

POLICY NOTE

Why property taxes are going up

By Paul Guppy, Vice President for Research

May 2018

Key Findings

1. State lawmakers and Governor Inslee are imposing a record level of property taxes on the people of Washington state.
2. The total property tax burden is decided each year by elected officials at the local, county and state levels.
3. This year's large increases are meant to be mostly offset by reductions in local levies two years from now.
4. State data show that increased spending has not improved student learning.
5. Since 2009, lawmakers have increased education spending by \$9.7 billion, up 75%, while student test scores have remained flat (inflation over the period was 18%).
6. The rising tax burden imposed by officials falls hardest on the poor, immigrants, working families and the elderly living on fixed incomes.
7. Elected officials can choose to reduce the tax burden, which benefits poor families the most. A growing economy still generates rising revenue from other sources to fund public services.

Introduction

Homeowners and business owners around the state are seeing steep increases in the annual property tax burden imposed on them by Governor Inslee and state lawmakers. The largest increases are being imposed on people living in the Puget Sound region.

This Policy Note provides a description of why property taxes are going up by so much and explains why the voter-approved 1% limit on annual increases in property tax collections has not limited the rate of tax increase. This paper provides an overview of the tax increases people are experiencing statewide and in the most populous counties, and it presents recommendations for how the governor and other state policymakers can, in future years, reduce the property tax burden they impose on the public.

Background

The total property tax burden is decided each year by elected officials at the local, county and state levels. County assessors then divide up the dollar total and send tax bills to property owners, based proportionately on market values, until the total amount of money elected officials want is collected.

Owners of high-value properties pay more than owners of low-valued properties, but the total amount of tax imposed is decided by elected city councilors, county commissioners, and state legislators and the governor. The amount of property tax paid by a community each year is not determined by impersonal market prices; it is the deliberate policy choice of elected officials.

Low-income elderly homeowners can receive a deferral, but the amount of taxes deferred, plus 5% annual interest, becomes a lien on the home, and must be paid to the government when the home is sold.¹

The new property tax increase

The state and elected officials in most counties and cities increase the property tax burden that they impose every year. Generally, the amount

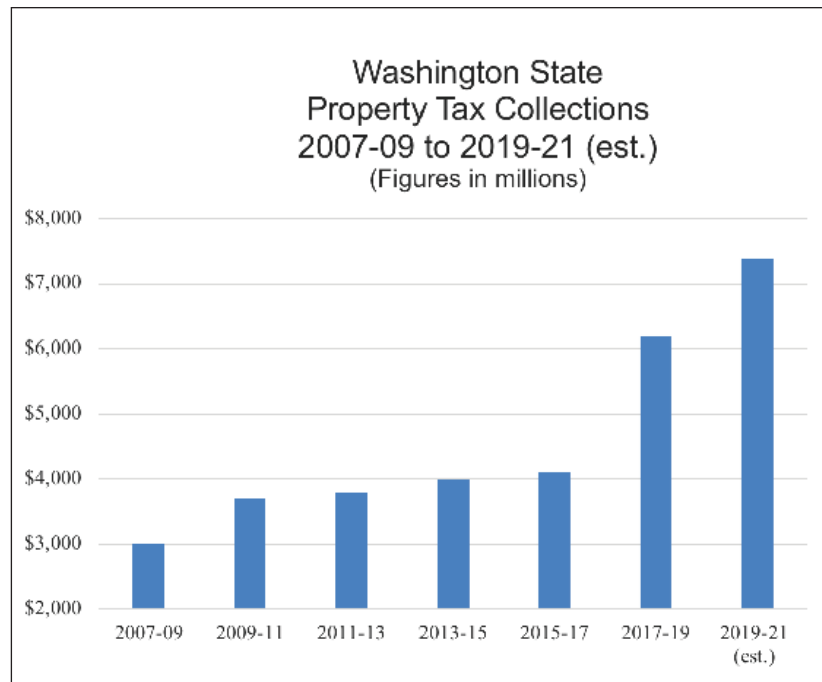
¹ "Can I get help paying my property taxes?" Common Questions, Seniors, King County Assessor, accessed April 12, 2018, at <https://www.kingcounty.gov/depts/assessor/Common-Questions/Seniorss.aspx>.

