CERTIFICATION OF ENROLLMENT

**ENGROSSED SECOND SUBSTITUTE SENATE BILL 5287**

Chapter 187, Laws of 2021

67th Legislature

2021 Regular Session

AFFORDABLE HOUSING—TAX INCENTIVES

EFFECTIVE DATE: July 25, 2021

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| Passed by the Senate April 14, 2021  Yeas 41 Nays 7  DENNY HECK  **President of the Senate**  Passed by the House April 10, 2021  Yeas 81 Nays 16  LAURIE JINKINS  **Speaker of the House of Representatives** | CERTIFICATE  I, Brad Hendrickson, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **ENGROSSED SECOND SUBSTITUTE SENATE BILL 5287** as passed by the Senate and the House of Representatives on the dates hereon set forth.  BRAD HENDRICKSON  Secretary |
| Approved May 3, 2021 2:41 PM | May 3, 2021 |
| JAY INSLEE  **Governor of the State of Washington** | **Secretary of State**  **State of Washington** |

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**ENGROSSED SECOND SUBSTITUTE SENATE BILL 5287**

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AS AMENDED BY THE HOUSE

Passed Legislature - 2021 Regular Session

**State of Washington 67th Legislature 2021 Regular Session**

**By** Senate Ways & Means (originally sponsored by Senators Das, Kuderer, Conway, Keiser, Liias, Nguyen, Nobles, Pedersen, Randall, Salomon, and Wilson, C.)

AN ACT Relating to affordable housing incentives; amending RCW 84.14.005, 84.14.010, 84.14.020, 84.14.040, 84.14.100, 84.14.030, and 84.14.090; adding a new section to chapter 84.14 RCW; creating new sections; and providing an expiration date.

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

**Sec.**  RCW 84.14.005 and 2007 c 430 s 1 are each amended to read as follows:

(1) The legislature finds:

((~~(1)~~)) (a) That in many of Washington's urban centers there is insufficient availability of desirable and convenient residential units, including affordable housing units, to meet the needs of a growing number of the public who would live in these urban centers if these desirable, convenient, attractive, affordable, and livable places to live were available;

((~~(2)~~)) (b) That the development of additional and desirable residential units, including affordable housing units, in these urban centers that will attract and maintain a significant increase in the number of permanent residents in these areas will help to alleviate the detrimental conditions and social liability that tend to exist in the absence of a viable mixed income residential population and will help to achieve the planning goals mandated by the growth management act under RCW 36.70A.020; and

((~~(3)~~)) (c) That planning solutions to solve the problems of urban sprawl often lack incentive and implementation techniques needed to encourage residential redevelopment in those urban centers lacking a sufficient variety of residential opportunities, and it is in the public interest and will benefit, provide, and promote the public health, safety, and welfare to stimulate new or enhanced residential opportunities, including affordable housing opportunities, within urban centers through a tax incentive as provided by this chapter.

(2) Therefore, the legislature intends to achieve multiple goals by incentivizing the development of multiple-unit housing including creating additional affordable housing, encouraging urban development and density, increasing market rate workforce housing, developing permanently affordable housing opportunities, promoting economic investment and recovery, and creating family-wage jobs.

**Sec.**  RCW 84.14.010 and 2017 c 52 s 16 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Affordable housing" means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of low or moderate‑income households.

(2) "Campus facilities master plan" means the area that is defined by the University of Washington as necessary for the future growth and development of its campus facilities for campuses authorized under RCW 28B.45.020.

(3) "City" means either (a) a city or town with a population of at least fifteen thousand, (b) the largest city or town, if there is no city or town with a population of at least fifteen thousand, located in a county planning under the growth management act, ((~~or~~)) (c) a city or town with a population of at least five thousand located in a county subject to the provisions of RCW 36.70A.215, or (d) any city that otherwise does not meet the qualifications under (a) through (c) of this subsection, until December 31, 2031, that complies with RCW 84.14.020(1)(a)(iii) or section 7(1)(b) of this act.

