**Property Tax Explanation**

Have you ever wondered how your property taxes are determined, where limits apply and how it's distributed? The best way to explain Washington's property tax system is with a simple illustration.

Imagine a little city that consists of four homes, each exactly the same, and each appraised by the Assessor at $100,000. Let's also say that the annual city budget for our imaginary city is $1000. To raise the amount of the budget, each homeowner must pay $250. Four homes each paying $250 raises $1000. Our property tax system is budget based. We tax enough to raise the amount in the budget. No more.
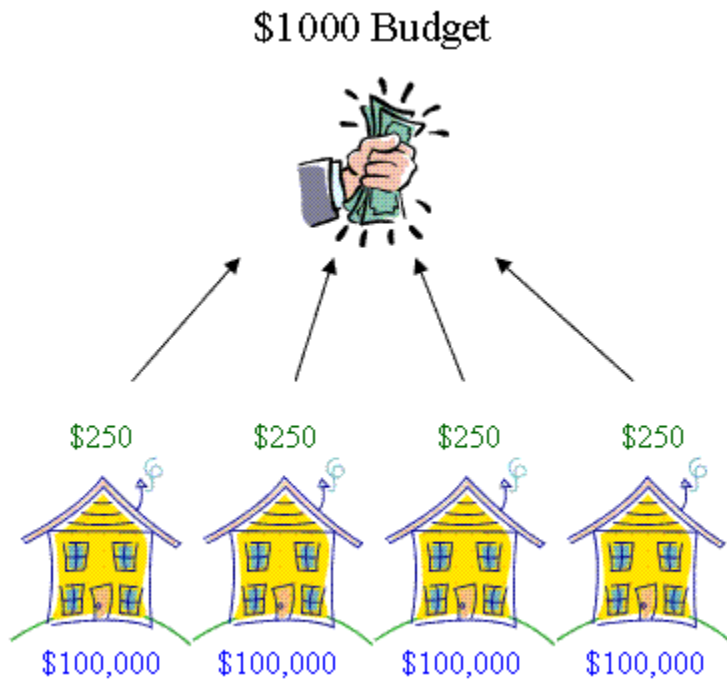

Let's say next year's budget remains at $1000, but the Assessor doubles the assessed value of all the homes to $200,000 each. Do the taxes on each of the homes change? No. To raise the budgeted amount, each must still pay $250. In this example, the assessed value of each home doubled, but the tax didn't change.

$1000 Budget

$250 $250 $250 $250

$200,000 $200,000 $200,000 $200,000
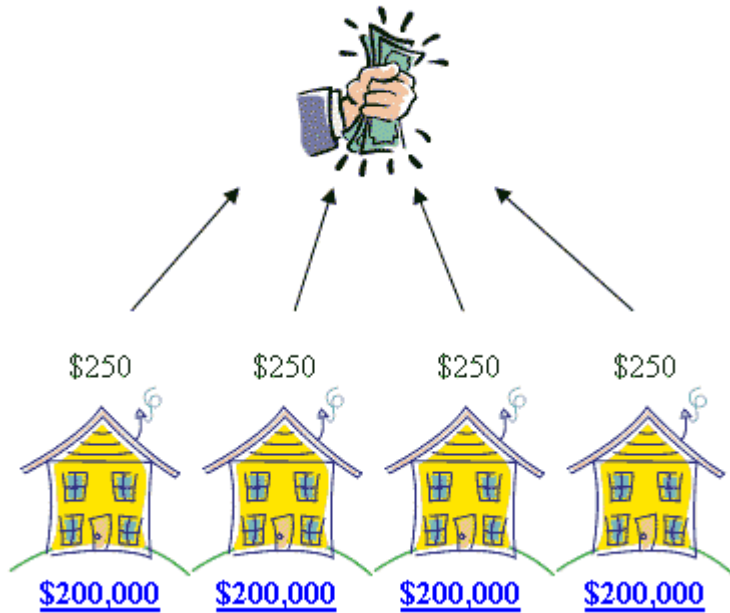
Now let's get a bit more realistic and say that the values on the homes change differently. Suppose one home goes from $100,000 to $150,000. Two homes double in value to $200,000 and the last home jumps up to a whopping $250,000! Now what happens to the taxes? Well, the average value of the four homes is still $200,000. So the taxes on the two homes that go to $200,000 are unchanged. They are at the average and they each still pay $250. The lowest valued home sees its tax go down to $187.50, even though the assessed value goes up 50 percent! The home that jumped 150 percent to $250,000 in value sees its property tax go up to $312.50, a 25 percent increase. In the end, we still only raise $1000 total to meet the budget. Interesting right?

