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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

Read first time 01/16/23. Referred to Committee on Housing.

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

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

6 **Sec. 1.** RCW 84.14.010 and 2021 c 187 s 2 are each amended to  
7 read as follows:

8 The definitions in this section apply throughout this chapter  
9 unless the context clearly requires otherwise.

10 (1) "Affordable housing" means residential housing that is rented  
11 by a person or household whose monthly housing costs, including  
12 utilities other than telephone, do not exceed (~~(thirty)~~) 30 percent  
13 of the household's monthly income. For the purposes of housing  
14 intended for owner occupancy, "affordable housing" means residential  
15 housing that is within the means of low or moderate-income  
16 households.

17 (2) "Campus facilities master plan" means the area that is  
18 defined by the University of Washington as necessary for the future  
19 growth and development of its campus facilities for campuses  
20 authorized under RCW 28B.45.020.

1 (3) "City" means either (a) a city or town with a population of  
2 at least (~~fifteen thousand~~) 15,000, (b) the largest city or town,  
3 if there is no city or town with a population of at least (~~fifteen~~  
4 ~~thousand~~) 15,000, located in a county planning under the growth  
5 management act, (c) a city or town with a population of at least  
6 (~~five thousand~~) 5,000 located in a county subject to the provisions  
7 of RCW 36.70A.215, or (d) any city that otherwise does not meet the  
8 qualifications under (a) through (c) of this subsection, until  
9 December 31, 2031, that complies with RCW 84.14.020(1)(a)(iii) or  
10 84.14.021(1)(b).

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

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

16 (~~(+5)~~) (6) "Governing authority" means the local legislative  
17 authority of a city or a county having jurisdiction over the property  
18 for which an exemption may be applied for under this chapter.

19 (~~(+6)~~) (7) "Growth management act" means chapter 36.70A RCW.

20 (~~(+7)~~) (8) "Household" means a single person, family, or  
21 unrelated persons living together.

22 (~~(+8)~~) (9) "Low-income conversion target area" means an area  
23 within an urban center or urban growth area that has been designated  
24 by the governing authority as a target area to commit existing units  
25 to low-income households in accordance with this chapter.

26 (10) "Low-income household" means a single person, family, or  
27 unrelated persons living together whose adjusted income is at or  
28 below (~~eighty~~) 80 percent of the median family income adjusted for  
29 family size, for the county, city, or metropolitan statistical area,  
30 where the project is located, as reported by the United States  
31 department of housing and urban development.

32 (~~(+9)~~) (11) "Moderate-income household" means a single person,  
33 family, or unrelated persons living together whose adjusted income is  
34 more than (~~eighty~~) 80 percent but is at or below (~~one hundred~~  
35 ~~fifteen~~) 115 percent of the median family income adjusted for family  
36 size, for the county, city, or metropolitan statistical area, where  
37 the project is located, as reported by the United States department  
38 of housing and urban development.

39 (~~(+10)~~) (12) "Multiple-unit housing" means a building or a group  
40 of buildings having four or more dwelling units not designed or used

1 as transient accommodations and not including hotels and motels.  
2 Multifamily units may result from new construction ~~((or))~~,  
3 rehabilitated, or conversion of vacant, underutilized, or substandard  
4 buildings to multifamily housing, or converting units in existing  
5 buildings to low-income housing units.

6 ~~((11))~~ (13) "Owner" means the property owner of record.

7 ~~((12))~~ (14) "Permanent residential occupancy" means multiunit  
8 housing that provides either rental or owner occupancy on a  
9 nontransient basis. This includes owner-occupied or rental  
10 accommodation that is leased for a period of at least one month. This  
11 excludes hotels and motels that predominately offer rental  
12 accommodation on a daily or weekly basis.

13 ~~((13))~~ (15) "Rehabilitation improvements" means modifications  
14 to existing structures, that are vacant for ~~((twelve))~~ 12 months or  
15 longer, that are made to achieve a condition of substantial  
16 compliance with existing building codes or modification to existing  
17 occupied structures which increase the number of multifamily housing  
18 units.

