

Levy Lid Lifts¹

With the passage of 2ESSB 5659 this year (Ch. 24, Laws of 2003, 1st Special Session), there are now two different approaches to a levy lid lift. They have different provisions and advantages. We will explain how to calculate how much you can raise from a levy lid lift and then discuss both types and how they work.

How Much Revenue Can You Raise from a Levy Lid Lift?

Start by calculating the difference between your current tax rate and the maximum guaranteed statutory rate. If you do not know your current rate, ask your assessor.

Maximum Statutory Tax Rate: Cities, along with counties, are senior taxing districts and their maximum tax rates differ, depending on whether they have a firemen's pension fund or whether they are annexed to a fire district and/or a library district.

The maximum regular property tax levy for most cities is \$3.375 per thousand dollars assessed valuation (AV). *RCW 84.52.043(1)(d)*. Some cities have a firemen's pension fund. (If you do not know whether you have one, you probably do not.) Those cities can levy an additional \$0.225 per thousand dollars assessed valuation, resulting in a maximum levy of \$3.60 per thousand dollars AV. *RCW 41.16.060*.

For cities that belong to a fire district and/or a library district, the rules are a little more complicated. Nominally they have a maximum rate of \$3.60 per thousand dollars AV. But, they can never collect that much because the levy of the special districts must be subtracted from that amount. *RCW 27.12.390 and RCW 52.04.081*. The library district levy has a maximum rate of \$0.50 per thousand dollars AV (*RCW 27.12.050*) and the fire district levy can be as high as \$1.50. *RCW 52.16.130, RCW 52.16.140, and RCW 52.16.160*. Therefore, if a city belongs to both a fire district and a library district, and if these districts are currently levying their maximum amount, then the local levy can be no higher than \$1.60 ($\$3.60 - .50 - 1.50 = \1.60).

For counties, the maximum regular property tax levy rate that may be imposed on real and personal property is \$1.80 per thousand dollars AV for its current expense or general fund, and \$2.25 per thousand dollars AV for its road fund. However, a county can raise its general fund levy rate up to \$2.475 per thousand dollars AV, provided the total of the levy rates for the general fund and road fund do not exceed \$4.05 per thousand dollars AV and the increase in the general fund levy does **not** result in a reduction in the levy of any other taxing district.

Multiply the difference between your maximum rate and current rate by your AV divided by 1000 because the tax rate is levied on each thousand dollars of assessed valuation, not each dollar.

Example. A city has a maximum tax rate of \$3.375 per thousand dollars. Its current rate is \$2.90 and its assessed valuation is \$100,000,000.

$$\$3.375 - 2.90 = \$0.475.$$

$$\$0.475 \times 100,000,000/1000 = \$47,500.$$

¹ We have a levy lid lift page on our Web site where we give examples of ordinances and other information. <http://www.mrsc.org/Subjects/finance/levylidlift.aspx>

\$47,500 is the maximum amount of **extra** revenue the city could get in its first year after doing a levy lid lift. Its total levy, if the vote on the lid lift is successful, would be \$337,500 compared to \$290,000 without the lift.

If the council is not be interested in that big an increase in the rate, multiply whatever rate increase they have in mind times your assessed valuation divided by 1000.

If you think you want to explore the idea of a levy lid lift further, what are your options?

Option 1: "Original flavor" lid lift. RCW 84.55.050, with the exception of new subsections (3)(b) and (e).

1. Purpose. It can be done for any purpose and the purpose may be included in the ballot title, but need not be. You could say it would be for hiring more firefighters, for additional money for general government purposes, or say nothing at all. In the latter case, by default, it would be for general government purposes. Stating a particular purpose may improve your chances of getting the voters to approve it.
2. Length of time of lid lift. It can be for any amount of time unless the proceeds will be used for debt service on bonds, in which case the maximum time period is nine years. Setting a specific time period may make the ballot measure more attractive to the voters. But, making it permanent means you can use the funds for ongoing operating expenditures without having to be concerned that you will have to go back to the voters for another lid lift.
3. After the first year, the jurisdiction's levy in future years is subject to the 101 percent lid. This is the maximum amount it can increase without returning to the voters for another lid lift.
4. If the lift is for a specific number of years, the base levy for future years after the lid lift ends will be set at what the base would have been, if the lid lift had not taken place. RCW 84.55.050(4).
5. The election can take place on any election date listed in RCW 29.13.010.