$1000 Budget

$187.50 $250 $250 $312.50

$150,000 $200,000 $200,000 $250,000
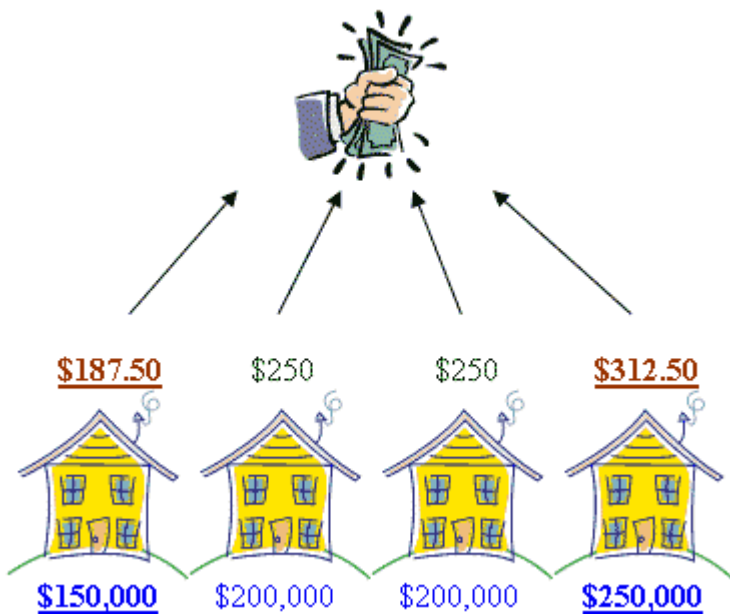
But wait. Normally budgets don't stay the same; they go up, right? Back in 2000, Washington State voters approved Initiative 747. I-747 limited annual budget increases to 1 percent unless voters approve a greater increase. In our imaginary city, the $1000 budget can only increase 1 percent to $1010 the following year unless the voters who live in the city approve a higher increase.

Our imaginary city gives a simple illustration of our property tax system. In reality, it's not so simple. In Spokane County, there are about 215,000 properties (all different from each other), 127 tax code areas, and 56 tax districts. Although each property is in one tax code area, each property is in a number of tax districts because tax districts overlap. For instance, say my mother lives in the house next door to mine. We both live in Fire District 10, however, she is in the Cheney School District while I'm in School District 81. The result is that even though we live right next to each other, we are in different tax code areas, and our total tax rates differ. The 56 tax districts in Spokane County are comprised of the county, cities, fire districts, emergency service districts, library, sewer, water, and cemetery districts, resulting in 127 tax code areas. Each tax district has an annual budget. Spokane County's property tax system operates just like our imaginary little city, but on a much larger scale and with all these different factors. Nonetheless, our computer systems allow very accurate calculation of property taxes.

Most taxpayers who call believe there is a limit on increases to assessed values. Not so. Assessed values are driven by the real estate market. The limit is on the annual budget increase of tax districts.

Now, let's look at what happens if someone moves into our little city and builds a new house. If we again say the assessed value of each home is the original $100,000 but add a new home, look what happens to the individual property tax on each home. Five homes supporting the $1000 budget means each home now pays only $200 each. While growth brings more demand for government services, and is likely to push up demand for a greater budget, the initial effect is decreased taxes.