19 ~~((14))~~ (16) "Residential targeted area" means an area within an  
20 urban center or urban growth area that has been designated by the  
21 governing authority as a residential targeted area in accordance with  
22 this chapter. With respect to designations after July 1, 2007,  
23 "residential targeted area" may not include a campus facilities  
24 master plan.

25 ~~((15))~~ (17) "Rural county" means a county with a population  
26 between ~~((fifty thousand))~~ 50,000 and ~~((seventy-one thousand))~~ 71,000  
27 and bordering Puget Sound.

28 ~~((16))~~ (18) "Substantial compliance" means compliance with  
29 local building or housing code requirements that are typically  
30 required for rehabilitation as opposed to new construction.

31 ~~((17))~~ (19) "Urban center" means a compact identifiable  
32 district where urban residents may obtain a variety of products and  
33 services. An urban center must contain:

34 (a) Several existing or previous, or both, business  
35 establishments that may include but are not limited to shops,  
36 offices, banks, restaurants, governmental agencies;

37 (b) Adequate public facilities including streets, sidewalks,  
38 lighting, transit, domestic water, and sanitary sewer systems; and

1 (c) A mixture of uses and activities that may include housing,  
2 recreation, and cultural activities in association with either  
3 commercial or office, or both, use.

4 **Sec. 2.** RCW 84.14.020 and 2021 c 187 s 3 are each amended to  
5 read as follows:

6 (1)(a) The value of new housing construction, (~~(conversion)~~)  
7 buildings containing units within being converted to units for low-  
8 income households, and rehabilitation improvements qualifying under  
9 this chapter is exempt from ad valorem property taxation, as follows:

10 (i) For properties for which applications for certificates of tax  
11 exemption eligibility are submitted under this chapter before July  
12 22, 2007, the value is exempt for (~~(ten)~~) 10 successive years  
13 beginning January 1st of the year immediately following the calendar  
14 year of issuance of the certificate;

15 (ii) For properties for which applications for certificates of  
16 tax exemption eligibility are submitted under this chapter on or  
17 after July 22, 2007, the value is exempt:

18 (A) For eight successive years beginning January 1st of the year  
19 immediately following the calendar year of issuance of the  
20 certificate;

21 (B) (I) For (~~(twelve)~~) 12 successive years beginning January 1st  
22 of the year immediately following the calendar year of issuance of  
23 the certificate, if the property otherwise qualifies for the  
24 exemption under this chapter and meets the conditions in this  
25 subsection (1)(a)(ii)(B) (I). (~~(For)~~) Except as provided in this  
26 subsection (1)(a)(ii)(B) (II), for the property to qualify for the  
27 (~~(twelve-year)~~) 12-year exemption under this subsection, the  
28 applicant must commit to renting or selling at least (~~(twenty)~~) 20  
29 percent of the multifamily housing units as affordable housing units  
30 to low and moderate-income households, and the property must satisfy  
31 that commitment and any additional affordability and income  
32 eligibility conditions adopted by the local government under this  
33 chapter. In the case of projects intended exclusively for owner  
34 occupancy, the minimum requirement of this subsection (1)(a)(ii)(B)  
35 (I) may be satisfied solely through housing affordable to  
36 moderate-income households;

37 (II) Only in cities located in a county with a population greater  
38 than 300,000 in areas that have designated a low-income conversion  
39 target area, for an existing multiple unit property that is

1 converting existing units to affordable housing to qualify for the  
2 12-year exemption under this subsection, the applicant must:

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

5 (2) Commit to renting or selling at least 30 percent of the  
6 multifamily housing units as affordable housing units to low-income  
7 households, or the applicant must commit to renting or selling at  
8 least 50 percent more multifamily housing units than already required  
9 by the local government under this chapter to low-income households;

10 or

11 (C) For 20 successive years beginning January 1st of the year  
12 immediately following the calendar year of issuance of the  
13 certificate, if the property otherwise qualifies for the exemption  
14 under this chapter and meets the conditions in this subsection

