

SENATE BILL REPORT

SB 6177

As Reported By Senate Committee On:
Ways & Means, November 29, 2007

Title: An act relating to reinstating the one percent property tax limit factor adopted by the voters under Initiative Measure No. 747.

Brief Description: Reinstating the one percent property tax limit factor adopted by the voters under Initiative Measure No. 747.

Sponsors: Senators Kilmer, Zarelli, Rasmussen, Franklin, Marr, Eide, Roach, Hewitt, Parlette, Brandland, McCaslin, Delvin, Benton, Carrell, Pflug, Holmquist, Honeyford, Swecker, Stevens, King, Hobbs, Prentice, Kauffman, Shin, Berkey, Schoesler, Sheldon; by request of Governor Gregoire.

Brief History:

Committee Activity: Ways & Means: 11/29/07 [DP, DNP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Zarelli, Ranking Minority Member; Brandland, Carrell, Hatfield, Hobbs, Honeyford, Keiser, Oemig, Parlette, Rasmussen, Roach, Rockefeller, Schoesler and Tom.

Minority Report: Do not pass.

Signed by Senators Pridemore, Vice Chair, Operating Budget; Fairley and Kohl-Welles.

Staff: Dianne Criswell (786-7433)

Background: All real and personal property in Washington State is subject to property tax, unless a specific exemption is provided by law.

Property taxes are calculated by multiplying a tax rate by the assessed value of each property. By statute, assessed value must be equal to 100 percent of the fair market value of the property, unless the property qualifies under a special tax relief program. Article 7, section 1 of the State Constitution provides that all taxes must be uniform on the same class of property. This means that taxes must be the same on property of the same value and requires both an equal rate and equality in valuing the property taxed.

In Washington, there are three general limits on increases in property tax. The first is a constitutional provision which limits the sum of property tax rates to 1 percent of a property's

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.

true and fair value, or \$10 per \$1,000 of value. Taxes imposed under this limit are called "regular" levies, while those above the limit are "excess" levies.

In order for taxing districts to stay below the constitutional tax rate limit, the Legislature adopted a second type of limit on increases to property tax rates: specific limits on the rate each tax district can levy. The state levy rate is limited to \$3.60 per \$1,000 of assessed value. In addition, there is an overall rate limit of \$5.90 per \$1,000 for most local taxing districts.

In addition to the tax rate limitations, there is a third type of limit: capping increases in a district's regular property tax levy. This caps the growth of the levy, which is the total amount of tax revenue a taxing district collects. Levy limits have not, in general, applied to new value placed on tax rolls attributable to new construction or to improvements to existing property.

In 1971, the Legislature imposed a levy limit on annual increases in local governments' revenues from property taxes. Under this limit, revenues from any district's regular property tax levy could not exceed 106 percent of the highest amount of revenue received from any levy in the preceding three years. The 1979 Legislature extended this limit to the state property tax as well.

Beginning in 1986, the Legislature allowed local governments to levy less than the maximum increase in property taxes allowed under law without losing the ability to levy higher taxes later. This provision was intended to remove the incentive for a taxing district to maintain its levy at the maximum level and to protect the future levy capacity of a taxing district that reduced its levy below the level that it could otherwise impose.

In 1997, voters passed Referendum 47, which imposed additional requirements on the 106 percent limit. Under this provision, taxing districts with a population under 10,000 were allowed an increase of up to 6 percent. For larger taxing districts, over 10,000, they were authorized to increase the regular levy by the rate of inflation or 6 percent, whichever was smaller. For a district to increase the levy by the full 6 percent, a super majority vote of the governing body in each district was required. In addition, Referendum 47 limited the growth of assessed values by averaging large valuation increases over time; this averaging provision was subsequently held to violate the constitutional requirement for "uniform" valuation of properties.

In 2000, voters passed Initiative 722, which limited future increases of taxable value to the lesser of inflation or 2 percent per year. However, in February 2001, the Supreme Court ruled this initiative unconstitutional because it violated the requirement that initiatives only contain a single subject.

In November 2001, voters passed Initiative 747, which restricted taxing districts to a property tax levy increase of the lesser of inflation or 1 percent. Initiative 747 was drafted as a change to the 2 percent limit adopted in Initiative 722. On November 8, 2007, the Supreme Court held that because Initiative 747 amended the 2 percent limit (which was invalidated by the court), the initiative did not set forth in full the law it intended to amend as the constitution requires. The limit in effect as of November 28, 2007, is the limit in effect prior to the passage of Initiatives 722 and 747: the 6 percent limit plus the additional requirements of Referendum 47 (except for the invalidated averaging provision).

Summary of Bill: The bill reinstates the 1 percent property tax revenue limit adopted by voters under Initiative 747.

Appropriation: None.

Fiscal Note: Requested on November 28, 2007.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effective immediately.

Staff Summary of Public Testimony: PRO: This bill would reinstate the one percent limit which was in place before the Supreme Court issued its decision. It gives voters exactly what they voted for when they passed I-747. Counties need certainty about the limit right now, because right now they are finalizing their budgets for the next year.

CON: Banked Capacity This bill does not deliver the 1 percent cap that voters approved in Initiative 747, because it allows taxing districts to use banked capacity that accrued before 2002. This will mean that some districts, with unused banked capacity, will be able to increase property tax revenues above the 1 percent cap. The Legislature should close that loophole.

Reinstating the One Percent Cap Local governments fund essential services, including public safety. For most local governments, property tax revenues are the largest percentage of their budgets. Their costs have increased above inflation, which is much higher than the 1 percent limit. The levy limit creates systematic underfunding of local services and does not adequately reflect the costs. There have been significant cuts in local services and funding. The 1 percent cap is arbitrary and does not consider tax fairness or larger tax reform proposals. A circuit-breaker proposal is a better solution. Another solution would be to place an inflationary limit. Local governments cannot maintain the services and programs they provide, let alone expand them, with a 1 percent limit. There are no caps or limits on the growing demands for local services and infrastructure. Taxing districts need to retain their banked capacity. Any proposal should be considered during the next regular session, which starts in January 2008.

OTHER: The 1 percent cap has a limited affect on individual taxpayers. However, the limit has made local taxing districts reprioritize their budgeting. There have not been significant cuts in local services. The total revenue has increased in many districts, include increased property tax revenue from new construction, as well as revenues from excise taxes. There is a mechanism available, called a voter-approved lid lift, that is already available under current law when a district wants to exceed its levy limit. Washington's tax system is regressive and the burden falls heavily on the low and middle classes. The 1 percent cap is an inadequate and unfair means of providing public funding. Alternatives to this bill, like a circuit-breaker, should be considered.

Persons Testifying: PRO: Tim Eyman, Jack Fagan, and Mike Fagan, 747; Amber Carter, Association of Washington Business; Dave Cook, Yakima County Assessor and Washington State Association of County Assessors; Cindy Zehnder, Office of the Governor; Cindi Holmstrom, Director of the Department of Revenue.

CON: Steve Zemke, Taxpayers for Washington's Future; Julie Murray, Washington State Association of Counties; Jim Justin, Association of Washington Cities; Bob Cowan, King County; Barbara Bush, League of Women Voters of Washington; Paul Benz, Lutheran Public Policy Center, Washington Association of Churches, and Church Communities of Seattle; Andrew Villeneuve, Northwest Progressive Institute.

OTHER: Bruce Reeves, Senior Citizens' Lobby; Paul Guppy, Washington Policy Center; Scott Dilley, Evergreen Freedom Foundation; Remy Trupin, Washington State Budget & Policy Center.