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**SUBSTITUTE SENATE BILL 6175**

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**State of Washington 68th Legislature 2024 Regular Session**

**By** Senate Housing (originally sponsored by Senators Trudeau, Billig, Frame, Kuderer, Mullet, Nguyen, Nobles, Randall, Saldaña, Valdez, and C. Wilson)

AN ACT Relating to housing affordability tax incentives for existing structures; adding a new section to chapter 82.08 RCW; adding a new section to chapter 82.12 RCW; adding a new chapter to Title 84 RCW; creating a new section; and providing expiration dates.

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

NEW SECTION. **Sec.**  (1) The legislature finds that through tax incentives, the private market can assist Washington in meeting its housing goals, allowing the state to focus its resources on serving households making below 50 percent of the area median income. Furthermore, by providing adequate housing stock for households making 50 to 80 percent of the area median income, those households will not compete with persons in lower income brackets for more affordable units.

(2) The legislature also finds that constructing new housing units can take years, and many existing buildings can be repurposed quickly to meet the state's workforce and affordable housing needs. Many existing buildings are located in downtown centers, near work and services where there is limited land available for new construction.

(3) The legislature finds that many downtown centers lack available affordable housing, which results in long commutes that increase greenhouse gas emissions. The legislature recognizes that by using existing buildings to create affordable housing units, units can be available more quickly and with a reduced impact on waste streams and the environment compared to newly constructed units.

(4) It is the intent of the legislature to incentivize the repurposing of existing buildings for workforce and affordable housing by creating a property tax shift and a sales and use tax remittance.

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

(1) "Affordable housing" means:

(a) Residential rental housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed 30 percent of the required household monthly area median income to qualify as a low-income household under this chapter.

(b) Residential homeownership housing that is owned or occupied by a low-income household whose monthly housing costs do not exceed the percentage of family income that may be spent on monthly housing costs, including utilities other than telephone, established by the department of commerce.

(2) "Area median income" means:

(a) For an area within a standard metropolitan statistical area, the area median income reported by the United States department of housing and urban development for that standard metropolitan statistical area; or

(b) For an area not within a standard metropolitan statistical area, the county median income reported by the department of commerce.

(3) "Governing authority" means the legislative authority of a city having jurisdiction over the property for which an exemption may be applied under this chapter.

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

(5) "Multiunit residential building" means a building permanently affixed to the ground having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels.

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

(7) "Residential improvements" means any improvement to real property that is for residential use.

NEW SECTION. **Sec.**  A city governing authority may by ordinance or resolution establish a state and local property tax exemption program for property owners for the value of real property that consists of a commercial building converted from a commercial building to a multiunit residential building and contains affordable housing units for low-income households, excluding land and nonhousing-related improvements not qualifying under this chapter.

NEW SECTION. **Sec.**  (1) An existing building conversion exemption program adopted by the governing authority under this chapter must be amended to include qualifying standards for affordable housing consistent with this chapter.

(2) In order to qualify for a property tax exemption for conversion of a commercial building to affordable housing under this chapter, housing units must:

(a) Be a building whose immediate prior use was predominantly or exclusively for commercial use; and

(b) Have a complete project permit application submitted to the city or county prior to January 1, 2029.

(3) The governing authority may request input from the Washington housing finance commission and the department of commerce in developing affordability requirements for units dedicated to affordable housing.

(4) Except as provided in subsection (5) of this section, rent levels for qualifying affordable housing units, including any mandatory fees for tenant-paid utilities that are required as a condition of tenancy, may not exceed 30 percent of the income limit for the affordable housing unit.

(5) The governing authority may establish income or rent levels other than those indicated in this chapter where it determines that such an adjustment is needed to serve the needs of low-income household affordable housing units in the community. The governing authority shall conduct public outreach to interested parties prior to adopting a program with income or rent levels other than those indicated under this chapter.

NEW SECTION. **Sec.**  (1) For commercial building conversions, the value of real property qualifying under this chapter is exempt from ad valorem property taxation for 30 successive years beginning January 1st of the year immediately following the calendar year that the certificate of tax exemption is filed with the county assessor in accordance with section 8 of this act.

(2) The exemption provided under this chapter may not be granted if the owner receives an exemption under chapter 84.14 RCW.

(3) The exemption in this chapter excludes land and nonhousing-related improvements not qualifying under this chapter.