Option 2: Multiple year lid lift. RCW 84.55.050, as amended by 2ESSB 5659, Ch. 24, Laws of 2003, 1st Special Session. See subsections (3)(b) and (e), in particular.

1. Purpose. It can be done for any purpose, but the purpose must be stated in the title of the ballot measure and the new funds raised may not supplant current spending for that purpose.
2. Length of time of lid lift. Six years maximum.
3. The levy can be increased for each of those six years by some amount stated in the ballot title. This can be a dollar amount, a percentage increase amount tied to an index such as the CPI, or percentage amounts just arbitrarily set. Of course, if the amount of the increase for a particular year would require a tax rate that is above the maximum tax rate, the assessor will only levy the maximum amount allowed by law.
4. The legislative body may choose to put language in the ballot title, saying that at the end of the period of the lift, the base for future year increases will be the base during the last year of the lid lift. This contrasts with the provision in the RCW 84.55.050(4) that puts the base back to what it would have been without the lift.
5. The election date must be the September primary or the November general election.

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So, which is the best option?

As usual, of course, it depends. The requirement in the 2ESSB 5659 legislation that the purpose must be stated makes it less flexible than the "original flavor" version. This may be true more in theory than practice, however, because we know of only one city that has successfully passed a ballot measure where they did not specify the use of the funds. (We don't mention counties in this example because we do not know of any county that has done a lid lift other than King County's small recent lid lift for parks. Please let us know if you have done one.)

The requirement that there be no supplanting in expenditures is more restrictive. It certainly is attractive to have the opportunity to do a levy lid lift for a popular program, such as public safety, and then use part of the money that would have been spent on that program for, say, a new computer system. One presumes, however, that citizens believe there will be no supplanting even when the statutes do not prohibit it and that they will require some accounting from government officials.

If you use the CPI as the inflator in a multi-year lid lift, which index should you choose?

There are all sorts of consumer price indices. **It is absolutely crucial that you correctly identify the one you want to use in your ballot measure.** The considerations are the same as choosing a consumer price index for a labor contract. The Bureau of Labor Statistics has a Web site that will help you make that decision. <http://www.bls.gov/cpi/cpi1998d.htm>. Figure out when you will want the information for budgeting purposes on how much your property tax levy can be increased. Then make certain that the CPI index you have chosen will be available by that date.

The U.S. CPI figures are available monthly with a lag of about two and a half weeks. For example, the April statistics are published around May 19 or so. The Seattle-Tacoma-Bremerton CPIs are published bimonthly for even-numbered months. The February numbers are published in mid-March, to give one example. The Portland-Salem indices are only published twice a year. The second half of 2003 is published in mid-February and the first half of 2004 in mid-August.

What election date should you choose?

If you are doing a lid lift under the provisions of 2ESSB 5659, you are limited to either the September primary or the November general election. For lid lifts under the "old" provisions of RCW 82.55.050, you have more choices.

There are a number of considerations here. Your election date will determine (assuming the ballot measure is passed) when you will get your first tax receipts. Taxes levied in November are first due on April 31 of the following year. Therefore, to receive taxes next year from a levy you are discussing during the current year, your election can be no later than November. We know of some councils that first began thinking of a levy lid lift in October 2002 last year, during budget discussions for 2003. By that time it was too late to get any measure on the November ballot. Your county auditor must receive your ordinance or resolution 45 days before the date of the election. **It pays to plan ahead.**

Councils and commissions should ask around to find out what other elections will be coming up during the coming year. You may not want to go head-to-head with a school levy election or a voted bond issue.

What are the rules for what can and cannot be done to support or oppose ballot propositions?

You will probably find the information in following articles helpful.

“Use of Public Facilities to Support or Oppose Ballot Propositions.” Prepared by MRSC Legal Staff.
<http://www.mrsc.org/subjects/finance/695/pubfac-pwm.aspx>.

