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**SENATE BILL 5118**

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**State of Washington 68th Legislature 2023 Regular Session**

**By** Senators Kuderer, Wellman, Frame, Hunt, Keiser, Liias, Lovelett, Nobles, and Randall

AN ACT Relating to modifying the multifamily property tax exemption to promote development of long-term affordable housing; and amending RCW 84.14.010, 84.14.020, and 84.14.021.

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

**Sec.**  RCW 84.14.010 and 2021 c 187 s 2 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Affordable housing" means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of low or moderate‑income households.

(2) "Campus facilities master plan" means the area that is defined by the University of Washington as necessary for the future growth and development of its campus facilities for campuses authorized under RCW 28B.45.020.

(3) "City" means either (a) a city or town with a population of at least fifteen thousand, (b) the largest city or town, if there is no city or town with a population of at least fifteen thousand, located in a county planning under the growth management act, (c) a city or town with a population of at least five thousand located in a county subject to the provisions of RCW 36.70A.215, or (d) any city that otherwise does not meet the qualifications under (a) through (c) of this subsection, until December 31, 2031, that complies with RCW 84.14.020(1)(a)(iii) or 84.14.021(1)(b).

(4) "Conversion" means either the conversion of an existing residential building or the conversion of a nonresidential building to multiple-unit housing under this chapter.

(5) "County" means a county with an unincorporated population of at least 170,000.

((~~(5)~~)) (6) "Governing authority" means the local legislative authority of a city or a county having jurisdiction over the property for which an exemption may be applied for under this chapter.

((~~(6)~~)) (7) "Growth management act" means chapter 36.70A RCW.

((~~(7)~~)) (8) "Household" means a single person, family, or unrelated persons living together.

((~~(8)~~)) (9) "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below eighty 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.

((~~(9)~~)) (10) "Moderate‑income household" means a single person, family, or unrelated persons living together whose adjusted income is more than eighty percent but is at or below one hundred fifteen 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.

((~~(10)~~)) (11) "Multiple-unit housing" means a building or a group of buildings having four 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 rehabilitated or conversion of vacant, underutilized, or substandard residential or nonresidential buildings to multifamily housing.

((~~(11)~~)) (12) "Owner" means the property owner of record.

((~~(12)~~)) (13) "Permanent residential occupancy" means multiunit housing that provides either rental or owner occupancy on a nontransient basis. This includes owner-occupied or rental accommodation that is leased for a period of at least one month. This excludes hotels and motels that predominately offer rental accommodation on a daily or weekly basis.

((~~(13)~~)) (14) "Rehabilitation improvements" means modifications to existing residential or nonresidential structures, that are vacant or underutilized for twelve months or longer, that are made to achieve a condition of substantial compliance with existing building codes or modification to existing occupied structures which increase the number of multifamily housing units.

((~~(14)~~)) (15) "Residential targeted area" means an area within an urban center or urban growth area that has been designated by the governing authority as a residential targeted area in accordance with this chapter. With respect to designations after July 1, 2007, "residential targeted area" may not include a campus facilities master plan.

((~~(15)~~)) (16) "Rural county" means a county with a population between fifty thousand and seventy-one thousand and bordering Puget Sound.

((~~(16)~~)) (17) "Substantial compliance" means compliance with local building or housing code requirements that are typically required for rehabilitation as opposed to new construction.

((~~(17)~~)) (18) "Urban center" means a compact identifiable district where urban residents may obtain a variety of products and services. An urban center must contain:

(a) Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, governmental agencies;

(b) Adequate public facilities including streets, sidewalks, lighting, transit, domestic water, and sanitary sewer systems; and

(c) A mixture of uses and activities that may include housing, recreation, and cultural activities in association with either commercial or office, or both, use.

**Sec.**  RCW 84.14.020 and 2021 c 187 s 3 are each amended to read as follows:

(1)(a) The value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation, as follows:

(i) For properties for which applications for certificates of tax exemption eligibility are submitted under this chapter before July 22, 2007, the value is exempt for ((~~ten~~)) 10 successive years beginning January 1 of the year immediately following the calendar year of issuance of the certificate;

(ii) For properties for which applications for certificates of tax exemption eligibility are submitted under this chapter on or after July 22, 2007, the value is exempt:

(A) For eight successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate;

(B) For ((~~twelve~~)) 99 successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter and meets the conditions in this subsection (1)(a)(ii)(B). For the property to qualify for the ((~~twelve~~)) 99-year exemption under this subsection, the applicant must commit to renting or selling at least ((~~twenty~~)) 35 percent of the multifamily housing ((~~units~~)) square footage as affordable housing ((~~units~~)) to low and moderate‑income households, and the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the local government under this chapter. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection (1)(a)(ii)(B) may be satisfied solely through housing affordable to moderate‑income households; or