NEW SECTION. **Sec.**  To be eligible for the property tax exemptions under this chapter, in addition to any other requirements in this chapter, the property must be in compliance with the following for the entire exemption period:

(1) For commercial conversions, a minimum of 20 percent of residential units in a multiunit residential building subject to a tax exemption under this chapter must be rented or sold as affordable housing units to low-income households for a period no less than 30 years to address local market conditions. Up to and including the midpoint, the percentage requirement may be rounded down to the nearest whole number of units.

(2) Affordable housing units must be distributed throughout the building and be comparable in terms of quality, living conditions, size, and mix of unit types to market rate units in the building.

NEW SECTION. **Sec.**  An owner of property must meet the following requirements to receive an exemption under this chapter:

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

(a) Information supporting the requested exemption, including information indicated on the application form and other requirements specified in the governing authority's adopted exemption;

(b) A floor plan of units and other information requested;

(c) A statement that the applicant is aware of the potential tax liability involved when the property ceases to be eligible for the exemption provided under this chapter; and

(d) A certification of family size and annual income requirements in a form acceptable to the city for designated affordable housing units.

(2) The owner must apply on or before the application expiration date of December 31, 2029.

(3) The applicant must verify the information provided in the application by oath or affirmation.

NEW SECTION. **Sec.**  (1) The governing authority's designated administrative official or agent may approve the application if it finds that the property and owner satisfy the requirements of this chapter and its locally adopted program.

(2) Applications should be processed within 30 days of submittal to facilitate project financing.

(3)(a) If the application is approved, the designated administrative official or agent must issue the owner a conditional certificate of tax exemption. The certificate must contain a statement specifying that the applicant complies with the requirements of section 7 of this act. The city and applicant must enter into a contract stipulating that a tax exemption will be provided if the applicant complies with the provisions outlined in the conditional certificate of tax exemption.

(b) Within two years of the issuance of the conditional certificate of exemption, the applicant shall submit information indicating that it has complied with the terms of the conditional certificate of tax exemption. The applicant can apply to the governing authority for an extension of an additional 12 months to receive a final certificate of tax exemption.

(c) Within 30 days of receipt of the statement required under (b) of this subsection (3), the governing authority's designated administrative official or agent must determine whether the affordability of the units is consistent with the conditional certificate of tax exemption. If the authorized representative of the city determines that the affordability is consistent with the contract issued with the conditional certificate of tax exemption, the city must file a final certificate of tax exemption with the county assessor.

(4) The city shall submit to the county assessor a single communication containing a list of all properties that have been issued a final certificate of tax exemption by August 1st of the year preceding the effective date of the exemption.

(5) If the application is denied, the designated administrative official or agent must state in writing the reasons for denial and issue notice to the applicant by regular or certified mail to the applicant's last known address, or by other means reasonably calculated to provide notice, within 10 days of the denial.

(6) An applicant may appeal the decision of the designated administrative official or agent within 30 days after receipt. The appeal must be based upon the record made before the administrative official or agent, and the burden is on the applicant to show that the decision is not supported by substantial evidence.

NEW SECTION. **Sec.**  (1) The owner receiving a tax exemption under this chapter must obtain from each tenant living in a designated affordable housing unit an annual certification of family size and annual income in a form acceptable to the governing authority for an exemption granted under this chapter, and the department for an exemption granted under sections 12 and 13 of this act.

(2) The owner must file an annual report with the governing authority's designated administrative official or agent for an exemption granted under this chapter, and the department's designated administrative official or agent for an exemption granted under sections 12 and 13 of this act indicating the following:

(a) Family size and annual income for each tenant living in a designated affordable housing rental unit, and a statement that the property is in compliance with affordable housing requirements described in this chapter;

(b) A statement of occupancy and vacancy;

(c) A schedule of rents charged in market rate units; and

(d) Any other information required by the city to determine compliance with exemption requirements.

(3) A governing authority that issues certificates of tax exemption under this chapter must report annually to the department of commerce and the department the following information:

(a) The number of tax exemption certificates granted;

(b) The number and type of units in building properties receiving a tax exemption or remittance;

(c) The number and type of units meeting affordable housing requirements;

(d) The total monthly rent amount for each affordable and market rate unit; and

(e) The dollar amount of the tax exemption issued for each conversion and the total dollar amount of tax exemptions granted within the city.

