

April 22, 2009

Determining the Limit Factor for Increases in Property Tax Levies

Question: What is the limit factor for local taxing districts' levy increases if deflation (negative "inflation") occurs?

Answer: The limit factor for some local taxing districts may be less than 100%.

Discussion: Under ch. 84.55 RCW, the growth of regular property tax levies is limited. For taxing districts with a population of less than 10,000, the limit factor is 101%. The limit factor for local taxing districts with a population of 10,000 or more is the lesser of 101% or 100% plus inflation. With a finding of substantial need, these larger taxing districts can adopt a limit factor that exceeds 100% plus the rate of inflation up to a maximum of 101%. RCW 84.55.005 defines "inflation" as the percentage change in the implicit price deflator (IPD) for personal consumption. The statute requires the use of data published in September of the year before the tax will be due in determining inflation.

Because the limit factor for local taxing districts with a population of 10,000 or more is the lesser of 101% and 100% plus inflation, and inflation is defined as the percentage change in the IPD, a negative change in the IPD would result in a limit factor of less than 100%. For example, if the percentage change in the IPD were, say, -1.0%, the limit factor would be 100% - 1.0%, or 99%.

What does this mean for local taxing districts?

For taxing districts with a population of **less than 10,000**, the limit factor is 101%, regardless of inflation or deflation. These smaller districts may continue to increase their regular property tax levies by 1% annually.

For local taxing districts with a population of **10,000 or more**, the limit factor would dip below 100% and property tax levies would not grow¹. These larger districts could increase the limit factor to a maximum of 101% with a finding of substantial need. In order to increase the limit factor to 101%, a resolution or ordinance must be adopted by the district's governing body. In districts with legislative authorities comprised of 4 or less members, two-thirds of the members must approve the ordinance or resolution. In districts with legislative authorities comprised of more than 4 members, the ordinance or resolution must be approved by a majority plus one. The limit factor authorized by the ordinance or resolution is for one year only.

Taxing districts of **any size** may also exceed the limit factor with the approval of a majority of the voters residing in the district. RCW 84.55.050 authorizes taxing districts to "lift the lid" and increase regular property tax levies by more than would be otherwise allowed. A lid lift allows a taxing district to exceed the limit factor for up to six consecutive years. The ballot measure must include the levy rate to be imposed in the first year following approval of the lid lift. If the lid lift allows the district to exceed the limit factor for more than one year, the ballot measure must also include the limit factor or a specified index to be used in determining the limit factor for each succeeding year.

Questions: If you have questions or need additional information, please contact Diann Locke at (360) 570-5885 or DiannL@dor.wa.gov.

¹ Taxing districts would still be entitled to levy additional amounts based on new construction, improvements to property, increases in state-assessed property, and the value of wind turbines as authorized in RCW 84.55.010.