Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HJR 4214

Brief Description: Amending the Constitution to improve predictability and stability in the assessment of real property values.

Sponsors: Representatives Buck, Kessler, Morrell, Sump, Condotta, Haler, Schindler, B. Sullivan, Serben, Holmquist and O'Brien.

Brief Summary of Bill

- Limits real property assessed value increases to 1 percent over the prior year's value.

Hearing Date: 1/24/06

Staff: Rick Peterson (786-7150).

Background:

Property subject to property tax is assessed at its true and fair value. In most cases this is the market value in the property's highest and best use. The values are set as of January 1st. These values are used for determining property bills to be collected in the following year. The constitution requires the property tax to be uniform on real estate.

Twenty-one counties establish new assessed values using a revaluation cycle. The length of the revaluation cycle varies by county. The most common length is four years although three and two year schedules are used by two counties. A proportionate share of the county is revalued during each year of the cycle. In most cases, individual property values are not changed during the intervening years of the revaluation cycle. The change in value for an individual property follows a stair step pattern; no change in value for three years then, in the following year, a change representing four years of value growth or, two or three years in case of a two or three year cycle.

Eighteen counties are on a program of annual updates. Values are adjusted annually based on market value statistical data.. In this case, a physical inspection of each property is done once every six years.

A combination of delayed value changes due to revaluation cycles and volatile real estate markets can generate substantial changes in assessed values from one year to the next.

The state property tax is allocated to the counties based on the market value of taxable property within each county. This process is called equalization of the state property tax. The Department of Revenue studies the relationship between the county assigned values and the market value of each county and makes an adjustment to the share of the state levy allocated to the county. For example, if a county is assessing at 90% of market value then the state makes a 10% adjustment. If a county is assessing at 80% of market value the state makes a 20% adjustment. The ratio of assessed value to market value is called the assessment ratio. The equalization process prevents counties from shifting their market value share of the state property tax to other counties by under assessing property.

The portion of the state property tax allocated to each county changes each year based on changes in the market value of property and new construction. Counties in which property is growing at faster rates will receive a slightly larger share of the state property tax.

Summary of Bill:

A constitutional amendment is submitted to the people at the next general election. The valuation standard for real property is changed from market value to the county assessor's value plus an adjustment for inflation not to exceed one percent per year. When the ownership of real property changes the assessed value is set to the fair market value. Assessed values are increased to reflect the value of new construction. In counties using revaluation cycles the assessed value of real property may be updated until all areas are assessed to the January 1, 2006 value.

Appropriation: None.

Fiscal Note: Requested on January 20, 2006.

Effective Date: The resolution takes effect upon approval of the voters at the November 2006 general election.