

SENATE BILL REPORT

SB 5832

As of January 25, 2022

Title: An act relating to expanding the multifamily tax exemption program to include converting existing multifamily units.

Brief Description: Expanding the multifamily tax exemption program to include converting existing multifamily units.

Sponsors: Senators Das, Fortunato, Dhingra, Keiser, Kuderer, Lovelett, Nobles, Salomon, Wagoner and Wilson, C..

Brief History:

Committee Activity: Housing & Local Government: 1/25/22.

Brief Summary of Bill

- Expands the multifamily property tax exemption (MFTE) to include the conversion of existing market rate units to affordable housing.
- Requires a project applicant converting market rate units to affordable housing to rent or sell at least 30 percent of the units as affordable, or the applicant must rent or sell at least 50 percent more units than what is required by the local government under the program to qualify for the exemption.

SENATE COMMITTEE ON HOUSING & LOCAL GOVERNMENT

Staff: Jeff Olsen (786-7428)

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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 part of the legislation nor does it constitute a statement of legislative intent.

Background: 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 multi-family property tax exemption (MFTE) exempts real property associated with the construction, conversion, or rehabilitation of qualified, multiple-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 available for a 12-year period if the owner commits to renting or selling at least 20 percent of multiple-family housing units as affordable housing to low and moderate-income (LMI) households. 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.

To qualify for an exemption, the housing project must be located within an RTA designated by a qualifying county or city. 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 multiple-family housing units for affordable housing to qualify for the 12-year exemption.

A property that qualified for and used an 8-year or 12-year exemption and is within 18 months of expiration may apply to extend the exemption for an additional 12 years if they meet minimum locally adopted requirements for affordability. To qualify, an applicant must be approved by the city or county and commit to rent or sell at least 20 percent of the housing units to low income households.

At the conclusion of the exemption period, the value of the new housing, construction, conversion or rehabilitation improvements must be considered new construction for property tax purposes as though the property was not exempt under the MFTE program. No new MFTE applications may be approved on or after January 1, 2032, or any extensions of existing tax exemptions on or after January 1, 2046.

Summary of Bill: Eligibility for the MFTE is expanded to include the conversion of existing market rate units to affordable housing. A project applicant converting market rate units to affordable housing must rent or sell at least 30 percent of the units as affordable, or the applicant must rent or sell at least 50 percent more units than what is required by the local government under the program to qualify for the MFTE. Conversion is the rehabilitation or conversion of vacant, underutilized, or substandard buildings to multi-

family housing or replacing market rate housing in existing multiple unit housing facilities with affordable housing units.

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: PRO: The housing crisis has worsened and it is difficult to find affordable housing or become a homeowner. This tool can promote affordability, build equity, and increase affordable housing stock. By building on the current MFTE to apply to existing buildings, affordable workforce housing can be offered at rates 50 percent more than current law. For example, rather than 20 percent needed under the current program, 30 percent affordable units would be required. With rents soaring, privately financed projects can contribute and lower rents to 80 percent of average median income. Affordable units would become available with lease rollovers. With this approach, there is not a long wait for new construction and new housing could be added immediately.

Persons Testifying: PRO: Senator Mona Das, Prime Sponsor; Mollie Fadule, Urban Housing Venturew.

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