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**SENATE BILL 5604**

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**State of Washington 69th Legislature 2025 Regular Session**

**By** Senators Liias, Gildon, Chapman, Cortes, Nobles, Salomon, Shewmake, and C. Wilson

AN ACT Relating to promoting transit-oriented development; amending RCW 84.14.010, 84.14.030, 84.14.060, 84.14.070, 84.14.090, 84.14.100, 84.14.110, 82.02.060, 82.02.090, 82.45.060, 82.59.007, 82.59.010, 82.59.020, 82.59.030, 82.59.040, 82.59.070, 82.59.130, and 82.59.140; adding new sections to chapter 84.14 RCW; creating a new section; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  A new section is added to chapter 84.14 RCW to read as follows:

(1) The value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation for 20 successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter and meets the conditions in this section.

(2) The exemption in this section does not include the value of nonhousing-related improvements not qualifying under this chapter. The exemption in this section includes the value of the newly created housing and that portion of the land value determined by multiplying the overall land value by the percentage of square footage of affordable newly created housing in comparison to the total square footage of housing for a qualifying project.

(3) For the property to qualify for the exemption provided in this section, the project must be located within a station area.

(4) To qualify for the exemption provided in this section, the applicant must meet all required affordability and income eligibility conditions adopted by the governing authority under this chapter and commit to:

(a) Providing at least 20 percent of the dwelling units as affordable to low-income households for a term of at least 50 years; or

(b) Providing at least 20 percent of the dwelling units affordable to low-income or moderate-income households for at least 50 years, if at least 10 percent of the dwelling units are family-sized units with two or more bedrooms.

(5) A city or county with a major transit station must adopt regulations necessary for use of the exemption in this section that applies to the full station area.

(6) A city with a major transit stop may adopt regulations necessary for the use of the exemption in this section. Any adopted program for a major transit stop must apply to the full station area.

(7) A local jurisdiction must require the applicant to record a covenant or deed restriction that ensures the continuing rental or sale of units subject to the affordability requirements consistent with the conditions in this section for a period of no less than 50 years. The covenant or deed restriction must also address criteria and policies to maintain public benefit if the property is converted to a use other than which continues to provide for permanently affordable housing or low-income and moderate-income households consistent with this section.

(8) A local jurisdiction may assign and collect a reasonable administration fee at each point of sale to cover the administrative costs for oversight of the exemption in this section to maintain permanently affordable housing units consistent with this section.

(9) A local jurisdiction may adopt and revise additional affordability and income eligibility conditions pursuant to RCW 84.14.100(4).

(10) 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 the purposes of chapters 84.55 and 36.21 RCW as though the property was not exempt under this chapter.

(11) For the purpose of this section, "low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or above 50 percent, but not exceeding 80 percent, of the median family income adjusted for family size, for the county where the affordable housing is located, as reported by the United States department of housing and urban development.

(12) No new exemptions may be provided under this section beginning on or after January 1, 2032.

NEW SECTION. **Sec.**  A new section is added to chapter 84.14 RCW to read as follows:

(1) A governing authority may designate a station area. The following criteria must be met before an area may be designated as a station area:

(a) The area must be fully within an urban growth area and fully or partially within a one-half mile radius of a major transit stop, except that the station area excludes any parcels without possible or practicable pedestrian access to the applicable major transit stop except by travel outside of the station area, such as the intervening presence of a river or interstate highway that prevents direct pedestrian access between the parcel in question and the applicable major transit stop; and

(b) If the station area is designated by a county, the area must be located in an unincorporated area of the county that is within an urban growth area under RCW 36.70A.110.

(2) After designation of a station area, the governing authority must adopt and implement standards and guidelines to be used in considering applications and making the determinations required under RCW 84.14.060. The standards and guidelines must establish basic requirements for new construction, conversion, and rehabilitation, which must include:

(a) Application process and procedures;

(b) Income standards for affordable units that are informed by the inventory and analysis of existing and projected housing needs required under RCW 36.70A.070(2)(a) included in the housing element of their most recent comprehensive plan; and

(c) Rent standards for affordable units.

**Sec.**  RCW 84.14.010 and 2024 c 332 s 17 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Affordable housing" means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed ((~~thirty~~)) 30 percent of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of low or moderate‑income households.

(2) "Campus facilities master plan" means the area that is defined by the University of Washington as necessary for the future growth and development of its campus facilities for campuses authorized under RCW 28B.45.020.

(3) "City" means either (a) a city or town with a population of at least ((~~fifteen thousand~~)) 15,000, (b) the largest city or town, if there is no city or town with a population of at least ((~~fifteen thousand~~)) 15,000, located in a county planning under the growth management act, (c) a city or town with a population of at least ((~~five thousand~~)) 5,000 located in a county subject to the provisions of RCW 36.70A.215, or (d) any city that otherwise does not meet the qualifications under (a) through (c) of this subsection, until December 31, 2031, that complies with RCW 84.14.020(1)(a)(iii) ((~~or~~)), 84.14.021(1)(b), or section 1 of this act.

(4) "Conversion" means the conversion of a nonresidential building, in whole or in part, to multiple-unit housing under this chapter.

(5) "County" means a county with an unincorporated population of at least 170,000.

(6) "Governing authority" means the local legislative authority of a city or a county having jurisdiction over the property for which an exemption may be applied for under this chapter.

(7) "Growth management act" means chapter 36.70A RCW.

(8) "Household" means a single person, family, or unrelated persons living together.

(9) "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below ((~~eighty~~)) 80 percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development.

(10) "Moderate‑income household" means a single person, family, or unrelated persons living together whose adjusted income is more than ((~~eighty~~)) 80 percent but is at or below ((~~one hundred fifteen~~)) 115 percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development.

(11) "Multiple-unit housing" means a building or a group of buildings having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from new construction or rehabilitated or conversion of vacant, underutilized, or substandard buildings to multifamily housing.

(12) "Owner" means the property owner of record.

(13) "Permanent residential occupancy" means multiunit housing that provides either rental or owner occupancy on a nontransient basis. This includes owner-occupied or rental accommodation that is leased for a period of at least one month. This excludes hotels and motels that predominately offer rental accommodation on a daily or weekly basis.

