HOUSE BILL REPORT
2SSB 6239

As Reported by House Committee On:
Community Development, Housing & Tribal Affairs

Title: An act relating to providing local governments with options to preserve affordable housing in their communities.

Brief Description: Providing local governments with options to preserve affordable housing in their communities.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Fain, Frockt, Cleveland, Rolfes, Keiser, Darneille, McAuliffe and Chase).

Brief History:
Committee Activity:
Community Development, Housing & Tribal Affairs: 2/22/16, 2/25/16 [DPA].

Brief Summary of Second Substitute Bill
(As Amended by Committee)

- Allows a county or city to apply a local property tax exemption for nonprofit-owned properties that provide affordable housing to very low-income families.
- Provides that the tax exemption may last up to 15 consecutive years, with a possible 3-year extension, for qualifying properties.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

Majority Report: Do pass as amended. Signed by 4 members: Representatives Ryu, Chair; Robinson, Vice Chair; Appleton and Sawyer.

Minority Report: Do not pass. Signed by 3 members: Representatives Wilson, Ranking Minority Member; Zeiger, Assistant Ranking Minority Member; Hickel.

Staff: Sean Flynn (786-7124).

Background:

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.

All real and personal property in the state is subject to a state property tax, unless specifically exempted under law. All property taxes must be applied uniformly within each taxing district. Property taxes are based on the assessed fair market value of the property. The state Constitution specifically exempts all government-owned property from taxation. The Legislature may create tax exemptions for other property as well.

A property tax exemption applies to nonprofit organizations that use the property for certain qualifying uses. In order to qualify, the nonprofit organization must apply for the tax exemption with the Department of Revenue (Department). Applications must be renewed each year to requalify for the exemption. Applications and annual renewals must include a report from the nonprofit organization showing all receipts and disbursement, and certifying that all income is used to pay for the operation and maintenance of the organization.

Summary of Amended Bill:

A city or county may create a property tax exemption program to promote the preservation of affordable housing available for very low-income households. Only properties owned by a charitable nonprofit entity are eligible for the tax exemption. Starting in 2017, the exemption may apply to local property taxes, but does not apply to the state tax portion. A tax exemption applied by a city may not exempt the county property tax portion without the county's permission. The tax exemption applies for up to 15 consecutive years, but may be extended for an additional three years if the project meets certain energy standards.

Eligibility. The exemption applies to certain multifamily properties if at least 25 percent of its units are affordable to households with an income up to 50 percent of the median family income of the area. The threshold household income level may be lowered to serve severely low-income households, or raised up to 60 percent of the median family income in high property value areas. The rent levels for eligible housing must not exceed 30 percent of the income limit for the housing unit. Properties acquired by a nonprofit entity, with at least 25 percent of its units affordable to households under 50 percent of median income and at least 25 percent of the other units affordable to households below 60 percent of median income, are eligible for the tax exemption only if the property continues to provide at least the same number of additional units affordable to households under 60 percent of median income.

The multifamily property must be part of a residential or mixed-use project and have a 90 percent occupancy rate. It must provide at least half of its space for permanent residents. It also must comply with applicable land use, zoning, and building regulations and meet any building guidelines required by the city or county. A property owner must contract with the city or county under terms and conditions satisfactory to the city or county.

The city or county may establish its own additional eligibility requirements, including: a limit on the total number of units eligible for the exemption; a designated target area for affordable housing in consideration of community cultural preservation and proximity to community infrastructure; an exemption extension for property meeting energy and water efficiency standards; and a program for affordable single-family rental properties.

Application and Reporting. A property owner must apply for an exemption on forms adopted by the city or county. The application must provide a description of the property and a certification of the family size and annual income for each designated affordable housing unit. The county or city may charge an application fee to cover administration costs.

A certification of acceptance is issued to the property owner upon approval of an application. A conditional certificate may be issued if approval is conditioned upon completion of a rehabilitation plan. The rehabilitation must be completed within three years of the application. A property owner may appeal the denial of an application.

The property owner must file an annual report in order to maintain the tax exemption. The report must include a certification of family size and income from each tenant living in a designated affordable housing unit. The report also must include occupancy and vacancy rates, rents charged in market-rate units, description of any changes, and a certification that the property has not changed use. Progress on any rehabilitation plan and repair schedule also is required.

Cities and counties must report to the Department of Commerce on any tax exemption certifications it has issued, including the number and types of units meeting the exemption requirements, the monthly rent for each unit, and the value of the tax exemption for each project. A tax exemption may continue upon sale of the property if the new owner applies for an exemption continuance.

Any tenant identifying information and income data obtained by a city or county governing authority, or the county assessor, may only be used to administer this affordable housing exemption. Such information may not be disclosed, absent content from the subject of the information, except in an administrative or judicial proceeding related to the taxpayer's entitlement of the tax exemption.

Administration. A city or county must adopt guidelines to administer the tax exemption program. The guidelines must address application procedures, building requirements, rent levels, health and quality standards, documentation, and inspection policies. The standards may apply to different areas within the city or county and to different kinds of development.

Compliance. The exempt property must be inspected upon application and at least once every three subsequent years. The inspection is required to certify compliance with national health and quality standards.

A city or county may waive certain housing quality standards if the property owner submits a rehabilitation plan to address compliance with any national health and quality standards required by the city or county. The waiver is limited to issues that will not endanger or impair the health and safety of any tenant. The inspection is required to grant a waiver upon submission of rehabilitation plan.

Cancellation. A tax exemption certificate must be cancelled if the owner fails to meet the affordable housing requirements or intends to discontinue compliance. A certificate also must be cancelled if the property owner does not file annual reports, fails to complete a rehabilitation plan, or fails to substantially comply with any applicable building, safety, or health regulations. A property owner must be notified of any decision to cancel a tax exemption certificate and the owner has the right to appeal the decision.

Amended Bill Compared to Second Substitute Bill:

The committee amendment limits the eligibility for the tax exemption to properties owned by a nonprofit entity. The amendment also provides that properties acquired by a nonprofit entity, with at least 25 percent of its units affordable to households under 50 percent of median income and at least 25 percent of the other units affordable to households below 60 percent of median income, are eligible for the tax exemption only if the property continues to provide at least the same number of additional units affordable to households under 60 percent of median income.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 25, 2016.

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

Staff Summary of Public Testimony:

(In support) Housing costs are increasing around the state, not just in the urban centers, and job wages often are not keeping pace with property values. Rising rental costs contribute to an increase in homelessness. This program is structured to preserve existing affordable housing by creating an incentive for landlords to continue to rent to lower income residents. The bill has a broad base of support. The program is flexible to include the needs of different communities around the state. The program includes procedures that provide adequate public oversight to make sure that the tax exemption program is working to provide housing units for low-income households.

(Opposed) None.

Persons Testifying: Senator Fain, prime sponsor; Edlira Kuka and Robin Koskey, City of Seattle, Office of Housing; Rob Van Tassel, Catholic Housing Services; Brad Boswell, Seattle Metropolitan Chamber of Commerce; and Margaret Lee Thompson, The Arc of the United States.

Persons Signed In To Testify But Not Testifying: None.