

Rational Steps #8:

SB 5770: Property Taxes are Too Low... Seriously?

Welcome to the eighth installment of this series, which identifies and explores important issues facing our state and recommends workable policy solutions.

- **Issue:** SB 5770, which will receive a public hearing Jan. 18 from the Senate Ways and Means Committee, proposes to dramatically raise property taxes, increasing annual tax bills by over \$2 per \$1,000 assessed value over the next decade (or over \$500 on a \$250,000 home).¹
- **Rational Step Toward a Better Washington:** SB 5770 is the wrong direction for our state.

*SB 5770 proposes to **triple the growth rate** of annual property-tax collections for governments in Washington. These governments now can collect 1% more annually in property tax, plus any revenues attributable to the value of new construction, without having to seek voter approval.*

SB 5770 would allow that “councilmatic” increase to be as much as 3%.²

This is forecast to raise taxes by \$12 billion over the next 10 years, with the compounding effect of the increase continuing to escalate over time (increasing taxes by \$32 billion over 16 years).³

Overview

- State & Local Tax Burden is Already Comparatively High***
- Government Revenues Grow Far Faster than 1%***
- Insidious Tax Policy: Compounding Effects Over Time***

- D. Listen to the People: Voters, Tax Structure Work Group Respondents, and People of Color All Strongly Oppose Policy**
- E. Makes the Cost of Homeownership Even More Unaffordable**
- F. Disproportionately Burdens Renters**
- G. Height of “Government Knows Best” Arrogance**
- H. Why Does “Tax Reform” Always Equal Higher Taxes?**

A. State & Local Tax Burden Already Comparatively High

Property Taxes are Too Low... Seriously?

Washingtonians pay \$6,220 per person a year in state & local taxes. That is 13th highest in the country, according to our state Department of Revenue, exceeding the median state (New Hampshire) by over \$1,000 per person.⁴

What about our neighboring states?

- Oregon: \$5,234 (nearly \$1,000 per person less)
- Idaho: \$4,164 (over \$2,000 per person less)

A decade ago, we ranked 22nd highest in the country, much closer to the median tax burden.⁵

B. Government Revenues Grow Far Faster than 1%

Property Taxes are Too Low... Seriously?

While 1% growth may sound unduly limiting, the reality is that – in combination with the new construction property-tax growth on top of that 1% and the other revenue sources available to each level of government (state, county, city) – revenue growth over the past decade has been quite robust.

For the most recent 10 years for which there are data⁶:

- | | |
|-----------------------|------------------------|
| 1. State revenue: | 6.5% avg annual growth |
| 2. 5 largest cities: | 6.5% avg annual growth |
| 3. 30 largest cities: | 6.1% avg annual growth |
| 4. Counties: | 5.7% avg annual growth |

For comparison, this growth is faster than the 4.5% average private-sector worker wages have grown during that same time period.⁷

C. Insidious Tax Policy: Compounding Effects Over Time

Property Taxes are Too Low... Seriously?

The difference between today's allowed 1% growth and the 3% growth allowed under SB 5770 (again, not counting revenue growth from new construction) may not sound like much, and initially the delta is not large. However, compounding makes for an enormous tax-collection difference over time.

- In the 1st year of this policy, the tax increase is forecast to be \$200 million.
- In the 8th year, it is forecast to be over \$2 billion annually.⁸

