Multiple Agency Fiscal Note Summary

Bill Number: 1355 HB	**Title:** Property tax exemptions

Estimated Cash Receipts

NONE

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	.3	510,300	510,300	510,300	.2	497,000	497,000	497,000	.2	497,000	497,000	497,000
Total $	**0.3**	**510,300**	**510,300**	**510,300**	**0.2**	**497,000**	**497,000**	**497,000**	**0.2**	**497,000**	**497,000**	**497,000**

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
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

Prepared by: Cheri Keller, OFM	**Phone:** (360) 584-2207	**Date Published:** Final 2/ 7/2023

FNPID 66531

Department of Revenue Fiscal Note

Bill Number: 1355 HB	Title: Property tax exemptions	Agency: 140-Department of Revenue

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	0.3	0.2	0.3	0.2	0.2
Account					
GF-STATE-State 001-1	261,800	248,500	510,300	497,000	497,000
Total $	261,800	248,500	510,300	497,000	497,000

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:	Rachelle Harris	Phone: 360-786-7137	Date: 01/19/2023
Agency Preparation:	Frank Wilson	Phone: 360-534-1527	Date: 02/06/2023
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 02/06/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/07/2023

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.

Note: This fiscal note reflects a revision to the expenditure impact, and replaces fiscal note number 1355-1.

CURRENT LAW:
The law provides an exemption to property tax (exemption program) on the primary residence of qualifying persons, such as senior citizens (aged 61 or older) and veterans and individuals with disabilities. The level of exemption varies based on the participant's income threshold.

The income thresholds necessary to qualify in the exemption program are as follows:
- Income threshold 1 is the greater of $30,000, or 45% of the median household income for the county.
- Income threshold 2 is the greater of $35,000, or 55% of the median household income for the county.
- Income threshold 3 is the greater of $40,000, or 65% of the median household income for the county.

Each threshold is adjusted every five years, with the next adjustment taking place on March 1, 2024, for taxes levied for collection in 2025.

Currently, the income threshold necessary to qualify in the senior citizens and veterans and individuals with disabilities property tax deferral program (deferral program) is as follows:
- $45,000 or 75% of the median household income for the county, whichever is greater.

The law requires the Department of Revenue (department) to update the income thresholds beginning August 1, 2019, and by March 1st every five years thereafter.

Beginning with the March 1, 2024, adjustment and every second adjustment thereafter, if the income threshold in a county is not adjusted based on percentage of county median income, then the income threshold must adjust based on the growth of the consumer price index for all urban consumers (CPI-U) for the prior 12-month period as published by the United States Bureau of Labor Statistics. In no case may the adjustment be greater than 1%.

The exemption requires the "principal place of residence" claimed must be occupied for more than six months each calendar year by the applicant.

PROPOSAL:
Beginning with taxes collected in 2024, and after, the income thresholds necessary to qualify in the exemption program are amended as follows:
- Income threshold 1 is the greater of $30,000, or 50% of the median household income for the county.
- Income threshold 2 is the greater of $35,000, or 60% of the median household income for the county.
- Income threshold 3 is the greater of $40,000, or 70% of the median household income for the county.

Beginning with the August 1, 2023, adjustment, and every adjustment after, if the income threshold in a county is not adjusted based on percentage of county median income, then the income threshold must adjust based on the growth of the consumer price index for all urban consumers (CPI-U) for the prior 12-month period as published by the United States Bureau of Labor Statistics. In no case may the adjustment be greater than 1%.

Beginning with taxes collected in 2024, and after, the income threshold necessary to qualify in the deferral program is as follows:

- Prior year's threshold or 75% of the median household income for the county, whichever is greater.

The department is required to update the income thresholds for the exemption and deferral programs beginning August 1, 2023, and by August 1st every three years after.

Income thresholds cannot be less than any previous year's set threshold.

EFFECTIVE DATE:
This bill takes effect beginning with property taxes due for calendar year 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.

ASSUMPTIONS
- Median household income by county, as obtained from Office of Financial Management website and income growth over the forecasted period obtained from the Economic Forecast Council, 2022 forecast of income growth. These income estimates calculate the income threshold changes in accordance with the bill.
- Approximately 22,000 additional households will receive the senior, veteran, and disabled property tax exemption beginning in tax year 2024.
- Each year the Department analyzes local regular levies and how close each district is to their statutory tax rate maximum. Based on that analysis a new property tax exemption would result in 90% of local property taxes impacted by the exemption to be shifted to non-exempt property owners. Local taxing districts would experience a loss equal to 10% of local property taxes impacted by the exemption.
- Based on five years of state property tax collections, 52.36% of state property tax collections occur in April and 47.64% occur in October. When converting from calendar year to fiscal year, revenues shifts and losses follow this trend.

