
Finance Committee

HB 1764

Brief Description: Replacing the one percent property tax revenue limit with a limit tied to cost drivers.

Sponsors: Representatives Lytton, Koster, Springer, Nealey, Senn, Harris, Kloba, Frame, Tharinger, Tarleton and Slatter.

Brief Summary of Bill

- Changes the annual regular property tax revenue growth limit to the greater of 100 percent plus population change and inflation, but not to exceed 105 percent, and 101 percent.

Hearing Date: 2/10/17

Staff: Richelle Geiger (786-7139).

Background:

Regular Property Taxes - General Background.

All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The Washington Constitution limits regular property tax levies (regular levies) to a maximum of 1 percent of the property's value (\$10 per \$1,000 of assessed value). The Legislature has established individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. The annual growth of regular levy revenue is limited to the lesser of inflation or 1 percent, plus the value of new construction for jurisdictions with a population of 10,000 or more. For jurisdictions with a population less than 10,000 revenue growth is limited to 1 percent. The inflationary factor currently used to calculate the revenue growth limit is the Implicit Price Deflator (IPD) for personal consumption for the United States for the most recent twelve-month period by September 25th of the year before taxes are payable.

Regular Property Tax - History of the Statutory Revenue Growth Limit.

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.

In 1971 the Legislature limited the annual revenue growth of local regular property tax levies to 106 percent of the highest amount of revenue received during the preceding three years, plus the value of new construction and improvements. In 1979 the Legislature extended this limit to the state property tax levy.

Voters passed Referendum 47 (R-47) in 1997; restricting property tax revenue growth of taxing districts of 10,000 persons or more to the lesser of 100 percent plus the rate of inflation, defined as the change in the IPD, or 106 percent. However, districts of 10,000 persons or more, other than the state, could adopt a limit factor of 106 percent with a finding of substantial need and super majority approval by the district's governing body. The limit factor for districts of less than 10,000 persons remained at 106 percent.

In November 2000 voters passed Initiative 722 (I-722), which included a provision to limit regular property tax revenue growth to the lesser of 102 percent or 100 percent plus inflation. In February 2001 the Pierce County Superior Court invalidated the initiative under the the single-subject and subject-in-title rules provided in Article II, Section 19 of the Washington Constitution. The Washington Supreme Court affirmed the superior court ruling in September 2001, thus returning to the revenue growth limit established with R-47.

In November 2001 voters approved Initiative 747 (I-747). Initiative 747 modified the statutory changes under I-722 with respect to the 102 percent limit for local levies, providing instead a 101 percent limit factor, unless approved otherwise by a public vote. The state property tax revenue growth was limited to the lesser of 101 percent or 100 percent plus inflation. In June 2006 the King County Superior Court invalidated I-747, ruling that the initiative violated constitutional requirements concerning amendment by reference. The ruling provided that the persons voting on I-747 were led to believe that they were voting to amend sections of the law as amended by I-722 when, in fact, because I-722 had been struck down by the court before voters approved I-747, the voters were voting to amend the sections of law as amended by R-47.

In November 2007 the Court affirmed the lower court's ruling, vacating the I-747 changes. Later that month the Legislature met in special session and passed House Bill 2416, reinstating the current 101 percent levy limit provided in I-747.

Inflation.

Inflation is the process of continuously rising prices, or equivalently, of the continuously falling value of currency. Various indexes reflect different aspects of inflation. Two commonly used indexes are the IPD and the Consumer Price Index for all urban consumers (CPI-U).

IPD is calculated by the Bureau of Economic Analysis (BEA) of the United States (US) Department of Commerce. Current personal consumption is measured in today's prices and is compared to current personal consumption at prices from a base year.

CPI-U is calculated by the Bureau of Labor Statistics (BLS) of the US Department of Labor. The CPI-U compares prices paid by urban consumers for a fixed basket of goods and services over time. Urban consumers are all persons living in densely developed territories with at least 2,500 inhabitants. In addition to the national CPI-U metric, the BLS also publishes indexes by region; West, Northeast, Midwest, and South Regions. The Western Region includes Alaska,

Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

The Economic and Revenue Forecast Council publishes quarterly forecasts for national IPD and CPI-U, which is used to approximate the CPI-U for the Western region. For Calendar Years 2017 through 2019, the annual IPD growth rate is projected to be 1.8 percent; for 2020, 1.9 percent; and for 2021, 2 percent. For Calendar Year 2017, the annual CPI-U growth rate is projected to be 2.4 percent; for 2018, 2.1 percent; for 2019, 2.0 percent; for 2020, 2.3 percent; and for 2021, 2.2 percent.

Population Change.

The Office of Financial Management (OFM) annually determines the population of all counties, cities, towns and the state as of April 1 and publishes their report on or before July 1. The OFM forecast for state population growth is 1.6 percent in Calendar Year 2017; 1.5 percent in 2018; 1.4 percent in 2019; 1.2 percent in 2020; and 1.0 percent in 2021.

Summary of Bill:

The regular levy revenue growth limit is changed to the greater of 100 percent plus population change and inflation, but not to exceed 105 percent; and 101 percent.

Inflation is defined as the annual percentage increase in the CPI-U in the western region for all items as provided for the most recent twelve-month period by July 25th of the year before taxes are payable.

Population change is defined as the percent increase in population of a taxing district between the two most recent years provided in the official population estimates published by OFM, of the year before the taxes are payable. The population of a county means the population in the incorporated and unincorporated areas. For taxing districts that are not coterminous with one or more cities, towns, counties, or unincorporated county areas, or any combination of the official OFM population estimates, then population change means:

- The city population change for the city in which the taxing district is wholly located,
- The county population change for the county in which the taxing district is wholly located, or
- The population change of the county with the greatest total taxable assessed value in the prior year for taxing districts located in more than one county.

The annual percent increase in population is calculated to the nearest tenth of one percent, rounding up to the next tenth of one percent if the second decimal place of the annual percent increase is five or greater. If OFM estimates a net decrease in the taxing district's population, the population growth rate will not be accounted for in the revenue growth limit calculation

The bill repeals the provision that allows taxing districts to increase the limit factor to 101 percent with a finding of substantial need and R-47.

The bill applies to taxes levied for collection in 2018 and thereafter.

Appropriation: None.

Fiscal Note: Available.

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