

SENATE BILL REPORT

ESB 6118

As Passed Senate, January 9, 1996

Title: An act relating to reducing the state property tax levy for 1996 by five percent and providing for future reductions with revenues in excess of the state spending limit.

Brief Description: Reducing the state property tax levy for 1996 and thereafter.

Sponsors: Senators Sheldon, Loveland, Snyder, Rinehart, Spanel, Rasmussen, Thibaudeau, Hale, Long, Morton, West, Finkbeiner, Sellar, Winsley, Haugen, Goings, Heavey, Bauer, Drew, Quigley, McAuliffe, Newhouse and Oke.

Brief History:

Committee Activity: Ways & Means: 1/3/96.
Passed Senate, 1/9/96, 38-9.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7715); David Schumacher (786-7715)

Background:

State Property Tax. Annually the state levies a tax on the value of property. The rate of the state tax is limited to \$3.60 per \$1,000 of market value. In addition, the amount of taxes collected is limited by the 6 percent levy limit. This constrains taxing districts from collecting taxes in an amount greater than 6 percent above the previous year's collection, plus an amount for new construction.

For taxes due in 1995, the state property tax levy was approximately \$1.1 billion, an 8.4 percent increase from the 1994 levy. The additional 2.4 percent is the additional allowance for new construction.

In the 1995 session, the Legislature passed a one-time 4.7 percent reduction of the 1996 state property tax which will reduce revenues by \$54 million. This reduction does not affect the 6 percent calculation for taxes due in 1997 or any year thereafter.

Excess Revenues under I-601. Under Initiative 601 revenues in excess of the spending limit for any fiscal year are placed in the emergency reserve account. The Legislature may appropriate money from this account with a two-thirds vote of the Legislature and then only if the appropriation does not cause total expenditures to exceed the state spending limit. If the emergency reserve fund balance reaches 5 percent of the biennial general fund, any further revenues would be placed in the education construction fund.

Summary of Bill: The state property tax levy is reduced by 5 percent for taxes due in 1996 and becomes part of the base for calculations of the following year's 6 percent limit. Therefore, it is a permanent reduction in revenue.

A property tax reduction fund is created. Revenues in excess of the spending limit are placed in this fund rather than in the emergency reserve fund at the end of each fiscal year. The budget document submitted by the Governor shall include a transfer to the general fund for reducing future state property tax levies. The Legislature may transfer these funds to the general fund for reducing the state property tax, or the Legislature may transfer the funds to the emergency reserve fund for appropriation by a two-thirds vote for other general purposes. If the Legislature does not transfer the funds, they are transferred to the emergency reserve fund on September 1 following the legislative session.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect immediately.

Testimony For: None.

Testimony Against: This is bad timing for tax cuts because of the uncertainty of the coming federal budget cuts. Taxes should remain intact until the extent of the cuts are known because taxes are difficult to raise under Initiative 601. The state could lose \$4 billion over seven years. The economic climate is also cloudy. The tax benefit mostly goes to business. The middle class needs tax relief.

Testified: Greg Devereau, WFSE (con); Scott Merriman, WA Environmental Council (con); Jeff Johnson, WSLC, AFL-CIO (con); Peter Berliner, Childrens' Budget Coalition (con); Gus Scwhartz, WA Federation of Retired Public Employees (con); David Wood, People For Fair Taxes (con); Karen Davis, WEA (con); Judie Ebbert Rich, Washington Assembly (con).