SENATE BILL REPORT
SB 5363

As Reported by Senate Committee On:
Housing Stability & Affordability, February 6, 2019
Ways & Means, March 1, 2019

Title: An act relating to extending the property tax exemption for new and rehabilitated multiple-unit dwellings in urban centers.

Brief Description: Extending the property tax exemption for new and rehabilitated multiple-unit dwellings in urban centers.

Sponsors: Senators Palumbo, Wagoner, Hunt, Mullet and Liias.

Brief History:
Committee Activity: Housing Stability & Affordability: 2/04/19, 2/06/19 [DP-WM].
Ways & Means: 2/21/19, 3/01/19 [DPS, DNP, w/oRec].

Brief Summary of First Substitute Bill

- Provides an additional 12-year property tax exemption for certain eligible multi-unit residential housing projects in urban centers.
- Expands eligible residential targeted areas under the multi-family tax exemption program to certain unincorporated areas of a county.

SENATE COMMITTEE ON HOUSING STABILITY & AFFORDABILITY

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Kuderer, Chair; Das, Vice Chair; Zeiger, Ranking Member; Darneille, Fortunato, Saldaña and Warnick.

Staff: Jeff Olsen (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5363 be substituted therefor, and the substitute bill do pass.
Signed by Senators Rolfes, Chair; Mullet, Capital Budget Cabinet; Braun, Ranking Member; Honeyford, Assistant Ranking Member, Capital; Becker, Billig, Conway, Darneille,

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This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Hunt, Keiser, Liias, Palumbo, Rivers, Schoesler, Van De Wege, Wagoner, Warnick and Wilson, L..

Minority Report: Do not pass.
Signed by Senator Hasegawa.

Minority Report: That it be referred without recommendation.
Signed by Senators Frockt, Vice Chair, Operating, Capital Lead; Carlyle and Pedersen.

Staff: Alia Kennedy (786-7405)

Background: Growth Management Act. The Growth Management Act (GMA) is the comprehensive land use planning framework for counties and cities in Washington. The GMA sets forth three broad planning obligations for those counties and cities who plan fully under the GMA: the county legislative authority must adopt a countywide planning policy; the county, and the cities within the county, must designate critical areas, agricultural lands, forestlands, and mineral resource lands, and adopt development regulations accordingly; and the county must designate and take other actions related to urban growth areas.

Urban Growth Areas. Counties that fully plan under the GMA must designate urban growth areas (UGA), within which urban growth must be encouraged and outside of which growth may occur only if it is not urban in nature. Planning jurisdictions must include within their UGAs sufficient areas and densities to accommodate projected urban growth for the succeeding 20-year period. In addition, cities must include sufficient areas to accommodate the broad range of needs and uses that will accompany the projected urban growth, including, as appropriate, medical, governmental, institutional, commercial, service, retail, and other nonresidential uses.

Multi-Family Tax Exemption. Eligible cities and counties may exempt from property tax the value of the construction, conversion, and rehabilitation of certain multi-unit residential housing projects in urban centers. The tax exemption applies only to the value of the construction or rehabilitation projects and does not exempt the value of the underlying property. The tax exemption on a qualifying property lasts for eight consecutive years. However, the exemption is extended to a 12-year period if the owner commits to renting or selling at least 20 percent of the units as affordable housing to low and moderate-income households.

To qualify for an exemption, the housing project must be located within a residential targeted area (RTA) designated by a qualifying county or city. The RTA must be in an urban center that lacks sufficient residential housing, including affordable housing, to meet the needs of the public who would likely live in the urban center if housing were available.

Qualifying cities and towns that may designate RTAs include:
- cities or towns with a population of at least 15,000;
- the largest city or town located in a county planning under the Growth Management Act, if there is no city or town with a population of at least 15,000; and
- cities or towns with a population of at least 5,000 located in a county that participates in the Buildable Lands Program.

County-designated RTAs must be in an unincorporated area of the county, within an UGA, and either:

- in a county with an unincorporated population over 350,000 that includes a college campus where at least 1200 students live; or
- be designated before January 1, 2013, by a rural county with a population between 50,000 and 71,000 that borders Puget Sound.

