

# SENATE BILL REPORT

## HB 1052

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As of February 14, 2024

**Title:** An act relating to providing a property tax exemption for qualified real and personal property owned or used by a nonprofit entity in providing qualified housing funded in whole or part through a local real estate excise tax.

**Brief Description:** Providing a property tax exemption for qualified real and personal property owned or used by a nonprofit entity in providing qualified housing funded in whole or part through a local real estate excise tax.

**Sponsors:** Representatives Ramel, Lekanoff, Bateman, Reed, Pollet, Walen, Doglio and Kloba.

**Brief History:** Passed House: 2/12/24, 71-26.

**Committee Activity:** Housing: 3/15/23, 3/22/23 [DP-WM]; 2/14/24.

### Brief Summary of Bill

- Expands the property tax exemption for nonprofit organizations providing rental housing or mobile home park spaces to qualifying households to those nonprofit organizations financed by the local real estate excise tax for affordable housing.

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## SENATE COMMITTEE ON HOUSING

**Staff:** Samantha Doyle (786-7335)

**Background:** Property Tax—Revenue Limits. All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue is limited as follows:

- for jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent; and
- for jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent plus the value of new construction.

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

The Washington Constitution provides for a levy rate limit of \$10 per \$1,000 of assessed value (AV), sometimes referred to as the constitutional \$10 limit, or the constitutional 1 percent limit. There are 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 AV;
- county general levies are limited to \$1.80 per \$1,000 of AV;
- county road levies are limited to \$2.25 per \$1,000 of AV; and
- city levies are limited to \$3.375 per \$1,000 of AV.

For property tax purposes, the state, counties, and cities are collectively referred to as senior taxing districts. Junior taxing districts—a term that includes fire, hospital, flood control zone, and most other special purpose districts—each have specific rate limits as well.

Property Tax Exemption for Nonprofit Organizations Providing Rental Housing or Mobile Home Park Spaces to Qualifying Households. Property tax exemptions are available to qualifying organizations, including schools, churches, nonprofit hospitals, nursing homes, museums, public meeting halls, and others.

Property owned or used by a nonprofit to provide rental housing for qualifying households or to provide space for the placement of a mobile home in a mobile home park is exempt from property taxation if:

- the benefit of the property tax exemption inures to the nonprofit;
- at least 75 percent of the occupied dwelling units are occupied by a qualifying household; and
- the rental housing or lots were insured, financed, or assisted in whole or in part by:
  1. a federal or state housing program administered by the department of commerce;
  2. a federal housing program administered by a city or county government;
  3. an affordable housing levy authorized by a declaration of emergency;
  4. document recording or homeless housing and assistance surcharges; or
  5. funding from the Washington state housing finance commission.

If less than 75 percent of dwelling units are occupied by qualifying households, the property is eligible for a partial tax exemption. The amount of the exemption is equal to the assessed value of the property reasonably necessary to provide the housing multiplied by the percentage of units occupied by a qualifying household.

A qualifying household is defined as a single person, family, or unrelated persons living together whose income is at or below 60 percent of the median county income, adjusted for family size, as determined by the federal Department of Housing and Urban Development.

Real Estate Excise Tax. Real Estate Excise Tax (REET) applies to real estate transactions including the sale of property and the transfer of controlling interest in property. The rate

applies to the selling price and is usually paid for by the seller. The REET is due and payable to the county treasurer in which the property is located on the date of the sale.

Prior to 2020, the state REET rate was a flat rate of 1.28 percent. Since January 1, 2020, four graduated rates of 1.1 percent, 1.28 percent, 2.75 percent, and 3 percent have applied based on the selling price of the property.

In addition to the state rate, local governments are authorized to impose a local REET. The two main local REET options are:

- REET 1—a local government may levy a 0.25 percent REET. The revenues from REET 1 are primarily to be used for capital projects and limited maintenance; and
- REET 2—an additional 0.25 percent REET may be imposed by cities and counties fully planning under the Growth Management Act.

There are also several other local REET options for local governments:

- a local government not levying the optional 0.5 percent sales tax may levy an additional local REET of up to 0.5 percent;
- a county may impose an additional local REET of up to 1 percent for the acquisition and maintenance of conservation areas; and
- a county that imposed the full 1 percent for conservation areas prior to January 1, 2003, may also impose a local REET of up to 0.5 percent for affordable housing.

**Summary of Bill:** The property tax exemption for real and personal property owned or used by a nonprofit entity providing rental housing for qualifying households or used to provide space for the placement of a mobile home is expanded to include an additional qualified funding source. Rental housing or lots in a mobile home park that were insured, financed, or assisted in whole or in part through the local option REET for affordable housing is exempt from property taxes.

This act is not subject to the requirements of a tax preference performance statement, a Joint Legislative Audit and Review Committee review, and the automatic ten-year expiration.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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

**Staff Summary of Public Testimony (Housing) (Regular Session 2023):** PRO: This is a little bill that affects only one county, but it will be an important tool in the tool box for those helping address the housing crisis in San Juan County. There is already a state law a property tax incentive for housing providers who provide affordable housing. If you are

using one of several funding sources already authorized in state law, then you can also qualify for this additional tax incentive. San Juan County has a real estate excise tax that only they are authorized to implement. All the bill is doing is allowing providers in San Juan County to qualify for the incentive if they have a local funding source that is a housing property tax levy. This bill does not authorize a new real estate excise tax or any other tax. It just says if this incentive already exists, then you should be able to qualify for the same program as your peers in other counties.

**Persons Testifying (Housing):** PRO: Representative Alex Ramel, Prime Sponsor.

**Persons Signed In To Testify But Not Testifying (Housing):** No one.

**Staff Summary of Public Testimony (Ways & Means) (Regular Session 2023):** PRO: The bill provides that qualified housing projects funded through a local real estate excise tax would be eligible for the property tax exemption. There is no state or federal funds involved for properties eligible for the exemption and it would help to reduce overall operating costs.

**Persons Testifying (Ways & Means):** PRO: Minor Lile, OPAL Community Land Trust.

**Persons Signed In To Testify But Not Testifying (Ways & Means):** No one.