



### **Q & A: HOW PROPERTY TAXES ARE DETERMINED**

From the time of statehood until the 1930's, property tax was the only major tax that supported most state and local government programs. Property tax continues to be a very important revenue source for community services provided by public schools, fire protection, emergency medical service, library, park and recreation, and other special purpose districts. In 2017, Legislative action increased the State School levy for the 2018 tax year and decreased local school districts enrichment levies for the 2019 tax year (EHB2242). In 2018, Legislative action decreased the State School levy for the 2019 tax year only (ESSB 6614). In 2019, Legislative action increased the local school district enrichment levy rate from \$1.50 per \$1,000 of assessed value to \$2.50 (2SSB 5313). The property tax system is based on values that are established annually by the assessor and budgets approved by taxing districts. Taxing District budgets are influenced by voters who approve or defeat excess levies and bond proposals requested by taxing districts. In Thurston County, about 41.5 percent of the property taxes stem from voter-approved levies.

#### **How are property values established?**

Property assessments are based on property characteristics (e.g., size, age, style, quality, and condition of individual properties) and current activity in the real estate market. Each year appraisers physically inspect one-sixth of the county and a large number of sale transactions to update characteristics about the buildings and land. In addition, property assessments are updated annually using Mass Appraisal procedures endorsed by the International Association of Assessing Officers. Thurston County's property assessments are certified each year for tax purposes and this information becomes part of the official property records. Assessed values determine how the property tax obligation is distributed among property owners.

#### **Why do property values change each year?**

Values are established annually on January 1 of the year before taxes are due. Values are influenced by the current activity in the real estate market, i.e., property sales. When the market goes up or down, values change to reflect trends in the marketplace. Values may fluctuate due to inflation, when demand exceeds supply, when property characteristics change, or due to changes in economic conditions or the physical environment. Value increases do not necessarily mean proportionately higher property taxes, and value decreases do not necessarily mean a corresponding reduction in taxes.

## How are levies established?

Levies are budgets passed by taxing districts to cover the costs of providing public services within a given area. Taxing districts include schools, cities, fire districts, the county, libraries, the port, roads, and other special districts with taxing authority. The Treasurer distributes property tax revenues to the taxing districts to fund their budgets. Taxing districts may ask voters to approve an excess levy in order to renew budgets or to request additional funding. For example, school districts frequently ask voters to approve enrichment levies or bonds in special levy elections; sometimes they have capital projects they want approved. Approximately 39 percent of all property taxes imposed in Thurston County are voter approved excess levies.

## Are there limits on levies?

Yes. State law sets statutory limits on regular levies for each type of taxing district. Initiative 747 (originally passed in 2000, overturned by the courts, and reinstated by the Legislature in 2007) also provides limits on the increases in regular levy collections (those made without a public vote) to 1% a year or the amount of inflation, whichever is less. This limit applies to a taxing district's budget, not to the assessed value of an individual property. A district can "bank" the difference between the amount levied and their highest lawful levy and use the "savings" at a later time if statutory limits allow.

However, a taxing district can seek voter approval to increase its highest lawful levy by more than 1% for a special purpose and/or for a specific time period. This is called a levy lid lift and will result in a higher tax rate.

In 2017, Legislative action (EHB2242) set limits on School District enrichment levies. The enrichment levy is limited to the lesser of the voter approved levy, the maximum per pupil rate, or \$1.50 per thousand of assessed value. In 2019, Legislative action (2SSB 5313) set limits on School District enrichment levies. The enrichment levy is limited to the lesser of the voter approved levy, the maximum per pupil rate, or \$2.50 per thousand of assessed value.

## How are tax rates determined?

Tax rates are expressed in dollars per thousand of assessed value. The budget needs of various taxing districts influence tax rates. After districts approve their budgets and voters pass or defeat special levies, the schools, cities, fire districts, the county, libraries, the port, roads and other special districts submit their budgets to the county.

Toward the end of the calendar year, the Assessor can then calculate tax rates for each district and each tax code area. The tax rate for the individual taxing district is determined by dividing the approved district budget by the taxable assessed value of property within its district boundaries.



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### **Example of Taxing District Tax Rate:**

$$\begin{array}{rcl}
 \text{City of Tumwater Levy Amount} & \underline{\$9,646,839.82} & \\
 \text{Tumwater's Assessed Values} & \$3,781,842,537 & \\
 \hline
 & & = \$2.5508 \text{ Tax Rate}/\$1,000
 \end{array}$$

An aggregate tax rate is calculated for 75 specific regions in Thurston County known as Tax Code Areas (TCAs). The TCAs are a unique combination of taxing districts that overlap to provide services to property owners in each area.

The aggregate tax rate is determined by totaling the individual tax district rates of the districts that provide service for each area. For example, TCA 440 is located in the City of Tumwater. It consists of 9 different taxing districts and has an aggregate tax rate of \$13.20 per \$1,000 of assessed value for 2020 property taxes.

### **Example of Aggregate Tax Rate: Tax Code 440 (Tumwater)**

<u>Taxing Districts for Tumwater</u>	<u>Rate Per \$1,000 of Value</u>
State Schools	\$2.9267
County	\$1.2000
City of Tumwater	\$2.5508
Port of Olympia	\$0.1763
Timberland Regional Library	\$0.3405
PUD #1	\$0.0078
Medic One	\$0.2993
Tumwater Metropolitan Park Dist.	\$0.4500
Tumwater School District	<u>\$5.2533</u>
<b>Aggregate Tax Rate</b>	<b>\$13.2047</b>

### **What has been happening to property tax rates over time?**

Tax rates over time generally decline as assessed values increase. Since 2007, the average property tax rate countywide has increased \$1.35 or 12% as shown on the next page.



