

SENATE BILL REPORT

SB 5618

As of February 14, 2023

Title: An act relating to increasing the local property tax revenue growth limit.

Brief Description: Increasing the local property tax revenue growth limit.

Sponsors: Senators Kuderer, Wellman, Frame, Hunt, Liias, Lovelett, Nguyen and Robinson.

Brief History:

Committee Activity: Local Government, Land Use & Tribal Affairs: 2/14/23.

Brief Summary of Bill

- Changes the revenue growth limit from 101 percent to 103 percent for a taxing authority that has a population less than 10,000.
- Changes the revenue growth limit from the lesser of 100 percent plus inflation, or 101 percent to the lesser of 100 percent plus population change and inflation, or 103 percent for a taxing authority that has a population of 10,000 or more.
- Defines inflation and population change.

SENATE COMMITTEE ON LOCAL GOVERNMENT, LAND USE & TRIBAL AFFAIRS

Staff: Karen Epps (786-7424)

Background: Property Tax. All real and personal property in the state is subject to property tax each year based on its value, unless a specific exemption is provided by law. The Washington Constitution limits regular property tax levies to a maximum of 1 percent of the property's value. Excess levies are not subject to this constitutional limit and require voter approval. There are statutory rate maximums for individual taxing districts and aggregate rate maximums to keep the total tax rate of regular property taxes within the

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constitutional limit.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. In 2017, the Legislature created a second state levy. For taxes levied for collection in calendar years 2018, 2020, and 2021, the combined rate for both state levies is \$2.70 per \$1,000 of assessed value. For taxes levied for collection in calendar year 2019, the combined rate for both state levies is \$2.40 per \$1,000 assessed value. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both levies, and the rate is calculated based on the total levy amount.

Revenue Growth Limit. Regular property tax levies are subject to a statutory revenue growth limit. The limit factor varies by size of a taxing district. For taxing districts with a population of less than 10,000 in the calendar year prior to the assessment year, the limit is 101 percent. For all other districts, the limit is the lesser of 101 percent or 100 percent plus inflation. Taxing districts may adopt a substantial need resolution to levy up to 101 percent if the implicit price deflator (IPD) is less than 1 percent.

For purposes of levy growth limits, inflation means the percentage change in the IPD for personal consumption expenditures for the United States as published for the most recent 12-month period by the Federal Department of Commerce by September 25th of the year before the taxes are payable.

Increases in levy capacity may be made outside the limit factor by additional amounts for the following add-ons:

- new construction;
- construction of wind turbine, solar, biomass, and geothermal facilities;
- improvements to property; and
- increased value of state-assessed property.

Summary of Bill: For purposes of the property tax revenue growth limit, the limit factors are as follows:

- for taxing districts with a population of less than 10,000 in the calendar year prior to the assessment year, 103 percent;
- for taxing districts, upon a finding of substantial need, that adopt a substantial need resolution, 103 percent or less;
- for all other districts, the lesser of 103 percent or 100 percent plus population change and inflation; and
- for state property taxes for the support of common schools, the lesser of 101 percent or 100 percent plus inflation.

By September 1, 2023, and by September 1st every year thereafter, the Department of Revenue must provide county assessors the limit factors necessary for the county assessor

to determine property tax limitations and determine the limit factor applicable to each taxing district in their county and notify each taxing district of the determination.

By October 1, 2023, and by October 1st every year thereafter, the county assessor must determine the limit factor applicable to each taxing district in their county and notify each taxing district of the determination. For a taxing district located in more than one county, the assessor of the county with the most assessed value of the taxing district must determine the limit factor applicable to the taxing district in their county and notify the taxing district of the determination.

The changes are applicable for taxes levied for collection in 2024 and thereafter.

Population Change. Population change means the annual percent increase in the population of a taxing district between the two most recent years as provided in the official population estimates published by the Office of Financial Management (OFM) for April 1st of the year before taxes are payable. If OFM estimates a net decrease in a taxing district's population, then the population change is zero.

For a county, the population of a taxing district means the population within the county's incorporated and unincorporated areas, unless the county taxing district boundaries are limited to the unincorporated county areas, in which case the population of a taxing district means the population of the unincorporated county areas only.

