

SENATE BILL REPORT

SB 5835

As Passed Senate, February 24, 1997

Title: An act relating to limiting property taxes by reducing the state levy, reducing the one hundred six percent limit calculation, and allowing for valuation increases to be spread over time.

Brief Description: Limiting property taxes.

Sponsors: Senators Swecker, McDonald, Benton, McCaslin, Zarelli, Horn, Sellar, Stevens, Deccio, Johnson, Newhouse, Winsley, Oke, Long, Anderson, Rossi, Roach and Hochstatter.

Brief History:

Committee Activity: Ways & Means: 2/19/97 [DP, DNP].
Passed Senate, 2/24/97, 30-17.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Hochstatter, Long, McDonald, Roach, Schow, Swecker, Winsley and Zarelli.

Minority Report: Do not pass.

Signed by Senators Brown, Kohl, Spanel and Thibaudeau.

Staff: Terry Wilson (786-7433)

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.

Real property lying wholly within individual county boundaries is assessed based on its value by the county assessor. Intercounty, interstate, and foreign utility and transportation companies are assessed based on their value by the Department of Revenue. Property assessed by the Department of Revenue is referred to as state-assessed or centrally assessed property.

Property taxes are imposed on the assessed value of property. Current law requires the assessment to equal 100 percent of the fair market value of the property on July 31 of the assessment year for new construction and on January 1 of the assessment year for all other property.

County assessors revalue property periodically on a regular revaluation cycle. The length of the revaluation cycle varies by county. The most common length is four years, which is the maximum allowed by statute. In counties on a four-year revaluation cycle, the change in the tax assessment in the year of revaluation reflects four years of market value changes.

Changes in assessments are determined by changes in the real estate market. Therefore, there is no limit to the amount an assessment may increase or decrease.

In 1971, the Legislature imposed a statutory lid on regular property tax levy increases. Under this lid, regular property taxes levied by a taxing district in any year may not exceed 106 percent of the taxes levied by the district in the highest of the preceding three years. Added to this amount is the previous year's tax rate multiplied by the assessed value in the district that results from new construction and improvements to property in the previous year and any increase in the value of state-assessed property. To remove the incentive to maintain a high levy, taxing districts other than the state are assumed to have levied the maximum allowed since 1986.

The 106 percent limit is not a limitation on the amount of taxes that may be imposed on an individual taxpayer but rather is an aggregate limit on the amount of property taxes that may be levied by a taxing district.

The state property tax for collection in 1996 was reduced 4.7187 percent by legislation enacted during the 1995 session. In Chapter 2, Laws of 1997, the Legislature extended the one-time 4.7187 percent reduction of the 1996 state property tax to 1997. In addition, a 4.7187 percent reduction in 1998 and thereafter is to be referred to the voters. The 1998 reduction is used in calculating the 106 percent limit in 1999 and thereafter. Therefore, the 1998 reduction is a permanent reduction in the state property tax.

Summary of Bill: *Value Averaging.* A limitation is placed on adding to the tax rolls large valuation increases to real property. Each year, the current appraised value is compared to the assessed value for the previous year. The new assessed value is determined according to the following chart:

<u>Difference</u>	<u>New Assessed Value</u>
Negative to +15%	Appraised value
Between 15% and 60%	Old assessed value plus 15%
Over 60%	Old assessed value plus 25% of the difference

Improvements to property (new construction and remodeling) are always added separately at their appraised value.

This value is used in calculating state and local levies beginning with 1999 taxes.

106 Percent Limit. The 106 percent limit is changed to the lesser of (1) 106 percent or (2) 100 percent plus the percentage change in the implicit price deflator for personal consumption expenditures for the United States as published for the most recent 12-month period by the Bureau of Economic Analysis of the federal Department of Commerce in September of the year before taxes are payable. However, a 106 percent limit applies to a taxing district with a population of less than 10,000. In addition, a taxing district other than the state may provide for the use of a limit of 106 percent or less for any year. In districts with legislative authorities of four members or less, two-thirds of the members must approve the change. In districts with more than four members, a majority plus one vote must approve the change.

The change in the 106 percent limit applies to 1998 taxes and thereafter.

No increase in property tax revenue, other than that resulting from the addition of new construction and improvements to property and any increase in the value of state-assessed property, may be authorized by a taxing district other than the state except by adoption of a separate ordinance or resolution, pursuant to notice, specifically authorizing the increase in terms of both dollars and percentage. The ordinance or resolution may cover a period of up to two years, but the ordinance must specifically state for each year the dollar increase and percentage change in the levy from the previous year.

State Property Tax Reduction. The 4.7187 percent reduction in the state property tax in 1998 and thereafter that is to be referred to the voters under Chapter 2, Laws of 1997, is repealed and replaced with a 4.7187 percent reduction in the state property tax in 1998 and thereafter to be referred to the voters together with the other provisions of this bill.

Except for the repeal of the 4.7187 percent reduction in the state property tax in 1998, this act is to be referred to the voters.

Appropriation: None.

Fiscal Note: Requested on February 13, 1997.

Effective Date: Thirty days after the election at which it is approved, except the repeal of the 4.7187 percent reduction in the state property tax in 1998 and thereafter that is to be referred to the voters under Chapter 2, Laws of 1997, takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: There is a real fear of an initiative that would do much harm. Assessors support the bill except the value averaging. The 106 percent exception for counties under 10,000 in population should be changed to registered voters. Counties would like help to pay for the computer changes needed by the value averaging changes.

Testimony Against: Value averaging can result in inequitable values. Value averaging should not apply to current use properties, and a single revaluation notice should be sent under four-year cycles.

Testified: PRO: Pete Spiller, Fire Districts; Gary Lowe, WA Assn. of Counties; Fred Saeger, Bob Hart, WA Assn. of County Officials; CON: Ray Ryan, Cowlitz County Assessor.