

# HOUSE BILL REPORT

## 2SSB 5387

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**As Reported By House Committee On:**  
Trade & Economic Development  
Finance

**Title:** An act relating to taxation of new and rehabilitated multiple-unit housing in urban centers.

**Brief Description:** Providing tax incentives for multiple-unit housing in urban centers.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Wojahn, Winsley, Franklin, Haugen, Rasmussen, McCaslin and West).

**Brief History:**

**Committee Activity:**

Trade & Economic Development: 3/20/95, 3/22/95 [DPA];

Finance: 4/3/95 [DPA(TED)].

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### HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

**Majority Report:** Do pass as amended. Signed by 9 members: Representatives Van Luven, Chairman; Radcliff, Vice Chairman; D. Schmidt, Vice Chairman; Sheldon, Ranking Minority Member; Backlund; Hickel; Sherstad; Skinner and Valle.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Hatfield and Mason.

**Staff:** Kenny Pittman (786-7392).

**Background:** Property taxes are based on the assessed value of real property. The assessed value includes the land, buildings and structures on the land, improvements and other fixtures on the land. State law requires the County Assessor to value all taxable property at 100 percent of its true and fair market value. This valuation is based on the highest and best use of the property. All real property is subject to property tax unless specifically exempted by law.

The Growth Management Act establishes provisions to reduce urban sprawl by encouraging development in urban areas where adequate facilities and services exist or can be provided in an efficient manner. The Growth Management Act also encourages cities to provide affordable housing for all economic segments of the state

by using a variety of residential densities and through preservation of the existing housing stock.

**Summary of Amended Bill:** A property tax exemption program for new, rehabilitated, or converted multi-unit housing in urban centers is created. The exemption applies to the increased value of the property due to new construction or improvements to the existing building. The exemption does not apply to the value of land or nonhousing-related improvements or to increases in assessed valuation made on nonqualifying portions of the building. The tax exemption is for a 10-year period after the issuance of a tax certificate. The tax exemption program is limited to cities with a population of at least 150,000 that plans or elects to plan under the Growth Management Act.

The new, rehabilitated, or converted housing must meet certain eligibility criteria. The property must: be located in a designated residential targeted area within an urban center; provide four or more dwelling units that are occupied on a nontransient basis; have at least 50 percent of its floor space for permanent housing; provide a public benefit feature as part of the project; and comply with all terms and conditions set out by the city.

The city may also require that the property owner set aside at least 20 percent of the units for households earning no more than 50 percent of area median income or set aside at least 40 percent of the units for households earning no more than 60 percent of area median income.

The local governing authority of the city must designate a residential targeted area. To qualify for the designation, the area must be located within an urban center and lack a sufficient supply of residential housing to meet public demand. The city is required to hold public hearings on the designation process.

The property owner receiving the 10-year tax exemption must file an annual report to the city that includes: a statement regarding the occupancy and vacancy of the housing units during the previous year; verification that ownership of the property has not changed; confirmation that all public amenities are still available to the public; and a description of changes or improvements made to the property.

Property owners are subject to penalties for conversions of the property to other uses prior to the expiration of the 10-year tax exemption period. Cities are authorized to establish standards and guidelines to be used in approving applications for the tax exemption program.

**Amended Bill Compared to Second Substitute Bill:** The set aside requirements for lower-income housing in the project are made permissive instead of mandatory in order to qualify for the 10-year tax exemption.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Amended Bill:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** There is a need for 24 hour downtowns. The 10-year tax exemption is another tool that locals can use to encourage the development of multi-family housing in downtowns. This bill will help cities meet their Growth Management Act goals in the area of housing.

**Testimony Against:** None.

**Testified:** (Pro) Senator Lorraine Wojahn, Sponsor; Randy Lewis, city of Tacoma; Stan Finkelstein, Association of Washington Cities; Kim Herman, Washington State Housing Finance Commission; Bob Jacobs, Mayor of Olympia; Carlos Telleria, Washington Low-Income Housing Congress; and Enid Buchanan, Department of Community, Trade and Economic Development.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass as amended by Committee on Government Operations. Signed by 10 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Schoesler and Van Loven.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Pennington and Sheldon.

**Staff:** Rick Peterson (786-7150).

**Summary of Recommendation of Committee on Finance Compared to Recommendation of Committee on Government Operations:** No new changes were recommended.

**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note on amended bill requested April 4, 1995.

**Effective Date of Amended Bill:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** There are good quality buildings in many of the old business districts of our communities. These buildings could be used for housing. There is pressure within single-family communities to build multiple family dwellings. Ideas like rejuvenating the older buildings in the "old town" business districts would alleviate pressure to build multiple family dwellings in single family neighborhoods. In addition, new construction and rebuilding will provide jobs and economic growth while rejuvenating the older business districts.

**Testimony Against:** None.

**Testified:** Senator Lorraine Wojahn, prime sponsor; and Randy Lewis, city of Tacoma.