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Tax Year	Tax Rates Per \$1,000	(-) or + Change
2007	\$11.20	(\$0.92)
2008	\$9.75	(\$1.45)
2009	\$9.87	\$0.12
2010	\$10.42	\$0.55
2011	\$11.60	\$1.18
2012	\$12.62	\$1.02
2013	\$13.64	\$1.02
2014	\$13.03	(\$0.61)
2015	\$12.96	(\$0.07)
2016	\$12.74	(\$0.22)
2017	\$12.73	(\$0.02)
2018	\$13.20	\$0.47
2019	\$11.41	(\$1.79)
<b>2020</b>	<b>\$12.55</b>	<b>\$1.14</b>

## How are property taxes determined?

Property tax is an ad valorem tax, meaning it is based solely on value. Assessed values are used to allocate how much of the total property tax each owner pays. The value of an individual property is multiplied by the aggregate tax rate to determine the tax amount. Together the tax rate and the assessed value determine how much property tax is owed.

For example, the tax for a property in Tumwater TCA 440 would be as follows:

2019 Value	2020 Tax Rate	2020 Prop Tax
\$150,000	\$13.20	\$1,980
\$200,000	\$13.20	\$2,640
\$250,000	\$13.20	\$3,300
\$300,000	\$13.20	\$3,960
\$400,000	\$13.20	\$5,280

**How Property Taxes Are Calculated**

Value x Levy Rate / 1000 = Property Taxes

**\$150,000 x \$13.20 / 1,000 = \$1,980**



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### What causes property taxes to go up or down?

**Property tax increases** are generally influenced by a combination of factors. For instance, when taxing districts ask for more money (that is, increase their budgets), property owners will pay more tax. Most districts set their budgets by a vote of their legislative body that may authorize increases up to their statutory or levy rate limits. This often results in increased taxes.

Taxes can also go up when voters approve excess levies for community services. Voters can approve a taxing district's request for excess levies for continuing operations or capital projects, such as school district enrichment levies, building bonds, bonds for school buses, or bonds for fire trucks.

Taxes for an individual property owner may go up when the value of the property rises at a faster rate or declines at a slower rate than other properties in that particular area of the county. Taxes may also increase for an individual property owner when a new house is constructed on a previously vacant lot or when a property previously receiving an exemption (such as a senior/disabled person exemption program) is sold and becomes fully taxable.

Legislative action in 2017 increased the State School levy rate for the 2018 tax year. In 2019, Legislative action increased the dollar rate from \$1.50 to \$2.50 for local school districts enrichment levies.

**Property tax decreases** may happen when taxing districts ask for less money or voters defeat excess levies, when the levy rate for a regular taxing district is at its statutory maximum and the assessed value is declining, when a property qualifies for an exemption (senior or disabled citizens exemption, remodeling exemption), or when increases in value in some areas are less rapid than other areas, or when the value decrease of the property is greater than other properties.

Legislative action in 2017 decreased the amount a school district could levy for an enrichment levy starting in the 2019 tax year.

Legislative action in 2018 decreased the State School levy rate for the 2019 tax year only.

### How can property taxes be reduced?

Several programs may lower property taxes for property owners who qualify. Information on the following programs may be viewed on our website ([www.co.thurston.wa.us/assessor](http://www.co.thurston.wa.us/assessor)) or by contacting a customer service representative at (360) 867-2200.



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Programs offering property tax relief:

- **Current Use/Open Space** - Lands that are used for commercial agricultures, open space, and timber are assessed at the value of its current use rather than market value. Compensating taxes are due when land is removed from the classification.
- **Damaged or Destroyed Property** – Assessed value is reduced when property is destroyed. In cases where property is unintentionally destroyed, taxes may be rebated.
- **Residential Remodeling** – Owners may apply for a 3-year exemption on the value of the improvements to a single-family home (such as adding a room or doing a major renovation). The application must be submitted prior to completion of construction.
- **Senior Citizens and Disabled Persons** – Property owners that are 61 years of age, or disabled and unable to have gainful employment, or a veteran with an 80% service connected disability rating may qualify for an exemption that reduces their taxes and freezes the value of their residence and up to 5 acres of land, depending on zoning. They must also occupy the home more than 9 months per calendar year and have a total household income of \$48,566 or less.
- **Non-Profits** - Properties used for non-profit purposes, such as charities, churches, and low-income housing, may be exempt from property taxes when application is made to and approved by the Washington State Department of Revenue.
- **Historical Designation** –The actual cost of substantial improvement to eligible historic property (which cost is 25 percent or more of the assessed value of the historic structure prior to rehabilitation) may be excluded from the assessed value of such property for a period of ten years.
- **Multi Family Urban Housing** - A limited, eight or twelve-year exemption from property taxes for qualified new or rehabilitated multi-family housing located in designated residential targeted areas may be available by applying through the city or county governing authority, if a residential targeted area has been designated by said authority.

### Whom do I call if I have questions?

For questions about **values, aggregate tax rates, or levy rates**, contact the Assessor's Office at **360-867-2200**.

For questions about your **property taxes**, contact the Treasurer's Office at **360-786-5550**.