

Multiple Agency Fiscal Note Summary

Bill Number: 1355 S HB	Title: Property tax exemptions
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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		(2,800,000)		(2,100,000)		(2,200,000)
Local Gov. Total		(2,800,000)		(2,100,000)		(2,200,000)

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	.3	823,600	823,600	823,600	.2	809,700	809,700	809,700	.2	543,800	543,800	543,800
Total \$	0.3	823,600	823,600	823,600	0.2	809,700	809,700	809,700	0.2	543,800	543,800	543,800

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 3/ 2/2023
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Department of Revenue Fiscal Note

Bill Number: 1355 S HB	Title: Property tax exemptions	Agency: 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	0.3	0.2	0.3	0.2	0.2
Account					
GF-STATE-State 001-1	551,700	271,900	823,600	809,700	543,800
Total \$	551,700	271,900	823,600	809,700	543,800

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: Rachele Harris	Phone: 60-786-7137	Date: 02/24/2023
Agency Preparation: Frank Wilson	Phone: 60-534-1527	Date: 03/02/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 03/02/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 03/02/2023

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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.

COMPARISON OF THE SUBSTITUTE BILL WITH THE ORIGINAL:

The substitute bill:

- Provides that a participant claiming an exemption remains eligible if their income exceeds the minimum threshold resulting from an increase based on a cost-of-living adjustment (COLA) to social security or supplemental security income. The continued eligibility applies for property taxes levied for calendar year 2024.
- Clarifies the income thresholds prior to 2020, and the income thresholds from 2020 through 2023, for retroactive claims filed by participants.
- Adds that subject to funds appropriated for the following specific purposes, the department must engage in statewide outreach to:
 - Provide notification of the changes in the income thresholds.
 - Information regarding the application process for the senior exemption.
- Adds that the new tax preference performance provisions do not apply to this bill (see section 6 of the bill).

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.

The Department of Revenue (department) adjusts each threshold every five years by March 1, with the next adjustment taking place on March 1, 2024, for property 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 the greater of \$45,000 or 75% of the median household income for the county.

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 be adjusted based on the growth in 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. The adjustment cannot be greater than 1%.

The exemption requires the applicant occupy the "principal place of residence" for more than six months each calendar year.

PROPOSAL:

The bill provides that a participant claiming an exemption remain eligible if their income exceeds the minimum threshold resulting from an increase based on a COLA to social security, or supplemental security income. The continued eligibility applies for property taxes levied for calendar year 2024.

Beginning with property taxes collected in 2024, the bill increases the income thresholds necessary to qualify in the

exemption program by 5% each 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.

The bill requires the department to update the income thresholds for the exemption and deferral programs by August 1, 2023, and then by March 1 every three years.

Beginning with the August 1, 2023, adjustment, 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. The adjustment cannot be greater than 1%.

Beginning with taxes collected in 2024, the income threshold necessary to qualify in the deferral program equals the greater of the prior year's threshold or 75% of the median household income for the county.

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

Also, this bill requires that subject to funds appropriated for the following specific purposes, the department must engage in statewide outreach to:

- Provide notification of the changes in the income thresholds.
- Information regarding the application process for the senior exemption.

The new tax preference performance provisions do not apply to this bill (see section 6 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:

- Some of the participants that could lose their exemption from senior program due to the COLA increase will remain based on the additional 5% income threshold increase beginning with taxes collected in 2024.
- The following income estimates were used to calculate the income threshold changes and those impacted:
 - Median household income by county from Office of Financial Management website.
 - The Economic and Revenue Forecast Council's November 2022 forecast of income growth.
- Approximately 24,000 additional households receive the senior, veteran, and disabled property tax exemption beginning in tax year 2024.
- Analysis of local property tax levies shows that with a new property tax exemption, 90% of local taxes would shift to non-exempt property owners and 10% of local taxes would decrease revenues for local taxing districts.
- 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:

- U.S. 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 \$9.5 million for fiscal year 2024 and \$12 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 - (\$ 1,600)
FY 2026 - (\$ 1,000)
FY 2027 - (\$ 1,100)
FY 2028 - (\$ 1,000)
FY 2029 - (\$ 1,200)

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 - \$ 18,100
CY 2025 - \$ 6,500
CY 2026 - \$ 6,800
CY 2027 - \$ 7,000
CY 2028 - \$ 6,200
CY 2029 - \$ 7,800

Local Government, Impact on Revenues (\$000)

CY 2024 - (\$ 2,300)
CY 2025 - (\$ 900)
CY 2026 - (\$ 1,000)
CY 2027 - (\$ 1,100)
CY 2028 - (\$ 1,000)
CY 2029 - (\$ 1,300)

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

CY 2024 - \$ 55,700
CY 2025 - \$ 20,400
CY 2026 - \$ 21,700
CY 2027 - \$ 22,800
CY 2028 - \$ 20,900
CY 2029 - \$ 26,700

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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 110 additional property owners who will qualify for a deferral.

