

HOUSE BILL REPORT

HB 1910

As Reported by House Committee On:

Housing
Finance

Title: An act relating to tax incentives for certain multiple-unit dwellings in urban centers that provide affordable housing.

Brief Description: Modifying property tax exemption provisions relating to new and rehabilitated multiple-unit dwellings in urban centers to provide affordable housing requirements.

Sponsors: Representatives Ormsby, Fromhold, Miloscia, Dunshee, Kenney, Appleton, Darneille, Hasegawa and Morrell.

Brief History:

Committee Activity:

Housing: 2/5/07, 2/26/07 [DPS];

Finance: 3/5/07 [DP2S(w/o sub HOUS)].

Brief Summary of Second Substitute Bill

- Lowers the population requirement for a city to be eligible to offer property tax exemptions for certain multi-unit housing projects to 15,000 people.
- Mandates that cities which issue property tax exemptions for multi-unit housing projects adopt and implement affordable housing requirements.
- Mandates that cities which issue property tax exemptions for multi-unit housing projects report data annually to the Department of Community, Trade and Economic Development.
- Mandates that cities which issue property tax exemptions for multi-unit housing projects and which annually receive over \$500,000 in housing-related state funds apply to the Washington State Quality Award program.

HOUSE COMMITTEE ON HOUSING

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 4 members: Representatives Miloscia, Chair; Springer, Vice Chair; Kelley and Ormsby.

Minority Report: Do not pass. Signed by 3 members: Representatives Dunn, Ranking Minority Member; McCune and Schindler.

Staff: Robyn Dupuis (786-7166).

Background:

New, rehabilitated, or converted multi-unit housing projects in targeted residential areas are eligible for a 10-year property tax exemption offered by eligible and participating cities. The property tax exemption may be applied to new housing construction and to the increased value of a building due to rehabilitation. The exemption does not apply to the land or the non-housing improvements. If the property changes use before the 10 year exemption ends, then back taxes are recovered based on the difference between the taxes paid and the taxes that would have been paid without the tax exemption.

Cities with a population of at least 30,000 or the largest city or town in a county planning under the Growth Management Act (GMA) may offer the multi-unit housing property tax exemption.

There are a variety of requirements all multi-unit housing projects must meet to be eligible for a tax exemption, including:

- the housing must be located in a residential targeted area as designated by the city;
- 50 percent of the space must be for permanent residential occupancy;
- new construction must be completed within three years of approval of the application;
- property to be rehabilitated must be vacant at least 12 months prior to application;
- the applicant must enter into a contract with the city and agree to terms and conditions; and
- the housing must meet additional guidelines adopted by the city which may include density, size, parking, low-income occupancy, and others.

Fifty cities qualify to utilize the tax exemption program. Sixteen cities have utilized the program. Two cities (Seattle and Kirkland) include affordable housing requirements for multi-unit housing projects.

Summary of Substitute Bill:

Cities eligible to offer the multi-unit housing property tax exemption are those with a population of at least 15,000 people, or the largest city or town located in a county planning under the GMA.

Housing Affordability Component

Cities must adopt and implement an affordable housing requirement for properties applying for property tax exemptions. The requirement must provide for mixed-income housing that includes a percentage of units that are affordable to low and moderate-income households. The affordable housing requirement must be implemented by December 1, 2007.

Owners of properties seeking a tax exemption under this chapter after the effective date of this act must comply with city affordable housing requirements.

Properties receiving a tax exemption must report to the city annually on data including the total number of units produced, the total development cost of each unit, the monthly rental or sale amount of each unit, the income of each renter at occupancy, and the first homeowner of any unit sold.

Other Changes

At the discretion of the local government, the exemption of individual dwelling units is allowed. In such cases, the tax exemption would be limited to the value of the qualifying improvements within those individual dwelling units.

Reporting Requirement

Beginning in 2007, all cities issuing tax exemptions must report annually to the Department of Community, Trade and Economic Development (DCTED) regarding tax exempt properties.

