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**ENGROSSED SECOND SUBSTITUTE SENATE BILL 5755**

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**State of Washington 67th Legislature 2022 Regular Session**

**By** Senate Ways & Means (originally sponsored by Senators Trudeau, Billig, Nobles, Saldaña, and Wellman)

AN ACT Relating to authorizing certain cities to establish a limited sales and use tax incentive program to encourage redevelopment of underdeveloped lands in urban areas; adding a new chapter to Title 82 RCW; and providing expiration dates.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  The legislature finds that:

(1) Many cities in Washington are actively planning for growth under the growth management act, chapter 36.70A RCW;

(2) The construction industry provides living wage jobs for families across Washington;

(3) In the current economic climate, the creation of additional affordable housing units is essential to the economic health of our cities and our state;

(4) It is critical that Washington state promote its cities and its property owners that will provide affordable housing;

(5) A meaningful, fair, and predictable economic incentive should be created to stimulate the redevelopment of underdeveloped property in targeted urban areas through a limited sales and use tax deferral program as provided by this chapter;

(6) This limited tax deferral will help the owners of underdeveloped property achieve the highest and best use of land and enable cities to more fully realize their planning goals; and

(7) Data regarding the number of additional affordable units created due to the limited tax deferral will be evaluated to determine if this tool could be used to increase affordable housing in other areas of the state.

NEW SECTION. **Sec.**  It is the purpose of this chapter to encourage the redevelopment of underdeveloped land in targeted urban areas, thereby increasing affordable housing, employment opportunities, and helping accomplish the other planning goals of Washington cities. The legislative authorities of cities to which this chapter applies may authorize a sales and use tax deferral for an investment project within the city if the legislative authority of the city finds that there are significant areas of underdeveloped land and a lack of affordable housing in areas proximate to the land. If a conditional recipient maintains the property for qualifying purposes for at least 10 years, deferred sales and use taxes need not be repaid.

NEW SECTION. **Sec.**  The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Affordable homeownership housing" means housing intended for owner occupancy to low or moderate-income households whose monthly housing costs, including utilities other than telephone, do not exceed 30 percent of the household's monthly income.

(2) "Affordable rental housing" means housing for very low or low-income households whose monthly housing costs, including utilities other than telephone, do not exceed 30 percent of the household's monthly income.

(3) "Applicant" means an owner of underdeveloped property.

(4) "City" means a city with a population of at least 135,000 and not more than 250,000 at the time the city initially establishes the program under this section.

(5) "Conditional recipient" means an owner of underdeveloped land granted a conditional certificate of program approval under this chapter, which includes any successor owner of the property.

(6) "County median price" means the most recently published quarterly data of median home prices by the Washington center for real estate research.

(7) "Eligible investment project" means an investment project that is located in a city and receiving a conditional certificate of program approval.

(8) "Fair market rent" means the estimates of 40th percentile gross rents for standard quality units within counties as published by the federal department of housing and urban development.

(9) "Governing authority" means the local legislative authority of a city having jurisdiction over the property for which a deferral may be granted under this chapter.

(10) "Household" means a single person, family, or unrelated persons living together.

(11)(a) "Initiation of construction" means the date that a building permit is issued under the building code adopted under RCW 19.27.031 for construction of the qualified building, if the underlying ownership of the building vests exclusively with the person receiving the economic benefit of the deferral.

(b) "Initiation of construction" does not include soil testing, site clearing and grading, site preparation, or any other related activities that are initiated before the issuance of a building permit for the construction of the foundation of the building.

(c) If the investment project is a phased project, "initiation of construction" applies separately to each phase.

(12) "Investment project" means an investment in multifamily housing, including labor, services, and materials incorporated in the planning, installation, and construction of the project. "Investment project" includes investment in related facilities such as playgrounds and sidewalks as well as facilities used for business use for mixed-use development.

(13) "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is more than 50 percent but is at or below 80 percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development.

(14) "Moderate-income household" means a single person, family, or unrelated persons living together whose adjusted income is more than 80 percent but is at or below 115 percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development.

(15) "Multifamily housing" means a building or a group of buildings having two or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from new construction or rehabilitation or conversion of vacant, underutilized, or substandard buildings to multifamily housing.

(16) "Owner" means the property owner of record.

(17) "Underdeveloped property" means land used as a surface parking lot as of the effective date of this section.

(18) "Very low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below 50 percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development.

NEW SECTION. **Sec.**  (1) For the purpose of creating a sales and use tax deferral program under this chapter, the governing authority must adopt a resolution of intention to create a sales and use tax deferral program as generally described in the resolution. The resolution must state the time and place of a hearing to be held by the governing authority to consider the creation of the tax deferral program and may include such other information pertaining to the creation of the deferral program as the governing authority determines to be appropriate to apprise the public of the action intended. However, the resolution must provide information pertaining to:

(a) The application process;

(b) The approval process;

(c) The appeals process for applications denied approval; and

(d) Additional requirements, conditions, and obligations that must be followed postapproval of an application.

