HOUSE BILL REPORT
HB 1843

As Reported by House Committee On:
Technology & Economic Development

Title: An act relating to creating a residential energy efficiency incentive pilot program.

Brief Description: Creating a residential energy efficiency incentive pilot program.

Sponsors: Representatives Morris, Lytton and Tarleton.

Brief History:

Committee Activity:

Technology & Economic Development: 2/10/15, 2/19/15 [DPS].

Brief Summary of Substitute Bill

- Creates a residential energy efficiency incentive pilot program that authorizes a city or county that is participating in national competitions targeting energy savings, is implementing a climate action plan, or has established long-term conservation goals to exempt qualifying low and moderate-income owners of single-family residences and qualifying owners of multiple family buildings from the city or county's regular property tax levy.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Morris, Chair; Tarleton, Vice Chair; Fey, Hudgins, Ryu, Santos and Wylie.

Minority Report: Do not pass. Signed by 6 members: Representatives Smith, Ranking Minority Member; DeBolt, Assistant Ranking Minority Member; Harmsworth, Magendanz, Nealey and Young.

Staff: Nikkole Hughes (786-7156).

Background:

Property Tax - Regular and Excess Levies.

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.

All real and personal property in the state is subject to property tax each year based on its fair market value, unless specific exemption is provided by law. The Washington Constitution (Constitution) requires that taxes be uniform within a class of property. Uniformity requires both an equal rate of tax and equality in valuing the property taxes in a given taxing district. "Taxing district" includes the state and any county, city, public utility district, or other municipal corporation with the authority to impose property tax.

The Constitution limits the sum of regular property tax rates in taxing districts to a maximum of 1 percent of true and fair value, or $10 per $1,000 of market value.

Levies that are subject to the 1-percent rate limitation are known as "regular" levies. Examples of regular levies include those for the state, counties and cities, and public utility districts.

Excess levies are property taxes that are not subject to the 1-percent limit. They are in addition to regular levies. Excess levies require voter approval and many require a 60-percent super majority to be approved.

<u>Property Tax - Levy Limitations</u>.

The Legislature has established individual district-rate maximums and aggregate-rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- the state levy rate is limited to $3.60 per $1,000 of assessed value;
- county general levies are limited to $1.80 per $1,000 of assessed value;
- county road levies are limited to $2.25 per $1,000 of assessed value; and
- city levies are limited to $3.375 per $1,000 of assessed value.

For property tax purposes, the state, counties, and cities, with respect to the levies listed above, are collectively referred to as "senior taxing districts."

"Junior taxing districts," which include fire, hospital, and other special purpose districts, also have specific statutory rate limits. The tax rates for senior districts and most junior districts, excluding the state, must fit within an overall rate limit of $5.90 per $1,000 of assessed value. If the $5.90 limit is exceeded, statute establishes the sequential order in which the levies of various junior taxing district levies must be proportionally reduced or eliminated, in a process referred to a prorationing. The aggregate $5.90 limit does not apply to excess property tax levies, levies provided for public utility districts, and certain other local levies.

In addition to the rate limitations, a taxing district's regular property tax levy is limited by a statutory maximum growth rate in the amount of tax revenue that may be collected from year to year. Generally, the limit requires a reduction of property tax rates as necessary to limit the growth in the total amount of property tax revenue received to the lesser of 1 percent or inflation. This is referred to as the 101-percent revenue limit. The revenue limit does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing property, or to changes in state-assessed valuation.

<u>Property Tax - Exemptions</u>.

The Constitution gives the Legislature the power to exempt property from taxation. Constitutional amendments have been adopted to provide specific exceptions to the uniformity requirement for exemption programs such as the Senior Citizen Tax Relief Program.

Exempt property value is excluded from the calculation of a district's levy and can impact the levy rate paid by nonexempt property owners. The rates for regular property tax levies are determined by dividing the amount of revenue to be raised by the nonexempt assessed value of the district. The resulting tax rate calculation is checked against the maximum allowed for the district and reduced if necessary. If a district meets or surpasses their rate maximum, an exemption would result in less revenue to the district. However, many districts are below the maximum rate, due in part to the 101-percent revenue limit. In these districts an exemption will result in a higher tax rate and no loss in revenue.

Weatherization Assistance Program.

In 1987 the Legislature created the Washington Weatherization Program in order to facilitate the allocation of funds from federal energy efficiency programs such as the Weatherization Assistance Program. Under the Washington Weatherization Program (Program), the Department of Commerce (Commerce) contracts with local agencies to weatherize low income single-family residences and leased or rented residences.

The state's retail sales tax does not apply to sales of tangible personal property used in the weatherization of a residence under the Program. The exemption only applies to tangible personal property that becomes a component of the residence.

Tax Preference Performance Statement.

All new tax preference legislation must include a tax preference performance statement. New tax preference means a tax preference that initially takes effect after August 1, 2013, or a tax preference in effect as of August 1, 2013, that is expanded or extended after August 1, 2013. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits.

The performance statement must clearly specify the public policy objective of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference.

There is an automatic 10-year expiration date for new tax preferences if an alternative expiration date is not provided in the new tax preference legislation.

Summary of Substitute Bill:

Residential Energy Efficiency Incentive Pilot Program.

A residential energy efficiency incentive pilot program (pilot program) is created and authorizes a city or county that is participating in national competitions targeting energy savings, is implementing a climate action plan, or has established long-term conservation goals to exempt qualifying low and moderate-income owners of single-family residences, and qualifying owners of multiple family buildings, from the city or county's regular property tax levy.

