Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2004

Brief Description: Concerning the property tax exemption for nonprofit organizations providing rental housing or mobile home park spaces to very low-income households.

Sponsors: Representatives Doglio, Gregerson, Pellicciotti, Reeves, Pollet, Ryu and Santos.

Brief Summary of Bill

- Adds mobile home park and manufactured housing coops to the property tax exemption for nonprofits providing rental housing for very low-income households.

Hearing Date: 2/26/19

Staff: Rachelle Harris (786-7137).

Background:

Property Tax - Regular Levies.
All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue other than the state levies is limited as follows:

- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent plus the value of new construction.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. In 2017 the Legislature adopted Engrossed House Bill 2242, which created the additional state levy. For taxes levied for collection in calendar years 2018, 2020, and 2021, the combined rate for both state levies is $2.70 per $1,000 assessed value (AV). For taxes levied for collection in calendar year 2019, the combined rate for both state levies is $2.40 per $1,000 AV. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both levies. Participants in the

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senior citizens, individuals with disabilities, and qualifying veterans property tax exemption program receive a partial exemption from the original state levy and a full exemption from the additional state levy.

The Washington Constitution limits regular levies to a maximum of 1 percent of the property's value ($10 per $1,000 of assessed value). There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- The state levy rate is limited to $3.60 per $1,000 of assessed value.
- County general levies are limited to $1.80 per $1,000 of assessed value.
- County road levies are limited to $2.25 per $1,000 of assessed value.
- City levies are limited to $3.375 per $1,000 of assessed value.

For property tax purposes, the state, counties, and cities, with respect to the levies listed above, are collectively referred to as senior taxing districts. Junior taxing districts—a term that includes fire, hospital, flood control zone, and most other special purpose districts—each have specific rate limits as well.

The tax rates for senior and junior taxing districts, excluding the state, must fit within an overall rate limit of $5.90 per $1,000 of assessed value. If the statutory $5.90 or constitutional $10 limit are exceeded, statute establishes the sequential order in which the levies must be proportionally reduced or eliminated (a process referred to as prorationing) to conform to the statutory and constitutional limits.
Some regular property tax levies—including levies for criminal justice purposes, port districts, and emergency medical services—are subject to the $10 constitutional limit but not the $5.90 aggregate rate limit. These levies have protections from general prorationing requirements and exist within the "gap" that remains after subtracting the state levy and the $5.90 in local regular levies from the constitutional $10 limit per $1,000 of assessed value.

<u>Tax Preference Performance Statement</u>.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

<u>Property Tax Exemption for Nonprofits Providing Low-Income Rental Housing</u>.
Property that is owned or used by nonprofit to provide rental housing for very low-income households or to provide space for the placement of a mobile home in a mobile home park is exempt from property taxation if:

1. The benefit of the property tax exemption inures to the nonprofit;
2. At least 75 percent of the occupied dwelling units are occupied by a very low-income household; and

3. The rental housing was insured, financed, or assisted in whole or in part by a federal or state housing program, an affordable housing levy or state authorized affordable housing surcharges.

If less than 75 percent of dwelling units are occupied by very low-income households, the property is eligible for a partial tax exemption. The amount of the exemption is equal to the AV of the property reasonably necessary to provide the housing for the percentage of units occupied by a very low-income household.

A very low-income household is defined as a single person, family, or unrelated persons living together whose income is at or below 50 percent of the median county income, adjusted for family size, as determined by the Federal Department of Housing and Urban Development.

Mobile Home Park and Manufactured Housing Cooperatives.
A mobile home park or a manufactured housing cooperative consists of property with common areas and two or more lots held out for placement of mobile homes, manufactured homes, or park models. Both the individual lots and the common areas are owned by an association of shareholders which leases or otherwise extends the right to occupy individual lots to its own members.

Summary of Bill:

The tax exemption for nonprofits providing rental housing to very low-income households is expanded such that mobile home park cooperatives and manufactured housing cooperatives may qualify.

The bill is exempt from the TPPS requirements, the JLARC review, and the 10 year expiration of tax preferences.

Appropriation: None.

Fiscal Note: Requested on February 22, 2019.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.