Multiple Agency Fiscal Note Summary

Bill Number: 1156 HB	**Title:** Property tax relief

Estimated Cash Receipts

Agency Name	2007-09		2009-11		2011-13	
	GF- State	Total	GF- State	Total	GF- State	Total
Total $						

Local Gov. Courts *						
Local Gov. Other **		(3,798,000)		(6,474,000)		(8,745,000)
Local Gov. Total		(3,798,000)		(6,474,000)		(8,745,000)

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.1	141,200	141,200	.0	135,600	135,600	.0	143,900	143,900
Total	0.1	$141,200	$141,200	0.0	$135,600	$135,600	0.0	$143,900	$143,900

Local Gov. Courts *									
Local Gov. Other **			9,407,000			9,596,000			9,789,000
Local Gov. Total			9,407,000			9,596,000			9,789,000

Prepared by: Doug Jenkins, OFM	**Phone:** 360-902-0563	**Date Published:** Final 2/20/2007

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 16325

Department of Revenue Fiscal Note

Bill Number: 1156 HB	**Title:** Property tax relief	**Agency:** 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.1		0.1		
Fund					
GF-STATE-State 001-1	76,300	64,900	141,200	135,600	143,900
Total $	76,300	64,900	141,200	135,600	143,900

The cash receipts and expenditure 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:

☒ 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.

Legislative Contact:	Mark Matteson	Phone: 360-786-7145	Date: 02/12/2007
Agency Preparation:	Steve Smith	Phone: 360-570-6080	Date: 02/13/2007
Agency Approval:	Don Gutmann	Phone: 360-570-6073	Date: 02/13/2007
OFM Review:	Doug Jenkins	Phone: 360-902-0563	Date: 02/13/2007

Part II: Narrative Explanation

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

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The current senior and disabled citizen exemption program provides a partial property tax exemption based on income level and freezes taxable value as of the year participants enter the program. The calculation of participant's income currently allows for the deduction of expenses related to prescription drugs; treatment and care in a nursing home, boarding home, or adult family home; and health care insurance premiums for Medicare.

Section one of the proposal strikes from RCW 84.36.383 the language relating to the three types of deductions above and instead allows program participants to deduct medical, dental, and other expenses allowed as a deduction from disposable income under 26 U.S.C. section 213.

The federal code cited in the proposal, 26 U.S.C. section 213, allows a deduction for medical care which is a much broader range of expenditures including, but not limited to: prescription drugs; items such as false teeth, prescription eyeglasses, or contact lenses; laser eye surgery, hearing aids, crutches, wheelchairs, and guide dogs; transportation costs essential to medical care, incidental cost of meals and lodging charged by a hospital or similar institution; and insurance premiums paid for accident and health insurance or qualified long-term care insurance. However, a deduction is only allowed to the extent the expenditures exceed 7.5 percent of adjusted gross income. Because this would eliminate any deduction for many senior citizens, it is assumed for the purposes of this fiscal note that the bill is meant to allow a deduction for medical care expenses as defined in 26 U.S.C section 213.

Thus, section one allows participants to deduct a greater range of health care expenses from their income, effectively reducing their incomes. This allows more individuals to take advantage of the program and allows current participants to gain greater relief.

Section two makes this proposal effective for taxes due for collection in calendar year 2008 and thereafter.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

Data are from the Department of Revenue (Department) sources, the Assessors, the Washington Population Survey, and the Consumer Expenditure Survey.

It is assumed that the proposal's reference to 26. U.S.C. 213 merely makes use of the broad description of health care expenditures listed and described in the federal statute. It is assumed that this reference is not intended to require that participants in the senior and disabled citizen exemption program must in fact qualify for the federal tax relief; the latter is not easy to qualify for and such a requirement would likely result in a large share of current participants to drop from the Washington State program.

It is assumed that an additional 50 households will enroll in the deferral program and defer $1,250 each in Fiscal Year 2008, for a total of $63,000 in total taxes deferred.

REVENUE ESTIMATES

The state property tax levy is forecast to remain below the $3.60 limit through the 2011-13 Biennium. Therefore, there will be no loss to the state school levy. It is estimated that $2.2 million in state school levy revenues will be shifted to other taxpayers in Fiscal Year 2008, rising to $7.1 million during the 2007-09 Biennium.

