

SENATE BILL REPORT

SB 6417

As Reported by Senate Committee On:
Local Government, February 1, 2018

Title: An act relating to enabling Washington cities and counties to encourage residential development around transit.

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

Sponsors: Senators Palumbo and Rivers.

Brief History:

Committee Activity: Local Government: 1/25/18, 1/30/18, 2/01/18 [DPS-WM].

Brief Summary of First Substitute Bill

- Creates a voluntary pilot program for cities and counties to establish housing opportunity zones in order to enable and encourage compact and efficient development within a one-half mile distance around transit facilities.

SENATE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: That Substitute Senate Bill No. 6417 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Takko, Chair; Palumbo, Vice Chair; Short, Ranking Member; Angel and Liias.

Staff: Greg Vogel (786-7413)

Background: Environmental Impact Statement (EIS). 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 a project proponent or the lead agency completing an environmental checklist to identify and evaluate probable environmental impacts. Government decisions that are identified as having significant adverse environmental impacts must then undergo a more comprehensive environmental analysis in the form of an EIS. Under SEPA, a government agency is

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designated as the lead agency and in that role has responsibility for complying with SEPA's procedural requirements, including preparing the EIS when one is required. If the SEPA review process identifies significant adverse environmental impacts, the lead agency may deny a government decision or may condition a proposal by requiring mitigation for identified environmental impacts.

Multifamily Tax Exemption (MFTE). Under a MFTE, cities define residential target areas with insufficient housing opportunities where development is eligible for MFTE. State law sets specific standards as to what can qualify as a target area. In these areas, approved multifamily projects are exempt from ad valorem property taxes for a period of 8 or 12 years. To secure the 12-year exemption period, the property must meet a minimum affordable housing standard. The required public benefit to obtain the 8-year exemption is left to the city's discretion, and affordable housing is not required, though a city may choose to do so.

Impact Fees. Impact fees are one-time charges assessed by a local government against a new development project to help pay for new or expanded public facilities that will directly address the increased demand created by that development. Counties, cities, and towns planning under the Growth Management Act may impose impact fees for:

- public streets and roads;
- publicly owned parks, open space, and recreation facilities;
- school facilities; and
- fire protection facilities.

County Recording Surcharges. County auditors are the recording officers of counties for a variety of documents relating to real property, marriage licenses, other vital statistics, and other matters that are required by law to be filed and recorded in the county. There is a surcharge for affordable housing for all and an additional surcharge for local homeless housing and assistance. The surcharge for affordable housing for all is \$10, of which the county auditor retains up to 5 percent for the collection and administration of the funds. Forty percent of the funds collected are remitted to the state Affordable Housing for All Account. The Department of Commerce uses these funds to provide housing and shelter for extremely low-income households. The remaining funds may be used by the counties to fund eligible housing activities for very low-income households, with priority for extremely low-income households by funding:

- the acquisition, construction, or rehabilitation of housing projects, including units for homeownership, rental units, farm worker housing, and single-room occupancy units;
- supporting building operation and maintenance costs of housing projects;
- rental assistance vouchers; and
- operating costs for emergency shelters and overnight shelters.

From September 1, 2012, to June 30, 2023, the county auditor may charge an additional \$40 surcharge to administer the requirements of the Homeless Housing and Assistance Act. After June 30, 2023, the fee is reduced to \$10. Of the total fee, 2 percent is retained by the auditor to cover collection costs, 60 percent goes to the county to administer a local homeless housing program, 6 percent may be used by the county to cover related administrative costs, and 32 percent goes to programs directly related to accomplishing the goals of the county's local homeless housing plan. Certain documents are exempt from this surcharge.

Summary of Bill (First Substitute): Zones. A county or a city within a county that has a population greater than 700,000 but less than 800,000 persons as of January 1, 2017, desiring to designate a housing opportunity zone (zone) may submit an application to the Department of Commerce, together with detailed maps describing the parcels of land to be included in the zone.

A zone must:

- include only parcels of land that are intersected within one-half linear mile of a transit service stop with fixed station infrastructure, including heavy rail and Amtrak, commuter rail, light rail, streetcars, and bus rapid transit; and
- contain no less than 90 percent of the total land within the one-half linear mile area.