Low and moderate income owners of single-family residences and owners of multiple family buildings may qualify for an exemption under the pilot program if they implement an eligible retrofit project or eligible new construction.

Exemptions under the pilot program will go into effect January 1 of the year immediately following the calendar year in which a certificate of acceptance of tax exemption is issued by the participating city or county.

No new applications for tax exemption under the pilot program will be accepted after a six-year period.

The governing authority of a participating city or county may limit or cap the number or total dollar amount of exemptions issued under the pilot program.

Property Tax - Exemptions.

Under the pilot program, a city or county is authorized to:

- exempt an eligible structure and the land upon which it is or will be built from a regular levy for a certain period of time ranging from four to eight successive years, depending on the expected percent decrease in energy consumption as a result of an eligible retrofit project compared to the average yearly consumption predicted by an energy model;
- exempt a newly constructed multiple family building and the land upon which it is or will be built from a regular levy for four successive years if the new construction meets requirements for green building certification and if at least 10 percent of total housing units are sold or rented as affordable housing; and
- exempt a newly constructed multiple family building and the land upon which it is or will be built from a regular levy for eight successive years if the new construction qualifies as a net-zero energy building and if at least 10 percent of total housing units are sold or rented as affordable housing.

A taxpayer who owns a preexisting multiple family building and receives an exemption for an eligible retrofit project under the pilot program qualifies for four additional years of tax exemption status if the taxpayer rents or sells at least 20 percent of total housing units as affordable housing during the entire tax-exempt period.

A taxpayer may not claim a tax exemption under the pilot program while they are claiming the sales tax exemption under or participating in the Washington Weatherization Program.

Annual Surveys.

A taxpayer who receives a tax exemption under the pilot program must file the following information with the city or county on April 1 of each year beginning after the first 12 months of exemption:

- the monthly energy consumption and cost during the previous 12 months;
- a statement of the rehabilitation or construction expenditures associated with the eligible retrofit project or new construction;
- a description of changes or improvements associated with the eligible retrofit project or new construction made since the granting of exemption;
- if applicable, a statement that the building meets affordable housing requirements under the pilot program; and
- any additional information required by the city or county.

All cities or counties participating in the pilot program must submit an annual report to the Department of Commerce (Commerce) by December 31 of each year.

<u>Department of Commerce</u>.

Commerce must create a list of approved energy modeling techniques to be used to determine projected reductions in energy consumption under the pilot program. The list must include at least three recognized energy modeling techniques and must include techniques that are applicable to single-family and multiple-family buildings. Commerce must also create a list of approved third-party green building certifications for newly constructed multiple family buildings used to determine eligibility under the pilot program.

By December 31, 2019, Commerce must submit to the Legislature a report on the pilot program.

<u>Tax Preference Performance Statement</u>.

The Legislature intends to extend the expiration date of the tax preference created by the pilot program if the Joint Legislative Audit and Review Committee finds that:

- participating jurisdictions are increasing the number of energy efficiency retrofits occurring in target communities;
- energy efficiency retrofits are meeting the modeled energy savings; and
- the energy savings from the retrofits is contributing to overall utility cost savings.

<u>Definitions</u>.

Definitions applicable to the pilot program are established.

"Eligible retrofit project" means an installation or modification to a preexisting structure that is designed to reduce energy consumption.

"Eligible structure" means a building in which an eligible retrofit project is undertaken or a building that is newly constructed and located in a participating city or county.

"Eligible new construction" means construction of a residential building that is not otherwise defined in the State Building Code as an addition, alteration, or repair.

"Net-zero energy building" means a building with net energy consumption of zero over a typical year as determined by Commerce.

"Taxpayer" means a low or moderate-income owner of a single-family residence, or an owner of a multiple family building.

Substitute Bill Compared to Original Bill:

The substitute bill:
- removes the requirement in the tax preference performance statement that a review find, in order to extend the tax preference date, that energy efficiency retrofits under the pilot program are meeting the modeled energy savings within a 5 percent margin of error;
- amends the definition of "new construction" proposed in the underlying bill;
- clarifies what type of property is eligible for property tax exemption under the pilot program;
- changes the point of comparison for energy savings modeled from an eligible structure's energy consumption in the previous calendar year to the average yearly consumption predicted by an energy model before implementation of the eligible retrofit project;
- authorizes a participating local jurisdiction to implement a cap or limit to the number or total dollar amount of exemptions granted under the pilot program; and
- limits the types of cities or counties that can participate in a residential energy efficiency incentive pilot program to those that are participating in national competitions targeting energy savings, are implementing Climate Action Plans, or have established long term conservation goals.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Cities need levers they can pull to expedite energy efficiency improvements in the residential housing sector. This bill would serve as a significant motivator for qualifying homeowners to implement energy retrofit projects, and would indicate to contractors to invest in growth in their companies. Any financial incentive that homeowners can take advantage of that makes energy efficiency improvements more attractive has an economic multiplier effect on the surrounding community. The bill attempts to close the split incentive for energy efficiency investments between multi-family building property owners, who pay for those investments, and their tenants, who see the benefit in the form of lower electricity bills.

(Opposed) None.

Persons Testifying: Representative Morris, prime sponsor; Gary Wood, Applied Home Performance; Corey Fitch, Neil Kelly Company; Marco Mazzoni, Northwest Home Comfort; Graydon Manning, Net-Zero Consulting; J.J. McCoy, Northwest Energy Coalition; and Jessie Turner, Cascadia Law Group.

Persons Signed In To Testify But Not Testifying: None.