“What Can and Can’t Local Government Officials and Employees Do to Support or Oppose an Initiative Measure.” [Editor: the information applies to any ballot measure.] Prepared by MRSC Legal Staff.
<http://www.mrsc.org/subjects/finance/695/qanda-pwm.aspx>.

It is very important that you be cautious in what you do. Our legal staff can give you some advice. In years past, the Public Disclosure Commission was willing to review any information pamphlets that municipalities produced. However, the commission is awaiting a decision in a lawsuit before the Washington State Supreme Court and they are currently not providing this service.



LEVY LID-LIFTS

(RCW 84.55.050)

PROPERTY TAX INFORMATION

The following examples, explanations, and recommendations are intended to assist taxing districts in writing ballot titles authorizing increases over the levy limit outlined in chapter 84.55 RCW, also known as lid-lifts. Lid-lifts allow a district to increase its highest lawful levy by more than one percent. General statutory requirements for all lid-lift propositions include the following:

- Propositions must be approved by a majority of the voters voting at the election.
- Elections must be held no longer than 12 months prior to the date the levy is to be made.
- The ballot title must state the total dollar rate to be levied, which cannot exceed the maximum statutory dollar rate for the taxing district.

Lid-lifts can be broken into two types—temporary and permanent.

TEMPORARY LID-LIFTS

A temporary lid-lift allows a district to increase its highest lawful levy by more than one percent for a particular purpose or a specific time period, or both. RCW 84.55.050(1) requires that these conditions be stated clearly in the ballot title. Once the time period has expired or the limited purpose fulfilled, the levy is calculated as if the lid-lift had not been approved.

Limited Purpose

The following is an example of a ballot title for a temporary lid-lift for a specific purpose:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. For the purpose of obtaining the necessary funds to construct a juvenile detention facility, this proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and increase the levy each year thereafter as allowed by chapter 84.55 RCW until said purpose has been accomplished. Should this proposition be:

- Approved
- Rejected

RCW 84.55.050 does not require the ballot title to state the year the lid-lift will begin; however, the date is recommended for the purpose of clarity to anyone unfamiliar with the time requirements for lid-lifts. The sample ballot title also states that the purpose of the lid-lift is to obtain the necessary funds for the construction of a juve-

nile detention facility. This means that once the necessary funds have been obtained, the lid-lift expires, and the levy calculations will be recalculated for the 2004 tax year, and every year thereafter, as if the lid-lift had not been approved.

Limited Time Period

A ballot measure for a temporary lid-lift that limits the time in which the lid-lift is to be in effect might appear as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. This proposition would allow the County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and increase the levy each year thereafter as allowed by chapter 84.55 RCW for each of the five succeeding years. Should this proposition be:

- Approved
- Rejected

This sample ballot title clearly states that the lid-lift will be for six years beginning with the 2004 tax year. The last year the lid-lift will be in effect is the 2009 tax year. The levy limit for the 2010 tax year will be calculated as if the lid-lift had not been approved.

Limited Purpose and Time Period

A district may also limit both the purpose and the time period for a lid-lift. The ballot title for this type of lid-lift might appear as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. For the purpose of obtaining the necessary funds to construct a juvenile detention facility, this proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and increase the levy as allowed by chapter 84.55 RCW for each of the five succeeding years or until said purpose has been accomplished, whichever is first.

Should this proposition be:

- Approved
- Rejected

The language in the sample ballot title indicates that the lid-lift will expire either after the sixth year or when the county obtains the necessary funds for the detention facility, whichever is first. In this particular ballot title, the county could be even more specific by stating the dollar amount needed to be raised for the facility's construction. It might appear as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. For the purpose of raising \$2,000,000 to construct a juvenile detention facility, this proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for the 2004 tax year and increase the levy as allowed by chapter 84.55 RCW for each of the five succeeding years or until said purpose has been accomplished, whichever is first. Should this proposition be:

- Approved
- Rejected

Once the \$2,000,000 is raised or the six years expire, whichever is first, the levy will be calculated as if the lid-lift had not been approved.

