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**SUBSTITUTE HOUSE BILL 2950**

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**State of Washington 66th Legislature 2020 Regular Session**

**By** House Finance (originally sponsored by Representatives Macri and Ramel)

AN ACT Relating to addressing affordable housing needs through the multifamily housing tax exemption by providing an extension of the exemption until January 1, 2022, for certain properties currently receiving a twelve-year exemption and by convening a work group; amending RCW 84.14.020 and 84.14.100; and creating a new section.

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

NEW SECTION. **Sec.**  (1) This section is the tax preference performance statement for the tax preferences contained in section 2, chapter . . ., Laws of 2020 (section 2 of this act). This performance statement is only intended to be used for subsequent evaluation of the tax preferences. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(2) The legislature categorizes these tax preferences as ones intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808(2)(a).

(3) It is the legislature's specific public policy objective to incentivize local governments and multifamily housing owners to maintain or expand existing income-restricted unit stock that have been incentivized through the tax exemption provided under chapter 84.14 RCW.

(4) It is the legislature's intent to provide the value of new housing construction, conversion, and rehabilitation improvements qualifying under chapter 84.14 RCW an exemption from ad valorem property taxation for eight to twelve years or more, as provided for in RCW 84.14.020, in order to provide incentives to developers to construct or rehabilitate multifamily housing thereby increasing the number of affordable housing units, or preserving the state's stock of income-restricted units, for low-income to moderate-income residents in certain urban growth areas.

(5) The legislature intends to extend the tax preferences in section 2, chapter . . ., Laws of 2020 (section 2 of this act), if a review finds that the stock of income-restricted units in the state is preserved as a result of the extensions provided in RCW 84.14.020(1)(c).

(6) In order to obtain the data necessary to perform the review in subsection (5) of this section, the joint legislative audit and review committee must refer to the annual reports compiled by the department of commerce under RCW 84.14.100 and may refer to data provided by counties or cities in which persons are utilizing the preferences, the office of financial management, the department of commerce, the United States department of housing and urban development, and any other data sources, as needed by the joint legislative audit and review committee.

**Sec.**  RCW 84.14.020 and 2007 c 430 s 4 are each amended to read as follows:

(1)(a) The value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation, as follows:

(i) For properties for which applications for certificates of tax exemption eligibility are submitted under this chapter ((~~84.14 RCW~~)) before July 22, 2007, the value is exempt for ten successive years beginning January 1 of the year immediately following the calendar year of issuance of the certificate; and

(ii) For properties for which applications for certificates of tax exemption eligibility are submitted under this chapter ((~~84.14 RCW~~)) on or after July 22, 2007, the value is exempt:

(A) For eight successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate; or

(B) For twelve successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter ((~~84.14 RCW~~)) and meets the conditions in this subsection (1)(a)(ii)(B). For the property to qualify for the twelve-year exemption under this subsection, the applicant must commit to renting or selling at least twenty percent of the multifamily housing units as affordable housing units to low and moderate‑income households, and the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the local government under this chapter. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection (1)(a)(ii)(B) may be satisfied solely through housing affordable to moderate‑income households.

(b) The exemptions provided in (a)(i) and (ii) of this subsection do not include the value of land or nonhousing-related improvements not qualifying under this chapter.

(c) For properties receiving an exemption as provided in (a)(ii)(B) of this subsection that are in compliance with existing contracts and where the certificate of tax exemption is set to expire after the effective date of this section but before December 31, 2021, the exemption is extended until December 31, 2021, provided that the property must satisfy any eligibility criteria or limitations provided in this chapter as a condition to the existing exemption for a given property continue to be met. For all properties eligible to receive an extension pursuant to this subsection (1)(c), the city or county that issued the initial certificate of tax exemption, as required in RCW 84.14.090, must notify the county assessor and the applicant of the extension of the certificate of tax exemption.

(2) When a local government adopts guidelines pursuant to RCW 84.14.030(2) and includes conditions that must be satisfied with respect to individual dwelling units, rather than with respect to the multiple-unit housing as a whole or some minimum portion thereof, the exemption may, at the local government's discretion, be limited to the value of the qualifying improvements allocable to those dwelling units that meet the local guidelines.

(3) In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to the submission of the application required under this chapter. The incentive provided by this chapter is in addition to any other incentives, tax credits, grants, or other incentives provided by law.

(4) This chapter does not apply to increases in assessed valuation made by the assessor on nonqualifying portions of building and value of land nor to increases made by lawful order of a county board of equalization, the department of revenue, or a county, to a class of property throughout the county or specific area of the county to achieve the uniformity of assessment or appraisal required by law.

