

SENATE BILL REPORT

SB 5989

As Reported By Senate Committee On:
Economic Development, Trade & Management, January 30, 2008

Title: An act relating to property tax exemptions for nonprofit organizations using property for purposes related to small startup businesses.

Brief Description: Providing a property tax exemption for property owned or used by nonprofit organizations for small startup businesses.

Sponsors: Senator Kastama.

Brief History:

Committee Activity: Economic Development, Trade & Management: 2/14/07, 2/21/07 [DPS]; 1/18/08, 1/30/08 [DP2S].
Ways & Means: 1/16/08 [w/oRec-EDTM].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

Majority Report: That Second Substitute Senate Bill No. 5989 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Kastama, Chair; Kilmer, Vice Chair; Zarelli, Ranking Minority Member; Kauffman, King and Shin.

Staff: Aaron Gutierrez (786-7448)

Background: In 2004 the Legislature created a small business incubator program in the Department of Community, Trade and Economic Development. Small business incubators provide technical assistance and rental space to small startup businesses. The small business incubator program is currently not funded.

The Washington State Quality Award (WSQA) is patterned after the Malcolm Baldrige National Quality Award and recognizes organizations for their achievements in quality and performance.

SUMMARY OF BILL (Recommended Second Substitute): A nonprofit organization's real and personal property is exempt from state property taxes if: the property is used exclusively to provide technical assistance and rental space to small startup businesses; the organization qualifies as a nonprofit under the federal internal revenue code; the organization applies for the WSQA within two years after first receiving the tax exemption; and the organization reapplies for the WSQA at least once every three years.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Property that falls under this tax exemption must be both owned and used by a nonprofit organization, instead of owned or used. To meet the requirements of this bill, a nonprofit organization must apply for the WSQA, not an equivalent.

EFFECT OF CHANGES MADE BY ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT COMMITTEE (Recommended Second Substitute): Further clarifies that the exemption is only for the areas actually used by the nonprofit.

EFFECT OF CHANGES MADE BY ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT COMMITTEE (Recommended First Substitute): Property that falls under this tax exemption must be both owned and used by a nonprofit organization, instead of owned or used. To meet the requirements of this bill, a nonprofit organization must apply for the WSQA, not an equivalent.

Appropriation: None.

Fiscal Note: Available. Substitute bill requested on January 30, 2008.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on First Substitute Bill: PRO: Historically, tax exemptions are intended for non-profits to help low income individuals. Exemptions for commercial use are typically strictly limited to days of usage, and under narrow guidelines. This bill may allow for-profits to reap the benefits of exempt status, and cause a shift in burden. Adding explicit verbiage about bifurcation would keep the for-profits from benefitting. The concern is not necessarily about advantage to some, but disadvantage to others.

An example of bifurcation: Qwest Field is generally tax exempt, but not in all areas of the facility.

Most of the related non-profits operate on a budget of approximately \$750,000 per year. Property taxes constitute around 10 to 30 percent of that budget.

The new facility at the William Factory Small Business Incubator increased revenue from \$12 million to \$36 million, and the associated businesses created 250,000 jobs. Phase II will be complete in September. The property taxes for Phase II comprise approximately one-third of the budget.

This large tax burden impacts the level of service.

Persons Testifying: PRO: Lincoln Ferris, Colleen Barta, Washington Association of Small Business Incubators; David Schaffert, Thurston County Small Business Incubator; Brad Flaherty, Department of Revenue.