CERTIFICATION OF ENROLLMENT

**SENATE BILL 5713**

Chapter 93, Laws of 2022

67th Legislature

2022 Regular Session

LIMITED EQUITY COOPERATIVE HOUSING—PROPERTY TAX EXEMPTION

EFFECTIVE DATE: June 9, 2022

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| Passed by the Senate March 7, 2022Yeas 34 Nays 15DENNY HECK**President of the Senate**Passed by the House March 2, 2022Yeas 54 Nays 42LAURIE JINKINS**Speaker of the House of Representatives** | CERTIFICATEI, Sarah Bannister, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SENATE BILL 5713** as passed by the Senate and the House of Representatives on the dates hereon set forth.SARAH BANNISTERSecretary |
| Approved March 17, 2022 12:55 PM | March 17, 2022 |
| JAY INSLEE**Governor of the State of Washington** | **Secretary of State** **State of Washington** |

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**SENATE BILL 5713**

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AS AMENDED BY THE HOUSE

Passed Legislature - 2022 Regular Session

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

**By** Senators Das, Liias, Nobles, Robinson, Saldaña, and Wellman

AN ACT Relating to providing a property tax exemption for limited equity cooperative housing; amending RCW 84.36.800, 84.36.805, 84.36.810, and 84.36.815; adding a new section to chapter 84.36 RCW; creating new sections; and providing an expiration date.

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

NEW SECTION. **Sec.**  (1) This section is the tax preference performance statement for the tax preference contained in section 2, chapter . . ., Laws of 2022 (section 2 of this act). This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(2) The legislature categorizes this tax preference as one intended to provide tax relief for certain businesses or individuals, as indicated in RCW 82.32.808(2)(e).

(3) It is the legislature's specific public policy objective to financially incentivize the formation and utilization of limited equity cooperatives, and to increase the availability of housing available to low-income households. It is the legislature's intent to exempt from taxation any real property owned by a limited equity cooperative when a majority of the property is used and occupied by low-income households.

(4)(a) To measure the effectiveness of the tax preference provided in section 2 of this act in achieving the specific public policy objectives described in subsection (3) of this section, the joint legislative audit and review committee must evaluate, two years prior to the expiration of the tax preference: (i) Growth in the formation and utilization of limited equity cooperatives; (ii) growth in available units of affordable housing within limited equity cooperatives; and (iii) any other metric the joint legislative audit and review committee determines is relevant to measuring success of this exemption.

(b) If the review by the joint legislative audit and review committee finds that growth in the formation and utilization of limited equity cooperatives or growth in available units of affordable housing within limited equity cooperatives has occurred, then the legislature intends to extend the expiration date of the tax preference.

(5) In order to obtain the data necessary to perform the review in subsection (4) of this section, the joint legislative audit and review committee may refer to:

(a) Initial applications for the preference as approved by the department of revenue under RCW 84.36.815;

(b) Annual financial statements for a limited equity cooperative claiming this tax preference; and

(c) Any other data necessary for the evaluation under subsection (4) of this section.

NEW SECTION. **Sec.**  A new section is added to chapter 84.36 RCW to read as follows:

(1) The real property owned by a limited equity cooperative that provides owned housing for low-income households is exempt from property taxation if:

(a) The benefit of the exemption inures to the limited equity cooperative and its members;

(b) At least 85 percent of the occupied dwelling units in the limited equity cooperative is occupied by members of the limited equity cooperative determined as of January 1st of each assessment year for which the exemption is claimed;

(c) At least 95 percent of the property for which the exemption is sought is used for dwelling units or other noncommercial uses available for use by the members of the limited equity cooperative; and

(d) The housing was insured, financed, or assisted, in whole or in part, through one or more of the following sources:

(i) A federal or state housing program administered by the department of commerce;

(ii) A federal or state housing program administered by the federal department of housing and urban development;

(iii) A federal housing program administered by a city or county government;

(iv) An affordable housing levy authorized under RCW 84.52.105;

(v) The surcharges authorized by RCW 36.22.178 and 36.22.179 and any of the surcharges authorized in chapter 43.185C RCW; or

(vi) The Washington state housing finance commission.