15 (1)(a)(ii)(C). For the property to qualify for the 20-year exemption  
16 under this subsection, the project must be located within one mile of  
17 high capacity transit of at least 15 minute scheduled frequency, in a  
18 city that has implemented, as of July 25, 2021, a mandatory  
19 inclusionary zoning requirement for affordable housing that ensures  
20 affordability of housing units for a period of at least 99 years and  
21 that has a population of no more than 65,000 as measured on July 25,

22 2021. To qualify for the exemption provided in this subsection  
23 (1)(a)(ii)(C), the applicant must commit to renting at least 20  
24 percent of the dwelling units as affordable to low-income households  
25 for a term of at least 99 years, and the property must satisfy that  
26 commitment and all required affordability and income eligibility  
27 conditions adopted by the local government under this chapter. A city  
28 must require the applicant to record a covenant or deed restriction  
29 that ensures the continuing rental of units subject to these  
30 affordability requirements consistent with the conditions in this  
31 subsection (1)(a)(ii)(C) for a period of no less than 99 years. The  
32 covenant or deed restriction must also address criteria and policies  
33 to maintain public benefit if the property is converted to a use  
34 other than which continues to provide for permanently affordable low-  
35 income housing consistent with this subsection (1)(a)(ii)(C); and

36 (iii) Until December 31, 2026, for a city as defined in RCW  
37 84.14.010(3)(d), for 12 successive years beginning January 1st of the  
38 year immediately following the calendar year of issuance of the  
39 certificate, if the property otherwise qualifies for the exemption  
40 under this chapter and meets the conditions in this subsection

1 (1)(a)(iii). For the property to qualify for the 12-year exemption  
2 under this subsection, the applicant must commit to renting or  
3 selling at least 20 percent of the multifamily housing units as  
4 affordable housing units to low and moderate-income households, the  
5 property must satisfy that commitment and any additional  
6 affordability and income eligibility conditions adopted by the local  
7 government under this chapter, and the area must be zoned to have an  
8 average minimum density equivalent to 15 dwelling units or more per  
9 gross acre, or for cities with a population over 20,000, the area  
10 must be zoned to have an average minimum density equivalent to 25  
11 dwelling units or more per gross acre. In the case of projects  
12 intended exclusively for owner occupancy, the minimum requirement of  
13 this subsection (1)(a)(iii) may be satisfied solely through housing  
14 affordable to low-income or moderate-income households.

15 (b) The exemptions provided in (a)(i) through (iii) of this  
16 subsection do not include the value of land or nonhousing-related  
17 improvements not qualifying under this chapter.

18 (c) For properties receiving an exemption as provided in  
19 (a)(ii)(B)(I) of this subsection that are in compliance with existing  
20 contracts and where the certificate of tax exemption is set to expire  
21 after June 11, 2020, but before December 31, 2021, the exemption is  
22 extended until December 31, 2021, provided that the property must  
23 satisfy any eligibility criteria or limitations provided in this  
24 chapter as a condition to the existing exemption for a given property  
25 continue to be met. For all properties eligible to receive an  
26 extension pursuant to this subsection (1)(c), the city or county that  
27 issued the initial certificate of tax exemption, as required in RCW  
28 84.14.090, must notify the county assessor and the applicant of the  
29 extension of the certificate of tax exemption.

30 (2) When a local government adopts guidelines pursuant to RCW  
31 84.14.030(2) and includes conditions that must be satisfied with  
32 respect to individual dwelling units, rather than with respect to the  
33 multiple-unit housing as a whole or some minimum portion thereof, the  
34 exemption may, at the local government's discretion, be limited to  
35 the value of the qualifying improvements allocable to those dwelling  
36 units that meet the local guidelines.

37 (3) In the case of rehabilitation of existing buildings, the  
38 exemption does not include the value of improvements constructed  
39 prior to the submission of the application required under this  
40 chapter. The incentive provided by this chapter is in addition to any

1 other incentives, tax credits, grants, or other incentives provided  
2 by law.

