NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 5 – PROPERTY TAXATION

Taxing Powers

The County is authorized to levy both "regular" property taxes and "excess" property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose "excess" property taxes that are not subject to limitation when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the turnout is not less than 24 percent of the number who voted at the last County general election. Excess levies may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

Maximum Rate Limitations. The County may levy regular property taxes for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to $1.80 per $1,000 of assessed value; the County levied $1.08329 per $1,000 in 2004. The road district purposes levy, which is levied in unincorporated areas of the County for road construction and maintenance and other County services provided in the unincorporated areas, is limited to $2.25 per $1,000; the County levied $1.79422 per $1,000 in 2004. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of $2.475 per $1,000 of assessed value if the total combined levies for both general and road purposes do not exceed $4.05 per $1,000 and if no other taxing district has its levy reduced as a result of the increased County levy (RCW 84.52.043).

The $1.80 per $1,000 limitation on the general purposes levy is exclusive of the following regular property taxes: (1) a voted levy for emergency medical services, limited to $0.50 per $1,000 (authorized by RCW 84.52.069); (2) a voted levy to finance affordable housing for very low income households, limited to $0.50 per $1,000 (authorized by RCW 84.52.105, however, the County has not sought approval from voters for this levy); and (3) a non-voted levy for conservation futures, limited to $0.0625 per $1,000 (authorized by RCW 84.34.230).

In November 2001 voters approved a six-year emergency medical services property tax at a maximum rate of $0.25 per $1,000 beginning in the 2002 tax year. The County currently is levying $0.05922 per $1,000 for conservation futures. In 2000 voters in the County approved a five-year temporary lid lift to finance an automated fingerprint identification system. This five-year levy began in 2001; the current levy rate is $0.05050 per $1,000.

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NOTE 5 – CONTINUED

In May 2003 voters approved a County-wide four-year temporary lid lift for Regional and Rural Parks at a rate not to exceed $0.049 per $1,000.

One Percent Aggregate Regular Property Tax Levy Limitation. Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or $10.00 per $1,000) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050.

$5.90/$1,000 Aggregate Regular Property Tax Levy Limitation. Within the one percent limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of $5.90 per $1,000 of assessed value (or 0.59%) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low income households, and acquiring conservation futures.

If aggregate regular property tax levies exceed the one percent or $5.90 per $1,000 limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010) to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

Regular Property Tax Increase Limitation. The regular property tax increase limitation (chapter 84.55 RCW), as amended by Ch. 1, Laws of 2002 (the "Property Tax Act"), limits the total dollar amounts of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the lesser of 101 percent or 100 percent plus inflation, but if the inflation rate is less than one percent, the limit factor can be increased to 101 percent, if approved by a majority plus one vote of the governing body of the municipality, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the municipality upon a finding of substantial need and is also approved by the voters at a general or special election within the municipality. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described under "Maximum Rate Limitations." The approval of a majority of the voters would be required for the limit factor to be increased. The new limit factor will be effective for taxes collected in the following year only.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as "banked" levy capacity.

With a majority vote of its electors, a taxing district may levy for the following year, within the statutory rate limitations described above, more than what otherwise would be allowed by the tax increase limitations, as allowed by RCW 84.55.050. This is known as a "levy lid lift," which has the effect of increasing the jurisdiction's levy "base" when calculating permitted levy increase in subsequent years. The new base can apply for a limited or unlimited period, except that if

NOTES TO FINANCIAL STATEMENTS
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NOTE 5 – CONTINUED

the levy lid lift was approved for the purpose of paying debt service on bonds, the new base can apply for no more than nine years. After the expiration of any limited purpose or limited duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) which exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Tax Collection Procedures

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the County Assessor (the "Assessor") based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year (except that one-half of real property taxes may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. The County's lien on personal property taxes levied by the County Council before the filing of federal tax liens is senior to such federal tax liens. In all other respects, and subject to the possible "Homestead Exemption" described below, the lien for property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (chapter 6.13 RCW) gives the occupying homeowner a right to retain the first $40,000 of proceeds of the forced

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NOTE 5 – CONTINUED

sale of a family residency or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the Homestead Exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

Assessed Valuation Determination

The Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year the County Council receives the Assessor's final certificate of assessed value of property within the County. The taxes payable in the following year are based on this assessed valuation.

Accounting for Property Taxes Receivable

In the governmental funds, property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues. For the government-wide financial statements, the deferred revenue related to the current period, net of the allowance for uncollectible property taxes, is reclassified to revenue.

Allocation of Tax Levies

The following table compares the allocation of the 2004 and 2003 countywide, Emergency Medical Services (EMS), and unincorporated County tax levies by fund, showing for each year the original tax levy and levy rate. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2004 countywide assessed valuation was $235,834,254,423, an increase of $10.8 billion from 2003; the assessed valuation for the unincorporated area levy was $36,163,188,224, an increase of $1.9 billion from 2003.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 5 – CONTINUED

ALLOCATION OF 2004 AND 2003 TAX LEVIES

	2004 Original Taxes Levied (in thousands)	2004 Levy Rate (per thousand)	2003 Original Taxes Levied (in thousands)	2003 Levy Rate (per thousand)
Countywide Levy Assessed Valuation: $235,834,254,423[a]				
Items Within Operating Levy[b]				
General Fund	$ 233,119	$ 0.99253	$ 223,968	$ 0.99968
River Improvements	2,499	0.01064	2,429	0.01084
Veterans' Relief	2,114	0.00900	2,054	0.00917
Human Services	4,697	0.02000	4,566	0.02038
Intercounty River Improvement	49	0.00021	49	0.00022
Limited G.O. Bonds Debt Service	11,959	0.05091	14,621	0.06525
Automated Fingerprint Identification System[c]	11,861	0.05050	10,826	0.04832
Park Levy[d]	11,504	0.04900		
Total Operating Levy	277,802	1.18279	258,513	1.15386
Conservation Futures Levy[e]				
Conservation Futures Levy	8,232	0.03505	7,467	0.03333
Farmland and Park Debt Service	5,677	0.02417	5,135	0.02292
Total Conservation Futures Levy	13,909	0.05922	12,602	0.05625
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	44,144	0.18945	30,985	0.13937
Total Countywide Levy	335,855	1.43146	302,100	1.34948
EMS Levy Assessed Valuation: $151,896,158,785[a][f]	35,897	0.23717	34,847	0.24143
Unincorporated County Levy Assessed Valuation: $36,163,188,224[a][g]				
County Road Fund	64,603	$ 1.79422	59,555	$ 1.74490
Total County Tax Levies	$ 436,355		$ 396,502	

(a) Assessed valuation for taxes payable in 2004.

(b) The operating levy tax rate is statutorily limited to $1.80 per $1,000 of assessed valuation.

(c) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for five years beginning in 2001 at a levy rate of not more than $0.05784 per $1,000 of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.

(d) The Park Levy is a regular property tax to be assessed for four years beginning in 2004 at a levy rate of not more than $0.049 per $1,000 of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.

(e) The Conservation Futures levy tax rate is statutorily limited to $.0625 per $1,000 of assessed valuation.

(f) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle. The levy was approved by the voters of King County for a six-year period with collection beginning in 2002.

(g) The tax rate is statutorily limited to a maximum of $2.25 per $1,000 of assessed valuation.