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**SUBSTITUTE HOUSE BILL 2544**

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**State of Washington**

**64th Legislature**

**2016 Regular Session**

**By** House Community Development, Housing & Tribal Affairs (originally sponsored by Representatives Frame, Ryu, Robinson, Appleton, Fitzgibbon, Stokesbary, Wylie, McBride, Gregerson, Sells, Tarleton, Pollet, Bergquist, and Stanford)

READ FIRST TIME 02/05/16.

1 AN ACT Relating to providing local governments with options to  
2 preserve affordable housing in their communities; and adding a new  
3 chapter to Title 84 RCW.

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

5 NEW SECTION. **Sec. 1.** The legislature finds that:

6 (1) Families, senior citizens, and workers with fewer financial  
7 resources are more likely to experience unhealthy and unsafe housing  
8 conditions;

9 (2) Healthy homes promote good physical and mental health. When  
10 adequate housing protects individuals and families from harmful  
11 exposures and provides them with a sense of privacy, security,  
12 stability, and control, it can make important contributions to health  
13 and well-being;

14 (3) Affordable housing is a necessary component of strong,  
15 thriving neighborhoods with healthy physical and social environments;

16 (4) Very low-income household renters should have the opportunity  
17 to live in homes in neighborhoods close to major infrastructure  
18 investments like transit, quality schools for children, and vital  
19 services like health care, grocery shopping, and employment;

20 (5) Community members with critical occupations, senior citizens,  
21 and families are struggling to afford rent around the state;

1 (6) Rising rents are causing the displacement of very low-income  
2 household renters and long-time community members, risking the loss  
3 of cultural communities;

4 (7) Property owners require additional resources to make health,  
5 safety, and quality improvements to buildings without raising rents  
6 to pay for repairs; and

7 (8) Communities need a wide range of local tools to create  
8 healthy, affordable homes and address affordable housing needs.

9 NEW SECTION. **Sec. 2.** It is the purpose of this chapter to give  
10 communities a local option to preserve and increase healthy, high-  
11 quality affordable rental housing opportunities for very low-income  
12 households for which the governing authority has found that there are  
13 insufficient healthy affordable housing opportunities. It is also the  
14 purpose of this chapter to ensure that housing opportunities are  
15 affordable to renters at below-market rent levels, as determined by  
16 the governing authority, with consideration of community needs,  
17 market rental costs, and income levels of renters.

18 NEW SECTION. **Sec. 3.** The definitions in this section apply  
19 throughout this chapter unless the context clearly requires  
20 otherwise.

21 (1) "Energy and water efficiency standards" means housing that  
22 meets standards substantially equivalent to evergreen sustainable  
23 development standards, as established by the Washington state  
24 department of commerce.

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

28 (3) "Health and quality standards" means standards substantially  
29 equivalent to uniform physical condition standards, as established by  
30 the United States department of housing and urban development, or the  
31 national healthy housing standard, as established by the national  
32 center for healthy housing and the American public health  
33 association. Governing authority may use a residential housing  
34 inspection program within the jurisdiction that has established the  
35 tax exemption, as long as the standards are substantially equivalent  
36 to uniform physical condition standards or the national healthy  
37 housing standard.

1 (4) "High-cost area" means a county where the third quarter  
2 median house price for the previous year as reported by the Runstad  
3 center for real estate studies at the University of Washington is  
4 equal to or greater than one hundred thirty percent of the statewide  
5 median house price published during the same time period.

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

8 (6) "Multifamily dwelling" means a building consisting of more  
9 than one dwelling unit, as further defined by the governing  
10 authority.

11 (7) "Owner" means the property owner of record.

12 (8) "Permanent residential occupancy" means housing that provides  
13 rental occupancy on a nontransient basis. "Permanent residential  
14 occupancy" includes rental accommodation that is leased for a period  
15 of at least one month. "Permanent residential occupancy" excludes  
16 hotels and motels that predominately offer rental accommodation on a  
17 daily or weekly basis.