(C) For 20 successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter and meets the conditions in this subsection (1)(a)(ii)(C). For the property to qualify for the 20-year exemption under this subsection, the project must be located within one mile of high capacity transit of at least 15 minute scheduled frequency, in a city that has implemented, as of July 25, 2021, a mandatory inclusionary zoning requirement for affordable housing that ensures affordability of housing units for a period of at least 99 years and that has a population of no more than 65,000 as measured on July 25, 2021. To qualify for the exemption provided in this subsection (1)(a)(ii)(C), the applicant must commit to renting at least 20 percent of the dwelling units as affordable to low-income households for a term of at least 99 years, and the property must satisfy that commitment and all required affordability and income eligibility conditions adopted by the local government under this chapter. A city must require the applicant to record a covenant or deed restriction that ensures the continuing rental of units subject to these affordability requirements consistent with the conditions in this subsection (1)(a)(ii)(C) for a period of no less than 99 years. The covenant or deed restriction must also address criteria and policies to maintain public benefit if the property is converted to a use other than which continues to provide for permanently affordable low-income housing consistent with this subsection (1)(a)(ii)(C); and

(iii) Until December 31, 2026, for a city as defined in RCW 84.14.010(3)(d), for ((~~12~~)) 99 successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter and meets the conditions in this subsection (1)(a)(iii). For the property to qualify for the ((~~12~~)) 99-year exemption under this subsection, the applicant must commit to renting or selling at least ((~~20~~)) 35 percent of the multifamily housing ((~~units~~)) square footage as affordable housing ((~~units~~)) to low and moderate-income households, the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the local government under this chapter, and the area must be zoned to have an average minimum density equivalent to 15 dwelling units or more per gross acre, or for cities with a population over 20,000, the area must be zoned to have an average minimum density equivalent to 25 dwelling units or more per gross acre. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection (1)(a)(iii) may be satisfied solely through housing affordable to low-income or moderate-income households.

(b)(i) The exemptions provided in (a)(i) ((~~through (iii)~~)) and (a)(ii)(A) of this subsection do not include the value of land or nonhousing-related improvements not qualifying under this chapter.

((~~(c) For properties receiving an exemption as provided in (a)(ii)(B) of this subsection that are in compliance with existing contracts and where the certificate of tax exemption is set to expire after June 11, 2020, but before December 31, 2021, the exemption is extended until December 31, 2021, provided that the property must satisfy any eligibility criteria or limitations provided in this chapter as a condition to the existing exemption for a given property continue to be met. For all properties eligible to receive an extension pursuant to this subsection (1)(c), the city or county that issued the initial certificate of tax exemption, as required in RCW 84.14.090, must notify the county assessor and the applicant of the extension of the certificate of tax exemption.~~))

(ii) The exemptions provided in (a)(ii)(B) and (C) of this subsection include the value of the new affordable housing constructed and that portion of the land value determined by multiplying the land value by the percentage of square footage of affordable housing constructed in comparison to the total square footage of housing for a qualifying project. The exemptions do not include the value of nonhousing-related improvements not qualifying under this chapter.

(2) When a local government adopts guidelines pursuant to RCW 84.14.030(2) and includes conditions that must be satisfied with respect to individual dwelling units, rather than with respect to the multiple-unit housing as a whole or some minimum portion thereof, the exemption may, at the local government's discretion, be limited to the value of the qualifying improvements allocable to those dwelling units that meet the local guidelines.

(3) In the case of rehabilitation of existing buildings or conversion of nonresidential buildings to multiple-unit housing, the exemption does not include the value of improvements constructed prior to the submission of the application required under this chapter unless such improvements are integral to the use of the building for multiple-unit housing purposes. The incentive provided by this chapter is in addition to any other incentives, tax credits, grants, or other incentives provided by law.

(4) This chapter does not apply to increases in assessed valuation made by the assessor on nonqualifying portions of building and value of land nor to increases made by lawful order of a county board of equalization, the department of revenue, or a county, to a class of property throughout the county or specific area of the county to achieve the uniformity of assessment or appraisal required by law.

(5) At the conclusion of the exemption period, the value of the exempt land and new housing construction, conversion, or rehabilitation improvements must be considered as new construction for the purposes of chapters 84.55 and 36.21 RCW as though the property was not exempt under this chapter.

