

# HOUSE BILL REPORT

## E2SHB 1910

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### As Amended by the Senate

**Title:** An act relating to tax incentives for certain multiple-unit dwellings in urban centers that provide affordable housing.

**Brief Description:** Modifying property tax exemption provisions relating to new and rehabilitated multiple-unit dwellings in urban centers to provide affordable housing requirements.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives Ormsby, Fromhold, Miloscia, Dunshee, Kenney, Appleton, Darneille, Hasegawa and Morrell).

#### **Brief History:**

##### **Committee Activity:**

Housing: 2/5/07, 2/26/07 [DPS];

Finance: 3/5/07 [DP2S(w/o sub HOUS)].

##### **Floor Activity:**

Passed House: 3/13/07, 61-35.

Senate Amended.

Passed Senate: 4/9/07, 41-2.

#### **Brief Summary of Engrossed Second Substitute Bill**

- Lowers the population requirement for a city to be eligible to offer property tax exemptions for certain multi-unit housing projects to 15,000 people.
- Mandates that cities which issue property tax exemptions for multi-unit housing projects adopt and implement affordable housing requirements.
- Mandates that cities which issue property tax exemptions for multi-unit housing projects report data annually to the Department of Community, Trade and Economic Development.
- Mandates that cities which issue property tax exemptions for multi-unit housing projects and which annually receive over \$500,000 in housing-related state funds apply to the Washington State Quality Award program.

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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 a part of the legislation nor does it constitute a statement of legislative intent.*

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## HOUSE COMMITTEE ON HOUSING

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 4 members: Representatives Miloscia, Chair; Springer, Vice Chair; Kelley and Ormsby.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Dunn, Ranking Minority Member; McCune and Schindler.

**Staff:** Robyn Dupuis (786-7166).

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Housing. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, McIntire and Santos.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member and Roach.

**Staff:** Mark Matteson (786-7145).

### **Background:**

New, rehabilitated, or converted multi-unit housing projects in targeted residential areas are eligible for a 10-year property tax exemption offered by eligible and participating cities. The property tax exemption may be applied to new housing construction and to the increased value of a building due to rehabilitation. The exemption does not apply to the land or the non-housing improvements. If the property changes use before the 10 year exemption ends, then back taxes are recovered based on the difference between the taxes paid and the taxes that would have been paid without the tax exemption.

Cities with a population of at least 30,000 or the largest city or town in a county planning under the Growth Management Act (GMA) may offer the multi-unit housing property tax exemption.

There are a variety of requirements all multi-unit housing projects must meet to be eligible for a tax exemption, including:

- the housing must be located in a residential targeted area as designated by the city;
- 50 percent of the space must be for permanent residential occupancy;
- new construction must be completed within three years of approval of the application;
- property to be rehabilitated must be vacant at least 12 months prior to application;
- the applicant must enter into a contract with the city and agree to terms and conditions; and

- the housing must meet additional guidelines adopted by the city which may include density, size, parking, low-income occupancy, and others.

Fifty cities qualify to utilize the tax exemption program. Sixteen cities have utilized the program. Two cities (Seattle and Kirkland) include affordable housing requirements for multi-unit housing projects.

### **Summary of Engrossed Second Substitute Bill:**

Cities eligible to offer the multi-unit housing property tax exemption are those with a population of at least 15,000 people, or the largest city or town located in a county planning under the GMA.

### **Housing Affordability Component**

Cities must adopt and implement an affordable housing requirement for properties applying for property tax exemptions. The requirement must provide for mixed-income housing affordable to low and moderate income households. For projects which are exclusively homeownership, however, cities need only require that the project provide for housing affordable to moderate-income households. Low-income households are defined as those making at or below 80 percent of the area median income. Moderate-income households are defined as those making at or below 115 percent of the area median income. Income level thresholds are increased to 100 percent and 150 percent respectively for high-cost areas which are defined as counties where the third quarter median house price for the previous year is greater than 130 percent of the statewide median house price. The affordable housing requirement must be implemented by December 1, 2007.

A city governing authority must consider a variety of methods in the development of its affordable housing requirement and must consider potential requirement components including standards related to the comparative quality of affordable and non-affordable units and, if a financial contribution is allowed in lieu of the physical creation of affordable housing units, an appropriate calculation formula for the determination of such a contribution.

Properties receiving a tax exemption must report to the city annually on data including the total number of units produced, the total development cost of each unit, the monthly rental or sale amount of each unit, the income of each renter at occupancy, and the first homeowner of any unit sold.

Owners of properties applying for a tax exemption under this chapter after the effective date of this act must comply with city affordable housing requirements except in the case of such applications which are approved before November 30, 2007.

