

SENATE BILL REPORT

ESSB 5143

As Passed Senate, January 24, 2018

Title: An act relating to the exemption of property taxes for nonprofit homeownership development.

Brief Description: Concerning the exemption of property taxes for nonprofit homeownership development.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Zeiger, Rolfes and Darneille).

Brief History:

Committee Activity: Human Services, Mental Health & Housing: 1/23/17, 2/06/17 [DP-WM].

Ways & Means: 2/15/17, 2/22/17 [DPS, w/oRec].

Floor Activity:

Passed Senate: 1/24/18, 41-8.

Brief Summary of Engrossed First Substitute Bill

- Creates a tax exemption for nonprofit-owned, single-family dwelling units in order to develop units on the property for sale or lease—for life or 99 years—to low-income households.

SENATE COMMITTEE ON HUMAN SERVICES, MENTAL HEALTH & HOUSING

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators O'Ban, Chair; Darneille, Ranking Minority Member; Padden and Walsh.

Staff: Kevin Black (786-7747)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5143 be substituted therefor, and the substitute bill do pass.

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.

Signed by Senators Braun, Chair; Brown, Vice Chair; Rossi, Vice Chair; Honeyford, Vice Chair, Capital Budget; Ranker, Ranking Minority Member; Rolfes, Assistant Ranking Minority Member, Operating Budget; Frockt, Assistant Ranking Minority Member, Capital Budget; Bailey, Becker, Billig, Carlyle, Conway, Darneille, Fain, Keiser, Miloscia, Pedersen, Rivers, Schoesler, Warnick and Zeiger.

Minority Report: That it be referred without recommendation.

Signed by Senators Hasegawa and Padden.

Staff: Jeffrey Mitchell (786-7438)

Background: Land Banking. Land banking is a term that refers to land that is purchased and held for future commercial or residential development. Land banking can be a challenge for affordable housing developers for a number of reasons including the quick pace of the real estate market and the short time a buyer has to put together financing and close a deal. In response to this concern, in 2007 the Legislature created the Land Acquisition Fund, which is administered by the Washington State Housing Finance Commission. Under this program, loans not exceeding 1 percent interest may be made to eligible organizations to purchase land to develop affordable housing. The housing must be developed within eight years of the loan. Resulting housing developments are subject to a minimum of 30 years of affordability.

Property Tax. All real and personal property in the state is subject to property tax each year based on its value, unless specific exemption is provided by law. There are numerous exemptions from property tax established either by statute or constitutionally. The largest exemption is for intangible property. Other exemptions include churches, nonprofit hospitals, private schools and colleges, agricultural products, and affordable housing.

Land Banking Property Tax Exemption. Last year, the Legislature created a property tax exemption for real property owned by a nonprofit entity for the purpose of developing real property to be sold to low-income households, defined as households earning less than 80 percent of the median family income—adjusted for family size as most recently determined by the federal Department of Housing and Urban Development—for the county in which the property is located.

1. *Expiration.* The property tax exemption expires on or at the earlier of the date on which the nonprofit entity transfers title to the residence on the real property, at the end of the seventh consecutive property tax year for which the exemption is granted, or when the property is no longer held for the purpose for which the exemption was granted.
2. *Extension.* If the nonprofit entity believes that the title will not be transferred by the end of the sixth consecutive property tax year, the entity may claim a three-year extension of the exemption by filing a notice with the Department of Revenue and providing a filing fee.
3. *Disqualification.* If the title has not been transferred within the required timeframe or if the nonprofit has converted the property to a purpose other than that for which the exemption was granted, and an extension has not been granted, the property is disqualified from the exemption. Upon disqualification, the county assessor must collect all taxes that would have otherwise been due including interest as calculated for delinquent property taxes.

4. *Joint Legislative Audit and Review Committee (JLARC)*. The Legislature's objective is to encourage and expand the ability of nonprofit low-income housing developers to provide homeownership opportunities for low-income households. To measure the effectiveness of this tax preference, JLARC will evaluate whether or not the financial resources dedicated by a nonprofit to affordable housing development have increased during the period that the property tax exemption is claimed, two years prior to the expiration of the tax preference.
5. This property tax exemption expires in 2026.

Community Land Trusts. Community land trusts are nonprofit, community-based organizations designed to ensure community stewardship of land. Community land trusts are primarily used to ensure long-term housing affordability. To ensure long-term affordability, a trust acquires land and maintains ownership of it permanently. With prospective homeowners, it enters into a long-term, renewable lease instead of a traditional sale. Under the community land trust model, a homeowner owns the residence but not the land. The land remains in a trust to preserve housing affordability for future low-to-moderate income households. In Washington there are community land trusts in a number of counties including Chelan, Clallum, Clark, Douglas, Island, Jefferson, King, Kitsap, Skagit, Thurston, Whatcom, and Yakima County.

Summary of Engrossed First Substitute Bill: The property tax exemption for real property owned by a nonprofit entity for the purpose of developing real property to be sold to low-income households is amended to include single-family dwelling units where the land is leased for life or 99 years. This exemption applies to taxes levied for collection in 2019 and thereafter and expires on January 1, 2028.

A residence means a single-family dwelling unit whether the unit is separate or part of a multiunit dwelling and the land on which the dwelling unit stands, whether to be sold, or to be leased for life or 99 years, to the low-income household owning the unit.

This new tax exemption amends last year's tax preference statement accordingly.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Human Services, Mental Health & Housing): *Testimony from 2017 Regular Session.* PRO: This expands last year's tax exemption for nonprofit housing developers to include land that is leased and not sold once the home that is developed on the land is sold. The Department of Revenue did not interpret the tax exemption created last year to apply to community land trusts (CLT). CLT sell homes to households who are 60-80 percent of the area median income. The home still builds equity. There are 15 CLTs in Washington and there is a 35-year history working with low-

income households, including wrap around financial services/coaching for the homeowners we work with.

Persons Testifying (Human Services, Mental Health & Housing): PRO: Senator Hans Zeiger, Prime Sponsor; Jessie Turner, Northwest Community Land Trust Coalition.

Persons Signed In To Testify But Not Testifying (Human Services, Mental Health & Housing): No one.

Staff Summary of Public Testimony on Original Bill (Ways & Means): *Testimony from 2017 Regular Session. The committee recommended a different version of the bill than what was heard.* PRO: The Northwest Community Land Trust Coalition was surprised to find that land trusts were not eligible for the exemption. There are about 15 community land trusts in Washington. This bill will ensure that the exemption will extend to land trust models for affordable housing. It seeks parity with Habitat for Humanity.

Persons Testifying (Ways & Means): PRO: Senator Hans Zeiger, Prime Sponsor; Jessie Turner, Northwest Community Land Trust Coalition.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.