(2) The governing authority must give notice of a hearing held under this chapter by publication of the notice once each week for two consecutive weeks, not less than seven days, nor more than 30 days before the date of the hearing in a paper having a general circulation in the city. The notice must state the time, date, place, and purpose of the hearing.

(3) Following the hearing or a continuance of the hearing, the governing authority may authorize the creation of the program.

NEW SECTION. **Sec.**  An owner of underdeveloped property seeking a sales and use tax deferral under this chapter on an investment project must complete the following procedures:

(1) The owner must apply to the city on forms adopted by the governing authority. The application must contain the following:

(a) Information setting forth the grounds supporting the requested deferral including information indicated on the application form or in the guidelines;

(b) A description of the investment project and site plan, and other information requested;

(c) A statement of the expected number of affordable housing units to be created;

(d) A statement that the applicant is aware of the potential tax liability involved if the investment project ceases to be used for eligible uses under this chapter;

(e) A statement that the applicant is aware that the investment project must be completed within three years from the date of approval of the application;

(f) A statement that the applicant is aware that the governing authority or the city official authorized by the governing authority may extend the deadline for completion of construction or rehabilitation for a period not to exceed 24 consecutive months; and

(g) A statement that the applicant would not have built in this location but for the availability of the tax deferral under this chapter;

(2) The applicant must verify the application by oath or affirmation; and

(3) The application must be accompanied by the application fee, if any, required under this chapter. The duly authorized administrative official or committee of the city may permit the applicant to revise an application before final action by the duly authorized administrative official or committee of the city.

NEW SECTION. **Sec.**  The duly authorized administrative official or committee of the city may approve the application and grant a conditional certificate of program approval if it finds that:

(1)(a) The investment project is set aside primarily for multifamily housing units and the applicant commits to renting or selling at least 50 percent of the units as affordable rental housing or affordable homeownership housing to very low, low, and moderate-income households. In a mixed use project, only the ground floor of a building may be used for commercial purposes with the remainder dedicated to multifamily housing units;

(b) At least 50 percent of the investment project set aside for multifamily housing units will be rented at a price at or below fair market rent for the county or sold at a price at or below county median price; and

(c) The applicant commits to any additional affordability and income eligibility conditions adopted by the local government under this chapter not otherwise inconsistent with this chapter;

(2) The investment project is, or will be, at the time of completion, in conformance with all local plans and regulations that apply at the time the application is approved;

(3) The investment project will occur on land that constitutes underdeveloped property;

(4) The area where the investment project will occur is located within an area zoned for residential or mixed uses;

(5) The terms and conditions of the implementation of the development meets the requirements of this chapter and any requirements of the city that are not otherwise inconsistent with this chapter;

(6) The land where the investment project will occur was not acquired through a condemnation proceeding under Title 8 RCW; and

(7) All other requirements of this chapter have been satisfied as well as any other requirements of the city that are not otherwise inconsistent with this chapter.

NEW SECTION. **Sec.**  (1) The duly authorized administrative official or committee of the city must approve or deny an application filed under this chapter within 90 days after receipt of the application.

(2) If the application is approved, the city must issue the applicant a conditional certificate of program approval. The certificate must contain a statement by a duly authorized administrative official of the governing authority that the investment project as described in the application will comply with the required criteria of this chapter.

(3) If the application is denied by the city, the city must state in writing the reasons for denial and send the notice to the applicant at the applicant's last known address within 10 days of the denial.

(4) Upon denial by the city, an applicant may appeal the denial to the city's governing authority or a city official designated by the city to hear such appeals within 30 days after receipt of the denial. The appeal before the city's governing authority or designated city official must be based upon the record made before the city with the burden of proof on the applicant to show that there was no substantial evidence to support the city's decision. The decision of the city on the appeal is final.

NEW SECTION. **Sec.**  The governing authority may establish an application fee. This fee may not exceed an amount determined to be required to cover the cost to be incurred by the governing authority in administering the program under this chapter. The application fee must be paid at the time the application for program approval is filed.

NEW SECTION. **Sec.**  (1) Within 30 days of the issuance of a certificate of occupancy for an eligible investment project, the conditional recipient must file with the city the following:

(a) A description of the work that has been completed and a statement that the eligible investment project qualifies the property for a sales and use tax deferral under this chapter;

(b) A statement of the new affordable housing to be offered as a result of the new construction; and

(c) A statement that the work has been completed within three years of the issuance of the conditional certificate of program approval.

(2) Within 30 days after receipt of the statements required under subsection (1) of this section, the city must determine and notify the conditional recipient as to whether the work completed and the affordable housing to be offered are consistent with the application and the contract approved by the city, and the investment project continues to qualify for a tax deferral under this chapter. The conditional recipient must notify the department within 30 days from receiving the city's determination to schedule an audit of the deferred taxes. The department must determine the amount of sales and use taxes qualifying for the deferral. If the department determines that purchases were not eligible for deferral it must assess interest, but not penalties, on the nonqualifying amounts.