3 (4) This chapter does not apply to increases in assessed  
4 valuation made by the assessor on nonqualifying portions of building  
5 and value of land nor to increases made by lawful order of a county  
6 board of equalization, the department of revenue, or a county, to a  
7 class of property throughout the county or specific area of the  
8 county to achieve the uniformity of assessment or appraisal required  
9 by law.

10 (5) At the conclusion of the exemption period, the value of the  
11 new housing construction, conversion, or rehabilitation improvements  
12 must be considered as new construction for the purposes of chapters  
13 84.55 and 36.21 RCW as though the property was not exempt under this  
14 chapter.

15 (6) For properties that qualified for, satisfied the conditions  
16 of, and utilized the exemption under subsection (1)(a)(ii)(A) or (B)  
17 (I) and (II) of this section, following the initial exemption period  
18 or the extension period authorized in subsection (1)(c) of this  
19 section, the exemption period may be extended for an additional 12  
20 years for projects that are within 18 months of expiration contingent  
21 on city or county approval. For the property to qualify for an  
22 extension under this subsection (6), the applicant must meet at a  
23 minimum the locally adopted requirements for the property to qualify  
24 for an exemption under subsection (1)(a)(ii)(B)(I) of this section as  
25 applicable at the time of the extension application, and the  
26 applicant commits to renting or selling at least 20 percent of the  
27 multifamily housing units as affordable housing units for low-income  
28 households.

29 (7) At the end of both the tenth and eleventh years of an  
30 extension, for (~~twelve-year~~) 12-year extensions of the exemption,  
31 applicants must provide tenants of rent-restricted units with  
32 notification of intent to provide the tenant with rental relocation  
33 assistance as provided in subsection (8) of this section.

34 (8)(a) Except as provided in (b) of this subsection, for any 12-  
35 year exemption authorized under subsection (1)(a)(ii)(B)(I) or (iii)  
36 of this section after July 25, 2021, or for any 12-year exemption  
37 extension authorized under subsection (6) of this section, at the  
38 expiration of the exemption the applicant must provide tenant  
39 relocation assistance in an amount equal to one month's rent to a  
40 qualified tenant within the final month of the qualified tenant's

1 lease. To be eligible for tenant relocation assistance under this  
2 subsection, the tenant must occupy an income-restricted unit at the  
3 time the exemption expires and must qualify as a low-income household  
4 under this chapter at the time relocation assistance is sought.

5 (b) If affordability requirements consistent, at a minimum, with  
6 those required under subsection (1)(a)(ii)(B)(I) or (iii) of this  
7 section remain in place for the unit after the expiration of the  
8 exemption, relocation assistance in an amount equal to one month's  
9 rent must be provided to a qualified tenant within the final month of  
10 a qualified tenant's lease who occupies an income-restricted unit at  
11 the time those additional affordability requirements cease to apply  
12 to the unit.

13 (9) No new exemptions may be provided under this section  
14 beginning on or after January 1, 2032. No extensions may be granted  
15 under subsection (6) of this section on or after January 1, 2046.

16 NEW SECTION. **Sec. 3.** A new section is added to chapter 84.14  
17 RCW to read as follows:

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

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

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

26 (2) For the purpose of designating a low-income conversion target  
27 area or areas, the governing authority may adopt a resolution of  
28 intention to so designate an area. The resolution must state the time  
29 and place of a hearing to be held by the governing authority to  
30 consider the designation of the area and may include such other  
31 information pertaining to the designation of the area as the  
32 governing authority determines to be appropriate to apprise the  
33 public of the action intended.

34 (3) The governing authority must give notice of a hearing held  
35 under this chapter by publication of the notice once each week for  
36 two consecutive weeks, not less than seven days, nor more than 30  
37 days before the date of the hearing in a paper having a general  
38 circulation in the city or county where the proposed low-income  
39 conversion target area is located. The notice must state the time,

1 date, place, and purpose of the hearing and generally identify the  
2 area proposed to be designated as a low-income conversion target  
3 area.