$1000 Budget

$200 $200 $200 $200 $200

$100,000 $100,000 $100,000 $100,000 $100,000
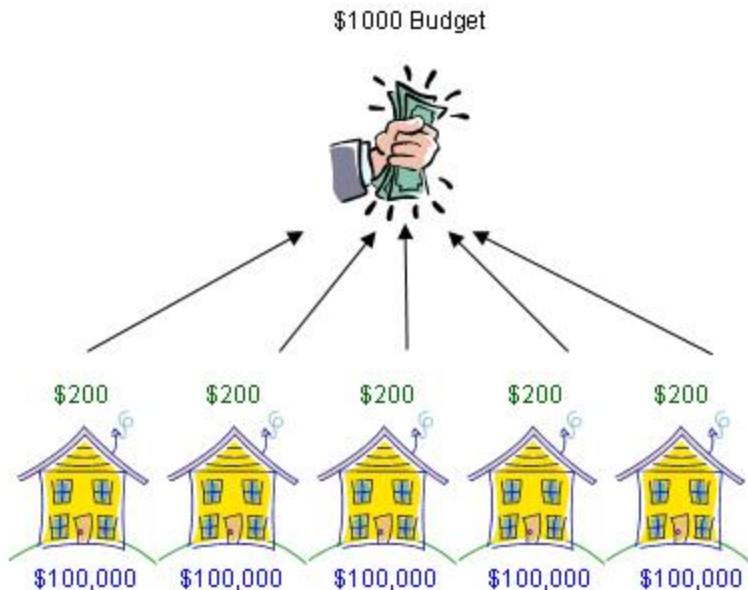
I have one more illustration that I think will be useful in our discussion. After we've determined how the values are established and the levy rates are set, the next step is generating the actual tax amount. This is done by multiplying the assessed value by the levy rate. This sets the ad valorem (or base) tax, which matches the budget requests discussed above. Special assessments are added if the property is within an irrigation, stormwater, aquifer, drainwater or flood district and tax statements are sent out. As the taxes are paid, the monies collected are divided among the budgeting entities, such as schools, fire, roads, cities, water and libraries. At the end of each month, the total tax collected is distributed to these individual districts. So, let's use the example from above. If your tax was $200 for the year and you paid the first half in April, that would be $100 collected. This $100 needs to be divided among the districts established in your area according to their budgeted amounts. The breakdown may look something like this: Schools (local and state) $50, County / City, $27, Fire district $12, Roads $4, Library $4 and Water $3.

For Each $100 in Taxes

| $50 | $27 | $12 | $4 | $4 | $3 |
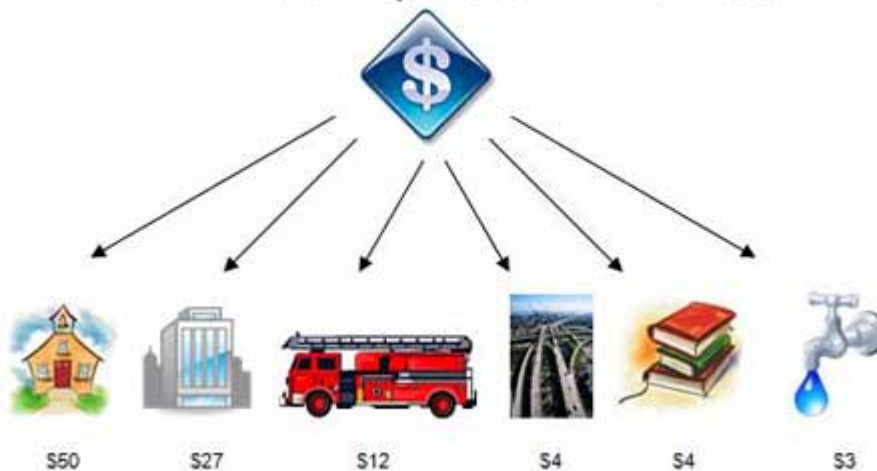
The above distribution process is continued throughout the year giving each district the funds requested to sustain their business activities.

Something to remember.

Spokane County is known as an "Annual County".   That means all property is to be adjusted to fair market value every year. All property is valued based upon the sale of comparable homes. So what does that look like when prices begin to decline? Will the assessed value decline with it? The answer is yes. We will follow the market. But remember the examples above; we will still raise the amount of the budget. Declining values would not necessarily mean lower taxes.

I hope this discussion helps you understand how our system works. You control your taxes at the ballot box. It is vitally important that we carefully consider all levy issues we are asked to vote upon.