

SENATE BILL REPORT

SB 5359

As of January 23, 2023

Title: An act relating to establishing a responsible state spending limit with excess revenues dedicated to property tax relief.

Brief Description: Establishing a responsible state spending limit with excess revenues dedicated to property tax relief.

Sponsors: Senators Wilson, L., Dozier, Fortunato, Short, Torres and Wagoner.

Brief History:

Committee Activity: Ways & Means: 1/24/23.

Brief Summary of Bill

- Reinstates a state expenditure limit.
- Requires the state property tax rate to be reduced based on the amount of state revenues collected in excess of the state expenditure limit for the prior fiscal year.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: State Expenditure Limit. In 1993, voters adopted Initiative 601, which established a state expenditure limit. The state expenditure limit was in place for several decades but eventually repealed in 2020. The expenditure limit restricted the amount the state could spend from the General Fund-State (GFS) each fiscal year. The expenditure limit for each year was the prior year's actual GFS expenditures, adjusted for the fiscal growth factor, and further adjusted for certain revenue and program transfers into and out of the GFS. The fiscal growth factor was defined as the ten-year rolling average growth in state personal income. The state treasurer was prohibited from making payments from the GFS

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that exceed the limit. In 2015, the Legislature suspended the state expenditure limit until the 2021-2023 fiscal biennium; however, in 2020, the state expenditure limit law was repealed.

Legislative Balanced Budget Requirement. Legislation enacted in 2012 established requirements for the Legislature to pass a state operating budget that is balanced over a four-year period comprising the current biennium and the next ensuing biennium. The legislative balanced budget requirement applies to revenues and expenditures from the GFS and related funds. "Related funds" are defined as the Washington Opportunity Pathways Account, Education Legacy Trust Account, and Workforce Education Investment Account.

Economic and Revenue Forecast Council. The Economic and Revenue Forecast Council (ERFC) consists of the state treasurer, four legislators representing the two largest political caucuses of the Senate and House of Representatives, and two individuals appointed by the Governor. The ERFC director prepares, on a quarterly basis, state economic and revenue forecasts subject to the approval of the ERFC. To facilitate compliance with the four-year balanced budget requirement, the ERFC must approve budget outlooks of the proposed Governor's budget and the enacted budget. The ERFC must approve an outlook each November.

State Property Tax. The state imposes an annual property tax. The maximum tax rate is \$3.60 per thousand dollars of market value. The amount of the state property tax is also restricted by a property tax revenue limit. This limit requires the state to reduce its property tax rate as necessary to limit the total amount of property taxes to the highest property tax amount in the three most recent years plus one percent plus an amount equal to last year's tax rate multiplied by the value of new construction in the state. By 2017, this limit had reduced the state's market value property tax rate to \$1.89 for taxes to be collected in that year. Legislation enacted in 2017 increased the state property tax rate to \$2.70 beginning in 2018 and suspended the revenue limit for the state property tax for four years. The limit was reinstated with calendar year 2022 state property tax collections. The state's market value property tax rate for 2023 is \$2.15. The most recent estimate for state property tax collections in the 2021-2023 biennium is \$8.9 billion.

Summary of Bill: Reinstated State Expenditure Limit. A state expenditure limit is reinstated beginning in fiscal year 2025. Under the new expenditure limit, total state expenditures from the GFS and related funds in fiscal year 2024 would be the base year. Beginning in fiscal year 2025, state expenditures from the GFS and related funds could not exceed the previous fiscal year's expenditure limit increased by a percentage rate that equals the annual spending cap. The "annual spending cap" means the average of the sum of annual median wage growth and population change for each of the prior ten years. "General fund and related funds" means GFS, the Education Legacy Trust Account, and the Workforce Education Investment Account.

The state expenditure limit would also be adjusted by certain revenue and program transfers into and out of the GFS and related funds.

The annual spending cap would be determined by the Economic and Revenue Forecast Council.

State Property Tax Reduction. By December 1, 2025, and by each December 1st thereafter, the ERFC will calculate the amount of estimated revenues deposited in the GFS and related funds in excess of the state expenditure limit for the prior fiscal year. By December 31, 2025, and December 31st of each year thereafter, the Department of Revenue is required to reduce the state property tax rate for property taxes collected in the follow year by an amount equal to any revenues deposited in the near GFS and related funds in excess of the state expenditure limit, as determined by the ERFC.

Any reduction in the state property tax due to state revenues exceeding the state expenditure limit would be disregarded for purposes of determining the state property tax revenue limit from year-to-year.

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.