(14) "Rehabilitation improvements" means modifications to existing structures, that are vacant for ((~~twelve~~)) 12 months or longer, that are made to achieve a condition of substantial compliance with existing building codes or modification to existing occupied structures which increase the number of multifamily housing units.

(15) "Residential targeted area" means an area within an urban center or urban growth area that has been designated by the governing authority as a residential targeted area in accordance with this chapter. With respect to designations after July 1, 2007, "residential targeted area" may not include a campus facilities master plan.

(16) "Rural county" means a county with a population between ((~~fifty thousand~~)) 50,000 and ((~~seventy-one thousand~~)) 71,000 and bordering Puget Sound.

(17) "Substantial compliance" means compliance with local building or housing code requirements that are typically required for rehabilitation as opposed to new construction.

(18) "Urban center" means a compact identifiable district where urban residents may obtain a variety of products and services. An urban center must contain:

(a) Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, governmental agencies;

(b) Adequate public facilities including streets, sidewalks, lighting, transit, domestic water, and sanitary sewer systems; and

(c) A mixture of uses and activities that may include housing, recreation, and cultural activities in association with either commercial or office, or both, use.

(19) "Major transit station" means a site within an urban growth area that is, or has been, funded for development as:

(a) A stop on a high capacity transportation system funded or expanded under chapter 81.104 RCW;

(b) A commuter rail stop; or

(c) A stop on rail fixed guideway systems under chapter 81.104 RCW, including transitways.

(20) "Major transit stop" means a site within an urban growth area that is, or has been, funded for development as:

(a) A major transit station;

(b) A stop on a bus rapid transit route or a route that runs on high occupancy vehicle lanes as defined in RCW 81.100.020;

(c) A stop for a bus or other transit mode providing a minimum of seven days per week of actual fixed route service at intervals as defined pursuant to planning documents of the applicable local transit agency; or

(d) A ferry terminal operated by Washington state or any county.

(21) "Station area" is defined as any property fully or partially within half a mile of a major transit station or major transit stop that has been designated by the governing authority as a station area in accordance with this chapter.

**Sec.**  RCW 84.14.030 and 2021 c 187 s 9 are each amended to read as follows:

An owner of property making application under this chapter must meet the following requirements:

(1) The new or rehabilitated multiple-unit housing must be located in a residential targeted area or station area as designated by the city or county;

(2) The multiple-unit housing must meet guidelines as adopted by the governing authority that may include height, density, public benefit features, number and size of proposed development, parking, income limits for occupancy, limits on rents or sale prices, and other adopted requirements indicated necessary by the city or county. The required amenities should be relative to the size of the project and tax benefit to be obtained;

(3) The new, converted, or rehabilitated multiple-unit housing must provide for a minimum of ((~~fifty~~)) 50 percent of the space for permanent residential occupancy. In the case of existing occupied multifamily development, the multifamily housing must also provide for a minimum of four additional multifamily units. Existing multifamily vacant housing that has been vacant for ((~~twelve~~)) 12 months or more does not have to provide additional multifamily units;

(4) New construction multifamily housing and rehabilitation improvements must be completed within three years from the date of approval of the application, plus any extension authorized under RCW 84.14.090(5);

(5) Property proposed to be rehabilitated must fail to comply with one or more standards of the applicable state or local building or housing codes on or after July 23, 1995. If the property proposed to be rehabilitated is not vacant, an applicant must provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate; and

(6) The applicant must enter into a contract with the city or county approved by the governing authority, or an administrative official or commission authorized by the governing authority, under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the governing authority.

**Sec.**  RCW 84.14.060 and 2014 c 96 s 5 are each amended to read as follows:

(1) The duly authorized administrative official or committee of the city or county may approve the application if it finds that:

(a) A minimum of four new units are being constructed or in the case of occupied rehabilitation or conversion a minimum of four additional multifamily units are being developed;

(b) If applicable, the proposed multiunit housing project meets the affordable housing requirements as described in ((~~RCW 84.14.020~~)) this chapter;

(c) The proposed project is or will be, at the time of completion, in conformance with all local plans and regulations that apply at the time the application is approved;

(d) The owner has complied with all standards and guidelines adopted by the city or county under this chapter; and

(e) The site is located in a residential targeted area or station area of an urban center or urban growth area that has been designated by the governing authority in accordance with procedures and guidelines indicated in ((~~RCW 84.14.040~~)) this chapter.

(2) An application may not be approved after July 1, 2007, if any part of the proposed project site is within a campus facilities master plan, except as provided in RCW 84.14.040(1)(d).

(3) An application may not be approved for a residential targeted area in a rural county on or after January 1, 2020.

**Sec.**  RCW 84.14.070 and 2012 c 194 s 7 are each amended to read as follows:

(1) The governing authority or an administrative official or commission authorized by the governing authority must approve or deny an application filed under this chapter within ((~~ninety~~)) 90 days after receipt of the application.

(2) If the application is approved, the city or county must issue the owner of the property a conditional certificate of acceptance of tax exemption. The certificate must contain a statement by a duly authorized administrative official of the governing authority that the property has complied with the required findings indicated in RCW 84.14.060. A copy of the certificate must be sent to the county assessor within 30 days of issuance.

(3) If the application is denied by the authorized administrative official or commission authorized by the governing authority, the deciding administrative official or commission must state in writing the reasons for denial and send the notice to the applicant at the applicant's last known address within ((~~ten~~)) 10 days of the denial.

(4) Upon denial by a duly authorized administrative official or commission, an applicant may appeal the denial to the governing authority within ((~~thirty~~)) 30 days after receipt of the denial. The appeal before the governing authority must be based upon the record made before the administrative official with the burden of proof on the applicant to show that there was no substantial evidence to support the administrative official's decision. The decision of the governing body in denying or approving the application is final.