The change in the calculation of income will also result in an additional $63,000 of taxes deferred statewide.

Local revenue losses are estimated to be $1.2 million in Fiscal Year 2008 with shifts to other taxpayers estimated to be $10.7 million.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000): None

Local Government, if applicable (cash basis, $000):
FY 2008 - $ (1,222)
FY 2009 - $ (2,576)
FY 2010 - $ (2,994)
FY 2011 - $ (3,480)
FY 2012 - $ (4,044)
FY 2013 - $ (4,701)

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

State Government, Impact on Revenues ($000); None

State Government, ($000), Shift of Tax Burden
CY 2008 - $4,553
CY 2009 - 5,292
CY 2010 - 6,151
CY 2011 - 7,149
CY 2012 - 8,308
CY 2013 - 9,656

Local Government, Impact on Revenues ($000)
CY 2008 - $(2,378)
CY 2009 - (2,764)
CY 2010 - (3,212)
CY 2011 - (3,733)
CY 2012 - (4,389)
CY 2013 - (5,043)

Local Government, ($000), Shift of Tax Burden
CY 2008 - $ 20,888
CY 2009 - 24,277
CY 2010 - 28,215
CY 2011 - 32,729
CY 2012 - 38,112
CY 2013 - 44,296

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

If this bill becomes law, the Department would need to revise manuals, forms, and publications. It would also need to train members of the assessors' staff who process applications to participate in the senior exemption and deferral programs. Updating manuals, forms, and publications and continuing education is part of the ongoing efforts by the Department.

This legislation would also affect the widows/widowers program. Revenue would possibly need larger appropriations for both the deferral and widows/widowers program, depending on the number of additional participants in those programs. An additional 50 participants are expected in the deferral program with this legislation.

The Department reimburses local government for deferred property taxes under the senior/disabled persons deferral program. The Department also pays fees to file liens each year against the residences for payment of these deferred property taxes. The amount paid for liens filed to secure payment of the deferred taxes will be $32 each. The average amount of taxes deferred per participant is about $1,250 with an average increase of 3 percent based on the past five years. The Department will pay an additional $63,000 to reimburse local governments in Fiscal Year 2008 plus about $1,600 to file liens on the properties.

Since this legislation is effective for property taxes due in Calendar Year 2008, there are six months of impact in Fiscal Year 2008. In Fiscal Year 2008, the Department will incur costs of $76,300. This includes:

1. A one-time cost of $11,700 to make the necessary rule revisions.
2. $63,000 to reimburse local governments for deferred property taxes.
3. $1,600 to file liens as notice of deferral. The Department is required to file liens with county auditors on the properties of participants in the deferral program. The time to process liens of a Financial employee at the Fiscal Tech level will be absorbed by the Department.

The total expenditures to implement the changes to the senior/disabled persons' programs are $141,200 in the first biennium.

Without an appropriation to cover the expenditure impact, the Department may not be fully able to implement the legislation.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.1		0.1		
A-	5.900		5,900		
B-	1.500		1,500		
E-	3.800		3,800		
J-	500		500		
N-	64.600	64,900	129,500	135,600	143,900
Total $	$76,300	$64,900	$141,200	$135,600	$143,900

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2008	FY 2009	2007-09	2009-11	2011-13
HEARINGS SCHEDULER	31,056	0.0		0.0		
RULES MANAGER	78,194	0.0		0.0		
RULES POLICY SPECIALIST	64,587	0.0		0.0		
TAX POLICY SPECIALIST 3	61,500	0.1		0.0		
Total FTE's		0.1		0.1		

Part IV: Capital Budget Impact

NONE.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

The Department would also need to revise two rules using the expedited rule adoption process - WACs 458-16A-100 and 458-16A-120. Persons affected by this rule-making would be seniors, disabled persons, veterans and their widows and widowers, assessors, and others involved with the retired persons tax exemption, deferral, and widows and widowers of veterans exemption programs.

