SENATE BILL REPORT
SB 5770

As Reported by Senate Committee On:
Ways & Means, February 5, 2024

Title: An act relating to state and local property tax reform.

Brief Description: Providing state and local property tax reform.

Sponsors: Senators Pedersen, Van De Wege, Robinson, Dhingra, Nguyen, Wellman, Keiser, Valdez, Saldaña, Hunt, Salomon, Randall, Cleveland, Wilson, C., Stanford, Lovick, Nobles, Hasegawa, Trudeau and Liias.

Brief History:
Committee Activity: Ways & Means: 1/18/24, 2/05/24 [DPS, DNP].

Brief Summary of First Substitute Bill

- Increases the property tax revenue limit for local property taxes.
- Exempts property owners qualifying under the retired persons property tax relief program from 25 percent of part one of the state levy.
- Eliminates non-supplant restrictions applicable to local government taxing districts located in a county with a population of 1.5 million or more.
- Modifies the portion of a county current expense levy allocated in statute to funding county-owned hospitals.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5770 be substituted therefor, and the substitute bill do pass.

Signed by Senators Robinson, Chair; Nguyen, Vice Chair, Operating; Billig, Conway, Dhingra, Hasegawa, Hunt, Keiser, Pedersen, Randall, Saldaña, Van De Wege and Wellman.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Do not pass.

Signed by Senators Mullet, Vice Chair, Capital; Wilson, L., Ranking Member, Operating; Gildon, Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Rivers, Assistant Ranking Member, Capital; Warnick, Assistant Ranking Member, Capital; Boehnke, Braun, Muzzall, Torres and Wagoner.

Staff: Jeffrey Mitchell (786-7438)

Background: One Percent Property Tax Revenue Limit. All real and personal property is subject to a tax each year based on the highest and best use unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue is limited as follows:

- for jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent; and
- for jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent.

The value of the following add-ons is added in addition to the limit factor:

- new construction;
- construction of wind turbine, solar, biomass, and geothermal facilities;
- improvements to property;
- increased value of state-assessed property; and
- increased value within a local tax increment financing area.

The state collects two regular property tax levies. The revenue growth limit applies to both state levies and all regular local property tax levies. Excess levies are not subject to this limit and require voter approval.

For purposes of the revenue growth limit, inflation means the percentage change in the implicit price deflator (IPD) for personal consumption expenditures for the United States as published for the most recent 12-month period by the Federal Department of Commerce by September 25th of the year before the taxes are payable. Taxing districts may adopt a resolution of substantial need to levy up to 101 percent if the IPD is less than 1 percent.

Retired Persons Property Tax Relief Program. Authorized by a constitutional amendment, qualifying senior citizens, persons retired due to disability, and qualifying veterans are entitled to property tax relief on their primary residence (SPTE). To qualify for the SPTE, a person must be any of the following:

- at least 61 years of age;
- at least 57 years of age and the surviving spouse or domestic partner of a person who was an exemption participant at the time of their death;
- unable to work because of a disability; or
- a disabled veteran with a service-connected evaluation of at least 80 percent or receiving compensation from the United States Department of Veterans Affairs at the

100 percent rate for a service-connected disability.

The home must be owned and be the primary residence of the applicant. An applicant's combined disposable income must be under the county's income threshold to qualify. Eligible individuals qualify for a partial property tax exemption and a valuation freeze.

The partial property tax exemption for the SPTE is provided according to various income thresholds. The income thresholds and associated partial exemptions are as follows:

- income threshold one is the greater of income threshold one for the previous year or 45 percent of county median household income;
    1. applicants qualifying under this income threshold receive an exemption from all excess levies, the additional state levy—part two, and regular levies on the greater of $60,000 or 60 percent of the assessed valuation;
- income threshold two is the greater of income threshold two for the previous year or 55 percent of county median household income;
    1. applicants qualifying under this income threshold but above income threshold one, receive an exemption from all excess levies, the additional state levy, and regular levies on the greater of $50,000 or 35 percent of assessed valuation—with a $70,000 maximum; and
- income threshold three is the greater of income threshold three for the previous year or 65 percent of county median household income; and
    1. applicants qualifying under this income threshold but above income threshold two receive an exemption from all excess levies and the additional state levy.

The income thresholds are adjusted every five years to reflect the most recent year of estimated county median household incomes published by the Office of Financial Management. The next scheduled adjustment is March 1, 2024. Beginning with the adjustment made by March 1, 2024, and every second adjustment thereafter, if an income threshold in a county is not adjusted based on percentage of county median income, then the income threshold must be adjusted based on the growth of the seasonally adjusted consumer price index for all urban consumers for the prior 12-month period, published by the United States Bureau of Labor Statistics, with a limit of 1 percent.