**Sec.**  RCW 84.14.090 and 2021 c 187 s 10 are each amended to read as follows:

(1) Upon completion of rehabilitation or new construction for which an application for a limited tax exemption under this chapter has been approved and after issuance of the certificate of occupancy, the owner must file with the city or county the following:

(a) A statement of the amount of rehabilitation or construction expenditures made with respect to each housing unit and the composite expenditures made in the rehabilitation or construction of the entire property;

(b) A description of the work that has been completed and a statement that the rehabilitation improvements or new construction on the owner's property qualify the property for limited exemption under this chapter;

(c) If applicable, a statement that the project meets the affordable housing requirements as described in ((~~RCW 84.14.020~~)) this chapter; and

(d) A statement that the work has been completed within three years of the issuance of the conditional certificate of tax exemption.

(2) Within ((~~thirty~~)) 30 days after receipt of the statements required under subsection (1) of this section, the authorized representative of the city or county must determine whether the work completed, and the affordability of the units, is consistent with the application and the contract approved by the city or county and is qualified for a limited tax exemption under this chapter. The city or county must also determine which specific improvements completed meet the requirements and required findings.

(3) If the rehabilitation, conversion, or construction is completed within three years of the date the application for a limited tax exemption is filed under this chapter, or within an authorized extension of this time limit, and the authorized representative of the city or county determines that improvements were constructed consistent with the application and other applicable requirements, including if applicable, affordable housing requirements, and the owner's property is qualified for a limited tax exemption under this chapter, the city or county must file the certificate of tax exemption with the county assessor within ((~~ten~~)) 10 days of the expiration of the ((~~thirty~~)) 30-day period provided under subsection (2) of this section.

(4) The authorized representative of the city or county must notify the applicant that a certificate of tax exemption is not going to be filed if the authorized representative determines that:

(a) The rehabilitation or new construction was not completed within three years of the application date, or within any authorized extension of the time limit;

(b) The improvements were not constructed consistent with the application or other applicable requirements;

(c) If applicable, the affordable housing requirements as described in ((~~RCW 84.14.020~~)) this chapter were not met; or

(d) The owner's property is otherwise not qualified for limited exemption under this chapter.

(5) If the authorized representative of the city or county finds that construction or rehabilitation of multiple-unit housing was not completed within the required time period due to circumstances beyond the control of the owner and that the owner has been acting and could reasonably be expected to act in good faith and with due diligence, the governing authority or the city or county official authorized by the governing authority may extend the deadline for completion of construction or rehabilitation for a period not to exceed ((~~twenty-four~~)) 24 consecutive months. For preliminary or final applications submitted on or before February 15, 2020, with any outstanding application requirements, such as obtaining a temporary certificate of occupancy, the city or county may choose to extend the deadline for completion for an additional five years. The five-year extension begins immediately following the completion of any outstanding applications or previously authorized extensions, whichever is later.

(6) The governing authority may provide by ordinance for an appeal of a decision by the deciding officer or authority that an owner is not entitled to a certificate of tax exemption to the governing authority, a hearing examiner, or other city or county officer authorized by the governing authority to hear the appeal in accordance with such reasonable procedures and time periods as provided by ordinance of the governing authority. The owner may appeal a decision by the deciding officer or authority that is not subject to local appeal or a decision by the local appeal authority that the owner is not entitled to a certificate of tax exemption in superior court under RCW 34.05.510 through 34.05.598, if the appeal is filed within ((~~thirty~~)) 30 days of notification by the city or county to the owner of the decision being challenged.

**Sec.**  RCW 84.14.100 and 2021 c 187 s 5 are each amended to read as follows:

(1) Thirty days after the anniversary of the date of the certificate of tax exemption and each year for the tax exemption period, the owner of the rehabilitated or newly constructed property, or the qualified nonprofit or local government that will assure permanent affordable homeownership for at least 25 percent of the units for properties receiving an exemption under RCW 84.14.021, must file with a designated authorized representative of the city or county an annual report indicating the following:

(a) A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the ((~~twelve~~)) 12 months ending with the anniversary date;

(b) A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the affordable housing requirements as described in ((~~RCW 84.14.020~~)) this chapter since the date of the certificate approved by the city or county;

(c) A description of changes or improvements constructed after issuance of the certificate of tax exemption; and

(d) Any additional information requested by the city or county in regards to the units receiving a tax exemption.

(2) All cities or counties, which issue certificates of tax exemption for multiunit housing that conform to the requirements of this chapter, must report annually by April 1st of each year, beginning in 2007, to the department of commerce. A city or county must be in compliance with the reporting requirements of this section to offer certificates of tax exemption for multiunit housing authorized in this chapter. The report must include the following information:

(a) The number of tax exemption certificates granted;

(b) The total number and type of units produced or to be produced;

(c) The number, size, and type of units produced or to be produced meeting affordable housing requirements;

(d) The actual development cost of each unit produced;

(e) The total monthly rent or total sale amount of each unit produced;

(f) The annual household income and household size for each of the affordable units receiving a tax exemption and a summary of these figures for the city or county; and

(g) The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted.

(3)(a) The department of commerce must adopt and implement a program to effectively audit or review that the owner or operator of each property for which a certificate of tax exemption has been issued, except for those properties receiving an exemption that are owned or operated by a nonprofit or for those properties receiving an exemption from a city or county that operates an independent audit or review program, is offering the number of units at rents as committed to in the approved application for an exemption and that the tenants are being properly screened to be qualified for an income-restricted unit. The audit or review program must be adopted in consultation with local governments and other stakeholders and may be based on auditing a percentage of income-restricted units or properties annually. A private owner or operator of a property for which a certificate of tax exemption has been issued under this chapter, must be audited at least once every five years.

(b) If the review or audit required under (a) of this subsection for a given property finds that the owner or operator is not offering the number of units at rents as committed to in the approved application or is not properly screening tenants for income-restricted units, the department of commerce must notify the city or county and the city or county must impose and collect a sliding scale penalty not to exceed an amount calculated by subtracting the amount of rents that would have been collected had the owner or operator complied with their commitment from the amount of rents collected by the owner or operator for the income-restricted units, with consideration of the severity of the noncompliance. If a subsequent review or audit required under (a) of this subsection for a given property finds continued substantial noncompliance with the program requirements, the exemption certificate must be canceled pursuant to RCW 84.14.110.