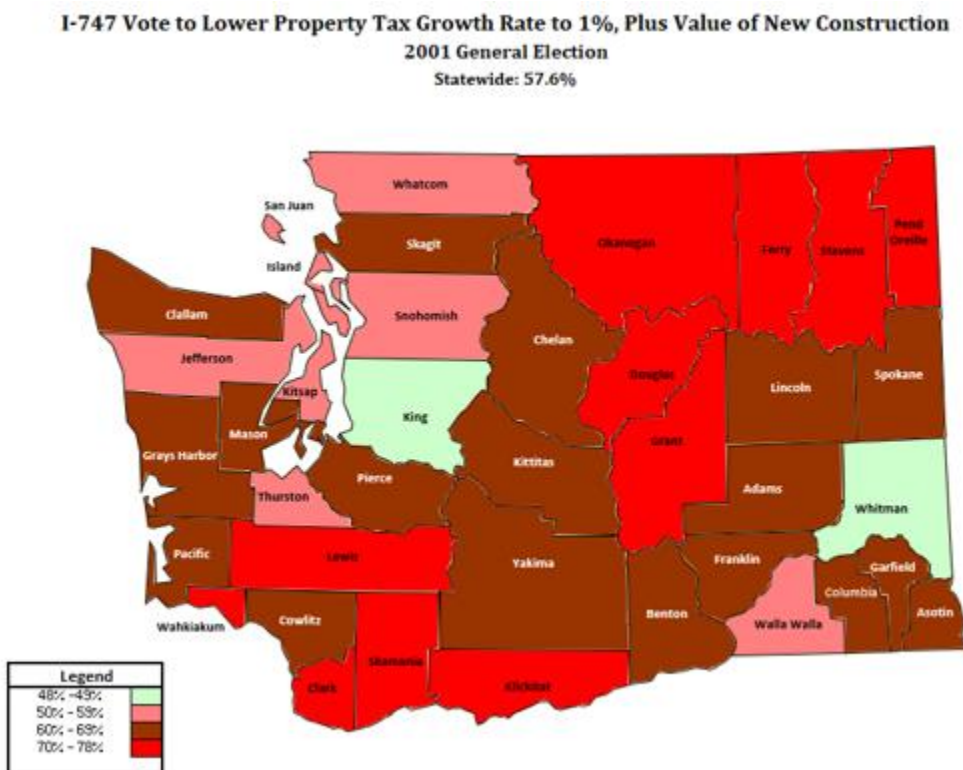
That's right: SB 5770 would enable a ten-fold tax increase in less than a decade.

D. Listen to the People

Property Taxes are Too Low... Seriously?

1. Voters Put Present Policy in Place

The present property-tax policy was put in place by voters over 20 years ago with the approval of I-747 by a wide margin (57.6% approval).⁹



The Supreme Court overturned I-747 in 2007 on a 5-4 vote on grounds it was ambiguous and misleading, but following an outcry from the public reinstated the policy at a special session later that month.¹⁰

2. Lifting 1% Cap Is Incredibly Unpopular “Reform” Idea, as Found by Tax Structure Work Group

Legislators commissioned (and spent a few million dollars on) a Tax Structure Work Group that met for years to look at various tax-reform ideas and also surveyed the public at Tax Town Halls.

The idea of raising the 1% cap was among those explored. Only 34% of survey participants supported the proposal.¹¹ They found it to be:

- Regressive (disproportionately burdens people with low incomes)
- Slippery slope (tax rate or base may increase in the future)¹²

3. People of Color Particularly Disliked Proposal, as Found by Tax Structure Work Group

Only 27% of people of color (vs. 39% white) supported the proposal to lift the property-tax growth factor originally created by I-747.¹³

When the people who must live with the policies set in Olympia tell us a particular policy change would be bad, why can't legislators believe them? Why bother with a taxpayer-funded workgroup only to ignore the results?

E. Makes the Cost of Homeownership More Unaffordable

Property Taxes are Too Low... Seriously?

Washington ranks 5th-worst in the country in housing affordability, a metric that compares median incomes to the mortgage for a median-priced home.¹⁴ This is most certainly a direct corollary to why our state also ranks in the bottom quartile of all states in homeownership (65%).¹⁵

Adding more costs will only make homeownership more unaffordable and reduce homeownership opportunities. This is the wrong direction.

F. Disproportionately Burdens Renters

Property Taxes are Too Low... Seriously?

Ten years ago, Washington ranked near the middle of all states in terms of rent affordability, which like home affordability compares median rent to median incomes.¹⁶

Today, we rank 7th worst in the country.¹⁷

As Tax Structure Work Group respondents noted, increasing property taxes disproportionately impact lower-income individuals and families, particularly renters as the costs are likely to be passed along in the form of higher rent.

This is the wrong direction.

G. Height of Arrogance and ‘Government Knows Best’

Property Taxes are Too Low... Seriously?

Here’s the thing: Washington law already allows governments the ability to raise property taxes in excess of the 1% threshold. ***They simply have to go to the voters and successfully make their case.***

Instead of forcing governments to convince taxpayers that a 1% increase is not enough, this bill would enable the unilateral imposition of billions upon billions *upon billions* of new taxes on Washingtonians. It is the height of arrogance and “government knows best.”