(5) At the conclusion of the exemption period, the new or rehabilitated housing cost shall be considered as new construction for the purposes of chapter 84.55 RCW.

**Sec.**  RCW 84.14.100 and 2012 c 194 s 9 are each amended to read as follows:

(1) Thirty days after the anniversary of the date of the certificate of tax exemption and each year for the tax exemption period, the owner of the rehabilitated or newly constructed property must file with a designated authorized representative of the city or county an annual report indicating the following:

(a) A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve months ending with the anniversary date;

(b) A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the affordable housing requirements as described in RCW 84.14.020 since the date of the certificate approved by the city or county;

(c) A description of changes or improvements constructed after issuance of the certificate of tax exemption; and

(d) Any additional information requested by the city or county in regards to the units receiving a tax exemption.

(2) All cities or counties, which issue certificates of tax exemption for multiunit housing that conform to the requirements of this chapter, must report annually by December 31st of each year, beginning in 2007, to the department of commerce. The report must include the following information:

(a) The number of tax exemption certificates granted;

(b) The total number and type of units produced or to be produced;

(c) The number and type of units produced or to be produced meeting affordable housing requirements;

(d) The actual development cost of each unit produced;

(e) The total monthly rent or total sale amount of each unit produced;

(f) The income of each renter household at the time of initial occupancy and the income of each initial purchaser of owner‑occupied units at the time of purchase for each of the units receiving a tax exemption and a summary of these figures for the city or county; and

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

(3) The department of commerce must contract with a nonprofit organization with experience in facilitating multi-sector policy and planning efforts to convene, and provide staff support to, a work group to study and make recommendations on the multifamily property tax exemption as provided in chapter 84.14 RCW. The work group must convene no later than July 1, 2020, and must hold at least four meetings prior to November 1, 2020.

(a) The work group membership must consist of:

(i) One representative from the department of commerce;

(ii) One representative from the department of revenue;

(iii) One representative from the Washington state housing finance commission;

(iv) One representative from the association of Washington cities;

(v) One representative from the Washington state association of counties;

(vi) One representative from the Washington low income housing alliance;

(vii) One representative from the housing development consortium of Seattle-King county;

(viii) One representative from the Spokane low income housing consortium;

(ix) One representative from the Washington multifamily housing association;

(x) One representative from the Washington state labor council;

(xi) One representative from the Washington building trades council;

(xii) One representative from a city with a population greater than five hundred thousand;

(xiii) One representative from a city with a population greater than fifty thousand, but less than five hundred thousand;

(xiv) One representative from a city with a population less than fifty thousand;

(xv) One representative from futurewise; and

(xvi) Two representatives from NAOIP, the commercial real estate development association, as follows:

(A) One representative must be a participant in the multifamily property tax exemption, as provided in chapter 84.14 RCW, in a city with a population greater than one hundred thousand; and

(B) One representative must be a participant in the multifamily property tax exemption, as provided in chapter 84.14 RCW, in a city with a population less than fifty thousand.

(b) By December 1, 2020, the work group must submit a report to the appropriate committees of the legislature and the joint legislative audit and review committee. The work group must provide opportunities for stakeholders to provide feedback on the report prior to submission. The report must:

(i) Identify reporting improvements needed for increased accountability and meeting program requirements, including a requirement of a public benefit analysis prior to project approval, consistency in reporting metrics, and information collected in reports. For the purpose of this subsection (3)(b)(i):

(A) "Affordability" means the difference between the market rent and the income-restricted rent for similar units within the participating housing development; and

(B) "Public benefit analysis" includes an affordability analysis and an examination of other measures local jurisdictions use that are replicable, including a profitability analysis;

(ii) Examine whether tenants living in affordable units created under this chapter are experiencing increases in rent due to increases in city median income that significantly outpace the tenants' income, and provide recommendations on how to address this problem;

(iii) Recommend which elements of the exemption be modified or maintained in order to assist counties and cities achieve the planning goals mandated by the growth management act, as provided in chapter 36.70A RCW; and

(iv) Recommend changes to the exemption that would:

(A) Likely increase the supply of affordable housing including, but not limited to, a review of area median income requirements that lead to greater affordability, and the size of units;

(B) Include tenant protections beyond affordability requirements;

(C) Increase the supply of affordable housing while preserving workforce housing; and

(D) Promote density in residential targeted areas, with consideration of how increased density impacts existing communities and affordability in those communities.

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