(c) The department of commerce may impose and collect a fee, not to exceed the costs of the audit or review, from the owner or operator of any property subject to an audit or review required under (a) of this subsection.

(4)(a) Beginning in calendar year 2027, the department of commerce must review on a biennial basis the number of applications filed in a local jurisdiction for the tax exemption program in section 1 of this act. If a local jurisdiction reports two consecutive years without any participation in the tax exemption program, then the local jurisdiction must increase income eligibility requirements adopted by the local jurisdiction for the tax exemption program in section 1 of this act by 10 percent each calendar year until:

(i) The local jurisdiction issues a conditional certificate for the tax exemption under section 1 of this act; or

(ii) The additional income eligibility requirements adopted by the local jurisdiction reaches the maximum household income allowed under section 1(4) of this act.

(b) A local jurisdiction may reduce its income eligibility requirements in accordance with this chapter in the calendar year immediately following the calendar year in which the local jurisdiction meets the conditions under (a)(i) of this subsection.

(c) Any adjustment to locally adopted household income eligibility requirements, as provided in this section, must begin on January 1st and remain in place for the entire calendar year.

(d) A claimant must commit to meeting the household income eligibility requirements as determined by the local jurisdiction for the calendar year in which the claimant submitted an application for the tax exemption under section 1 of this act. Any subsequent adjustments to the income eligibility requirements may not retroactively impact any claimant previously issued a conditional certificate for exemption.

(5) The department of commerce must provide guidance to cities and counties, which issue certificates of tax exemption for multiunit housing that conform to the requirements of this chapter, on best practices in managing and reporting for the exemption programs authorized under this chapter, including guidance for cities and counties to collect and report demographic information for tenants of units receiving a tax exemption under this chapter.

((~~(5)~~)) (6) This section expires January 1, 2058.

**Sec.**  RCW 84.14.110 and 2012 c 194 s 10 are each amended to read as follows:

(1) If improvements have been exempted under this chapter, the improvements continue to be exempted for the applicable period under ((~~RCW 84.14.020~~)) this chapter, so long as they are not converted to another use and continue to satisfy all applicable conditions. If the owner intends to convert the multifamily development to another use, or if applicable, if the owner intends to discontinue compliance with the affordable housing requirements as described in ((~~RCW 84.14.020~~)) this chapter or any other condition to exemption, the owner must notify the assessor within ((~~sixty~~)) 60 days of the change in use or intended discontinuance. If, after a certificate of tax exemption has been filed with the county assessor, the authorized representative of the governing authority discovers that a portion of the property is changed or will be changed to a use that is other than residential or that housing or amenities no longer meet the requirements, including, if applicable, affordable housing requirements, as previously approved or agreed upon by contract between the city or county and the owner and that the multifamily housing, or a portion of the housing, no longer qualifies for the exemption, the tax exemption must be canceled and the following must occur:

(a) Additional real property tax must be imposed upon the value of the nonqualifying improvements in the amount that would normally be imposed, plus a penalty must be imposed amounting to ((~~twenty~~)) 20 percent. This additional tax is calculated based upon the difference between the property tax paid and the property tax that would have been paid if it had included the value of the nonqualifying improvements dated back to the date that the improvements were converted to a nonmultifamily use;

(b) The tax must include interest upon the amounts of the additional tax at the same statutory rate charged on delinquent property taxes from the dates on which the additional tax could have been paid without penalty if the improvements had been assessed at a value without regard to this chapter; and

(c) The additional tax owed together with interest and penalty must become a lien on the land and attach at the time the property or portion of the property is removed from multifamily use or the amenities no longer meet applicable requirements, and has priority to and must be fully paid and satisfied before a recognizance, mortgage, judgment, debt, obligation, or responsibility to or with which the land may become charged or liable. The lien may be foreclosed upon expiration of the same period after delinquency and in the same manner provided by law for foreclosure of liens for delinquent real property taxes. An additional tax unpaid on its due date is delinquent. From the date of delinquency until paid, interest must be charged at the same rate applied by law to delinquent ad valorem property taxes.

(2) Upon a determination that a tax exemption is to be canceled for a reason stated in this section, the governing authority or authorized representative must notify the record owner of the property as shown by the tax rolls by mail, return receipt requested, of the determination to cancel the exemption. The owner may appeal the determination to the governing authority or authorized representative, within ((~~thirty~~)) 30 days by filing a notice of appeal with the clerk of the governing authority, which notice must specify the factual and legal basis on which the determination of cancellation is alleged to be erroneous. The governing authority or a hearing examiner or other official authorized by the governing authority may hear the appeal. At the hearing, all affected parties may be heard and all competent evidence received. After the hearing, the deciding body or officer must either affirm, modify, or repeal the decision of cancellation of exemption based on the evidence received. An aggrieved party may appeal the decision of the deciding body or officer to the superior court under RCW 34.05.510 through 34.05.598.

(3) Upon determination by the governing authority or authorized representative to terminate an exemption, the county officials having possession of the assessment and tax rolls must correct the rolls in the manner provided for omitted property under RCW 84.40.080. The county assessor must make such a valuation of the property and improvements as is necessary to permit the correction of the rolls. The value of the new housing construction, conversion, and rehabilitation improvements added to the rolls is considered as new construction for the purposes of chapter 84.55 RCW. The owner may appeal the valuation to the county board of equalization under chapter 84.48 RCW and according to the provisions of RCW 84.40.038. If there has been a failure to comply with this chapter, the property must be listed as an omitted assessment for assessment years beginning January 1st of the calendar year in which the noncompliance first occurred, but the listing as an omitted assessment may not be for a period more than three calendar years preceding the year in which the failure to comply was discovered.

