

# HOW PROPERTY TAX WORKS

The role of the Assessor is to value property for property tax purposes as of January 1 each year. Sometimes folks worry that an increase in assessed value automatically means that their property taxes will go up. That's not the case.

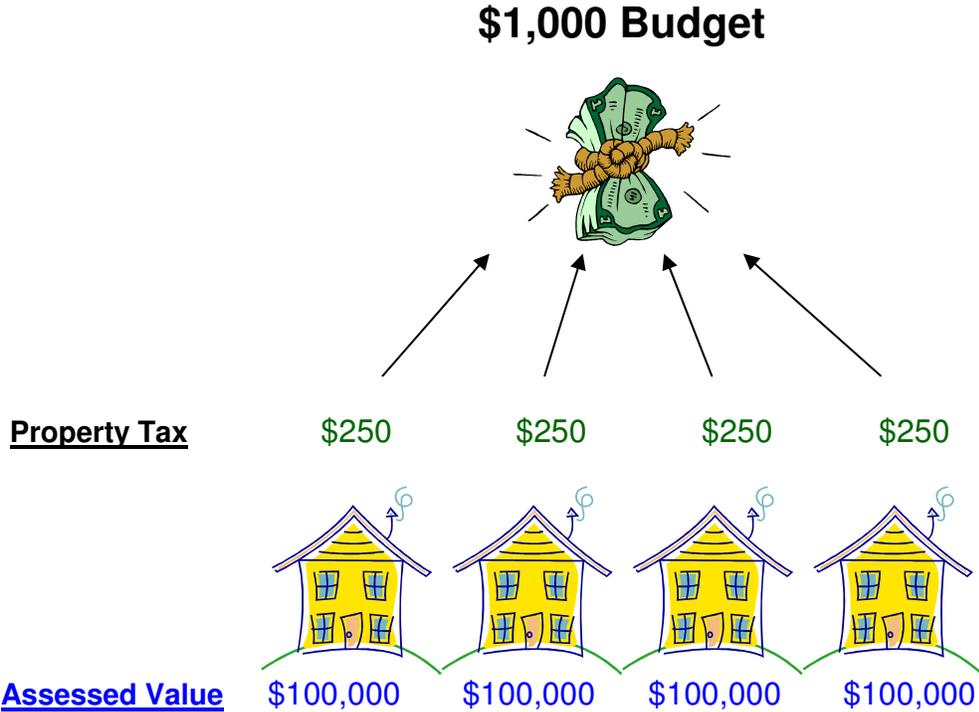
Assessment is a tool that allocates how much each property owner pays in taxes. Taxing district budgets ultimately determine what the tax rate is. The value of the property is multiplied by the aggregate tax rate (for all the taxing districts that provide services to the parcel) to establish the amount of property tax each owner owes.

Allow me to explain Washington's property tax system with some simple illustrations:

**Scenario 1:**

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 \$1,000. To raise the amount of the budget, each homeowner must pay \$250 in property taxes. Four homes each paying \$250 raises \$1,000.