(2) If less than 100 percent of the dwelling units within the limited equity cooperative is occupied by low-income households, the limited equity cooperative is eligible for a partial exemption on the real property. The amount of exemption must be calculated by multiplying the assessed value of the property owned by the limited equity cooperative by a fraction. The numerator of the fraction is the number of dwelling units occupied by low-income households as of January 1st of each assessment year for which the exemption is claimed, and the denominator of the fraction is the total number of dwelling units as of such date.

(3) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Cooperative" has the meaning provided in RCW 64.90.010.

(b)(i) "Limited equity cooperative" means a cooperative subject to the Washington uniform common interest ownership act under chapter 64.90 RCW that owns the real property for which an exemption is sought under this section and for which, following the completion of the development or redevelopment of such real property:

(A) Members are prevented from selling their ownership interests other than to a median-income household; and

(B) Members are prevented from selling their ownership interests for a sales price that exceeds the sum of:

(I) The sales price they paid for their ownership interest;

(II) The cost of permanent improvements they made to the dwelling unit during their ownership;

(III) Any special assessments they paid to the limited equity cooperative during their ownership to the extent utilized to make permanent improvements to the building or buildings in which the dwelling units are located; and

(IV) A three percent annual noncompounded return on the above amounts.

(ii) For the purposes of this subsection (3)(b), "sales price" is the total consideration paid or contracted to be paid to the seller or to another for the seller's benefit.

(c) "Low-income household" means a single person, family, or unrelated persons living together whose income is at or below 80 percent of the median income adjusted for family size as most recently determined by the federal department of housing and urban development for the county in which the housing is located and in effect as of January 1st of the year in which the determination is to be made as to whether the single person, family, or unrelated persons living together qualify as a low-income household.

(d) "Median-income household" means a single person, family, or unrelated persons living together whose income is at or below 100 percent of the median income adjusted for family size as most recently determined by the federal department of housing and urban development for the county in which the housing is located and in effect as of January 1st of the year in which the determination is to be made as to whether the single person, family, or unrelated persons living together qualify as a median-income household.

(e) "Members" of a limited equity cooperative means individuals or entities that have an ownership interest in the limited equity cooperative that entitles them to occupy and sell a dwelling unit in the limited equity cooperative.

**Sec.**  RCW 84.36.800 and 1998 c 311 s 24 are each amended to read as follows:

As used in this chapter:

(1) "Church purposes" means the use of real and personal property owned by a nonprofit religious organization for religious worship or related administrative, educational, eleemosynary, and social activities. This definition is to be broadly construed;

(2) "Convent" means a house or set of buildings occupied by a community of clergy or nuns devoted to religious life under a superior;

(3) "Hospital" means any portion of a hospital building, or other buildings in connection therewith, used as a residence for persons engaged or employed in the operation of a hospital, or operated as a portion of the hospital unit;

(4)(a) "Nonprofit" means an organization, association or corporation no part of the income of which is paid directly or indirectly to its members, stockholders, officers, directors or trustees except in the form of services rendered by the organization, association, or corporation in accordance with its purposes and bylaws and the salary or compensation paid to officers of such organization, association or corporation is for actual services rendered and compares to the salary or compensation of like positions within the public services of the state;

(b) "Nonprofit" also means a limited equity cooperative as defined in section 2 of this act;

(5) "Parsonage" means a residence occupied by a member of the clergy who has been designated for a particular congregation and who holds regular services therefor.

**Sec.**  RCW 84.36.805 and 2016 c 217 s 3 are each amended to read as follows:

(1) In order to qualify for an exemption under this chapter, the nonprofit organizations, associations, or corporations must satisfy the conditions in this section.