**Sec.**  RCW 82.02.060 and 2023 c 337 s 10 are each amended to read as follows:

The local ordinance by which impact fees are imposed:

(1) Shall include a schedule of impact fees which shall be adopted for each type of development activity that is subject to impact fees, specifying the amount of the impact fee to be imposed for each type of system improvement. The schedule shall be based upon a formula or other method of calculating such impact fees. The schedule shall reflect the proportionate impact of new housing units, including multifamily and condominium units, based on the square footage, number of bedrooms, or trips generated, in the housing unit in order to produce a proportionally lower impact fee for smaller housing units. In determining proportionate share, the formula or other method of calculating impact fees shall incorporate, among other things, the following:

(a) The cost of public facilities necessitated by new development;

(b) An adjustment to the cost of the public facilities for past or future payments made or reasonably anticipated to be made by new development to pay for particular system improvements in the form of user fees, debt service payments, taxes, or other payments earmarked for or proratable to the particular system improvement;

(c) The availability of other means of funding public facility improvements;

(d) The cost of existing public facilities improvements; and

(e) The methods by which public facilities improvements were financed;

(2) May provide an exemption for low-income housing, and other development activities with broad public purposes, including development of an early learning facility, from these impact fees, provided that the impact fees for such development activity shall be paid from public funds other than impact fee accounts;

(3)(a) May not impose an impact fee on development activities of an early learning facility greater than that imposed on commercial retail or commercial office development activities that generate a similar number, volume, type, and duration of vehicle trips;

(b) When a facility or development has more than one use, the limitations in this subsection (3) or the exemption applicable to an early learning facility in subsections (2) and (4) of this section only apply to that portion that is developed as an early learning facility. The impact fee assessed on an early learning facility in such a development or facility may not exceed the least of the impact fees assessed on comparable businesses in the facility or development;

(4) May provide an exemption from impact fees for low-income housing or for early learning facilities. Local governments that grant exemptions for low-income housing or for early learning facilities under this subsection (4) may either: Grant a partial exemption of not more than ((~~eighty~~)) 80 percent of impact fees, in which case there is no explicit requirement to pay the exempted portion of the fee from public funds other than impact fee accounts; or provide a full waiver, in which case the remaining percentage of the exempted fee must be paid from public funds other than impact fee accounts, except as provided in (b) of this subsection. These exemptions are subject to the following requirements:

(a) An exemption for low-income housing granted under subsection (2) of this section or this subsection (4) must be conditioned upon requiring the developer to record a covenant that, except as provided otherwise by this subsection, prohibits using the property for any purpose other than for low-income housing. At a minimum, the covenant must address price restrictions and household income limits for the low-income housing, and that if the property is converted to a use other than for low-income housing, the property owner must pay the applicable impact fees in effect at the time of conversion;

(b) An exemption for early learning facilities granted under subsection (2) of this section or this subsection (4) may be a full waiver without an explicit requirement to pay the exempted portion of the fee from public funds other than impact fee accounts if the local government requires the developer to record a covenant that requires that at least 25 percent of the children and families using the early learning facility qualify for state subsidized child care, including early childhood education and assistance under chapter 43.216 RCW, and that provides that if the property is converted to a use other than for an early learning facility, the property owner must pay the applicable impact fees in effect at the time of conversion, and that also provides that if at no point during a calendar year does the early learning facility achieve the required percentage of children and families qualified for state subsidized child care using the early learning facility, the property owner must pay 20 percent of the impact fee that would have been imposed on the development had there not been an exemption within 90 days of the local government notifying the property owner of the breach, and any balance remaining thereafter shall be a lien on the property; and

(c) Covenants required by (a) and (b) of this subsection must be recorded with the applicable county auditor or recording officer. A local government granting an exemption under subsection (2) of this section or this subsection (4) for low-income housing or an early learning facility may not collect revenue lost through granting an exemption by increasing impact fees unrelated to the exemption. A school district who receives school impact fees must approve any exemption under subsection (2) of this section or this subsection (4);

(5) Shall provide a credit for the value of any dedication of land for, improvement to, or new construction of any system improvements provided by the developer, to facilities that are identified in the capital facilities plan and that are required by the county, city, or town as a condition of approving the development activity;

(6) Shall allow the county, city, or town imposing the impact fees to adjust the standard impact fee at the time the fee is imposed to consider unusual circumstances in specific cases to ensure that impact fees are imposed fairly;

(7) Shall include a provision for calculating the amount of the fee to be imposed on a particular development that permits consideration of studies and data submitted by the developer to adjust the amount of the fee;

(8) Shall establish one or more reasonable service areas within which it shall calculate and impose impact fees for various land use categories per unit of development;

(9) May provide for the imposition of an impact fee for system improvement costs previously incurred by a county, city, or town to the extent that new growth and development will be served by the previously constructed improvements provided such fee shall not be imposed to make up for any system improvement deficiencies; ((~~and~~))

(10) Shall provide a 50 percent reduction of the impact fees specified in the schedule of impact fees for system improvements under RCW 82.02.090(7)(a) if the project is within a transit-oriented development area and claiming a multiple-unit housing property tax exemption under section 1 of this act; and

(11) Must adopt or amend by ordinance, and incorporate into their development regulations, zoning regulations, and other official controls the requirements of this section to take effect six months after the jurisdiction's next periodic comprehensive plan update required under RCW 36.70A.130.

For purposes of this section, "low-income housing" means housing with a monthly housing expense, that is no greater than ((~~thirty~~)) 30 percent of ((~~eighty~~)) 80 percent of the median family income adjusted for family size, for the county where the project is located, as reported by the United States department of housing and urban development.

For the purposes of this section, "early learning facility" has the same meaning as in RCW 43.31.565.

**Sec.**  RCW 82.02.090 and 2023 c 121 s 2 are each amended to read as follows:

The definitions in this section apply throughout this section and RCW 82.02.050 through 82.02.080 unless the context clearly requires otherwise.

(1) "Development activity" means any construction or expansion of a building, structure, or use, any change in use of a building or structure, or any changes in the use of land, that creates additional demand and need for public facilities. "Development activity" does not include:

(a) Buildings or structures constructed by a regional transit authority; or

(b) Buildings or structures constructed as shelters that provide emergency housing for people experiencing homelessness, or emergency shelters for victims of domestic violence, as defined in RCW 70.123.020.

(2) "Development approval" means any written authorization from a county, city, or town which authorizes the commencement of development activity.