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 1156 HB	**Title:** Property tax relief

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [X] Cities: Reduces revenues for entities currently taxing at statutory maximum.
- [X] Counties: Reduces revenues for entities currently taxing at statutory maximum.
- [X] Special Districts: Reduces revenues for entities currently taxing at statutory maximum.
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2008	FY 2009	2007-09	2009-11	2011-13
City	(379,000)	(798,000)	(1,177,000)	(2,007,000)	(2,710,000)
County	(464,000)	(979,000)	(1,443,000)	(2,460,000)	(3,324,000)
Special District	(379,000)	(799,000)	(1,178,000)	(2,007,000)	(2,711,000)
TOTAL $	(1,222,000)	(2,576,000)	(3,798,000)	(6,474,000)	(8,745,000)
GRAND TOTAL $					(19,017,000)

Estimated expenditure impacts to:

Jurisdiction	FY 2008	FY 2009	2007-09	2009-11	2011-13
City					
County	4,680,000	4,727,000	9,407,000	9,596,000	9,789,000
Special District					
TOTAL $	4,680,000	4,727,000	9,407,000	9,596,000	9,789,000
GRAND TOTAL $					28,792,000

Part III: Preparation and Approval

Fiscal Note Analyst: Gary Reid	Phone: (360) 725 3044	Date: 02/13/2007
Leg. Committee Contact: Mark Matteson	Phone: 360-786-7145	Date: 02/12/2007
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 02/20/2007
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 02/20/2007

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

This bill would expand the scope of deductions from disposable income for property tax relief to senior citizens and persons retired due to disability.

Section 1 amends RCW 84.36.383 to replace the current specific deductions for prescription drugs; treatment and care in a nursing home, boarding home, or adult family home; and health care insurance premiums with the broader deduction allowed by the federal Internal Revenue Code for medical, dental, and other expenses by 26 U.S.C. Section 213.

Thus, participants would be able to deduct a greater range of health care expenses from their income, effectively reducing their incomes. This allows more individuals to take advantage of the program and allows current participants to pay less property tax.

Section two makes this bill effective for taxes due for collection in 2008 and thereafter.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

Increasing the number of participants in the property tax exemption and deferral program would increase work done to administer the program by county assessors. County assessors estimate they would average an increase of three entry-level clerical/data entry FTEs at $40,000 per year including benefits (39 counties X 3 FTEs X $40,000 = $4,680,000 statewide). Larger counties would require more; smaller counties would hire fewer. This would be an ongoing cost, as the number of persons requesting exemption would grow as threshholds are adjusted for inflation. The full amount would also be necessary for FY 2008, as that year would be the first year of implementation. The initial cost is adjusted by one percent per year for inflation, rounded to the nearest thousand.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

The Department of Revenue (DOR) estimates that this bill would reduce revenues to local governments and result in tax shifts.

Local Government, if applicable (cash basis, $000):
FY 2008 - $ (1,222)
FY 2009 - (2,576)
FY 2010 - (2,994)
FY 2011 - (3,480)
FY 2012 - (4,044)
FY 2013 - (4,701)

Local Government, Impact on Revenues ($000)
CY 2008 - $(2,378)
CY 2009 - (2,764)
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Local Government, ($000), Shift of Tax Burden
CY 2008 - $ 20,888
CY 2009 - 24,277
CY 2010 - 28,215
CY 2011 - 32,729
CY 2012 - 38,112
CY 2013 - 44,296

The FY revenue losses are apportioned 38 percent to counties, 31 percent to cities, and 31 percent to special districts. This apportionment formula was derived from DOR Table 10, Property Tax Levies Due in 2006 by Major Taxing District and County. Using the totals in the last line of the table, totals were produced for counties, cities, and a combined total of all other districts except school districts. Each of these three categories was then calculated as a percentage of the total of the three.

BACKGROUND:
Increasing exemptions for senior citizens and persons retired due to disability would remove property from the tax rolls. Counties, cities, and special districts that are currently below their statutory maximum rates could recover lost revenue by increasing the rates for remaining property, thereby shifting the tax burden to maintain current revenue levels. Taxing authorities that are at their maximum rates would not be able to shift the burden and would suffer a loss of revenues.

EXPENDITURE AND REVENUE SOURCES:
Department of Revenue
Yakima County Assessor