SENATE BILL REPORT
E2SHB 1910

As Reported By Senate Committee On:
Consumer Protection & Housing, March 29, 2007
Ways & Means, April 2, 2007

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

Brief History: Passed House: 3/13/07, 61-35.
Committee Activity: Consumer Protection & Housing: 3/20/07, 3/29/07 [DPA-WM].
Ways & Means: 4/02/07 [DPA, DNP, w/oRec].

SENATE COMMITTEE ON CONSUMER PROTECTION & HOUSING

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Weinstein, Chair; Kauffman, Vice Chair; Honeyford, Ranking Minority Member; Delvin, Haugen, Jacobsen, Kilmer, McCaslin and Tom.

Staff: Alison Mendiola (786-7483)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.
Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Hatfield, Hobbs, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Rockefeller, Schoesler and Tom.

Minority Report: Do not pass.
Signed by Senators Brandland and Honeyford.

Minority Report: That it be referred without recommendation.
Signed by Senators Carrell, Fairley and Roach.

Staff: Dean Carlson (786-7305)

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.

Background: Currently, new, rehabilitated or converted multifamily housing projects in targeted residential areas are eligible for a ten-year property tax exemption program. The property tax exemption may be applied to new housing construction and the increased value of a building due to rehabilitation. The exemption does not apply to the land or the non-housing related improvements. If the property changes use before ten years and no longer complies with guidelines established by the city for participation in the tax exemption program, then back taxes are recovered based on the difference between the taxes paid and taxes that would have been paid without the tax exemption program.

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) are eligible to participate in this tax exemption program.

There are a variety of requirements all projects must meet: (1) the multiple-unit housing must be located in a residential targeted area as designated by the city; (2) the housing must meet the guidelines as adopted by the city which may include density, size, parking, low-income occupancy and other adopted requirements; (3) 50 percent of the space must be for permanent residential occupancy; (4) new construction must be completed within three years of the application's approval; (5) property to be rehabilitated must be vacant at least 12 months prior to application; and (6) the applicant must enter into a contract with the city to agree to terms and conditions.

Currently, 50 cities qualify to utilize the tax exemption program. Of these, 16 cities have utilized the program and two cities (Seattle and Kirkland) include affordable housing requirements.

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.

<u>Housing Affordability Component:</u> 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 (CTED) 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 and the total development cost of each unit;
- 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 CTED may also establish performance measures on which the cities must report.

EFFECT OF CHANGES MADE BY RECOMMENDED AMENDMENT(S) AS PASSED COMMITTEE (Consumer Protection & Housing): The following changes are made: (1) the current ten-year tax exemption is lowered to eight years, but extended to 12 years if the developer chooses to build, develop, or rehabilitate at least 20 percent of the units as affordable housing; (2) cities providing this exemption must report to the CTED annually; and (3) the city population threshold to qualify for the tax exemption is lowered from 30,000 to cities with a population of 15,000 or more in counties planning under the GMA, and lowered to 5,000 in buildable lands counties (King, Pierce, Snohomish, Kitsap, Thurston, and Clark).

EFFECT OF CHANGES MADE BY RECOMMENDED AMENDMENT(S) AS PASSED COMMITTEE (Ways & Means): An emergency clause was added making the bill effective immediately. A technical correction was made.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony (Consumer Protection & Housing): PRO: This tax exemption was originally introduced in 1995 in reaction to the density requirement in the GMA. This bill has been worked on by all stakeholders. However, there are too many reporting requirements and that should be modified, although some reporting is good so we know what all the cities are doing. It makes sense to add on an affordable housing requirement since many high end units are being built under this exemption and that may not have been the original intent of the exemption and public resources are being used to provide this exemption.

CON: This exemption exempts county tax without letting counties participate. The affordable housing requirement should be added back in.

OTHER: Requiring the affordable housing exemption and more stringent reporting by the developers (as opposed to the cities) may cause many developers to not bother with the exemption; also, a two-tiered incentivized affordable housing option seems like a good compromise. The city threshold should be lowered to cities with a population of 5,000 or more.

Persons Testifying (Consumer Protection & Housing): PRO: Representative Ormsby, prime sponsor; Randal Lewis, City of Tacoma; Kim Herman, Washington State Housing Finance Commission.

CON: Julie Murray, Washington State Association of Counties.

OTHER: Doug Levy, Cities of Kent, Renton, Puyallup, Federal Way, and Everett; Bob Mitchell, Washington Realtors; Jim Justin, Association of Washington Cities.

Staff Summary of Public Testimony (Ways & Means): PRO: This is a well worked compromised bill. This program has helped deteriorating areas. It provides a strong incentive to create affordable housing within the property tax exemption. This should have a minimal fiscal impact. Our association has long championed affordable housing. The association of realtor supports this bill.

CON: This program allows the exemption of state and county property taxes without any input from the state or counties. This bill does not require affordable housing. The program is beneficial for essentially luxury housing. It is essentially empty nesters buying these. It is a shift from these people to the remainder of the population. The good part of this bill is the reporting requirements for the program.

Persons Testifying (Ways & Means): PRO: Kim Herman, Housing Finance Commission; Mark Williams, Washington Commercial Realtors.

CON: Julie Murray, Washington State Association of Counties.