SENATE BILL REPORT
SB 5404

As Reported By Senate Committee On:
Consumer Protection & Housing, February 1, 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: Senators Jacobsen, Haugen, McCaslin, Kline, Weinstein and Kohl-Welles.

Brief History:
Committee Activity: Consumer Protection & Housing: 1/26/07, 2/01/07 [DPS, DNP].

SENATE COMMITTEE ON CONSUMER PROTECTION & HOUSING

Majority Report: That the Substitute Senate Bill No. 5404 be substituted therefor, and the substitute bill do pass.
Signed by Senators Weinstein, Chair; Kauffman, Vice Chair; Jacobsen, Kilmer and McCaslin.

Minority Report: Do not pass.
Signed by Senators Honeyford, Ranking Minority Member; Delvin and Tom.

Staff: Alison Mendiola (786-7483)

Background: Currently, new, rehabilitated or converted multifamily housing projects in targeted residential areas are eligible for a 10-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 10 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.

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.

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) fifty 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 Bill: A housing affordability requirement is added to the tax exemption program.
For rental developments, a minimum of 20 percent of the units must be reserved for households whose adjusted income is less than 60 percent of the median family income, adjusted for family size, for the county where the housing is located.

For home ownership development, a minimum of 20 percent of the units must be sold to households whose adjusted income is less than 80 percent of the median family , adjusted for family size, for the county where the housing is located. If the home is resold within the 10 year tax exemption period, the home is to be resold to other eligible low-income households or a penalty will be assessed.

The population requirement for the tax exemption program is lowered from cities with a population of 30,000 people to 15,000 people, allowing 20 additional communities to utilize the tax exemption.

Annually, the Department of Community, Trade, and Economic Development (CTED) is to provide each eligible city maximum rental costs for which affordable rental housing may be rented and maximum sales prices for which units must be sold in order to be in compliance with the definition of affordable housing. Cities must report to CTED regarding their use of the program.

EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Consumer Protection & Housing): Affordable housing means housing that does not exceed thirty percent of a household's income, including utilities other than phone, which eliminates the need for CTED to provide cities with maximum rental costs and sales prices for affordable housing units under this tax exemption.

The term "affordable workforce housing" is added and defined as housing for employed low and moderate-income persons, whose adjusted household income is greater than 60 percent but less than 120 percent of the median family income, for the county where the project is located.

"High cost area" means a county where the fourth quarter median house price is equal to or greater than 130 percent of the statewide median house price average.

Rental units in high cost areas may be rented to households whose income is less than 100 percent of median family income for that county, and owner occupied unit may be sold to household who earn up to 150 percent of the area median family income.

Cities may enter into an agreement with the owner of a property seeking the tax exemption, where the owner agrees to provide an equivalent number of comparable low-income qualified affordable rental or owner occupancy units in a location other than the specific project seeking the tax exemption, within a specified time not to exceed five years, with the same residential targeted area or another designated area established by a city.

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: PRO: This tax exemption program originated in the mid-1990s to solve problems of urban blight and to incentivize private development. It's a good program but there is a need for workforce housing so people with more modest incomes can live where they work. The housing developed under this program so far have priced out this population. Also, we need to use the standard 30 percent of income definition of what is affordable housing instead of having CTED come up with the numbers. Also, the limits need to be set higher in places like Seattle where the housing costs are much higher. The state should focus its scarce resources on providing housing for those who need the most help, the low-income.

CON: The program is working as it is because it creates housing inside the urban growth areas. The program was really designed to help cities implement the Growth Management Act. Adding the affordable housing component will make the program a harder sell for developers to pencil it out. Some cities don't need affordable housing, they need market rate housing. Also, the cities threshold should be dropped from 15,000 (as proposed) to 5,000. This would make another 50 cities eligible. This exemption exempts a development from city, county and state taxes but the counties aren't able to participate. There are unincorporated areas larger than 5,000 or 15,000 people. Either the counties should be able to control whether their taxes are waived or they should be able to participate.

Persons Testifying: PRO: Kim Herman, Washington State Housing Finance Commission; and Nick Federici, Washington Low-Income Housing Alliance.

CON: Bill Rieley, Washington Realtors; Randall Lewis, City of Tacoma; Jim Justin, Association of Washington Cities; and Julie Murray, Washington State Association of Counties.