
Finance Committee

HB 2881

Brief Description: Providing a property tax exemption for eligible commercial properties located within designated business districts that create a community benefit as determined by the local jurisdictions.

Sponsors: Representatives Frame, Tarleton and Santos.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Allows a city or county legislative authority to establish a three-year property tax exemption program for small commercial properties within designated business district areas.

Hearing Date: 2/7/20

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

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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 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 AV). 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 AV.
- County general levies are limited to \$1.80 per \$1,000 of AV.
- County road levies are limited to \$2.25 per \$1,000 of AV.
- City levies are limited to \$3.375 per \$1,000 of AV.

Property Tax Exemptions.

The Constitution authorizes the Legislature to enact property tax exemptions. The Legislature has enacted various property tax exemptions, including an exemption for intangible property, household goods, business inventories, and real property owned by qualified retired persons, disabled persons, and veterans. Any property tax exemption may have the effect of increasing the tax rate of the owners of all other taxable property by reducing the overall based on taxable property in the taxing district.

Tax Preference Performance Statement.

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 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.

Summary of Bill:

A locally administered commercial property tax exemption program is established. A city or county legislative authority may establish designated business district areas in which it intends to promote small commercial properties for community benefit. Within a designated business area, the value of commercial improvements and land is exempt from ad valorem property taxation for a period of three years. The exemption begins January 1 of the year following when a certificate of tax exemption is filed with the county assessor. The exemption may be renewed for successive three-year periods at the discretion of the city or county governing authority.

An exemption program established by a city or a county must include qualifying standards for commercial properties, and properties eligible for exemption must either be rented at or below market rent levels or otherwise benefit from property tax savings under the exemption program.

The exemption applies to small properties with commercial zoning that are more than 40 years old and have less than 50,000 square feet in area. To be eligible for an exemption, a property must be owner-occupied or occupied by a business tenant and the property owner must enter into a contract with the governing authority agreeing to terms and conditions of the exemption program. The property must comply with all land use and zoning regulations, in addition to any quality standards established by the governing authority. The property must be inspected for compliance prior to approval of the exemption. The governing authority has discretion to limit program participation and to implement standards and fees to determine application acceptance.

Property owners applying for the exemption program must provide various forms and certification to the governing authority as required. Owners of exempted property must maintain tenant information and certification of annual gross revenue, and must file an annual report with the governing authority that includes information about occupancy and operation of the exempt commercial property, schedule of rents, and other information required by the governing authority. In the event of cancellation of an exemption, additional taxes and penalties are due on previously exempted properties.

A commercial property owner receiving an exemption must file an annual report to the governing authority. The city or county governing authority must annually report to the Department of Commerce regarding the number of tax exemptions granted, the number of units in properties receiving an exemption, total rent for all units receiving the exemption, and the dollar amount of the exemption issued for each project and in total.

A TPPS identifies the tax preference as one intended to induce certain behavior by taxpayers, and identifies the public policy objective to reduce economic displacement due to speculative development. If a review finds that less economic displacement occurs in designated business areas as compared to adjacent business areas, the legislature intends to extend the expiration of the tax preference program.

This bill is effective beginning with property taxes collected in calendar year 2021 and expires on January 1, 2031.

Appropriation: None.

Fiscal Note: Requested on January 28, 2020.

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