H. Why Does ‘Tax Reform’ Always Equal Higher Taxes?

Property Taxes are Too Low... Seriously?

The title of SB 5770 is “An act relating to state and local property tax reform.”¹⁸

Yet a look at the policy beneath the title makes it clear “reform” is simply code for increased taxes. It’s reminiscent of the famous line from one of the heroes in the classic film “The Princess Bride”: “You keep using that word. I do not think it means what you think it means.”



There's another adage that comes to mind as well: "When people tell you who they are, believe them." Despite years of bemoaning the regressive taxes in Washington's tax code, Democrats persist in seeking to raise taxes that would make the tax code *even more* regressive and disproportionately harmful to the working and middle class. For a recent example, look no further than how the Climate Commitment Act functions as a gas tax, raising gas prices by 50 cents a gallon to date.¹⁹

Meanwhile, policies that would actually reduce taxes in a progressive manner – such as exempting the first \$250,000 of a home's value from state property taxes, and providing an equivalent credit to renters – have failed to receive meaningful action from Democrats, even when budget surpluses approach \$5 billion.²⁰

SB 5770 is yet another instance of the need to look at what people *do* rather than what they *say*:

SB 5770 is an insidious multi-billion dollar tax increase that would compound rapidly over time, disproportionately hurting the working and middle class, all while driving the dream of homeownership further out of reach for many and increasing the cost of living for renters to unbearable limits.

I know the pain already being felt by homeowners, would-be homeowners and renters, as I hear from them every day. SB 5770 would make that pain even worse.

Conclusion

SB 5770 is the wrong direction for Washingtonians.

Footnotes

1. Dept. of Revenue forecast, 4/14/23 (Projected tax rate per \$1,000 of assessed value forecast to grow by over \$2.10 in CY 2033 compared to existing law as a result of the bill.)
2. <https://lawfilesex.leg.wa.gov/biennium/2023-24/Pdf/Bills/Senate%20Bills/5770.pdf?q=20240111100054>
3. Dept. of Revenue 4/12/23 email (\$12.2 billion increase in state & local tax revenue over first 10 years). Compounding effects continue over time, resulting in \$32 billion over 16 years.
4. https://dor.wa.gov/sites/default/files/2023-02/Comparative_2020.pdf
5. <https://dor.wa.gov/sites/default/files/2022-02/Comparative%2520Taxes%25202013.pdf>
6. State Auditor, Local Government Financial Intelligence Tool (<https://portal.sao.wa.gov/FIT>) CY 2012-21
7. 4.5% is average hourly wage private sector growth CY 2012-21 (Employment Security Dept.)
8. Dept. of Revenue 4/12/23 email
9. https://www.sos.wa.gov/elections/results_report.aspx?e=21&c=&c2=&t=&t2=5&p=&p2=&y=
10. HB 2416 (2007), <https://lawfilesex.leg.wa.gov/biennium/2007-08/Pdf/Bills/Session%20Laws/House/2416.SL.pdf?cite=2007%20sp.s.%20c%201%20C2%A7%204>
11. <https://dor.wa.gov/sites/default/files/2023-06/FinalTSWGSurveyTechnicalReport2022.pdf> (page 18)

12. <https://dor.wa.gov/sites/default/files/2023-06/Final2021TSWGInterimEngagementReport.pdf> (page 29)
13. <https://dor.wa.gov/sites/default/files/2023-06/FinalTSWGSurveyTechnicalReport2022.pdf> (page 18)
14. <https://erfc.wa.gov/sites/default/files/public/documents/publications/climate2023.pdf> (page 71)
15. <https://www.census.gov/housing/hvs/data/rates.html>
16. <https://erfc.wa.gov/sites/default/files/public/documents/publications/climate2023.pdf> (page 72)
17. Id.
18. <https://lawfilesexternal.wa.gov/biennium/2023-24/Pdf/Bills/Senate%20Bills/5770.pdf?q=20240111100054>
19. <https://lawfilesexternal.wa.gov/biennium/2021-22/Pdf/Bills/Session%20Laws/Senate/5126-S2.SL.pdf?q=20240113164842>
20. SB 5387 (2023) <https://app.leg.wa.gov/billsummary?BillNumber=5387&Year=2023&Initiative=False>
\$5 billion budget surplus (p. 64):
<https://erfc.wa.gov/sites/default/files/public/documents/publications/nov23pub.pdf>