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## Property Tax Basics

This page provides an overview of property taxes for local governments in Washington State, including property tax limits, levy calculations, and banked capacity for local governments.

For a more comprehensive discussion of the intricacies of the property tax in Washington State, refer to MRSC's [City Revenue Guide](#) and [County Revenue Guide](#), or the Department of Revenue's [Property Tax Levies Operations Manual](#).

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### Budget-Based Property Tax

Washington State has a budget-based system of property taxation. There are three main components to the property tax:

- Levy amount
- Assessed value (AV)
- Levy rate

As part of the budget process, the taxing jurisdiction establishes the amount of property tax revenue needed to fund the budget. That amount needed to fund the budget is called the levy amount, or simply the levy. It is the total amount to be collected from taxpayers by a taxing district.

By November 30 of each year, the amount of taxes to be levied by taxing districts are certified to the county assessor. The county assessor then calculates the levy rate necessary to raise that amount of revenue by dividing the total levy amount by the assessed value of taxable property in the district.

By law, this number is expressed in terms of a dollar rate per \$1,000 of valuation. For example, a rate of \$0.00025 is expressed as \$0.25 per \$1,000 of assessed value.

### Property Tax Formula

Under the budget-based system, a taxing district establishes its desired levy amount first (subject to several restrictions), and then the assessed valuation is used to calculate the subsequent levy rate that property owners must pay. This formula is expressed as:

$$\text{Levy Amount} \div \text{Assessed Value (000s)} = \text{Levy Rate (per \$1,000 AV)}$$

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### Property Tax Limits

The property tax levy is constrained by the overall limits on the regular levy rate and the limit on annual levy increases.

#### Regular Levy Rate Limits

The Washington State Constitution limits the annual rate of property taxes that may be imposed on an individual parcel of property to 1% of its true and fair value. Since tax rates are stated in terms of dollars per \$1,000 of value, the 1% limit is the same as \$10 per \$1,000 and is often referred to as the \$10 limit. Taxes imposed under this limit are termed "regular" levies, while those outside the limit are "excess" or "special" levies.

The following chart shows how the \$10 limit is allocated. The aggregate limit for cities, counties and most special districts is \$5.90 per \$1,000 assessed value.



## Special Considerations Relating to Levy Rate Limitations

What if the sum of the levy rates imposed by the various taxing authorities goes over the limit?

It's complicated. First, there are two limits:

- One is the 1% constitutional limit.
- The other is the \$5.90 limit on cities, counties, and junior taxing districts.

If either of those limits are exceeded, then the junior taxing district levies involved must be reduced through prorationing. See [RCW 84.52.010](#).

Which levies are lowered in prorationing, by how much and in what order, depends upon whether the \$5.90 limit or the 1% limit has been exceeded. The Department of Revenue [Property Tax Levies Operations Manual](#) and [WAC 458-19-075](#) include step-by-step instructions for calculating prorationing. The Department of Revenue has developed Prorationing Worksheets for both the \$5.90 Aggregate Limit ([REV 64 0097](#)) and the 1% Aggregate Limit ([REV 64 0096](#)) to help in making these calculations.

Can a county raise its regular general fund (current expense) levy rate above \$1.80?

A county can raise its general fund levy rate up to \$2.475 per \$1,000 AV, provided the total of the levy rates for the general fund and road fund do not exceed \$4.05 per \$1,000 AV and the increase in the general fund levy does not result in a reduction in the levy of any other taxing district through prorationing. See [RCW 84.52.043](#).

What if my city has a firefighters' pension fund?

If your city has a pre-LEOFF firefighters' pension fund, it can levy an additional \$0.225 per \$1,000 assessed valuation, resulting in a maximum levy rate of \$3.60 per \$1,000 AV if it is not annexed to a fire or library

district, or, if it is annexed, a maximum rate of \$3.825 minus the fire/library district levy rates (see below). See [RCW 41.16.060](#).

What if my city belongs to a fire and/or library district?

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 \$1,000 assessed value (or \$3.825 if they also have a pre-LEOFF firefighters' pension fund as described above). However, they can never collect that much because the levy of the special districts must be subtracted from that amount ([RCW 27.12.390](#) and [52.04.081](#)).

