HOUSE BILL REPORT

HB 2058

As Reported By House Committee On:
Revenue

Title: An act relating to property tax relief for owner-occupied single-family residences.

Brief Description: Providing a homestead property tax exemption.

Sponsors: Representatives G. Fisher, Holm, Finkbeiner and Appelwick.

Brief History:
Reported by House Committee on:
Revenue, March 8, 1993, DP.

HOUSE COMMITTEE ON REVENUE

Majority Report: Do pass. Signed by 13 members: Representatives G. Fisher, Chair; Holm, Vice Chair; Foreman, Ranking Minority Member; Anderson; Brown; Cothern; Leonard; Morris; Romero; Rust; Thibaudeau; Van Luven; and Wang.

Minority Report: Do not pass. Signed by 3 members: Representatives Fuhrman, Assistant Ranking Minority Member; Silver; and Talcott.

Staff: Rick Peterson (786-7150).

Background: All real and personal property is subject to property tax, based on 100 percent of the fair market value, unless otherwise provided by law.

Property taxes are calculated by multiplying a tax rate by the assessed value of each piece of property. By statute, assessed value must be equal to 100 percent of the fair market value of the property. County assessors are required to revalue each property at least every four years. Some counties revalue more frequently. Value assessments are generally completed by May 30. The levy rate calculation process occurs during the fall, and individual tax bills are mailed the following February.

The state constitution does not explicitly require assessments to be equal to fair market value, but Article VII, section 1 of the constitution does require all property taxes to be applied "uniformly." However, the Legislature has the power to exempt property from taxation. There is a certain logical inconsistency between the uniformity clause and the exemption clause. This inconsistency has not been completely reconciled by court interpretations. Thus, questions remain about how far the Legislature can go under the exemption clause without violating the uniformity clause. These constitutional provisions have generally been interpreted as meaning that the constitution must be amended before the Legislature can exempt a <u>portion</u> of the assessed value of property, as opposed to <u>completely</u> exempting a type of property.

Constitutional amendments have been adopted to provide specific exceptions to the uniformity rule for the Senior Citizen Tax Relief Program and the "current use" valuation of open space, timber, and agricultural lands. Both of these programs use a valuation less than 100 percent of fair market value. These constitutional amendments were adopted by the Legislature and ratified by the people at a general election, under the amendment process provided by Article XXIII of the constitution. The constitution cannot be amended by initiative of the people.

There are three property tax limits: the 1 percent limit, the dollar rate limits, and the 106 percent levy limit. The interplay between these limits is quite complex.

The 1 percent limit is in the state constitution, and provides that the total amount of taxes on any piece of property cannot exceed 1 percent of the fair market value.

The dollar rate limits are statutory, and provide a specific limit on the rate each tax district can levy. The state levy rate is limited to $3.60 per $1,000 of assessed value; county general levies are limited to $1.80 per thousand; county road levies are limited to $2.25 per thousand; and city levies are limited to $3.375 per thousand. These districts are known as "senior" districts. Junior districts like fire, library, and hospital districts each have specific rate limits as well. In addition, there is an overall rate limit of $5.90 per thousand for all districts except the state. There is a complex system of prorating the various levies so that the total rate for local levies cannot exceed $5.90 for any piece of property.

The 106 percent levy limit is statutory, and limits the growth in the total dollar amount of each taxing district's tax receipts to 106 percent of the district's receipts for the previous year, with certain exceptions and adjustments. During times of rapid growth in property values, the 106 percent limit prevents a correspondingly rapid growth in district tax proceeds. However, the 106 percent limit does not necessarily mean that an individual's tax bill will be limited to 106 percent of the previous year's bill. On the average, tax bills will increase by no more than about 6 percent per year. But if an individual's assessed value grows by more than the average for the district, that individual's tax bill will grow by more than 6 percent per year. It is extremely difficult to estimate the effect of the 106 percent limit on individuals until all assessments and the levy rate for the entire district are calculated. However, it is certain that actual tax bills will not increase as much as assessments during times of rapid market value growth.

Summary of Bill: A homestead exemption is provided for all owner-occupied single family residences. The exemption will operate by reducing the assessed value of each home by an amount equal to 25 percent of the median value of owner-occupied homes in each county.

The maximum property tax rate for each type of taxing district is increased by 10 percent, as a means of recovering revenue losses from the exemption.

Fiscal Note: Available.

Effective Date: The bill will be effective for taxes levied for collection in 1995 and thereafter, if a proposed amendment to Article VII of the state constitution is approved by the voters at the next general election.

Testimony For: By targeting those who are most in need of property tax relief, this bill adds an element of progressivity to property taxation. The bill is broadbased; about 87 percent of homeowners would benefit; it takes county market variations into account; it reverses the recent tax shift onto residential property; it changes the rate limit; and minimizes the impact of any potential revenue loss to local governments.

Testimony Against: If the economy starts booming again, the recent shift of taxes to residential property will shift back to commercial property. This is why market values are used in the first place.

Witnesses: Representative Greg Fisher, prime sponsor (pro); Will Rice, Department of Revenue (pro); and Jeanette Burridge, Northwest Legal Foundation (con).