Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Community Development, Housing & Tribal Affairs Committee

HB 2480

Brief Description: Providing local governments with options to preserve affordable housing in single-family neighborhoods.

Sponsors: Representatives McBride, Gregerson, Hayes, Eslick, Stanford, Doglio and Tharinger.

Brief Summary of Bill

- Allows a county or city to establish a program to exempt property taxes for up to 12 years on portions of single family properties that provide affordable housing to low income tenants.

Hearing Date: 1/16/18

Staff: Sean Flynn (786-7124).

Background:

State Property Tax. All real and personal property in the state is subject to a state property tax, unless specifically exempted under law. Local jurisdictions also have property taxing authority. Property taxes are based on the assessed fair market value of the property. All property taxes must be applied uniformly within each taxing district.

The state Constitution limits regular property tax levies to a maximum of 1 percent of a property's assessed value. This applies to the total taxes levied by the state, counties, and other local districts. The Legislature has established individual and aggregate limits for the various tax districts. The state levy takes precedence over all other levies.

Local Planning and Accessory Dwelling Units. Cities and counties engaging in comprehensive planning may enact ordinances regulating the use of land and zoning certain development and

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activities. Such regulations generally include the location, construction and size of buildings for residence, industry, trade, and other purposes.

In 1993, the legislature directed cities and counties to create regulations for the development and placement of accessory apartments, otherwise known as accessory dwelling units (ADU), in single-family residence areas. Local jurisdictions have enacted ordinances permitting the construction of ADUs, which generally consist of a separate living unit attached to an existing single-family house, or located on the same property.

Summary of Bill:

Local Property Tax Exemption Program for Affordable Housing.

A city or county may create a property tax exemption program to promote the preservation of affordable housing available for low-income households. The exemption applies to the portion of single-family residential property designated as an affordable accessory dwelling unit that is attached or detached from the single-family dwelling. The exemption may last up to six years and can be renewed for an additional six years. The exemption does not apply to any increased assessments on non-exempt portions of the property.

Establishment. The tax exempt program may be established by the governing authority of a city or county after providing notice and hearing within the jurisdiction. To be eligible for the exemption, the property must comply with all applicable land use, zoning, and building regulations, as well as federal health and quality standards set for publically funded housing. The program may establish additional eligibility requirements, including a limit on the total number of affordable housing units subject to the exemption, a designated area targeted for the exemption, standards for the size and type of qualifying units, and other requirements to reduce the displacement of low-income housing tenants.

Eligibility Standards. The tax exemption program must include an application and review process with standards and guidelines for eligible properties. The standards for low-income housing require that affordable housing units are set at below-market renal levels, and that ADUs are affordable to low-income households. Low-income households include adjusted gross income at or below 80 percent of the median family income in the county where the property is located.

Application and Approval Process. The application for the exemption program must require the property owner to provide a description and floor plan of the project, the certification of the family size and annual income of the designated affordable housing units, and an acknowledgement of the liabilities if the property ceases to become eligible during the exemption period. The property owner also must agree to enter into a contract with the city or county to comply with the terms and conditions set by the program. The application may include a fee to cover administrative costs.

The city or county may approve an application after it inspects the property for compliance with health and quality standards, determines finds that the property meets affordable housing requirements, and all applicable standards and guidelines. Upon approval, the city or county must issue the owner a certificate of tax exemption. Certificates must be filed before October 1 in the year before the exemption is applied. An applicant may appeal an application denial to the governing authority of the city or county.

Reporting. The property owner must file an annual report in order to maintain the tax exemption. The report must include a statement of occupancy, schedule of rent charged, the family size and annual income of each tenant living in an affordable housing rental unit, and any changes or improvements.

The city or county must file an annual report with the Department of Commerce, including the number of tax exemptions granted, the number and types of units meeting the affordable housing requirements, the monthly rent for each unit, and the total value of the tax exemption, as well as the value, for each property.

Cancellation. A tax exemption must be cancelled if the owner fails to meet the program requirements, or intends to discontinue compliance. A property owner must be notified of any decision to cancel a tax exemption certificate and the owner has the right to appeal the decision to the governing body of the city or county. If the property tax is cancelled, the value of the exempt tax must be assessed, including interest as well as a 20 percent penalty, which becomes a lien on the property.

The tax emption program authorization expires January 1, 2029.

Appropriation: None.

Fiscal Note: Requested on 1/15/18.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.