

Local district “banked capacity” for property taxes very limited

The ability of local taxing districts to increase property taxes beyond the 1 percent annual limit imposed by Initiative 747 is very limited, a Washington Department of Revenue analysis of assessor data has found.

The Department performed the preliminary analysis following the recent invalidation of Initiative 747 by the Washington State Supreme Court, and subsequent proposals to re-enact the limit legislatively during a legislative special session Nov. 29. It looked at “banked capacity,” or the ability of local taxing districts to use reserved taxing ability to increase taxes beyond 1 percent annually.

The Department’s preliminary analysis put the total amount of banked capacity at about \$108 million statewide, or about 3.4 percent of \$3.2 billion in local government regular levies for 2007. The amount of banked capacity varies by county, but among the most populous counties, it was 3.7 percent for King County, 4.1 percent for Snohomish County, 1.9 percent for Pierce County, 10.9 percent for Spokane County, 2.2 percent for Yakima County, and 0.03 percent for Clark County. Most of the banked capacity in Spokane County was due to the county levying a low tax rate for roads.

The bill supported by Governor Christine Gregoire and legislative leaders would reinstate the 1 percent limit and make it retroactive to 2002, when I-747 first took effect. The retroactive provision would eliminate the accumulation of any “bonus” taxing capacity triggered by the overturning of I-747.

Local taxing districts have had the ability since 1986 to “bank” any unused taxing authority that they accumulated by taking less than the maximum levies allowed by law. Many taxing districts accumulated this unused capacity prior to the effective date of I-747 in 2002 and did not use it even though they could have done so under I-747.

The legislative intent was to encourage districts to be fiscally conservative without penalizing them, Revenue Director Cindi Holmstrom said.

“The statute that allows banked levy capacity has a clear purpose: to encourage taxing districts to levy only what they need rather than the most they can get,” she said. “This is simply good tax policy. They don’t lose it if they don’t use it.”

Initiative 747 did not address the issue of banked capacity. Taxing districts could continue to accumulate it or use it under I-747, though the maximum amount of banking was reduced to 1 percent from up to 6 percent annually should a district take no increase at all.

“The proposed legislation simply restores the property tax limits to those in place before the Supreme Court issued its decision. In other words, it gives voters exactly what they voted for when they passed I-747,” Holmstrom said.



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