

SENATE BILL REPORT

SSB 6211

As Amended by House, March 3, 2016

Title: An act relating to the exemption of property taxes for nonprofit homeownership development.

Brief Description: Concerning the exemption of property taxes for nonprofit homeownership development.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Dammeier, Rolfes, Fraser, Conway, McCoy, O'Ban, Litzow, Fain, Rivers, Becker, Darneille, McAuliffe, Habib, Chase and Benton).

Brief History:

Committee Activity: Human Services, Mental Health & Housing: 1/18/16, 1/21/16 [DP-WM].

Ways & Means: 2/02/16, 2/03/16 [DPS].

Passed Senate: 2/10/16, 46-3.

Passed House: 3/03/16, 83-14.

SENATE COMMITTEE ON HUMAN SERVICES, MENTAL HEALTH & HOUSING

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators O'Ban, Chair; Miloscia, Vice Chair; Darneille, Ranking Minority Member; Padden.

Staff: Alison Mendiola (786-7444)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6211 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Braun, Vice Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Ranking Minority Member, Operating; Bailey, Becker, Billig, Brown, Conway, Darneille, Hasegawa, Hewitt, Nelson, O'Ban, Padden, Parlette, Pedersen, Rolfes, Schoesler and Warnick.

Staff: Juliana Roe (786-7438)

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.

Background: Affordable housing development. Some low-income housing developers have found it difficult to purchase and hold land for future affordable housing development given the fast-paced real estate market and the short time periods they are allowed to gather financing and close the deal. Many traditional sources of funding and financing for low-income housing developments, including the Housing Trust Fund, have strict application and review periods which are not always conducive to purchasing land in a timely manner within the private market. Furthermore, although short-term "bridge loans" are available, recipient organizations find themselves with tight deadlines to secure permanent financing and risk losing the property in question.

Land acquisition fund. In response to this concern the Legislature created the Land Acquisition Fund which is administered by the Washington State Housing Finance Commission (2SHB 1401, 2007). Under this program, loans not exceeding 1 percent interest may be made to eligible organizations to purchase land to develop affordable housing - also known as "land banking". The housing must be developed within eight years of the loan. Resulting housing developments are subject to a minimum of 30 years of affordability.

Property Tax. All real and personal property in the state is subject to property tax each year based on its value, unless specific exemption is provided by law. The Washington Constitution (Constitution) requires that taxes be uniform within a class of property. Uniformity requires both an equal rate of tax and equality in valuing the property taxes. There are numerous exemptions from property tax, established either by statute or constitutionally. The largest exemption is for intangible property. Other exemptions include churches, nonprofit hospitals, private schools and colleges, and agricultural products.

Summary of Substitute Bill: Real property owned by a nonprofit entity for the purpose of developing or redeveloping one or more residences to be sold to low-income households is exempt from property taxes.

Expiration. The property tax exemption expires on or at the earlier of the date on which the nonprofit entity transfers title to the residence on the real property, at the end of the seventh consecutive property tax year for which the exemption is granted, or when the property is no longer held for the purpose for which the exemption was granted.

Extension. If the nonprofit entity believes that the title will not be transferred by the end of the sixth consecutive property tax year, the entity may claim a three-year extension of the exemption by filing a notice with the Department of Revenue and providing a filing fee.

Disqualification. If the title has not been transferred within the required timeframe or if the nonprofit has converted the property to a purpose other than that for which the exemption was granted, and an extension has not been granted, the property is disqualified from the exemption. Upon disqualification, the county assessor must collect all taxes that would have otherwise been due including interest as calculated for delinquent property taxes.

Definitions. "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is less than 80 percent of the median family income, adjusted for family size as most recently determined by the U.S. Department of Housing and Urban Development for the county in which the property is located.

These changes apply to taxes levied in 2016 for collection in 2017 and thereafter. This tax preference expires ten years after its enactment.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Human Services, Mental Health & Housing): PRO: Increasing home ownership is one way to address affordable housing. It is a powerful tool when used effectively. A few years ago, programs that developed affordable housing for home ownership were not appreciated in state policy. This bill provides for a narrow property tax exemption, for land not yet developed that will ultimately house those in need of affordable housing. This legislation is modeled after Oregon's laws. While the exemption may seem small, it's large for non-profit housing developers like Habitat for Humanity. This type of housing can help many people, including formally homeless veterans. It's a way to provide security and a safe place for families. The WA State Housing Finance Commission has a Land Acquisition Program (LAP), and while it helps non-profit developers buy land for future affordable housing development, it's still an expensive undertaking and every bit helps, including a tax exemption as land banking is really cost prohibitive for non-profits. Five LAP loans have been made to Habitat. Some changes may be needed, and what happens when the owner sells the land needs to be clarified.

OTHER: Property tax is the number one revenue source for counties. This bill is narrowly tailored and time-limited, but if this language changes the support would change to con.

Persons Testifying on Original Bill (Human Services, Mental Health & Housing): PRO: Kim Herman, WA State Housing Finance Commission; Daryl Daus, Habitat for Humanity of Washington State; and Maureen Fife, Mark Jameson, and Marissa Jameson, Habitat for Humanity of Tacoma/Pierce County.

OTHER: Josh Weiss, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying: No one.

Staff Summary of Public Testimony on First Substitute (Ways & Means): PRO: This bill uses money saved by way of the property tax exemption to bring new houses online earlier. In turn, these new houses will pay property taxes sooner leading to a positive impact on state taxes. It is money that will be used to put more people in affordable housing. It is a tremendous model that should be supported.

This is not a big bill. However, for nonprofit organizations working on low-income housing, it's a big deal. The biggest challenge for nonprofits like Habitat for Humanity (Habitat) is getting the land ready to build homes. The land banking process can take several years from

the time the property is acquired, prepared, and developed to the time the home is actually built. During that time, Habitat is paying property taxes on the land. This bill would allow Habitat to get low-income people into homes faster. Across the state of Washington, those who live in Habitat built homes pay about \$5.5 million in property taxes.

Home ownership changes lives. When a person owns a home they are able to build equity which is not available to many people without this type of program.

Persons Testifying on First Substitute (Ways & Means): PRO: Sen. Dammeier, prime sponsor; Daryl Daus, Habitat for Humanity of WA - Vice President.

Persons Signed In To Testify But Not Testifying on First Substitute: No one.

House Amendment(s): The JLARC review is to evaluate whether or not the financial resources dedicated by a nonprofit to affordable housing development have increased during the period that the property tax exemption is claimed, instead of evaluating the number of affordable housing units developed. More specific metrics are added to JLARC's review of the number of units exempted. DOR is to share exemption applications and owner occupancy notifications with JLARC. Requires a nonprofit claiming the exemption to retain and provide financial information to JLARC. It is clarified that the value of the property prior to the exemption period is not considered new construction (this is relevant to the assessed value of the property once the tax exemption ends). Technical changes.