

HOUSE BILL REPORT

EHB 2558

As Passed House:
February 13, 2014

Title: An act relating to disposing tax foreclosed property to cities for affordable housing purposes.

Brief Description: Disposing tax foreclosed property to cities for affordable housing purposes.

Sponsors: Representatives Fey, Jinkins and Freeman.

Brief History:

Committee Activity:

Community Development, Housing & Tribal Affairs: 1/28/14, 2/4/14 [DP].

Floor Activity:

Passed House: 2/13/14, 56-42.

Brief Summary of Engrossed Bill

- Requires a county to offer to sell its tax title lands to a city if the property will be used for affordable housing development purposes.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

Majority Report: Do pass. Signed by 5 members: Representatives Appleton, Chair; Sawyer, Vice Chair; Gregerson, Robinson and Santos.

Minority Report: Do not pass. Signed by 4 members: Representatives Johnson, Ranking Minority Member; Holy, Assistant Ranking Minority Member; Hope and Young.

Staff: Sean Flynn (786-7124).

Background:

Tax Foreclosure Process.

Every county assesses and collects property taxes each year. The assessment of the tax creates a lien on the property until the tax is paid. If an owner does not pay on time, the taxes

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are delinquent and subject to a 12 percent interest rate charge as well as additional penalty charges that are added to the assessment. A tax lien takes priority over all other interests in the property, including a mortgage, judgment, debt, or obligation.

If real property taxes are delinquent for three years, the county treasurer must file a certificate of delinquency in the county superior court, which is used to initiate an action for foreclosure on the tax lien. After providing notice to the owner and all parties with a recorded interest in the property, the court may issue a judgment to foreclose the tax lien and order a tax foreclosure sale of the property.

A tax foreclosure sale must be made to the highest bidder at a public auction. The minimum bid is set on behalf of the county at the total amount of taxes due, including interest and penalties. The highest successful bidder must pay the amount of taxes owed and the county refunds the excess to the recorded owner of the property.

County Tax Title Lands.

If no bids are received at the tax foreclosure sale, the county is considered the bidder on the minimum amount and acquires the property as "tax title land." The county holds such property in trust for all the taxing districts, but does not pay the delinquent taxes. Tax title land is tax exempt during the period it is held by the county.

The county may sell tax title land when the sale is determined to be in the best interest of the county. The sale generally must follow the procedures of a tax foreclosure sale, including a public auction to the highest bidder. However, the county may choose to dispose of tax title lands by private negotiation and without a call for bids under the following circumstances:

- the sale is for a public purpose to any governmental agency;
- the county determines that it is not practicable to build on the property due to the physical characteristics or legal restrictions on the property;
- the property has been assessed for less than \$500 and is sold to an adjoining landowner; or
- the sale is made within 12 months from an attempted public sale where no acceptable bids were received.

The sale under such circumstances must be for no less than the principal amount of unpaid taxes.

Proceeds from a sale of tax title lands must be distributed in the following priority: (1) the amount to reimburse the county for the costs of foreclosure and sale; (2) any remainder to reimburse the state for any taxes deferred under a tax deferment program; and (3) the remainder to be justly apportioned among the tax districts.

Affordable Housing Program.

The Department of Commerce (COM) administers the Affordable Housing Program, which develops and coordinates public and private resources targeted to meet the affordable housing needs of households below 80 percent of a county's median family income. The Affordable Housing Program funds projects, including new construction, rehabilitation, or acquisition of housing for low-income households.

Organizations eligible to receive assistance include:

- local governments;
- local housing authorities;
- nonprofit community or neighborhood-based organizations;
- federally recognized Indian tribes in the state; and
- regional or statewide nonprofit housing assistance organizations.

These eligible organizations may receive loans to purchase land for affordable housing development and supportive services. These loans are funded through a program administered by the Housing Finance Commission in coordination with the COM.

Summary of Engrossed Bill:

Upon receiving tax title lands, the county must give notice to any city in which the property is located within 60 days of acquiring the property. The county may not dispose of the property before providing the notice. The notice must include an offer to the city to purchase the property for the amount of unpaid taxes, including any tax-deferral liens, interest, penalties, and costs, under the following conditions:

- the city must accept the offer within 30 days of receiving the notice, unless extended by the county;
- the city must provide that the property is suitable and will be used for affordable housing development purposes; and
- the city must agree to transfer the property to a local housing authority or other entity eligible to receive assistance from the Affordable Housing Program.

The county may negotiate with the city to allow the city to defer payment of all real property taxes levied on the property for any period that the city owns the property.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Affordable housing is a great priority for the state, with significant state, federal, and private sector funding dedicated for that purpose. This bill is similar to legislation in Iowa and Texas, which allows the city to pay the delinquent taxes on foreclosed property and use the property for affordable housing. This procedure could have been used on certain foreclosed historical property in Tacoma.

Cities are always looking for a ways to increase opportunities to build affordable housing. Through foreclosure sales, counties become the default owners of foreclosed property, even though they may not always want the property. This bill is modeled to expedite the transfer of the property back to productive use for purposes of affordable housing. A few years ago, there was a historic building that had to be demolished and the land went into tax foreclosure. In this kind of situation, cities would work through a developer or housing authority that

would purchase the property and follow through with development of affordable housing. The property still goes through a public auction process, so that other interests in the property are protected, but if there are no buyers, the city has the option to obtain the property. The city's role is to facilitate the transfer of property to the developer to put the property back to use.

(Opposed) None.

Persons Testifying: Representative Fey, prime sponsor; and Randall Lewis, City of Tacoma.

Persons Signed In To Testify But Not Testifying: None.