Washington State House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HJR 4205

Brief Description: Amending the Constitution to limit property valuation increases for the state property tax.

Sponsors: Representatives Morrell, VanDeWege, Hurst, O'Brien, Kelley, Sells, Kessler, P. Sullivan, Green, Flannigan, Linville, Conway, Kenney, Wallace, Appleton, Blake, Ormsby, Lantz and Ericks.

Brief Summary of Bill

- Limits the growth in value of any real property to be no more than 1 percent per year, for the purposes of the state property tax levy.

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 values are set as of January 1st. These values are used for determining property bills to be collected in the following year. The constitution requires the property tax to be uniform on real estate. A constitutional amendment has been adopted to allow timber, farm and agricultural land, and open space land to be valued based on current use rather than the highest and best use standard under the true and fair valuation approach.

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 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

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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 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 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.

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 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, 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.

Property taxes - mechanics. The county assessor determines assessed value for each property. Except for the state levy, 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 property tax is allocated to the counties based on the market value of taxable property within each county. This process is called equalization of the state property tax. The Department of Revenue studies the relationship between the value assigned by the county assessor and the market value of each county and makes an adjustment to the share of the state levy allocated to the county. For example, if a county is assessing at 90% of market value then the state makes a 10% adjustment. If a county is assessing at 80% of market value the state makes a 20% adjustment. The ratio of assessed value to market value is called the assessment ratio. The equalization process prevents counties from shifting their market value share of the state property tax to other counties by under-assessing property.

The portion of the state property tax allocated to each county changes each year based on changes in the market value of property and new construction. Counties in which property is growing at faster rates will receive a slightly larger share of the state property tax.

Home equity loans and other transactions in which the property is used as collateral. In recent years, the mortgage equity withdrawal (MEW) market has expanded rapidly. This market is defined by efforts of homeowners to convert equity in their homes into cash by borrowing against the value of their homes, and includes refinancing transactions and home equity loans. From 2000 to 2005, the amount of such lending activity grew from 3 percent of disposable income to almost 8 percent.

Summary of Bill:

For the purposes of the state property tax levy, the constitution is amended to limit generally the true and fair value of real property to the lesser of the assessed value or 101 percent of the prior year's value.

The amendment provides an exception to the limitations for the following circumstances, in which case the true and fair value is the fair market value of the property:
(1) the property is sold or transferred; or
(2) the property is used to secure a transaction, unless the transaction is used to provide funds for the purposes of long-term care expenses, health care expenses, or education.

True and fair value includes declines in value due to the damage or destruction of property and includes increases in value as a result of new construction. New construction does not include the value of replacement property following a declaration of a disaster by the governor, if the value of the replacement is comparable to the value before the disaster occurred.

The proposed amendment provides that the legislature may adopt legislation to enact the amendment. Changes apply to state levy for collection in calendar 2008 and thereafter.

Appropriation: None.

Fiscal Note: Requested on February 19, 2007.

Effective Date: The bill takes effect upon approval of the voters at the November 2007 general election.