

# HOUSE BILL REPORT

## ESHB 1107

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### As Passed Legislature

**Title:** An act relating to nonprofit homeownership development.

**Brief Description:** Concerning nonprofit homeownership development.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Slatter, Ryu, Macri, Wylie, Bergquist and Santos).

#### **Brief History:**

##### **Committee Activity:**

Finance: 1/29/19, 2/14/19 [DPS].

##### **Floor Activity:**

Passed House: 4/4/19, 85-9.

Passed Senate: 4/27/19, 44-4.

Passed Legislature.

#### **Brief Summary of Engrossed Substitute Bill**

- Expands the low-income housing development property tax exemption to include qualified cooperative associates.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Tarleton, Chair; Walen, Vice Chair; Chapman, Frame, Macri, Orwall, Springer, Stokesbary and Wylie.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Orcutt, Ranking Minority Member; Vick.

**Staff:** Tracey O'Brien (786-7152).

#### **Background:**

Property Tax.

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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 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.

Property Tax Exemption for Low-Income Housing Development.

Property that is owned by a nonprofit for the purposes of developing residences on the property for low-income households is exempt from state and local property taxes for a limited term. As long as the property remains held for the purpose of low-income housing development, the exemption lasts for seven consecutive tax years or until the nonprofit transfers title to the property. Should the nonprofit anticipate that it will be unable to sell the property within the seven-year term, the nonprofit may file for a three-year extension by filing a notice of extension with the Department of Revenue (DOR) and paying a filing fee.

The property is disqualified from the exemption if:

1. the nonprofit fails to transfer title to the property to a low-income household within the applicable exemption period; or
2. the property is converted to a use other than low-income housing development.

In this case, an additional tax is due that is equal to all taxes that would have been due within the applicable exemption period, plus interest. This additional tax is considered a lien on the property.

The DOR may not accept applications for the exemption after December 31, 2027. The exemption may not be applied to taxes due in 2037 and thereafter.

**Summary of Engrossed 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 real property owned and developed by a qualified cooperative association. Real property intended to be sold to a separate nonprofit also qualifies for the state and local property tax exemption.

The exemption does not expire when the nonprofit owner transfers the property to another nonprofit or qualified cooperative association. However, a successor nonprofit must reapply to the DOR to maintain the exemption after the transfer of exempted real property.

A qualified cooperative association must be a cooperative association under chapter 23.86 or 24.06 RCW that owns the real property for which an exemption is sought and following the completion of the development or redevelopment of the exempted real property at least 60 percent of the residences are owned by low-income households, and 80 percent or more of the square footage of any improvements to the real property are exclusively used or available for use by the owners of the residences. A notice of compliance with these statutory requirements must be filed with the DOR within one year.

The property exemption applies to taxes levied for collection beginning in 2020.

The tax preference performance statement for the underlying property tax exemption is amended to include the inclusion of qualified cooperative associations. The expanded exemption will expire January 1, 2038, which is the current expiration for the tax exemption.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) This bill provides clarity to an existing nonprofit exemption that is used for land-banking. Sustainable and livable solutions are needed to address the region's housing challenges. Other areas, such as San Francisco, New York, and Minnesota, have used a similar approach to expanding affordable housing options. This approach to creating affordable housing allows qualified individuals to purchase a share of the development. By investing in their unit, they build equity and can sell their units based on a determined schedule. This approach allows for reduced costs for building and operating the development, allows for shared involvement, and facilitates community development.

(Opposed) None.

**Persons Testifying:** Representative Slatter, prime sponsor; Matt Ojala and Ilays Aden, Forterra.

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