(4) "County" means a county with an unincorporated population of at least ((~~three hundred fifty thousand~~)) 170,000.

(5) "Governing authority" means the local legislative authority of a city or a county having jurisdiction over the property for which an exemption may be applied for under this chapter.

(6) "Growth management act" means chapter 36.70A RCW.

(7) ((~~"High cost area" means a county where the third quarter median house price for the previous year as reported by the Washington center for real estate research at Washington State University is equal to or greater than one hundred thirty percent of the statewide median house price published during the same time period.~~

~~(8)~~)) "Household" means a single person, family, or unrelated persons living together.

((~~(9)~~)) (8) "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below eighty percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development. ((~~For cities located in high-cost areas, "low-income household" means a household that has an income at or below one hundred percent of the median family income adjusted for family size, for the county where the project is located.~~

~~(10)~~)) (9) "Moderate‑income household" means a single person, family, or unrelated persons living together whose adjusted income is more than eighty percent but is at or below one hundred fifteen percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development. ((~~For cities located in high-cost areas, "moderate-income household" means a household that has an income that is more than one hundred percent, but at or below one hundred fifty percent, of the median family income adjusted for family size, for the county where the project is located.~~

~~(11)~~)) (10) "Multiple-unit housing" means a building or a group of buildings having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from new construction or rehabilitated or conversion of vacant, underutilized, or substandard buildings to multifamily housing.

((~~(12)~~)) (11) "Owner" means the property owner of record.

((~~(13)~~)) (12) "Permanent residential occupancy" means multiunit housing that provides either rental or owner occupancy on a nontransient basis. This includes owner-occupied or rental accommodation that is leased for a period of at least one month. This excludes hotels and motels that predominately offer rental accommodation on a daily or weekly basis.

((~~(14)~~)) (13) "Rehabilitation improvements" means modifications to existing structures, that are vacant for twelve months or longer, that are made to achieve a condition of substantial compliance with existing building codes or modification to existing occupied structures which increase the number of multifamily housing units.

((~~(15)~~)) (14) "Residential targeted area" means an area within an urban center or urban growth area that has been designated by the governing authority as a residential targeted area in accordance with this chapter. With respect to designations after July 1, 2007, "residential targeted area" may not include a campus facilities master plan.

((~~(16)~~)) (15) "Rural county" means a county with a population between fifty thousand and seventy-one thousand and bordering Puget Sound.

((~~(17)~~)) (16) "Substantial compliance" means compliance with local building or housing code requirements that are typically required for rehabilitation as opposed to new construction.

((~~(18)~~)) (17) "Urban center" means a compact identifiable district where urban residents may obtain a variety of products and services. An urban center must contain:

(a) Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, governmental agencies;

(b) Adequate public facilities including streets, sidewalks, lighting, transit, domestic water, and sanitary sewer systems; and

(c) A mixture of uses and activities that may include housing, recreation, and cultural activities in association with either commercial or office, or both, use.

**Sec.**  RCW 84.14.020 and 2020 c 237 s 2 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 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 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 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; or

(C) For 20 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 and meets the conditions in this subsection (1)(a)(ii)(C). For the property to qualify for the 20-year exemption under this subsection, the project must be located within one mile of high capacity transit of at least 15 minute scheduled frequency, in a city that has implemented, as of the effective date of this section, a mandatory inclusionary zoning requirement for affordable housing that ensures affordability of housing units for a period of at least 99 years and that has a population of no more than 65,000 as measured on the effective date of this section. To qualify for the exemption provided in this subsection (1)(a)(ii)(C), the applicant must commit to renting at least 20 percent of the dwelling units as affordable to low-income households for a term of at least 99 years, and the property must satisfy that commitment and all required affordability and income eligibility conditions adopted by the local government under this chapter. A city must require the applicant to record a covenant or deed restriction that ensures the continuing rental of units subject to these affordability requirements consistent with the conditions in this subsection (1)(a)(ii)(C) for a period of no less than 99 years. The covenant or deed restriction must also address criteria and policies to maintain public benefit if the property is converted to a use other than which continues to provide for permanently affordable low-income housing consistent with this subsection (1)(a)(ii)(C); and

