

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 5407 SB	<b>Title:</b> Property tax administration
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## Estimated Cash Receipts

NONE

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.					
Local Gov. Total						

## Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.1	18,900	18,900	18,900	.0	0	0	0	.0	0	0	0
<b>Total \$</b>	<b>0.1</b>	<b>18,900</b>	<b>18,900</b>	<b>18,900</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

## Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

## Estimated Capital Budget Breakout

<b>Prepared by:</b> Cheri Keller, OFM	<b>Phone:</b> (360) 584-2207	<b>Date Published:</b> Final
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# Department of Revenue Fiscal Note

<b>Bill Number:</b> 5407 SB	<b>Title:</b> Property tax administration	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

**No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Expenditures from:**

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2		0.1		
<b>Account</b>					
GF-STATE-State 001-1	18,900		18,900		
<b>Total \$</b>	18,900		18,900		

**Estimated Capital Budget Impact:**

NONE

*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: Alia Kennedy	Phone: 60-786-7405	Date: 01/16/2023
Agency Preparation: Mark Studer	Phone: 60-534-1507	Date: 01/18/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 01/18/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/19/2023

Request # 5407-1-1

## Part II: Narrative Explanation

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

*Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.*

#### SECTION 1 - BOARD OF TAX APPEALS

##### CURRENT LAW:

Generally, when a party files an informal property tax appeal to the Board of Tax Appeals (BTA) rather than a formal appeal, the BTA decision is not appealable to superior court. Unlike excise tax appeals, the Department of Revenue (department) has little authority to convert informal property tax appeals to formal appeals. As a result, when the department disagrees with a BTA decision in an informal property tax appeal that cannot be appealed to a court, the department must decide whether it will acquiesce to the BTA's decision. If the department decides to not acquiesce in the BTA's decision, the department will not apply the BTA's decision to other taxpayers or to the taxpayer who prevailed in the appeal for future time periods.

The three circumstances in which a BTA appeal may be converted from an informal appeal to formal appeal are the following:

- 1) Appeals by a taxpayer or county assessor from a decision by a county Board of Equalization. These disputes typically involve the assessor's determination of the assessed value of the taxpayer's property;
- 2) Appeals by a taxpayer of a department determination in an excise tax case; and
- 3) Appeals by a county assessor or taxpayer of the department's determination of a county's indicated ratio, which measures the statistical ratio between the average assessed value of property within a county and the actual market value of property within the county.

##### PROPOSED LAW:

This section provides the department the option to convert an informal BTA appeal to a formal appeal within 10 days of the date of the appeal in the following circumstances:

- 1) Appeals by an assessor or landowner from the department's general supervisory orders and boards of equalization reconvene orders;
- 2) Appeals by an assessor or owner of an intercounty utility or private car company from the department's determination of the assessed valuation of the taxpayer's operating property or the amount of assessed value apportioned to the county;
- 3) Appeals of interest rates determined by the department for use in valuing farmland;
- 4) Appeals from revisions to stumpage value tables by the department used to determine timber value; and
- 5) Appeals from the department's denial of a property tax exemption application.

##### EFFECTIVE DATE:

The proposal takes effect 90 days after final adjournment of the session in which it is enacted.

#### SECTION 2 - VALUATION DATE FOR PROPERTY LOSING ITS TAX-EXEMPT STATUS

##### CURRENT LAW:

Except for exempt government-owned property, county assessors must enter the description of all exempt real property on the tax rolls, which includes valuing and listing the exempt property in the same manner as other taxable property. RCW 84.40.370 provides that when real property loses its exempt status, the county assessor must value and list the property with reference to its value on the date the property's exempt status changed unless the property has been previously listed and assessed.

RCW 84.40.175 provides for government-owned real property that loses its exempt status, the county assessor must list and assess the real property with reference to its value on January 1 of the year the property loses its exempt status.

**PROPOSAL:**

This section adds language in RCW 84.40.370 to clarify that the valuation date when government-owned property loses its exempt status is January 1st of the year in which the status changed. This aligns with the valuation date in RCW 84.40.175 for government-owned real property that loses its exempt status.

**EFFECTIVE DATE:**

Section 2 takes effect 90 days after final adjournment in which the bill is enacted and applies to taxes levied for collection in 2024 and thereafter.