DATA SOURCES
- Census Bureau, American Community Survey 2016-2020
- Department of Revenue, State Property Tax Model
- Economic and Revenue Forecast Council, November 2022 forecast of income growth
- Office of Financial Management (OFM) - Median household income estimates by county
- US Department of Veteran Affairs data

REVENUE ESTIMATES
The Economic and Revenue Forecast Council predicts the state property tax levy remains below the $3.60 limit throughout the 2027-29 biennium. A new exemption results in a shift and no loss to the state levy.

PROPERTY TAX SHIFTS
This legislation results in a state levy shift to other taxpayers of an estimated $8.9 million for fiscal year 2024 and $11.5 million in fiscal year 2025, the first full fiscal year.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000): None

Local Government, if applicable (cash basis, $000):
FY 2024 - ($ 1,200)
FY 2025 - ($ 1,500)
FY 2026 - ($ 1,000)

FY 2027 - ($ 1,100)
FY 2028 - ($ 1,000)
FY 2029 - ($ 1,000)

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 2024 - $ 17,000
CY 2025 - $ 6,500
CY 2026 - $ 6,800
CY 2027 - $ 7,000
CY 2028 - $ 6,200
CY 2029 - $ 6,400

Local Government, Impact on Revenues ($000)
CY 2024 - ($ 2,200)
CY 2025 - ($ 900)
CY 2026 - ($ 1,000)
CY 2027 - ($ 1,100)
CY 2028 - ($ 1,000)
CY 2029 - ($ 1,000)

Local Government, ($000), Shift of Tax Burden
CY 2024 - $ 51,800
CY 2025 - $ 20,400
CY 2026 - $ 21,700
CY 2027 - $ 22,800
CY 2028 - $ 20,900
CY 2029 - $ 22,100

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.

ASSUMPTIONS:
This estimate will affect 99 additional property owners who will qualify for a deferral.

FIRST YEAR COSTS:
The department will incur total costs of $261,800 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.3 FTEs.
- Amend three administrative rules.
- Prepare applications, training materials, and educational brochures.
- Implementation of changes to property tax programs.
- Create special notice and update relevant information on the department's website.
- Process deferral applications.

Object Costs - $234,400

- Reimbursement to counties for the cost of the deferrals and benefits for additional qualified recipients in the amount of $234,400.

SECOND YEAR COSTS:
The department will incur total costs of $248,500 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.2 FTEs.
- Process deferral applications.

Object Costs - $234,400
- Reimbursement to counties for the cost of the deferrals and benefits for additional qualified recipients in the amount of $234,400.

ONGOING COSTS:
Ongoing costs for the 2025-27 biennium equal $497,000 and include similar activities described in the second-year costs. Time and effort equate to 0.2 FTEs in each year.

Reimbursement to counties for the cost of the deferrals and benefits for additional qualified recipients:
FY 2026 - $234,400
FY 2027 - $234,400
FY 2028 - $234,400
FY 2029 - $234,400

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3	0.2	0.3	0.2	0.2
A-Salaries and Wages	15,200	8,000	23,200	16,000	16,000
B-Employee Benefits	5,000	2,600	7,600	5,200	5,200
E-Goods and Other Services	4,600	2,300	6,900	4,600	4,600
G-Travel	600	600	1,200	1,200	1,200
J-Capital Outlays	2,000	600	2,600	1,200	1,200
N-Grants, Benefits & Client Services	234,400	234,400	468,800	468,800	468,800
Total $	$261,800	$248,500	$510,300	$497,000	$497,000

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	0.0		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
TAX SERV REP 1	39,852	0.2	0.2	0.2	0.2	0.2
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.3	0.2	0.3	0.2	0.2

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 458-16A-100, titled: "Senior citizen, disabled person, and disabled veteran exemption--Definitions", WAC 458-16A-130, titled: "Senior citizen, disabled person, and disabled veteran exemption-Qualification for exemption", and WAC 458-18-010, titled: "Deferral of special assessments and/or property taxes-Definitions". Persons affected by this rulemaking would include property owners who will qualify for a deferral.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1355 HB	**Title:** Property tax exemptions

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

Legislation Impacts:

- [X] Cities: decrease in property tax revenue, tax shift
- [X] Counties: same as above
- [X] 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:

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 02/06/2023
Leg. Committee Contact: Rachelle Harris	Phone: 360-786-7137	Date: 01/19/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/06/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/06/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill would expand the qualifications for the senior citizen, disabled individuals, and qualifying veterans property tax relief program (SPTE) by increasing the calculation of income thresholds. It would also make adjustments to income thresholds for property tax relief programs every three years.

