Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2422

Brief Description: Expanding affordable housing incentives available to rural counties.

Sponsors: Representatives Corry and Walen.

Brief Summary of Bill

- Allows counties that cannot designate a residential targeted area to allow a 12-year or 20-year multifamily property tax exemption.

Hearing Date: 2/2/24

Staff: Rachelle Harris (786-7137).

Background:

Multifamily Property Tax Exemption.
All real and personal property in Washington is subject to property tax each year based on its value, unless a specific exemption is provided by law. The multifamily property tax exemption (MFTE), also referred to as the multiunit urban housing property tax exemption, exempts real property associated with the construction, conversion, or rehabilitation of qualified, multiple-unit residential structures. Property owners must submit an application for the MFTE to the designated city or county. The city or county may include additional eligibility requirements for the tax exemptions. The multifamily property tax exemptions authorized under the statute include:

- an 8-year exemption;
- a 12-year exemption if the applicant commits to renting or selling at least 20 percent of multifamily housing units as affordable housing to low- and moderate-income households;
- a 20-year exemption for homeownership if at least 25 percent of the units are sold to a qualified nonprofit or local government partner for permanent affordable homeownership;

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and

- a 20-year exemption for rental housing if at least 20 percent of the units are rented to low-income households for a term of 99 years, and the property is located within one mile of high-capacity transit, in a city that has implemented a mandatory inclusionary zoning requirement and has a population of not more than 65,000.

To qualify for an exemption, the housing project must be located in a residential targeted area (RTA) designated by a qualifying county or city. The RTA must be in an urban center that lacks sufficient residential housing to meet the needs of the public who would likely live in the urban center if housing was available.

Cities and counties must meet certain criteria to designate an RTA and offer the MFTE. Counties must have an unincorporated population of at least 175,000. Cities must:

- have a population of at least 15,000;
- be the largest city in a fully planning county if there is no city with a population of at least 15,000; or
- have a population of at least 5,000 and be located in a county subject to buildable lands requirements.

In addition, any city not meeting the criteria above may offer the 12-year exemption and the 20-year exemption for homeownership in areas with minimum density requirements.

An urban growth area (UGA) is an area within a county that is designated by the county within which urban growth is encouraged. For counties offering the MFTE, the RTA must be located in an unincorporated area within the UGA and the area also must be:

- in a rural county served by a sewer system and designated by a county prior to January 1, 2013; or
- in a county that includes a campus of an institution of higher education where at least 1,200 students live on campus during the academic year; and
- until July 15, 2024, in a county seeking to promote transit supportive densities and efficient land use in an area located within a designated UGA and within 0.25 miles of a frequent bus service.

A property that qualified for and used an 8- 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. Extensions of existing tax exemptions may be granted on or after January 1, 2046.

Summary of Bill:

Until December 31, 2031, a county that cannot designate an RTA may allow a 20-year MFTE if at least 25 percent of the units are sold to a qualified nonprofit or local government that will assure permanent affordable homeownership.

Until December 31, 2035, a county that cannot designate an RTA may allow a 12-year MFTE if they commit to renting or selling at least 20 percent of the units as affordable housing units. To qualify, the density of the development must be 15 dwelling units or more per gross acre.

Appropriation: None.

Fiscal Note: Requested on January 24, 2024.

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