Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1052

Brief Description: Providing a property tax exemption for qualified real and personal property owned or used by a nonprofit entity in providing qualified housing funded in whole or part through a local real estate excise tax.

Sponsors: Representatives Ramel, Lekanoff, Bateman, Reed, Pollet, Walen, Doglio and Kloba.

Brief Summary of Bill

- Expands the property tax exemption for nonprofit organizations providing rental housing or mobile home park spaces to qualifying households to those nonprofit organizations financed by the local real estate excise tax for affordable housing.

Hearing Date: 1/17/23

Staff: Tracey Taylor (786-7152).

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 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 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 also 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 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.

<u>Property Tax Exemption for Nonprofit Organizations providing rental housing or mobile home park spaces to qualifying households</u>.
Property tax exemptions are available to qualifying organizations, including schools, churches, nonprofit hospitals, nursing homes, museums, public meeting halls, and others.

Real and personal property that is owned or used by a nonprofit to provide rental housing for qualifying 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 qualifying 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 qualifying households, the property is eligible for a partial tax exemption. The amount of the exemption is equal to the assessed value of the property reasonably necessary to provide the housing multiplied by the percentage of units occupied by a qualifying household.

A qualifying household is defined as a single person, family, or unrelated persons living together whose income is at or below 60 percent of the median county income, adjusted for family size, as determined by the federal Department of Housing and Urban Development.

<u>Real Estate Excise Tax</u>.
Real Estate Excise Tax (REET) applies to real estate transactions including the sale of property and the transfer of controlling interest in property. The rate applies to the selling price and is

usually paid for by the seller. The REET is due and payable to the county treasurer in which the property is located on the date of the sale, regardless of the date of recording except in a controlling interest transfer.

Prior to 2020, the state REET rate was a flat rate of 1.28 percent. However, beginning on January 1, 2020, four graduated rates of 1.1 percent, 1.28 percent, 2.75 percent and 3 percent have applied based on the selling price of the property.

In addition, local governments are authorized to impose a local REET in addition to the state rate. The two main local REET options are:

- REET 1: A local government may levy a 0.25 percent REET. The revenues from REET 1 are primarily to be used for capital projects and limited maintenance.
- REET 2: An additional 0.25 percent REET may be imposed by cities and counties that are fully planning under the Growth Management Act.

In addition, there are several other local REET options for local governments:

- a local government not levying the optional 0.5 percent sales tax may levy an additional local REET of up to 0.5 percent;
- a county may impose an additional local REET of up to 1.0 percent for the acquisition and maintenance of conservation areas; and
- a county that imposed the full 1.0 percent for conservation areas prior to January 1, 2003, may also impose a local REET of up to 0.5 percent for affordable housing. Currently, San Juan County is the only county imposing this local option REET.

<u>Tax Preferences</u>.
All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference. In addition, an automatic 10-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Summary of Bill:

The property tax exemption for real and personal property owned or used by a nonprofit entity providing rental housing for qualifying households or used to provide space for the placement of a mobile home is expanded to include an additional qualified funding source. Rental housing or lots in a mobile home park that were insured, financed, or assisted in whole or in part through the local option REET for affordable housing is exempt from property taxes.

This act is not subject to the requirements of a tax preference performance statement, a JLARC review, and the automatic 10-year expiration.

Appropriation: None.

Fiscal Note: Requested on January 3, 2023.

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