# Finance Committee

# HB 2028

**Brief Description:** Modifying senior citizen property tax provisions.

**Sponsors:** Representatives Santos, McIntire, Schual-Berke, Ericks, Conway, Simpson and Ormsby.

**Brief Summary of Bill**

- Changes income thresholds for the senior citizens property tax relief exemption from fixed income thresholds to thresholds based on county median family income.
- Limits assessed value increases to 2 percent per year for senior citizens with incomes between 55 percent of county family median income and $50,000.
- Closes the property tax deferral program to new applicants, but allows current participants to continue deferrals.

**Hearing Date:** 2/20/07

**Staff:** Mark Matteson (786-7145).

**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. One such program is the senior citizen property tax exemption.

*Property Taxes - General Requirements and Limitations.* The property tax is the oldest of taxes in Washington and is subject to a number of constitutional and statutory requirements. The State Constitution (Constitution) requires all property taxes to be applied "uniformly;" this has been interpreted to mean that within any given taxing district, the district rate applied to each parcel of taxable property must be the same.

The Constitution limits the sum of property tax rates to a maximum of 1 percent of true and fair value, or $10 per $1,000 of market value. Levies that are subject to the 1 percent rate limitation

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are known as "regular" levies, and there is no constitutional voting requirement for regular levies. The Constitution does provide 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. The Constitution provides that excess levies must obtain a 60 percent majority vote plus meet a minimum voter turnout requirement.

In order to implement the 1 percent constitutional rate limit, the Washington Legislature has adopted statutory rate limits for each individual type of district. The state levy rate is limited to $3.60 per $1,000 of assessed value; county general levies are limited to $1.80 per $1,000; county road levies are limited to $2.25 per $1,000; and city levies are limited to $3.375 per $1,000. 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 $1,000 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 prorationing under the $5.90 aggregate rate limit then another prorationing 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. Generally, 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 1 percent or inflation. The revenue limitation does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing property, to changes in state-assessed valuation, or to construction of certain wind turbines. 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 Taxes -Mechanics.* The County Assessor (Assessor) determines assessed value for each property. The 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.

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, 19 revalue every four years. San Juan County revalues every three years. Douglas County revalues every two years. Eighteen 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.

Counties on revaluation cycles longer than one year must physically inspect each property at the time it is revalued. If a county revalues property annually, physical inspection of each property is required only once every six years. Values are adjusted annually based on market value statistical data.

*Property Taxes - Exemptions in General.* The State Constitution gives the Legislature the power to exempt property from taxation, and a number of exemptions have been enacted. Constitutional amendments have also been adopted to provide specific exceptions to the uniformity requirement 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.

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 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.

*Property Taxes - Senior Citizen Tax Relief.* Authorized by a constitutional amendment, certain senior citizens and persons retired due to disability are entitled to property tax relief on their principal residences. To qualify, a person must be 61 in the year of application or retired from employment because of a physical disability, own his or her principal residence, and have a disposable income of less than $35,000 a year. Persons meeting these criteria are entitled to partial property tax exemptions and a valuation freeze.

Disposable income is defined as the sum of federally defined adjusted gross income and the following, if not already included: capital gains; deductions for loss; depreciation; pensions and annuities; military pay and benefits; veterans' benefits except attendant-care and medical-aid payments; Social Security and federal railroad retirement benefits; dividends; and interest income on state and municipal bonds. Payments for: the care of either spouse received in the home, in a boarding home, in an adult family home, or in a nursing home; prescription drugs; and Medicare health care insurance premiums are deducted in determining disposable income.
Partial exemptions for senior citizens and persons retired due to disability are provided as follows:

(a) if the income is $30,001 to $35,000, all excess levies are exempted;

(b) if the income level is $25,001 to $30,000, all excess levies and regular levies on the greater of $50,000 or 35 percent of assessed valuation ($70,000 maximum) are exempted; and/or

(c) if the income level is $25,000 or less, all excess levies and regular levies on the greater of $60,000 or 60 percent of assessed valuation are exempted.

In addition to the partial exemptions listed above, the valuation of the residence of an eligible senior citizen or disabled person is frozen at the assessed value of the residence on the later of January 1, 1995, or January 1 of the assessment year a person first qualifies for the program.

If the person subsequently fails to qualify in one year because the income limitations have been exceeded, but then qualifies in the following year, the valuation of the property upon requalification is the previously frozen value amount. If the person subsequently fails to qualify in multiple succeeding years, then the valuation of the property upon requalification is the assessed value of the property in the assessment year that the person requalifies.

In addition to the exemption program, eligible persons of age 60 with incomes less than $40,000 may defer taxes. A person is eligible if he or she qualifies for the exemption program, except for the age and income requirements. Taxes that are deferred become a lien against the property and accrue interest at 5 percent per year. If deferred taxes are not repaid within three years after the claimant ceases to own and live in the residence, the lien will be foreclosed and the residence sold to recover the taxes.

**Summary of Bill:**

The income thresholds for the senior citizens and persons retired due to disability property tax relief exemption are changed. The lowest income category is changed to 33 percent of county median family income. The middle income category is changed to 44 percent of county median family income. And the highest income category is changed to 55 percent of county median family income.

New participants are subject to the new income thresholds. Persons currently participating in the program are grandfathered into the greater of the old income thresholds or the income thresholds based on county median family income. County median family incomes are the same as those used by the federal government for determining eligibility for various housing programs.

Assessed value increases are limited to 2 percent per year for the homes of senior citizens and disabled persons with incomes between 55 percent of county median income and $50,000. The limited assessed value for these households applies to all property taxing districts, except that a county governing body may choose not to participate. If a county chooses not to participate then taxes for all taxing districts in the county, except for the state, will be calculated using an assessed value not limited by the 2 percent cap. Property taxing districts' levy amounts will be reduced to prevent a tax rate increase due to this limit on assessed value increases. This will prevent a shifting of property taxes onto taxpayers not benefitting from the exemption.

The property tax deferral program is closed to new participants. Current participants may continue to defer property taxes.

**Appropriation:** None.

**Fiscal Note:** Requested on February 12, 2007.

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