18 (9) "Property" means a multifamily dwelling not designed as  
19 transient accommodations, and the land upon which the dwelling is  
20 located. "Property" excludes hotels or motels. "Property" may also  
21 include a single-family dwelling and the land upon which the dwelling  
22 is located if the governing authority adopts a program for such  
23 property as provided in section 9(1)(e) of this act.

24 (10) "Rehabilitation improvements" means modifications to  
25 existing property made to achieve substantial compliance with health  
26 and quality standards or energy and water efficiency standards.

27 (11) "Single-family dwelling unit" means an individual detached  
28 dwelling, as further defined by the governing authority.

29 (12) "Very low-income household" means a single person, family,  
30 or unrelated persons living together whose adjusted income is at or  
31 below fifty percent of the median family income adjusted for family  
32 size, for the county in which the project is located, as reported by  
33 the United States department of housing and urban development. For  
34 cities located in high-cost areas, "very low-income household" means  
35 a household that has an income at or below sixty percent of the  
36 median family income adjusted for family size, for the county in  
37 which the project is located.

38 NEW SECTION. **Sec. 4.** A city governing authority may adopt a  
39 property tax exemption program to preserve affordable housing that

1 meets health and quality standards for very low-income households at  
2 risk of displacement or that cannot afford market-rate housing. A  
3 county governing authority may adopt a property tax exemption program  
4 for unincorporated areas of the county to preserve affordable housing  
5 that meets health and quality standards for very low-income  
6 households at risk of displacement or that cannot afford market-rate  
7 housing.

8 NEW SECTION. **Sec. 5.** (1) Upon adoption of a property tax  
9 exemption program, the governing authority must establish standards  
10 for very low-income household rental housing under this chapter,  
11 including rent limits and income guidelines consistent with local  
12 housing needs, to assist very low-income households that cannot  
13 afford market-rate housing. Affordable housing units must be:

14 (a) Below market rent levels as determined by the governing  
15 authority; and

16 (b) Affordable to households with an income of fifty percent or  
17 less of the county median family income, adjusted for family size.

18 (2)(a) The governing authority, after holding a public hearing,  
19 may also establish lower income levels or lower rent levels adjusted  
20 to serve very low-income household renters in the community.

21 (b) The governing authority of a high-cost area, after holding a  
22 public hearing, may also establish higher income levels. The higher  
23 income level may not exceed sixty percent of the county area median  
24 family income, adjusted for family size.

25 (3) Rent levels for affordable housing units may not exceed  
26 thirty percent of county median income, as established by the  
27 governing authority, and must include tenant-paid utilities other  
28 than telephone and any mandatory fees required as a condition of  
29 tenancy.

30 NEW SECTION. **Sec. 6.** (1) The value of residential real property  
31 qualifying under this chapter is exempt from ad valorem property  
32 taxation, except taxes levied by the state, for a period of fifteen  
33 successive years beginning January 1st of the calendar year  
34 immediately following the calendar year in which a certificate of tax  
35 exemption is filed with the county assessor in accordance with  
36 section 12 of this act.

1 (2) The governing authority may extend the duration of the  
2 exemption period by three years for properties meeting energy and  
3 water efficiency standards.

4 (3) The incentive provided under this chapter is in addition to  
5 any tax credits, grants, or other incentives provided by law.

6 (4) This chapter neither applies to increases in assessed  
7 valuation made by the assessor on nonqualifying portions of building  
8 or land nor to increases made by lawful order of a county board of  
9 equalization, the department of revenue, or a county, to a class of  
10 property throughout the county or specific area of the county to  
11 achieve the uniformity of assessment or appraisal required by law.

12 (5) The exemption does not apply to any county property tax  
13 unless the legislative authority of the county adopts a resolution  
14 and notifies the governing authority of the jurisdiction within the  
15 county that has established a tax exempt program of its intent to  
16 allow the property to be exempt.

17 (6) The governing authority must notify local taxing districts in  
18 the designated exemption area when a tax exemption program is  
19 established under this chapter.

