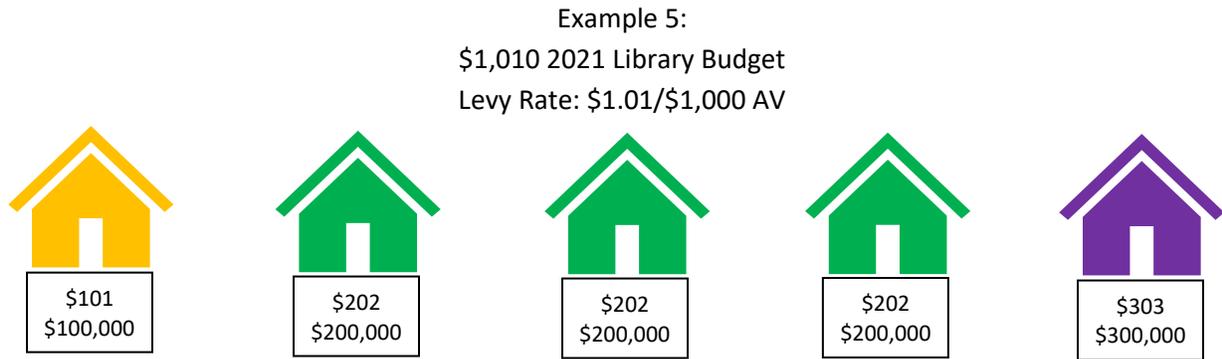
Our imaginary district gives a simplified illustration of our property tax system. In Whatcom County, there are hundreds of thousands of properties (all different from each other), over 160 tax code areas, and over 60 tax districts. Each property is in one tax code area but can be in a number of tax districts because tax districts overlap. Adjacent properties can be in different tax code areas with different total tax rates. Tax districts in Whatcom County are comprised of county, cities, fire districts, emergency service districts, library, sewer, water, and cemetery districts, resulting in over 160 tax code areas. Each tax district has an annual budget.

To further complicate taxes, some property that crosses county lines, such as railroad property and telephone lines, are assessed by the state. We also assess and tax business personal property. And we process senior and disabled exemptions and farm and agricultural valuation reductions. Whatcom County's property tax system operates just like our imaginary little district, but on a much larger scale and with all these additional factors.

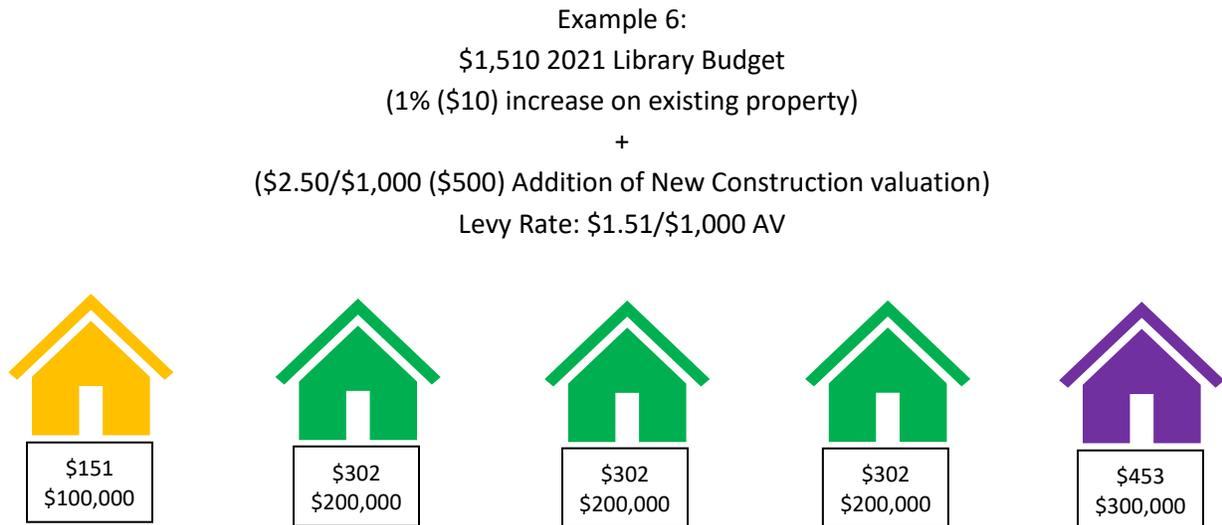
Many taxpayers incorrectly believe there is a limit on increases to assessed values. Assessed values are driven by the real estate market. The limit is on the annual budget increase of tax districts.

## New Construction

Assume a new house is added to our imaginary library district. The values of the existing properties shift as illustrated in Examples 2 and 4 and the new house is assessed at the average value of \$200,000. The distribution across a broader tax base results in decreased taxes for each individual taxpayer. While growth brings more demand for services, and is likely to push up demand for a greater budget, the initial effect is to decrease taxes for each property owner.



Washington State tax laws recognize that this growth brings increased demand for services, and also recognizes that all houses aren't built on January 1<sup>st</sup>. In calculating the annual levy, taxing districts are allowed to assess the prior year tax rate on all property added to the tax rolls and served by the district during the year. In our example, the levy rate for the district was \$2.50/\$1,000 of valuation.