(iii) Until December 31, 2026, for a city as defined in RCW 84.14.010(3)(d), for 12 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 and meets the conditions in this subsection (1)(a)(iii). For the property to qualify for the 12-year exemption under this subsection, the applicant must commit to renting or selling at least 20 percent of the multifamily housing units as affordable housing units to low and moderate-income households, the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the local government under this chapter, and the area must be zoned to have an average minimum density equivalent to 15 dwelling units or more per gross acre, or for cities with a population over 20,000, the area must be zoned to have an average minimum density equivalent to 25 dwelling units or more per gross acre. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection (1)(a)(iii) may be satisfied solely through housing affordable to low-income or moderate-income households.

(b) The exemptions provided in (a)(i) ((~~and (ii)~~)) through (iii) 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 June 11, 2020, 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~~)) value of the new housing construction, conversion, or rehabilitation improvements must be considered as new construction for the purposes of ((~~chapter 84.55 RCW~~)) chapters 84.55 and 36.21 RCW as though the property was not exempt under this chapter.

(6) For properties that qualified for, satisfied the conditions of, and utilized the exemption under subsection (1)(a)(ii)(A) or (B) of this section, following the initial exemption period or the extension period authorized in subsection (1)(c) of this section, the exemption period may be extended for an additional 12 years for projects that are within 18 months of expiration contingent on city or county approval. For the property to qualify for an extension under this subsection (6), the applicant must meet at a minimum the locally adopted requirements for the property to qualify for an exemption under subsection (1)(a)(ii)(B) of this section as applicable at the time of the extension application, and the applicant commits to renting or selling at least 20 percent of the multifamily housing units as affordable housing units for low-income households.

(7) At the end of both the tenth and eleventh years of an extension, for twelve-year extensions of the exemption, applicants must provide tenants of rent-restricted units with notification of intent to provide the tenant with rental relocation assistance as provided in subsection (8) of this section.

(8)(a) Except as provided in (b) of this subsection, for any 12-year exemption authorized under subsection (1)(a)(ii)(B) or (iii) of this section after the effective date of this section, or for any 12-year exemption extension authorized under subsection (6) of this section, at the expiration of the exemption the applicant must provide tenant relocation assistance in an amount equal to one month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an income-restricted unit at the time the exemption expires and must qualify as a low-income household under this chapter at the time relocation assistance is sought.

(b) If affordability requirements consistent, at a minimum, with those required under subsection (1)(a)(ii)(B) or (iii) of this section remain in place for the unit after the expiration of the exemption, relocation assistance in an amount equal to one month's rent must be provided to a qualified tenant within the final month of a qualified tenant's lease who occupies an income-restricted unit at the time those additional affordability requirements cease to apply to the unit.

(9) No new exemptions may be provided under this section beginning on or after January 1, 2032. No extensions may be granted under subsection (6) of this section on or after January 1, 2046.

**Sec.**  RCW 84.14.040 and 2014 c 96 s 4 are each amended to read as follows:

(1) The following criteria must be met before an area may be designated as a residential targeted area:

(a) The area must be within an urban center, as determined by the governing authority;

(b) The area must lack, as determined by the governing authority, sufficient available, desirable, and convenient residential housing, including affordable housing, to meet the needs of the public who would be likely to live in the urban center, if the affordable, desirable, attractive, and livable places to live were available;

(c) The providing of additional housing opportunity, including affordable housing, in the area, as determined by the governing authority, will assist in achieving one or more of the stated purposes of this chapter; ((~~and~~))