Cities and counties are permitted to exempt participants in the property tax exemption program from any portion of their regular property tax levy attributable to a levy lid lift, with voter approval.

In addition to the partial exemptions listed above, the valuation of the residence of an eligible individual is frozen, for calculating property tax liability, at the assessed value of the residence on the later of January 1, 1995, or January 1st of the assessment year in which the person first qualifies for the program. To be eligible, the person must have a disposable income less than income threshold three.

<u>Lid Lift Non-supplant Restriction.</u> Local taxing districts may exceed the 1 percent revenue

limit if the voters in the district approve a "lid lift" which allows voters in a district to agree to tax themselves above the lid. In 2009 a non-supplant restriction was narrowed to only apply to local taxing district lid lifts within a county with a population of 1.5 million or more. Under a non-supplant restriction, lid-lift revenue must add to the overall revenue used for the specified purpose of the lid lift and not supplant, in other words replace, existing revenues currently funding the specified program. The non-supplant restriction has been suspended by the Legislature several times including for lid lifts approved by the voters between 2015 and 2022.

<u>County Hospital Levy.</u> The current expense, or general fund, levy is, for most counties, the single largest source of property tax revenues. Any county may impose a current expense levy up to $1.80 per $1,000 assessed value. However, a county may increase its levy from $1.80 to a rate not to exceed $2.475 per $1,000 of assessed value for general county purposes if the total levies for both the county and any road district within the county do not exceed $4.05 per $1,000 of assessed value, and no other taxing district has its levy reduced as a result of the increased county levy. Current expense levy revenues are generally unrestricted and may be used for any lawful governmental purpose. However, there are several other regular county levies authorized or required by statute that are considered part of a county's current expense levy but are restricted to specific purposes, which includes a $0.50 per $1,000 assessed value levy for the maintenance of a county-owned hospital. The $0.50 levy may be used for the maintenance of the hospital.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): <u>One Percent Property Tax Revenue Limit.</u> For purposes of the revenue growth limit for state and local property taxes, the limit factor of 101 percent is replaced with a limit factor of 100 percent plus inflation and any banked inflation balance, with a cap of 103 percent.

Inflation is defined as the annual percentage increase in the consumer price index for all urban consumers in the western region for all items as provided for the most recent 12-month period by the United States Department of Labor by July 25th of the year before the taxes are payable.

The term banked inflation balance means the accumulated inflation from prior years in excess of 3 percent.

The ability for taxing districts with regular levies and a substantial need to adopt a resolution to use the growth factor of 101 percent instead of the IPD if the IPD is less than 1 percent is repealed.

By September 1st of each year, the Department of Revenue must provide county assessors the limit factors. By October 1st of each year, county assessors must determine how the limit factor applies to each taxing district and notify each taxing district.

Retired Persons Property Tax Relief Program. Property owners qualifying under the SPTE program would be exempt from 25 percent of part one of the state levy.

Non-shift language prevents the state tax rate from slightly increasing to offset the reduction in assessed value on the state tax roll due to the exemption.

The exemption does not expire and is not subject to review by the joint legislative audit and review committee.

Lid Lift Non-supplant Restriction. The non-supplant restriction applicable to counties with a population of 1.5 million or more is eliminated.

County Hospital Levy. The permissible uses of the county hospital levy is expanded to include operation and capital expenses as well as the payment of principal and interest on bonds issued for hospital purposes. Levy proceeds may be used to partially or fully compensate taxing districts for reductions in other taxing district levies resulting from the imposition of the hospital levy.

A future initial increase in a county's general expense levy for hospital purposes is exempt from the 1 percent revenue limit.

The changes in the bill are applicable for taxes levied for collection in 2025 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.

Staff Summary of Public Testimony on First Substitute: PRO: This bill has three very important components for King County. This is the most consequential bill for King County of all the bills under consideration by the Legislature this year. Our general fund will face steepest cuts in decades without this bill. Public safety will be impacted without this bill. Important capital projects will be protected. This change was recommended by the Tax Structure Workgroup after much discussion and public input. The 1 percent limit does not reflect the actual expenditure needs of a local community. The arbitrary cap creates a structural budget deficit where revenues can't keep up with costs. For cities with a small retail base, the property tax is extremely important. Three percent is a much more realistic limit, which is where inflation has hovered over the past two decades. High inflation has increased wage and salary expenses. We need a stable source of funding that will allow us to adequately plan for the future. This bill would allow a tax similar to a public hospital district property tax to support Harborview, which is operating at a deficit. The bill would also help King County fill a capital bond project deficit. The arbitrary cap essentially causes us to lose money before we even start our budget with a 3 to 4 percent increase in our costs. This puts public safety expenditures in jeopardy. This bill will help fix a structural deficit created by the 1 percent cap. We need to empower our local elected leaders to govern responsibly. Taxes aren't just obligations, but also investments. Without taxes, we don't have a state. The 1 percent cap is a failed policy that is choking the life out of essential public services such as public safety, behavioral health, and transportation. We can't afford for the 1 percent cap to remain on the books for another 20 years. Counties are responsible for half of the state's roads and bridges and the 1 percent cap makes it difficult to keep up with costs. Our county transportation deficit is about $1 billion per year and climbing. This bill will allow us to meet our responsibilities as our population grows. Local park systems are suffering, which means local communities are suffering. Because of the cap, park agencies are always reducing services and deferring maintenance. The change from a 1 percent to 3 percent limit is a reasonable approach to addressing this problem.