For taxing districts not coterminous with one or more cities, towns, counties, or unincorporated county areas, or any combination thereof, as provided in the official population estimates published by OFM in April of the year before the taxes are payable, population change means:

- the population change for the city or town within which the taxing district is wholly located;
- the population change for the county in which the taxing district is wholly located, when the taxing district is not wholly located within a city or town; or
- for taxing districts located in more than one county, the county population change for the county in which the greatest total taxable assessed value of the taxing district for the prior assessment year is located.

Under the definition of population change, the annual percent increase in population is calculated to the nearest tenth of 1 percent, rounding up to the next tenth of 1 percent if the second decimal place of the annual percent increase is five or greater.

Inflation. Inflation means the annual percentage increase in the consumer price index for all urban consumers in the western region for all items as provided in the most recent 12-month period by the Bureau of Labor Statistics of the United States Department of Labor by July 25th of the year before the taxes are payable.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect if SB 5495 is enacted by August 1, 2023.

Staff Summary of Public Testimony: PRO: The 1 percent cap limits local government revenue for law enforcement, public safety, and emergency services. This bill does not take effect unless there is a primary residence tax exemption and a renter's credit. The 1 percent property tax cap was arbitrary when it was adopted 20 years ago and does not reflect the actual needs of the community. This bill fixes this arbitrary policy by indexing it to growth and inflation. Property tax makes up about 22 percent of all city revenues and that percentage can be much higher in cities with little retail activity. The current cap on property tax can create a structural budget deficit when revenues cannot keep up with the increasing costs of providing services. This bill provides a meaningful increase and still maintains a cap no higher than 3 percent. Cities are resorting to more regressive taxes, such as sales tax. Cities will not make headway on climate change goals without this legislation. Adjusting the property tax cap to 3 percent and tying it to inflation and population growth will not solve all the cities financial problems but it is a critical step to ensure their financial problems do not get any worse. Cities are building affordable housing, repairing aging infrastructure, and preparing for growth, so cities need a flexible, dynamic funding stream that keeps pace with growing needs.

Property taxes provide nearly 41 percent of counties' general fund. This bill creates a more sensible approach to allow counties to meet the rising costs to provide basic services. Tying the overall property tax to inflation and population growth makes good sense as those factors drive costs. This bill is a step towards closing the gap between services and the revenue communities currently rely on to support them. County road departments maintain roughly half the transportation system in the state largely through property tax revenue and cap has greatly impacted their ability to maintain the road infrastructure. Counties experience the cost of inflation on a large scale and growth has been outpacing the 1 percent cap.

The impact of this limit has been felt by many jurisdictions, including fire districts, and limits their ability to provide and maintain essential services. The 1 percent cap has led to unnecessary elections over the past ten years. Parks have fallen further behind with operation and maintenance funding due to the 1 percent cap and have held back on growing because of concerns about maintaining the parks, so this bill would be a game-changer. Public libraries want to provide citizens with the resources and services that they love, but this has been difficult to do with the 1 percent cap. Raising the cap to 3 percent better allows public libraries to provide delivery of important services.

Persons Testifying: PRO: Senator Patty Kuderer, Prime Sponsor; Paul Jewell, Washington State Association of Counties; David Baker, City of Kenmore, Councilmember; Phillipa Kassoover, City of Lake Forest Park, Councilmember; Councilmember Lisa Parshley, Olympia City Council; Lacey Jane Wolfe, City of Bellevue; Roxanne Miles, Washington Recreation and Parks Association; Hunter George, Metro Parks Tacoma; Jeff Faucett, Washington Fire Chiefs Association; Axel Swanson, Washington State Association of County Engineers; Candice Bock, Association of Washington Cities; Rob Putaansuu, President, AWC & Mayor, City of Port Orchard; Joe McDermott, King County; Maria Williams, Teamsters Local Union No. 117; Gretchen Caserotti, Pierce County Library System; Regan Bolli, City of Covington; Commissioner Kate Dean, Jefferson County and WSAC; Mary Lou Steward, City of Blaine; Robert Gelder, Kitsap County; Bud Sizemore, WSCFF.

Persons Signed In To Testify But Not Testifying: No one.