20 NEW SECTION. **Sec. 7.** To be eligible for the exemption from  
21 property taxation under this chapter, in addition to other  
22 requirements set forth in this chapter, the property must be in  
23 compliance with the following applicable requirements for the entire  
24 exemption period:

25 (1) A minimum of twenty-five percent of units in a multiple-unit  
26 property subject to tax exemption must be affordable as described in  
27 section 5 of this act. A governing authority may require more than  
28 twenty-five percent affordable units in multiple-unit housing  
29 buildings subject to tax exemption to address local market  
30 conditions. Affordable units must be comparable in terms of quality  
31 and living conditions to market rate units in the building;

32 (2) At least ninety percent of the units of multiple-unit  
33 property must be occupied by tenants at the time of application;

34 (3) The property must be part of a residential or mixed-use  
35 (residential and nonresidential) project;

36 (4) The property must provide for a minimum of fifty percent of  
37 the space in each building for permanent residential occupancy;

38 (5) The property must meet guidelines as adopted by the governing  
39 authority that may include height, density, public benefit features,

1 number and size of proposed development, parking, income limits for  
2 occupancy, limits on rents, health and quality standards, and other  
3 adopted requirements indicated as necessary by the governing  
4 authority. The required amenities should be relative to the size of  
5 the project and tax benefit to be obtained; and

6 (6) The property owner must enter into a contract with the city  
7 or county approved by the governing authority, or an administrative  
8 official or commission authorized by the governing authority, under  
9 which the property owner has agreed to terms and conditions  
10 satisfactory to the governing authority.

11 NEW SECTION. **Sec. 8.** (1) To be eligible for the exemption from  
12 taxation under this chapter, the property must also comply with all  
13 applicable land use regulations, zoning requirements, and building  
14 and housing code requirements, including space and occupancy,  
15 structural, mechanical, fire, safety, and security standards, and  
16 health and quality standards. The governing authority may establish  
17 additional standards to meet local needs.

18 (2)(a) The governing authority may waive health and quality  
19 standards for up to two years if the owner of the property submits a  
20 rehabilitation plan to comply with health and quality standards. The  
21 owner must notify the governing authority at the time of completion  
22 of rehabilitation. The waiver of certain health and quality standards  
23 only applies to rehabilitation improvements specifically included in  
24 the rehabilitation plan.

25 (b) The governing authority must establish minimum health and  
26 quality standards for properties to qualify for a waiver under (a) of  
27 this subsection. The governing authority may not waive health and  
28 quality standards that endanger or impair the health and safety of  
29 any tenant.

30 (c) Nothing in this subsection may exempt or waive any  
31 obligations under federal, state, and local laws.

32 (3) The property must be inspected for compliance with  
33 subsections (1) and (2) of this section at the time of application  
34 for tax exemption and, thereafter, as established by the governing  
35 authority at least once every three years.

36 (4) If the governing authority grants a waiver of certain health  
37 and quality standards under subsection (2) of this section, the  
38 property must be inspected when the owner notifies the governing

1 authority that rehabilitation has been completed or at the end of the  
2 waiver period, whichever occurs first.

3 (5) The governing authority or its duly authorized representative  
4 may deny an application for tax exemption or revoke an existing  
5 exemption under this chapter for failure to comply with health and  
6 quality standards.

7 NEW SECTION. **Sec. 9.** (1) The governing authority may establish  
8 additional requirements for tax exemption eligibility or program  
9 rules under this chapter including, but not limited to:

10 (a) A limit on the total number of affordable housing units  
11 subject to exemption under this chapter;

12 (b) The designation of targeted residential areas for property to  
13 align with community needs, including to prevent displacement,  
14 preserve cultural communities, and provide affordable housing options  
15 near community infrastructure such as transportation or public  
16 schools;

17 (c) Standards for property size, unit size, unit type, mix of  
18 unit types, or mix of unit sizes;

19 (d) An exemption extension for property meeting minimum energy  
20 and water efficiency standards substantially equivalent to evergreen  
21 sustainable development building performance standards;

22 (e) A program for single-family dwelling rental units occupied by  
23 tenants complying with affordability requirements under this chapter  
24 as adopted by the governing authority;

25 (f) Any additional requirements to reduce displacement of very  
26 low-income household tenants.

