

# SENATE BILL REPORT

## SB 5154

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As Reported By Senate Committee On:  
Government Operations & Elections, February 3, 2005  
Ways & Means, February 21, 2005

**Title:** An act relating to the leasehold excise tax exemption for certain historical property.

**Brief Description:** Changing the leasehold excise tax exemption for certain historical property.

**Sponsors:** Senators Pridemore and Zarelli.

**Brief History:**

**Committee Activity:** Government Operations & Elections: 2/1/05, 2/3/05 [DPS-WM].  
Ways & Means: 2/16/05, 2/21/05 [DP2S].

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### SENATE COMMITTEE ON GOVERNMENT OPERATIONS & ELECTIONS

**Majority Report:** That Substitute Senate Bill No. 5154 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Kastama, Chair; Berkey, Vice Chair; Roach, Ranking Minority Member; Haugen, Kline, McCaslin, Mulliken and Pridemore.

**Staff:** Mac Nicholson (786-7445)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 5154 be substituted therefor, and the second substitute bill do pass.

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

**Staff:** Terry Wilson (786-7433)

**Background:** Property owned by the federal government, state government, counties, school districts and other municipal corporations is exempt from taxation under the state constitution. Public lands can be leased to private individuals, and because the land is public and not subject to property tax, the private individual would realize an economic benefit over privately owned property because there is no payment of property tax. To neutralize the economic advantage, the state levies a leasehold excise tax.

A leasehold excise tax is a tax on the act or privilege of occupying or using publicly owned property through a leasehold interest. The rate of leasehold excise tax is 12 percent of the contract rent. Cities and counties may each levy a local leasehold excise tax, which is credited against the state tax. Cities can levy up to 4 percent, and counties up to 6 percent, and the city tax is credited against the county tax.

Common examples of the leasehold excise tax include port property upon which lessees construct warehouses and manufacturing plants; airline facilities at public airports; state grazing lands; and national forest land leased for recreational cabins.

The legislature has exempted a number of different types of leases from the leasehold excise tax, including certain types of property controlled by public development authorities.

Cities may create public corporations, or public development authorities (PDAs), to perform any lawful public purpose or public function. PDAs enjoy the same immunity from taxation as the city or county creating the PDA. Neither cities nor PDAs are immune from the leasehold excise tax, however, the legislature has exempted certain property controlled by a PDA from the leasehold excise tax. Specifically, the leasehold excise tax does not apply to property within a special review district established prior to 1976, or to property listed on any federal or state register of historical sites which is controlled by a PDA that was in existence prior to January 1, 1987. However, the same property would be subject to the leasehold excise tax if controlled by a municipal corporation (city).

Federal law has created a number of national historic reserves throughout the country. There are two national historic reserves located in Washington; Ebey's Landing on Whidbey Island and the Vancouver National Historic Reserve.

**Summary of Second Substitute Bill:** Leasehold interests in property owned by a municipal corporation that is listed on a federal or state register of historical sites and is wholly contained within a national historic reserve is exempt from the leasehold excise tax.

**Second Substitute Bill Compared to Substitute Bill:** The second substitute bill removes the section that eliminated a contradictory provision relating to the exemption for historic property owned by a PDA.

**Substitute Bill Compared to Original Bill:** The substitute bill narrows the scope of the bill by adding the requirement that, in order for the leasehold excise tax exemption to apply, the property must be wholly located in a national historic reserve. The substitute puts the exemption for such property into the statute listing other exemptions to the leasehold excise tax. The substitute bill also eliminates a contradictory provision relating to the exemption for historic property owned by a PDA.

**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: (Government Operations & Elections)** This is a very narrow bill and housekeeping in nature. It would just allow the city of Vancouver to eliminate their public development authority but continue to keep the historic property owned by the city exempt from the leasehold excise tax.

**Testimony Against (Government Operations & Elections):** None.

**Who Testified: (Government Operations & Elections)** PRO: Senator Pridemore, prime sponsor; Mark Brown, Brent Boger, City of Vancouver.

**Testimony For (Ways & Means):** Vancouver owns a part of the Vancouver National Historic Reserve. The city must keep its PDA on the books to keep the tax exemption, but the PDA is not otherwise needed. This does not expand the exemption. It just allows the city to abolish the PDA. Some of the buildings are 140 years old and the rental of the property does not compete against private rentals.

**Testimony Against (Ways & Means):** None.

**Who Testified (Ways & Means):** PRO: Mark Brown, City of Vancouver.