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## Finance Committee

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### ESB 5832

**Brief Description:** Expanding the multifamily tax exemption program to include converting existing multifamily units.

**Sponsors:** Senators Das, Fortunato, Dhingra, Keiser, Kuderer, Lovelett, Nobles, Salomon, Wagoner and Wilson, C..

<p style="text-align: center;"><b>Brief Summary of Engrossed Bill</b></p> <ul style="list-style-type: none"><li>• Expands the multifamily property tax exemption to include the conversion of existing multiple-unit housing facilities into affordable housing in a county with a population greater than 300,000.</li></ul>
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**Hearing Date:** 2/21/22

**Staff:** Tracey Taylor (786-7152).

**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.

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*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.*

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, conversion, or rehabilitation of qualified, multi-unit residential structures located in residential targeted areas (RTAs) 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 multifamily housing units as affordable housing to low- and moderate-income (LMI) households. "Affordable housing" is housing that does not exceed one third of the low- to moderate-income 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.

To qualify for an exemption, the housing project must be located within an 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. 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 multifamily housing units for affordable housing in order to qualify for either the eight- or 12-year exemption.

A property that qualified for and used an eight-year or 12-year exemption and is within 18 months of expiration may apply to extend the exemption for an additional 12 years if it meets minimum locally adopted requirements for affordability. To qualify, an applicant must be approved by the city or county and commit to rent or sell at least 20 percent of the housing units to low-income households.

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 property tax purposes as though the property was not exempt under the MFTE program. No new MFTE applications may be approved on or after January 1, 2032, or any extensions of existing tax exemptions on or after January 1, 2046.

#### Tax Preferences.

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 that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee 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:**

Existing multiple-unit property in a county with a population over 300,000 may convert existing market rate units to affordable housing and qualify for the 12-year MFTE. In order to qualify, the MFTE applicant must:

- commit to renting or selling at least 30 percent of the multifamily housing units as affordable housing to low- and moderate-income households; or
- commit to renting or selling at least 50 percent more multifamily housing units than already required by the local government to low and moderate-income households.

"Conversion" is defined as the rehabilitation or conversion of vacant, underutilized, or substandard buildings to multifamily housing or replacing market rate housing in existing multiple unit housing facilities with affordable housing units.

**Appropriation:** None.

**Fiscal Note:** Requested on February 18, 2022.

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