of the increase in the total property tax burden is limited to 1%, due to a law sponsored by Tim Eyman and passed by voters in 2001.²

In 2018, however, state lawmakers voted to cancel temporarily the voter-approved 1% limit in order to impose a larger state property tax increase. The state-level tax increase is meant to be largely offset in two years by limits on local property tax levies.³

Lawmakers said they were responding to the state supreme court ruling in the *McCleary* school-funding case. In all, lawmakers have raised taxes and added \$9.7 billion, a 75% increase, to education spending over nine years.⁴ Inflation over the period was 18%.⁵

Figure 1. Rising in property tax collections



The impact of rising property taxes

The greatest impact will be felt in the state's most populous county, King County, closely followed by the state's two other largest counties, Snohomish and Pierce. The higher tax burden will result in a cut in household income for nearly every family living in these counties.

King County – Property taxes are increasing by an average of 17% in the county, adding about \$800 in tax on a median-valued home (estimated at \$509,000),

2 Initiative 747, "Limiting property tax levy increases to 1% per year," passed November 5, 2001 with 57% of the vote. In 2007, the state supreme court struck down the measure, but it was quickly re-enacted with bipartisan support in the legislature and signed by Governor Christine Gregoire.

3 "State Property Tax, Enrichment Levies and Local Effort Assistance," Final Bill Report, HB 2242, July 6, 2017.

4 "Governor report shows massive \$9.7 billion increase in education spending provided no improvement for Washington students," by Liv Finne, Policy Note, Washington Policy Center, April 2018.

5 "CPI Inflation Calculator," Databases, Tables and Calculators by Subject, Bureau of Labor Statistics, U.S. Department of Labor, April 2018, at https://www.bls.gov/data/inflation_calculator.htm.

Comments by homeowners on property tax increase¹

“The consequences [of increasing property values and taxes] will be forcing homeowners to leave... If our politicians can’t see past dollar signs...then perhaps they need legislation to rein them in.”

- **Kim Miller, Kenmore.**

“[I] made the move [to Arizona] because of Seattle’s taxes and political views.”

- **Roger Wuthier, Goodyear, Arizona.**

“I am selling my house next year and moving to Mexico.”

- **Bruce Gelman, West Seattle**

“California had this problem; retired people were forced to sell lifelong homes... [California’s] Proposition 13 limits property tax increases... Maybe Washington needs its own version.”

- **Joseph Lopez San Francisco area.**

“We need relief from both property assessments, and increases in property taxes.”

- **Couple living in the Greenlake neighborhood, Seattle.**

for a total of nearly \$6,000 a year. This is the largest one-year tax increase since the county was founded in 1852.⁶

In some communities, such as Milton and Pacific, the average tax bill will increase by over 13%. In Auburn, the average tax burden is increasing by 21%, or up by an average of \$850 in one year.

This largest-ever increase comes on top a steady rise in the tax burden covering two decades. Over a twenty-year period, property taxes in King County have increased from \$1.7 billion to \$5.6 billion, a rise of 230%. Inflation over the same period was 54%.⁷

Snohomish County – Property taxes are increasing by an average of 16% in one year. A family living in an average-valued home will pay \$600 more, for a total reduction in family income due to property tax of \$4,360.⁸ Families living in Lake Stevens will pay an average of 27% more, while taxes paid by people living in Lynnwood, Mountlake Terrace and Brier will increase by 20% or more.⁹

Pierce County – Property taxes are increasing by an average of 11.5% in one year. County officials will collect a total of \$1.4 billion from property owners.¹⁰ The County Assessor is warning homeowners to be prepared for “sticker shock.”¹¹

Higher spending has not improved student learning

The primary reason judges and lawmakers give for imposing higher property taxes on Washington households is their belief that higher state spending leads to improvements in student learning.

Data reported by state officials shows this is not the case. Official figures show that, once a basic level of yearly funding has been achieved, further increases in spending provide little or no additional benefit to students.