(3) "Impact fee" means a payment of money imposed upon development as a condition of development approval to pay for public facilities needed to serve new growth and development, and that is reasonably related to the new development that creates additional demand and need for public facilities, that is a proportionate share of the cost of the public facilities, and that is used for facilities that reasonably benefit the new development. "Impact fee" does not include a reasonable permit or application fee.

(4) "Owner" means the owner of record of real property, although when real property is being purchased under a real estate contract, the purchaser is considered the owner of the real property if the contract is recorded.

(5) "Project improvements" mean site improvements and facilities that are planned and designed to provide service for a particular development project and that are necessary for the use and convenience of the occupants or users of the project, and are not system improvements. An improvement or facility included in a capital facilities plan approved by the governing body of the county, city, or town is not considered a project improvement.

(6) "Proportionate share" means that portion of the cost of public facility improvements that are reasonably related to the service demands and needs of new development.

(7) "Public facilities" means the following capital facilities owned or operated by government entities: (a) Public streets, roads, and bicycle and pedestrian facilities that were designed with multimodal commuting as an intended use; (b) publicly owned parks, open space, and recreation facilities; (c) school facilities; and (d) fire protection facilities.

(8) "Service area" means a geographic area defined by a county, city, town, or intergovernmental agreement in which a defined set of public facilities provide service to development within the area. Service areas must be designated on the basis of sound planning or engineering principles.

(9) "System improvements" mean public facilities that are included in the capital facilities plan and are designed to provide service to service areas within the community at large, in contrast to project improvements.

(10) "Transit-oriented development" means dense, walkable, and mixed-use spaces fully or partially within one-half mile of a major transit stop as defined in RCW 84.14.010.

**Sec.**  RCW 82.45.060 and 2019 c 424 s 1 are each amended to read as follows:

(1) There is imposed an excise tax upon each sale of real property.

(a) Through December 31, 2019, the rate of the tax imposed under this section is 1.28 percent of the selling price.

(b) Beginning January 1, 2020, except as provided in (c) and (d) of this subsection, the rate of the tax imposed under this section is as follows:

(i) 1.1 percent of the portion of the selling price that is less than or equal to ((~~five hundred thousand dollars~~)) $500,000;

(ii) 1.28 percent of the portion of the selling price that is greater than ((~~five hundred thousand dollars~~)) $500,000 and equal to or less than ((~~one million five hundred thousand dollars~~)) $1,500,000;

(iii) 2.75 percent of the portion of the selling price that is greater than ((~~one million five hundred thousand dollars~~)) $1,500,000 and equal to or less than ((~~three million dollars~~)) $3,000,000;

(iv) Three percent of the portion of the selling price that is greater than ((~~three million dollars~~)) $3,000,000.

(c) The sale of real property that is classified as timberland or agricultural land is subject to the tax imposed under this section at a rate of 1.28 percent of the selling price.

(d) The sale of real property receiving the multiple-unit housing property tax exemption under section 1 of this act is subject to tax imposed on the selling price at the rate under (b)(i) of this subsection.

(2) Beginning July 1, 2022, and every fourth year thereafter:

(a) The department must adjust the selling price threshold in subsection (1)(b)(i) of this section to reflect the lesser of the growth of the consumer price index for shelter or five percent. If the growth is equal to or less than zero percent, the current selling price threshold continues to apply.

(b) The department must adjust the selling price thresholds in subsection (1)(b)(ii) through (iv) of this section by the dollar amount of any increase in the selling price threshold in subsection (1)(b)(i) of this section.

(c) The department must publish updated selling price thresholds by September 1, 2022, and September 1st of every fourth year thereafter. Updated selling price thresholds will apply beginning January 1, 2023, and January 1st every fourth year thereafter. Adjusted selling price thresholds must be rounded to the nearest ((~~one thousand dollars~~)) $1,000. No changes may be made to adjusted selling price thresholds once such adjustments take effect.

(d) The most recent selling price threshold becomes the base for subsequent adjustments.

(e) The department must report adjustments to the selling price thresholds to the fiscal committees of the legislature, beginning December 1, 2022, and December 1st every fourth year thereafter.

(3)(a) The department must publish guidance to assist sellers in properly classifying real property on the real estate excise tax affidavit for purposes of determining the proper amount of tax due under this section. Real property with multiple uses must be classified according to the property's predominant use. The department's guidance must include factors for use in determining the predominant use of real property.

(b) County treasurers are not responsible for verifying that the seller has properly classified real property reported on a real estate excise tax affidavit. The department is solely responsible for such verification as part of its audit responsibilities under RCW 82.45.150.

(4)(a) Beginning July 1, 2013, and ending December 31, 2019, an amount equal to two percent of the proceeds of this tax must be deposited in the public works assistance account created in RCW 43.155.050, an amount equal to ((~~four and one-tenth~~)) 4.1 percent must be deposited in the education legacy trust account created in RCW 83.100.230, an amount equal to ((~~one and six-tenths~~)) 1.6 percent must be deposited in the city-county assistance account created in RCW 43.08.290, and the remainder must be deposited in the general fund.

(b) Beginning January 1, 2020, amounts collected from the tax imposed under this section must be deposited as provided in RCW 82.45.230.

(5) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Agricultural land" means farm and agricultural land and farm and agricultural conservation land, as those terms are defined in RCW 84.34.020, including any structures on such land.

(b) "Consumer price index for shelter" means the most current seasonally adjusted index for the shelter expenditure category of the consumer price index for all urban consumers (CPI-U) as published by July 31st by the bureau of labor statistics of the United States department of labor.

(c) "Growth of the consumer price index for shelter" means the percentage increase in the consumer price index for shelter as measured from data published by the bureau of labor statistics of the United States department of labor by July 31st for the most recent three-year period for the selling price threshold adjustment in 2022, and the most recent four-year period for subsequent selling price threshold adjustments.

(d) "Timberland" means land classified under chapter 84.34 RCW or designated under chapter 84.33 RCW, including any structures and standing timber on such land, and standing timber sold apart from the land upon which it sits.