Prior to submitting an application, the city or county must complete an area environmental impact statement for the area of the proposed zone.

All parcels that are within the zone are, in addition to any other allowed uses, by right developable for residential use.

All cities and unincorporated areas with a population greater than 500,000 must have at minimum the following buildable heights within zones:

- within one-half mile of each designated transit stop, 200 feet; and
- within one-quarter mile of each designated transit stop, 550 feet.

All cities and unincorporated areas with a population less than 500,000, but greater than 200,000 must have at minimum the following buildable heights within zones:

- within one-half mile of each designated transit stop, 125 feet; and
- within one-quarter mile of each designated transit stop, 240 feet.

All cities and unincorporated areas with a population of less than 200,000 must have at minimum an 85 foot buildable height within zone areas that are within one-half mile of each designated transit stop.

Multifamily Tax Exemption. All residential developments within a zone may participate in a city or county's multifamily tax exemption program (program). If the city or county designating a zone does not have a program, the city or county must authorize a program with:

- an 8-year tax abatement for residential development; and
- a 12-year tax abatement for 20 percent of the total housing units being affordable to moderate-income households earning 80 percent of median income.

Impact Fees. Development in a zone may not be charged impact fees; any state environmental policy act mitigation fees as a result of the environmental impact statement required for the area of the proposed zone; or any other charges, beyond reasonable fees related exclusively to the processing of a building permit.

Until December 31, 2023, for impact fees waived within zones, a city or county, or school district may request reimbursement for impact fees and environmental impact statement costs that may have been imposed to developments within a zone, if not for the act. A city or

county may request funding of \$2,000 per unit. Funding and reimbursements are limited statewide to \$15 million per fiscal year. Requests for funding or reimbursement are to be paid from the Services for Transit-Oriented Communities Special Account.

The Account. The Account is created in the custody of the state treasurer. The Account is funded by the state's portion of a newly established surcharge on the recording of county documents. Only the director of the Department of Commerce or the director's designee may authorize expenditures from the Account.

Recording Surcharge. An additional surcharge must be charged by the county auditor for each document recorded. The auditor must retain 2 percent for collection of the fee, and must remit the remainder to the state to be deposited into the Account. The surcharge must be sufficient to provide \$15 million of deposits to the account each fiscal year. The Office of Financial Management must establish, and periodically adjust, the surcharge at an amount no higher than necessary to meet this requirement.

EFFECT OF CHANGES MADE BY LOCAL GOVERNMENT COMMITTEE (First Substitute):

- Limits the designation of housing opportunity zones to a county or a city within a county that has a population greater than 700,000 but less than 800,000 persons as of January 1, 2017.
- Requires the Department of Commerce to make an annual report on the progress of housing opportunity zones beginning in the following calendar year after the first designation of a housing opportunity zone.

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: *The committee recommended a different version of the bill than what was heard.* PRO: It is no secret that Washington faces a growing housing access and affordability crisis. This bill will reduce the upward pressure of housing prices. By locating zones near transit hubs, it will make it easier for people to afford to live where they work or have transit getting them efficiently to where they are working. If passed, and a city were to opt in, the program could result in increased sales tax revenues from construction and increased property tax revenues.

Zoning is a twentieth century solution to a nineteenth century problem. Originally brought about to protect residents from harmful uses nearby, today, zoning is a tool used by cities to impose rules, regulations, limits, fees, and taxes that constrain and suppress the development of housing supply, which means prices go up. This legislation takes a step forward to allow more development that is consistent with investments made in transit.

CON: Association of Washington Cities (AWC) is opposed to the bill, but not to the intent of providing more housing opportunities in communities. AWC appreciates that fact that the bill is optional. The challenge is that there will not be any city that takes advantage of the bill. Under the bill, cities lose the ability to impose fees and the ability to regulate the size and height of developments. If cities do not have a multifamily tax exemption program, they are required to implement one. The by-right-permitting section of the bill would be a bad precedent for the state to set.

Persons Testifying: PRO: Roger Valdez, Seattle For Growth; Brett Waller, Washington Multi-Family Housing Association; Paul Berendt, Holland Partners, Strategies 360.

CON: Carl Schroeder, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: No one.