

# HOUSE BILL REPORT

## SHB 2950

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### As Passed House:

March 7, 2020

**Title:** An act relating to addressing affordable housing needs through the multifamily housing tax exemption by providing an extension of the exemption until January 1, 2022, for certain properties currently receiving a twelve-year exemption and by convening a work group.

**Brief Description:** Addressing affordable housing needs through the multifamily housing tax exemption by providing an extension of the exemption until January 1, 2022, for certain properties currently receiving a twelve-year exemption and by convening a work group.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Macri and Ramel).

### Brief History:

#### Committee Activity:

Finance: 2/27/20, 3/2/20 [DPS].

#### Floor Activity:

Passed House: 3/7/20, 93-4.

### Brief Summary of Substitute Bill

- Extends the property tax exemption, until December 31, 2021, for properties currently receiving a 12-year exemption under the multifamily property tax exemption (MFTE) that is set to expire after the effective date of the bill, but before December 31, 2021.
- Directs the Department of Commerce to contract with a nonprofit organization to convene a work group to study and make recommendations on certain aspects of the MFTE program.

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## 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.

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*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.*

**Staff:** Nick Tucker (786-7383).

**Background:**

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 or the multifamily housing 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 an 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 LMI 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:**

The property tax exemption is extended until December 31, 2021, for properties currently receiving a 12-year exemption where that exemption is set to expire after the effective date of the bill but prior to December 31, 2021. Any eligibility criteria or limitations that apply to the underlying exemption also apply to the extension.

The Department of Commerce is directed to contract with a nonprofit organization with experience in facilitating multi-sector policy and planning efforts to convene, and provide staff to, a work group to study and make recommendations on certain aspects of the MFTE program.

The work group must convene no later than July 1, 2020, and must hold at least four meetings prior to November 1, 2020.

The work group must include one representative from the following entities:

- Department of Commerce;
- Department of Revenue;
- Washington State Housing Finance Commission;
- Association of Washington Cities;
- Washington State Association of Counties;
- Washington Low-Income Housing Alliance;
- Housing Development Consortium of Seattle-King County;
- Spokane Low-Income Housing Consortium;
- Washington Multifamily Housing Association;
- Washington State Labor Council;
- Washington Building Trades Council;
- Futurewise;
- a city with a population greater than 500,000;
- a city with a population greater than 50,000, but less than 500,000;
- a city with a population less than 50,000; and

- NAIOP— the Commercial Real Estate Development Association, as follows: (1) one representative must be a participant in the MFTE, as provided in chapter 84.14 RCW, in a city with a population greater than 100,000; and (2) one representative must be a participant in the MFTE, as provided in chapter 84.14 RCW, in a city with a population less than 500,000.

By December 1, 2020, the work group must prepare a report and provide opportunities to stakeholders to provide feedback. The report must:

- identify reporting improvements needed for increased accountability and meeting program requirements, including a requirement of a public benefit analysis prior to project approval, consistency in reporting metrics, and information collected in reports;
- examine whether tenants living in affordable units created under this chapter are experiencing increases in rent due to increases in city median income that significantly outpace the tenants' income, and provide recommendations on how to address this problem;
- recommend which elements of the exemption be modified or maintained in order to assist counties and cities to achieve the planning goals mandated by the growth management act, as provided in chapter 36.70A RCW; and
- recommend changes to the exemption that would: (1) likely increase the supply of affordable housing including, but not limited to, a review of area median income requirements that lead to greater affordability, and the size of units; (2) include tenant protections beyond affordability requirements; (3) increase the supply of affordable housing while preserving workforce housing; and (4) promote density in RTAs, with consideration of how increased density impacts existing communities and affordability in those communities.

The JLARC is directed to review whether the extension provided in this bill preserves the stock of income-restricted housing units in the state.

**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available. New fiscal not requested on March 3, 2020.

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

**Staff Summary of Public Testimony:**

(In support) This bill will mitigate the eminent risk of displacement for people currently living in affordable housing units under the MFTE program. These affordable units are concentrated in Seattle. There are quite a few affordable units scheduled to lose the exemption if the Legislature does not act. In Seattle, there is a considerable gap between rent-restricted and market-rate rents, so if the exemption is lost, tenants of these affordable units will see their rent increase dramatically. This will result in people losing their homes almost immediately.

(Opposed) None.

(Other) The work group will be helpful to identify ways to improve the program and foster additional affordability; however, the scope of the report should be expanded to reflect the original intent of the MFTE program.

The bill would have a workload and fiscal impact on the Department of Commerce. It would be good to secure an appropriation for these additional expenditures and make the work group subject to appropriation in the operating budget.

**Persons Testifying:** (In support) Representative Macri, prime sponsor.

(Other) Anita Gallagher, City of Tacoma; and Dave Pringle, Department of Commerce.

**Persons Signed In To Testify But Not Testifying:** None.