Since 2009, lawmakers have increased state spending on public education by \$9.7 billion, a rise of 75% (see figure 2). At the same time, national test scores in math and English show that student learning in Washington state remains flat (see figure 3). In addition, student drop-out rates remain stubbornly high every year.

The learning achievement gap between black and white students also remains high, with no meaningful narrowing of the gap after large increases in state spending.

6 “Why is your King County bill going up so much – and where the money is going?” by Jim Brunner, *The Seattle Times*, March 18, 2018, at

7 Ibid.

8 “Property tax bills to rise by up to 27%, assessor says,” by Noah Haglund, *The Everett Herald*, January 25, 2018, at <http://www.heraldnet.com/news/property-taxes-will-increase-an-average-16-assessor-says/>.

9 Ibid.

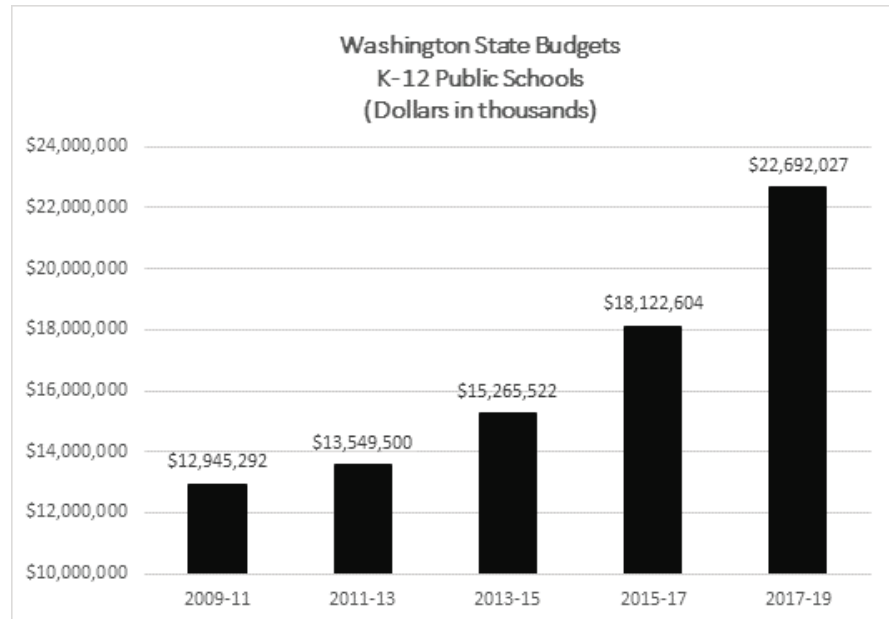
10 “Better brace yourself for property tax shock,” by Mike Lonergan, Pierce County Assessor, *The Tacoma News Tribune*, February 9, 2018, at <http://www.thenewstribune.com/opinion/article199436099.html>.

11 Ibid.

1 “‘The playing field isn’t equal’: Here’s what some readers say about Washington’s property-tax hikes,” by Jessica Lee, *The Seattle Times*, April 6, 2018, at <https://www.seattletimes.com/seattle-news/the-playing-field-isnt-equal-heres-what-some-readers-say-about-washington-property-tax-hikes/>

This lack of results follows a historic pattern. The state adopted large increases in education spending during the boom economy of the 1980s, when the state treasury took in record windfalls in revenue. State leaders more than doubled per-student education spending, with no significant improvement in student test scores, the achievement gap, or graduation rates.¹²

