
Finance Committee

HB 2620

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

Sponsors: Representatives Walen, Barkis, Fitzgibbon, Chapman, Boehnke, Duerr, MacEwen, Gildon, Ortiz-Self, Lekanoff, Senn and Leavitt; by request of Office of the Governor.

Brief Summary of Bill

- Authorizes all cities, and all counties that are planning under the Growth Management Act, to provide the Multifamily Property Tax Exemption (MFTE).
- Authorizes 12-year extensions of properties currently exempt under the MFTE.
- Establishes minimum density requirements for residential targeted areas.

Hearing Date: 2/7/20

Staff: Nick Tucker (786-7383).

Background:

Property Tax.

All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for each property and calculates property taxes. The property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed one percent of the true and fair value of the property. In addition, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed \$5.90 per \$1,000 of assessed valuation.

Multifamily Property Tax Exemption.

The Multifamily Property Tax Exemption (MFTE) (also referred to as the multi-unit urban housing property tax exemption) exempts real property associated with the construction,

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conversion, or rehabilitation of qualified, multi-unit residential structures located in residential targeted areas (RTA) contained within an urban center. The tax exemption applies only to the value of the construction, conversion, 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 consecutive 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 (LMI) households.

To qualify for an exemption, the housing project must be located within a RTA designated by a qualifying county or city. 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.

Cities with a population of 15,000 or more may designate an RTA. Certain smaller cities are also eligible. Counties with an unincorporated population over 350,000 are eligible to designate an RTA. The county-designated RTA must be in an unincorporated area of the county that is within an urban growth area under the Growth Management Act.

Property owners within a designated RTA must submit an application for the tax exemption to the designating city or county. The city or county may include additional eligibility requirements for the tax exemption, including a higher percentage of units used for affordable housing to qualify for the 12-year exemption. Counties eligible to apply the tax exemption must require owners to commit to selling or renting at least 20 percent of the multi-family housing units for affordable housing in order to qualify for either the eight or 12-year exemption.

For the purpose of the MFTE, affordable housing is housing for low-to-moderate income households that does not exceed one-third of the household's monthly income. 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.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

All cities are authorized to provide an MFTE. All counties fully planning under the Growth Management Act are authorized to provide an MFTE.

Counties and cities are authorized to provide a 12-year extension to eligible properties that are currently exempt from property tax under the MFTE. The local government must adopt guidelines for such an extension. Regardless of the length of the initial property tax exemption, to be eligible for the 12-year exemption, a property, at a minimum, must satisfy any local requirements associated with the initial 12-year exemption.

An RTA is required to be zoned to have an average minimum density of 15 dwelling units or more per gross acre. For cities with a population over 20,000, an RTA is required to be zoned to have an average minimum density of 25 dwelling units or more per gross acre. Counties or cities that have designated an RTA must notify the county assessor's office and the Department of Commerce and provide both a project fiscal impact and potential expiration date.

Until July 1, 2024, counties are authorized to designate an RTA within an urban growth area that is within one-quarter of a mile of a bus corridor that is scheduled for service at least every 15 minutes.

In its review of an application, a city or county must conduct an analysis of the project's profitability with and without a property tax exemption.

Appropriation: None.

Fiscal Note: Requested on January 21, 2020.

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