Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2334

Brief Description: Authorizing regular property tax increases in excess of one percent growth for limited purposes including the funding of infrastructure and the reduction of impact fees.

Sponsors: Representatives Ericks, McIntire, Jarrett, Hankins and B. Sullivan.

Brief Summary of Bill

- Modifies the existing limitations on regular property tax growth to allow, absent a public vote, taxing districts to increase regular levies by a factor of up to 100 percent plus inflation.
- Requires local jurisdictions that increase regular levies in excess of 101 percent to use the incremental revenue for capital facility improvements before any other use.
- Requires the incremental revenue received by the state in excess of 101 percent growth to be used for a competitive grant program for school facilities in high-growth school districts.
- Restricts local jurisdiction authority to impose impact fees if the jurisdiction increases its regular levy in excess of 101 percent or if a school district for which the jurisdiction collects fees receives funds under the new competitive grant program.

Hearing Date: 2/26/07

Staff: Mark Matteson (786-7145).

Background:

Property Taxes - General Requirements and Limitations. Property subject to property tax is assessed at its true and fair value. This includes both real estate and personal property. In most cases true and fair value is the market value in the property's highest and best use. The state constitution requires the property tax to be uniform on real estate.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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 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.

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. For districts with a population of less than 10,000, the limit restricts regular levy growth to 101 percent. For districts adopting a limit based on a finding of substantial need, growth is restricted to the lesser of 101 percent or the limit factor adopted. For all other districts, growth is restricted to the lesser of 101 percent or inflation, defined as the change in the implicit price deflator published by the federal Bureau of Economic Analysis. 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.

The state property tax levy must be used for the support of common schools. Aside from operational support, allowable uses include the payment of the principal and interest on bonds issued for school capital projects. Amounts received from the state levy are deposited mostly to the State General Fund, with a portion deposited to the Student Achievement Fund.

Impact fees - Growth Management Act. Counties, cities, and towns that plan under the major provisions of the Growth Management Act (GMA) are authorized to impose impact fees on development activity as part of the financing of public facilities. Impact fees are payments of money required of developers as a condition of development approval and apply to both new development and the expansion of existing development.

The imposition of impact fees is subject to several conditions. Such fees: may be imposed only with respect to certain public facilities that are reasonably related to the impact of the development on the facilities; may not exceed a proportionate share of certain public facilities' costs related to the impact of the development; and must be used for certain public facilities that reasonably benefit the new development.

The public facilities for which the impact fees may be imposed and spent are limited to certain capital facilities that are owned or operated by government entities. These include public streets and roads; publically owned parks, open space, and recreation facilities; school facilities; and fire protection facilities in jurisdictions that are not part of a fire district.

Local ordinances imposing impact fees must include a schedule of fees specific to each type of development activity. The method of fee calculation must take into account the type of development in determining the cost of its anticipated impact.

Impact fees are required to be used for a permissible purpose within six years of receipt. If not used at the end of the six year period, the fees must be refunded to the person who paid the fees.

Summary of Bill:

The limits on regular levy growth are modified to allow districts, without a public vote, to establish levies based on a growth factor of 100 percent plus inflation.

The incremental tax revenue collected in excess of the amount that would otherwise be collected if the limit were 101 percent must be used in a certain manner. For taxing districts other than the state, the incremental revenues must first be used before any other purpose for public facilities that are included in the capital facilities plan and are designed to provide service to service areas within the community at large. Eligible facilities include streets and roads; publicly owned parks, open space, and recreation facilities; school facilities; and fire protection facilities in jurisdictions that are not part of a fire district.

For the state, incremental revenues must be used for the purpose of constructing, modernizing, or remodeling school facilities in high-growth school districts. High-growth school districts are school districts where the student enrollment growth is at least 150 percent of the statewide average. Funds are deposited to a new account and distributed to districts through a competitive grant program administered by the Department of Community, Trade, and Economic Development. Districts desiring funds must apply to the department with a description of the facilities to be built or improved and an estimate of cost. For the first three years of the grant program, priority is given to those districts for which impact fees are collected as of January 2007 and with respect to which the jurisdiction that collects the impact fees has approved an ordinance reducing the impact fees received by the district by the amount of grant funding received under the new program.

The state Treasurer is required to distribute funds to qualifying districts on the last day of June and December. The amount of funds received by a district may not exceed the district's proportional share of student enrollment relative to the total enrollment of all districts that apply under the grant program.

Counties, cities, and towns may not impose impact fees other than those for school facilities if regular property taxes are levied based upon a growth factor exceeding 101 percent.

Appropriation: None.

Fiscal Note: Requested on February 23, 2007.

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