

# SENATE BILL REPORT

## SHB 2950

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As Reported by Senate Committee On:  
Ways & Means, March 9, 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:** Passed House: 3/07/20, 93-4.

**Committee Activity:** Ways & Means: 3/09/20, 3/09/20 [DP, w/oRec, DNP].

### Brief Summary of 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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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Billig, Carlyle, Conway, Darneille, Dhingra, Hasegawa, Hunt, Keiser, Lias, Pedersen and Van De Wege.

**Minority Report:** That it be referred without recommendation.

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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.*

Signed by Senators Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Becker, Muzzall, Schoesler, Warnick and Wilson, L..

**Minority Report:** Do not pass.

Signed by Senator Wagoner.

**Staff:** Alia Kennedy (786-7405)

**Background:** Growth Management Act. The Growth Management Act (GMA) is the comprehensive land-use planning framework for counties and cities in Washington. Jurisdictions fully planning under the GMA must designate urban growth areas (UGAs), within which urban growth is encouraged and outside of which growth may only occur if it is not urban in nature. Seven counties fully planning under the GMA also participate in the Buildable Lands Program. This review and evaluation program determines if participating counties, and the cities within them, have designated adequate amounts of residential, commercial, and industrial lands to meet the growth need incorporated in their comprehensive plans. The seven participating counties include Clark, King, Kitsap, Pierce, Snohomish, Thurston, and Whatcom.

Property Tax Exemption. Eligible cities and counties may exempt from property tax the value of the construction, conversion, and rehabilitation of certain multi-unit residential housing projects in urban centers. The tax exemption applies only to the value of the construction or rehabilitation projects and does not exempt the value of the underlying property. The tax exemption on a qualifying property lasts for eight consecutive years. The exemption is extended to 12 years if the owner commits to renting or selling at least 20 percent of the units as affordable housing to low and moderate-income households.

To qualify for an exemption, the housing project must be located within a residential targeted area (RTA) designated by a qualifying county or city. The RTA must be in an urban center lacking 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.

Qualifying cities and towns that may designate RTAs include:

- cities or towns with a population of at least 15,000;
- the largest city or town located in a county planning under the GMA, if there is no city or town with a population of at least 15,000; and
- cities or towns with a population of at least 5000 located in a county participating in the Buildable Lands Program.

County-designated RTAs must be in an unincorporated area of the county, within a UGA, and either:

- in a county with an unincorporated population over 350,000 including a college campus where at least 1200 students live; or
- be designated before January 1, 2013, by a rural county with a population between 50,000 and 71,000 that borders Puget Sound.

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 to qualify for either the eight or 12 year exemption.

For the purpose of the property tax exemption, affordable housing is housing for low-to-moderate income households with housing costs not exceeding 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.

**Summary of 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, in a city with a population greater than 100,000; and (2) one representative must be a participant in the MFTE, in a city with a population less than 500,000.

By December 1, 2020, the work group must submit a report to the Legislature and the Joint Legislative Audit and Review Committee (JLARC). The work group must provide

opportunities for stakeholders to provide feedback on the report prior to submission. 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; 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.

JLARC is directed to review extending the property tax exemption until December 31, 2021, to determine if the extension preserves the stock of income-restricted housing units in the state.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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

**Staff Summary of Public Testimony:** PRO: The bill is meant to be a stopgap to prevent the loss of affordable units for those developments that are set to lose their exemption next year. The work group created under this bill will evaluate ways to improve the program and how best to extend it to other jurisdictions. The multi-unit property tax exemption program is an important tool to local governments in creating a diverse range of housing options.

**Persons Testifying:** PRO: Michele Thomas, Washington Low Income Housing Alliance; Robin Koskey, City of Seattle.

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