Increased demand for services results in increased budgets and revenues for the district, but also increased taxes for taxpayers. In this example with the new property increases the total valuation of the district by 25%, the impacts are dramatic. In reality, the district generally sees increases of 2% to 5%. In a more realistic example, the new house is valued differently, at \$32,000 (4% of the existing property value).

Example 7:  
 \$1,090 2021 Library Budget  
 (1% (\$10) increase on existing property)  
 +  
 (\$2.50/\$1,000 (\$80) Addition of New Construction valuation)  
 Levy Rate: \$1.31/\$1,000 AV



In Example 7, with a more realistic value of new property, the end result is similar to the examples of the value increases and the 1% budget increase illustrated in Example 4, with the proportional share of the total tax base being the driver for the changes in individual taxes from the 2020 baseline. Though the value of the yellow house remains unchanged, the home sees its taxes decrease 47%. The two properties that saw valuations double see taxes increase 4.8%. The home that jumped 300% to \$300,000 in value sees its property tax go up to \$393, a 57.2% increase.

## Valuation Method Change

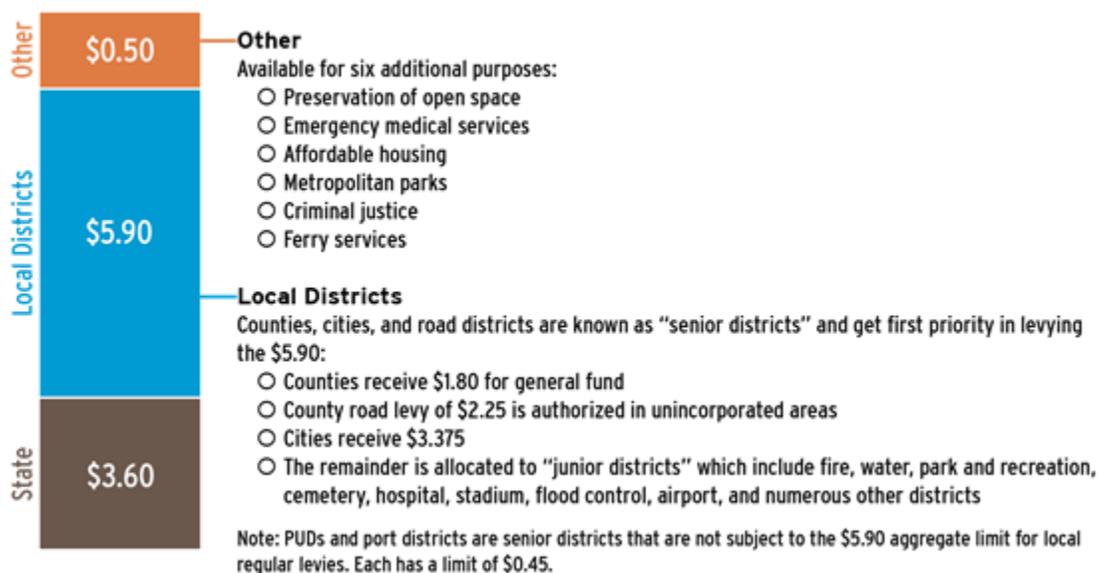
Starting with the 2010 valuation year, which affected valuations for property taxes due in 2011, Whatcom County shifted from alternately assessing one quarter of the county's real property annual on a cyclical basis to an annual valuation program. This change in valuation methods eliminates the large level of variability and inequality that existed when individual properties were only reevaluated every four years. The annual valuation program means all property in Whatcom County is now adjusted to fair market value every year. While the Assessor reappraises only 1/6<sup>th</sup> of our county each year, the valuation of all property is updated annually. All property is valued based upon the sale of comparable homes. If prices decline, the assessed value declines with it. However, it's important to remember that we still raise the amount of budgets. So, declining values would not necessarily mean lower taxes.

## Statutory Limitations

Statutory limits are the last major factor to consider when trying to understand how our tax levy works. Washington State has a constitutional property tax cap of 1% or \$10 per \$1,000 of assessed valuation. Of that \$10, with a few exceptions, the aggregate regular levy rates of local senior and junior taxing districts cannot exceed \$5.90 within boundaries of any city or county (RCW 84.52.043(2)). Once these limitations are hit, districts are no longer able to increase budgets and may fall subject to proration.

If, due to overlapping junior taxing districts on a particular property, a property surpasses the \$5.90 cap, the district levy rates are prorated following a set hierarchy (see illustration below). If the levy rate of any property in the library district is reduced, the same rate must be applied to all properties in the district.

Further limiting the levy rate, rural library districts are subject to a maximum rate of \$.50 per thousand dollars of assessed valuation (RCW 27.12.050(2)). As noted in Example 3, if a district's assessed valuation decreases and the levy remains constant or increases by 1%, the levy rate increases. If the levy rate exceeds the \$.50 cap, the district must reduce its levy.



*Note: This explanation of property tax calculations and limitations was adapted from an arrangement compiled by Ralph Baker, Spokane County Assessor. The illustration of Statutory Limitations comes from [MRSC's web page explaining property taxes in Washington State](#).*