

SENATE BILL REPORT

SHB 2804

As Reported By Senate Committee On:
Ways & Means, February 27, 2006

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: 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: Passed House: 2/13/06, 98-0.

Committee Activity: Ways & Means: 2/27/06 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

Staff: Terry Wilson (786-7433)

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.

Property owned by or used for a nonprofit school or college is exempt from property tax. The exempt property must not exceed four hundred acres and is limited to buildings and grounds 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, and 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 not exist 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 if the fund-raising activities are consistent with the purposes for which the exemption was granted. With a few exceptions, nonprofit exempt property may be loaned or rented only if: (1) the rent received for the use of the property is reasonable and does not exceed maintenance and operation expenses; and (2) the organization renting the property would be exempt from tax if they owned the property.

As a general rule, exempt property that is used or rented with the intent to produce income, promote business, or for pecuniary gain, will lose its exempt status. In the case of public assembly halls and meeting places, the exempt property may be used for pecuniary gain or to promote business activities for seven days or less 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. The property of museums and performing arts facilities may be used by the lessee for pecuniary gain or to promote business activities for seven days or less each year.

Summary of 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 school-related programs or services, such as 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 or program 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: Available.

Committee/Commission/Task Force Created: No.

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

Testimony For: Schools need clarification on their tax exemption. 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. These schools are a site for neighborhood and community activity. The current rule interpretation prevents schools from providing broad educational purposes. The schools need to be competitive. Some schools are the only ones providing swimming pools and tennis courts. This is not expanding the exemption.

Testimony Against: None.

Who Testified: PRO: Representative Conway, prime sponsor; Violet Boyer, Independent Colleges of Washington.