
Finance Committee

HB 3076

Brief Description: Providing property tax relief.

Sponsors: Representatives Santos, Nixon, Ruderman, Simpson, G., Campbell, Chase, Shabro, Lovick, Darneille, Sullivan, Pettigrew, Simpson, D., Hunt, Blake, Veloria, Kessler and O'Brien.

Brief Summary of Bill

- Exempts from the property taxes on owner occupied principal residences an amount up to 20 percent of the median property value.

Hearing Date: 2/5/04

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 county assessor determines assessed value for each property. The county assessor also calculates the tax rate necessary to raise the correct amount of property taxes for each taxing district. The assessor calculates the rate so that the individual district rate limit, the district revenue limit, and the aggregate rate limits are all satisfied. The tax bill is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located.

The state constitution requires all property taxes to be applied "uniformly." However, the constitution also gives the Legislature 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.

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.

The sum of property tax rates is limited by the state constitution to a maximum of 1 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. The most common excess levies are maintenance and operation levies for school districts and bond retirement levies. Excess levies must obtain a 60 percent majority vote plus meet a minimum voter turnout requirement. Levies that fit within the 1 percent rate limit are regular levies. Generally, districts are not required to get voter approval for regular levies.

In order to implement the 1 percent limit, the Legislature has adopted rate limits for each individual type of district. 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 most districts. The state property tax and a specific list of local levies, such as emergency medical services, conservation futures, and affordable housing, are not subject to the \$5.90 limit. There is a complex system of prorating the various levies so that the total rate for local levies does not exceed \$5.90. If the total rate exceeds \$10 after prorating under the \$5.90 aggregate rate limit then another prorating procedure reduces levy rates so that the total rate is below \$10 per \$1,000 of value.

In addition to the rate limitations, a district's regular property tax levy is limited by a statutory maximum growth rate in the amount of tax revenue that may be collected from year to year. The voters amended this revenue limit most recently with the passage of initiative 747 in November 2001. The limit requires a reduction of property tax rates as necessary to limit the growth in the total amount of property tax revenue received to the lesser of one percent or inflation, generally. The revenue limitation does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing property, or to changes in state-assessed valuation. In areas where property values have grown more rapidly than 1 percent per year the 101 percent revenue limit has caused district tax rates to decline below the maximum rate.

The revenue limit for regular property taxes may be superseded by voter approval; this process is known as a "lid lift". Lid lifts require approval by a majority of the voters in a taxing district, and allow the district to set its levy in an amount that exceeds 101 percent of the previous year's tax, as long as the resulting tax rate is within the statutory rate limit.

Property tax exemptions reduce the amount of property over which the property tax levies are spread. Generally, excess property tax levies are approved by voters in terms of the total dollar amount that is to be raised. The tax rate is calculated by dividing this amount by the value of taxable property in the taxing district. Exempting property from paying excess levies means that a higher tax rate is necessary to raise the approved amount of money.

The rates for regular property tax levies are also determined by dividing the amount to be raised by the assessed value of the district. The resulting tax rate calculation is checked against the

maximum allowed for the district and reduced if necessary. If a district is at or close to their rate maximum then an exemption would result in less revenue to the district. However, many districts are below the maximum rate allow due to the 101 percent revenue limit. In these districts an exemption will result in a higher tax rate and no loss in revenue. The lower tax amount for those exempted will be recovered from nonexempt taxpayers through higher tax rates.

Summary of Bill:

A property tax homestead exemption is provided for all owner-occupied principal residences. The exemption for excess levies is equal to 20 percent of the median value of property in each county. The exemption for the state property tax is equal to 20 percent of the state's median value of property. For local taxing districts, the exemption is equal to the lower of 20 percent of the county median property value, or the maximum that can be exempted without resulting in a loss of revenue due to the aggregate rate limits.

Appropriation: None.

Fiscal Note: Requested on January 29, 2004.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.