

# HOUSE BILL REPORT

## HB 2544

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**As Reported by House Committee On:**  
Community Development, Housing & Tribal Affairs

**Title:** An act relating to providing local governments with options to preserve affordable housing in their communities.

**Brief Description:** Authorizing local governments to adopt a property tax exemption program for the preservation of certain affordable housing.

**Sponsors:** Representatives Frame, Ryu, Robinson, Appleton, Fitzgibbon, Stokesbary, Wylie, McBride, Gregerson, Sells, Tarleton, Pollet, Bergquist and Stanford.

**Brief History:**

**Committee Activity:**

Community Development, Housing & Tribal Affairs: 1/19/16, 2/2/16 [DPS].

**Brief Summary of Substitute Bill**

- Allows a county or city to apply a local property tax exemption for multifamily properties that provide a percentage of affordable housing to very low income families.

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### HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Ryu, Chair; Robinson, Vice Chair; Zeiger, Assistant Ranking Minority Member; Appleton, Hickel and Sawyer.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Wilson, Ranking Minority Member.

**Staff:** Sean Flynn (786-7124).

**Background:**

State Property Taxation.

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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.*

All real and personal property in the state is subject to a state property tax, unless specifically exempted under law. The state Constitution specifically exempts all government owned property from taxation. The Legislature may create tax exemptions for other property as well.

The state Constitution requires all taxes to be applied uniformly on property within each taxing district. Property taxes are based on the assessed fair market value of the property. Regular property tax levies are limited to a maximum of 1 percent of a property's assessed value. This applies collectively to the total taxes levied by the state and local governments. The Legislature has established individual and aggregate limits for the various tax districts. The state levy takes precedence over all other levies.

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### **Summary of Substitute Bill:**

#### Affordable Housing Property Tax Exemption.

A city or county may create a property tax exemption program to promote the preservation of affordable housing available for very low-income households. The exemption may apply to local property taxes, but does not apply to the state tax portion. A tax exemption applied by a city may not exempt the county property tax portion without the county's permission. The tax exemption applies for up to 15 consecutive years, but may be extended for an additional three years if the project meets certain energy standards.

*Eligibility.* The exemption applies to certain multifamily properties if at least 25 percent of its units are rented at rates that are affordable to households with an income up to 50 percent of the median family income of the area. The threshold household income level may be lowered to serve severely low-income households, or raised up to 60 percent of the median family income in high property value areas. The affordability and occupancy requirements may be waived for up to three years for an incidental number of units occupied by over-income tenants at the time of the application. The rent levels for eligible housing must not exceed 30 percent of the qualifying tenant's income.

The multifamily property must be part of a residential or mixed-use project and have a 90 percent occupancy rate. It must provide at least half of its space for permanent residents. It also must comply with applicable land use, zoning, and building regulations and meet any building guidelines required by the city or county. A property owner must contract with the city or county under terms and conditions satisfactory to the city or county.

The city or county may establish its own additional eligibility requirements, including: a limit on the total number of units eligible for the exemption; a designated target area for affordable housing in consideration of community cultural preservation and proximity to community infrastructure; an exemption extension for property meeting energy and water efficiency standards; and program for affordable single-family rental properties.

*Application and Reporting.* A property owner must apply for an exemption on forms adopted by the city or county. The application must provide a description of the property and a certification of the family size and annual income for each designated affordable housing unit. The county or city may charge an application fee to cover administration costs.

A certification of acceptance is issued to the property owner upon approval of an application. A conditional certificate may be issued if approval is conditioned upon completion of a rehabilitation plan. The rehabilitation must be completed within three years of the application. A property owner may appeal the denial of an application.

The property owner must file an annual report in order to maintain the tax exemption. The report must include a certification of family size and income from each tenant living in a designated affordable housing unit. The report also must include occupancy and vacancy rates, rents charged in market-rate units, description of any changes, and a certification that the property has not changed use. Progress on any rehabilitation plan and repair schedule also is required.

Cities and counties must report to the Department of Commerce on any tax exemption certifications it has issued, including the number and types of units meeting the exemption requirements, the monthly rent for each unit, and the value of the tax exemption for each project. A tax exemption may continue upon sale of the property if the new owner applies for an exemption continuance.

*Administration.* A city or county must adopt guidelines to administer the tax exemption program. The guidelines must address application procedures, building requirements, rent levels, health and quality standards, documentation, and inspection policies. The standards may apply to different areas within the city or county and to different kinds of development.

*Compliance.* The exempt property must be inspected upon application and at least once every three subsequent years. The inspection is required to certify compliance with national health and quality standards.

A city or county may waive certain housing quality standards if the property owner submits a rehabilitation plan to address compliance and comply with any national health and quality standards required by the city or county. The waiver is limited to issues that will not endanger or impair the health and safety of any tenant. The inspection is required to grant a waiver upon submission of rehabilitation plan.

*Cancellation.* A tax exemption certificate must be cancelled if the owner fails to meet the affordable housing requirements, or intends to discontinue compliance. A certificate also must be cancelled if the property owner does not file annual reports, fails to complete a rehabilitation plan, or fails to substantially comply with any applicable building, safety, or health regulations. A property owner must be notified of any decision to cancel a tax exemption certificate and the owner has the right to appeal the decision.

**Substitute Bill Compared to Original Bill:**

The substitute bill requires cities to obtain county permission before it may exempt the county property tax. It limits the ability of a city or county to waive health and quality standards for qualifying properties. Additional procedures are included for how the tax exemption certificate may be cancelled. Provisions are included regarding the effect of a transfer of property on the tax exemption. The tax exemptions may be claimed beginning in 2017.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) Real estate investment is positive for the economy but also causes displacement of current residents and increases demand on existing housing stock for low-income families. Affordable housing providers are not able to keep up with increased demand. This problem has grown around the state and is not just a problem in the large urban areas.

This bill is part of a larger affordable housing plan to provide local jurisdictions the opportunity to address affordable housing problems in their communities. The bill will give private landowners an option and incentive to take a tax exemption if they provide affordable housing. It will work in urban or surrounding areas. It also will allow low-income renters to continue to live near services and transportation within their community.

(Opposed) Any property tax exemption provided by a city would decrease the main source of revenue for counties. While the underlying policy for tax exemptions are worthwhile, granting one exemption will lead to more exemptions and further reduction of the tax base.

(Other) The bill should clarify the scope of the exemption from housing code enforcement so that the safety of low income tenants are not put at risk.

**Persons Testifying:** (In support) Representative Frame, prime sponsor; and M. A. Leonard, Enterprise Community Partners; Megan Hyla, King County Housing and Seattle/King County Housing Development Consortium Authority; Robin Koskey, City of Seattle; Edlira Kuka, Vulcan; Bryce Yadon, Futurewise; and Kim Herman, Washington State Housing Finance Commission.

(Opposed) Josh Weiss, Washington Association of Counties; and Monty Cobb, Washington Association of County Officials.

(Other) Michele Thomas, Washington Low Income Housing Alliance.

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