The annual report must include the following:

- the total number of tax exemptions granted and the total value of those exemptions;
- the total number of units produced and the total development cost of each unit;
- the total monthly rent of each unit or the total sale price of each unit; and
- the income of each renter at occupancy of a rental unit, and the income of each initial purchaser of a homeownership unit.

All cities issuing tax exemptions, and receiving over \$500,000 in housing-related state monies and financing through the Washington State Housing Finance Commission and specific local housing related surcharges, must apply to the Washington State Quality Award program once every three years.

The DCTED may also establish performance measures on which the cities must report.

Substitute Bill Compared to Original Bill:

The specific affordable housing requirement is removed and replaced with a mandate that cities establish an affordable housing requirement by December 1, 2007. This affordable housing requirement must provide for mixed-income housing. Cities are also required to report to the DCTED regarding the nature of properties receiving the benefit of tax exemptions. The reference to workforce housing is removed. The act is applicable to all cities issuing tax exemptions as well as to all projects which apply for tax exemptions after the effective date of the act.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support of original bill) This bill is about helping lower and middle income individuals and families live closer to their places of work and also about increasing density in our cities. If the state is providing a tax exemption there should be some sort of affordable housing component to the requirements of participation in the program.

(Opposed to original bill) The multi-unit tax exemption program is a tool given to the cities to help them achieve their GMA goals. The program is working well now to promote in-fill and increase density. Imposing strict affordable housing restrictions might cripple the program. Although some areas of some cities have really been successful in implementing the program, there is much work to be done in other areas of cities where development has not caught on. Furthermore, only 16 of the 50 cities eligible have even used the program so far.

Persons Testifying: (In support of original bill) Representative Ormsby, prime sponsor; and Nick Federici, Washington Low Income Housing Alliance.

(Opposed to original bill) Randall Lewis, City of Tacoma; Doug Levy, Cities of Everett, Kent, Renton, Federal Way and Puyallup; Robert Carleton, Washington Association of County Assessors; and Bill Riley, Washington Association of Realtors.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Housing. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, McIntire and Santos.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member and Roach.

Staff: Mark Matteson (786-7145).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Housing:

Allows cities in high-cost areas to establish affordable housing requirements that include a higher income population. Alters the definition of affordable housing for owner-occupancy housing to allow for greater flexibility in determining whether owner-occupancy housing is affordable.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This is designed to incent urban density. Since 1995, there has been a growing disparity between the market value of housing and incomes. This is an attempt to allow cities to address affordable housing concerns.

For the 10 year exemption program, there is no public benefit currently coming back to the community. This would provide documentation and reporting. Million-dollar condos would not get this exemption without giving something back to the community, while allowing flexibility in administration.

(In support with amendments) The City of Tacoma supports the bill as amended in committee. The bill has improved since being introduced. The current program is a very valuable tool in redeveloping the downtown area.

(With concerns) While the bill has been improved, it seems like there are more incentive-based ways to incorporate affordable housing into the exemption program. This has been one of the best growth-management tools to bring density to urban areas. We want to make sure that the builders come and build housing where there would not be any otherwise.

(Opposed) The types of housing that are benefitting from this program are units ranging from \$325,000 to \$500,000. The program exempts not only city taxes, but county and state taxes as well. The county does not have any say currently. We supported the bill as introduced with a 20 percent requirement for affordable units - a small requirement when the luxury units can sell for half a million dollars. In addition, we feel that the threshold should not be expanded to allow smaller cities into the program until the data from the new reporting requirements has been collected and analyzed.

Persons Testifying: (In support) Representative Ormsby, prime sponsor; and Nick Federici, Washington Low-Income Housing Alliance.

(In support with amendments) Randall Lewis, City of Tacoma.

(With concerns) Doug Levy, Cities of Everett, Kent, Federal Way, Puyallup, and Renton.

(Opposed) Julie Murray, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying: None.