

# FINAL BILL REPORT

## ESSB 5143

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Synopsis as Enacted

**Brief Description:** Concerning the exemption of property taxes for nonprofit homeownership development.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Zeiger, Rolfes and Darneille).

**Senate Committee on Human Services, Mental Health & Housing**  
**Senate Committee on Ways & Means**  
**House Committee on Finance**

**Background:** Land Banking. Land banking is a term that refers to land that is purchased and held for future commercial or residential development. Land banking can be a challenge for affordable housing developers for a number of reasons including the quick pace of the real estate market and the short time a buyer has to put together financing and close a deal. In response to this concern, in 2007 the Legislature created the Land Acquisition Fund, which is administered by the Washington State Housing Finance Commission. Under this program, loans not exceeding 1 percent interest may be made to eligible organizations to purchase land to develop affordable housing. The housing must be developed within eight years of the loan. Resulting housing developments are subject to a minimum of 30 years of affordability.

Property Tax. All real and personal property in the state is subject to property tax each year based on its value, unless specific exemption is provided by law. There are numerous exemptions from property tax established either by statute or constitutionally. The largest exemption is for intangible property. Other exemptions include churches, nonprofit hospitals, private schools and colleges, agricultural products, and affordable housing.

Land Banking Property Tax Exemption. The Legislature created a property tax exemption for real property owned by a nonprofit entity for the purpose of developing real property to be sold to low-income households. Low-income households are defined as households earning less than 80 percent of the median family income—adjusted for family size as most recently determined by the federal Department of Housing and Urban Development—for the county in which the property is located.

*Expiration.* The property tax exemption expires on or at the earlier of the date on which the nonprofit entity transfers title to the residence on the real property, at the end of the seventh

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consecutive property tax year for which the exemption is granted, or when the property is no longer held for the purpose for which the exemption was granted.

*Extension.* If the nonprofit entity believes that the title will not be transferred by the end of the sixth consecutive property tax year, the entity may claim a three-year extension of the exemption by filing a notice with the Department of Revenue and providing a filing fee.

*Disqualification.* If the title has not been transferred within the required timeframe or if the nonprofit has converted the property to a purpose other than that for which the exemption was granted, and an extension has not been granted, the property is disqualified from the exemption. Upon disqualification, the county assessor must collect all taxes that would have otherwise been due including interest as calculated for delinquent property taxes.

*Joint Legislative Audit and Review Committee (JLARC).* The Legislature's objective is to encourage and expand the ability of nonprofit low-income housing developers to provide homeownership opportunities for low-income households. To measure the effectiveness of this tax preference, JLARC will evaluate whether the financial resources dedicated by a nonprofit to affordable housing development have increased during the period that the property tax exemption is claimed, two years prior to the expiration of the tax preference.

This property tax exemption expires in 2026.

Community Land Trusts. Community land trusts are nonprofit, community-based organizations designed to ensure community stewardship of land. Community land trusts are primarily used to ensure long-term housing affordability. To ensure long-term affordability, a trust acquires land and maintains ownership of it permanently. With prospective homeowners, it enters into a long-term, renewable lease instead of a traditional sale. Under the community land trust model, a homeowner owns the residence but not the land. The land remains in a trust to preserve housing affordability for future low-to-moderate income households. In Washington there are community land trusts in a number of counties including Chelan, Clallum, Clark, Douglas, Island, Jefferson, King, Kitsap, Skagit, Thurston, Whatcom, and Yakima.

**Summary:** The property tax exemption for real property owned by a nonprofit entity for the purpose of developing real property to be sold to low-income households is amended to include single-family dwelling units where the land is leased for life or 99 years. This exemption applies to taxes levied for collection in 2019 and thereafter and expires on January 1, 2028.

A residence means a single-family dwelling unit whether the unit is separate or part of a multi-unit dwelling and the land on which the dwelling unit stands, whether to be sold, or to be leased for life or 99 years, to the low-income household owning the unit.

This new tax exemption amends last year's tax preference statement accordingly.

**Votes on Final Passage:**

Senate	41	8	
House	80	18	(House amended)
Senate	43	5	(Senate concurred)

**Effective:** June 7, 2018