

# Individual State Agency Fiscal Note

<b>Bill Number: S 3775</b>	<b>Bill Title: AN ACT Relating to property tax reform</b>	<b>Agency: 140</b> <b>Department of Revenue</b>
<b>Part I: Estimates</b> [ ] 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		(2,600,000)	(2,600,000)	(10,000,000)	(10,500,000)
Total		(2,600,000)	(2,600,000)	(10,000,000)	(10,500,000)

## Estimated Expenditures from:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
FTE Staff Years		1.03	.52	.1	.1
Fund					
GF-State 001		125,500	125,500	23,400	23,400
Total		125,500	125,500	23,400	23,400

*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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## Part II: Narrative Explanation

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

Note: This fiscal note reflects language in Proposed Substitute Senate Bill 5770 (draft legislation S-3775.4), 2024 Legislative Session.

#### 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%, taxing districts, except the state, that adopt a substantial need resolution can have a limit of 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.

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 also includes a partial reduction for Part 1 of the state school levy and some local property tax levies.

A taxing district may levy a property tax in an amount exceeding the limit factor (often referred to as a "levy lid lift") when a majority of the voters in the taxing district approve a proposition. The levy increase may be approved for up to six years and the title of the ballot must state the limited purposes for which the funds will be used as a result of the levy lid lift.

The legislative authority of any county may establish, provide, and maintain hospitals. If a hospital is established, the county legislative authority can levy a property tax, not to exceed 50 cents per \$1,000 of assessed value in any one year, for maintenance of the hospital.

The county may:

- Purchase, lease, or use lands already owned by the county.
- Erect buildings, make necessary improvements and repairs, and alter any existing building for the use of a hospital.
- Use county moneys, levy taxes, and issue bonds as authorized by law to raise money to cover the cost of procuring the site, constructing, operating, and maintaining the hospitals.

#### PROPOSAL:

This bill increases the regular property tax levy growth limit for local tax districts by revising the definition of "inflation" and "limit factor."

This bill 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 States Department of Labor by July 25 of the year before the year the taxes are payable.

This bill revises the “limit factor” definition for all local taxing district’s regular property tax levies to mean 100% plus inflation and any banked inflation balance, but not to exceed 103%.

This bill defines “banked inflation balance” as the accumulated annual inflation in excess of 3% from the prior year.

This bill repeals the existing substantial need provisions (RCW 84.55.0101).

This bill exempts parcels eligible for the senior exemption from 25% of Part 1 of the state levy and requires the exemption from Part 1 to not shift to other property owners. With this no-shift provision, any exemption results in a state general fund revenue reduction.

This bill removes some restrictions on how funds raised from a levy lid lift may be used.

This bill revises how counties may use funds from a county hospital levy. The funds may now be used to finance or refinance a site, capital expenses, operations, and payment of principal and interest on bonds for county hospitals, in addition to existing provisions. As well,

- If approved by the county legislative authority, the hospital levy proceeds may be used to partially or fully compensate taxing districts for reductions in district levies resulting from the imposition of the levy.
- A county general levy may exceed the limit factor when initially imposing a levy to support a county hospital.

#### EFFECTIVE DATE:

This bill takes effect beginning with property taxes due for calendar year 2025.

## **II. B - Revenue Impact**

#### ASSUMPTIONS:

- Based on the Economic and Revenue Forecast Council's November 2023 forecast, the limit factor for Part 1 and Part 2 of the state levy remains unchanged through the 2027-29 biennium.
- Districts can take the greater of the levy increase authorized by this proposal or approved by voters.
- Taxing districts taking less than the current 101% limit will not utilize the increased limit factor.
- Only minor prorationing occurs under the \$5.90 aggregate limit in Whitman County 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.
- Expanding how funds can be used for county hospital levies and voter-approved levies will not result in additional levies.
- Based on five years of state property tax collections, 52.52% of property tax collections occur in April and 47.48% 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 2023 forecast
- State Property Tax Model, November 2023
- County assessor data

#### REVENUE ESTIMATES:

OFM Form FN (10/95)

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This bill decreases state revenues by an estimated \$2.6 million in the six months of impacted collections in fiscal year 2025, and by \$4.9 million in fiscal year 2026, the first full year of impacted collections.

This bill also increases local revenues by an estimated \$62.1 million in the six months of impacted collections in fiscal year 2025, and by \$161.4 in fiscal year 2026, the first full year of impacted collections.

**PROPERTY TAX SHIFTS:**

This legislation results in no state or local property tax levy shifts.

