SENATE BILL REPORT
SB 5951

As Reported by Senate Committee On:
Local Government, February 19, 2019

Title: An act relating to tax incentives to encourage residential and mixed-use development in urban infill areas.

Brief Description: Concerning tax incentives to encourage residential and mixed-use development in urban infill areas.

Sponsors: Senators Braun, Takko, Palumbo, Short, Salomon, Zeiger, Rivers, Becker, Lovelett, Honeyford and Wilson, L..

Brief History:
Committee Activity: Local Government: 2/19/19, 2/19/19 [DPS-WM].

Brief Summary of First Substitute Bill

- Creates a property tax exemption on the value added from new construction or rehabilitation improvements and a sales tax exemption on labor services for qualifying projects to encourage urban infill development.
- Exempts from appeal any State Environmental Policy Act decision arising from the adoption of plans, development regulations, or amendments to implement the program, or qualifying projects.
- Requires the Joint Legislative Audit and Review Committee to conduct a review of the effectiveness of the exemptions in encouraging infill development, with a report due December 31, 2029.

SENATE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: That Substitute Senate Bill No. 5951 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators Takko, Chair; Salomon, Vice Chair; Short, Ranking Member; Honeyford and Lovelett.

Staff: Greg Vogel (786-7413)

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.

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 Washington Constitution limits regular property tax levies to a maximum of 1 percent of the property's value—$10 per $1,000 of assessed value. The Legislature has established individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit.

The annual growth of regular levy revenue is limited to the lesser of inflation or 1 percent, plus the value of new construction for jurisdictions with a population of 10,000 or more. For jurisdictions with a population less than 10,000, revenue growth is limited to 1 percent.

Sales and Use Tax. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Urban Growth Areas. Counties that fully plan under the Growth Management Act must designate urban growth areas (UGA), areas within which urban growth must be encouraged and outside of which growth may occur only if it is not urban in nature. Planning jurisdictions must include within their UGAs sufficient areas and densities to accommodate projected urban growth for the succeeding 20-year period. In addition, cities must include sufficient areas to accommodate the broad range of needs and uses that will accompany the projected urban growth, including, as appropriate, medical, governmental, institutional, commercial, service, retail, and other nonresidential uses.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): A property tax exemption is established for the value of new construction, conversion, and rehabilitation improvements in infill development areas of urban areas for eight years as follows.

1. For construction, conversion, or rehabilitation of multi-family residential properties:
    - in urban areas with a population of 100,000 or more, 100 percent of the value of new construction, conversion, or rehabilitation, if the construction, conversion, or rehabilitation of the property results in the property attaining an urban density of 150 affordable housing units or more per acre;
    - in urban areas with less than 100,000 but greater than 50,000 inhabitants, 100 percent of the value of new construction, conversion, or rehabilitation, if the construction, conversion, or rehabilitation of the property results in the property attaining an urban density of 75 affordable housing units or more per acre; and
    - in urban areas with a population of 50,000 or less, one 100 percent of the value of new construction, conversion, or rehabilitation, if the construction, conversion, or rehabilitation of the property results in the property attaining an urban density of 35 affordable housing units or more per acre.

2. For construction, conversion, or rehabilitation of mixed-use properties, 75 percent of the value of new construction, conversion, or rehabilitation. Mixed use properties must provide at least 50 percent of the space for affordable housing units.

"Affordable housing" is defined as a dwelling unit having a sale or rental price below the median sales or rental price of the urban area where the dwelling unit is located. "Urban area" is defined as urban growth areas as provided under the Growth Management Act.

A sales tax exemption is established for the cost of labor for approved projects.

Cities and counties may designate infill development areas and adopt guidelines and application procedures to implement the program.

Any plans, development regulations or amendments adopted by a city or county to implement the tax exemption program are not subject to Growth Management Hearings Board review until the next periodic comprehensive plan update of the jurisdiction.

Any State Environmental Policy Act decision arising from the adoption of plans, development regulations, amendments, or qualifying projects is exempt from appeal.

The Joint Legislative Audit and Review Committee is required to conduct a review of the effectiveness of the exemptions in encouraging infill development, with a report due December 31, 2029.

Provisions are provided for hearing and notice requirements for designation of infill development areas, application procedures, project approval, fees, filing requirements, reporting requirements, and cancellation of exemptions.

Appropriation: None.

Fiscal Note: Requested on February 17, 2019.

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 the First Substitute: PRO: The bill is trying to incentivize developers to look at these kinds of projects, but also give cities the ability to implement them as it fits their city, working through the GMA and SEPA process for areas that need to be developed or rehabilitated. The Legislature sometimes overvalues the ability to legislate all areas, so this effort is not looking to dictate local jurisdictions, but rather, provide cities of all sizes a flexible tool to create affordable housing. It works a little differently than other minimum affordable housing requirements that may require, for example, 20 percent per structure, and instead, provides an overall affordable housing requirement for these developments.

Persons Testifying: PRO: Senator John Braun, Prime Sponsor.

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