SENATE BILL REPORT

SB 5212

As Reported By Senate Committee On:
Ways & Means, January 29, 1997

Title: An act relating to limiting property taxes.

Brief Description: Limiting property taxes.

Sponsors: Senator Swecker, Hale, Zarelli, Johnson, McDonald, McCaslin, Deccio, West, Schow, Horn, Strannigan, Hochstatter, Benton, Sellar, Anderson and Oke.

Brief History:
Committee Activity: Ways & Means: 1/21/97, 1/29/97 [DPS, DNP].

SENATE COMMITTEE ON WAYS AND MEANS

Majority Report: That Substitute Senate Bill No. 5212 be substituted therefor, and the substitute bill do pass.
Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Hochstatter, McDonald, Roach, Rossi, Schow, Swecker, Winsley and Zarelli.

Minority Report: Do not pass.
Signed by Senators Bauer, Fraser, Kohl, Loveland, Sheldon, Snyder, Spanel and Thibaudeau.

Staff: Terry Wilson (786-7433); David Schumacher (786-7474)

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.

Real property lying wholly within individual county boundaries is assessed based on its value by the county assessor. Intercounty, interstate, and foreign utility and transportation companies are assessed based on their value by the Department of Revenue. Property assessed by the Department of Revenue is referred to as state-assessed or centrally assessed property.

Property taxes are imposed on the assessed value of property. Current law requires the assessment to equal 100 percent of the fair market value of the property on July 31 of the assessment year for new construction and on January 1 of the assessment year for all other property.

County assessors revalue property periodically on a regular revaluation cycle. The length of the revaluation cycle varies by county. The most common length is four years, which is the maximum allowed by statute. In counties on a four-year revaluation cycle, the change in the tax assessment in the year of revaluation reflects four years of market value changes.

Changes in assessments are determined by changes in the real estate market. Therefore, there is no limit to the amount an assessment may increase or decrease.

In 1971, the Legislature imposed a statutory lid on regular property tax levy increases. Under this lid, regular property taxes levied by a taxing district in any year may not exceed 106 percent of the taxes levied by the district in the highest of the preceding three years. Added to this amount is the previous year's tax rate multiplied by the assessed value in the district that results from new construction and improvements to property in the previous year and any increase in the value of state-assessed property. To remove the incentive to maintain a high levy, taxing districts other than the state are assumed to have levied the maximum allowed since 1986.

The 106 percent limit is not a limitation on the amount of taxes that may be imposed on an individual taxpayer but rather is an aggregate limit on the amount of property taxes that may be levied by a taxing district.

Summary of Substitute Bill: A limitation is placed on adding to the tax rolls large valuation increases to real property. Each year, the current appraised value is compared to the assessed value for the previous year. The new assessed value is determined according to the following chart:

Difference	New Assessed Value
Negative to +15%	Appraised value
Between 15% and 60%	Old assessed value plus 15%
Over 60%	Old assessed value plus 25% of the difference

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

This value is used in calculating state and local levies beginning with 1999 taxes.

The 106 percent limit is changed to the lesser of (1) 106 percent or (2) 100 percent plus the percentage change in the implicit price deflator for personal consumption expenditures for the United States as published for the most recent 12-month period by the Bureau of Economic Analysis of the federal Department of Commerce in September of the year before taxes are payable. Only 50 percent of the value resulting from new construction and improvements to property in the previous year and 50 percent of any increase in the value of state-assessed property is used in determining the additional amount of taxes that may be raised.

The change in the 106 percent limit applies to 1998 taxes and thereafter.

Substitute Bill Compared to Original Bill: The 10 percent threshold on the averaging proposal is increased to 15 percent, and technical amendments are made.

Appropriation: None.

Fiscal Note: Requested on January 20, 1997.

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

Testimony For: Property taxes have increased much faster than pension incomes. Property taxes are forcing life style changes, and people are forced to sell their homes because they cannot afford the property tax increases. Assessed values have gone up 75 percent in one year. If the incomes of taxpayers do not go up by more than inflation, the budgets of taxing districts should be similarly limited. People are afraid when their property values rise substantially. The averaging proposal will give taxpayers some certainty.

Testimony Against: People cry for tax relief when valuations spike, and something is needed before an initiative is filed, but property taxes are a major component of city revenues. Cities cannot replace the lost revenues, and cities do not have control over their expenditures because most of the budget is personnel and those costs are controlled by collective bargaining. New construction should be added to the 106 percent calculation because it drives service requirements and really impacts the ability of districts to meet demands. This really hits districts where new construction is high. Cities will have to raise B&O taxes and impact fees if this passes. The inflation index chosen in the bill is the lowest measure possible. A more realistic measure should be used.

Testified: William C. Farnslow, taxpayer; Tom Mayer, Washington Library Assn.; Pete Spiller, Fire Districts; Suzanne Paulsrude, Thurston County Assessor; Boots Fischer, WA State Grange; George F. Tyler, taxpayer; Stan Finkelstein, AWC; Roy Bysaeger, City of Dupont; Gayla Gjeratson, City of Tumwater; Dwight Dively, City of Seattle; Gary Lowe, WA Assn. of Counties; Don Carter, Citizens for Property Tax Reform.