4 (4) Following the hearing, or a continuance of the hearing, the  
5 governing authority may designate all or a portion of the area  
6 described in the resolution of intent as a low-income conversion  
7 target area if it finds, in its sole discretion, that the criteria in  
8 subsection (1) of this section have been met.

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

15 (a) Application process and procedures; and

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

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

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

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

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

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

30 NEW SECTION. **Sec. 4.** A new section is added to chapter 84.14  
31 RCW to read as follows:

32 (1) Thirty days after the anniversary of the date of the  
33 certificate of tax exemption and each year for the tax exemption  
34 period, the owner of the multifamily property receiving a low-income  
35 conversion exemption under RCW 84.14.020(1)(a)(ii)(B)(II), must file  
36 with a designated authorized representative of the city an annual  
37 report indicating the following:

38 (a) A statement of occupancy and vacancy of the converted  
39 property during the 12 months ending with the anniversary date;

1 (b) A certification by the owner that the property has not  
2 changed use and, if applicable, that the property has been in  
3 compliance with the low-income housing requirements as described in  
4 RCW 84.14.020 since the date of the certificate approved by the city;

5 (c) A description of changes or improvements constructed after  
6 issuance of the certificate of tax exemption; and

7 (d) Any additional information requested by the city in regard to  
8 the units receiving a tax exemption.

9 (2) All cities, which issue certificates of tax exemption for  
10 multiunit housing that conform to the requirements of this chapter,  
11 must report annually by April 1st of each year, beginning in 2024, to  
12 the department of commerce. A city must be in compliance with the  
13 reporting requirements of this section to offer certificates of tax  
14 exemption for a conversion of a multifamily property authorized in  
15 this chapter. The report must include the following information:

16 (a) The number of tax exemption certificates granted;

17 (b) The total number and type of units converted;

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

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

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

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

26 (g) The value of the tax exemption for each project receiving a  
27 tax exemption and the total value of tax exemptions granted.

28 (3)(a) The department of commerce must adopt and implement a  
29 program to effectively audit or review that the owner or operator of  
30 each property for which a certificate of tax exemption has been  
31 issued, except for those properties receiving an exemption that are  
32 owned or operated by a nonprofit or for those properties receiving an  
33 exemption from a city that operates an independent audit or review  
34 program, is offering the number of units at rents as committed to in  
35 the approved application for an exemption and that the tenants are  
36 being properly screened to be qualified for an income-restricted  
37 unit. The audit or review program must be adopted in consultation  
38 with local governments and other stakeholders and may be based on  
39 auditing a percentage of income-restricted units or properties  
40 annually. A private owner or operator of a property for which a

1 certificate of tax exemption has been issued under this chapter, must  
2 be audited at least once every five years.

3 (b) If the review or audit required under (a) of this subsection  
4 for a given property finds that the owner or operator is not offering  
5 the number of units at rents as committed to in the approved  
6 application or is not properly screening tenants for income-  
7 restricted units, the department of commerce must notify the city and  
8 the city must impose and collect a sliding scale penalty not to  
9 exceed an amount calculated by subtracting the amount of rents that  
10 would have been collected had the owner or operator complied with  
11 their commitment from the amount of rents collected by the owner or  
12 operator for the income-restricted units, with consideration of the  
13 severity of the noncompliance. If a subsequent review or audit  
14 required under (a) of this subsection for a given property finds  
15 continued substantial noncompliance with the program requirements,  
16 the exemption certificate must be canceled pursuant to RCW 84.14.110.

17 (c) The department of commerce may impose and collect a fee, not  
18 to exceed the costs of the audit or review, from the owner or  
19 operator of any property subject to an audit or review required under  
20 (a) of this subsection.

21 (4) The department of commerce must provide guidance to cities,  
22 which issue certificates of tax exemption for multiunit housing that  
23 conform to the requirements of this chapter, on best practices in  
24 managing and reporting for the exemption programs authorized under  
25 this chapter, including guidance for cities and counties to collect  
26 and report demographic information for tenants of units receiving a  
27 tax exemption under this chapter.

28 (5) This section expires January 1, 2058.

--- END ---