

HOUSE BILL REPORT

SHB 2804

As Passed Legislature

Title: An act relating to the property tax exemption for nonprofit schools and colleges.

Brief Description: Modifying the property tax exemption for nonprofit schools and colleges.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Conway, Holmquist, Serben, McIntire, Ahern, McDermott, Rodne, Buri, McDonald, McCune and Dunn; by request of Office of the Lieutenant Governor).

Brief History:

Committee Activity:

Finance: 1/30/06, 2/6/06 [DPS].

Floor Activity:

Passed House: 2/14/06, 98-0.

Passed Senate: 3/2/06, 47-0.

Passed Legislature.

<h3>Brief Summary of Substitute Bill</h3>

- Expands the allowable uses of property eligible for tax exemption as a nonprofit school or college.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

Staff: Bob Longman (786-7139).

Background:

All property in this state is subject to the property tax each year based on the property's value, unless a specific exemption is provided by law. Several property tax exemptions exist for nonprofit organizations. Examples of nonprofit property tax exemptions are: schools and colleges; character building, benevolent, protective or rehabilitative social service organizations providing services for all ages; churches and church camps; youth character-building organizations; war veterans organizations; national and international relief organizations; federal guaranteed student loan organizations; blood, bone and tissue banks;

public assembly halls and meeting places; medical research or training facilities; art, scientific, and historical collections; sheltered workshops; fair associations; humane societies; water distribution property; radio/television rebroadcast facilities; fire company property; day-care centers; free public libraries; orphanages; nursing homes; hospitals; outpatient dialysis facilities; homes for the aging; performing arts properties; and homeless shelters.

Property owned by or used for a nonprofit school or college is exempt from property tax. The exempt property must not exceed 400 acres in extent and must be limited to buildings and grounds designed for the educational, athletic, or social programs of the institution, the housing of students, the housing of religious faculty, the housing of the chief administrator, athletic buildings. Other school or college facilities are exempt if the facilities are principally designed to further the educational functions of the institution and if the need for the facilities would be nonexistent but for the presence of the school or college.

Property that is exempt from tax must be used exclusively for the actual operation of the activity for which exemption was granted, with a few exceptions. Most nonprofit property, including schools and colleges, may be used for fund-raising activities without jeopardizing its exempt status if the fund-raising activities are consistent with the purposes for which the exemption was granted. Except for public assembly halls, public meeting places, and war veterans' organizations, nonprofit exempt property may be loaned or rented only if: (a) the rent received for the use of the property is reasonable and does not exceed maintenance and operation expenses, and (b) the organization renting the property would be exempt from tax if they owned the property. For public assembly halls, the exempt property may be used for pecuniary gain or to promote business activities for up to seven days each year and also can be used for dance lessons, art classes, or music lessons in counties under 10,000 in population. The property of veterans associations may be used for pecuniary gain or to promote business activities for three days or less each year. Public assembly halls, meeting places, and war veterans' organization property may be used for fund-raising activities by any nonprofit organization.

If nonprofit exempt property is no longer used for the purposes for which the exemption is granted, back taxes are due. For an institution of higher education, taxes which would have been paid during the previous seven years must be repaid. For all other nonprofit organizations, taxes which would have been paid during the previous three years must be repaid. Interest is due on repayments of back taxes.

Summary of Substitute Bill:

The property tax exemption for a nonprofit school or college is nullified for the assessment year if the property is used by an individual or organization not entitled to a property tax exemption, unless one of the following exceptions apply: (1) The property may be used by students, alumni, faculty, staff, or other persons in a manner consistent with the educational, social, or athletic programs of the school or college. (2) The school or college may contract for food services for students, faculty and staff, the operation of a bookstore on campus, and

related maintenance, operational, or administrative services. (3) The school or college may allow uses for pecuniary gain or to promote business activities for not more than seven days in a calendar year for each portion of the property. Sports or educational camp uses conducted by faculty members do not count against the seven days.

Any rent or donations received by the college or school for use of the property must be reasonable and not exceed maintenance and operation expenses.

An inadvertent use of the property in a manner inconsistent with school or college purposes will not nullify the exemption, if the inadvertent use is not part of a pattern of use.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: (In support) The statutes governing property tax exemptions for schools and colleges are outdated and too restrictive. Higher education has changed. Schools and colleges must be able to be good partners with the community. Private nonprofit schools and colleges should have the same flexibility as publicly-owned institutions. In many cases, a nonprofit school or college is the only facility in the area that is available for community events. Members of the community should be able to use school and college facilities when the students are not using them. The institutions must be able to contract with vendors to provide services on campus to students, faculty, and staff, without the danger of losing the property tax exemption.

(Neutral with concerns on original bill) There is a long-standing principle that property tax exemptions should be narrowly construed. An overly-broad exemption here would create a precedent for expansion of other exemptions. There is a risk of unfair competition with private business owners who must pay taxes.

Testimony Against: None.

Persons Testifying: (In support) Representative Conway, prime sponsor; Violet Boyer, Independent Colleges of Washington; and Yoshe Revelle.

(Neutral with concerns on original bill) Gil Brewer, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.