(6) For properties that qualified for, satisfied the conditions of, and utilized the exemption under subsection (1)(a)(ii)(A) or (B) of this section, following the initial exemption period ((~~or the extension period authorized in subsection (1)(c) of this section~~)), the exemption period may be extended for an additional ((~~12~~)) 99 years for projects that are within 18 months of expiration contingent on city or county approval. For the property to qualify for an extension under this subsection (6), the applicant must meet at a minimum the locally adopted requirements for the property to qualify for an exemption under subsection (1)(a)(ii)(B) of this section as applicable at the time of the extension application, and the applicant commits to renting or selling at least ((~~20~~)) 35 percent of the multifamily housing ((~~units~~)) square footage as affordable housing ((~~units~~)) for low-income households.

(7) At the end of both the tenth and eleventh years of an extension, for ((~~twelve~~)) 12-year extensions of the exemption, applicants must provide tenants of rent-restricted units with notification of intent to provide the tenant with rental relocation assistance as provided in subsection (8) of this section.

(8)(a) Except as provided in (b) of this subsection, for any 12-year exemption authorized under subsection (1)(a)(ii)(B) or (iii) of this section after July 25, 2021, or for any 12-year exemption extension authorized under subsection (6) of this section, at the expiration of the exemption the applicant must provide tenant relocation assistance in an amount equal to one month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an income-restricted unit at the time the exemption expires and must qualify as a low-income household under this chapter at the time relocation assistance is sought.

(b) If affordability requirements consistent, at a minimum, with those required under subsection (1)(a)(ii)(B) or (iii) of this section remain in place for the unit after the expiration of the exemption, relocation assistance in an amount equal to one month's rent must be provided to a qualified tenant within the final month of a qualified tenant's lease who occupies an income-restricted unit at the time those additional affordability requirements cease to apply to the unit.

(9) No new exemptions may be provided under this section beginning on or after January 1, 2032. No extensions may be granted under subsection (6) of this section on or after January 1, 2046.

**Sec.**  RCW 84.14.021 and 2021 c 187 s 7 are each amended to read as follows:

(1)(a) The value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation, as follows: For 20 successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter and meets the conditions in this section. For the property to qualify for the 20-year exemption under this section, at least 25 percent of the units must be built by or sold to a qualified nonprofit or local government that will assure permanent affordable homeownership. The remaining 75 percent of units may be rented or sold at market rates.

(b) Until December 31, 2031, for a city as defined in RCW 84.14.010(3)(d), in any city the value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation, as follows: For 20 successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter and meets the conditions in this section. For the property to qualify for the 20-year exemption under this section, at least 25 percent of the units must be sold to a qualified nonprofit or local government partner that will assure permanent affordable homeownership. The remaining 75 percent of units may be rented or sold at market rates. The area must be zoned to have an average minimum density equivalent to 15 dwelling units or more per gross acre, or for cities with a population over 20,000, the area must be zoned to have an average minimum density equivalent to 25 dwelling units or more per gross acre.

(2) Permanently affordable homeownership units or permanently affordable rental units must be sold or rented to households earning no more than 80 percent of the average median income for the city or local jurisdiction in which the unit is located.

(3) A local jurisdiction may assign and collect an administration fee at each point of sale to cover the administrative costs for oversight of the program to maintain permanently affordable housing units consistent with this section.

(4) The exemptions in this section do not include the value of ((~~land or~~)) nonhousing-related improvements not qualifying under this chapter. The exemptions in this section include the value of the new affordable housing constructed and that portion of the land value determined by multiplying the overall land value by the percentage of square footage of affordable housing constructed in comparison to the total square footage of housing for a qualifying project.

(5) At the conclusion of the exemption period, the value of the new housing construction, conversion, or rehabilitation improvements must be considered as new construction for the purposes of chapters 84.55 and 36.21 RCW as though the property was not exempt under this chapter.

(6) For purposes of this section, "permanently affordable homeownership" means homeownership that, in addition to meeting the definition of "affordable housing" in RCW 43.185A.010, is:

(a) Sponsored by a nonprofit organization or governmental entity;

(b) Subject to a ground lease or deed restriction that includes:

(i) A resale restriction designed to provide affordability for future low and moderate-income homebuyers;

(ii) A right of first refusal for the sponsor organization to purchase the home at resale; and

(iii) A requirement that the sponsor must approve any refinancing, including home equity lines of credit; and

(c) Sponsored by a nonprofit organization or governmental entity and the sponsor organization:

(i) Executes a new ground lease or deed restriction with a duration of at least 99 years at the initial sale and with each successive sale; and

(ii) Supports homeowners and enforces the ground lease or deed restriction.

(7) The department of commerce must develop a template for permanent affordability for home or condo ownership through deed restrictions that can be used by a city or local government to ensure compliance with this section.

(8) No new exemptions may be provided under this section beginning on or after January 1, 2032.

**--- END ---**