

PROPERTY TAX REVENUES AND DEBT CAPACITY

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INTRODUCTION

This paper describes the state limits on the amount of property tax that the City can collect, as well as related state limits on the City’s debt capacity (property taxes contribute more to the City’s General Subfund than any other revenue source).

CITY PROPERTY TAXES

The non-voted General Property Tax Levy provides more than one-fifth of the City’s General Subfund (GSF) revenue. For 2015, this was \$228 million out of the \$1.043 billion GSF. The **revenue growth** of non-voted property tax is limited by state law¹ to 1% growth plus the value of new construction; and the City is collecting this maximum amount.

Table 1: Sources of General Subfund Revenue (GSF)

Budgeted Revenue Source	2015 (\$ million)	% of Total
General Property Tax	227.8	21.8%
Medic One Levy (County Property Tax)	43.4	4.2%
Retail Sales Tax	189.5	18.2%
Criminal Justice (County Retail Sales Tax)	14.4	1.5%
Business & Occupation Tax	216.7	20.8%
Utility Business Taxes (multiple utilities)	192.6	18.5%
Admissions Tax	8.4	0.8%
Other Tax	4.7	0.5%
Licenses and Permits	14.5	1.4%
Parking Meters/Hoods	39.7	3.8%
Court Fines	30.2	2.9%
Service Charges	40.1	3.8%
Other revenues and transfers	19.8	1.9%
Total	1,043.0	

Source: 2015 Adopted Budget

The City may collect additional property tax revenues above the 1% growth limit (i.e., “lifting” the levy lid) with voter approval. If specifically included in the ballot title, a levy lid lift may establish a permanent² increase to the tax base; otherwise the levy lid lift is temporary³ for the term of the ballot measure.

The City currently has five voter-approved levies that are not constrained by the 1% growth limit; these are shown in Table 2 on the following page. The individual ballot measures specify

¹ Specifically, revenues are limited by the lesser of 1% growth per year or the Implicit Price Deflator (a measure of inflation), plus the value of new construction and remodels. This limit was first established by Initiative 747 in 2001, and subsequently affirmed by state legislature in 2007. See [WAC 458-19](#).

² A permanent levy lid lift is included in the calculation of the new base for subsequent levies.

³ A temporary levy lid lift reverts to the amount that would have been allowed at the 1% growth limit.

the revenue growth over the term of the voter-approved levy, and this may vary from the 1% growth limit.⁴ All of the City’s existing voter-approved levies are temporary.

Table 2: Expected 2015 Cash Receipts from Property Tax Levies

Property Tax Levy	Term	2015 Receipts
General Property Tax (GSF)	n/a	\$230.9 million ⁵
Transportation	Nine Years, 2007-2015	\$43.7 million
Low Income Housing	Seven Years, 2010-2016	\$20.7 million
Families & Education	Seven Years, 2012-2018	\$33.1 million
Pre-Kindergarten	Four Years, 2015-2018	\$14.6 million
Library	Seven Years, 2013-2019	\$17.3 million
Total		\$360.3 million

Source: CBO Finance via email

State law also limits the City’s maximum property tax **rate** to \$3.60 per \$1,000 assessed value (AV). This includes both the General Property Tax and voter-approved levy lid lifts. The property tax rate is established by dividing the total amount of property tax revenues to be collected by the total assessed property value in the taxing district. This rate becomes the basis for individual property tax bills.

Since the non-voted portion of the property tax levy is limited by the 1% growth limit, the \$3.60 per \$1,000 AV rate limit has the effect of capping the amount of property tax available for voter-approved levies. Rising property values in excess of 1% growth do not raise new tax revenue⁶; rather, they increase the available levy capacity under the rate limit. Conversely, falling property values reduce the capacity for future voter-approved levies⁷. If the City’s total requested property tax revenue ever results in a tax rate that would exceed \$3.60 per \$1,000 AV, then the City would have to determine which levies to reduce in order to stay under the maximum rate.

There is one exception to the \$3.60 per \$1,000 AV limit. The City may levy “excess” property taxes (which do not count against the rate limit) to pay debt service on voter-approved bond measures, which requires 60% voter approval. For 2015, the City will levy \$18.7 million to pay debt service on voter-approved bonds⁸ including Libraries for All (voted in 1998) and the Waterfront Seawall (voted in 2012). This amounts to approximately \$0.14 per \$1,000 AV in property tax.

⁴ RCW 84.55.050 allows voter-approved levies to exceed the 1% growth limit for up to 6 consecutive years, after which additional revenues are limited by the 1% growth limit.

⁵ Anticipated cash receipts for the GSF vary slightly from the budgeted revenue shown in Table 1, reflecting timing of tax payments.

⁶ An individual property owner will see an increase in their individual tax bill if their property’s value increases by a higher percentage than the change in total assessed value, however the total amount of City tax collected is fixed.

⁷ In 2010, falling property values resulted in a loss of approximately \$50 million of levy capacity at the \$3.60 per \$1,000 AV limit.

⁸ These are Unlimited Tax General Obligation (UTGO) Bonds later described under Debt Capacity.

In 2014, the City’s property tax rate was \$3.05 per \$1,000 AV. For 2015, the City’s property tax rate is \$2.62 per \$1,000 AV. This drop reflects the expiration of the Pike Place Market levy and the Parks levy at the end of 2014, as well as a 13% increase in total assessed value citywide. The current Transportation levy will expire at the end of 2015, and the Mayor is proposing a new nine-year Transportation levy for the November 2015 ballot.

For 2015, the total property tax rate paid by a Seattle property owner is \$9.27 per \$1,000 AV.

