# Individual State Agency Fiscal Note

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| --- | --- | --- |
| **Bill Number: SB 5770** | **Bill Title: AN ACT Relating to state and local property tax reform** | **Agency: 140**  **Department of Revenue** |
| Part I: Estimates  [ ] No Fiscal Impact |  |

Estimated Cash Receipts to:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Fund** | Fiscal Year 2024 | Fiscal Year 2025 | 2023-2025 Total | 2025-27 Biennium | 2027-29 Biennium |
| GF-State Property Tax | 48,000,000 | 143,000,000 | 191,000,000 | 598,000,000 | 1,062,000,000 |
| Total | 48,000,000 | 143,000,000 | 191,000,000 | 598,000,000 | 1,062,000,000 |

Estimated Expenditures from:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Fiscal Year 2024 | Fiscal Year 2025 | 2023-2025 Total | 2025-27 Biennium | 2027-29 Biennium |
| **FTE Staff Years** |  |  |  |  |  |
| **Fund** |  |  |  |  |  |
|  |  |  |  |  |  |
| Total |  |  |  |  |  |

*The revenue and expenditures estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

[X] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

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| --- | --- | --- | --- | --- | --- |
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| Agency Preparation: | MARK STUDER | Phone: | (360) 534-1507 | Date: | 4/11/2023 |
| Agency Approval |  | Phone: |  | Date: |  |
| OFM Review: |  | Phone: |  | Date: |  |

Part II: Narrative Explanation

**II. A - Brief Description Of What The Measure Does That Has Fiscal Impact**

CURRENT LAW:

Current law annually limits a taxing district’s increase in its regular property tax levy or levies by the applicable “limit factor,” plus an additional amount based on the prior year’s levy rate multiplied by the increase in assessed value in the district from:

- New construction.

- Construction of wind turbine, solar, biomass, and geothermal facilities.

- Improvements to property.

- State-assessed property.

- Real property within a local tax increment finance area designated by a local government.

Current law defines:

- “Limit factor” as:

- For taxing districts with a population of less than 10,000, 101%.

- For all other districts, the lesser of 101% or 100% plus inflation. However, if inflation is less than 1%, then taxing districts, except the state, that adopt a substantial need resolution can have a limit factor up to 101%.

- “Inflation” as 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 Bureau of Economic Analysis of the federal Department of Commerce by September 25th of the year before the taxes are payable.

The statutory aggregate maximum levy rate for Part 1 and Part 2 state property tax school levy for the support of common schools is $3.60 per $1,000 of market value.

Qualifying senior citizens, persons retired due to disability, and disabled veterans meeting certain criteria may qualify for a property tax exemption (senior exemption program) on their principal residence. All participants in the senior exemption program receive a full exemption from Part 2 of the state school levy. Depending on a participant’s income, the senior exemption program includes a partial reduction for Part 1 of the state school levy.

PROPOSAL:

This proposal increases the regular property tax levy growth limit for both state and local tax districts by revising the definition of “inflation” and “limit factor.”

This proposal revises the definition of “inflation” for both state and local property levies to mean the annual percentage increase in the consumer price index for all urban consumers (CPI-U) in the western region for all items as provided for the most recent 12-month period by the Bureau of Labor Statistics of the United Stated Department of Labor by July 25 of the year before the year the taxes are payable.

This proposal revises the definition of “limit factor” for the state and all local taxing districts’ regular property tax levies to mean 100% plus population change and inflation, but not to exceed 103%.

This proposal defines “population change” to mean 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 for April 1 of the year before the taxes are payable. The definition of "population change" also:

- Provides that if a taxing district’s population decreases, the population change is zero.

- Specifies how to calculate the population change for taxing districts located in more than one county, city, town, or any combination of counties, cities, and towns.

- Requires the Department of Revenue to provide county assessors the limit factors by September 1 of the year prior to the levy year.

- Requires the county assessor to determine the limit factor applicable to each taxing district in the county and notify each taxing district of the applicable factor by October 1, of the year prior to the levy year.

This proposal repeals the substantial need provision (RCW 84.55.0101).

This proposal reduces Part 1 of the state property tax levy by 25% for all participants in the senior exemption program.

EFFECTIVE DATE:

This proposal takes effect beginning with property taxes due for collection in calendar year 2024.

**II. B - Revenue Impact**

ASSUMPTIONS:

- The difference between the assessed value of Part 1 and the assessed value of Part 2 adequately represents the senior exemption program impact. This estimate uses 25% of this difference.

- Property taxes shift to other property owners as a result of the changes to the senior exemption program.

- Taxing districts taking less than the current 101% limit will not utilize the increased limit factor.

- No prorationing occurs under the $5.90 aggregate limit due to the increase in the limit factor.

- No prorationing occurs under the $10 constitutional aggregate limit due to the increase in the limit factor.

- Based on five years of state property tax collections, 52.36% of property tax collections occur in April and 47.64% occur in October. When converting from calendar year to fiscal year, this estimate assumes revenue gains and losses follow this trend.

DATA SOURCES:

- Economic and Revenue Forecast Council, November 2022 forecast

- Office of Financial Management, April 1, 2022, Population estimates

- Office of Financial Management, State population forecast

- Department of Revenue, State Property Tax Model

- Department of Revenue, State levy calculations for property taxes due for 2023

- County assessor data

REVENUE ESTIMATES:

The Economic and Revenue Forecast Council predicts the state property tax levy remains below the $3.60 limit throughout the 2027-29 biennium. A new exemption results in a shift and no loss to the state levy.

PROPERTY TAX SHIFTS:

This legislation results in a state levy shift to other taxpayers of an estimated $2.7 million for fiscal year 2024 and $5.2 million in fiscal year 2025, the first full fiscal year

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2024 - $ 48,000

FY 2025 - $ 143,000

FY 2026 - $ 245,000

FY 2027 - $ 353,000

FY 2028 - $ 469,000

FY 2029 - $ 593,000

Local Government, if applicable (cash basis, $000):

FY 2024 - $ 60,000

FY 2025 - $ 179,000

FY 2026 - $ 303,000

FY 2027 - $ 433,000

FY 2028 - $ 571,000

FY 2029 - $ 719,000

DETAIL OF REVENUE IMPACT FOR PROPERTY TAX BILLS, Calendar Year Basis:

State Government, Impact on Revenues ($000):

CY 2024 - $ 92,000

CY 2025 - $ 190,000

CY 2026 - $ 295,000

CY 2027 - $ 407,000

CY 2028 - $ 526,000

CY 2029 - $ 654,000

State Government, ($000), Shift of Tax Burden:

CY 2024 - $ 5,200

CY 2025 - $ 5,300

CY 2026 - $ 5,400

CY 2027 - $ 5,600

CY 2028 - $ 5,700

CY 2029 - $ 5,900

Local Government, Impact on Revenues ($000) :

CY 2024 - $ 115,000

CY 2025 - $ 237,000

CY 2026 - $ 363,000

CY 2027 - $ 496,000

CY 2028 - $ 640,000

CY 2029 - $ 792,000

Local Government, ($000), Shift of Tax Burden: None

**II. C - Expenditure Impact**

In process