(d) If the residential targeted area is designated by a county, the area must be located in an unincorporated area of the county that is within an urban growth area under RCW 36.70A.110 and the area must be: (i) In a rural county, served by a sewer system and designated by a county prior to January 1, 2013; or (ii) in a county that includes a campus of an institution of higher education, as defined in RCW 28B.92.030, where at least one thousand two hundred students live on campus during the academic year; and (iii) until July 15, 2024, in a county seeking to promote transit supportive densities and efficient land use in an area that is located within a designated urban growth area and within .25 miles of a corridor where bus service is scheduled at least every thirty minutes for no less than 10 hours per weekday and is in service or is planned for service to begin within five years of designation; and

(e) For a residential targeted area designated by a county after the effective date of this section, the county governing authority must conduct an evaluation of the risk of potential displacement of residents currently living in the area if the tax incentives authorized in this chapter were to be used in the area. The county may use an existing analysis if one exists. An area may not be designated as a residential targeted area unless: (i) The evaluation finds that the risk of displacement is minimal; or (ii) the governing authority mitigates the risk of displacement with locally adopted mitigation measures such as, but not limited to, ensuring that those directly or indirectly displaced have a first right of refusal to occupy the newly created dwelling units receiving an exemption under this chapter, including the affordable units if they otherwise meet the qualifications.

(2) For the purpose of designating a residential targeted area or areas, the governing authority may adopt a resolution of intention to so designate an area as generally described in the resolution. The resolution must state the time and place of a hearing to be held by the governing authority to consider the designation of the area and may include such other information pertaining to the designation of the area as the governing authority determines to be appropriate to apprise the public of the action intended.

(3) The governing authority must give notice of a hearing held under this chapter by publication of the notice once each week for two consecutive weeks, not less than seven days, nor more than thirty days before the date of the hearing in a paper having a general circulation in the city or county where the proposed residential targeted area is located. The notice must state the time, date, place, and purpose of the hearing and generally identify the area proposed to be designated as a residential targeted area.

(4) Following the hearing, or a continuance of the hearing, the governing authority may designate all or a portion of the area described in the resolution of intent as a residential targeted area if it finds, in its sole discretion, that the criteria in subsections (1) through (3) of this section have been met.

(5) After designation of a residential targeted area, the governing authority must adopt and implement standards and guidelines to be utilized in considering applications and making the determinations required under RCW 84.14.060. The standards and guidelines must establish basic requirements for both new construction and rehabilitation, which must include:

(a) Application process and procedures;

(b) Income and rent standards for affordable units;

(c) Requirements that address demolition of existing structures and site utilization; and

((~~(c)~~)) (d) Building requirements that may include elements addressing parking, height, density, environmental impact, and compatibility with the existing surrounding property and such other amenities as will attract and keep permanent residents and that will properly enhance the livability of the residential targeted area in which they are to be located.

(6)(a) The governing authority may adopt and implement, either as conditions to eight‑year exemptions or as conditions to an extended exemption period under RCW 84.14.020(1)(a)(ii) (B) or (C), or ((~~both~~)) as conditions to any combination of exemptions authorized under this chapter, more stringent income eligibility, rent, or sale price limits, including limits that apply to a higher percentage of units, than the minimum conditions for an extended exemption period under RCW 84.14.020(1)(a)(ii) (B) or (C).

(b) Additionally, a governing authority may adopt and implement as a contractual prerequisite to any exemption granted pursuant to RCW 84.14.020:

(i) A requirement that applicants pay at least the prevailing rate of hourly wage established under chapter 39.12 RCW for journey level and apprentice workers on residential and commercial construction;

(ii) Payroll record requirements consistent with RCW 39.12.120(1);

(iii) Apprenticeship utilization requirements consistent with RCW 39.04.310; and

(iv) A contracting inclusion plan developed in consultation with the office of minority and women's business enterprises.

(7) For any multiunit housing located in an unincorporated area of a county, a property owner seeking tax incentives under this chapter 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. In the case of multiunit housing intended exclusively for owner occupancy, the minimum requirement of this subsection ((~~(6)~~)) (7) may be satisfied solely through housing affordable to moderate-income households.

