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LEGISLATIVE MEMO

Some lawmakers seek to take away homeowner property tax protections: Analysis of HB 1764

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Key Findings

1. **In 2001, voters enacted a law that limits increases in regular property tax collections state and local officials can impose to 1% per year.**

2. **Later, the policy was affirmed by most lawmakers of both parties and supported by Democratic Governor Christine Gregoire.**

3. **This modest tax-limitation policy works well; state and local governments are well funded – revenues are rising – while yearly property tax increases are kept at a more reasonable level.**

4. **The 1% limit restricts the greed of some public officials whose constant complaints about wanting more money comes across as mean-spirited and insensitive.**

5. **Now some state lawmakers want to take away the 1% property tax limit, and expose owners of homes, farms, condos and businesses to yearly increases of up to 5%.**

6. **The bill, HB 1764, would represent a 500% boost in the yearly increase in money officials take from the public.**

7. **The burden of HB 1764 would fall hardest on the poor, immigrants, working families and elderly people living on fixed incomes.**

Introduction

At a time when the national government is being roiled by a new administration, it is reassuring to know one effective policy at the state level is working every day, quietly and effectively, exactly as planned.

That policy is based on the wise decision voters made in 2001 to enact a 1% limit on how much state and local officials can increase the amount of money they take from people each year in regular property tax. The modest tax relief offered by sponsors of Initiative 747 was so popular the measure passed with over 57% of the vote. Later, in 2007, the policy was confirmed in a bill passed by most lawmakers of both parties and signed by Democratic Governor Christine Gregoire.[1]

The policy is designed to apply equally to all 1,200-plus taxing jurisdictions across the state. That's a good thing, because every home and business in the state is taxed by several jurisdictions at once. In Seattle, for example, a typical home is taxed by ten different sets of officials, from the state, county, and city to so-called "junior" districts for schools, parks, and transit.

Today, it all adds up to the heaviest property tax burden Washington residents have ever paid, and it continues to go up every year.

Predictions the sky would fall

Opponents of the 1% limit predicted the sky would fall. They said local police and fire services would go unfunded, that community health centers would close, that roads and bridges would fall apart, and that vital public

1 HB 2416, "Reinstating the one percent property tax limit factor adopted by the voters under Initiative Measure No. 747," Senate companion bill SB 6177, passed in the House November 29, 2007, 86-8, passed in the Senate November 29, 2007, 39-9, signed by Governor Gregoire on November 29, 2007.

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services would be starved for cash. Opponents of a similar tax-limitation measure said that 1,000 police officers would lose their jobs.[2]

The opposite happened. Today, funding for local budgets is at record highs, and state officials take more money from the public today than at any time in state history.

The reason is that the well-crafted 1% limit policy restricts only one kind of revenue source for state and local governments. It applies only to the regular property tax. There are several other kinds of property tax which are not limited and frequently increase by far more than 1% per year. Examples include new construction, increases in state-assessed property, remodel work and property improvements, and tax revenue from the sale of property.

In addition, the law also allows officials to ask the community for property tax increases with no limit at all, subject to a public vote. Officials can also ask voters for increases in other taxes, again, without limit.

Restricting the greed of some public officials

Further, money taken through sales, business, car tabs and a host of other taxes continues to increase, ensuring public officials are flush with cash in any given budget year. On balance, the 1% property tax limit works as a modest brake on the greed of some state and local officials, who, in their incessant desire for money, talk as if the public never pays them enough.

Despite rising tax collections, constant complaints from officials about perceived revenue "shortfalls" come across as mean-spirited and insensitive to the real-world money worries of working families and homeowners.

Washington's 1% property tax limit is one of the most successful homeowner protection policies in the country. Without starving government, it is helping elderly people stay in their homes, helping young couples afford a home, and helping keep at least some housing stock in many communities affordable.

Some lawmakers want to take away the 1% limit

Now some lawmakers, led by the bill's main sponsor, Rep. Kristine Lytton (D-Anacortes), want to take away a policy that is working well.

