HOUSE BILL REPORT
SSB 6347

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

Title: An act relating to expanding the property tax exemption for new and rehabilitated multiple-unit dwellings in urban centers.

Brief Description: Expanding the property tax exemption for new and rehabilitated multiple-unit dwellings in urban centers.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Wagoner, Fortunato, Honeyford, Palumbo, Mullet and Rivers).

Brief History:
Committee Activity:
Community Development, Housing & Tribal Affairs: 2/20/18, 2/22/18 [DPA].

Brief Summary of Substitute Bill
(As Amended by Committee)

- Expands eligibility for the 12-year Multifamily Property Tax Exemption for new and rehabilitated multi-unit residential housing projects, allowing projects located in certain urban areas designated by any city or town with a population of less than 15,000 to qualify for a tax exemption until July 1, 2023.
- Creates a new 15-year Multifamily Property Tax Exemption for new and rehabilitated multi-unit residential housing projects, allowing projects located in certain urban areas designated by any city or town with a population of less than 15,000 and meeting certain other conditions, to qualify for a tax exemption until July 1, 2023.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

Majority Report: Do pass as amended. Signed by 6 members: Representatives Ryu, Chair; Macri, Vice Chair; McCabe, Assistant Ranking Minority Member; Jenkin, Reeves and Sawyer.

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.

Minority Report: Do not pass. Signed by 1 member: Representative Barkis, Ranking Minority Member.

Staff: Kirsten Lee (786-7133).

Background:

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.

To qualify for an exemption, the housing project must be located within a residential targeted area (RTA) designated by a qualifying county or city. A qualifying county is a county with an unincorporated population of at least 350, 000. A qualifying city is:

- a city or town with a population of at least 15,000;
- the largest town in a city or town located in a county planning under the Growth Management Act (GMA) if there is no city or town with a population of at least 15,000; or
- a city or town with a population of at least 5,000 located in a county subject to the provisions of the Buildable Lands Program under the GMA.

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. An RTA designated by a county must meet additional criteria.

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 multifamily housing units as affordable housing to low and moderate-income households. For affordable housing that is rented, the cost must not exceed one-third of the household's monthly income, including certain utilities. For affordable housing intended for owner occupancy, the cost must be within the means of low or moderate-income households. 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. These thresholds are adjusted for high-cost areas.

There is a tax preference performance statement for the tax exemption, as required for new tax preferences. The tax preference performance statement states that the Legislature's public policy objective for the tax preference is to stimulate the construction of new multifamily housing in urban growth areas (UGAs) located in unincorporated areas of rural counties, where housing options, including affordable housing options, are severely limited. The Legislature intends to extend the expiration of the tax preference if the Joint Legislative Audit and Review Committee (JLARC) finds that at least 20 percent of the new housing is developed and occupied by households earning:

- at or below 80 percent of the area median income at the time of occupancy; or

- up to 115 percent of the area median income at the time of sale, if the housing is intended exclusively for owner occupancy.

Summary of Amended Bill:

Multifamily Property Tax Exemption.
Until July 1, 2023, the existing 12-year Multifamily Property Tax Exemption is expanded, allowing any city or town with a population of under 15,000 to designate RTAs and provide a Multifamily Property Tax exemption for new or rehabilitated multi-unit residential housing projects in urban centers or urban growth areas where the applicant has committed to renting or selling at least 20 percent of the housing units for households with adjusted incomes at or below 80 percent of the median family income adjusted for family size.

In addition, a new 15-year Multifamily Property Tax Exemption is created, allowing any city or town with a population of under 15,000, until July 1, 2023, to designate RTAs and provide a Multifamily Property Tax exemption for new or rehabilitated multi-unit residential housing projects in urban centers or urban growth areas if:
- the applicant for the project commits to renting at least 20 percent of the multifamily housing units as affordable housing units to households whose adjusted income is at or below 60 percent of the median family income adjusted for family size;
- the project is financed by the Housing Finance Commission (HFC) under a program using bonds exempt from federal income tax; and
- the project satisfies any additional affordability and income eligibility conditions adopted by a local government as applicable.

Tax Preference Performance Statement.
A new tax preference performance statement is included for the changed Multifamily Property Tax preference and states that the Legislature's policy objective for the tax preference is to incentivize developers to construct new multifamily housing and to increase the number of affordable housing units for low to moderate-income residents in certain UGAs. The Legislature intends to extend the expiration of the tax preference if the JLARC finds that at least 20 percent of new housing, for properties applying for the 12- and 15-year exemptions, is developed for and occupied by households earning:
- at or below 60 percent of the area median income at the time of occupancy;
- at or below 80 percent of the area median income at the time of occupancy; or
- up to 115 percent of the area median income at the time of sale, if the housing is intended exclusively for owner occupancy.

Amended Bill Compared to Substitute Bill:

The substitute bill: (1) eliminates eligibility for qualifying projects in any city until July 1, 2021, under the Multifamily Property Exemption program; (2) allows projects located in any city with a population of under 15,000 that provide housing for households with adjusted incomes at or below 80 percent of the median family income to qualify for the 12-year Multifamily Property Tax Exemption until July 1, 2023; (3) creates a new 15-year tax preference under the Multifamily Property Tax Exemption program for projects located in cities with a population of under 15,000 that provide housing for households with adjusted incomes at or below 60 percent of the median family income; (4) creates expiration dates for the expanded 12-year and the new 15-year tax preference of July 1, 2023; and (5) makes changes to the tax preference performance statement to reflect the new 15-year preference for cities with a population of under 15,000 and the new section added to the bill.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 23, 2018.

Effective Date of Amended 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) The bill expands the existing Multifamily Property Tax Exemption program, a program that larger cities have been able to take advantage of, by allowing smaller municipalities, such as Sedro Woolley, to take advantage of the program and to help with resolving housing affordability issues. Approximately 12 to 15 cities are currently using the 8 and 12-year tax exemptions. Sedro-Woolley plans to use the program to revitalize its downtown area and provide much needed affordable housing in this area. The city views the expanded program as a way to level the playing field, allowing communities like theirs to build affordable housing, keeping costs and rent down, despite increasing regulations and rising costs. The expanded program is also beneficial because it allows market-rate housing to be set-aside for affordable housing, rather than relying on new housing development to solve the affordability housing issue. It will be important not to create too many set-aside requirements that may disincentivize participants from using the program. The Department of Commerce has identified limited housing on the Interstate 5 corridor, spanning from Oregon to Canada, as negatively impacting the economy in Washington. The expanded program will also bring economic relief for the state by increasing the supply of housing. The tax preference performance statement should only require a review of the relevant preference, the 12-year exemption. A new exemption should be added that would allow cities with a population of under 15,000, setting aside affordable housing for households at or below 60 percent of the median family income and financing their projects through the HFC with certain bonds exempt from Federal Income Tax, to qualify for a tax exemption under the program. Requiring these projects to finance through the HFC, provides access to another subsidy, the 4 percent Low-Income Tax Credit Program.

(Opposed) None.

Persons Testifying: Senator Wagoner, prime sponsor; Julia Johnson, City of Sedro-Woolley; Carl Schroeder, Association of Washington Cities; Roger Valdez, Seattle for Growth; and Kim Herman, Washington State Housing Finance Commission.

Persons Signed In To Testify But Not Testifying: None.