

SENATE BILL REPORT

ESHB 1432

As Reported by Senate Committee On:
Ways & Means, March 19, 2013

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: Passed House: 3/05/13, 96-0.

Committee Activity: Ways & Means: 3/19/13 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Hill, Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Nelson, Assistant Ranking Member; Bailey, Becker, Braun, Conway, Dammeier, Fraser, Hasegawa, Hatfield, Hewitt, Keiser, Kohl-Welles, Murray, Padden, Parlette, Ranker, Rivers, Schoesler and Tom.

Staff: Dean Carlson (786-7305)

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 established 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

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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 \$0.025 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 \$0.01125 and not more than \$0.27 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 Bill: County authority to annually adjust funding for county mental health, developmental disability, and veterans' assistance programs is clarified.

If the general county property tax levy:

- is reduced from the preceding year's levy, funding for the programs may be reduced by no more than the same percentage as the general county property tax levy was reduced from the preceding year's levy;
- is increased from the preceding year's levy, funding for the programs must be increased by at least the same percentage as the general county property tax levy was increased from the preceding year's levy; however, funding does not need to be increased for the portion of a voter-approved levy increase that is dedicated to a specific purpose; or
- is unchanged from the preceding year's levy, funding for the programs must equal or exceed the previous year's funding.

For purposes of this bill, refund levies are not included within the general county property tax levy.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on SB 5418: PRO: This bill is Snohomish County's top priority this session. We have been hurt because we chose to not increase property taxes and the Department of Revenue audit says that we must pay more for these funds. We reduced them proportionally over time. If this bill is not passed, we will need to cut \$1.3 million in funding. This will cut law enforcement as they are 70 percent of our budget. The bill must pass or we must raise taxes. Counties that have not annually raised taxes up to the permissible limit should not be penalized.

Persons Testifying: PRO: Briahna Taylor, Roger Neumaier, Snohomish County.