HOUSE BILL REPORT
HB 1764

As Reported by House Committee On:
Finance

Title: An act relating to replacing the one percent property tax revenue limit with a limit tied to cost drivers.

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 History:
Committee Activity:
Finance: 2/10/17, 3/30/17 [DP].

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.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 6 members: Representatives Lytton, Chair; Frame, Vice Chair; Dolan, Pollet, Springer and Wylie.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Assistant Ranking Minority Member; Condotta, Stokesbary and Wilcox.

Minority Report: Without recommendation. Signed by 1 member: Representative Nealey, Ranking Minority Member.

Staff: Richelle Geiger (786-7139).

Background:

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.

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 12-month period by September 25th of the year before taxes are payable.

Regular Property Tax – History of the Statutory Revenue Growth Limit.
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 plus the value of new construction. 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 and the value of new construction. In February 2001 the Pierce County Superior Court invalidated the initiative under 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 and the value of new construction. 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).

The IPD is calculated by the Bureau of Economic Analysis 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.

The 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 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 12-month period by July 25 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 the 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, 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 1 percent, rounding up to the next tenth of 1 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.

Staff Summary of Public Testimony:

(In support) Overtime, our state has seen a relative decline in property tax revenue to the state, counties, cities, and other jurisdictions. It is difficult, and in some cases impossible, to provide the services our citizens need with the current property tax revenue growth limit. The revenue cap diminishes the quality of life of residence who expect a certain level of service, and requires local governments to cut essential services.

This bill would make the property tax revenue source more sustainable. If state property tax revenue cannot be generated sustainably, the public school system suffers. This bill does not eliminate the revenue growth cap; it modifies the revenue growth limit to a formula that more accurately reflects the cost drivers for counties. This will not have a significant impact on the average homeowner.

Counties have experienced a budget crisis since 1988. This is due to a problem in the tax structure. Counties have adapted in ways to address the budget crisis including cutting critical services, adopting management practices that emphasize efficiency, dipping into reserves, and utilizing technology to it's fullest extent. These actions alone are not enough to solve the budget crisis. The cost of goods and services exceeds the revenue growth limit. Local governments cannot control inflation or population growth.

County revenue is predominantly generated by property tax. The vast majority of county budgets are spent on public safety services. Counties and cities are tasked with the vast majority of the public safety services. Providing these services comes at a cost. For some counties, response times can be measured in hours, not minutes, because there are not enough officers on the roads. County departments cannot pay officers enough to recruit them, and cannot hire enough people to fully staff the department. The backlog of felony cases in King County is estimated around 400-500 per year because there is not enough staff to process the cases. Offenders are frequently caught and released back into the community because jails are overcrowded, or the jurisdictions cannot afford to keep offenders in their jails. The property tax revenue growth limit is a public safety issue.

To provide public safety, some counties are taking money from other essential departments. Roads, transportation systems, and public works functions suffer. Parks and recreation department budgets are depleted. Social services that citizens need cannot be provided. Publicly owned buildings cannot be maintained. Employee benefits have been reduced.

This bill is about local control. The budget crisis is not due to flagrant spending. If local officials were being irresponsible, the local voters would keep them accountable and not re-elect them. This bill does not require jurisdictions to increase their property tax collections. Jurisdictions can be trusted to only ask for what they need. Give local governments the opportunity to use the property tax tool responsibly.

Initiative-747 sounded like a good idea at the time. It has turned out to be an irresponsible choice that must be addressed now.

Sales tax is not an answer to generate additional revenue for border counties because shoppers will go across the boarder to avoid sales tax.

(Opposed) Many local jurisdictions had property tax revenue that grew between 3 percent and 8 percent in 2016. All arguments against the current property tax revenue growth limit were made during the elections for both I-722 and I-747. The voters made their choice and voted for the limits. State and local government property taxes skyrocketed in the 1990s. Under this bill, property taxes will skyrocket again.

If the bill moves forward, the bill should be amended to exclude fire districts and regional fire protection authorities. Taxes for these two types of jurisdictions are already too high. Under current law, local jurisdictions can go out to the voters and ask for approval to generate additional revenue with a levy lid lift.

(Other) This bill reaffirms the role counties and other local jurisdictions play in providing basic government services. The bill changes the existing property tax revenue growth limit formula from the greater of 1 percent or inflation to the lesser of 1 percent or inflation. Today's maximum growth rate is tomorrow's minimum. This bill increases property taxes. The Legislature should review current funding options and budget allocations.

Persons Testifying: (In support) Representative Lytton, prime sponsor; Josh Weiss, Washington State Association of Counties; Dave Somers, Snohomish County; Dave Sauter, Klickitat County; Joe McDermott, King County; Scott Johnson, Pacific County Sherriff's Office; Robert Snaza, Lewis County Sheriff's Office; Mark Nelson, Cowlitz County Sheriff's Office; David Baker, Sound Cities Association and City of Kenmore; Amy Walen, City of Kirkland; Dana Ralph, City of Kent; Chris Roberts, Shoreline City Council and Association of Washington Cities; Dan Satterberg, King County Prosecutor's Office; Jon Tunheim, Thurston County Prosecutor's Office; Ken Thomas, City of Kent Police Department; Dan Youroski, City of Normandy Park Police Department; Keith Wright, Central Pierce County Fire District; Bud Baker, East Pierce County Fire District; Kristina Swanson, Cowlitz County; Eric Johnson, Washington State Association of Counties; Janice Baird, Skagit County; John VanBuskirk, Retired Teamsters Local 117; Julie Salvi, Washington Education Association; and Kelli Smith, Washington State Budget and Policy Center.

(Opposed) Tim Eyman; and Eric Bernard, Rental Housing Association and Puget Sound Christmas Tree Association.

(Other) Eric Lohnes, Association of Washington Business.

Persons Signed In To Testify But Not Testifying: None.