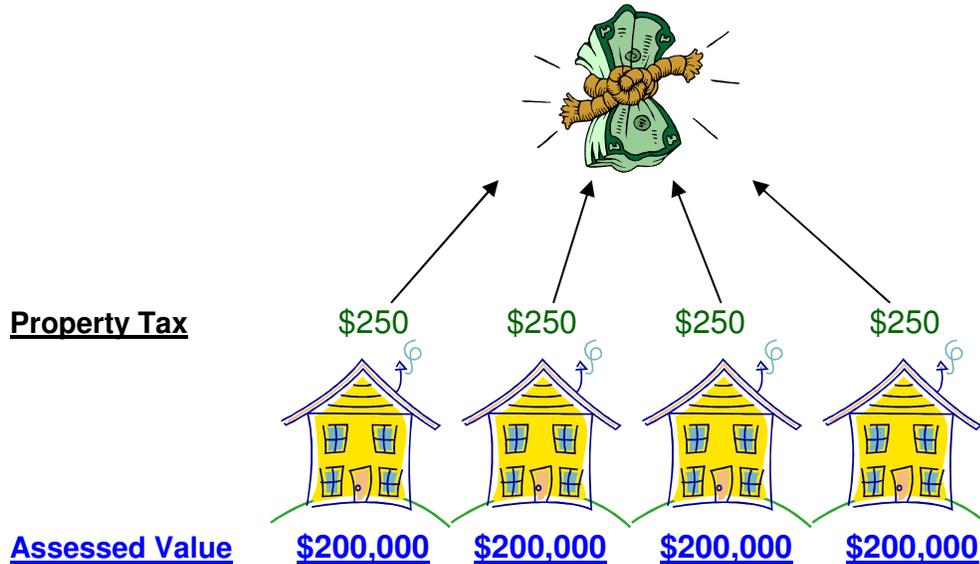
**Washington's property tax system is budget based.** We tax enough to raise the amount in the budget. No more.



**Scenario 2:**

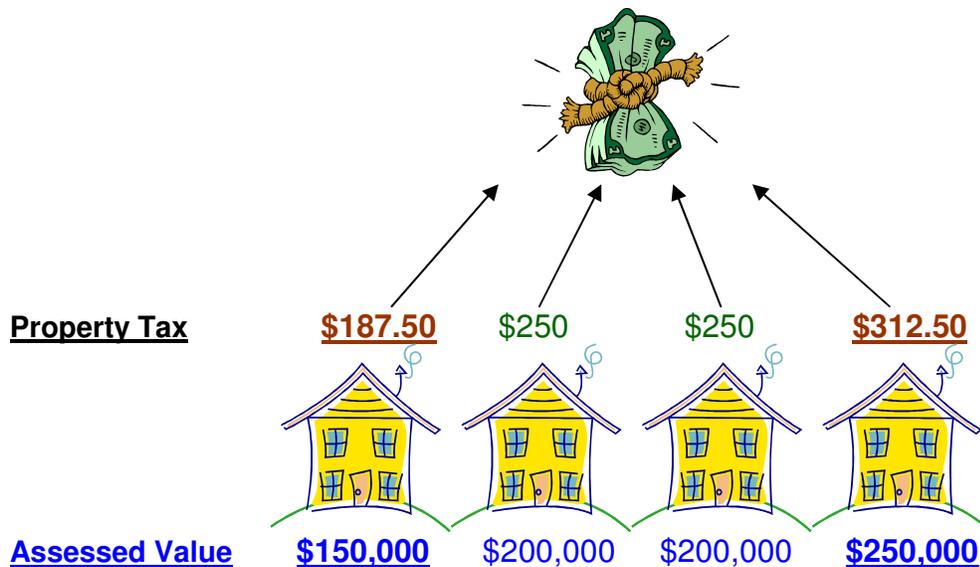
Let's say next year's budget remains at \$1,000, but the Assessor doubles the assessed value of all the homes to \$200,000 each. Do the property taxes on each of the homes change? No. To collect the **budgeted amount**, each must still pay \$250. In this example, the assessed value of each home doubled, but the property tax didn't change.

**\$1,000 Budget**



Now let's 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 their property 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 \$1,000 total to meet the budget. Interesting, right?

**\$1,000 Budget**



But wait. Normally budgets don't stay the same; they go up, right? Washington State voters approved Initiative 747 in 2000; it was reinstated by the Legislature in November 2007 after being overturned by the Supreme Court earlier that month. I-747 limits annual budgets to a 1-percent increase unless voters approve a greater increase. In our imaginary city, the \$1,000 budget can only increase 1-% to \$1010 the following year **unless** the voters who live in the city approve a higher increase.

Our imaginary city offers simple illustrations of our property tax system. In reality, it's not so simple. Thurston County has about 115,000 properties (all different from each other), 82 tax code areas, and 43 taxing districts.

