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**HOUSE BILL 1350**

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**State of Washington 68th Legislature 2023 Regular Session**

**By** Representatives Walen, Hutchins, Christian, Duerr, Leavitt, Senn, Stokesbary, Barkis, Gregerson, and Pollet

AN ACT Relating to expanding the multifamily tax exemption program to include converting existing multifamily units; amending RCW 84.14.010 and 84.14.020; adding new sections to chapter 84.14 RCW; and providing an expiration date.

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

**Sec.**  RCW 84.14.010 and 2021 c 187 s 2 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~~)) 30 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~~)) 15,000, (b) the largest city or town, if there is no city or town with a population of at least ((~~fifteen thousand~~)) 15,000, located in a county planning under the growth management act, (c) a city or town with a population of at least ((~~five thousand~~)) 5,000 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 84.14.021(1)(b).

(4) "Conversion" means committing existing units within multiple unit housing facilities that are no older than 15 years at the time the exemption is granted to housing low-income households.

(5) "County" means a county with an unincorporated population of at least 170,000.

((~~(5)~~)) (6) "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)~~)) (7) "Growth management act" means chapter 36.70A RCW.

((~~(7)~~)) (8) "Household" means a single person, family, or unrelated persons living together.

((~~(8)~~)) (9) "Low-income conversion target area" means an area within an urban center or urban growth area that has been designated by the governing authority as a target area to commit existing units to low-income households in accordance with this chapter.

(10) "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below ((~~eighty~~)) 80 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.

((~~(9)~~)) (11) "Moderate‑income household" means a single person, family, or unrelated persons living together whose adjusted income is more than ((~~eighty~~)) 80 percent but is at or below ((~~one hundred fifteen~~)) 115 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.

((~~(10)~~)) (12) "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, or converting units in existing buildings to low-income housing units.

((~~(11)~~)) (13) "Owner" means the property owner of record.

((~~(12)~~)) (14) "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.

((~~(13)~~)) (15) "Rehabilitation improvements" means modifications to existing structures, that are vacant for ((~~twelve~~)) 12 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.

((~~(14)~~)) (16) "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.

((~~(15)~~)) (17) "Rural county" means a county with a population between ((~~fifty thousand~~)) 50,000 and ((~~seventy-one thousand~~)) 71,000 and bordering Puget Sound.

((~~(16)~~)) (18) "Substantial compliance" means compliance with local building or housing code requirements that are typically required for rehabilitation as opposed to new construction.

((~~(17)~~)) (19) "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 2021 c 187 s 3 are each amended to read as follows:

(1)(a) The value of new housing construction, ((~~conversion~~)) buildings containing units within being converted to units for low-income households, 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~~)) 10 successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate;

(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;

(B)(I) For ((~~twelve~~)) 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)(ii)(B)(I). ((~~For~~)) Except as provided in this subsection (1)(a)(ii)(B)(II), for the property to qualify for the ((~~twelve-year~~)) 12-year exemption under this subsection, the applicant must commit to renting or selling at least ((~~twenty~~)) 20 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)(I) may be satisfied solely through housing affordable to moderate‑income households;

(II) Only in cities located in a county with a population greater than 300,000 in areas that have designated a low-income conversion target area, for an existing multiple unit property that is converting existing units to affordable housing to qualify for the 12-year exemption under this subsection, the applicant must:

(1) Demonstrate that the units were constructed no later than 15 years before the exemption is approved; and

(2) Commit to renting or selling at least 30 percent of the multifamily housing units as affordable housing units to low-income households, or the applicant must commit to renting or selling at least 50 percent more multifamily housing units than already required by the local government under this chapter to low-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 July 25, 2021, 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 July 25, 2021. 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) 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)(I) 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 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 properties that qualified for, satisfied the conditions of, and utilized the exemption under subsection (1)(a)(ii)(A) or (B) (I) and (II) 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)(I) 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~~)) 12-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)(I) or (iii) of this section after July 25, 2021, 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)(I) 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.

NEW SECTION. **Sec.**  A new section is added to chapter 84.14 RCW to read as follows:

(1) The following criteria must be met before a governing authority of a city may designate an area as a low-income conversion target area:

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

(b) The area must lack, as determined by the governing authority, sufficient low-income housing to meet the needs of the public who would be likely to live in the urban center.

(2) For the purpose of designating a low-income conversion target area or areas, the governing authority may adopt a resolution of intention to so designate an area. 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 30 days before the date of the hearing in a paper having a general circulation in the city or county where the proposed low-income conversion target 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 low-income conversion target 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 low-income conversion target area if it finds, in its sole discretion, that the criteria in subsection (1) of this section have been met.

(5) After designation of an area to a low-income conversion target area, the governing authority must adopt and implement standards and guidelines to be used in considering applications and making determinations required under subsection (6) of this section. The standards and guidelines must establish basic requirements for conversions, which must include:

(a) Application process and procedures; and

(b) Income and rent standards for low-income units.

(6) The duly authorized administrative official or committee of the city may approve the application if it finds that:

(a) A minimum of four units are being converted to low-income housing units;

(b) The owner has complied with all standards and guidelines adopted by the city under this chapter; and

(c) The site is located in a low-income conversion target area of an urban center that has been designated by the governing authority in accordance with the procedures and guidelines in this section.

(7) The governing authority of a city may adopt and implement more stringent eligibility, rent, or sale price limits, including limits that apply to a higher percentage of units, than required under this chapter.

NEW SECTION. **Sec.**  A new section is added to chapter 84.14 RCW 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 multifamily property receiving a low-income conversion exemption under RCW 84.14.020(1)(a)(ii)(B)(II), must file with a designated authorized representative of the city an annual report indicating the following:

(a) A statement of occupancy and vacancy of the converted property during the 12 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 low-income housing requirements as described in RCW 84.14.020 since the date of the certificate approved by the city;

(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 in regard to the units receiving a tax exemption.

(2) All cities, which issue certificates of tax exemption for multiunit housing that conform to the requirements of this chapter, must report annually by April 1st of each year, beginning in 2024, to the department of commerce. A city must be in compliance with the reporting requirements of this section to offer certificates of tax exemption for a conversion of a multifamily property 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 converted;

(c) The number, size, and type of units converted meeting low-income housing requirements;

(d) The actual development cost of each unit produced;

(e) The total monthly rent or total sale amount of each unit converted;

(f) The annual household income and household size for each of the low-income units receiving a tax exemption and a summary of these figures for the city; 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 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 and the city 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, 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.

**--- END ---**