**Sec.**  RCW 82.59.007 and 2024 c 332 s 2 are each amended to read as follows:

(1) It is the purpose of this chapter to encourage the redevelopment of underutilized commercial property in targeted urban areas, thereby increasing affordable housing, employment opportunities, and helping accomplish the other planning goals of Washington cities. The legislative authorities of cities to which this chapter applies may authorize a sales and use tax deferral for an investment project within the city if the legislative authority of the city finds that there are significant areas of underutilized commercial property and a lack of affordable housing in areas proximate to the land.

(2) It is further the purpose of this chapter to stimulate the construction of new multifamily housing in transit-oriented development areas having insufficient housing thereby increasing housing opportunities, including affordable housing opportunities, and helping accomplish the planning goals of Washington cities. The legislative authorities of cities to which this chapter applies may authorize a sales and use tax deferral for an investment project within the city if the legislative authority of the city finds that there are significant housing needs in the transit-oriented development area proximate to the land.

(3) If a conditional recipient maintains the property for qualifying purposes for at least 10 years, deferred sales and use taxes need not be repaid.

**Sec.**  RCW 82.59.010 and 2024 c 332 s 3 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Affordable housing" means:

(a) Homeownership housing intended for owner occupancy to low-income households whose monthly housing costs, including utilities other than telephone, do not exceed 30 percent of the household's monthly income;

(b) "Rental housing" for low-income households whose monthly housing costs, including utilities other than telephone, do not exceed 30 percent of the household's monthly income.

(2) "Applicant" means an owner of commercial property.

(3) "City" means any city or town, including a code city.

(4) "Conditional recipient" means an owner of commercial property granted a conditional certificate of program approval under this chapter, which includes any successor owner of the property.

(5) "Eligible investment project" means an investment project that is located in a city and receiving a conditional certificate of program approval.

(6) "Governing authority" means the local legislative authority of a city having jurisdiction over the property for which a deferral may be granted under this chapter.

(7) "Household" means a single person, family, or unrelated persons living together.

(8)(a) "Initiation of construction" means the date that a building permit is issued under the building code adopted under RCW 19.27.031 for construction of the qualified building, if the underlying ownership of the building vests exclusively with the person receiving the economic benefit of the deferral.

(b) "Initiation of construction" does not include soil testing, site clearing and grading, site preparation, or any other related activities that are initiated before the issuance of a building permit for the construction of the foundation of the building.

(c) If the investment project is a phased project, "initiation of construction" applies separately to each phase.

(9) "Investment project" means an investment in multifamily housing, including labor, services, and materials incorporated in the planning, installation, and construction of the project. "Investment project" includes investment in related facilities such as playgrounds and sidewalks as well as facilities used for business use for mixed-use development.

(10) "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below 80 percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development.

(11) "Multifamily housing" means a building or a group of buildings having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from rehabilitation or conversion of vacant, underutilized, or substandard buildings to multifamily housing.

(12) "Owner" means the property owner of record.

(13) "Transit-oriented development" means dense, walkable, and mixed-use spaces fully or partially within one-half mile of a major transit stop as defined in RCW 84.14.010.

(14) "Underutilized commercial property" means an entire property, or portion thereof, currently used or intended to be used by a business for retailing or office-related or administrative activities. If the property is used partly for a qualifying use and partly for other purposes, the applicable tax deferral must be determined by apportionment of the costs of construction under rules adopted by the department. For the purposes of this subsection, "qualifying use" means used or intended to be used by a business for retailing or office-related or administrative activities.

**Sec.**  RCW 82.59.020 and 2024 c 332 s 4 are each amended to read as follows:

(1) For the purpose of creating a sales and use tax deferral program for conversion of a commercial building or construction of new multifamily housing in a transit-oriented development area to provide affordable housing under this chapter, the governing authority must adopt a resolution of intention to create a sales and use tax deferral program as generally described in the resolution. The resolution must state the time and place of a hearing to be held by the governing authority to consider the creation of the tax deferral program and may include such other information pertaining to the creation of the deferral program as the governing authority determines to be appropriate to apprise the public of the action intended. However, the resolution must provide information pertaining to:

(a) The application process;

(b) The approval process;

(c) The appeals process for applications denied approval; and

(d) Additional requirements, conditions, and obligations that must be followed postapproval of an application.

(2) The governing authority must give notice of a hearing held under this chapter by publication of the notice once each week for two consecutive weeks, not less than seven days, nor more than 30 days before the date of the hearing in a paper having a general circulation in the city. The notice must state the time, date, place, and purpose of the hearing.

(3) Following the hearing or a continuance of the hearing, the governing authority may authorize the creation of the program.

**Sec.**  RCW 82.59.030 and 2024 c 332 s 5 are each amended to read as follows:

((~~An~~)) A property owner ((~~of underutilized commercial property~~)) seeking a sales and use tax deferral for conversion of ((~~a~~)) an underutilized commercial building or construction of new multifamily housing in a transit-oriented development area to provide affordable housing under this chapter on an investment project must complete the following procedures:

(1) The owner must apply to the city on forms adopted by the governing authority. The application must contain the following:

(a) Information setting forth the grounds supporting the requested deferral including information indicated on the application form or in the guidelines;

(b) A description of the investment project and site plan, and other information requested;

(c) A statement of the expected number of affordable housing units to be created;

(d) A statement that the applicant is aware of the potential tax liability involved if the investment project ceases to be used for eligible uses under this chapter;

(e) A statement that the applicant is aware that the investment project must be completed within three years from the date of approval of the application;

(f) A statement that the applicant is aware that the governing authority or the city official authorized by the governing authority may extend the deadline for completion of construction or rehabilitation for a period not to exceed 24 consecutive months; and

(g) A statement that the applicant would not have built in this location but for the availability of the tax deferral under this chapter;

(2) The applicant must verify the application by oath or affirmation; and

(3) The application must be accompanied by the application fee, if any, required under this chapter. The duly authorized administrative official or committee of the city may permit the applicant to revise an application before final action by the duly authorized administrative official or committee of the city.