27 (2) The governing authority must adopt and implement standards  
28 and guidelines to be utilized in considering applications and making  
29 the determinations required under this chapter. The standards and  
30 guidelines must establish basic requirements to include:

31 (a) An application process and procedures;

32 (b) Guidelines that may include height, density, public benefit  
33 features, number and size of proposed development, parking, income  
34 limits for occupancy, limits on rents, health and quality standards,  
35 and other adopted requirements indicated as necessary by the  
36 governing authority. The required amenities should be relative to the  
37 size of the project and tax benefit to be obtained;

38 (c) An inspection policy and procedures to ensure the property  
39 complies with housing and health and quality standards;

1 (d) Income and rent limits as required under section 5 of this  
2 act; and

3 (e) Documentation necessary to establish income eligibility of  
4 households in affordable housing units.

5 (3) Standards may apply to part or all of a jurisdiction and  
6 different standards may be applied to different areas within a  
7 jurisdiction or to different types of development. Programs  
8 authorized under this section may be modified to meet local needs and  
9 may include provisions not expressly provided in this section.

10 NEW SECTION. **Sec. 10.** An owner of property making an  
11 application under this chapter must apply by August 1st of the year  
12 prior to the first calendar year in which the taxes for collection  
13 are to be considered for exemption and meet the following  
14 requirements:

15 (1) The applicant must apply to the city or county on forms  
16 adopted by the governing authority. The application must contain the  
17 following:

18 (a) Information setting forth the grounds supporting the  
19 requested exemption, including information indicated on the  
20 application form or in the guidelines;

21 (b) A description of the project and site plan, including the  
22 floor plan of units and other information requested;

23 (c) A statement that the applicant is aware of the potential tax  
24 liability involved when the property ceases to be eligible for the  
25 incentive provided under this chapter;

26 (d) When the governing authority finds that rehabilitation is  
27 required to meet health and quality standards or evergreen  
28 sustainable development building performance standards, a  
29 rehabilitation plan outlining rehabilitation improvements, budget,  
30 and proposed schedule for repairs; and

31 (e) A certification of family size and annual income in a form  
32 acceptable to the governing authority for designated affordable  
33 housing units;

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

36 (3) The applicant must submit a fee, if any, with the application  
37 as required under this chapter. The governing authority may permit  
38 the applicant to revise an application before final action by the  
39 governing authority.



1        NEW SECTION.        **Sec. 11.**        (1) Upon receipt of an application  
2 meeting the requirements of section 10 of this act, the governing  
3 authority must inspect the property to certify compliance with health  
4 and quality standards or to grant a waiver upon submission of a  
5 rehabilitation plan by the owner of the property.

6        (2) The duly authorized administrative official or committee of  
7 the governing authority may approve the application if it finds that:

8        (a) The property meets affordable housing requirements as  
9 described in section 5 of this act;

10        (b) The property meets health and quality standards, or a waiver  
11 is granted upon submission of a rehabilitation plan by the property  
12 owner;

13        (c) The property rehabilitation plan is of appropriate scope to  
14 be completed within the designated time frame of waiver and will  
15 result in property compliance with health and quality standards, as  
16 outlined in section 8 of this act; and

17        (d) The owner has complied with all standards and guidelines  
18 adopted by the governing authority under this chapter.

19        (3) The authorized representative of the governing authority may  
20 waive the unit affordability and occupancy restrictions for an  
21 incidental number of units occupied by existing over-income tenants  
22 at the time of application. The waiver should be limited for a  
23 specified period, but not to exceed three years.

24        NEW SECTION.        **Sec. 12.**        (1) The governing authority, or an  
25 administrative official or commission authorized by the governing  
26 authority, must approve or deny an application filed under this  
27 chapter within one hundred twenty days. The governing authority may  
28 adopt standards to extend the period to approve or deny an  
29 application filed under this chapter for a property that does not  
30 meet health and quality standards.

31        (2)(a) If the application is approved, the governing authority  
32 must issue the owner of the property a certificate of tax exemption  
33 and file the certificate of exemption with the county assessor no  
34 later than December 1st of the year prior to the first calendar year  
35 in which the taxes for collection are to be exempt. If the  
36 certificate of exemption is filed after December 1st and before  
37 January 1st, the certificate of exemption is deemed filed in the next  
38 calendar year. The certificate must contain a statement by a duly  
39 authorized administrative official of the governing authority that

1 the property has complied with the required findings indicated in  
2 this chapter.

