Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2746

Brief Description: Concerning affordable housing incentives.

Sponsors: Representatives Ramel, Macri, Lekanoff, Morgan, Fey, Davis, Duerr, Tharinger, Robinson and Pollet.

Brief Summary of Bill

- Increases the minimum affordability requirements of the Multifamily Property Tax Exemption.
- Requires the Department of Commerce to prepare a report on city and county compliance with the reporting requirements of the exemption.
- Creates a Multifamily Property Tax Exemption work group.

Hearing Date: 2/7/20

Staff: Nick Tucker (786-7383).

Background:

Property Tax.
All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for each property and calculates property taxes. The property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of the property. In addition, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed $5.90 per $1,000 of assessed valuation.

Multifamily Property Tax Exemption.
The Multifamily Property Tax Exemption (MFTE) (also referred to as the multi-unit urban housing property tax exemption) exempts real property associated with the construction,

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.

conversion, or rehabilitation of qualified, multi-unit residential structures located in residential targeted areas (RTA) contained within an urban center. The tax exemption applies only to the value of the construction, conversion, or rehabilitation projects and does not exempt the value of the underlying property or other improvements on the property.

The tax exemption on 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 multi-family housing units as affordable housing to low and moderate-income (LMI) households.

To qualify for an exemption, the housing project must be located within a 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.

Cities with a population of 15,000 or more may designate an RTA. Certain smaller cities are also eligible. Counties with an unincorporated population over 350,000 are eligible to designate an RTA. The county-designated RTA must be in an unincorporated area of the county that is within an urban growth area under the Growth Management Act.

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 in order to qualify for either the eight or 12-year exemption.

For the purpose of the MFTE, 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.

<u>Tax Preferences</u>.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Beginning July 1, 2020, properties are eligible for exemption for:

- Eight years, if the applicant commits to renting or selling at least 15 percent of the multifamily units as affordable housing to LMI and at least 10 percent of the affordable units contain at least two bedrooms.
- Twelve years, if the applicant commits to renting or selling at least 25 percent of the multifamily units as affordable housing to LMI and at least 33 percent of the affordable units contain at least two bedrooms.

Beginning July 1, 2020, for multiunit housing located in an unincorporated area of a county, an applicant must commit to renting or selling at least 25 percent of the multifamily units as affordable housing to LMI households and at least 33 percent of the affordable units contain at least two bedrooms. For multiunit housing intended exclusively for owner occupancy, the minimum affordability requirements may be met solely through affordable housing to moderate income households.

In its review of an application, a city or county must conduct an analysis of the project's profitability with and without a property tax exemption. Cities and counties are required to report to the Department of Commerce (Commerce) the size of affordable housing units produced and the annual income and household size of each renter or owner.

Commerce is required to submit an annual report to the legislature and the JLARC on city and county compliance with the reporting requirements of the exemption.

An MFTE work group is created and required to submit a report to the legislature and the JLARC. The work group is to include members from the Commerce, Department of Revenue, and various commissions and associations.

The bill does not include a tax preference performance statement or expiration date.

Appropriation: None.

Fiscal Note: Available.

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