Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Housing Committee

HB 1350

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

Sponsors: Representatives Walen, Hutchins, Christian, Duerr, Leavitt, Senn, Stokesbary, Barkis, Gregerson and Pollet.

Brief Summary of Bill

- Expands the multifamily property tax exemption to include the conversion of existing units in a multiple unit property into affordable housing in a designated low-income conversion target area of a city located in a county with a population greater than 300,000.

Hearing Date: 1/31/23

Staff: Audrey Vasek (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, or $10 per $1000 of assessed valuation. 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.

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.

Multifamily Property Tax Exemption.

The Multifamily Property Tax Exemption (MFTE), also referred to as the multi-unit urban housing property tax exemption, exempts the value of 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 households. "Affordable housing" means residential housing that is rented by a household whose monthly housing costs do not exceed 30 percent of the household's monthly income. A "low-income household" means a household with an income that is at or below 80 percent of the area median family income. A "moderate-income household" means a household with an income that is more than 80 percent but at or below 115 percent of area median family income.

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.

Relocation Assistance.
For any 12-year exemption authorized after July 25, 2021, and for certain 12-year exemption extensions, an MFTE applicant must provide notice to tenants of rent restricted units at the end of both the tenth and eleventh years of the exemption period. An MFTE applicant must provide tenant relocation assistance to a qualified tenant in an amount equal to one month's rent at the time the exemption expires. To be eligible for tenant relocation assistance, the tenant must occupy an income-restricted unit and qualify as a low-income household. If affordability requirements consistent with the requirements of the program remain in place after the expiration of the exemption, relocation assistance must be provided at the time that any such additional affordability requirements cease to apply.

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:

Multifamily Property Tax Exemption for Low-Income Conversion.
An existing multiple unit property in a designated low-income conversion target area in a city located in a county with a population greater than 300,000 may convert existing units to affordable housing and qualify for the 12-year MFTE. In order to qualify, the MFTE applicant must:
- demonstrate that the units were constructed no later than 15 years before the exemption is approved; and
- commit to renting or selling at least 30 percent of the multifamily housing units as affordable housing units to low-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-income households.

A "low-income conversion target area" is 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. "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.

Designation of Low-Income Conversion Target Areas.
In order for a city's governing authority to designate an area as a low-income conversion target area, the area must be within an urban center and lack sufficient low-income housing to meet the

needs of the public who would be likely to live in the urban center, as determined by the city's governing authority.

The governing authority may adopt a resolution of intent to designate an area as a low-income conversion target area. The resolution must state the time and place of the public hearing to consider designation of the low-income conversion target area. The governing authority must give notice of the public hearing that states the time, date, place, and purpose of the hearing and generally identifies the area proposed to be designated as a low-income conversion target area. The notice must be published once a week for two consecutive weeks in a paper having general circulation in the area and must meet certain other publication requirements.

Following 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 that the area satisfies the relevant criteria.

Standards and Guidelines for Applications and Determinations.
After designation of a low-income conversion target area, the governing authority must adopt and implement standards and guidelines to be used in considering applications and making required determinations. The standards and guidelines must establish basic requirements for conversions, including the application process and procedures, and the income and rent standards for low-income units. The city governing authority may adopt and implement more stringent eligibility, rent, or sale price limits than required under the MFTE chapter.

A city may approve an application if it finds that:
- a minimum of four units are being converted to low-income housing units;
- the owner has complied with all standards and guidelines adopted by the city; and
- the site is located in a designated low-income conversion target area

Annual Reporting Requirements for Property Owners.
The owner of a multifamily property receiving a low-income conversion exemption must file an annual report with the city that indicates the following:
- a statement of occupancy and vacancy of the converted property;
- a certification that the property has not changed use and that the property has been in compliance with the applicable low-income housing requirements;
- a description of changes or improvements constructed after issuance of the tax exemption; and
- any additional information requested by the city related to the units receiving a tax exemption.

Annual Reporting Requirements for Cities.
In order to offer tax exemptions for conversion of multifamily property, all cities that issue tax exemptions for multiunit housing must report the following information annually by April 1 of each year, beginning in 2024, to the Department of Commerce:
- the number of tax exemptions granted;

- the total number and type of units converted;
- the number, size, and type of units converted meeting low-income housing requirements;
- the actual development cost of each unit produced;
- the total monthly rent or total sale amount of each unit converted;
- the annual household size and income for each low-income unit receiving a tax exemption and a summary of these figures for the city; and
- the value of the tax exemption for each project receiving an exemption and the total value of tax exemptions granted.

Department of Commerce Audit or Review.
The Department of Commerce (Department) must adopt and implement a program to audit or review that the owner or operator of each property receiving a tax exemption, with certain exceptions, is offering the number of units at rents as committed to in the approved application for the 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.

A private owner or operator of a property receiving a tax exemption must be audited at least once every five years. If a review or audit finds that an owner or operator is not offering the number of units committed to in the approved application or is not properly screening tenants for income-restricted units, the Department must notify the city, and the city must impose a sliding scale penalty. If a subsequent review or audit finds continued substantial noncompliance by the owner or operator, the tax exemption must be canceled.

The Department may impose and collect a fee, not to exceed the cost of the audit or review, from the owner or operator of any property subject to an audit or review.

The Department must provide guidance to cities that issue tax exemptions for multiunit housing on best practices in managing and reporting for the tax exemption programs.

Expiration of Certain Provisions.
The section containing the annual reporting requirements for property owners, the annual reporting requirements for cities, and the audit or review requirements expires January 1, 2058.

Appropriation: None.

Fiscal Note: Requested on January 27, 2023.

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