3 (b) The governing authority may issue a conditional certificate  
4 of acceptance of tax exemption if a property must complete a  
5 rehabilitation plan in order to comply with health and quality  
6 standards. The rehabilitation must be completed within three years of  
7 the date of application for a tax exemption.

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

14 (b) Upon denial by the authorized administrative official or  
15 commission, an applicant may appeal the denial to the governing  
16 authority within thirty days after receipt of the denial. The appeal  
17 before the governing authority must be based upon the record made  
18 before the administrative official or commission with the burden of  
19 proof on the applicant to show that there was no substantial evidence  
20 to support the administrative official or commission's decision. The  
21 decision of the governing body in denying or approving the  
22 application is final.

23 NEW SECTION. **Sec. 13.** The governing authority may establish an  
24 application fee or other fees to not exceed an amount determined to  
25 be required to cover the cost to be incurred by the governing  
26 authority and the assessor in administering this chapter. The  
27 application fee, if established, must be paid at the time the  
28 application is submitted. If the application is approved, the  
29 governing authority must pay the application fee to the county  
30 assessor for deposit in the county current expense fund, after first  
31 deducting that portion of the fee attributable to its own  
32 administrative costs in processing the application. If the  
33 application is denied, the governing authority may retain that  
34 portion of the application fee attributable to its own administrative  
35 costs and refund the balance to the applicant.

36 NEW SECTION. **Sec. 14.** The authorized representative of the  
37 governing authority must notify the applicant that a certificate of

1 tax exemption will be denied or canceled if the authorized  
2 representative determines that:

3 (1) The affordable housing requirements as described in section 5  
4 of this act were not met;

5 (2) The property did not meet health and quality standards; or

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

8 NEW SECTION. **Sec. 15.** (1) The owner of property receiving a tax  
9 exemption under this chapter must obtain from each tenant living in  
10 designated affordable housing units, no less than annually, a  
11 certification of family size and annual income in a form acceptable  
12 to the governing authority.

13 (2) The property owner must file a report at least annually by a  
14 date established by the governing authority indicating the following:

15 (a) Family size and annual income for each tenant living in  
16 designated affordable housing rental units and a statement that the  
17 property is in compliance with affordable housing requirements  
18 described in section 5 of this act;

19 (b) A statement of occupancy and vacancy;

20 (c) A schedule of rents charged in market-rate units;

21 (d) A certification that the property has not changed use;

22 (e) A description of changes or improvements;

23 (f) When rehabilitation is required to meet health and quality  
24 standards or evergreen sustainable development building performance  
25 standards, a progress report on compliance with the rehabilitation  
26 plan, budget, and proposed schedule for repairs; and

27 (g) Any other information required to determine compliance with  
28 program requirements or to measure program performance.

29 (3) A governing authority that issues certificates of tax  
30 exemption for property that conform to the requirements of this  
31 chapter must report annually by July 1st to the department of  
32 commerce the following information:

33 (a) The number of tax exemption certificates granted;

34 (b) The number and type of units in building properties receiving  
35 a tax exemption;

36 (c) The number and type of units meeting affordable housing  
37 requirements;

38 (d) The total monthly rent amount for each affordable and market-  
39 rate unit; and

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

3 NEW SECTION. **Sec. 16.** (1) After a certificate of exemption has  
4 been filed with the county assessor, the tax exemption must be  
5 canceled by the authorized representative of the governing authority  
6 under the following circumstances:

7 (a) The owner intends to convert the property to another use that  
8 is not residential or the owner intends to discontinue compliance  
9 with affordable housing requirements;

10 (b) The owner fails to file annual reports;

11 (c) The owner fails to maintain the property in substantial  
12 compliance with all applicable local building, safety, and health  
13 code requirements;

14 (d) The owner fails to complete rehabilitation improvements as  
15 outlined in the rehabilitation plan; or

16 (e) The owner fails to meet affordable housing requirements.

