

October 9, 2017

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Briefing on property tax impacts as a result of state legislation passed in 2017 by King County Assessor John Arthur Wilson, and Bellevue School District Deputy Superintendent Melissa DeVita

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POLICY ISSUES

King County Assessor John Arthur Wilson and Bellevue School District (BSD) Deputy Superintendent for Finance Melissa DeVita will attend tonight's meeting and provide an update on the impact on property owners for taxes owed in 2018 as a result of action during the 2017 state legislative session. That legislation increased the state share of the property tax to fund K-12 education. Engrossed House Bill (EHB) 2242 increased the STATE share of the property tax from \$1.90 per \$1,000 of assessed value (AV) to \$2.70 per \$1,000 of AV, an increase of 80-cents per \$1,000 of AV. Bellevue staff will also provide property tax charts that explain the property tax levies that impact Bellevue.

DIRECTION NEEDED FROM COUNCIL

ACTION

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DIRECTION

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INFORMATION ONLY

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Tonight's presentation is informational only and no Council action is required. Council will have an opportunity to learn about the impacts to local property owners from action by the 2017 State Legislature, to ask questions and provide feedback to the King County Assessor and BSD Deputy Superintendent.

BACKGROUND/ANALYSIS

The Washington State Constitution provides: "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders...". The Washington State Supreme Court has interpreted this to mean that the Legislature must define an instructional program of basic education for public schools and amply fund it from a regular and dependable source; and that the funding should reflect the actual costs of providing the legislatively defined instructional program of basic education.

Background on the McCleary Decision on K-12 School Funding

A brief history of how the Washington State Supreme Court's decision in *McCleary, et al. v. State of Washington (McCleary)* changed the landscape on K-12 school funding is included below:

- **2007**—Stephanie and Matthew McCleary, parents of two children in a small rural school district near Port Townsend, filed suit against the state alleging the state was not meeting its constitutional duty to adequately fund public schools. They were joined by a host of school districts, local teachers’ unions and educational organizations.
- **2012**—The Court issued its decision in the *McCleary* case and ordered the State Legislature to cover the full costs of providing a basic education to Washington students in grades K-12. In the years following the decision, the State Legislature has struggled to comply with the Court’s ruling.
- **2014**—The Court issued an unprecedented contempt ruling against the state, saying lawmakers had failed to provide a required, detailed plan on how the state would meet the 2018 deadline for fully funding basic education.
- **2015**—The Court maintained its contempt order against the state and imposed a fine of \$100,000 per day on the state.
- **2016**—The Court again reviewed the Legislature’s progress toward meeting the 2018 deadline to develop a model to completely fund K-12 education, continued its contempt order and the per-day fine against the state.

2017 Property Tax Changes Adopted by Legislature

As noted above, the 2017 Legislature approved EHB 2242 to satisfy (in whole or in part) its obligations to fully fund basic K-12 education. Among other things, this bill increased the STATE share of the property tax by 80-cents per \$1,000 of assessed value (AV).

Funding for K-12 education also relies on LOCAL property taxes. With voter approval, school districts currently can impose maintenance and operations (M&O) levies to provide additional services. EHB 2422 placed limits on the amount school districts can collect through M&O levies—now renamed “enrichment levies”—up to 28% of their base levy amount. This 28% is sometimes referred to as the “levy lid”.

EHB 2242 was the Legislature’s attempt to address the fact that some school districts have become overly reliant on local levies to fund basic education. As a result of passage of EHB 2242, beginning in 2019, the maximum amount that can be levied by school districts is the lesser of \$2,500 per pupil OR a rate of \$1.50 per \$1,000 of AV. For many districts, this will result in a significant decrease in the amount of money the districts can raise from M&O or “enrichment” levies in 2019. This is the case for the BSD and several other school districts in King County. As a result of this change, there is no longer uniformity across the state in the formula for calculating how much a school district can levy—and the new cap will provide less than the current levy amount. It is anticipated that some districts, facing reductions in funding for education and the changes in the local levy structure, may opt to form a special service-type district and impose a fee to help make up for lost revenue.

As a result of EHB 2242, the Bellevue School District (BSD) estimates that in 2019, Bellevue residents will pay an additional \$44.4 million per year in state property taxes to fund K-12 education. Of that amount, approximately \$20 million would go to the BSD for its programs and about \$24.4 million would fund educational programs in other areas of the state.

Property owners in the BSD (and other high-AV communities) will pay more property taxes to fund K-12 education, get less of that funding for local schools and send potentially more than half of the increased amount to other parts of the state. Increased stress on the property tax may, over time, erode the willingness of voters to approve ballot measures for other local issues due to the increased property tax burden.

When state and local property tax changes are taken together, nearly every property taxpayer in the state will see an increase in their 2018 property taxes. However, beginning in 2019, property owners living in areas with lower assessed values will see a decrease in the M&O (or enrichment) levy, and a decrease in their property taxes—possibly even below what they were paying in 2017. In other areas with higher assessed values, property owners will experience an increase over 2017 taxes paid, but a decrease from the 2018 rate. In areas of the state with mid-level assessed values, property owners may see an increase from 2017 taxes paid, as well as an increase from the 2018 rate.

Where Your Property Tax Goes—Breakdown of the Property Tax Bill of the Owner of a Typical Home in Bellevue

Attachment A is a pie chart that includes the total dollar amount and the gross percentage of the property tax bill for each taxing jurisdiction/agency that collects property taxes from Bellevue property owners, based on 2017 tax rates. **Attachment B** is a breakdown of all the specific levies collected by each taxing jurisdiction/agency and includes the term of the levy, ending date, levy rate, total raised, total raised from Bellevue, and impact to a median property and a property valued at \$1.0 million in Bellevue.

Public agencies need to approve their 2018 budgets in early December so that the Assessor can compile information across about 570 levy codes and prepare the tax roll in order to send out property tax bills in mid-February for taxes owed in 2018.

RECOMMENDATION

N/A

ATTACHMENTS

- A. Where Does my Property Tax Go?
- B. 2017 Property Tax Assessments by Jurisdictions/Agencies in Bellevue