Property owners within a designated RTA must submit an application for the tax exemption to the designating city or county. The city or county may include additional eligibility requirements for the tax exemption, including a higher percentage of units used for affordable housing to qualify for the 12-year exemption. Counties eligible to apply the tax exemption must require owners to commit to selling or renting at least 20 percent of the multi-family housing units for affordable housing to qualify for either the eight or 12-year exemption.

For the purpose of the property tax exemption, affordable housing is housing for low-to-moderate income households that does not exceed one-third of the household's monthly income. Low-income households must have an income that is no more than 80 percent of the median income of their county. Moderate-income households must have an income between 80 and 115 percent of the median income of their county.

Summary of Bill (First Substitute): The 12-year property tax exemption period for properties currently receiving the tax exemption may be extended for an additional 12 years, provided the local government adopts qualifying guidelines for the extension. The local government may adopt and implement more stringent income eligibility, rent, or sale price limits, including limits that apply to a higher percentage of units than the minimum conditions required under current law.

Beginning July 1, 2021, county-designated RTAs are expanded to include an area in a county with an unincorporated population of at least 350,000 seeking to promote transit supportive densities and efficient land use in an area that is located within:

- a UGA;
- a city's potential annexation area of a city with a population of at least 200,000; and
- 0.25 of a mile of a corridor where bus service is scheduled at least every 15 minutes for no less than ten hours per day and is in service or is planned for service to begin within five years of designation.

The eight-year property tax exemption for qualifying multiunit residential housing does not apply to county-designated RTAs seeking to promote transit supportive densities and efficient land use.

The act is exempt from tax preference performance review and automatic expiration.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Clarifies that the additional 12 year property tax exemption is for current qualifying properties only.
- Expands eligible residential targeted areas under the multifamily tax exemption program to include certain unincorporated areas of a county that are seeking to promote transit supportive densities and efficient land use, beginning July 1, 2021.
- Provides that a residential targeted area in a county seeking to promote transit supportive densities and efficient land use is not eligible for the eight year multifamily property tax exemption.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony on Original Bill (Housing Stability & Affordability): PRO: The bill extends a property tax exemption for existing affordable multi-family housing units that otherwise may converted to market rates. Washington State is 225,000 homes short of meeting housing need. In every county in Washington at least 25 percent of households experience cost burdening. The multi-family tax exemption program is cited as a national model and some 2000 units of affordable homes are set to expire by 2022. The bill preserves affordable housing by allowing cities to extend the program for an additional 12 years. The bill does not allow cities to extend the market rate housing under the 8-year exemption, only the affordable housing. Local jurisdictions have the option of requiring more stringent qualifications for the exemption. The multi-family tax exemption is an effective tool for Seattle, and approximately 4000 units will no longer be under the exemption by 2030. Extending the timeline will preserve affordable housing.

Persons Testifying (Housing Stability & Affordability): PRO: Senator Guy Palumbo, Prime Sponsor; Carl Schroeder, Association of Washington Cities; Mike Kingsella, Up for Growth; Brad Bowsell, Seattle Chamber of Commerce; Matthew Mauer, Government Relations Associate, Vulcan Inc.

Persons Signed In To Testify But Not Testifying (Housing Stability & Affordability): No one.

Staff Summary of Public Testimony on Original Bill (Ways & Means): *The committee recommended a different version of the bill than what was heard.* PRO: The state is in an affordable housing and homelessness crisis. Thousands of affordable housing units are going to roll of the books soon and go to market rate for property taxes. This is a no harm bill that extends the exemption by an additional 12 years and gives local jurisdictions the option to implement more stringent affordable housing requirements. The Washington Association of Counties supports a diverse array of local taxing authority to ensure counties have the fiscal sustainability necessary to provide the types of programs and services required by statute and in the constitution. Local jurisdictions that have access to the multifamily property tax exemption say that it is one of the most effective tools the state has ever provided for promoting development of affordable housing. Without this bill individuals in affordable housing units face possible rent increases of 50 percent or more. Competition for housing has intensified with many multifamily tax exempt homes up to expire in the next four years.

Persons Testifying (Ways & Means): PRO: Senator Guy Palumbo, Prime Sponsor; Mike Kingsella, Up for Growth; Carl Schroeder, Association of Washington Cities; Mellani McAleenan, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.