

Tax Structure Work Group

Update the Property Tax Limit Factor for Changes in Population and Inflation

Current Law Current law limits property tax levy increases with growth limits often referred to as the “101% levy limit” or the “1% growth limit” and allows an increase in levy capacity for the following add-ons:

- New construction.
- Construction of wind turbine, solar, biomass, and geothermal facilities.
- Improvements to property.
- Increased value of state-assessed property.
- Increases in real property value within a local tax increment finance area designated by a local government.

Current law defines:

- 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 limit factor:
 - For taxing districts with a population of less than 10,000 as 101%.
 - For all other districts as the lesser of 101% or 101% plus inflation. If the IPD is less than 1% then taxing districts who adopt a substantial need resolution can have a limit factor up to 101%.
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Proposal This proposal amends the 101% levy limit for all regular state and local property taxes. The proposal:

- Revises the definition of “inflation” 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.
- Revises the definition of “limit factor” to mean 100% plus population change and inflation, but not to exceed 103%.
- Defines “population change” to mean the annual percent increase in the population of a taxing district 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. It also provides the following:
 - If taxing district’s population decreases, the population change in zero.
 - Allows for population change for districts in more than one county or city.
 - Excludes changes in population resulting from an annexation by a city.
 - Repeals existing substantial need resolution requirements.
 - Requires local taxing districts to include the district population change as part of the district’s annual budget resolution to their county legislative authority, or the county assessor if required.
 - Requires county assessors to calculate the levy limit calculations, except for the state school levies and intercounty rural library levies.

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Effective Date This proposal takes effect beginning with property taxes due for Calendar Year 2024.

Revenue Estimate The table below shows the fund(s) impacted and the source of the revenues from this proposal:

Fund - Source	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF-State - Property Tax	48,000,000	143,300,000	245,300,000	354,400,000	471,000,000	595,600,000
Fiscal Year Total	48,000,000	143,300,000	245,300,000	354,400,000	471,000,000	595,600,000
Biennial Total		191,300,000		599,700,000		1,066,600,000

Revenue Assumptions

- Taxing districts taking less than the current 1% 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.
- The calculation of population growth will not include growth due to annexation.
- Based on five years of state property tax collections, 52.36 percent of state property tax collections occur in April and 47.64 percent occur in October. When converting from calendar year to fiscal year, this estimate assumes revenue gains and losses follow this trend.
- The Economic and Revenue Forecast Council predicts the state property tax levy remains below the \$3.60 limit throughout the 2025-27 Biennium.

PROPERTY TAX SHIFTS:

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

Data Sources

- Economic and Revenue Forecast Council, September 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 in 2022
- County assessor data

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Local Government Impact	Local Government, if applicable (cash basis, \$000):
	FY 2024 - \$ 60,400
	FY 2025 - \$ 178,100
	FY 2026 - \$ 302,400
	FY 2027 - \$ 435,300
	FY 2028 - \$ 577,300
	FY 2029 - \$ 728,600

Calendar Year Detail **DETAIL OF REVENUE IMPACT FOR PROPERTY TAX BILLS**

State Government, Impact on Revenues (\$000)

CY 2024 - \$ 91,800
CY 2025 - \$ 190,100
CY 2026 - \$ 295,400
CY 2027 - \$ 408,000
CY 2028 - \$ 528,300
CY 2029 - \$ 656,700

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

Local Government, Impact on Revenues (\$000)

CY 2024 - \$ 115,300
CY 2025 - \$ 235,200
CY 2026 - \$ 363,600
CY 2027 - \$ 500,600
CY 2028 - \$ 647,000
CY 2029 - \$ 802,900

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

Expenditure Estimate The table shows the FTE staff years and expenditures for this proposal:

FTE	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
FTE Count	0.63	1	1	1	1	1
Biennial FTE		0.82		1		1
Fund						
GF-State 001	76,800	118,600	114,400	114,400	114,400	114,400
Fiscal Total	76,800	118,600	114,400	114,400	114,400	114,400
Biennial Total		195,400		228,800		228,800

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First Year Costs

The Department will incur total costs of \$76,800 in Fiscal Year 2024. These costs include:

- Labor Costs - Time and effort equate to 0.6 FTEs.
 - Assist in rule making process.
 - Provide technical advice, guidance, training, and assist in auditing all regular levy limit factors used by county assessors to calculate levies.

Second Year Costs

The Department will incur total costs of \$118,600 in Fiscal Year 2025. These costs include:

- Labor Costs - Time and effort equate to 1 FTEs.
 - Provide technical advice, guidance, training, and assist in auditing all regular levy limit factors used by county assessors to calculate levies.

Ongoing Costs

Ongoing costs for the 2025-27 and 2027-29 Biennium each equal \$228,800 and include similar activities described in the second-year costs. Time and effort equate to 1 FTE per year.

Rules

Should this legislation become law, the Department will use the expedited process to amend WAC 458-19-005, titled: "Definitions," WAC 458-19-020, titled: "Levy limit - Method of Calculation," WAC 458-19-030, titled: "Levy limit - Consolidation of districts," and WAC 458-19-035, titled: "Levy limit - Annexation."

Persons affected by this rulemaking would include property owners and county assessors.

Exp Detail

Expenditures by Object or Purpose:

Expense Objects	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Salaries and Wages	46,200	73,300	73,300	73,300	73,300	73,300
Benefits	15,300	24,200	24,200	24,200	24,200	24,200
Supplies & Material	9,500	13,000	10,800	10,800	10,800	10,800
Travel	1,500	3,000	3,000	3,000	3,000	3,000
Office Equipment	4,300	5,100	3,100	3,100	3,100	3,100
Fiscal Year Total	76,800	118,600	114,400	114,400	114,400	114,400
Biennial Total		195,400		228,800		228,800

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Exp Detail

FTE Detail:

Job Classes	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
EMS BAND 4	0.01	0	0	0	0	0
MGMT ANALYST4	0.02	0	0	0	0	0
PROPERTY AND ACQUISITION SP 5	0.5	1	1	1	1	1
TAX POLICY SP 2	0.01	0	0	0	0	0
TAX POLICY SP 3	0.06	0	0	0	0	0
TAX POLICY SP 4	0.02	0	0	0	0	0
WMS BAND 3	0.01	0	0	0	0	0
Fiscal Year Total	0.63	1	1	1	1	1
Biennial Total		0.82		1		1

Note

Please note that our review, comments, and any estimates provided are not intended to reflect a policy position by the Department and are solely to assist you in exploring options under development.

Further Information

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