The library district levy has a maximum rate of \$0.50 per \$1,000 assessed value ([RCW 27.12.050](#)), and the fire district levy can be as high as \$1.50 ([RCW 52.16.130](#), [52.16.140](#), and [52.16.160](#) each provide for a levy of \$0.50 per \$1,000 assessed value). 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 city's levy rate can be no higher than \$1.60 ( $\$3.60 - 1.50 - 0.50 = \$1.60$ ).

If, for some reason, one or both of the special districts is not currently levying the maximum amount, the city's current levy could be higher. For instance, if the fire district is only levying \$1.00 per \$1,000 assessed value, the maximum city levy rate would be  $\$3.60 - 1.00 - 0.50 = \$2.10$ . But, if the fire district raises its levy rate in the future, then the city must reduce its levy rate by the same amount so that the total is never above \$3.60. Such a forced reduction can cause fiscal problems if it is not anticipated.

If no one in your city hall knows what rate the special districts are currently levying, your county assessor can help you.

### Levy Increase Limit

In addition to the limit on the overall levy rate, there is a 1% limit on the amount an individual taxing district can increase the property tax levy (the total amount of taxes that will be collected) each year.

In Washington, property tax increases are not based on the increasing value of properties but rather on the amount of the property taxes assessed in the previous year. Each year's levy may be increased by no more than 1% unless the public votes for a greater increase (commonly called a "[levy lid lift](#)") or the jurisdiction uses banked capacity (see below). Consult the Washington State Department of Revenue's [Resolution/Ordinance Procedures for](#)

[Increasing Property Tax Revenue](#) for the proper procedures to increase the property tax levy.

Taxes on new construction, changes in value of state-assessed utility property, and newly annexed property (hereafter referred to as "add-ons") are exempt from the limit factor for taxing districts of any size and may be added to the tax levy that is requested under the limit factor. See [RCW 84.55.010](#) and [WAC 458-19-035](#).

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## Calculating the Property Tax Levy

The complexity of the property tax means that year-to-year changes in collected taxes may not be intuitive. Glenn Olson, former Deputy County Administrator of Clark County, developed the below examples of how property tax bills may change based on various factors.

### Example #1

Imagine a county that has only one parcel and one house that is brand new. This property is worth \$100,000. As its only property, its value is also the entire assessed value of the county. Suppose further that the levy rate in that county is \$2.00. That means this property owner must pay \$2.00 for each \$1,000 that their property is worth.

In the first year after its construction, the taxes on that home would be calculated as follows:

**Assessed value of the county in thousands (\$100) x Levy rate (2.00) = Tax bill and Year 1 levy (\$200.00)**

The only time taxes are calculated this way is for new construction – i.e. the first year after the home is built. In every following year it works differently.

In Year 2 the county may only increase its levy by 1%. So following our example:

**Last year's levy (\$200) + Additional 1% (\$2.00) = Tax bill and Year 2 levy (\$202.00)**

Let's assume the value of this county's one home doubled from \$100,000 in Year 1 to \$200,000 in Year 2. Its tax bill would still be \$202.00. No matter how much the assessed value in the county increases, its levy may increase

only 1%. So, the county adjusts the levy rate to make it fit the new assessed value:

$$\text{New levy amount (\$202.00)} \div \text{New assessed value in thousands (\$200)} = \text{New levy rate (1.01)}$$

Any new homes that might be built in Year 2 would be taxed at this new levy rate.

### Example #2

Now suppose our imaginary county had started with two new homes, but each one was worth only \$50,000. The assessed value would still total \$100,000 in year 1.

With the same \$2.00 levy rate, the levy in the first year would still be \$200. But instead of one home paying the entire levy, the two equal-value homes would split the levy equally and pay \$100 each. In year 2 the levy would still increase by only 1% to \$202. And if the value of both homes together increased to \$200,000, the levy rate would still drop to 1.01.

But suppose to get to that \$200,000 value, one home tripled in value to \$150,000 and the other stayed the same at \$50,000. Then their respective tax bills would look like this:

Year 1			
	Home 1	Home 2	Countywide Total
AV (in thousands)	\$50	\$50	\$100
Times the levy rate	x \$2.00	x \$2.00	x \$2.00
For a tax bill of:	\$100	\$100	\$200
Year 2			
	Home 1	Home 2	Countywide Total
AV (in thousands)	\$150	\$50	\$200

Year 1			
Times the levy rate	x \$1.01	x \$1.01	x \$1.01
For a tax bill of:	\$151.50 (52% increase)	\$50.50 (50% decrease)	\$202 (1% increase)

The total levy is still \$202, but more of it is borne by the home that increased in value and less of it by the home that did not increase. The total countywide levy increased the maximum 1%, but the tax bill for Home 1 increased by 52% while the tax bill for Home 2 decreased by 50%.

