Department of Revenue Fiscal Note

Bill Number: 5802 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 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		0.8	0.4	0.7	0.7
Account					
GF-STATE-State 001-1		914,900	914,900	1,812,400	1,812,400
Total $		914,900	914,900	1,812,400	1,812,400

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.

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Part II: Narrative Explanation

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

Briefly describe, by section number, the significant provisions of the bill , and any related workload or policy assumptions , that have revenue or expenditure impact on the responding agency .

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

Beginning with taxes collected in 2020, and thereafter, 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.

Beginning with taxes collected in 2020, and thereafter, the income threshold necessary to qualify in the deferral program is as follows:
- $45,000 or 75% of the median household income for the county, whichever is greater.

Liens on deferred property accrue interest at 5% per year.

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 be adjusted 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 one percent.

Requires the "principal place of residence" claimed in the exemption program must be occupied for more than nine months each calendar year by the applicant.

The Department must authorize an option for electronic filing of applications and renewal applications.

Definition of relative to be "any individual related to the claimant by blood, marriage, or adoption," for purposes of :
- A participant's ability to continue in the exemption program when confined to a "home of a relative for the purpose of long-tern care," similar to existing provisions when confined to a hospital, nursing home, assisted living, etc.

Heirs and devisees to those individuals eligible to continue in the deferral program upon death.

PROPOSED LAW:
Beginning with taxes collected in 2023, the income thresholds are as follows :
- Income threshold 1 is $60,000.
- Income threshold 2 is $65,000.
- Income threshold 3 is $70,000.

Beginning with taxes collected in 2024, and thereafter, the income thresholds necessary to qualify in the exemption program are as follows:
- Income threshold 1 is the greater of $60,000, or 45% of the median household income for the county.
- Income threshold 2 is the greater of $65,000, or 55% of the median household income for the county.
- Income threshold 3 is the greater of $70,000, or 65% of the median household income for the county.

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

Beginning with taxes collected in 2023, the income threshold necessary to qualify in the deferral program is $75,000.

Beginning with taxes collected in 2024, and thereafter, the income threshold necessary to qualify in the deferral program is as follows:
- $75,000, or 75% of the median household income for the county, whichever is greater.

Liens on deferred property accrue interest at 2% per year.

Changes the Department's requirement to update the income thresholds beginning August 1, 2022, and by March 1st every five years thereafter.

EFFECTIVE DATE:
This bill takes effect beginning with property taxes collected in Calendar Year 2023.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency , identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources . Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates . Distinguish between one time and ongoing functions .

ASSUMPTIONS
- 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 89 percent 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 11 percent of local property taxes impacted by the exemption.
- Based on five years of state property tax collections, 52.38 percent of state property tax collections occur in April and 47.62 percent occur in October. When converting from calendar year to fiscal year, this estimate assumes revenues shifts and losses follow this trend.
- Median household income by county, as obtained from Office of Financial Management website and income growth over the forecasted period were obtained from the Economic Forecast Council, 2021 forecast of income growth. These income estimates calculate the income threshold changes in accordance with the bill.
- Approximately 86,600 additional households will receive the senior, veteran, and disabled property tax exemption beginnir in tax year 2023.

DATA SOURCES
- Census Bureau, American Community Survey 2015-2019
- Department of Revenue, State Property Tax Model
- Economic Forecast Council, 2021 forecast of income growth
- Office of Financial Management (OFM) - Median Household Income Estimates by County: 1989 to 2019 and Projection for 2020
- 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 2023-25 Biennium. Therefore, a new exemption beginning in 2022 or after 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 who are currently exempt of an estimated $31.5 million for Fiscal Year 2023 and $58.7 million in Fiscal Year 2024, the first full fiscal year.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000): None

Local Government, if applicable (cash basis, $000):
FY 2022 - $ 0
FY 2023 - ($ 4,700)
FY 2024 - ($ 8,700)
FY 2025 - ($ 8,600)
FY 2026 - ($ 8,100)
FY 2027 - ($ 7,800)

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 2022 - $ 0
CY 2023 - $ 60,000
CY 2024 - $ 57,300
CY 2025 - $ 55,700
CY 2026 - $ 48,600
CY 2027 - $ 49,500

Local Government, Impact on Revenues ($000)
CY 2022 - $ 0
CY 2023 - ($ 9,000)
CY 2024 - ($ 8,600)
CY 2025 - ($ 8,600)
CY 2026 - ($ 7,700)
CY 2027 - ($ 8,000)

Local Government, ($000), Shift of Tax Burden
CY 2022 - $ 0
CY 2023 - $ 176,000
CY 2024 - $ 174,000
CY 2025 - $ 174,000
CY 2026 - $ 157,000
CY 2027 - $ 165,000

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived . Explain how workload assumptions translate into cost estimates . Distinguish between one time and ongoing

FIRST YEAR COSTS:
The Department will not incur any costs in Fiscal Year 2022.

SECOND YEAR COSTS:
The Department will incur total costs of $914,900 in Fiscal Year 2023. These costs include :

Labor Costs - Time and effort equates to 0.73 FTEs.
- Amend one administrative rule.
- Process deferral applications.

Object Costs - $859,000.
- Reimbursement to counties for the cost of the deferrals and benefits for additional qualified recipients.

ONGOING COSTS:
Ongoing costs for the 2023-25 Biennium equal $1,812,400 and include similar activities described in the second-year costs. Time and effort equates to 0.7 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		0.8	0.4	0.7	0.7
A-Salaries and Wages		29,300	29,300	54,000	54,000
B-Employee Benefits		10,500	10,500	19,400	19,400
E-Goods and Other Services		8,900	8,900	15,200	15,200
G-Travel		2,100	2,100	4,200	4,200
J-Capital Outlays		5,100	5,100	1,600	1,600
N-Grants, Benefits & Client Services		859,000	859,000	1,718,000	1,718,000
Total $		$914,900	$914,900	$1,812,400	$1,812,400

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

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
EMS BAND 4	122,633		0.0	0.0		
MGMT ANALYST4	70,956		0.0	0.0		
TAX POLICY SP 2	72,756		0.0	0.0		
TAX POLICY SP 3	82,344		0.0	0.0		
TAX POLICY SP 4	88,644		0.0	0.0		
TAX SERV REP 1	38,592		0.7	0.4	0.7	0.7
WMS BAND 3	104,295		0.0	0.0		
Total FTEs			0.8	0.4	0.7	0.7

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

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and dexcribe potential financing methods

NONE

None.

Part V: New Rule Making Required

Identify provisions of the measure 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 Rule, titled: " Senior citizen, disabled person, and disabled veteran exemption - Definitions." Persons affected by this rulemaking would include owners of real property who are eligible for the property tax exemption, or may become eligible based on the change to the income thresholds.