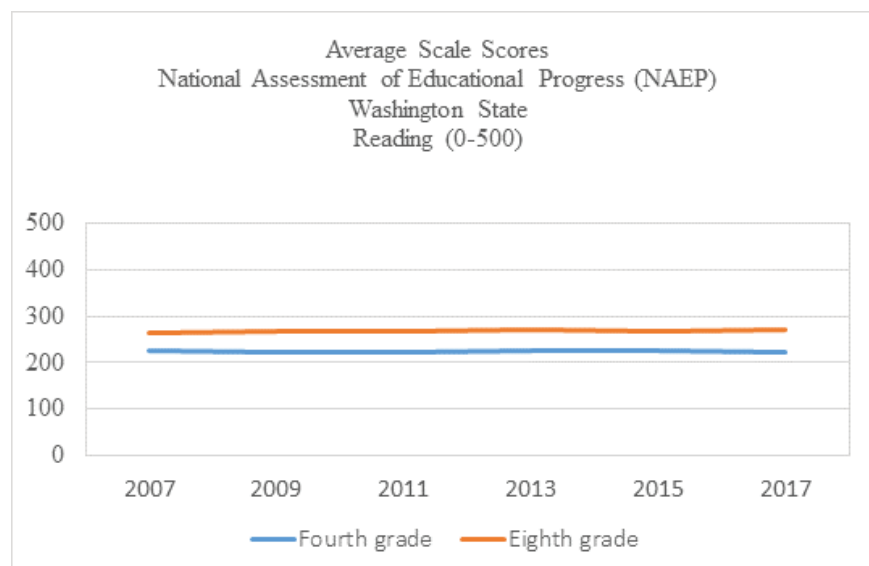
Figure 2. Rise in education spending, 2009 - 2019



State spending on education increased by \$9.7 billion since 2009, up 75%. Inflation over the period was 18%

These disappointing findings are reported in government data. The chart shows state spending on schools increased from \$12.9 billion in 2009 to \$22.6 billion today, an increase of 75% percent. (Inflation over the period was 18%).

Figure 3. Student test scores in reading 2007 - 2017



Student test scores in Washington state for math, science and reading have remained flat over ten years. The example here shows test results for 4th and 8th graders in reading.

12 Between 1981 and 1991 state education spending increased from \$2.7 billion to just over \$7 billion, e-mail communication from Legislative Evaluation and Accountability Program Committee (LEAP), available on request.



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Published by
Washington Policy Center
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washingtonpolicy.org
206-937-9691

Elected leaders can provide property tax relief

Property taxes do not go up automatically. In some cases, a property owner's tax bill could go down, thus increasing family income, if state or local officials choose not to impose large tax increases each year.

An expanding economy means that all sources of tax revenue are increasing, allowing officials to reduce revenue in one area (property tax collections), while still receiving revenue increases from other sources (sales tax, permit fees, the Real Estate Excises Tax, businesses taxes, and new construction, for example.).

In areas where elected officials worry about the impact of rising taxes on family incomes, they can cut the property tax or keep total tax collections flat. When that happens, many homeowners receive significant tax relief because more of that year's limited total tax burden is paid by the rising value of new construction and by high-value commercial properties in the same area.

A policy of tax burden reduction also helps elderly people living on fixed incomes, who may be "house rich," according to an assessor's valuation of their property, but "cash poor" because Social Security or pensions do not automatically increase to match the rise in their property tax bill.

A further benefit of tax relief is that limiting or reducing the state and local tax burden allows more households to deduct the full cost from their federal taxes. Congress has capped the state and local tax deduction at \$10,000 per household. State and local officials who work to keep the combined tax burden they impose below this level are helping tax filers receive the full value of the federal deduction.

Conclusion – taxing the most vulnerable households

The property tax is a flat tax. When officials choose to impose a high property tax, the rising burden falls hardest on the most vulnerable households. Every increase in taxes reduces household income, and the people harmed the most are the poor, immigrant families, the unemployed and elderly people living on fixed incomes.

In the same way, when state and local officials decide to limit or reduce the yearly property tax burden they impose, low-income working families and the elderly benefit the most. Renters also benefit when officials keep the property tax low, because landlords have no need to pass the cost of the higher tax burden on to their tenants.

An expanding economy and new construction show that at the state level and in most counties officials receive revenue increases even when they reduce tax rates. A policy of cutting or limiting the property tax burden can still result in more overall collections to fund public services.

All it requires is a decision by state lawmakers, the governor, and local elected officials to show their concern for the elderly and for working families by adopting a generous policy of property tax relief.