**SECTIONS 3 through 7 - CORRECTING LEVY ERRORS**

**CURRENT LAW:**

There are specific statutory maximum levy rates for most individual regular property tax levies. Cultural access and local school district enrichment levies are not subject to a statutory maximum levy rate. The statutory maximum levy rate for an individual levy cannot be exceeded, even when a levy error correction is being made and the error occurred through no fault of the taxing district.

**PROPOSAL:**

These sections allow for the correction of a levy error to exceed the levy's statutory maximum levy rate when the error is not the fault of the taxing district. If the correction of the levy error were to exceed the statutory maximum levy rate of the levy if corrected in one year, then the correction must be made in a proportional basis over a period of three years to minimize the impact on the taxpayers.

**EFFECTIVE DATE:**

This change would take effect 90 days after the end of the session in which the bill is enacted and applies beginning with taxes levied for collection in 2024.

**SECTION 8 - RESTORATION OF PROPERTY TAX LEVY**

**CURRENT LAW:**

When a taxing district that has not levied since 1985 decides to restore its property tax levy, the first restored levy is calculated based on the levy amount last levied by the district multiplied by the limit factor, plus additional amounts resulting from the following add-ons for:

- New construction;
- Construction of wind turbine, solar, biomass, and geothermal facilities;
- Improvements to property; and
- Increased value of state-assessed property.

**PROPOSAL:**

A taxing district that has not levied in the last seven calendar years or longer, and wants to restore a regular property tax levy, may levy its first restored levy up to the amount resulting in a tax rate that does not exceed the taxing district levy's statutory maximum rate limit. The tax rate for the restored levy remains subject to aggregate limitations on regular property taxes provided in statute, such as the \$5.90 aggregate tax rate limitation and the constitutional 1% aggregate limit. However, the first restored levy is treated as if it is a first-time levy with regards to the 101% revenue growth limitation. Levies after the first year of the restored levy are subject to any applicable revenue growth limitations in statute.

A taxing district that has not levied in the last six calendar years or less and wants to restore a regular property tax levy may levy its first restored levy in an amount that does not exceed the maximum levy amount that the district could have levied under the levy limits in statute as if the district had never ceased to levy.

**EFFECTIVE DATE:**

Section 8 of this proposal takes effect 90 days after final adjournment of the session in which it is enacted and applies to property taxes levied for collection in 2024 and thereafter.

**SECTION 9 - MERGED TAXING DISTRICTS AND HIGHEST LAWFUL LEVY**

**CURRENT LAW:**

The first levy for a taxing district created from consolidation of similar taxing districts must be set so that the regular property taxes payable in the following year do not exceed the limit factor multiplied by the sum of the amount of regular property taxes lawfully levied for each component taxing district in the highest of the three most recent years in which such taxes were levied for such district, plus any additional dollar amounts calculated by multiplying the regular property tax rate of each component district for the preceding year by the increase in assessed value in each component district resulting from:

- New construction;
- Increases in assessed value due to construction of wind turbine, solar, biomass, and geothermal facilities;
- Improvements to property; and
- Any increase in the assessed value of state-assessed property.

**PROPOSAL:**

The first levy for the merged taxing district must be set so that the regular property taxes payable in the following year do not exceed the limit factor multiplied by the sum of the amount of regular property taxes each component taxing district could have levied since 1985, rather than the highest lawful levy of the three most recent years, plus the add-on amounts noted above and a new add-on amount.

The new amount added to the existing add-ons to the total levy amount is calculated by multiplying the regular property tax rate of each component district for the preceding year by the increase in assessed value in each component district resulting from any increase in the assessed value of real property within a designated increment area as provided in Chapter 39.114 RCW and as the term "regular property tax" is defined in Chapter 39.114 RCW.

**EFFECTIVE DATE:**

Section 9 takes effect 90 days after final adjournment of the session in which it is enacted and applies to taxes levied for collection in 2024 and thereafter.

**II. B - Cash receipts Impact**

*Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.*

**SECTION 1 - BOARD OF TAX APPEALS**

REVENUE ESTIMATES:

- This section of the bill results in no revenue impact to taxes administered by the department.
- This section of the bill results in no revenue impact to state or local property tax levies.

