Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Community Development, Housing & Tribal Affairs Committee

HB 2711

Brief Description: Concerning the creation of housing opportunity zones by cities.

Sponsors: Representatives Ryu, Haler and Peterson.

Brief Summary of Bill

- Creates a process for the designation and development of Housing Opportunity Zones (HOZs).
- Exempts certain developments within HOZs from certain development regulations and fees.
- Allows jurisdictions to request reimbursement of development fees and certain other costs from a new account funded with a new document recording surcharge.
- Allows residential development within HOZs to qualify for local multifamily property tax exemptions.

Hearing Date: 1/18/18

Staff: Kirsten Lee (786-7133).

Background:

Regulations and fees for local land development are permitted and some review processes are required in the process of development. A property tax exemption is available for certain types of housing development in urban areas. A homeless housing and assistance surcharge is charged to fund state and local homeless programs.

<u>Development Regulations and Fees</u>.

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.

Local governments engaging in comprehensive planning may enact ordinances and codes to regulate the use of land and zoning certain development and activities. Such regulations generally include the location, construction, and size of buildings for residence, industry, trade, and other purposes; the height, construction, and design of buildings and structures; the size of yards, open spaces, lots, and tracts; the density of population; the set-back of buildings; the subdivision and development of land; and adoption of standard building codes and fire regulations. The State Building Code provides a set of statewide standards and requirements related to building construction.

Local governments are generally prohibited from imposing any tax, fee, or charge on the construction or reconstruction of residential, commercial, or industrial buildings. The prohibition also applies to land development or redevelopment activities. However, there are some exceptions. For example, some jurisdictions are permitted to impose impact fees as a condition on development approval in order to finance public facilities that serve the new development. Additionally, these jurisdictions may implement an affordable housing incentive program that allows local jurisdictions to offer certain development and zoning permit bonuses or waivers to promote the development of affordable housing. Permit fees to cover the local government's costs of processing applications or inspecting and reviewing plans as required under the State Environmental Policy Act (SEPA) are also allowed.

Environmental Review.

The State Environmental Policy Act (SEPA) establishes a review process for state and local governments to identify environmental impacts that may result from governmental decisions, such as the issuance of permits or the adoption of land use plans. The SEPA environmental review process involves an environmental checklist to identify and evaluate probable environmental impacts. Government decisions that are identified as having significant adverse environmental impacts must then prepare an environmental impact statement (EIS). If the SEPA review process identifies significant adverse environmental impacts, mitigation for identified environmental impacts may be required as a condition of a proposal.

Multifamily Property Tax Exemption.

The Multifamily Property Tax Exemption exempts the construction, conversion, and rehabilitation of multi-unit residential housing projects in urban centers from property taxes. 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 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.

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, or urban growth area if designated by a county, 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.

Homeless Housing and Assistance Surcharges.

Both the state and local homeless housing programs receive funding from the homeless housing and assistance surcharge, often referred to as document recording fees, collected by each county auditor when most documents are recorded. The surcharge is $40 per recorded document, but is scheduled to change back to $10 in 2023. An additional homeless housing and assistance surcharge of $8 is also collected by each county auditor.

Summary of Bill:

A voluntary pilot program for local governments is created, providing fee waivers and property tax exemptions for the purpose of development of transit-oriented housing in Housing Opportunity Zones (HOZs).

Housing Opportunity Zones.

To designate a Housing Opportunity Zone (HOZ), a jurisdiction must submit an application to the Department of Commerce (Commerce) and include a map of the parcels of land to be included in the HOZ. The parcels of land included in the HOZ application must be located within one-half linear mile of a transit service stop with fixed station infrastructure, and 90 percent of the total land must be located within that area. The jurisdiction must complete an environmental impact statement for the area prior to submitting its application. Commerce must maintain and update maps of HOZs and areas eligible for designation as HOZs.

The parcels of land in a designated HOZ may be developed for residential use as well as other allowed uses. Cities must have certain minimum buildable heights within HOZs. These heights vary based on the city's population and the parcels' proximity to the transit stop. The parcels in the HOZ are developable to these minimum heights, without restriction on units, lot coverage, or certain other restrictions that limit developability, except that all development must conform to the state building codes.

Fee Waivers and Reimbursements.

Developments in an HOZ are exempt from impact fees, State Environmental Policy Act mitigation fees, and any other fees not associated exclusively with the processing of building permits. Until December 31, 2023, jurisdictions, including school districts, may request reimbursement of fees waived for development within HOZs as well as environmental impact statement costs and planning activities. Requests for reimbursements are limited to $2000 per unit.

Reimbursements to these jurisdictions are paid by Commerce through a new Services for Transit Oriented Communities Special Account (Account). Reimbursements from the Account may not exceed $15 million per fiscal year. Funding for the Account comes from a new document recording surcharge. The surcharge is prescribed and adjusted by the Office of Financial Management, so it provides $15 million of deposits to the Account per fiscal year. The new surcharge is charged on the same documents as the homeless housing and assistance surcharges.

Multifamily Property Tax Exemption.

Residential developments within an HOZ may participate in the jurisdiction's Multifamily Tax Exemption Program or similar program. The development is not required to be located within a designated residential target area to qualify. If a Multifamily Tax Exemption Program does not exist within the HOZ, the jurisdiction must authorize a new multifamily tax exemption program. The new program must include an eight-year tax abatement for residential development and a 12-year tax abatement for 20 percent of the total housing units affordable to moderate-income households earning 80 percent of median income.

Appropriation: None.

Fiscal Note: Requested on 1/11/18.

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