SENATE BILL REPORT
SB 5118

As of January 8, 2024

Title: An act relating to modifying the multifamily property tax exemption to promote development of long-term affordable housing.

Brief Description: Concerning modifying the multifamily property tax exemption to promote development of long-term affordable housing.

Sponsors: Senators Kuderer, Wellman, Frame, Hunt, Keiser, Liias, Lovelett, Nobles and Randall.

Brief History:
Committee Activity: Housing: 1/13/23; 1/10/24.

Brief Summary of Bill

- Updates requirements for certain multi-family property tax exemptions.
- Includes the value of new affordable housing constructed and corresponding land under the 12- and 20-year exemptions.
- Defines conversion as either the conversion of an existing residential building or a nonresidential building to multiple-unit housing.

SENATE COMMITTEE ON HOUSING

Staff: Melissa Van Gorkom (786-7491)

Background: All real and personal property in the state is subject to property tax each year based on its value, 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 qualifiled, multiple-unit residential structures. Property owners must submit an application for the MFTE to the designated city or county. The city or county may include additional eligibility requirements for the tax exemptions. MFTEs

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authorized under the statute include:

- eight-year exemption;
- 12-year exemption if the applicant commits to renting or selling at least 20 percent of multiple-family housing units as affordable housing to low and moderate-income households; and
- 20-year exemption if applicant commits to renting at least 20 percent of dwelling units to low-income households for a term of 99 years. For this 20-year exemption, the property must be located within one mile of high capacity transit, in a city that has implemented a mandatory inclusionary zoning requirement for affordable housing for 99 years and has a population of not more than 65,000 as measured on July 25, 2021. The city must require the property owner to record a covenant or deed restriction ensuring the continuing rental of units subject to affordability requirements for a period of 99 years.

To qualify for a MFTE, the housing project must be located in a residential targeted areas (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 and provide additional housing opportunity, including affordable housing, in the area. If designated by a county, the RTA must be located in an unincorporated area of the county within the Urban Growth Area (UGA) and the area must be:

- in a rural county served by a sewer system and designated by a county prior to January 1, 2013; or
- in a county that includes a campus of an institution of higher education where at least 1200 students live on campus during the academic year; and
- until July 15, 2024, in a county seeking to promote transit supportive densities and efficient land use in an area located within a designated UGA and within one-quarter mile of a corridor where bus service is scheduled at least every 30 minutes for no less than ten hours per weekday and is in service or is planned for service to begin within five years of designation.

A property that qualified for and used an 8- or 12-year exemption and is within 18 months of expiration may apply to extend the exemption for an additional 12 years if it meets 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 as new construction for property tax purposes as though the property was not exempt under the MFTE. 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: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): The MFTEs are updated to require applicants:

- for the 12- and 20-year exemption, commit to renting 20 percent of the multifamily housing square footage, instead of units, as affordable housing units and the number of bedrooms for the units is proportional to the number of bedrooms provided at the property as market rate units; and
- commit to rent or sell at least 20 percent of the square footage, instead of units, to low-income households in order to qualify to extend an 8- or 12-year exemption for an additional 12 years.

The requirement for the project to be located within one mile of high capacity transit of at least 15 minute scheduled frequency for a property to qualify for the 20-year exemption is removed.

For RTAs designated by a county the requirement for a county seeking to promote transit supportive densities and efficient land use in an area located within a UGA and within one-quarter mile of a corridor where bus service is scheduled at least every 30 minutes or less for no more than ten hours per weekday and is in service or planned for service to begin within five years of designation is made an option.

The 12- and 20-year exemptions include the value of new affordable housing constructed and corresponding land. The exemptions do not include non-housing-related improvements. At the conclusion of the exemption period, the value of the land and new housing construction must be considered as new construction for property tax purposes as though the property was not exempt under the MFTE.

In the case of rehabilitation of existing buildings or conversion of nonresidential buildings to multiple-unit housing, the exemptions do not include the value of improvements constructed prior to the submission of the application unless such improvements are integral to the use of the building for multiple-unit housing.

Conversion is defined as either the conversion of an existing residential building or a nonresidential building to multiple-unit housing.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on January 5, 2024.

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 Proposed Substitute (Regular Session 2023): PRO: Washington is experiencing a housing crisis and we need to implement all the tools we can to build as quickly as we can to provide housing. This is a different approach to the

MFTE that is a work in progress. Support having a third MFTE option to help developers make more units that are affordable for longer periods. Appreciate the consideration of our comments to include the value of existing improvements as eligible for the tax exemption and providing a clear path for conversion of nonresidential buildings to multifamily residential.

OTHER: Encouraged to see that this proposal preserves the 8 and 12 year programs that have been successful and added more than 1000 rent restricted units across the state in 2021 alone. Support the changes related to conversions and believe that they will increase the likelihood that adaptive reuse projects will participate in MFTE. Extending MFTE to include existing buildings will help convert more market rate units into work force housing bringing affordable units online quickly. Do have some technical suggestions to improve the language. Would like to see the bill provide MFTE to an existing buildings that dedicates 30 percent of units to households making 80 percent AMI or less which is a higher percent of units and deeper level of affordability than what is required for the current exemption for new construction. Encourage you to provide the exemption to buildings that are not older than 15 years to ensure that market rate units being converted into affordability are new units and align with the policy of the existing 12 year exemption. Signed in other on the underlying bill but understand that the sub does retain the 12 year as an option which we support.

Concerned that the proposed 99 year program will not be used by market rate developers because our evaluation indicates that the market rate project would have better returns than if the project were to participate in the 99 year tax exemption. Ask that the Legislature review the program to ensure that there are appropriate incentives for participation.

Supportive of local jurisdictions retaining the authority to tailor the MFTE program to best meet the needs of their communities. We continue to hear that MFTE is one of the more effective solutions to continue to provide affordable housing so we support the effort.

Persons Testifying: PRO: Mary Hull-Drury, Washington Realtors.

OTHER: Tim Cavanaugh, Urban Housing Ventures; Marc Angelillo, Urban Housing Ventures; McKenzie Darr, NAIOP Washington; Michael Ennis, Association of Washington Business.

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