17 (2)(a) Notification of a canceled certificate of exemption must  
18 be made by the governing authority or authorized representative of  
19 the governing authority to the county assessor within thirty days of  
20 the cancellation. Upon notice of a canceled tax exemption  
21 certificate, additional real property tax must be imposed upon the  
22 value of the improvements and land that no longer qualify for  
23 exemption under this chapter in the amount that would have been  
24 imposed had the property not been exempt under this act, plus a  
25 penalty of twenty percent of the additional tax. This additional tax  
26 is calculated from January 1st of the year the certificate of tax  
27 exemption first became effective.

28 (b) Interest must be included upon the amounts of the additional  
29 tax at the same rate charged on delinquent property taxes from the  
30 dates on which the additional tax could have been paid without  
31 penalty if the property had been assessed at a value without regard  
32 to this chapter.

33 (c) The additional tax, penalty, and interest must be collected  
34 by the county treasurer. The additional tax must be distributed by  
35 the county treasurer in the same manner in which current property  
36 taxes applicable to the subject property are distributed. The  
37 additional taxes, penalty, and interest must be payable in full  
38 thirty days following the date on which the treasurer's statement of  
39 additional tax due is issued.

1 (d) The additional tax owed together with the interest and  
2 penalty becomes a lien on the land and attaches at the time the  
3 property or portion of the property is removed from use as affordable  
4 housing or the amenities no longer meet applicable requirements, and  
5 has priority to and must be fully paid and satisfied before a  
6 recognizance, mortgage, judgment, debt, obligation, or responsibility  
7 to or with which the land may become charged or liable. The lien may  
8 be foreclosed upon the expiration of the same period after  
9 delinquency and in the same manner provided by law for foreclosure of  
10 liens for delinquent real property taxes. An additional tax unpaid on  
11 its due date is delinquent.

12 (e) The county auditor may not accept an instrument of conveyance  
13 unless the additional tax, interest, and penalty has been paid or the  
14 governing authority or authorized representative has determined that  
15 the property is not subject to the additional tax, interest, or  
16 penalty.

17 (f) A certificate of exemption may be continued for the remainder  
18 of the exemption period upon sale or transfer of all or a portion of  
19 the exempt property to a new owner, if the new owner has signed a  
20 notice of exemption continuance. The notice of exemption continuance  
21 must be in a form approved by the governing authority or its  
22 authorized representative. If the notice of continuance is not signed  
23 by the new owner and attached to the real estate excise tax  
24 affidavit, all additional tax, penalty, and interest calculated in  
25 accordance with this section become due and payable by the owner,  
26 including the seller or transferor, at time of sale.

27 (3) Upon a determination that a property tax exemption is to be  
28 canceled for any reason stated in this section, the governing  
29 authority or authorized representative of the governing authority  
30 must notify the record owner of the property as shown by the tax  
31 rolls by mail, return receipt requested, of the determination to  
32 cancel the exemption. The owner may appeal the determination to the  
33 governing authority or authorized representative within thirty days  
34 by filing a notice of appeal with the clerk of the governing  
35 authority, which must specify the factual and legal basis on which  
36 the determination of cancellation is alleged to be erroneous. The  
37 governing authority or a hearing examiner or other official  
38 authorized by the governing authority may hear the appeal. At the  
39 hearing, all affected parties may be heard and all competent evidence  
40 received. After the hearing, the deciding body or officer must either

1 affirm, modify, or repeal the decision of cancellation of exemption  
2 based on the evidence received. An aggrieved party may appeal the  
3 decision of the deciding body or officer to the superior court under  
4 RCW 34.05.510 through 34.05.598.

5 (4) Upon the expiration of the exemption period or upon  
6 cancellation of the exemption, the value of new construction or  
7 improvements to the property, not previously considered as new  
8 construction during the exemption period, must be considered as new  
9 construction for purposes of calculating levies under chapter 84.55  
10 RCW.

11 NEW SECTION. **Sec. 17.** The exemption in this chapter applies to  
12 taxes levied for collection in 2017 and thereafter.

13 NEW SECTION. **Sec. 18.** Sections 1 through 17 of this act  
14 constitute a new chapter in Title 84 RCW.

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