

***Finance Committee***

***HB 1488***

***Brief Description:*** Restricting property tax levies in excess of the rate of inflation.

***Sponsors:*** Representatives Carrell, Cairnes, Boldt and Mulliken.

***Brief Summary of Bill***

- *Restricts to 9 consecutive years the substantial need exception to the property tax inflation limit.*
- *Disregards the increased taxes imposed under the substantial need finding when calculating subsequent property taxes.*

***Hearing Date:*** 2/20/01

***Staff:*** Rick Peterson (786-7150).

***Background:***

*All real and personal property in this state is subject to 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.*

*The sum of property tax rates is limited by the state constitution to a maximum of 1.0 percent of true and fair value, or \$10 per \$1,000 of value. The constitution provides a procedure for voter approval for tax rates that exceed the 1 percent limit. These taxes are called "excess" levies. Taxes imposed under the 1 percent limit are called "regular" taxes. Regular taxes do not require voter approval.*

*The state's constitutional one percent rate limit (\$10 per \$1,000 of value) is implemented by a complex statutory system of dollar rate limits for each taxing district. The dollar rate system and a procedure for reducing (prorating) district taxes insures that the total for all regular property taxes does not exceed the one percent rate limit. Each type of district*

*is given a portion of the total tax rate.*

*The regular property taxes are also limited by the inflationary limit. This 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) 100 percent plus a growth factor times the highest amount of property taxes levied in the three most recent years, plus (b) an amount equal to last year's levy rate multiplied by the value of new construction. For districts over 10,000 in population the growth factor is the lessor of inflation, as measured by the implicit price deflator for personal consumption, or 6 percent. Districts with populations under 10,000 are allowed to increase by 6 percent rather than inflation.*

*The governing body of a taxing district may increase the tax above the inflation limit, but only to 6 percent. A finding of substantial need and a super majority vote of the taxing district's governing body is required.*

*Initiative 722 was adopted November 7, 2000. Initiative 722 reduced the property taxing district growth factor to the lesser of inflation or 2 percent for districts with populations over 10,000. And I-722 reduced the growth factor from 6 percent to 2 percent for taxing districts with populations below 10,000. Under a finding of substantial need a district may only increase property taxes up to 2 percent. Due to a Superior Court injunction, the implementation of I-722 has been delayed.*

***Summary of Bill:***

*A taxing district may use the substantial need exception to the property tax inflation limit for up to 9 consecutive years. After ending a substantial need exception period, a taxing district may not use the substantial need exception for an equal number of years.*

*The additional tax from a substantial need declaration cannot be used as a base to calculate future property taxes.*

*These changes take effect if the I-722 provision relating to substantial need is invalidated by the Washington courts.*

***Appropriation:*** *None.*

***Fiscal Note:*** *Requested on February 12, 2001.*

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