CON: There are 7529 citizens signed in opposed to this bill. That is 94 percent of those registering their position. The people clearly oppose skyrocketing property taxes. In 2001, 60 percent of voters approved the 1 percent cap. In 2007, Governor Gregoire called a special session to reinstate the cap, which was overwhelmingly approved by the Legislature. This cap has been around for 22 years and this critical protection is needed now more than ever. The policy has always included a safety valve by allowing local governments to go to the voters for an increase. This bill would make housing more expensive and increase home ownership costs and rent. Local government property taxes account for most of the property tax bill and this bill triples the growth. This is a regressive tax. The largest business expense increase in recent years is the property tax. Taxation in this state is forcing me out of my home. It is immoral. Prior to the pandemic, the property tax liability on my house doubled over three years. Since then, my property tax liability has gone up 50 percent. The 1 percent cap doesn't mean anything. Property taxes are levied against unrealized wealth, which can't be used to buy anything. One of the biggest concerns I heard when speaking with people is the dramatic increase in property taxes in recent years. We don't have a revenue problem, we have a spending problem. Many people do not see similar increases in their paychecks. For a governor concerned about affordable housing, this bill will only make housing more expensive. This bill is bad for Washington and working families. My kid saved up enough money for a house, but can't afford one in Washington. Stop treating taxpayers like your own golden goose. The 1 percent cap was approved in a citizen initiative and this bill circumvents the will of the people. This bill will negatively impact senior citizens. If a local government wants more money, all it has to do is ask the voters.

OTHER: The Pierce County budget had a total of $30 million of additional revenue. Our budget is more similar to the recessionary budgets that I worked on with the Office of Financial Management. We did cuts, vacancy savings, fund shifts, and basically juggled for the base budget. When you are looking to the counties to do new policy initiatives for public safety, homelessness, or housing, we are doing it on a two-year budget with only $30 million of additional revenue. Our medical inflation for the jail was 5 percent. Counties are your partners, but it is very difficult.

Persons Testifying: PRO: Senator Jamie Pedersen, Prime Sponsor; Andrew Villeneuve, Northwest Progressive Institute; Ben Zarlingo, City of Everett; Cynthia Stewart, League of Women Voters of WA; Jim Cooper, Olympia City Council; Amy Ockerlander, Mayor of Duvall; Vice President of Association of Washington Cities; Mary Lou Steward, Mayor, City of Blaine; Candice Bock, Association of Washington Cities; Girmay Zahilay, King County Council District 2; Dwight Dively, King County; Salim Nice, City Mercer Island; Hali Willis, Seattle/King County Coalition on Homelessness; Ian Goodhew, UW Medicine-Harborview Medical Center; Tyler Breier, WSNA; Kate Dean, Jefferson County Commissioners; Wes McCart, Stevens County Commissioners; Brian Shinn, Asotin County Commissioners; Tye Menser, Thurston County Commissioners; Candice Bock, Association of Washington Cities; Kim Roscoe, Mayor, City of Fife; Axel Swanson, Washington State Association of County Engineers; Megan Dunn, Snohomish County; Samantha Grad, Teamsters 117; Roxanne Miles, Washington Recreation and Parks Association; Sybill Hyppolite, Washington State Labor Council, AFL-CIO; Dan Templeman, City of Everett.

CON: Jeffrey Pack, Washington Citizens Against Unfair Taxes; Tim Eyman, Initiative Activist; Laurie Layne, Layne Software; Emily Shay, Association of Washington Businesses; Dave Kimble, Citizens Supporting South Kitsap Schools; Bruce Becker; randy berry; William Shadbolt, Washington Business Properties Association; Pamela Randolph; Gary Siemion, Individual/ Chinook Rental LLC; Cindy Alia, Citizens' Alliance for Property Rights; Michael Frost; Doug Anderson; Susan Watkins; Alex Arwine; eric pratt; Jeff Daily; Larry Seto; Jennifer Heine-Withee.

OTHER: Julie Murray, Pierce County Council.

Persons Signed In To Testify But Not Testifying: No one.