### **Tax Exemptions for Individual Dwelling Units**

At the discretion of the local government, the exemption of individual dwelling units is allowed. In such cases, the tax exemption would be limited to the value of the qualifying improvements within those individual dwelling units.

### **City Reporting Requirements**

Beginning in 2007, all cities issuing tax exemptions must report annually to the Department of Community, Trade and Economic Development (DCTED) regarding tax exempt properties. The annual report must include the following:

- the total number of tax exemptions granted and the total value of those exemptions;
- the total number of units produced and the total development cost of each unit;
- the total monthly rent of each unit or the total sale price of each unit; and
- the income of each renter at occupancy of a rental unit, and the income of each initial purchaser of a homeownership unit.

All cities issuing tax exemptions, and receiving over \$500,000 in housing-related state monies and financing through the Washington State Housing Finance Commission and specific local housing related surcharges, must apply to the Washington State Quality Award program once every three years beginning January 1, 2010.

The DCTED may also establish performance measures on which the cities must report.

**EFFECT OF SENATE AMENDMENT(S):**

Removes the requirement that cities establish their own affordable housing policies for their tax exemption program. Lowers the number of years cities may grant the tax exemptions from 10 to 8, unless a developer agrees to rent or sell at least 20 percent of units as affordable housing units in which case a city may grant a 12 year tax exemption. Cities may impose stricter affordable housing requirements. The definition of city is expanded to include cities with a population of 5,000 people in "buildable lands" counties (subject to RCW 36.70A.215). Removes the requirement that developers report to cities with project information, however, cities are still required to report annually to the DCTED on project information. Removes the requirement that cities utilizing the tax exemption program apply to the Washington State Quality Award program. Adds an emergency clause.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:** (Housing)

(In support of original bill) This bill is about helping lower and middle income individuals and families live closer to their places of work and also about increasing density in our cities. If the state is providing a tax exemption there should be some sort of affordable housing component to the requirements of participation in the program.

(Opposed to original bill) The multi-unit tax exemption program is a tool given to the cities to help them achieve their GMA goals. The program is working well now to promote in-fill and increase density. Imposing strict affordable housing restrictions might cripple the program. Although some areas of some cities have really been successful in implementing the program,

there is much work to be done in other areas of cities where development has not caught on. Furthermore, only 16 of the 50 cities eligible have even used the program so far.

**Staff Summary of Public Testimony:** (Finance)

(In support) This is designed to incent urban density. Since 1995, there has been a growing disparity between the market value of housing and incomes. This is an attempt to allow cities to address affordable housing concerns.

For the 10 year exemption program, there is no public benefit currently coming back to the community. This would provide documentation and reporting. Million-dollar condos would not get this exemption without giving something back to the community, while allowing flexibility in administration.

(In support with amendments) The City of Tacoma supports the bill as amended in committee. The bill has improved since being introduced. The current program is a very valuable tool in redeveloping the downtown area.

(With concerns) While the bill has been improved, it seems like there are more incentive-based ways to incorporate affordable housing into the exemption program. This has been one of the best growth-management tools to bring density to urban areas. We want to make sure that the builders come and build housing where there would not be any otherwise.

(Opposed) The types of housing that are benefitting from this program are units ranging from \$325,000 to \$500,000. The program exempts not only city taxes, but county and state taxes as well. The county does not have any say currently. We supported the bill as introduced with a 20 percent requirement for affordable units - a small requirement when the luxury units can sell for half a million dollars. In addition, we feel that the threshold should not be expanded to allow smaller cities into the program until the data from the new reporting requirements has been collected and analyzed.

**Persons Testifying:** (Housing) (In support of original bill) Representative Ormsby, prime sponsor; and Nick Federici, Washington Low Income Housing Alliance.

(Opposed to original bill) Randall Lewis, City of Tacoma; Doug Levy, Cities of Everett, Kent, Renton, Federal Way and Puyallup; Robert Carleton, Washington Association of County Assessors; and Bill Riley, Washington Association of Realtors.

**Persons Testifying:** (Finance) (In support) Representative Ormsby, prime sponsor; and Nick Federici, Washington Low-Income Housing Alliance.

(In support with amendments) Randall Lewis, City of Tacoma.

(With concerns) Doug Levy, Cities of Everett, Kent, Federal Way, Puyallup, and Renton.

(Opposed) Julie Murray, Washington State Association of Counties.

**Persons Signed In To Testify But Not Testifying:** (Housing) None.

**Persons Signed In To Testify But Not Testifying:** (Finance) None.