**TOTAL REVENUE IMPACT:**

**State Government (cash basis, \$000):**

FY 2024 -	\$ 0
FY 2025 -	(\$ 2,600)
FY 2026 -	(\$ 4,900)
FY 2027 -	(\$ 5,100)
FY 2028 -	(\$ 5,200)
FY 2029 -	(\$ 5,300)

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

FY 2024 -	\$ 0
FY 2025 -	\$ 62,000
FY 2026 -	\$ 161,000
FY 2027 -	\$ 252,000
FY 2028 -	\$ 348,000
FY 2029 -	\$ 444,000

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

**State Government, Impact on Revenues (\$000):**

CY 2024 -	\$ 0
CY 2025 -	(\$ 4,900)
CY 2026 -	(\$ 5,000)
CY 2027 -	(\$ 5,100)
CY 2028 -	(\$ 5,200)
CY 2029 -	(\$ 5,400)

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

**Local Government, Impact on Revenues (\$000):**

CY 2024 -	\$ 0
CY 2025 -	\$ 118,000
CY 2026 -	\$ 200,000
CY 2027 -	\$ 299,000
CY 2028 -	\$ 392,000
CY 2029 -	\$ 491,000

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

## II. C - Expenditure Impact

### ASSUMPTIONS:

This proposal affects taxing districts and senior exemption participants.

### FIRST YEAR COSTS:

There are no first year costs.

### SECOND YEAR COSTS:

The department will incur total costs of \$125,500 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 1.03 FTEs.

- Amend eight administrative rules.
- Policy guidance to assist operating divisions with forms, publications, and other needs.
- Update forms, publications, training materials, and forecasting models.

### ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$23,400 and include similar activities described in the second-year costs. Time and effort equate to 0.53 FTEs.

## Part III: Expenditure Detail

### III. A - Expenditures by Object or Purpose:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Salaries and Wages		77,100	77,100	15,200	15,200
Benefits		25,400	25,400	5,000	5,000
Supplies & Material		15,500	15,500	2,000	2,000
Travel		300	300	600	600
Office Equipment		7,200	7,200	600	600
<b>Total</b>		125,500	125,500	23,400	23,400

### III. B - FTE Detail:

Job Classification	Salary	FY 2024 FTEs	FY 2025 FTEs	2023 - 2025 Total	2025 - 2027	2027 - 2029
EMS BAND 4	131,684		.01	.01		
MGMT ANALYST4	76,188		.04	.02		
PROPERTY AND ACQUISITION SP 5	76,188		.1	.05	.1	.1
TAX INFO SPEC 3	61,056		.5	.25		
TAX POLICY SP 2	78,120		.02	.01		
TAX POLICY SP 3	88,416		.12	.06		
TAX POLICY SP 4	95,184		.23	.12		
WMS BAND 3	111,992		.01	.01		
<b>Total</b>			1.03	.53	.1	.1

### III. C - Expenditures by Program (optional):

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
<b>Total</b>					

## **Part IV: Capital Budget Impact**

None.

## **Part V: New Rule Making Required**

Should this legislation become law, the department will use the expedited process to amend:  
WAC 458-16A-130, titled: "Senior citizen, disabled person, and disabled veteran exemption—Qualifications for exemption."

WAC 458-19-005, titled: "Definitions."

WAC 458-19-05001, titled: "Port district levies for industrial development district purposes."

WAC 458-19-010, titled: "Levy limit and levy rate calculations."

WAC 458-19-020, titled: "Levy limit—Method of calculation."

WAC 458-19-030, titled: "Levy limit—Consolidation of districts."

WAC 458-16-045, titled: "Levy limit—Removal of limit (lid lift)."

WAC 458-19-550, titled: "State levy—Apportionment between counties."

Persons affected by this rulemaking would include taxing districts and senior citizens.

**Revenue Impact Detail**

FUND	SOURCE	CODE	First Biennium		Second Biennium		Third Biennium	
			1st YEAR	2nd YEAR	3rd YEAR	4th YEAR	5th YEAR	6th YEAR
GF-State	Property Tax	0150		(2,600,000)	(4,900,000)	(5,100,000)	(5,200,000)	(5,300,000)
Total				(2,600,000)	(4,900,000)	(5,100,000)	(5,200,000)	(5,300,000)
OTHER								
Total								
Net				(2,600,000)	(4,900,000)	(5,100,000)	(5,200,000)	(5,300,000)

**Revenue Impact - by Biennium**

FUND	SOURCE	CODE	1st Biennium	2nd Biennium	3rd Biennium
GF-State	Property Tax	0150	(2,600,000)	(10,000,000)	(10,500,000)
Total			(2,600,000)	(10,000,000)	(10,500,000)
OTHER					
Total					
Net			(2,600,000)	(10,000,000)	(10,500,000)