

# HOUSE BILL REPORT

## HB 2191

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### As Reported by House Committee On:

Finance

**Title:** An act relating to property tax exemptions for property leased by public entities.

**Brief Description:** Providing property tax exemptions for certain property leased by public entities.

**Sponsors:** Representatives Morris (co-prime sponsor), Sehlin (co-prime sponsor), Lisk and Fromhold.

### Brief History:

#### Committee Activity:

Finance: 3/8/01 [DPS].

#### Brief Summary of Substitute Bill

- Exempts from property tax real and personal property owned by nonprofit foundations of institutions of higher education that is leased to the higher education institution.
- Exempts from property tax real and personal property leased to public hospital districts.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos and Veloria.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Van Loven.

**Staff:** Rick Peterson (786-7150).

### Background:

All property in this state is subject to property tax each year based on the property's value unless a specific exemption is provided by law. The Constitution exempts property owned by the United States, the state, counties, school districts, and other municipal corporations from property taxes.

Several property tax exemptions exist for nonprofit organizations. Some exemptions apply only to property owned by a nonprofit organization, and other exemptions apply to property either owned or leased by a nonprofit organization. Examples of some nonprofit property tax exemptions are:

#### Property Tax Exemptions for Nonprofit Organizations

##### **Exempt on Owned Property Only**

- character building, benevolent, protective or rehabilitative social service organizations
- churches and church camps
- youth character building organizations
- war veterans' organizations
- water distribution property
- nonprofit nature conservancy organization
- public assembly halls
- medical research or training facilities
- art, scientific, or historical collections
- sheltered workshops
- fair associations
- humane societies

##### **Exempt on Owned or Leased Property**

- free public libraries
- orphanages
- nursing homes
- hospitals
- homes for the aging
- schools and colleges
- day care centers
- radio/TV rebroadcast facilities
- performing arts properties
- homeless shelters
- outpatient dialysis facilities
- blood banks

On April 6, 1999, the State Board of Tax Appeals issued a ruling regarding a property tax exemption for property that Public Hospital District #2 of Snohomish County was leasing. It concluded that the leased property was not exempt from property taxes. Public Hospital District #2 of Snohomish County, like other governments, is exempt on the property it owns. However, the statute that provides this exemption does not extend the exemption to the property these governments lease.

After this decision and a review of the property tax exemptions statutes, the Department of Revenue decided it had incorrectly allowed property tax exemptions for property leased by a number of community colleges, public hospital districts, and one library district. This January, the Department of Revenue sent letters revoking the tax exemption for this leased property.

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#### **Summary of Substitute Bill:**

A property tax exemption is established for real and personal property owned by nonprofit foundations of institutions of higher education that is leased to an institution of higher education. The property must be used to provide student services. If exempt property is no longer used by a state institution of higher education then up to seven years of tax benefit from the exemption will be collected.

Real and personal property leased and used by a hospital that is owned by public hospital district is exempt from property tax.

**Substitute Bill Compared to Original Bill:**

The substitute bill increases the time period for collection of back taxes from three years to seven years. The requirement that property be used to provide student services is added.

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**Appropriation:** None.

**Fiscal Note:** Requested on substitute bill March 12, 2001.

**Effective Date of Substitute Bill:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** (On HB 1789 heard 2/21/01) The purpose of the bill is to provide a property tax exemption for buildings provided to colleges by nonprofit foundations. These foundations provide facilities the state capital budget process is unable to provide. The foundations lease the buildings on very favorable terms to the college. The facilities include classroom buildings, student housing, and parking. The foundations provide tax savings through a public private partnership. They also raise money that is used for student scholarships. Property tax exemptions were granted until the Department of Revenue recently removed the exemption. This presents a problem for the community college foundations. The loss of the exemption has a huge negative financial impact on the colleges and foundations and will be detrimental to students. The burden of the increased tax bill will fall on the college or divert money away from students scholarships.

**Testimony Against:** None.

**Testified:** (On HB 1789 heard 2/21/01) Representative Fromhold, prime sponsor; Gail Stevensen, Spokane Community Colleges; Jay Conrad, Spokane Community Colleges; Rich Rutkowski, Green River Community College; Carolyn Busch, University of Washington; Elson Strahan, Clark College Foundation; and Patrick Kennicott, Skagit Valley College Foundation.