The bill is HB 1764, which would repeal the 1% limit on increases in regular property tax collections and replace it with a limit of 5%, to pay for the perceived "cost drivers" of government services.[3]

The bill would substitute a fair and objective measure in state law, 1%, with a subjective metric – so-called "cost drivers" – that is easily manipulated by public officials themselves. Some cost drivers, such as inflation, are driven by regional and national economic forces. More often, however, the rising cost of government is due to voluntary policy changes adopted by public officials, usually to the benefit of a powerful interest group.

For example, major cost drivers of state and local government are collective bargaining agreements that are secretly negotiated between union executives and the state and local officials they help elect. The increased cost of these agreements is then folded into the budget, often with little or no public comment, while public officials turn to homeowners with pleas for the money to fund them.

Meanwhile, union executives use the money they gain from collective bargaining agreements and mandatory dues and fees to make political contributions, which in turn tends to increase the number of union allies who hold political office.

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2 "Initiative 695 one year later: The sky didn't fall," by Paul Guppy and Brett Wilson, Policy Brief, Washington Policy Center, January 1, 2001, at http://www.washingtonpolicy.org/publications/detail/initiative-695-one-year-later-the-sky-didnt-fall.

3 HB 1764, An Act relating to replacing the one percent property tax revenue limit with a limit tied to cost drivers, amending RCW 84.55.005, January 27, 2017, lead sponsor Rep. Kristine Lytton (D-Anacortes), and SB 5772, February 9, 2017, lead sponsor Sen. Jamie Pedersen (D-Seattle), at http://lawfilesext.leg.wa.gov/biennium/2017-18/Pdf/Bills/House%20Bills/1764.pdf.

Boosting property tax increases by up to 500%

The policy change represents a 500% boost in the yearly increase in money public officials could take from homeowners, apartment and condo owners, businesses and other holders of real estate property.

The tax increases allowed under HB 1764 could be imposed by officials in each taxing district separately, all falling on the same property owners in a given community. Since the owners of homes, apartments, businesses and other properties are taxed by several sets of officials at once, the cumulative increase in regular property tax collections would be much greater than at any time in the last 16 years.

The sheer scale of property tax increase proposed under HB 1764 appears unjustified, given the record of policy success experienced under the 1% tax limit enacted by voters. Since 2001 Washington state government and local jurisdictions have reaped tax windfalls and weathered the worst recession in decades. Through good economic times and bad, each year officials have managed to fund essential public services with the revenue increases available.

Despite the proven success of the 1% tax limit policy, sponsors now want to repeal it at a time when the economy is growing, and when local, county and state revenues are healthy due to increases in other sources of taxation.

Burden would fall hardest on poor and elderly

The burden imposed by HB 1764 would fall hardest on families living in "tax to the max" areas like Seattle, where local officials routinely imposed yearly regular property tax increases of 6% before voters enacted the 1% limit.

The higher tax burden would also fall hardest on the poor, immigrants, working families living paycheck to paycheck and the elderly. It would hurt retired couples who appear property rich in county records, but in reality are cash poor, because they live on a limited income of Social Security, pensions and personal savings.

Families like these would have difficulty paying for a 500% boost in the average increase in their yearly property taxes, especially ones imposed by several taxing jurisdictions at once.

Conclusion - A windfall for public officials

HB 1764 is drafted to provide a financial windfall for state and local officials. At the same time, the measure would work to reduce family incomes across the state, even in the most vulnerable communities. The result would be a state-imposed cut in household income for everyone, one that would hit poor families especially hard, and would contribute to the state's lack of affordable housing.

Local officials say they need more money to pay for services. Such claims are not credible. The voter-approved 1% limit on increases in regular property tax collections has been in place for 16 years. For part of that time, communities in Washington faced far worse economic conditions than exist today, yet public services operated successfully with the revenue increases available under current law; the sky didn't fall, as opponents predicted.

Still, some public officials say they can't manage with the yearly increases in taxes that people are paying now. Given the success of the 1% property tax limit, legislative proposals to repeal it creates the impression that some public officials are greedy. They want to make their public work easier by taking more money from their constituents.

That popular impression contributes to the sense that public policy produces real-world results that are unfair. With uncertainty in the direction of national policy, it is unwarranted to stir up controversy by seeking to overturn a long-standing policy at the state level.

Leaving a modest tax-limitation policy that is working in place would serve the public interest by showing respect for a clear decision made by the people of our state, one that is proven by experience and was confirmed by a majority of lawmakers of both parties.

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