SECTION 2 - VALUATION DATE FOR PROPERTY LOSING ITS TAX-EXEMPT STATUS

ASSUMPTIONS:

It is unknown when a property will lose its exempt status.

REVENUE ESTIMATES:

This section of the bill results in no revenue impact to state or local property tax levies.

SECTIONS 3 through 7 - CORRECTING LEVY ERRORS

REVENUE ESTIMATES:

- This section of the bill results in no revenue impact to the state property tax levy.
- The department is unable to predict if or when a levy error will occur; therefore, the revenue impact to local property taxes is indeterminate.

SECTION 8 - RESTORATION OF PROPERTY TAX LEVY

ASSUMPTIONS:

Records retention requirements require county assessors to keep data for six years. When they comply with records retention requirements, county assessors are unable to determine limits for levies that are being restored after more than six years since the previous levy.

By allowing taxing districts to levy at their statutory maximum levy rate when they have not imposed that levy in the last seven or more years, county assessors would have the information necessary to determine the current year's levy limitation.

REVENUE ESTIMATES:

- This section of the bill results in no revenue impact to the state property tax levy.
- It is unknown which taxing districts would be restored; therefore, local impacts are indeterminate.

SECTION 9 - MERGED TAXING DISTRICTS AND HIGHEST LAWFUL LEVY

REVENUE ESTIMATES:

- This section of this bill results in no revenue impact to the state property tax levy.
- Local impact of this section is indeterminate since it is unknown which taxing districts will merge in the future.

**II. C - Expenditures**

*Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.*

FIRST YEAR COSTS:

The department will incur total costs of \$18,900 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.15 FTEs.

- Amend five administrative rules.
- Create forms and publications, edit training materials and manuals for public use.

**ONGOING COSTS:**

There are no ongoing costs.

**Part III: Expenditure Detail**

**III. A - Expenditures by Object Or Purpose**

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2		0.1		
A-Salaries and Wages	12,000		12,000		
B-Employee Benefits	3,900		3,900		
E-Goods and Other Services	2,000		2,000		
J-Capital Outlays	1,000		1,000		
<b>Total \$</b>	<b>\$18,900</b>		<b>\$18,900</b>		

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
MGMT ANALYST4	73,260	0.0		0.0		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.1		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
<b>Total FTEs</b>		<b>0.2</b>		<b>0.1</b>		

**III. C - Expenditures By Program (optional)**

NONE

**Part IV: Capital Budget Impact**

**IV. A - Capital Budget Expenditures**

NONE

**IV. B - Expenditures by Object Or Purpose**

NONE

**IV. C - Capital Budget Breakout**

*Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.*

NONE



## Part V: New Rule Making Required

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*

Should this legislation become law, the department will use the expedited process to amend WAC 458-19-005, titled: "Definitions," WAC 458-19-025, titled: "Restoration of regular levy," WAC 458-19-030, titled: "Levy limit - consolidation of districts," WAC 458-19-070, titled: "Five dollars and ninety cents statutory aggregate dollar rate limit calculation," and WAC 458-19-550, titled: "State levy - apportionment between counties."

Persons affected by this rulemaking would include county assessors and those subject to property tax.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5407 SB

Title: Property tax administration

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

### Legislation Impacts:

Cities: indeterminate impact on property tax revenue, software costs

Counties: same as above

Special Districts: same as above

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: which taxing districts would be affected, experience a rate change or error, or be merged in the future, software costs

### Estimated revenue impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

### Estimated expenditure impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

## Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 01/19/2023
Leg. Committee Contact: Alia Kennedy	Phone: 360-786-7405	Date: 01/16/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/19/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/19/2023

## **Part IV: Analysis**

### **A. SUMMARY OF BILL**

*Description of the bill with an emphasis on how it impacts local government.*

This legislation would make multiple changes to the administration of property taxes.

#### **SECTION 1 - BOARD OF TAX APPEALS**

This section provides the Department of Revenue (DOR) the option to convert an informal BTA appeal to a formal appeal within 10 days of the date of the appeal under certain circumstances outlined in the bill.

#### **SECTION 2 - VALUATION DATE FOR PROPERTY LOSING ITS TAX-EXEMPT STATUS**

This section adds language in RCW 84.40.370 to clarify that the valuation date when government-owned property loses its exempt status is January 1st of the year in which the status changed. This aligns with the valuation date in RCW 84.40.175 for government-owned real property that loses its exempt status.