Assessed value only determines a home's share of the levy. If all home values were to change by the same percentage, then each home's share of the levy would stay the same and everyone's taxes would increase by exactly 1%.

### Complications

The above examples are extremely simple. In reality, one home is usually in several taxing districts that overlap. Voted levies, levy shifts, excess levies, or levy lid lifts may be in effect, or a jurisdiction may be tapping its "banked" capacity (see below). Finally, fees for numerous things from improvement districts to utilities may show up on a tax bill.

But at the core of our property tax system, taxes may only increase by 1% per year unless local governments (1) tap banked capacity, or (2) seek voter approval through a levy lid lift or excess levy.

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### What Is Banking Levy Capacity?

Some taxing districts have levied less than the maximum amount allowed over the years. [RCW 84.55.092](#) allows these districts to retain the right to use that "banked" capacity at some future date. Thus, when comparing a district's current year levy to their prior levy, it may reflect a change of more than 1% if they are using their banked capacity or less than 1% if they don't feel they need the levy increase. Many districts have never used that capacity even though they could have done so at any time.

Here are two examples:

- Assume that for this year a city had the assessor set a tax rate that resulted in the same levy as last year plus add-ons. (It did not take the allowable 1% increase.) When doing the budget for next year, however, the city realizes that it needs more revenue from the property tax because sales

tax receipts have fallen off. [RCW 84.55.092](#) allows the city to ask the assessor to set a tax rate for next year that raises the levy by 1% and then 1% again  $1.01 \times 1.01 = 1.0201$  for a compounded increase of over 2% (assuming that it does not put the city over the statutory levy rate limit).

- Now, let's examine a more complicated case where a city actually lowers its tax rate. Assume that during the current year, a city has experienced a revenue windfall and has more money than it needs to fund the next year's budget. It could put the excess funds in a contingency fund or a "rainy day" fund, but the city council decides to give the taxpayers a break by lowering the property tax in the upcoming year. In that year, it receives no revenue windfall and needs more property tax revenue for the subsequent year's budget. [RCW 84.55.092](#) allows the city to levy the maximum amount that it could have levied in the previous year, plus an additional 1% unless that puts the city over the maximum statutory rate. In the previous year, the city didn't use its maximum taxing capacity, but it also didn't lose it since it can "bank" the extra capacity.

### How Do We Bank Capacity?

The statutory authority for banking capacity is provided in [Chapter 84.55 RCW](#). The chapter provides procedures for two different classifications that are defined in [RCW 84.55.005](#) as taxing districts with populations less than 10,000 and all others, meaning those with 10,000 or more in population.

Assuming that you have held your public hearing on revenue sources for the general fund as required by [RCW 84.55.120](#), and the legislative body has determined that they do not need the entire 1% increase as allowed by law, you must adopt an ordinance or resolution specifically stating what the increase, if any, may be. This must be stated in terms of both dollars and percentage. Even if you are not increasing your property tax levy, you should adopt an ordinance/resolution saying that you are increasing your levy by \$0.00 which is a 0% increase. This will bank the unused capacity of your levy.

Below are the most important procedures that jurisdictions must follow. The Department of Revenue provides [detailed guidance](#) on procedures related to increasing property tax revenue.

#### Taxing Districts with Populations Under 10,000

The taxing district must adopt an ordinance or resolution for increasing property tax revenue, and levying a percentage increase less than 1% will automatically "bank" capacity. Without the resolution, the district cannot bank excess levying capacity.

#### Taxing Districts with Populations of 10,000 or More

Taxing districts with populations of 10,000 or more may only increase their levy by 1% or the implicit price deflator, whichever is less. If the implicit price deflator, released each year in late September, is greater than 1%, then the procedures are the same as those for populations fewer than 10,000.

However, if the implicit price deflator is less than 1%, the jurisdiction may not increase its levy (or bank the capacity) beyond the IPD rate. For instance, if the IPD is 0.5% and the jurisdiction chooses not to increase its levy, it may only bank a 0.5% increase for that year under the normal procedures.