Counties, Cities, and Towns: Setting the Limit Factor

For counties, cities, and towns, voters may also approve lid-lifts allowing the limit factor used in calculating the levy limit after the first year of the lid-lift to be greater than would otherwise be allowed under chapter 84.55 RCW. These temporary lid-lifts cannot be for more than six consecutive years and the ballot title must state the following:

- the rate to be levied in the first year
- the limit factor to be used each year after the first year of the lid-lift
- the purpose of the lid-lift

A ballot title of this type of lid-lift might look like the following:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. For the purpose of obtaining funds to construct a juvenile detention facility, this proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and authorize annual increases in the levy amount by 4 percent, thereby setting the limit factor at 104 percent, for each of the five succeeding years. Should this measure be:

- Approved
- Rejected

In this example, although not required, the ballot title states that approval of the measure would authorize a four percent increase for each year's levy because many voters may not know what the phrase "limit factor" means.

Instead of stating the limit factor, a ballot title may specify a particular index to be used in determining the limit factor. RCW 84.55.050 uses the Consumer Price Index (CPI) as an example of such an index. In this case, a district might be *tempted* to write its ballot title as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. For the purpose of obtaining funds to construct a juvenile detention facility, this proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and authorize annual increases in the levy amount by the consumer price index (CPI), thereby setting the limit factor at 100 percent plus the CPI, for each of the five succeeding years. Should this proposition be:

- Approved
- Rejected

The problem with this ballot title is that it doesn't explain how the CPI will be used in determining the limit factor. It is important that this type of ballot title states how the specified index will be used in deter-

mining the limit factor. A correct ballot title might read as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. For the purpose of obtaining funds to construct a juvenile detention facility, this proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and authorize annual increases in the levy amount by the percentage change in the consumer price index (CPI), thereby setting the limit factor at 100 percent plus the percentage change in the CPI, for each of the five succeeding years. Should this proposition be:

- Approved
- Rejected

For this type of ballot title, the limit factor does not have to be the same for each year of the lid-lift. A ballot title setting different limit factors for different years might read as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. For the purpose of obtaining funds to construct a juvenile detention facility, this proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and set the limit factor for 2005, 2006, 2007, 2008, and 2009 at 102 percent, 103 percent, 104 percent, 104 percent, and 104 percent respectively. Should this proposition be:

- Approved
- Rejected

PERMANENT LID-LIFTS

Permanent lid-lifts are not limited by a particular purpose or time period; thus, the levy limitation is calculated each year after the first year of the lid-lift with a new base amount. A permanent lid-lift ballot title might read as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. This proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and increase the levy each year thereafter as allowed by chapter 84.55 RCW. Should this proposition be:

- Approved
- Rejected

A ballot title for a permanent lid-lift may state a specific purpose; however, the purpose for the lid-lift should be ongoing. Such a ballot title might read as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. This proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars of assessed value for collection in 2004 and increase the levy each year thereafter as allowed by chapter 84.55 RCW for general county purposes. Should this proposition be:

- Approved
- Rejected

Counties, Cities, and Towns: Setting the Limit Factor

Voters may also approve a permanent lid-lift that sets multiple limit factors for counties, cities, and towns. The ballot title for such a lid-lift might read as follows:

The ABC County legislative authority adopted Resolution No... concerning an increase in the County's regular property tax levy. For the construction, maintenance, and operation of a juvenile detention facility, this proposition would allow ABC County to increase its current expense levy to \$1.80 per thousand dollars assessed value for collection in 2004, authorize annual increases in the levy amount by 4 percent, thereby setting the limit factor at 104 percent, for each of the five succeeding years, and increase the levy each year thereafter as allowed by chapter 84.55 RCW for general county purposes. Should this proposition be:

- Approved
- Rejected

The final phrase of this ballot title, which states that the levy for each year after the six-year period will be increased as allowed by chapter 84.55 RCW, turns what would be a six-year temporary lid-lift into a permanent lid-lift.
(or to statutory maximum)

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Prepared by the Taxpayer Services Division
 Printed on recycled paper

FS0047 9/04



Facts About Redmond's Proposed Levy Lid Lift & Property Taxes

THE PROPOSED LEVY LID LIFT

The City is proposing a 65 cent per \$1,000 of assessed valuation increase in the property tax levy. Your opportunity to vote on this proposal will be May 16, 2006.

