

# HOUSE BILL REPORT

## ESHB 1432

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### As Amended by the Senate

**Title:** An act relating to county property tax levies.

**Brief Description:** Concerning county property tax levies.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Stanford, Hope, Moscoso, Springer, Hayes, Roberts, McCoy, Liias, Kristiansen and Sells).

#### **Brief History:**

##### **Committee Activity:**

Finance: 2/4/13, 2/15/13, 2/19/13 [DPS].

##### **Floor Activity:**

Passed House: 3/5/13, 96-0.

Senate Amended.

Passed Senate: 4/16/13, 45-0.

#### **Brief Summary of Engrossed Substitute Bill**

- Allows the county legislative authority to increase or reduce the Veteran's Assistance and county mental health property tax levies in the same proportion as the regular county property tax levy.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tharinger, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Fitzgibbon, Hansen, Lytton, Pollet, Reykdal, Springer, Vick and Wilcox.

**Staff:** Jeff Olsen (786-7175).

#### **Background:**

##### Property Tax Limits.

The state Constitution limits regular property tax levies to a maximum of 1 percent of the property's value (\$10 per \$1,000 of assessed value). The Legislature has established

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individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. In addition to the 1 percent levy limit, there is a 1 percent cap on the revenues a taxing district can receive each year based on the highest amount levied in the past three years. An individual taxing district with a regular property tax levy must adhere to both the statutory rate limits and the revenue limit.

#### Banked Capacity.

While the limit factor constrains regular property tax growth over time, a regular property tax district that chooses to levy an amount that is less than the highest lawful amount allowed under the full limit factor may retain the unused levy capacity for future use. This is known as "banked levy capacity." As a result of banked levy capacity, the amount of tax that a district levies in any one year may be more or less than the amount that would otherwise be expected to be imposed by a district. The levy growth depends on whether the district is banking capacity for future use, tapping previously banked capacity, or neither. The amount of banked levy capacity retained by a district is calculated by reference to the maximum tax levy that the district could have imposed in preceding years minus the actual levies imposed by the district during that same period.

The purpose of authorizing a taxing district to maintain banked levy capacity is to remove the incentive for a taxing district to maintain its tax levy at the maximum level permitted under state law. Allowing the use of banked levy capacity also protects the future levy capacity of a taxing district that reduces its tax levy below the maximum level that it could otherwise impose under state law.

#### Veteran's Assistance and County Mental Health.

State law requires a portion of the county general levy to be used for community services for people with developmental disabilities and for mental health services (Developmental Disability and Mental Health Levy). State law also requires a portion of the general county levy to be used for veteran's assistance programs and other veteran related purposes (Veteran's Assistance Levy). For the Developmental Disability and Mental Health Levy, the county legislative authority must levy a sum equal to the amount that would be raised by a 2.5 cents per \$1,000 of assessed value. For the Veteran's Assistance Levy, the county legislative authority must levy a sum equal to the amount that would be raised by a levy of not less than 1-1/8 cents and not more than 27 cents per \$1,000 of assessed value levy. Both of these levies are considered earmarked funds within the county general levy. If the county general levy rate is reduced by the 1 percent levy limit, the amount of the county general levy allocated to these purposes may be reduced in the same proportion. In 2011 the Department of Revenue issued an audit recommendation to the Snohomish County Assessor to continue educating the governing authority regarding the statutory requirements for the allocation of revenues to the Mental Health Fund and the Veteran's Assistance Fund.

#### **Summary of Engrossed Substitute Bill:**

The Veteran's Assistance Levy and Developmental Disability and Mental Health Levy may be increased or reduced in the same proportion as the regular county property tax levy, as approved by the county legislative authority. This includes situations where the county legislative authority has decided to not levy the full amount of property tax revenue otherwise allowed under the law and bank the unused levy capacity for future use. However,

the Veteran's Assistance Levy and the Developmental Disability and Mental Health Levy do not have to be increased when the certified levy is increased from voter approved levies dedicated to a specific purpose.

**EFFECT OF SENATE AMENDMENT(S):**

The Senate amendment clarifies that a county may increase the Veteran's Assistance Levy or the Developmental Disability and Mental Health Levy to an amount greater than the change in the regular county levy.

**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available.

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

**Staff Summary of Public Testimony:**

(In support) Passage of this bill will maintain the status quo for Snohomish County. If the bill does not pass, Snohomish County will need to cut its budget by \$1.3 million, or increase taxes by an additional 2 percent. Snohomish County has not increased its levy, and has 12 percent of banked capacity. The Veteran's Assistance Levy and the Developmental Disability and Mental Health Levy have remained the same when the levy was not changed. The Department of Revenue has recommended that when a county saves their 1 percent increase, they need to calculate the Veteran's Assistance and the Developmental Disability and Mental Health Levies differently than their current practice. Passing this bill would treat counties that do not use their 1 percent increase similar to counties that do, and not create a disincentive for a county to keep their property taxes low. The Veteran's Legislative Coalition supports the bill as it allows Snohomish County to bank their capacity and use it when they need it.

(With concerns) Pierce County is working with Snohomish County on the issue, but wants to work on impacts to counties that do not have the same issue as Snohomish County. The methodology for developing the levy, including refunds, may have unintended consequences. The two counties are working together on a technical solution.

(Opposed) None.

**Persons Testifying:** (In support) Ted Wicorek, Veteran's Legislative Coalition; Briahna Taylor, Snohomish County; Dave Gossett, Snohomish County Council; and Roger Neumaier, Snohomish County Finance Department.

(With concerns) Brynn Brady, Pierce County Government Relations.

**Persons Signed In To Testify But Not Testifying:** None.