

HOUSE BILL REPORT

HB 2466

As Reported by House Committee On:

Finance

Title: An act relating to the multiple-unit dwellings property tax exemption.

Brief Description: Revising the multiple-unit dwellings property tax exemption.

Sponsors: Representatives Morell, Kirby, Edwards, Darneille, Van Luven, Anderson, Simpson, Talcott, Hunt, Esser, Ahern, Carrell, Jarrett, Bush, Boldt, Casada and Woods.

Brief History:

Committee Activity:

Finance: 1/30/02, 2/11/02 [DPS].

Brief Summary of Substitute Bill

- Reduces the minimum city population cap from 50,000 to 30,000 for the multifamily housing property tax exemption program.
- Counts the cost of the rehabilitation or construction as new construction when calculating the maximum district property tax amount at the time the property is no longer exempt.
- Allows cities to limit the tax exemption to individual dwelling units that meet the city guidelines for program participation.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Morris, Nixon, Orcutt, Roach, Santos, Van Luven and Veloria.

Staff: Rick Peterson (786-7150).

Background:

New, rehabilitated, or converted multifamily housing projects in targeted residential areas are eligible for a 10-year property tax exemption program. The program's purpose is to

increase multifamily housing in urban centers.

The property tax exemption applies to the new housing construction and the increased value of the building due to rehabilitation made after the application for the tax exemption. The exemption does not apply to the land or the non-housing related improvements. If the property is removed from multifamily housing use before 10 years, then back taxes are recovered based on the difference between the taxes paid and taxes that would have been paid had the property not been put to multifamily use.

The property tax exemption program is limited to cities with a population of at least 50,000 and to the largest city or town within a county planning under the Growth Management Act. A targeted residential area must be located within an urban center, lack sufficient available, desirable, and convenient residential housing to meet public demand, and increase permanent residents in the area or achieve the planning goals of the Growth Management Act. The city is authorized to establish standards and guidelines for approving tax exemption applications by developers.

Taxing district property tax amounts that are imposed within the constitutional 1 percent rate limit are constrained by a limit on annual increases. Generally, these taxing districts may not increase the property tax amount by more than 1 percent without a public vote. However, the district may also increase the property tax amount by the value of new construction in the district multiplied by the preceding year's property tax rate.

Summary of Substitute Bill:

The minimum population cap is reduced from 50,000 to 30,000 for the multifamily housing property tax exemption program.

When the property is no longer exempt, the cost of the rehabilitation or construction will be counted as new construction when calculating the maximum district property tax amount.

Cities may limit the tax exemption to individual dwelling units that meet the city guidelines for the program when these parcels are separate for purpose of property taxation.

Substitute Bill Compared to Original Bill:

The substitute allows cities to limit the tax exemption to individual dwelling units that meet the city guidelines for the program when these parcels are separate for purpose of property taxation. The substitute allows the cost of the rehabilitation or construction to be counted as new construction if the property is disqualified for the exemption before the end of the 10-year exemption period. The original bill only allowed the cost of the

rehabilitation or construction to be counted as new construction in cases where the property finished the 10-year exemption period.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The program will be part of a renovation of downtown Puyallup. It will allow people to move back into downtown. Puyallup would like to have the same tools as Tacoma, Olympia, and Federal Way to encourage residential development in down town areas. When first introduced this program applied to all cities. The Legislature first restricted the program to cities over 150,000 but this threshold was later reduced to 100,000 and then to the current 50,000. Tacoma was the first to use the program. Twenty-five hundred units of housing have been added to infill areas of Tacoma. There has been \$27 million of value added to Tacoma. This has been one of the most successful economic development tools adopted by the Legislature. The bill ensures that when the 10-year exemption period ends, the property is added to the tax rolls as new construction.

Testimony Against: None.

Testified: Representative Morell, prime sponsor.