The income thresholds for the SPTE are changed as follows:
- "Income threshold one" is the greater of $30,000 or 50 percent of the county median household income
- "Income threshold two" is the greater of $35,000 or 60 percent of the county median household income
- "Income threshold three" is the greater of $40,000 or 70 percent of the county median household income

Income thresholds for the SPTE and for the deferral program are to be adjusted every three years, beginning August 1, 2023.

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 bill would not impact local government expenditures because no action is required.

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.

Expanding the qualifications for the SPTE would decrease local government property tax revenue and create a shift of the tax burden.

According to the Department of Revenue (DOR) this bill would result in a state levy shift to other taxpayers of an estimated $8.9 million for fiscal year 2024 and $11.5 million in fiscal year 2025, the first full fiscal year. It would also decrease local government revenue by $1.2 million for fiscal year 2024 and $1.5 million in fiscal year 2025. Please see the DOR fiscal note for their assumptions and data sources.

REVENUE CHANGE BREAKDOWN
COUNTIES

FY 2024	-$439,334
FY 2025	-$549,168
FY 2026	-$366,112
FY 2027	-$402,723
FY 2028	-$366,112
FY 2029	-$366,112

CITIES

FY 2024	-$357,397
FY 2025	-$446,747
FY 2026	-$297,831
FY 2027	-$327,614
FY 2028	-$297,831
FY 2029	-$297,831

SPECIAL DISTRICTS

FY 2024	-$403,268

FY 2025	-$504,085
FY 2026	-$336,057
FY 2027	-$369,663
FY 2028	-$336,057
FY 2029	-$336,057

TAX SHIFT

COUNTIES

CY 2024	$10,322,055
CY 2025	$4,065,057
CY 2026	$4,324,104
CY 2027	$4,543,298
CY 2028	$4,164,690
CY 2029	$4,403,811

CITIES

CY 2024	$8,335,768
CY 2025	$3,282,812
CY 2026	$3,492,011
CY 2027	$3,669,025
CY 2028	$3,363,273
CY 2029	$3,556,380

SPECIAL DISTRICTS

CY 2024	$33,142,177
CY 2025	$13,052,131
CY 2026	$13,883,885
CY 2027	$14,587,676
CY 2028	$13,372,037
CY 2029	$14,139,809

ASSUMPTIONS AND METHODOLOGY:

Tax Shift and Revenue Loss:

Tax exemptions lower the taxable value against which taxing districts levy their taxes. When exemptions are enacted, taxing districts may compensate for the loss in taxable value by increasing the tax rate for taxpayers who are not eligible for the exemptions. Consequently, taxpayers who do not benefit from the exemption would pay a higher tax. This higher tax results in a tax shift from the exempt taxpayers to the non-exempt taxpayers. However, when a taxing district is restricted from increasing the tax rate due to a levy limit, the taxing district incurs a revenue loss. Local government revenue losses were computed by taking the DOR fiscal note data and multiplying the result by the property tax distribution for counties, cities and special districts. These percentages are derived from DOR Property Tax Statistics for 2022.

Calendar Year versus Fiscal Year:

Note that a tax shift is presented by calendar year (CY) and a revenue loss is presented by fiscal year (FY). Taxes are assessed and collected by the counties on a calendar-year basis. When a tax shift occurs, it is computed for the calendar year. Because revenue and expenditures are reported on a fiscal year basis, the revenue loss is also for a fiscal year. Tax shift figures for special districts include school districts; school districts do not experience a revenue loss.

SOURCES:
Department of Revenue fiscal note, HB 1355 (2023)
Department of Revenue Property Tax Statistics 2022
House Bill Analysis, HB 1355, Finance Committee
Local Government Fiscal Note "Tax Shift and Revenue Loss Model" (2023)