HOUSE BILL REPORT
HB 2620

As Reported by House Committee On:
Finance

Title: An act relating to expanding the property tax exemption for new and rehabilitated multiple-unit dwellings in urban growth areas.

Brief Description: Expanding the property tax exemption for new and rehabilitated multiple-unit dwellings in urban growth areas.

Sponsors: Representatives Walen, Barkis, Fitzgibbon, Chapman, Boehnke, Duerr, MacEwen, Gildon, Ortiz-Self, Lekanoff, Senn and Leavitt; by request of Office of the Governor.

Brief History:
Committee Activity:
Finance: 2/7/20, 2/10/20 [DPS].

Brief Summary of Substitute Bill

- Authorizes all cities, and all counties that are planning under the Growth Management Act, to provide the Multifamily Property Tax Exemption (MFTE).
- Authorizes 12-year extensions of properties currently exempt under the MFTE.
- Establishes minimum density requirements for residential targeted areas.
- Modifies the MFTE several additional ways.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

Staff: Nick Tucker (786-7383).

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.

Property Tax.
All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for each property and calculates property taxes. The property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of the property. In addition, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed $5.90 per $1,000 of assessed valuation.

Multifamily Property Tax Exemption.
The Multifamily Property Tax Exemption (MFTE) (also referred to as the multi-unit urban housing property tax exemption) exempts real property associated with the construction, conversion, or rehabilitation of qualified, multi-unit residential structures located in residential targeted areas (RTA) contained within an urban center. The tax exemption applies only to the value of the construction, conversion, or rehabilitation projects and does not exempt the value of the underlying property or other improvements on the property.

The tax exemption on qualifying property lasts for eight consecutive years. However, the exemption is extended to a 12-year period if the owner commits to renting or selling at least 20 percent of multi-family housing units as affordable housing to low- and moderate-income (LMI) households.

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

Cities with a population of 15,000 or more may designate an RTA. Certain smaller cities are also eligible. Counties with an unincorporated population over 350,000 are eligible to designate an RTA. The county-designated RTA must be in an unincorporated area of the county that is within an urban growth area under the Growth Management Act.

Property owners within a designated RTA must submit an application for the tax exemption to the designating city or county. The city or county may include additional eligibility requirements for the tax exemption, including a higher percentage of units used for affordable housing to qualify for the 12-year exemption. Counties eligible to apply the tax exemption must require owners to commit to selling or renting at least 20 percent of the multi-family housing units for affordable housing in order to qualify for either the eight or 12-year exemption.

For the purpose of the MFTE, affordable housing is housing for low-to-moderate income households that does not exceed one-third of the household's monthly income. Low-income households must have an income that is no more than 80 percent of the median income of their county. Moderate-income households must have an income between 80 and 115 percent of the median income of their county.

Tax Preferences.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Substitute Bill:

All cities are authorized to provide an MFTE. All counties fully planning under the Growth Management Act are authorized to provide an MFTE.

Local governing authorities must adopt income and rent standards to be used in reviewing applications.

Income thresholds for the MFTE are set relative to the city or county median income depending on the location of the property.

Affordability requirements must be met with a variety of unit sizes substantially proportional to the property as a whole.

Applicants are required to notify tenants of rent-restricted units of intent to apply for additional exemption or to raise rents. At the conclusion of an exemption, applicants must provide tenants of rent-restricted units with certain specified assistance or gradual rent increases.

Counties and cities are authorized to provide a 12-year extension to eligible properties that are currently exempt from property tax under the MFTE. The local government must adopt guidelines for such an extension. Regardless of the length of the initial property tax exemption, to be eligible for the 12-year exemption, a property, at a minimum, must satisfy any local requirements associated with the initial 12-year exemption.

An RTA is required to be zoned to have an average minimum density of 15 dwelling units or more per gross acre. For cities with a population over 20,000, an RTA is required to be zoned to have an average minimum density of 25 dwelling units or more per gross acre. Counties or cities that have designated an RTA must notify the county assessor's office and the Department of Commerce (Commerce) and provide both a projected fiscal impact and potential expiration date.

Until July 1, 2024, counties are authorized to designate an RTA within an urban growth area that is within one-quarter of a mile of a bus corridor that is scheduled for service at least every 20 minutes.