(8) Nothing in this section prevents a governing authority from adopting and implementing additional requirements to any exemption granted under RCW 84.14.020.

**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, or the qualified nonprofit or local government that will assure permanent affordable homeownership for at least 25 percent of the units for properties receiving an exemption under section 7 of this act, 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~~)) April 1st of each year, beginning in 2007, to the department of commerce. A city or county must be in compliance with the reporting requirements of this section to offer certificates of tax exemption for multiunit housing authorized in this chapter. 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, size, 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 annual household 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~~)) and household size for each of the affordable 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)(a) The department of commerce must adopt and implement a program to effectively audit or review that the owner or operator of each property for which a certificate of tax exemption has been issued, except for those properties receiving an exemption that are owned or operated by a nonprofit or for those properties receiving an exemption from a city or county that operates an independent audit or review program, is offering the number of units at rents as committed to in the approved application for an exemption and that the tenants are being properly screened to be qualified for an income-restricted unit. The audit or review program must be adopted in consultation with local governments and other stakeholders and may be based on auditing a percentage of income-restricted units or properties annually. A private owner or operator of a property for which a certificate of tax exemption has been issued under this chapter, must be audited at least once every five years.

(b) If the review or audit required under (a) of this subsection for a given property finds that the owner or operator is not offering the number of units at rents as committed to in the approved application or is not properly screening tenants for income-restricted units, the department of commerce must notify the city or county and the city or county must impose and collect a sliding scale penalty not to exceed an amount calculated by subtracting the amount of rents that would have been collected had the owner or operator complied with their commitment from the amount of rents collected by the owner or operator for the income-restricted units, with consideration of the severity of the noncompliance. If a subsequent review or audit required under (a) of this subsection for a given property finds continued substantial noncompliance with the program requirements, the exemption certificate must be canceled pursuant to RCW 84.14.110.

(c) The department of commerce may impose and collect a fee, not to exceed the costs of the audit or review, from the owner or operator of any property subject to an audit or review required under (a) of this subsection.

(4) The department of commerce must provide guidance to cities and counties, which issue certificates of tax exemption for multiunit housing that conform to the requirements of this chapter, on best practices in managing and reporting for the exemption programs authorized under this chapter, including guidance for cities and counties to collect and report demographic information for tenants of units receiving a tax exemption under this chapter.

(5) This section expires January 1, 2058.

NEW SECTION. **Sec.**  (1) This section is the tax preference performance statement for the tax preferences contained in section 3, chapter . . ., Laws of 2021 (section 3 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:

(a) Incentivize developers to construct or rehabilitate multifamily housing;

(b) 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 via new authority to renew the property tax abatement in exchange for continued or additional affordability; and

(c) Further encourage multifamily construction in cities and certain unincorporated urban growth areas by expanding access to the multifamily tax exemption program to a broader set of jurisdictions.

(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 12 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 expiration date of the tax preferences in section 3, chapter . . ., Laws of 2021 (section 3 of this act), if a review finds that:

(a) Projects receiving an initial eight-year or 12-year exemption regularly enter into subsequent 12-year extensions in exchange for continued or increased income restrictions on affordable units; and

(b) At least 20 percent of the new housing is developed and occupied by households earning:

(i) At or below 80 percent of the area median income, at the time of occupancy, adjusted for family size for the county in which the project is located; or

(ii) Where the housing is intended exclusively for owner occupancy, up to 115 percent of the area median income, at the time of sale, adjusted for family size for the county in which the project is located.

(6) In order to obtain the data necessary to perform the review in subsection (4) 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.

NEW SECTION. **Sec.**  A new section is added to chapter 84.14 RCW 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: For 20 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 and meets the conditions in this section. For the property to qualify for the 20-year exemption under this section, at least 25 percent of the units must be built by or sold to a qualified nonprofit or local government that will assure permanent affordable homeownership. The remaining 75 percent of units may be rented or sold at market rates.

