



# Budget Tidbits... just the facts

Senate Republican Caucus

## Budget Brief #1: (2/4/08)

### **A New Approach to Homeowner Property Tax Relief**

*Examining SJR 8226: The Anti-Shift Homestead Exemption*

*(Scheduled for public hearing in Ways & Means Committee this Thursday, Feb. 7, starting at 1:30 p.m.)*

#### **I. The Need for Homeowner Property Tax Relief**

- Washington homeowners' median property tax bill is 11<sup>th</sup> highest in the nation, and 13<sup>th</sup> highest as a percent of homeowners' income.<sup>1</sup>
- Almost all states with higher burdens are east of the Mississippi River. Of the states west of the Mississippi, only California has a higher median tax burden (10<sup>th</sup>), and it ranks lower than Washington in terms of tax burden as a share of income (17<sup>th</sup>).<sup>2</sup>
- The property tax burden has moved more toward homeowners in recent years. In 1997, Washington residences paid 59 percent of property taxes. With residential properties' values escalating more rapidly than business property, today it is 69 percent.<sup>3</sup>

#### **II. Senate Joint Resolution 8226: A New Approach**

##### **A. What the Constitutional Amendment Does**

- Authorizes the legislature to exempt up to \$100,000 of a homeowner's principal residence from state property taxes.
- Requires the exemption be paid for via a reduction to the state levy, rather than a tax increase on other property owners.
- Authorizes the \$100,000 exemption, once reached, to grow so it doesn't lose value over time. The inflator is tied to growth in state property tax collections.
- Does not impact local government tax collections.

##### **B. Anti-Shift Provision: A New Approach**

- As noted above, the amendment prohibits a shift of the tax burden onto other properties, requiring instead the state levy be reduced.

- This is a key component. Homestead exemptions have been proposed in the past. Yet, rather than reducing state revenues, they have always proposed increasing the tax burden on other properties, notably business.<sup>4</sup>
- SJR 8226 says no, the answer is not to lower one group's tax burden by raising the burden on another. Instead, it recognizes the legitimate burden facing homeowners while holding other property owners harmless.

### **C. Authorizes Sizable, Equitable, and Progressive Homeowner Relief**

- In today's market value, a \$100,000 homestead exemption would reduce the median homeowner's state property tax burden by 33 percent.<sup>5</sup>
- The tax relief would be both equitable and progressive.
  - i. Equitable because every Washington homeowner would receive tax relief and qualify for the same exemption.
  - ii. Progressive because a person with a \$200,000 home will see a higher reduction in their state property taxes (50 percent) than a person with a \$500,000 home (20 percent).

### **III. Fiscally Prudent: Matter of Priorities**

- **Phased-In / Provision for Economic Downturn** – The implementing legislation would phase-in the exemption level, authorizing a \$25,000 exemption the first biennium, \$50,000 the second, \$75,000 the third, and \$100,000 the following. The phase-in schedule would be suspended and delayed in times of economic downturn, defined as a forecast of less than 1 percent employment growth – the same barometer as the constitutional rainy day fund.
- **Fiscal Impact** – The impact of the exemption would be \$0 in the current budget (due to timing surrounding the need for voter approval in November, and a feasible implementation), roughly \$150 million in 2009-11, and an additional \$200-250 million in each subsequent biennia until fully phased-in.<sup>6</sup>
- **Matter of Priorities** – The state budget has grown by over \$8.2 billion the last four years, and over \$2.1 billion of new programs and policies were implemented last session alone.<sup>7</sup>
  - *Fully implemented, the tax relief given to homeowners in a budget cycle would be roughly 1/10 of the growth in state spending over the last four years.*
  - Among options that could help pay for homeowner tax relief would be to reduce state expenditures on anti-smoking efforts (\$53 million biennium, plus \$40 million reserve)<sup>8</sup>; find a more affordable way of administering and scoring WASL (costs projected to balloon to \$90 million next biennium)<sup>9</sup>; time-limit state-funded general-assistance for temporarily unemployable (\$84 million savings)<sup>10</sup>; improve the state's tort liability (current expenditures: \$152 million)<sup>11</sup>; slow operating budget debt service growth (which grew 15 percent, or \$207 million, in this budget)<sup>12</sup>; or reverse policy keeping students in bilingual programs even if they have passed the grade-appropriate WASL (\$10 million)<sup>13</sup>.

#### IV. A Politically Feasible Solution

- Democrats have promised legislative action on property taxes this session,<sup>14</sup> and have historically supported the homestead exemption in concept – albeit, the kind that shifts the tax burden onto others, rather than reduces state revenues.<sup>15</sup>
- The “shift” has been the death knell of past legislative attempts at a homestead exemption, and it likely always will be. Policy-wise it makes no sense.
- SJR 8226 offers a win-win solution to this previously intractable problem: pairing the universally-liked idea of “homeowner tax relief” with recognition that other property owners should not be harmed.

#### Bottom Line

Should voters have an opportunity in November to amend the state constitution to authorize up to the first \$100,000 of a home’s value be exempt from state property taxes?

1. The Tax Foundation, Property Taxes on Owner-Occupied Housing by State, 2006. ([www.taxfoundation.org](http://www.taxfoundation.org))
2. *Id.*
3. Department of Revenue, Residential vs. Commercial Property Tax Assessed Valuation Spreadsheet
4. *See* SSJR 8210 (2007).
5. Washington Center for Real Estate Research/Washington State University: Housing Market Snapshot, 3<sup>rd</sup> Quarter 2007 (Statewide median resale price: \$314,000)
6. Estimate based on fiscal modeling.
7. LEAP, Near General Fund Data (2004 Supp – 2007-09 Operating Budget).
8. 2007-09 Operating Budget, Tobacco Prevention & Control Account Proposed Expenditures.
9. Ways & Means staff analysis.
10. Fiscal note estimate to 2SSB 6017 (2004). Savings likely higher now due to subsequent caseload growth.
11. Office of Financial Management, 2007-09 Agency Self-Insurance Premium.
12. LEAP, 2007-09 Operating Budget Data (including Governor’s 2008 Supplemental).
13. Ways & Means staff analysis.
14. Quotes following Initiative 747 special session:  
“This is not the end of the property tax discussion, it’s really kind of the kickoff.” Sen. Lisa Brown, Spokesman-Review (11/30/2007)  
“We need to revisit property taxes . . . There’s no doubt about that, in my view.” – Gov. Gregoire, The Olympian (11/30/07)
15. *See* SSJR 8210 (2007).