FIRST YEAR COSTS:

The department will incur total costs of \$551,700 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 - \$524,300

- Reimbursement to counties for the cost of the deferrals and benefits for additional qualified recipients in the amount of \$257,800.
- Translation services.
- Media outreach.

SECOND YEAR COSTS:

The department will incur total costs of \$271,900 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.2 FTEs.

- Process deferral applications.

Object Costs - \$257,800

- Reimbursement to counties for the cost of the deferrals and benefits for additional qualified recipients in the amount of \$257,800.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$809,700 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 - \$257,800
- FY 2027 - \$257,800
- FY 2028 - \$257,800
- FY 2029 - \$257,800

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	271,100	2,300	273,400	270,500	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	257,800	257,800	515,600	515,600	515,600
Total \$	\$551,700	\$271,900	\$823,600	\$809,700	\$543,800

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

Revised

Department of Commerce

Bill Number: 1355 S HB	Title: Property tax exemptions
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Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- Cities: decrease in property tax revenue, tax shift
- 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:

Estimated revenue impacts to:

Jurisdiction	FY 2024	FY 2025	2023-25	2025-27	2027-29
City	(357,397)	(476,530)	(833,927)	(625,445)	(655,229)
County	(439,335)	(585,779)	(1,025,114)	(768,835)	(805,446)
Special District	(403,268)	(537,691)	(940,959)	(705,720)	(739,325)
TOTAL \$	(1,200,000)	(1,600,000)	(2,800,000)	(2,100,000)	(2,200,000)
GRAND TOTAL \$					(7,100,000)

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 03/02/2023
Leg. Committee Contact: Rachele Harris	Phone: 360-786-7137	Date: 02/24/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 03/02/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 03/02/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

CHANGES FROM PREVIOUS BILL VERSION

This substitute bill adds eligibility detail for the tax period of 2020-2023 in addition to 2024 and thereafter. This bill alters the definition of "income threshold" to adjust applicable years and requires the Dept. of Revenue to do statewide outreach notifying the public of changes. Tax preference performance provisions do not apply.

SUMMARY OF CURRENT BILL VERSION

This bill provides that senior citizens (aged 61 or older) and veterans and individuals with disabilities currently claiming an exemption remain eligible if their income exceeds the minimum threshold resulting from an increase based on a COLA to social security, or supplemental security income. The continued eligibility applies for property taxes levied for calendar year 2024.

Beginning in 2024, the income thresholds for the SPTE are increased by 5% 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.

CHANGES FROM PREVIOUS BILL VERSION

This substitute bill does not change the previous analysis of expenditure impacts.

SUMMARY OF CURRENT BILL EXPENDITURE 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.

CHANGES FROM PREVIOUS BILL VERSION

This substitute bill adds detail to tax collection periods prior to the FY 2024.

SUMMARY OF CURRENT BILL REVENUE IMPACTS

Extending eligibility 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 decrease local government revenue by \$1.2 million for fiscal year 2024 and \$1.6 million in fiscal year 2025. Please see the DOR fiscal note for their assumptions and data sources.

REVENUE LOSS (Fiscal year)

COUNTIES

FY 2024	-\$439,334
FY 2025	-\$585,779
FY 2026	-\$366,112
FY 2027	-\$402,723
FY 2028	-\$366,112

FY 2029 -\$439,334

CITIES

FY 2024 -\$357,397
FY 2025 -\$476,530
FY 2026 -\$297,831
FY 2027 -\$327,614
FY 2028 -\$297,831
FY 2029 -\$357,397

SPECIAL DISTRICTS

FY 2024 -\$403,268
FY 2025 -\$537,691
FY 2026 -\$336,057
FY 2027 -\$369,663
FY 2028 -\$336,057
FY 2029 -\$403,268

TAX SHIFT (Calendar year)

COUNTIES

CY 2024 \$458,315
CY 2025 \$179,341
CY 2026 \$199,267
CY 2027 \$219,194
CY 2028 \$199,267
CY 2029 \$259,048

CITIES

CY 2024 \$370,121
CY 2025 \$144,830
CY 2026 \$160,922
CY 2027 \$177,014
CY 2028 \$160,922
CY 2029 \$209,199

SPECIAL DISTRICTS

CY 2024 \$1,471,564
CY 2025 \$575,829
CY 2026 \$639,810
CY 2027 \$703,791
CY 2028 \$639,810
CY 2029 \$831,753

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)