Table 3: Total 2015 Property Taxes for Seattle Property Owners

Property Tax	2015 Rate	% of Total
City of Seattle	\$2.62 per \$1,000 AV	28.3%
Port of Seattle	\$0.19 per \$1,000 AV	2.0%
King County	\$1.35 per \$1,000 AV	14.5%
Seattle School District	\$2.39 per \$1,000 AV	25.8%
Emergency Medical Service	\$0.30 per \$1,000 AV	3.3%
Flood District	\$0.14 per \$1,000 AV	1.5%
State School Fund	\$2.29 per \$1,000 AV	24.6%
Total	\$9.27 per \$1,000 AV	

Source: King County Assessor Website

State law allows for the creation of certain special-purpose tax districts with separate taxing authority from the City of Seattle. In 2014, Seattle voters approved the creation of the Seattle Parks District which has the same boundaries as the City of Seattle and has a governing board consisting of all nine Seattle Councilmembers. The Seattle Parks District has its own taxing authority of up to \$0.75 per \$1,000 AV, and may exceed this limit with voter approval. Seattle tax payers will begin paying the Seattle Parks District levy in 2016 at a rate of \$0.33 per \$1,000. The Seattle Parks District will transfer these revenues to the City to support parks operations and maintenance⁹.

DEBT CAPACITY

The City issues three types of debt to finance its capital improvement programs: Unlimited Tax General Obligation (UTGO) Bonds, Limited Tax General Obligation (LTGO) Bonds, and Revenue Bonds.

UTGO Bonds are repaid by property taxes, and may be issued with 60% voter-approval¹⁰. Property taxes to support UTGO bonds do not count against the City’s property tax rate limit (i.e., “Unlimited” bonds). State law limits the amount of outstanding UTGO debt by specific purpose, as shown in Table 4 on the following page. As of December 31, 2013, the City had \$123 million in outstanding UTGO bonds.

⁹ Another example of a special-purpose taxing district is the Seattle Transportation Benefit District (STBD), established in 2010. The STBD does not levy a property tax, but instead collects sales tax and a vehicle license fee. The STBD transfers these revenues to the City to purchase transit service and support transportation operations and maintenance. The STBD shares the same boundaries as the City of Seattle and has a governing board consisting of all nine Seattle Councilmembers.

¹⁰ Requirement is 60% of voters in an election in which the number of voters exceeds 40% of the voters in the most recent general election.

LTGO Bonds may be repaid by various taxes and other government revenues. LTGO Bonds, also known as “Councilmanic” bonds, may be issued without voter-approval for general government purposes. Property taxes to support LTGO bonds count against the City’s property tax rate limit (i.e., “Limited” bonds). State law limits the amount of outstanding LTGO debt to 1.5% of total assessed value. As of December 31, 2013, the City had \$887 million in outstanding LTGO bonds.

The City’s Debt Management policies¹¹ govern the use of LTGO debt. The Debt Management Policy Advisory Committee¹² (DMPAC) advises on the issuance of new debt. As a matter of policy, the City reserves \$100 million or 12% of the LTGO debt capacity (whichever is higher) for emergencies. Except for emergencies, City policy also limits net debt service¹³ on LTGO debt to 7% of the total General Fund budget.

Revenue Bonds are used to support the capital programs of Seattle City Light and Seattle Public Utilities. These bonds are paid solely through utility revenues (i.e., utility rates) and do not impact the City of Seattle’s debt limits.

Table 4: City of Seattle’s Debt Capacity and Outstanding Debt

Form of Debt	Voter Approval	Source of Repayment	Statutory Limitation	Current Limit	Outstanding 12-31-13
UTGO – Parks & Open Space	Yes	Excess Property Tax	2.5% of AV	\$3.2 billion	\$0
UTGO – Utility ¹⁴	Yes	Excess Property Tax	2.5% of AV	\$3.2 billion	\$0
UTGO – General Purpose	Yes	Excess Property Tax	1.0% of AV ¹⁵	\$1.3 billion	\$123 million
LTGO – General Purpose	No	Regular Property Tax and other revenue	1.5% of AV	\$1.9 billion	\$887 million
Revenue Bonds – Utility ¹⁶	No	Utility Rates			

Source: 2015 Adopted Budget

While the City has significant unused debt capacity remaining, the City has limited revenues with which to service new debt. Issuance of new UTGO debt is contingent on the voter’s willingness to approve new excess property taxes. Issuance of new LTGO debt is constrained by available General Fund revenue, including the limits on property tax revenue discussed in the first part of this paper.

¹¹ The City’s Debt Management Policies were last updated in 2014 by [Resolution 31553](#), and are included as Attachment A to that Resolution. The policies cover all forms of debt, including use of interfund loans.

¹² DMPAC is comprised of the Director of Finance, the Chair of the Finance and Culture Committee, the General Manager of Seattle City Light, the Director of Seattle Public Utilities, the City Budget Director, and the Director of Council Central Staff. DMPAC provides advice to the Mayor, City Council, and the Director of Finance on all matters pertaining to the incurrence of debt.

¹³ Net debt service is the total annual LTGO debt service minus any revenues generated by the debt-funded projects to pay the debt service.

¹⁴ This bonding authority is separate from the revenue bonds issued by Seattle City Light and Seattle Public Utilities.

¹⁵ The sum of outstanding general purpose UTGO and LTGO debt is limited to 2.5% of assessed value.

¹⁶ As of December 31, 2013, SCL and SPU had a total of \$3.39 billion in outstanding Revenue Bonds. Source: 2013 CAFR.