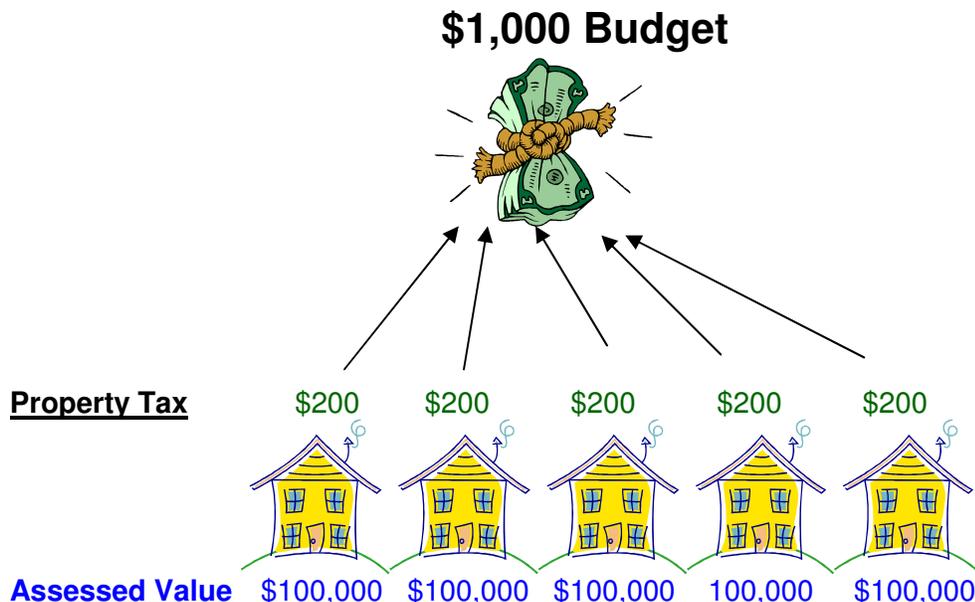
Although each property is in one tax code area, each property is in a number of tax districts because tax districts overlap. The 43 tax districts in Thurston County are comprised of the county, cities, fire districts, schools, emergency service districts, library, roads, conservation futures, and cemetery districts, resulting in 82 tax code areas. Each tax district has an annual budget.

To further complicate property taxes, some properties that cross county lines, such as railroad property and telephone lines, are assessed by the state. We also assess and tax business personal property. And we process senior and disabled exemptions and farm and agricultural valuation reductions. Thurston County's property tax system operates just like our imaginary little city, but on a much larger scale and with all these additional factors. Nonetheless, our computer systems allow very accurate calculation of property taxes.

Many taxpayers who call my office think there is a limit on increases to assessed values. Not so. **The 1% limit is on the annual budget growth of the tax districts.**

### **Scenario 3:**

I have one more illustration that I think would be useful in our discussion. Let's see what happens when 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 \$1,000 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.



Note: In Scenario 3, the assumption is that the taxing district didn't exercise its option to increase its budget due to the contribution of New Construction. If the district opted to include additional tax due to the added value of the new house, then they could legally increase their budget without a vote by taxpayers.

Now let's discuss appraisals. In assessor jargon, Thurston County is known as an "Annual County". That means all property must be adjusted to **fair market value** every year. While we physically inspect only 1/6 of our county each year, we update the valuation of all property annually.

Property values are based upon the sales of comparable homes. With our real estate market as active as it has been, and with home prices moving up so quickly the past few years, we have worked hard in the Assessor's Office to keep up. While the national housing market started cooling off in late 2006, the local market did not follow the national trends. Property values in most of Thurston County continued to increase until the last quarter of 2007.

Many people wondered about when the real estate market changes and prices begin to decline, will the assessed value decline with it? The answer is yes. We will follow the market. But recall the examples above; property taxes will be collected to meet the amount of the budget. Declining values would not necessarily mean lower taxes, just as increasing values do not automatically result in higher property taxes.

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

Sincerely,

Patricia Costello  
Thurston County Assessor