SENATE BILL REPORT
SB 5770

As of January 17, 2024

Title: An act relating to state and local property tax reform.

Brief Description: Providing state and local property tax reform.

Sponsors: Senators Pedersen, Van De Wege, Robinson, Dhingra, Nguyen, Wellman, Keiser, Valdez, Saldaña, Hunt, Salomon, Randall, Cleveland, Wilson, C., Stanford, Lovick, Nobles, Hasegawa, Trudeau and Liias.

Brief History:
Committee Activity: Ways & Means: 1/18/24.

Brief Summary of Bill

- Increases the property tax revenue limit for local property taxes.
- Exempts property owners qualifying under the retired persons property tax relief program from 25 percent of part one of the state levy.
- Eliminates non-supplant restrictions applicable to local government taxing districts located in a county with a population of 1.5 million or more.
- Modifies the portion of a county current expense levy allocated in statute to funding county-owned hospitals.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: One Percent Property Tax Revenue Limit. All real and personal property is subject to a tax each year based on the highest and best use unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue is limited as

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follows:

- for jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent; and
- for jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent.

The value of the following add-ons is added in addition to the limit factor:

- new construction;
- construction of wind turbine, solar, biomass, and geothermal facilities;
- improvements to property;
- increased value of state-assessed property; and
- increased value within a local tax increment financing area.

The state collects two regular property tax levies. The revenue growth limit applies to both state levies and all regular local property tax levies. Excess levies are not subject to this limit and require voter approval.

For purposes of the revenue growth limit, inflation means the percentage change in the implicit price deflator (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. Taxing districts may adopt a resolution of substantial need to levy up to 101 percent if the IPD is less than 1 percent.

Retired Persons Property Tax Relief Program. Authorized by a constitutional amendment, qualifying senior citizens, persons retired due to disability, and qualifying veterans are entitled to property tax relief on their primary residence (SPTE). To qualify for the SPTE, a person must be any of the following:

- at least 61 years of age;
- at least 57 years of age and the surviving spouse or domestic partner of a person who was an exemption participant at the time of their death;
- unable to work because of a disability; or
- a disabled veteran with a service-connected evaluation of at least 80 percent or receiving compensation from the United States Department of Veterans Affairs at the 100 percent rate for a service-connected disability.

The home must be owned and be the primary residence of the applicant. An applicant's combined disposable income must be under the county's income threshold to qualify. Eligible individuals qualify for a partial property tax exemption and a valuation freeze.

The partial property tax exemption for the SPTE is provided according to various income thresholds. The income thresholds and associated partial exemptions are as follows:

- income threshold one is the greater of income threshold one for the previous year or 45 percent of county median household income;

    1. applicants qualifying under this income threshold receive an exemption from all excess levies, the additional state levy—part two, and regular levies on the greater of $60,000 or 60 percent of the assessed valuation;
- income threshold two is the greater of income threshold two for the previous year or 55 percent of county median household income;
    1. applicants qualifying under this income threshold but above income threshold one, receive an exemption from all excess levies, the additional state levy, and regular levies on the greater of $50,000 or 35 percent of assessed valuation—with a $70,000 maximum; and
- income threshold three is the greater of income threshold three for the previous year or 65 percent of county median household income; and
    1. applicants qualifying under this income threshold but above income threshold two receive an exemption from all excess levies and the additional state levy.

The income thresholds are adjusted every five years to reflect the most recent year of estimated county median household incomes published by the Office of Financial Management. The next scheduled adjustment is March 1, 2024. Beginning with the adjustment made by March 1, 2024, and every second adjustment thereafter, if an income threshold in a county is not adjusted based on percentage of county median income, then the income threshold must be adjusted based on the growth of the seasonally adjusted consumer price index for all urban consumers for the prior 12-month period, published by the United States Bureau of Labor Statistics, with a limit of 1 percent.

Cities and counties are permitted to exempt participants in the property tax exemption program from any portion of their regular property tax levy attributable to a levy lid lift, with voter approval.

In addition to the partial exemptions listed above, the valuation of the residence of an eligible individual is frozen, for calculating property tax liability, at the assessed value of the residence on the later of January 1, 1995, or January 1st of the assessment year in which the person first qualifies for the program. To be eligible, the person must have a disposable income less than income threshold three.

Lid Lift Non-supplant Restriction. Local taxing districts may exceed the 1 percent revenue limit if the voters in the district approve a "lid lift" which allows voters in a district to agree to tax themselves above the lid. In 2009 a non-supplant restriction was enacted for local taxing district lid lifts within a county with a population of 1.5 million or more. Under a non-supplant restriction, lid-lift revenue must add to the overall revenue used for the specified purpose of the lid lift and not supplant, in other words replace, existing revenues currently funding the specified program. The non-supplant restriction has been suspended by the Legislature several times including for lid lifts approved by the voters between 2015 and 2022.

County Hospital Levy. The current expense, or general fund, levy is, for most counties, the single largest source of property tax revenues. Any county may impose a current expense levy up to $1.80 per $1,000 assessed value. However, a county may increase its levy from $1.80 to a rate not to exceed $2.475 per $1,000 of assessed value for general county purposes if the total levies for both the county and any road district within the county do not exceed $4.05 per $1,000 of assessed value, and no other taxing district has its levy reduced as a result of the increased county levy. Current expense levy revenues are generally unrestricted and may be used for any lawful governmental purpose. However, there are several other regular county levies authorized or required by statute that are considered part of a county's current expense levy but are restricted to specific purposes, which includes a $0.50 per $1,000 assessed value levy for the maintenance of a county-owned hospital. The $0.50 levy may be used for the maintenance of the hospital.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): <u>One Percent Property Tax Revenue Limit.</u> For purposes of the revenue growth limit for state and local property taxes, the limit factor of 101 percent is replaced with a limit factor of 100 percent plus inflation and any banked inflation balance, with a cap of 103 percent.

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

The term banked inflation balance means the accumulated inflation from prior years in excess of 3 percent.

The ability for taxing districts with regular levies and a substantial need to adopt a resolution to use the growth factor of 101 percent instead of the IPD if the IPD is less than 1 percent is repealed.

By September 1st of each year, the Department of Revenue must provide county assessors the limit factors. By October 1st of each year, county assessors must determine how the limit factor applies to each taxing district and notify each taxing district.

<u>Retired Persons Property Tax Relief Program.</u> Property owners qualifying under the SPTE program would be exempt from 25 percent of part one of the state levy.

Non-shift language prevents the state tax rate from slightly increasing to offset the reduction in assessed value on the state tax roll due to the exemption.

The exemption does not expire and is not subject to review by the joint legislative audit and review committee.

Lid Lift Non-supplant Restriction. The non-supplant restriction applicable to counties with a population of 1.5 million or more is eliminated.

County Hospital Levy. The permissible uses of the county hospital levy is expanded to include operation and capital expenses as well as the payment of principal and interest on bonds issued for hospital purposes. Levy proceeds may be used to partially or fully compensate taxing districts for reductions in other taxing district levies resulting from the imposition of the hospital levy.

A future initial increase in a county's general expense levy for hospital purposes is exempt from the 1 percent revenue limit.

The changes in the bill are applicable for taxes levied for collection in 2025 and thereafter.

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.