(3) The city must notify the conditional recipient within 30 days that a tax deferral under this chapter is denied if the city determines that:

(a) The work was not completed within three years of the application date;

(b) The work was not constructed consistent with the application or other applicable requirements;

(c) The affordable housing units to be offered are not consistent with the application and criteria of this chapter; or

(d) The owner's property is otherwise not qualified for a sales and use tax deferral under this chapter.

(4) If the city finds that the work was not completed within the required time period due to circumstances beyond the control of the conditional recipient and that the conditional recipient has been acting and could reasonably be expected to act in good faith and with due diligence, the governing authority may extend the deadline for completion of the work for a period not to exceed 24 consecutive months.

(5) The city's governing authority may enact an ordinance to provide a process for a conditional recipient to appeal a decision by the city that the conditional recipient is not entitled to a deferral of sales and use taxes. The conditional recipient may appeal a decision by the city to deny a deferral of sales and use taxes in superior court under RCW 34.05.510 through 34.05.598, if the appeal is filed within 30 days of notification by the city to the conditional recipient.

(6) A city denying a conditional recipient of a sales and use tax deferral under subsection (3) of this section must notify the department and taxes deferred under this chapter are immediately due and payable, subject to any appeal by the conditional recipient. The department must assess interest at the rate provided for delinquent taxes and penalties retroactively to the date of deferral. A debt for deferred taxes will not be extinguished by insolvency or other failure of the recipient.

NEW SECTION. **Sec.**  (1) Thirty days after the anniversary of the date of issuance of the certificate of occupancy and each year thereafter for 10 years, the conditional recipient must file with a designated authorized representative of the city an annual report indicating the following:

(a) A statement of the affordable housing units constructed on the property as of the anniversary date;

(b) A certification by the conditional recipient that the property has not changed use;

(c) A description of changes or improvements constructed after issuance of the certificate of occupancy; and

(d) Any additional information requested by the city.

(2) A city that issues a certificate of program approval under this chapter must report annually by December 31st of each year, beginning in 2022, to the department of commerce. The report must include the following information:

(a) The number of program approval certificates granted;

(b) The total number and type of new buildings constructed;

(c) The number of affordable housing units resulting from the new construction; and

(d) The estimated value of the sales and use tax deferral for each investment project receiving a program approval and the total estimated value of sales and use tax deferrals granted.

NEW SECTION. **Sec.**  (1) A conditional recipient must submit an application to the department before initiation of the construction of the investment project. In the case of an investment project involving multiple qualified buildings, applications must be made for, and before the initiation of construction of, each qualified building. The application must be made to the department in a form and manner prescribed by the department. The application must include a copy of the conditional certificate of program approval issued by the city, estimated construction costs, time schedules for completion and operation, and any other information required by the department. The department must rule on the application within 60 days.

(2) The department must provide information to the conditional recipient regarding documentation that must be retained by the conditional recipient in order to substantiate the amount of sales and use tax actually deferred under this chapter.

(3) The department may not accept applications for the deferral under this chapter after June 30, 2032.

(4) The application must include a waiver by the conditional recipient of the four-year limitation under RCW 82.32.100.

(5) This section expires July 1, 2032.

NEW SECTION. **Sec.**  (1) After receiving the conditional certificate of program approval issued by the city and provided to the department by the applicant, the department must issue a sales and use tax deferral certificate for state and local sales and use taxes due under chapters 82.08, 82.12, and 82.14 RCW on each eligible investment project.

(2) The department must keep a running total of all estimated sales and use tax deferrals provided under this chapter during each fiscal biennium.

(3) The deferral certificate is valid during active construction of a qualified investment project and expires on the day the city issues a certificate of occupancy for the investment project for which a deferral certificate was issued.

(4) This section expires July 1, 2032.

NEW SECTION. **Sec.**  (1) If a conditional recipient voluntarily opts to discontinue compliance with the requirements of this chapter, the recipient must notify the city and department within 60 days of the change in use or intended discontinuance.

(2) If, after the department has issued a sales and use tax deferral certificate and the conditional recipient has received a certificate of occupancy, the city finds that a portion of an investment project is changed or will be changed to disqualify the recipient for sales and use tax deferral eligibility under this chapter, the city must notify the department and all deferred sales and use taxes are immediately due and payable. The department must assess interest at the rate provided for delinquent taxes and penalties retroactively to the date of deferral. A debt for deferred taxes will not be extinguished by insolvency or other failure of the recipient.

(3) This section does not apply after 10 years from the date of the certificate of occupancy.

NEW SECTION. **Sec.**  (1) Transfer of investment project ownership does not terminate the deferral. The deferral is transferred subject to the successor meeting the eligibility requirements of this chapter.

(2) The transferor of an eligible project must notify the city and the department of such transfer. The city must certify to the department that the successor meets the requirements of the deferral. The transferor must provide the information necessary for the department to transfer the deferral. If the transferor fails to notify the city and the department, all deferred sales and use taxes are immediately due and payable. The department must assess interest at the rate provided for delinquent taxes and penalties retroactively to the date of deferral.

NEW SECTION. **Sec.**  Sections 1 through 14 of this act constitute a new chapter in Title 82 RCW.

NEW SECTION. **Sec.**  If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

**--- END ---**