SENATE BILL REPORT
SB 5772

As of February 15, 2017

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: Senators Pedersen, Hobbs, Takko, Walsh, Keiser and Saldaña.

Brief History:
Committee Activity: Ways & Means: 2/16/17.

Brief Summary of Bill

- Changes the annual regular property tax revenue growth limit to the greater of 101 percent or 100 percent plus population change and inflation, up to 105 percent.
- Changes the inflationary measure from the Implicit Price Deflator for Personal Consumption Expenditures to the Consumer Price Index.
- Adds population change as a new cost driver.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Carrie Graf (786-7708)

Background: All property is subject to a yearly tax 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 annual growth of regular levy revenue collected by a taxing district is limited to the lesser of inflation or 1 percent, plus the value of new construction. The inflationary factor currently used to calculate the revenue growth limit is the Implicit Price Deflator for personal consumption (IPD). The IPD looks at the most recent 12 month period before taxes are payable.

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.

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 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 United States 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 2500 inhabitants.

In addition to the national CPI-U metric, the BLS also publishes indexes by region. 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. The annual IPD growth rate is projected as follows:

- 1.8 percent for calendar years 2017 through 2019;
- 1.9 percent for 2020; and
- 2 percent for 2021.

The annual CPI-U growth rate is projected to be:

- 2.4 percent for calendar year 2017;
- 2.1 percent for 2018;
- 2.0 percent for 2019;
- 2.3 percent for 2020; and
- 2.2 percent for 2021.

Population Change. The Office of Financial Management (OFM) annually determines the population of all counties, cities, towns and the state as of April 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 101 percent or 100 percent plus population change and inflation, up to 105 percent.

Inflation is defined as the annual percentage increase in the CPI-U in the Western Region.

Population change is defined as the percent increase in population of a taxing district between the two most recent years. Population information is provided by OFM's official population estimates. The annual percent increase in population is calculated to the nearest tenth of 1 percent. If OFM estimates a net decrease in the taxing district's population, the population change will be zero.

The provision that allows taxing districts to impose a levy of 1 percent upon a finding of substantial need when inflation is lower than 1 percent is repealed.

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

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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