

HOUSE BILL REPORT

HB 1300

*As Reported By House Committee on:
Revenue*

Title: An act relating to averaging large property tax valuation increases.

Brief Description: Modifying provisions for property assessment and allowing for averaging of large property tax valuation increases.

Sponsor(s): Representatives Wang, Horn, Phillips, Heavey, Fraser, Winsley, Rust, Leonard, Nelson, Holland, Jacobsen, Appelwick, Dorn, Ferguson, Locke, H. Sommers, Brekke, Wineberry, May, R. King, Wilson, Betrozoff, Cole, Hine, Scott and Anderson.

Brief History:

Reported by House Committee on:
Revenue, March 10, 1991, DPS.

**HOUSE COMMITTEE ON
REVENUE**

Majority Report: *That Substitute House Bill No. 1300 be substituted therefor, and the substitute bill do pass.* Signed by 11 members: Representatives Wang, Chair; Fraser, Vice Chair; Holland, Ranking Minority Member; Wynne, Assistant Ranking Minority Member; Appelwick; Day; Leonard; Morris; Phillips; Rust; and Van Luven.

Minority Report: *Do not pass.* Signed by 4 members: Representatives Belcher; Brumsickle; Morton; and Silver.

Staff: Rick Peterson (786-7150).

Background: Property subject to property tax is assessed at its true and fair value. In most cases this is the market value in the property's highest and best use. The values are set as of January 1st. These values are used for determining property bills to be collected in the following year. The constitution requires the property tax to be uniform on real estate.

County assessors establish new assessed values on regular revaluation cycles. The length of revaluation cycles vary by county. The most common length is four years although

three and two years schedules are used by some counties. A proportionate share of the county is revalued during each year of the cycle. In most cases, individual property values are not changed during the intervening years of the revaluation cycle. The change in value for an individual property follows a stair step pattern, no change in value for four years then, in one year, a change representing four years of value growth, two or three years in case of a two or three year cycle.

Some counties are on a program of annual updates. Values are adjusted annually based on market value statistical data. In this case, a physical inspection of each property is done once every six years.

A combination of delayed value changes due to revaluation cycles and volatile real estate markets can generate substantial changes in assessed values from one year to the next.

Summary of Substitute Bill: An assessed value growth limit is established:

Each year, the current appraised value is compared to the assessed value for the previous year. The new assessed value is the lesser of (1) the current appraised value, and (2) the greater of:

- o 110 percent of the previous assessed value; or
- o The previous assessed value plus 25 percent of the difference between current appraised value and the previous assessed value.

For example, a property that increases in value by 80 percent is limited to a 20 percent increase in assessed value. A property that increases in value by 32 percent is limited to a 10 percent increase. A property that increases in value less than 10 percent is increased to its market value.

Improvements to property, new construction and remodeling, are always added separately at their appraised value.

The assessment limit applies to state and local levies and to both real and personal property.

The bill applies to 1992 taxes.

Substitute Bill Compared to Original Bill: The original bill used a 6 percent threshold for the growth limit rather than 10 percent.

Fiscal Note: Requested March 12, 1991.

Effective Date of Substitute Bill: If the proposed amendment to Article VII of the state constitution authorizing averaging of large property tax valuation increases over four years is validly submitted to and is approved and ratified by the voters at a general election held in November, 1991, sections 1 through 27 of this act shall take effect immediately upon certification of the election and shall be effective for taxes levied for collection in 1992 and thereafter.

Testimony For: A property value growth limit will protect property owners from unexpected rapid increases in tax bills. Some residential properties have had increases in assessed value up to 100 percent.

Testimony Against: The value growth limit will create additional administrative difficulties for county assessors. Property should be taxed on the market value of the property. The property tax system should tax the land value and not the value of the improvements.

Witnesses: Ruthe Ridder, King County Assessor; Jack Westerman, Jefferson County Assessor; Dennis Okamoto, Director, Will Rice Assistant Director, Department of Revenue; Tony Lee, WA Assoc. of Churches; David West, WA Citizen Action; Charles Chong, Admiral Community Council; Enid Layes and John Penney, AWB; Stan Finkelstein, Assoc. of Cities; Rick Wickman, Assoc. of Counties; Ray Ryan, Cowlitz County Assessor; Fred Saeger, WA Assoc. of City Officials; Charles McNurlin, AARP; and Marvin Saillard, Meta Heller, and Hamlet Hilpert, Washington State Georgists.