Multiple Agency Fiscal Note Summary

Bill Number: 5732 SB	**Title:** Property tax exemptions

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		(800,000)				
Local Gov. Total		(800,000)				

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	.0	3,700	3,700	3,700	.0	0	0	0	.0	0	0	0
Total $	**0.0**	**3,700**	**3,700**	**3,700**	**0.0**	**0**	**0**	**0**	**0.0**	**0**	**0**	**0**

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 2/16/2023

Department of Revenue Fiscal Note

Bill Number: 5732 SB	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	0.1		0.0		
Account					
GF-STATE-State 001-1	3,700		3,700		
Total $	3,700		3,700		

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:	Jeffrey Mitchell	Phone: 360-786-7438	Date: 02/12/2023
Agency Preparation:	Frank Wilson	Phone: 360-534-1527	Date: 02/15/2023
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 02/15/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/15/2023

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.

CURRENT LAW:
The law provides an exemption (exemption program) on the property tax of a principal place of residence for qualifying senior citizens (aged 61 or older), individuals with disabilities, and veterans 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:
- Threshold 1 is the greater of $30,000, or 45% of the county median household income.
- Threshold 2 is the greater of $35,000, or 55% of the county median household income.
- Threshold 3 is the greater of $40,000, or 65% of the county median household income.

All qualifying participants receive an assessed value on their primary residence in the year they first qualify that remains fixed ("frozen"). This frozen value is used to calculate future property taxes. However, if a participant fails to qualify in the program for high income purposes, they lose the exemption. If the high income is only for one year, they may retain their frozen value.

Each threshold is adjusted every five years, with the next adjustment taking place on March 1, 2024, for taxes levied for collection in 2025. As well, beginning with the March 1, 2024, adjustment and every second 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), to a maximum adjustment of 1%.

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

PROPOSED LAW:
The proposal provides that a participant claiming an exemption remain eligible if their income exceeds the minimum threshold resulting from an increase based on a cost-of-living adjustment to social security, supplemental security income, or pension benefits.

The participant's eligibility applies for property taxes levied for collection in calendar year 2024.

The new tax preference performance provisions do not apply to this bill (see section 2 of the bill).

EFFECTIVE DATE:
The bill takes effect 90 days after final adjournment of the session.

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
- No data is available regarding private pension benefits. For this estimate we calculated a range of magnitude by applying a cost-of-living adjustment (COLA) to social security benefits only and by applying a COLA to all household income. This estimate used an impact near the middle of this to capture COLA for private pensions.
- 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 being 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, this estimate assumes revenues shifts and losses follow this trend.
- Approximately 8,000 additional households will remain in the senior program in tax year 2024 as a result of this legislatio

DATA SOURCES
- Census Bureau, American Community Survey 2016-2020
- Department of Revenue, State Property Tax Model
- Economic and Revenue Forecast Council, 2022 forecast of income growth
- Office of Financial Management (OFM) - Median Household Income Estimates by County: 1989 to 2019; Preliminary estimates for 2020 and Projections for 2021
- US Department of Veteran Affairs

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. This change to the 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 $3 million for fiscal year 2024 and $2.8 million in fiscal year 2025.

TOTAL REVENUE IMPACT:

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

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

FY 2024 -	($	400)
FY 2025 -	($	400)
FY 2026 -	$	0
FY 2027 -	$	0
FY 2028 -	$	0
FY 2029 -	$	0

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 -	$	5,800
CY 2025 -	$	0
CY 2026 -	$	0
CY 2027 -	$	0
CY 2028 -	$	0

CY 2029 - $ 0

Local Government, Impact on Revenues ($000) :

CY 2024 - ($ 800)
CY 2025 - $ 0
CY 2026 - $ 0
CY 2027 - $ 0
CY 2028 - $ 0
CY 2029 - $ 0

Local Government, ($000), Shift of Tax Burden:

CY 2024 - $ 17,200
CY 2025 - $ 0
CY 2026 - $ 0
CY 2027 - $ 0
CY 2028 - $ 0
CY 2029 - $ 0

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 affects senior citizens and people with disabilities including veterans eligible for the property tax exemption program.

FIRST YEAR COSTS:
The department will incur total costs of $3,700 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.07 FTE.
- Amend one administrative rule.

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	0.1		0.0		
A-Salaries and Wages	2,400		2,400		
B-Employee Benefits	800		800		
E-Goods and Other Services	300		300		
J-Capital Outlays	200		200		
Total $	$3,700		$3,700		

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		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.1		0.1		

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-150, titled: "Senior citizen, disabled person, and disabled veteran exemption - Requirements for keeping the exemption." Persons affected by this rulemaking would include individuals eligible for the property tax exemption.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5732 SB	**Title:** Property tax exemptions

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

Legislation Impacts:

- [X] Cities: revenue loss and tax shift
- [X] Counties: revenue loss and tax shift
- [X] Special Districts: Revenue loss and tax shift
- [ ] 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 2024	FY 2025	2023-25	2025-27	2027-29
City	(119,132)	(119,132)	(238,264)		
County	(146,445)	(146,445)	(292,890)		
Special District	(134,423)	(134,423)	(268,846)		
TOTAL $	(400,000)	(400,000)	(800,000)		
GRAND TOTAL $					(800,000)

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 02/16/2023
Leg. Committee Contact: Jeffrey Mitchell	Phone: 360-786-7438	Date: 02/12/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/16/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/16/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill protects the property tax exempt status of senior citizens and disabled veterans. If the income of the person claiming the exemption increases as a result of a cost-of-living adjustment to social security benefits, supplemental security income, or pension benefits in an amount that would disqualify the applicant from eligibility, the applicant is not disqualified but instead maintains eligibility. The continued eligibility under this subsection applies to applications for property taxes levied for collection in calendar year 2024.

NOTE
The Dept. of Revenue estimates approximately 8,000 additional households will remain in the senior program in the tax year 2024 as a result of this legislation.

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 will not impact local government expenditures.

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.

The Dept. of Revenue assumes each year the department analyzes local regular levies and how close each district is to its 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 being shifted to non-exempt property owners. Local taxing districts would experience a loss equal to 10% of local property taxes impacted by the exemption.

Initially, the FY 2024 local loss of revenue is estimated by the Department of Revenue (DOR) to be $400,000 and $17,200,000 would be expected to shift from senior citizens (aged 61 or older), individuals with disabilities, and veterans with disabilities to the balance of taxpayers for CY 2024. The list below summarizes fiscal year impacts by counties, cities and special districts. For the FY 2024-25 projection of local government impact, a total revenue loss of $800,000 and tax shift of $17,200,000 for CY 2024 is anticipated.

REVENUE LOSS
COUNTIES
FY 2024 -$146,445
FY 2025 -$146,445
CITIES
FY 2024 -$119,132
FY 2025 -$119,132
SPECIAL DISTRICTS
FY 2024 -$134,423
FY 2025 -$134,423

TAX SHIFT
COUNTIES
CY 2024 $3,427,401
CITIES
CY 2024 $2,767,861
SPECIAL DISTRICTS
CY 2024 $11,004,738

METHODOLOGY - REVENUE LOSS AND TAX SHIFT

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.

SOURCES

Dept. of Revenue Fiscal Note

Department of Revenue Property Tax Statistics 2022