Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

2SSB 6330

Brief Description: Promoting affordable housing in unincorporated areas of rural counties within urban growth areas.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senator Sheldon).

Brief Summary of Second Substitute Bill

- Allows rural counties to offer a property tax exemption for multi-family housing projects within unincorporated urban growth areas.
- Requires the Joint Legislative Audit and Review Committee to assess the performance of the tax preference with reference to the intent and public policy objective.

Hearing Date: 2/25/14

Staff: Richelle Geiger (786-7175).

Background:

Property Tax Exemption - Residential Targeted Areas.
All real and personal property is subject to property tax unless specifically exempted by law. The property tax is assessed on the value of the property.

The Legislature has exempted taxes on the construction, conversion, and rehabilitation of multi-unit residential housing projects in urban centers. The tax exemption applies only to the value of the construction or rehabilitation projects and does not exempt the value of the underlying property or other improvements on the property.

The tax exemption on qualifying property lasts for eight consecutive years. However, the exemption is extended to a 12-year period if the owner commits to renting or selling at least 20 percent of multi-family housing units as affordable housing to low and moderate-income households.

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.

To qualify for an exemption, the housing project must be located within a residential targeted area (RTA) designated by a qualifying county or city. The RTA must be in an urban center that lacks sufficient residential housing, including affordable housing, to meet the needs of the public who would likely live in the urban center if housing were available.

Cities with a population of 15,000 or more may use the RTA tax exemption. Certain smaller cities are also eligible. In 2012 the Legislature included counties with an unincorporated population over 350,000 to be eligible to use the RTA tax exemption. The county-designated RTA must be in an unincorporated area of the county that includes a college campus where at least 1,200 students live.

Property owners within a designated RTA must submit an application for the tax exemption to the designating city or county. The city or county may include additional eligibility requirements for the tax exemption, including a higher percentage of units used for affordable housing to qualify for the 12-year exemption. Counties eligible to apply the tax exemption must require owners to commit to selling or renting at least 20 percent of the multi-family housing units for affordable housing in order to qualify for either the eight or 12-year exemption.

For the purpose of the RTA tax exemption, affordable housing is housing for low-to-moderate income households that does not exceed one-third of the household's monthly income. Low-income households must have an income that is no more than 80 percent of the median income of their county. Moderate-income households must have an income between 80 and 115 percent of the median income of their county.

<u>Urban Growth Areas</u>.
The Growth Management Act (GMA) provides a comprehensive land use planning framework for certain counties and cities within the state. Each governing body planning under the GMA must adopt a comprehensive plan as the coordinated land use policy of the jurisdiction.

A county's comprehensive plan must include the designation of urban growth areas where certain kinds of intensive land use and development are encouraged. Urban growth areas include each city within the county and also may include unincorporated areas that are already characterized by urban growth.

<u>Tax Preferences</u>.
In 2013 the Legislature passed Chapter 13, 2013 Laws 2nd sp. s (ESSB 5882), which requires all new tax preference legislation to include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objective of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

Engrossed Substitute Senate Bill 5882 also establishes an automatic 10-year expiration date for new tax preferences if an alternative expiration date is not provided in the new tax preference legislation.

Summary of Bill:

The multifamily housing property tax exemption is made available in urban growth areas located in unincorporated areas of rural counties that have only one incorporated city and a sewer system.

The bill's tax preference performance statement specifies that the public policy objective is to stimulate the construction of new multifamily housing in urban growth areas located in unincorporated areas of rural counties where housing options, including affordable housing options, are severely limited. The tax preference performance statement requires JLARC to use data provided by counties in which beneficiaries are utilizing the preference, the Office of Financial Management, the Department of Commerce and the United States Department of Housing and Urban Development to analyze the demography of the occupants inhabiting the multifamily housing benefiting from the tax preference.

Appropriation: None.

Fiscal Note: Available.

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