HOUSE BILL REPORT
ESSB 5212

As Passed House -Amended
February 10, 1997

Title: An act relating to limiting property taxes by reducing the one hundred six percent limit calculation and allowing for valuation increases to be spread over time.

Brief Description: Limiting property taxes.

Sponsors: By House Committee on Finance (originally sponsored by Senate Committee on Ways & Means (originally sponsored by Senators Swecker, Hale, Zarelli, Johnson, McDonald, McCaslin, Deccio, West, Schow, Horn, Strannigan, Hochstatter, Benton, Sellar, Anderson and Oke)).

Brief History:
Committee Activity:
Finance: 2/5/97 [DP].
Floor Activity:
Passed House - Amended: 2/10/97, 63-34.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 8 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Boldt; Kastama; Schoesler; Thompson and Van Luven.

Minority Report: Do not pass. Signed by 4 members: Representatives Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Mason and Morris.

Staff: Rick Peterson (786-7150).

Background: All real and personal property in this state is subject to the property tax each year based on its value, unless a specific exemption is provided by law. The tax bill is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located. Property is assessed at its true and fair market value, unless the property qualifies under a special valuation program. True and fair value means market value. Values are set as of January 1. These values are used for determining property bills to be collected in the following year.

County assessors establish new assessed values on a regular revaluation cycle. The length of revaluation cycles varies by county. The most common length is four years, which is the maximum allowed by statute. Of the 39 counties, 20 revalue every four years. San Juan revalues every three years. Douglas revalues every two years. Seventeen counties revalue every year.

If a county's revaluation cycle is longer than two years, an equal portion of the county must be revalued during each year of the cycle. Individual property values are not changed during the intervening years of the revaluation cycle. 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.

Beginning with taxes collected in 1973, the Legislature imposed a limit on regular property tax increases for all districts except the state, known as the "106 percent limit." This limit was applied to the state beginning in 1980. Regular taxes subject to this limit include levies by the state, counties, cities, port districts, fire protection districts, library districts, metropolitan park districts, public hospital districts, and others.

The 106 percent limit requires reduction of property tax rates, as necessary, to limit the total amount of property taxes received by a taxing district. The limit for each year is the sum of (a) 106 percent of the highest amount of property taxes levied in the three most recent years, and (b) an amount equal to last year's tax rate multiplied by the value of new construction. The limit may be raised by a majority of the voters in the district. The limit does not apply to voter-approved excess levies such as local school levies and levies to retire bond issues. The limit does not apply to an individual taxpayer's property taxes or limit growth in the assessed value of individual properties. Rather, it is a limit on the total amount of property taxes that may be levied by a taxing district.

The amount of a property tax levy by a district is set as part of the district's annual budget process.

Summary of Bill: A limitation is applied to large increases in assessed value of real property. Each year, the current appraised value is compared to the assessed value for the previous year, and the increase in market value of the property is determined. A new assessed value is determined as follows:

- If the increase in market value is negative (the property has declined in value), the new assessed value is equal to the appraised value.
- If the increase in market value is less than 15 percent, the new assessed value is also equal to the appraised value.
- If the increase in market value is between 15 and 60 percent, the new assessed value is equal to the old assessed value increased by 15 percent.

- If the increase in market value is over sixty percent, the new assessed value is equal to the old assessed value plus 25 percent of the market value increase.

The market values of improvements, such as construction and remodeling, are always added separately to determine a new assessed value.

This valuation limit is used beginning with 1999 taxes.

The 106 percent limit is changed to the lesser of (1) 106 percent or (2) 100 percent plus inflation. Inflation is defined as the percentage change in the implicit price deflator published the federal Department of Commerce. However, a 106 percent limit applies to a taxing district with a population of less than 10,000. The legislative authority of a local taxing district may approve a limit up to 106 percent. In districts with legislative authorities of four members or less, two-thirds of the members must approve the new limit. In districts with more than four members, a majority plus one vote must approve. The new limit is effective only for taxes collected in the following year.

The change in the 106 percent limit applies beginning with 1998 taxes.

No increase in property tax revenue, other than that resulting from the addition of new construction and improvements to property and any increase in the value of state-assessed property, may be authorized by a taxing district except by adoption of a separate ordinance or resolution, pursuant to notice, specifically authorizing the increase in terms of both dollars and percentage. The ordinance or resolution may cover a period of up to two years, but the ordinance must specifically state for each year the dollar increase and percentage change in the levy from the previous year.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 5, 1997.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Initiative 601 has done a good job in slowing the growth of state government. This bill will incorporate some of the elements of I-601 into the property tax. Increases will be limited to inflation and super majority votes are required to raise the limit. Many local taxing districts automatically take the full amount allowed by the 106 percent limit. The 106 percent limit has become a floor rather than, as originally intended, a ceiling on local property tax increases. The provisions for public hearings before the limit can be raised above inflation will improve communication between the districts and their constituents. The value phase-in provisions will eliminate the spikes in assessed value increases. It provides an orderly process to place these increases on the tax rolls while it protects homeowners.

Testimony Against: Assessment at market value is the only element of the property tax system that taxpayers understand. The Legislature should not move away from market value. Taxes will be shifted to properties that do not grow rapidly in value. The majority plus one vote requirement means a unanimous vote is required in jurisdictions with three person legislative boards. This should be changed to a two-thirds vote for these districts.

Testified: Pro: Senator Dan Swecker, prime sponsor; Rob McKenna, King County Council; George Tyler, citizen; and Stan Finkelstein, Association of Washington Cities. Con: Scott Noble, King County Assessor; and Gary Lowe, Washington State Association of Counties. Concerns: Betty Sue Morris, Clark County Commission.