Money raised will go primarily towards police and fire services. Other money will be used to maintain parks and streets, replace city equipment (e.g. fire engines, aid cars, and computers), invest in transportation, parks, and other capital facilities, and support general city operations.

FACTS ABOUT PROPERTY TAXES

For the average homeowner in Redmond, the amount paid in property taxes to the City is about the same today as it was 10 years ago, even though the value of an average home has nearly doubled.

Comparison of Assessed Value and Taxes Paid to the City
by an Average Redmond Homeowner

	1996	2006	
Assessed value of your home	\$189,600	\$383,400	← Home value nearly doubled
Levy rate per \$1,000 of assessed valuation	\$2.44	\$1.23	← Tax rate declined 50%
Redmond's share of property tax bill	\$463	\$472	← Amount you pay

Redmond's property tax rate has been declining for years. \$1.23 is the lowest levy rate that property owners have paid in over 30 years and represents a 71% decrease from the 1980 rate of \$4.28.

Historical Property Tax Rate

Year	Levy Rate per \$1,000 of Assessed Value
1980 (Highest Rate)	\$4.28
1996	\$2.44
1997	\$2.39
1998	\$2.30
1999	\$2.13
2000	\$1.96
2001	\$1.76
2002	\$1.60
2003	\$1.57
2004	\$1.59
2005	\$1.58
2006	\$1.23

} Rate has declined **71%** since 1980

HOW PROPERTY TAXES WORK

Basic Property Tax Equation

$$\text{City Property Taxes to be Collected*} \times \frac{\text{Your Home's Assessed Value}}{\text{Total Assessed Value of Properties in Redmond}} = \text{City's Portion of your Property Tax Bill}$$

***May only increase if:**

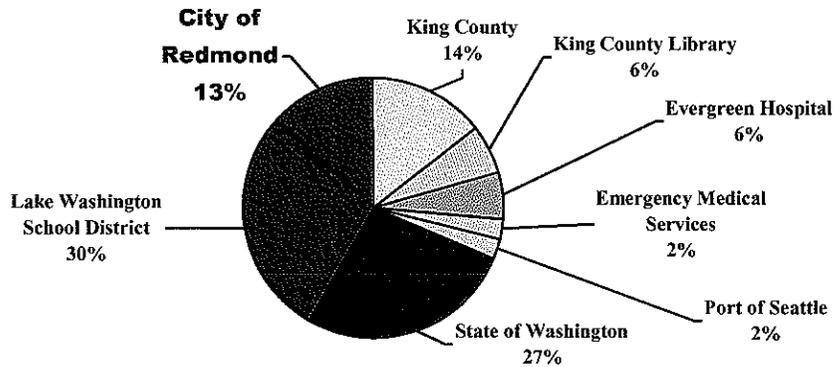
- City Council approves an increase (limited to 1% per year)
- Voters approve a levy lid lift
- Or new construction and annexations occur

SOME COMMON MYTHS ABOUT PROPERTY TAXES

Myth #1: Redmond receives all property tax dollars that are paid by a property owner.

Fact: **Only 13% of your property tax bill comes to Redmond.**

Breakdown of Property Taxes Paid by a Typical Redmond Resident



Myth #2: As your home value increases, the City receives more property tax revenue.

Fact: **Rising home values have no impact upon the amount of property tax revenue the City receives.**

The City's property tax increases only if:

- The City Council approves an increase. City increase is limited to 1% per year, which generates approximately \$130,000 annually.
- Voters approve a levy lid lift.
- Or new construction and annexations occur.

Myth #3: New construction generates a significant amount of property tax for the City.

Fact: **New construction only generates a small amount of property tax revenue.**

Based on Redmond's 2006 levy rate of \$1.23 per \$1,000 of assessed value:

- A new building valued at \$10 million generates \$12,300 of new revenue.
- A new building valued at \$100 million generates \$123,000 of new revenue.