(b) Until December 31, 2031, for a city as defined in RCW 84.14.010(3)(d), in any city the value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation, as follows: For 20 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 and meets the conditions in this section. For the property to qualify for the 20-year exemption under this section, at least 25 percent of the units must be sold to a qualified nonprofit or local government partner that will assure permanent affordable homeownership. The remaining 75 percent of units may be rented or sold at market rates. The area must be zoned to have an average minimum density equivalent to 15 dwelling units or more per gross acre, or for cities with a population over 20,000, the area must be zoned to have an average minimum density equivalent to 25 dwelling units or more per gross acre.

(2) Permanently affordable homeownership units or permanently affordable rental units must be sold or rented to households earning no more than 80 percent of the average median income for the city or local jurisdiction in which the unit is located.

(3) A local jurisdiction may assign and collect an administration fee at each point of sale to cover the administrative costs for oversight of the program to maintain permanently affordable housing units consistent with this section.

(4) The exemptions in this section do not include the value of land or nonhousing-related improvements not qualifying under this chapter.

(5) At the conclusion of the exemption period, the value of the new housing construction, conversion, or rehabilitation improvements must be considered as new construction for the purposes of chapters 84.55 and 36.21 RCW as though the property was not exempt under this chapter.

(6) For purposes of this section, "permanently affordable homeownership" means homeownership that, in addition to meeting the definition of "affordable housing" in RCW 43.185A.010, is:

(a) Sponsored by a nonprofit organization or governmental entity;

(b) Subject to a ground lease or deed restriction that includes:

(i) A resale restriction designed to provide affordability for future low and moderate-income homebuyers;

(ii) A right of first refusal for the sponsor organization to purchase the home at resale; and

(iii) A requirement that the sponsor must approve any refinancing, including home equity lines of credit; and

(c) Sponsored by a nonprofit organization or governmental entity and the sponsor organization:

(i) Executes a new ground lease or deed restriction with a duration of at least 99 years at the initial sale and with each successive sale; and

(ii) Supports homeowners and enforces the ground lease or deed restriction.

(7) The department of commerce must develop a template for permanent affordability for home or condo ownership through deed restrictions that can be used by a city or local government to ensure compliance with this section.

(8) No new exemptions may be provided under this section beginning on or after January 1, 2032.

NEW SECTION. **Sec.**  (1) This section is the tax preference performance statement for the tax preference contained in section 7, chapter . . ., Laws of 2021 (section 7 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 developers to construct or rehabilitate permanently affordable homeownership units.

(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 20 years, as provided for in section 7 of this act, in order to provide incentives to developers to construct or rehabilitate multifamily housing thereby increasing the number of permanently affordable homeownership units.

(5) The legislature intends to extend the expiration date of the tax preferences in section 7, chapter . . ., Laws of 2021 (section 7 of this act), if a review finds that:

(a) The number of local governments utilizing the permanently affordable homeownership tax exemption program authorized in section 7 of this act increases over time;

(b) The number of permanently affordable homeownership units increases; and

(c) The income level of those households benefiting from the permanently affordable homeownership units is consistent with the requirements of section 7 of this act.

(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 84.14.030 and 2012 c 194 s 3 are each amended to read as follows:

An owner of property making application under this chapter must meet the following requirements:

(1) The new or rehabilitated multiple-unit housing must be located in a residential targeted area as designated by the city or county;

(2) The multiple-unit housing must meet guidelines as adopted by the governing authority that may include height, density, public benefit features, number and size of proposed development, parking, income limits for occupancy, limits on rents or sale prices, and other adopted requirements indicated necessary by the city or county. The required amenities should be relative to the size of the project and tax benefit to be obtained;

(3) The new, converted, or rehabilitated multiple-unit housing must provide for a minimum of fifty percent of the space for permanent residential occupancy. In the case of existing occupied multifamily development, the multifamily housing must also provide for a minimum of four additional multifamily units. Existing multifamily vacant housing that has been vacant for twelve months or more does not have to provide additional multifamily units;

(4) New construction multifamily housing and rehabilitation improvements must be completed within three years from the date of approval of the application, plus any extension authorized under RCW 84.14.090(5);

(5) Property proposed to be rehabilitated must fail to comply with one or more standards of the applicable state or local building or housing codes on or after July 23, 1995. If the property proposed to be rehabilitated is not vacant, an applicant must provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate; and

(6) The applicant must enter into a contract with the city or county approved by the governing authority, or an administrative official or commission authorized by the governing authority, under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the governing authority.