#### **SECTIONS 3-7 - CORRECTING LEVY ERRORS**

These sections allow for the correction of a levy error to exceed the levy's statutory maximum levy rate when the error is not the fault of the taxing district. If the correction of the levy error were to exceed the statutory maximum levy rate of the levy if corrected in one year, then the correction must be made in a proportional basis over a period of three years to minimize the impact on the taxpayers.

#### **SECTION 8 - RESTORATION OF PROPERTY TAX LEVY**

A taxing district that has not levied in the last seven calendar years or longer, and wants to restore a regular property tax levy, may levy its first restored levy up to the amount resulting in a tax rate that does not exceed the taxing district levy's statutory maximum rate limit. The tax rate for the restored levy remains subject to aggregate limitations on regular property taxes provided in statute, such as the \$5.90 aggregate tax rate limitation and the constitutional 1% aggregate limit. However, the first restored levy is treated as if it is a first-time levy with regards to the 101% revenue growth limitation. Levies after the first year of the restored levy are subject to any applicable revenue growth limitations in statute.

A taxing district that has not levied in the last six calendar years or less and wants to restore a regular property tax levy may levy its first restored levy in an amount that does not exceed the maximum levy amount that the district could have levied under the levy limits in statute as if the district had never ceased to levy.

#### **SECTION 9 - MERGED TAXING DISTRICTS AND HIGHEST LAWFUL LEVY**

The first levy for the merged taxing district must be set so that the regular property taxes payable in the following year do not exceed the limit factor multiplied by the sum of the amount of regular property taxes each component taxing district could have levied since 1985, rather than the highest lawful levy of the three most recent years, plus the add-on amounts noted above and a new add-on amount.

The new amount added to the existing add-ons to the total levy amount is calculated by multiplying the regular property tax rate of each component district for the preceding year by the increase in assessed value in each component district resulting from any increase in the assessed value of real property within a designated increment area as provided in Chapter 39.114 RCW and as the term "regular property tax" is defined in Chapter 39.114 RCW.

### **B. SUMMARY OF EXPENDITURE IMPACTS**

*Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.*

This legislation makes multiple changes to property tax administration, but the financial impact is indeterminate. According to Washington Association of County Officials, there are potential costs related to software upgrades or changes. It is unknown which jurisdictions would require software changes or what those costs would be.

## C. SUMMARY OF REVENUE IMPACTS

*Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.*

This legislation makes multiple changes to property tax administration, but the financial impact is indeterminate.

### SECTION 1 - BOARD OF TAX APPEALS

According to the Department of Revenue (DOR) this section of the bill results in no revenue impact to local property tax levies.

### SECTION 2 - VALUATION DATE FOR PROPERTY LOSING ITS TAX-EXEMPT STATUS

According to DOR, this section of the bill results in no revenue impact to local property tax levies.

### SECTIONS 3-7 - CORRECTING LEVY ERRORS

According to DOR, levy errors cannot be predicted; therefore, the revenue impact to local property taxes is indeterminate.

### SECTION 8 - RESTORATION OF PROPERTY TAX LEVY

According to DOR, it is unknown which taxing districts would be restored; therefore, local impacts are indeterminate.

#### DOR ASSUMPTIONS:

Records retention requirements require county assessors to keep data for six years. When they comply with records retention requirements, county assessors are unable to determine limits for levies that are being restored after more than six years since the previous levy.

By allowing taxing districts to levy at their statutory maximum levy rate when they have not imposed that levy in the last seven or more years, county assessors would have the information necessary to determine the current year's levy limitation.

According to Washington Association of County Officials, the possibility of the 1% constitutional or \$5.90 limit being exceeded is always possible when a new levy is added to the mix. However, there is already a proration order set if this occurs. It is usually the most junior of taxing districts that may be prorated or eliminated not the senior taxing districts. There are so many different scenarios that could occur, it would be difficult to determine financial impact.

### SECTION 9 - MERGED TAXING DISTRICTS AND HIGHEST LAWFUL LEVY

Local impact of this section is indeterminate since it is unknown which taxing districts will merge in the future.

#### SOURCES:

Department of Revenue fiscal note, SB 5407 (2023)

Washington Association of County Officials