(2) The property must be used exclusively for the actual operation of the activity for which exemption is granted, unless otherwise provided, and does not exceed an amount reasonably necessary for that purpose. Notwithstanding anything to the contrary in this section:

(a) The loan or rental of the property does not subject the property to tax if:

(i) The rents and donations received for the use of the portion of the property are reasonable and do not exceed the maintenance and operation expenses attributable to the portion of the property loaned or rented; and

(ii) Except for the exemptions under RCW 84.36.030(4), 84.36.037, 84.36.050, and 84.36.060(1) (a) and (b), the property would be exempt from tax if owned by the organization to which it is loaned or rented;

(b) The use of the property for fund-raising events does not subject the property to tax if the fund-raising events are consistent with the purposes for which the exemption is granted or are conducted by a nonprofit organization. If the property is loaned or rented to conduct a fund-raising event, the requirements of (a) of this subsection (2) apply;

(c) An inadvertent use of the property in a manner inconsistent with the purpose for which exemption is granted does not subject the property to tax, if the inadvertent use is not part of a pattern of use. A pattern of use is presumed when an inadvertent use is repeated in the same assessment year or in two or more successive assessment years.

(3) The facilities and services must be available to all regardless of race, color, national origin or ancestry.

(4) The organization, association, or corporation must be duly licensed or certified where such licensing or certification is required by law or regulation.

(5) Property sold to organizations, associations, or corporations with an option to be repurchased by the seller does not qualify for exempt status. This subsection does not apply to ((~~property~~)) :

(a) Limited equity cooperatives as defined in section 2 of this act; or

(b) Property sold to a nonprofit entity, as defined in RCW 84.36.560((~~(7)~~)), by:

((~~(a)~~)) (i) A nonprofit as defined in RCW 84.36.800 that is exempt from income tax under 26 U.S.C. Sec. 501(c) of the federal internal revenue code;

((~~(b)~~)) (ii) A governmental entity established under RCW 35.21.660, 35.21.670, or 35.21.730;

((~~(c)~~)) (iii) A housing authority created under RCW 35.82.030;

((~~(d)~~)) (iv) A housing authority meeting the definition in RCW 35.82.210(2)(a); or

((~~(e)~~)) (v) A housing authority established under RCW 35.82.300.

(6) The department must have access to its books in order to determine whether the nonprofit organization, association, or corporation is exempt from taxes under this chapter.

(7) This section does not apply to exemptions granted under RCW 84.36.020, 84.36.032, 84.36.250, 84.36.049, and 84.36.480(2).

(8)(a) The use of property exempt under this chapter, other than as specifically authorized by this chapter, nullifies the exemption otherwise available for the property for the assessment year. However, the exemption is not nullified by the use of the property by any individual, group, or entity, where such use is not otherwise authorized by this chapter, for not more than ((~~fifty~~)) 50 days in each calendar year, and the property is not used for pecuniary gain or to promote business activities for more than ((~~fifteen~~)) 15 of the ((~~fifty~~)) 50 days in each calendar year. The ((~~fifty~~)) 50 and ((~~fifteen~~)) 15-day limitations provided in this subsection (8)(a) do not include days during which setup and takedown activities take place immediately preceding or following a meeting or other event by an individual, group, or entity using the property as provided in this subsection (8)(a).

(b) If uses of the exempt property exceed the ((~~fifty~~)) 50 and ((~~fifteen~~)) 15-day limitations provided in (a) of this subsection (8) during an assessment year, the exemption is removed for the affected portion of the property for that assessment year.

**Sec.**  RCW 84.36.810 and 2006 c 305 s 4 are each amended to read as follows:

(1)(a) Upon cessation of a use under which an exemption has been granted pursuant to RCW 84.36.030, 84.36.037, 84.36.040, 84.36.041, 84.36.042, 84.36.043, 84.36.046, 84.36.050, 84.36.060, 84.36.550, 84.36.560, 84.36.570, section 2 of this act, and 84.36.650, except as provided in (b) of this subsection, the county treasurer shall collect all taxes which would have been paid had the property not been exempt during the three years preceding, or the life of such exemption, if such be less, together with the interest at the same rate and computed in the same way as that upon delinquent property taxes. If the property has been granted an exemption for more than ((~~ten~~)) 10 consecutive years, taxes and interest shall not be assessed under this section.

(b) Upon cessation of use by an institution of higher education of property exempt under RCW 84.36.050(2) the county treasurer shall collect all taxes which would have been paid had the property not been exempt during the seven years preceding, or the life of the exemption, whichever is less.

