

HOUSE BILL REPORT

HB 2783

As Reported by House Committee On:

Trade & Economic Development

Finance

Title: An act relating to property tax exemptions for nonprofit organizations for small business incubators which assist in the creation and expansion of innovative small commercial enterprises.

Brief Description: Providing a property tax exemption for nonprofits that assist small businesses.

Sponsors: Representatives Pettigrew, Skinner, O'Brien, Jarrett, Sullivan, Priest, Hunt, Cooper, Conway, Cairnes, Eickmeyer, Kirby, Simpson, G., Ruderman, Schual-Berke, Chase, Lantz, Kenney, Morrell, Wood and Murray.

Brief History:

Committee Activity:

Trade & Economic Development: 1/29/04, 2/6/04 [DPS];

Finance: 2/9/04, 2/10/04 [DPS(TED)].

Brief Summary of Substitute Bill

- Provides a property exemption for real and personal property used by a qualified nonprofit organization so long as the property is used to assist startup and expanding businesses.

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Veloria, Chair; Eickmeyer, Vice Chair; Skinner, Ranking Minority Member; Blake, Chase, McCoy, Ormsby and Pettigrew.

Minority Report: Do not pass. Signed by 4 members: Representatives Condotta, Kristiansen, Priest and Rodne.

Staff: Tracey Taylor (786-7196).

Background:

Property taxes apply to the assessed value of all taxable property, which includes all real and personal property located within the state, unless specifically exempted. Real property

includes land, structures and certain equipment that is affixed to the structure. The assessed value of real property is determined by the county assessor. Personal property includes machinery, supplies, certain utility property and items which are generally moveable. Owners of personal property list the items, their acquisition cost and the year acquired with the county assessor each year. The assessor then determines the current assessed value.

Property tax rates consist of the annual levy rates applied to the assessed value of taxable property by the various taxing districts, including the state and various local jurisdictions which have levy authority under state law. As of 2002, there were 1,743 taxing districts throughout the state. A taxing district's rate must be applied uniformly throughout the district. However, because many of the jurisdictions overlap, there are about 3,225 code areas in which a particular combination of levy rates may apply.

Property tax exemptions are allowed under certain conditions. They include publicly owned property, property owned by nonprofit organizations, household goods and personal effects.

Summary of Substitute Bill:

A tax exemption is provided for real and personal property owned or used by a qualified nonprofit organization, if the property is used to assist startup and expanding businesses by providing education, training and employment of economically disadvantaged people. The property must also be used to provide the shared use of equipment and work areas as well as the daily technical resources and management support services that enable entrepreneurs to transform private activities into successful businesses.

The qualified nonprofit organization must be organized and conducted for nonsectarian purposes and be qualified for exemption under section 501(c)(3) of the federal internal revenue code. The nonprofit organization must also be governed by a board of directors consisting of at least five members.

If the property ceases to be used by the nonprofit for the assistance of startup and expanding businesses, the county treasurer is authorized to collect all taxes which would have been paid had the property not been exempt during the previous three years or the life of the exemption if less, plus the interest calculated based on the delinquent property tax rate.

The levy for a taxing district with a nonprofit organization claiming this exemption will be reduced to prevent the remaining taxpayers from experiencing a higher tax rate.

The tax exemption will be applied to taxes levied for collection in 2005.

In 2010, any nonprofit organization claiming this exemption must report to the Department of Revenue (DOR) the number of businesses served by the nonprofit organization and the types of services provided. Failure to submit the report will render a nonprofit organization ineligible for the exemption. The DOR shall compile this information and share it with the appropriate committees of the Legislature.

The exemption expires in 2015.

Substitute Bill Compared to Original Bill:

The substitute includes daily management services as one of the required services the nonprofit organization must perform in order to qualify for the exemption. It also prevents the exemption from raising the tax rate in an affected taxing district. The substitute bill adds an accountability provision by requiring the nonprofit organizations to report the number of businesses it assisted and the types of services the businesses were provided. Finally, the substitute expires the exemption in 2015.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 6, 2004.

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

Testimony For: Small businesses are at the heart of Washington's economy, yet they have a high business failure rate. The SBIs help develop and grow the small businesses. The SBIs encourage innovation by helping the "little guy" take an idea to the next level. The SBIs have a better success rate if the building is designed for the incubator. A SBI is not about providing low rent; in fact, the rent is usually above market due to the additional services the SBI provides. A SBI provides the benefit of co-location with expertise, services, and networking. A tax exemption allows the SBI to reduce the costs of starting up a business and the costs of providing the services by not being forced to pass on the cost of property taxes to clients. A SBI works extremely well in an economically disadvantaged area by helping those entrepreneurs who do not have access to other resources and by providing employment and training opportunities to its citizens.

Testimony Against: None.

Persons Testifying: (In support) Representative Pettigrew, prime sponsor; Tim Stege, Washington Association of Small Business Incubators; John Bankston, HUB Contractors Association; Merle Holden, Jamestown S'klallam Tribe; Linc Ferris, Washington Association of Small Business Incubators; and Dr. C.A. Horne, Pacific Northwest Chapter Black Chamber of Commerce.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Trade & Economic Development be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Trade & Economic Development:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 6, 2004.

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

Testimony For: None.

Testimony Against: None.

Persons Testifying: None.

Persons Signed In To Testify But Not Testifying: None.