
Housing Committee

HB 2059

Brief Description: Providing for the property valuation of affordable multifamily rental housing.

Sponsors: Representatives Miloscia, Schindler, Kelley, Eddy, Quall, McCune, Simpson and Hurst.

Brief Summary of Bill

- Establishes guidelines for determining the true and fair value of a multifamily rental housing property subject to government restrictions on use including rent-restrictions.

Hearing Date: 2/15/07

Staff: Robyn Dupuis (786-7166).

Background:

Property Taxes

All real and personal property in this state is subject to property tax each year based on its value, unless a specific exemption is provided by law. The state constitution requires that property taxes be applied uniformly, and state law requires that the taxes be based on the "true and fair" value of the property for most classes of property. The "true and fair" value of property means the market value and is the amount of money a buyer of property willing but not obligated to buy would pay a seller of property willing but not obligated to sell, taking into consideration all uses to which the property is adapted and might in reason be applied. The requirement applies to both real and personal property.

An exception to the requirement to value property uniformly was provided for farm and agricultural, timber, and open space lands through constitutional amendment in 1968. Property tax applies to these types of real property based on the value of the property according to its "current" use. Current use valuation is based on the present use of the land.

Property taxes - approaches to valuation. The county assessor determines assessed value for each property through an appraisal process. There are three fundamental appraisal methods to establish the "true and fair" value of property which may be used independently or in

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combination, depending upon the nature of the property. These methods are: sales, cost, and income.

- **The sales method** is based on sales of comparable properties in the same area within the preceding five years. If the appraisal relies on comparable sales, the appraisal must be consistent with development regulations and any other governmental policies or practices in effect at the time of the appraisal that affect the use of the property.
- **The cost method** is based on an estimation of the cost to replace the structure.
- **The income method** involves a determination of the present value or the income potential of the property.

With respect to the "current use" program, valuations are based on the use at hand. For example, farm land values are determined by capitalizing the net cash rental value of similar lands. Forest lands are valued similarly, based only on their use for growing timber. Open space land value is established either by a system adopted by the county legislative authority or else, in the absence of such a system, by the approach used to value farm lands.

A property's tax bill is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located.

Property taxes - appeals process. Property valuations may be appealed to the county board of equalization. The county board reviews appeals and may order a change in the valuation based on facts presented. The decision by the county board may be appealed to the State Board of Tax Appeals. Property owners still dissatisfied with the valuation may file an action in superior court. As an alternative to the administrative process, a written protest may be filed at the time tax is paid and an action filed in superior or federal court.

Summary of Bill:

Restrictions on Sales of Similar Properties

The following sales cannot be used as sales of similar property:

- sales of affordable multifamily housing involving non-profit organizations or housing authorities;
- sales of rent-restricted affordable multifamily rental housing projects when the sale price paid does not reflect government restrictions on use, actual net operating income, and typical investor motivations or financing; and
- sales of conventional multifamily projects with no rent-restrictions, may not be used as sales of similar property .

Direct Capitalization of Income Approach to Value Rent-Restricted Affordable MultiFamily Rental Housing

When determining the true and fair value of rent-restricted affordable multifamily rental housing, county assessors must give primary consideration to the direct capitalization of income approach utilizing actual annual net operating income after deduction of operating expenses. The cost approach shall be deemed secondary to the direct capitalization of income approach and may not be used at all unless appropriate adjustments are made to reflect the economic reality of the property. The capitalization rate must take into consideration the risks associated with multiunit rental housing subject to a restriction on use and may not take into consideration tax credits and subsidized financing. Furthermore, the capitalization rate must be equal to or greater than the

capitalization rate used for valuing multiunit rental housing that is not subject to government restrictions on use.

Property owners of rent-restricted affordable multifamily rental housing must provide the county assessor's office with information including income and expense data, rent rolls and copies of regulatory or loan agreements.

If government restrictions regarding rent restrictions for a property expire, the property owner must notify the county assessor within sixty days and the county assessor must revalue the property for the next assessment date as a conventional multifamily project. Failure to notify the county assessor results in a penalty to the property owner equal to one-tenth of one percent of the true and fair value of the property as redetermined by the county assessor.

The act applies to all rent restricted multifamily rental housing existing on or after the effective date of the act as well as any such rental housing with valuation appeals before any Washington county board, the state appeals board or state court.

Appropriation: None.

Fiscal Note: Requested on February 7, 2007.

Effective Date: The bill contains an emergency clause and takes effect immediately.