

# HOUSE BILL REPORT

## 2ESB 5872

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### As Reported by House Committee On:

Finance

**Title:** An act relating to the property tax exemption for new or rehabilitated multiple-unit dwellings.

**Brief Description:** Modifying the multiple-unit property tax exemption.

**Sponsors:** Senators Prentice, Kohl-Welles, Kline and Fairley.

### Brief History:

#### Committee Activity:

Finance: 2/20/02, 3/4/02 [DPA].

#### Brief Summary of Second Engrossed Bill (As Amended by House Committee)

- Reduces the minimum city population cap from 50,000 to 30,000 for the multifamily housing property tax exemption program.
- Counts the cost of the rehabilitation or construction as new construction when calculating the maximum district property tax amount when the property is no longer exempt.
- Allows cities to limit the tax exemption to individual dwelling units that meet the city guidelines for program participation.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass as amended. Signed by 11 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Morris, Nixon, Orcutt, Roach, Santos, Van Loven and Veloria.

**Staff:** Rick Peterson (786-7150).

### Background:

New, rehabilitated, or converted multifamily housing projects in targeted residential areas are eligible for a 10-year property tax exemption program. The program's purpose is to

increase multifamily housing in urban centers.

The property tax exemption applies to the new housing construction and the increased value of the building due to rehabilitation made after the application for the tax exemption. The exemption does not apply to the land or the non-housing related improvements. If the property is removed from multifamily housing use before 10 years, then back taxes are recovered based on the difference between the taxes paid and taxes that would have been paid had the property not been put to multifamily use.

The property tax exemption program is limited to cities with a population of at least 50,000 and to the largest city or town within a county planning under the Growth Management Act. A targeted residential area must be located within an urban center, lack sufficient available, desirable, and convenient residential housing to meet public demand, and increase permanent residents in the area or achieve the planning goals of the Growth Management Act. The city is authorized to establish standards and guidelines for approving tax exemption applications by developers.

Taxing district property tax amounts that are imposed within the constitutional 1 percent rate limit are constrained by a limit on annual increases. Generally, these taxing districts may not increase the property tax amount by more than 1 percent without a public vote. However, the district may also increase the property tax amount by the value of new construction in the district multiplied by the preceding year's property tax rate.

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### **Summary of Amended Bill:**

The minimum population cap is reduced from 50,000 to 30,000 for the multifamily housing property tax exemption program.

When the property is no longer exempt, the cost of the rehabilitation or construction will be counted as new construction when calculating the maximum district property tax amount.

Cities may limit the tax exemption to individual dwelling units that meet the city guidelines for the program when these parcels are separate for purpose of property taxation.

### **Amended Bill Compared to Original Bill:**

The amended bill reduces the minimum city population cap from 50,000 to 30,000 and allows the cost of the rehabilitation or construction to be counted as new construction when the property finishes the 10-year exemption period or when the property is disqualified for exemption before the end of the 10-year exemption period.

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**Appropriation:** None.

**Fiscal Note:** Requested on Amended bill March 5, 2002.

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

**Testimony For:** This bill will have a positive effect on housing affordability. This bill is similar to SHB 2466. The bill should be amended to make it identical to SHB 2466.

**Testimony Against:** None.

**Testified:** Randy Lewis, city of Tacoma; and Bob Mitchell, Washington Association of Realtors and Washington Commercial Association of Realtors.