

HOUSE BILL REPORT

EHB 2841

As Amended by the House:

February 7, 1996

Title: An act relating to limiting property taxes.

Brief Description: Limiting property tax increases additionally to the rate of inflation.

Sponsors: Representatives Carrell, B. Thomas, Mulliken, Cooke, Hymes, Chandler, Foreman, Hargrove, McMorris, Lambert, Talcott, Mastin, Lisk, Johnson, Clements, Mitchell, Skinner, Sherstad, Koster, K. Schmidt, L. Thomas, Campbell, Smith, Goldsmith, Backlund, Elliot, Boldt, Thompson, McMahan, Dyer, Huff, Carlson, Robertson, Quall, Reams and Hickel.

Brief History:

Committee Activity:

Finance: 1/24/96, 1/25/96 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 8 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Hymes; Mulliken; Schoesler; Sheldon and Van Luven.

Minority Report: Do not pass. Signed by 2 members: Representatives Morris, Ranking Minority Member; and Dickerson, Assistant Ranking Minority Member.

Staff: Rick Peterson (786-7150).

Background: All real and personal property in this state is subject to the property tax each year based on its value unless a specific exemption is provided by law. The tax bill is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located.

The sum of property tax rates is limited by the State Constitution to a maximum of 1.0 percent of true and fair value, or \$10 per \$1,000 of value. The Constitution provides a procedure for voter approval of tax rates that exceed the 1 percent limit. These taxes are called "excess" levies. Taxes imposed under the 1 percent limit are termed "regular" taxes. Regular taxes do not require voter approval.

In 1971, the Legislature imposed a statutory lid on regular property tax increases. Regular taxes subject to the limit include the state, counties, cities, port districts, fire protection districts, library districts, metropolitan park districts, and public hospital districts. The 106 percent levy limit requires reduction of property tax rates as necessary to limit the total amount of property taxes received by a taxing district. The limit for each year is the sum of (a) 106 percent of the highest amount of property taxes levied in the three most recent years, plus (b) an amount equal to last year's tax rate multiplied by the value of new construction. There are some exceptions and adjustments allowed to the limit.

The 106 percent limit does not apply to voter-approved excess levies such as local school M&O levies and levies to retire bond issues. The 106 percent limit does not limit an individual taxpayer's property taxes to 6 percent growth per year, or limit an individual taxpayer's assessed value to 6 percent growth per year.

Summary of Bill: The state property tax for collection in 1997 is reduced by 5 percent. The reduced 1997 levy will be used for future state levy calculations under the 106 percent levy limit.

The 106 percent limit is changed to the lesser of (a) 106 percent or (b) 100 percent plus the percentage change in the United States Consumer Price Index. This change applies only to regular property taxes for the state, cities, county general expense, and county road levies. The change is first effective for 1997 property taxes.

When a bank pays the tax on behalf of the property owner, the bank must send a copy of the property tax bill to the property owner. The information required on the property tax bills is expanded.

A county board of equalization cannot raise the valuation of any property that is the subject of an appeal filed by a property owner.

The property tax bill is separated into a first half-payment due on April 30 and a second half-payment due on October 31. If the first half-payment is not made on time, only that portion of the tax is delinquent rather than the entire tax bill.

A joint select study committee is created to review Washington's property tax system and to study the impact of proposed property tax reforms.

Farm and timber lands that are precluded from being used for growing crops or harvesting timber because they are within buffer areas next to wetlands are exempt from property tax.

The bill is submitted to a vote of the people at the November election.

Appropriation: None.

Fiscal Note: Requested on January 22, 1996.

Effective Date: The bill takes effect thirty days after the election at which it is approved.

Testimony For: There is a need to reduce the tremendous growth in property taxes. This bill puts property tax growth at the rate of inflation rather than double the rate of inflation. The status quo will not survive. If the Legislature does not do something the voters will pass an initiative. The property tax system forces people to sell their property. Citizens are suffering under the current system. Homeowners are being forced out of their neighborhoods. People can no longer afford to vote for school levies.

Efforts to convince local taxing districts to take less than the maximum under the 106 percent limit have failed. There is pressure from special interest groups on local governments to increase taxes at the full 106 percent amount. Wages are not growing at 6 percent but taxes are. The intent of original law was to allow increases roughly equal to inflation. If districts want to grow faster, they can ask their voters to approve increases in the limit.

Testimony Against: This reduction may damage local governments' ability to provide services to their constituents without dealing with the changes in assessed value that concern many citizens. Property tax is a stable source of revenue for local government. Local governments may have to look for other sources of revenue. Property tax relief programs are already available to seniors. Since 1980, the inflation rate has been roughly 6 percent.

Testified: Representative Michael Carrell, prime sponsor; Representative Jim Horn; Kevin O'Sullivan, Thurston County Assessor (pro); Brian Sullivan, Mukilteo Mayor (pro); Robert Wivel, Disabled American Veteran (pro); Marty Marsh, Board of Equalization (pro); Joy Engdahl (pro); Don Lotz (pro); Don Carter, Citizens for Property Tax Reform (pro); Sylvia Neff (pro); Maureen Morris, Association of Washington Cities (con); Michael Quinn (con); Paul Telford, Capitol Chapter United We Stand America (pro); Suzanne Paulsrude (pro); Kenneth Bragg (pro); Robert Bower (pro); Robert Lynch (pro); Marki Main (pro); Bill Placek, King County Library System (con); Josef McCoy (pro); Dan Lafreniere (pro); and Don Lotz (pro).