**Sec.**  RCW 82.59.040 and 2024 c 332 s 6 are each amended to read as follows:

The duly authorized administrative official or committee of the city may approve the application and grant a conditional certificate of program approval if it finds that:

(1)(a) The investment project is set aside primarily for multifamily housing units and the applicant commits to renting or selling at least 10 percent of the units as affordable housing to low-income households. In a mixed-use project, only the ground floor of a building may be used for commercial purposes with the remainder dedicated to multifamily housing units; and

(b) The applicant commits to any additional affordability and income eligibility conditions adopted by the local government under this chapter not otherwise inconsistent with this chapter;

(2) The investment project is, or will be, at the time of completion, in conformance with all local plans and regulations that apply at the time the application is approved;

(3) ((~~The~~)) For conversion of an underutilized commercial building, the investment project will occur on land that constitutes, at the time of application, underutilized commercial property;

(4) The area where the investment project will occur is located within an area zoned for residential or mixed uses;

(5) The terms and conditions of the implementation of the development meets the requirements of this chapter and any requirements of the city that are not otherwise inconsistent with this chapter;

(6) The land where the investment project will occur was not acquired through a condemnation proceeding under Title 8 RCW; and

(7) All other requirements of this chapter have been satisfied as well as any other requirements of the city that are not otherwise inconsistent with this chapter.

**Sec.**  RCW 82.59.070 and 2024 c 332 s 9 are each amended to read as follows:

(1) Within 30 days of the issuance of a certificate of occupancy for an eligible investment project, the conditional recipient must file with the city the following:

(a) A description of the work that has been completed and a statement that the eligible investment project qualifies the property for a sales and use tax deferral under this chapter;

(b) A statement of the new affordable housing to be offered as a result of the conversion of underutilized commercial property to multifamily housing or construction of new multifamily housing in a transit-oriented development area; and

(c) A statement that the work has been completed within three years of the issuance of the conditional certificate of program approval.

(2) Within 30 days after receipt of the statements required under subsection (1) of this section, the city must determine and notify the conditional recipient as to whether the work completed and the affordable housing to be offered are consistent with the application and the contract approved by the city, and the investment project continues to qualify for a tax deferral under this chapter. The conditional recipient must notify the department within 30 days from receiving the city's determination to report the project is operationally complete so the department can certify the project and determine the qualifying deferred taxes. The department must determine the amount of sales and use taxes qualifying for the deferral. If the department determines that purchases were not eligible for deferral it must assess interest, but not penalties, on the nonqualifying amounts.

(3) The city must notify the conditional recipient within 30 days that a tax deferral under this chapter is denied if the city determines that:

(a) The work was not completed within three years of the application date;

(b) The work was not constructed consistent with the application or other applicable requirements;

(c) The affordable housing units to be offered are not consistent with the application and criteria of this chapter; or

(d) The owner's property is otherwise not qualified for a sales and use tax deferral under this chapter.

(4) If the city finds that the work was not completed within the required time period due to circumstances beyond the control of the conditional recipient and that the conditional recipient has been acting and could reasonably be expected to act in good faith and with due diligence, the governing authority may extend the deadline for completion of the work for a period not to exceed 24 consecutive months, and must notify the department of the extension.

(5) The city's governing authority may enact an ordinance to provide a process for a conditional recipient to appeal a decision by the city that the conditional recipient is not entitled to a deferral of sales and use taxes. The conditional recipient may appeal a decision by the city to deny a deferral of sales and use taxes in superior court under RCW 34.05.510 through 34.05.598, if the appeal is filed within 30 days of notification by the city to the conditional recipient.

(6) A city denying a conditional recipient of a sales and use tax deferral under subsection (3) of this section must notify the department and taxes deferred under this chapter are immediately due and payable, subject to any appeal by the conditional recipient. The department must assess interest at the rate provided for delinquent taxes, but not penalties, retroactively to the date of deferral. A debt for deferred taxes will not be extinguished by insolvency or other failure of the recipient.

**Sec.**  RCW 82.59.130 and 2024 c 332 s 15 are each amended to read as follows:

(1) This section is the tax preference performance statement for the tax preferences contained in chapter 332, Laws of 2024 and chapter . . ., Laws of 2025 (this act). This performance statement is only intended to be used for subsequent evaluation of the tax preferences. It is not intended to create a private right of action by any party or to be used to determine eligibility for preferential tax treatment.

(2) The legislature categorizes ((~~this~~)) these tax preferences as ones intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808(2)(a).

(3) It is the legislature's specific public policy objective to expand affordable housing options for low-income households, specifically in urban areas where there is underutilized commercial property and in transit-oriented development areas having insufficient housing supply.

(4)(a) To measure the effectiveness of the tax preferences in chapter 332, Laws of 2024 and chapter . . ., Laws of 2025 (this act), the joint legislative audit and review committee must evaluate the number of increased housing units on underutilized commercial property and in transit-oriented development areas having insufficient housing supply. If a review finds that the number of affordable housing units has not increased, then the legislature intends to repeal ((~~this~~)) these tax preferences.

(b) The review must be provided to the fiscal committees of the legislature by December 31, 2032.

(5) In order to obtain the data necessary to perform the review in subsection (4) of this section, the joint legislative audit and review committee may refer to any available data source, including data collected by the department under RCW 82.59.080.

**Sec.**  RCW 82.59.140 and 2024 c 332 s 16 are each amended to read as follows:

(1) An owner of underutilized commercial property claiming a sales and use tax deferral under this chapter may also apply for the multiple-unit housing property tax exemption program under chapter 84.14 RCW. For applicants receiving the property tax exemption under chapter 84.14 RCW, the amount of affordable housing units required for eligibility under this chapter is in addition to the affordability conditions in chapter 84.14 RCW.

(2) A property owner claiming a sales and use tax deferral under this chapter for new construction of multifamily housing in a transit-oriented development area may also apply for the multiple-unit housing property tax exemption program under section 1 of this act. For applicants receiving the property tax exemption under section 1 of this act, the amount of affordable housing units required for eligibility under this chapter is in addition to the affordability conditions in section 1 of this act.

NEW SECTION. **Sec.**  Sections 1 through 9 of this act apply to property taxes levied for collection in 2026 and thereafter.

NEW SECTION. **Sec.**  Sections 12 through 20 of this act take effect October 1, 2025.

**--- END ---**