But there is an exception – if the IPD falls below 1%, the jurisdiction may increase its levy beyond the IPD rate and up to the full 1% by adopting an ordinance or resolution making a finding of "substantial need." If the jurisdiction chooses not to increase its levy, it may bank the excess capacity beyond the IPD rate and up to the full 1% by adopting [an ordinance or resolution making a finding of "future substantial need"](#) (see example 2).

For more information on this process, see our page [Implicit Price Deflator](#).

#### Using Banked Capacity

While jurisdictions may bank capacity for later use, there are still limitations on its use based on the maximum allowable levy, which can be obtained from the assessor. Below is an example of the procedures for using banked capacity.

Assume that the maximum allowed levy amount is \$110,000 for the levy you made in 2022 for 2023 and the city only levied \$100,000 for 2018. When making a levy for 2024, the assessor will raise the maximum allowable levy by 1% to \$111,100 ( $\$110,000 \times 1.01$ ), exclusive of add-ons. If the city increases its current levy by 1%, it would be \$101,000 ( $\$100,000 \times 1.01$ ) plus add-ons, so it has \$10,100 of banked capacity.

In this example, the city wants to increase the levy by \$7,000. When you write your resolution/ordinance to satisfy the requirement for [RCW 84.55.120](#), you put \$7,000 in the blank that gives the dollar amount of the increase over the actual levy from the previous year – 2018 (excluding "add-

ons") – representing a percentage increase of 7% (\$7,000/100,000). \$1,000 of the increase comes from your 1% annual limit. For the other \$6,000, you have used banked capacity.

When you complete the levy certification form, you put in \$107,000 plus the dollar amount of "add-ons" as the amount of the regular property tax levy in the [levy certification form](#).

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## Examples of Local Property Tax Ordinances

Below are examples of general property tax ordinances from local governments in Washington State. We will be adding more examples soon. We also have additional examples of [levy lid lifts](#), [Emergency Medical Services \(EMS\) levies](#), and (in case the implicit price deflator falls below 1%) [resolutions of substantial need](#).

### Cities

- [Buckley Ordinance Nos. 21-19 and 22-19](#) (2019) – Setting property tax levy amount (dollars and percent increase) for regular (general fund) levy and EMS levy; city took less than 1% increase and banked the capacity
- [Kirkland Ordinance No. O-4890](#) (2024) – Setting property tax levy amount (in dollars) under RCW 84.55.120 for first year of biennial budget. City took the full 1% increase; ordinance shows calculations
- [Kirkland Ordinance No. O-4705](#) (2019) – Setting property taxes to be levied in an area formerly served by a fire protection district and now annexed to a code city for repayment of debt incurred by fire district prior to annexation, under [RCW 35A.14.500](#) and [RCW 35A.14.801](#)(5)
- [SeaTac Ordinance No. 22-1021](#) (2022) – Setting the property tax levy amount (in dollars) under RCW 84.55.120 for the first year of a biennial budget. City took a 0% increase and banked its capacity instead.
- [Shoreline Ordinance No. 873](#) (2019) – Setting property tax levy amount (dollars and percent increase) for regular (general fund) levy, plus excess levy for repayment of bonds. Ordinance clearly shows calculations; regular levy increase exceeded 1% due to multi-year levy lid lift tied to Seattle CPI-U.
- [Tukwila Ordinance Nos. 2617 and 2618](#) (2019) – Setting the property tax levy amount (dollars, percent increase, and levy rate) for regular (general fund) levy and excess levy for repayment of bonds

## Counties

- [\*\*Snohomish County Ordinance Nos. 19-064 and 19-065\*\*](#) (2019) – Setting the property tax levy amount (dollars, percent increase, and levy rate) for general (current expense) levy; county took a 0% increase and banked the capacity

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## Recommended Resources

- **Department of Revenue**
  - [Property Tax Levies Operations Manual](#)
  - [Resolution/Ordinance Procedures for Increasing Property Tax Revenue](#) (2021)
  - [Local Taxing District Levy Detail](#) – Includes assessed values, levy rates, and levy amounts for all cities, counties, and special purpose district in recent years. See the [levy detail column title descriptions](#) for understanding of the taxing district codes.
- [\*\*MRSC: Understanding Property Tax in Washington State\*\*](#) (2017) – Short recorded webinar provides an overview of property taxes, including types of tax limits, types of levies and rates, and methods for calculating the property tax levy.

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