

HOUSE BILL REPORT

SB 5713

As Reported by House Committee On:
Finance

Title: An act relating to providing a property tax exemption for limited equity cooperative housing.

Brief Description: Providing a property tax exemption for limited equity cooperative housing.

Sponsors: Senators Das, Lias, Nobles, Robinson, Saldaña and Wellman.

Brief History:

Committee Activity:

Finance: 2/21/22, 2/25/22 [DPA].

Brief Summary of Bill
(As Amended By Committee)

- Authorizes a property tax exemption until January 1, 2033, for qualifying limited equity cooperative housing that provides low-income housing.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 9 members: Representatives Frame, Chair; Berg, Vice Chair; Walen, Vice Chair; Harris-Talley, Morgan, Orwall, Ramel, Thai and Wylie.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Vick and Young.

Minority Report: Without recommendation. Signed by 4 members: Representatives Chase, Chopp, Springer and Stokesbary.

Staff: Rachelle Harris (786-7137).

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

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 annual growth of all regular property tax levy revenue is limited to 1 percent plus the value of new construction.

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.

Cooperative Housing.

Cooperative housing is a type of common-interest housing community where real estate is owned by an association whose members are entitled to exclusive possession of a unit. Limited equity cooperatives are a type of cooperative housing where restrictions on resale value are included in co-ownership rights to maintain housing affordability over the long term.

Summary of Amended Bill:

The real property owned by a limited equity cooperative that provides housing for low-income households is exempt from property taxation if the following conditions are met:

- the benefit of the exemption inured to the limited equity cooperative and its members;
- at least 85 percent of the occupied dwelling units are occupied by members of the limited equity cooperative;
- at least 95 percent of the property for which the exemption is sought is used for housing units or other noncommercial uses; and
- the housing is insured, financed, or assisted, through a federal or state housing program administered by the Department of Commerce; the federal Department of Housing and Urban Development; a federal housing program administered by a city or county government; an affordable housing levy; or an affordable housing surcharge.

If less than 100 percent of the dwelling units within the limited equity cooperative are occupied by low-income households, the limited equity cooperative is eligible for a partial exemption on the real property based on the percentage of low-income households as of January 1 of each assessment year for which the exemption is claimed.

To be eligible for the exemption, a limited equity cooperative must prevent members from selling their ownership interests other than to a median-income household. In addition, members must be prevented from selling their ownership interests for a sales price that exceeds the sum of the sales price they paid for their ownership interest plus certain allowable improvements and assessments, and a 3 percent annual non-compounded return on qualifying amounts.

"Low-income household" means a single person, family, or unrelated persons living together whose income is at or below 80 percent of the median income adjusted for family size. "Median income household" means a single person, family, or unrelated persons living together whose income is at or below 100 percent of the median income adjusted for family size.

The property tax exemption for qualifying limited equity cooperative housing that provides low-income housing expires on January 1, 2033.

A TPPS identifies the policy objective of financially incentivizing the formation and utilization of limited equity cooperatives and increasing the availability of low-income housing. The JLARC must evaluate, two years prior to the expiration of the tax preference:

- growth in the formation and utilization of limited equity cooperatives;
- growth in available units of affordable housing within limited equity cooperatives;
- and
- any other relevant metric.

Amended Bill Compared to Original Bill:

The bill as recommended by the Finance committee adds the Washington State Housing Finance Commission as an eligible housing funding source for exemption-eligible properties. The bill also adds the limited equity cooperative exemption to the administrative statutes for nonprofit property tax exemptions, requiring initial application for the exemption and renewal declaration every three years. The Department of Revenue is required to share information about applications for the exemption with the JLARC to assist with review, and the bill clarifies that the exemption applies to taxes levied for collection in 2023–2032.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Development of multifamily affordable housing in Tukwila is in the works. This type of exemption is allowed for other types of property, but once the dwelling units are constructed and then transferred in ownership to cooperatives, the exemption goes away. This bill will help increase affordability for BIPOC communities. Black communities need sustainable long-term intergenerational prosperity, and this bill is a step towards that goal. More affordable housing is needed in Tacoma's Hilltop neighborhood. There are three major cooperatives in development in Tacoma, Tukwila, and Seattle. They have made commitments to sustaining the neighborhoods and providing affordable housing instead of worsening gentrification.

(Opposed) None.

Persons Testifying: Olgy Diaz, Forterra; and Cristina Mateo, Washington Build Back Black Alliance.

Persons Signed In To Testify But Not Testifying: None.