In its review of an application, a city or county must conduct an analysis of the project's benefit to the public with and without a property tax exemption.

Commerce is required to convene a group of stakeholders to review and consider revising reporting requirements of the bill. Commerce must submit a report on any recommendations.

Substitute Bill Compared to Original Bill:

The substitute bill:
- modifies the income thresholds to be relative to the city or county median income;
- makes technical corrections to language related to zoning requirements;
- requires affordable units be provided in different sizes substantially proportional to the property as a whole;
- makes technical corrections to the treatment of exempt value at the end of the exemption period;
- requires applicants receiving the exemption to notify tenants of rent-restricted units with notice of intent to apply for an additional exemption period or to increase rents at the end of the exemption;
- increases the minimum required scheduled bus service intervals to every 20 minutes for RTAs designated by counties in certain cases;
- requires the local governing authority to adopt income and rent standards for affordable units to be used in considering applications for the exemption;
- clarifies local governing authorities' ability to adopt and implement more stringent affordability requirements for any exemption granted under the program;
- requires a city or county to conduct a review of a projects benefit to the public (instead of the projects profitability) and provides guidelines for such review;
- requires applicants who receive a new exemption after July 1, 2020 to provide to tenants of rent-restricted units: (1) at the end of the exemption, gradual monthly rent increase over a period of months equivalent to the number of years that a tenant occupied the unit; (2) rental assistance for up to one year; or (3) at the end of the exemption, relocation assistance;
- requires local governing authorities to conduct a cumulative assessment of all exemptions provided under the program. The assessment must be conducted by June 1, 2024, and every four years thereafter;
- clarifies annual reporting requirements; and
- requires the Commerce to consult with stakeholders to review and consider revising the reporting requirements of the bill by December 1, 2020.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 10, 2020.

Effective Date of Substitute 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) The state is facing a crisis of affordable housing; rapidly climbing rents have left many residents rent-burdened and struggling to maintain shelter for their families. Children in rent-burdened families have measurably lower academic outcomes and are at higher risk for obesity.

The MFTE is another tool that local jurisdictions can use in order to expand the stock of affordable housing. The program will help to increase the density of development, which is a broadly supported goal. The bill requires affordable units to be below market-rate, which removes the possibility of state-funded gentrification.

There are many properties currently in the program where the exemption is set to expire in the next few years. It is important to act quickly and allow for extensions so there is not a further loss of affordable housing units in the state. The bill allows for the necessary extensions of the exemption for properties with affordable units to avoid this.

The bill also allows for market-rate tax exempted properties under the program to receive an extension if they convert to affordable units. There are many market-rate properties that would be willing to make this conversion, which would further expand the supply of affordable housing. Market-rate units are usually built in affluent areas of a city, so conversion would result in more equitable development.

There should not be too many additional requirements added because it makes it more difficult for developers to generate a feasible business model. Many of the issues raised with the MFTE can be addressed through local ordinances and locally mandated reporting requirements.

(Opposed) The bill should include a prevailing wage requirement. Prevailing wage requirements would create livable communities through family wage careers.

(Other) This bill does a good job of updating the requirements of the MFTE, but there is still some work to be done. There should be strong reporting requirements and it is important that cities are administering the program uniformly. Not all of the affordability requirements should be decided by the local governments.

Persons Testifying: (In support) Representative Walen, prime sponsor; Josh Weiss, Clark and Snohomish Counties; Amber Carter, Identity Clark County; Debbie Bingham, City of Tacoma; Mike Ennis, Association of Washington Business; Michael Transue, Pierce County; Mike Kingsella, Up for Growth Action; Ed Leigh, Equity Residential and Vice President Investments; Michael Mann, Sustainable Living Innovations; Bryce Yadon, Futurewise; Carl Schroeder, Association of Washington Cities; Tom McBride, Kitsap County; Robin Koskey, City of Seattle; John Flanagan, Office of the Governor; and Brady Nordstrom, Seattle for Everyone.

(Opposed) Dale Bright, Laborers Local 242.

(Other) Michele Thomas, Washington Low Income Housing Alliance; and Ana Bonilla, Enterprise Community Partners.

Persons Signed In To Testify But Not Testifying: None.