(2) Subsection (1) of this section applies only when ownership of the property is transferred or when ((~~fifty-one~~)) 51 percent or more of the area of the property loses its exempt status. The additional tax under subsection (1) of this section shall not be imposed if the cessation of use resulted solely from:

(a) Transfer to a nonprofit organization, association, or corporation for a use which also qualifies and is granted exemption under this chapter;

(b) A taking through the exercise of the power of eminent domain, or sale or transfer to an entity having the power of eminent domain in anticipation of the exercise of such power;

(c) Official action by an agency of the state of Washington or by the county or city within which the property is located which disallows the present use of such property;

(d) A natural disaster such as a flood, windstorm, earthquake, or other such calamity rather than by virtue of the act of the organization, association, or corporation changing the use of such property;

(e) Relocation of the activity and use of another location or site except for undeveloped properties of camp facilities exempted under RCW 84.36.030;

(f) Cancellation of a lease on leased property that had been exempt under this chapter;

(g) A change in the exempt portion of a home for the aging under RCW 84.36.041(3), as long as some portion of the home remains exempt; or

(h) Transfer to an agency of the state of Washington or the city or county within which the property is located.

(3) Subsection (2)(e) and (f) of this section ((~~do [does]~~)) does not apply to property leased to a state institution of higher education and exempt under RCW 84.36.050(2).

**Sec.**  RCW 84.36.815 and 2020 c 273 s 2 are each amended to read as follows:

(1) In order to qualify for exempt status for any real or personal property under this chapter except personal property under RCW 84.36.600, all foreign national governments; cemeteries; nongovernmental nonprofit corporations, organizations, and associations; hospitals owned and operated by a public hospital district for purposes of exemption under RCW 84.36.040(2); and soil and water conservation districts must file an initial application on or before March 31st with the state department of revenue. However, the initial application deadline for the exemption provided in RCW 84.36.049 is July 1st for 2016 and March 31st for 2017 and thereafter. All applications must be filed on forms prescribed by the department and must be signed by an authorized agent of the applicant.

(2)(a) In order to requalify for exempt status, all applicants except nonprofit cemeteries and nonprofits receiving the exemption under RCW 84.36.049 and nonprofits receiving the exemptions under RCW 84.36.560 or section 2 of this act must file an annual renewal declaration on or before March 31st each year. The renewal declaration must be on forms prescribed by the department of revenue and must contain a statement certifying the exempt status of the real or personal property owned by the exempt organization. This renewal declaration may be submitted electronically in a format provided or approved by the department. Information may also be required with the renewal declaration to assist the department in determining whether the property tax exemption should continue.

(b) In order to requalify for exempt status, nonprofits receiving the exemptions under RCW 84.36.560 or section 2 of this act must file a renewal declaration on or before March 31st of every third year following initial qualification for the exemption. Except for the annual renewal requirement, all other requirements of (a) of this subsection apply.

(3) When an organization acquires real property qualified for exemption or converts real property to exempt status, the organization must file an initial application for the property within sixty days following the acquisition or conversion in accordance with all applicable provisions of subsection (1) of this section. If the application is filed after the expiration of the ((~~sixty~~)) 60-day period, a late filing penalty is imposed under RCW 84.36.825.

(4) When organizations acquire real property qualified for exemption or convert real property to an exempt use, the property, upon approval of the application for exemption, is entitled to a property tax exemption for property taxes due and payable the following year. If the owner has paid taxes for the year following the year the property qualified for exemption, the owner is entitled to a refund of the amount paid on the property so acquired or converted.

(5) The department must share approved initial applications for the tax preferences provided in RCW 84.36.049 and section 2 of this act with the joint legislative audit and review committee, upon request by the committee, in order for the committee to complete its review of the tax preferences provided in RCW 84.36.049 and section 2 of this act.

NEW SECTION. **Sec.**  This act applies to taxes levied for collection in 2023 through 2032.

NEW SECTION. **Sec.**  Sections 2 through 6 of this act expire January 1, 2033.

**--- END ---**

Passed by the Senate March 7, 2022.

Passed by the House March 2, 2022.

Approved by the Governor March 17, 2022.

Filed in Office of Secretary of State March 17, 2022.