**Sec.**  RCW 84.14.090 and 2012 c 194 s 8 are each amended to read as follows:

(1) Upon completion of rehabilitation or new construction for which an application for a limited tax exemption under this chapter has been approved and after issuance of the certificate of occupancy, the owner must file with the city or county the following:

(a) A statement of the amount of rehabilitation or construction expenditures made with respect to each housing unit and the composite expenditures made in the rehabilitation or construction of the entire property;

(b) A description of the work that has been completed and a statement that the rehabilitation improvements or new construction on the owner's property qualify the property for limited exemption under this chapter;

(c) If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020; and

(d) A statement that the work has been completed within three years of the issuance of the conditional certificate of tax exemption.

(2) Within thirty days after receipt of the statements required under subsection (1) of this section, the authorized representative of the city or county must determine whether the work completed, and the affordability of the units, is consistent with the application and the contract approved by the city or county and is qualified for a limited tax exemption under this chapter. The city or county must also determine which specific improvements completed meet the requirements and required findings.

(3) If the rehabilitation, conversion, or construction is completed within three years of the date the application for a limited tax exemption is filed under this chapter, or within an authorized extension of this time limit, and the authorized representative of the city or county determines that improvements were constructed consistent with the application and other applicable requirements, including if applicable, affordable housing requirements, and the owner's property is qualified for a limited tax exemption under this chapter, the city or county must file the certificate of tax exemption with the county assessor within ten days of the expiration of the thirty-day period provided under subsection (2) of this section.

(4) The authorized representative of the city or county must notify the applicant that a certificate of tax exemption is not going to be filed if the authorized representative determines that:

(a) The rehabilitation or new construction was not completed within three years of the application date, or within any authorized extension of the time limit;

(b) The improvements were not constructed consistent with the application or other applicable requirements;

(c) If applicable, the affordable housing requirements as described in RCW 84.14.020 were not met; or

(d) The owner's property is otherwise not qualified for limited exemption under this chapter.

(5) If the authorized representative of the city or county finds that construction or rehabilitation of multiple-unit housing was not completed within the required time period due to circumstances beyond the control of the owner and that the owner has been acting and could reasonably be expected to act in good faith and with due diligence, the governing authority or the city or county official authorized by the governing authority may extend the deadline for completion of construction or rehabilitation for a period not to exceed twenty-four consecutive months. For preliminary or final applications submitted on or before February 15, 2020, with any outstanding application requirements, such as obtaining a temporary certificate of occupancy, the city or county may choose to extend the deadline for completion for an additional five years. The five-year extension begins immediately following the completion of any outstanding applications or previously authorized extensions, whichever is later.

(6) The governing authority may provide by ordinance for an appeal of a decision by the deciding officer or authority that an owner is not entitled to a certificate of tax exemption to the governing authority, a hearing examiner, or other city or county officer authorized by the governing authority to hear the appeal in accordance with such reasonable procedures and time periods as provided by ordinance of the governing authority. The owner may appeal a decision by the deciding officer or authority that is not subject to local appeal or a decision by the local appeal authority that the owner is not entitled to a certificate of tax exemption in superior court under RCW 34.05.510 through 34.05.598, if the appeal is filed within thirty days of notification by the city or county to the owner of the decision being challenged.

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Passed by the Senate April 14, 2021.

Passed by the House April 10, 2021.

Approved by the Governor May 3, 2021.

Filed in Office of Secretary of State May 3, 2021.