NEW SECTION. **Sec.**  (1) Real property exempted under this chapter continue to be exempted for the applicable period under this chapter if the improvements continue to satisfy all applicable conditions. If the owner intends to discontinue compliance with the affordable housing requirements as described in this chapter or any other condition to the exemption, the owner must notify tenants and the jurisdiction 60 days before the owner's discontinuance. If the city is notified by the owner, or if the city discovers that a portion of the property no longer meets the qualifications of the tax exemption, the tax exemption is canceled, and the following must occur:

(a) Additional real property tax must be imposed on the property. This additional tax is the difference between the property tax paid and the property tax that would have been paid if the property had included the value of the nonqualifying improvements, for each of the prior 10 years during which the exemption was in effect;

(b) Additional interest is owed upon the amounts of the additional property tax at the same statutory rate charged on delinquent property taxes, calculated from the dates on which the additional tax would have been payable without the tax exemption;

(c) A penalty is owed in the amount equal to 20 percent of the additional property tax imposed under this section; and

(d) The additional tax, interest, and penalty are a lien on the real property and attach at the time the property or portion of the property is removed from exempted status. The lien has priority to, and must be fully paid and satisfied before, a recognizance, mortgage, judgment, debt, obligation, or responsibility to or with which the land may become charged or liable, except that the lien is of equal rank with liens for amounts deferred under chapter 84.37 or 84.38 RCW. The lien may be foreclosed upon expiration of the same period after delinquency and in the same manner provided by law for foreclosure of liens for delinquent real property taxes. An additional tax unpaid on its due date is delinquent. From the date of delinquency until paid, interest must be charged at the same rate applied by law to delinquent ad valorem property taxes.

(2) Upon a determination that a tax exemption is to be canceled for a reason stated in this section, the governing authority or designated administrative official or agent of the governing authority must notify the taxpayer, shown by the tax rolls by certified mail, and the assessor, of the determination to cancel the tax exemption. The owner may appeal the determination within 30 days of the date of the notice by filing a notice of appeal with the clerk of the governing authority, specifying the factual and legal basis upon which the determination of cancellation is alleged to be erroneous. The governing authority or designated administrative official or agent may hear the appeal. At the hearing, all affected parties may be heard and all competent evidence received. The burden is on the taxpayer to show that the governing authority's decision is not supported by substantial evidence. After the hearing, the decision maker must affirm, modify, or overturn the decision to cancel the tax exemption based on the evidence received. An aggrieved party may appeal the decision of the deciding body or officer to the superior court. The governing authority must also notify the assessor of the final disposition of the appeal.

(3) The assessor must annually value the exempt and nonexempt portions of the property and improvements as necessary to permit the correction of the rolls in accordance with this section.

NEW SECTION. **Sec.**  If the owner intends to convert any affordable housing rental units to market rate units before the 30-year exemption period or after the exemption period ends, the owner must provide tenants of affordable housing rental units with notification of intent to provide the tenant with rental relocation assistance. The owner must provide tenant relocation assistance in an amount equal to one month's rent to a low-income household within the final month of the low-income household's lease. To be eligible for tenant relocation assistance under this section, the tenant must occupy an affordable housing unit at the time the exemption expires and must qualify as a low-income household under this section at the time relocation assistance is sought.

NEW SECTION. **Sec.**  A new section is added to chapter 82.08 RCW to read as follows:

(1) Subject to the requirements of chapter 84.--- RCW (the new chapter created in section 15 of this act), the tax levied by RCW 82.08.020 does not apply to:

(a) The sale of or charge made for tangible personal property incorporated as a component of a conversion of a commercial building into affordable housing; and

(b) Labor and services rendered for the conversion of a commercial building into affordable housing.

(2)(a) The exemption in this section is in the form of a remittance.

(b) A qualifying owner claiming an exemption under this section must pay all applicable state and local sales taxes imposed or authorized under RCW 82.08.020 on all purchases qualifying for the remittance.

(c) The amount of the remittance is 100 percent of the state sales paid on purchases qualifying under subsection (1) of this section. Local sales and use taxes paid do not qualify for the remittance.

(d) A qualifying owner claiming an exemption under this section shall rent or sell a minimum of 10 percent of residential units in a multiunit residential building subject to a tax exemption under chapter 84.--- RCW (the new chapter created in section 15 of this act) to low-income households for at least 10 years. Up to and including the midpoint, the percentage requirement may be rounded down to the nearest whole number of units.

(3) An owner must specify the amount of exempted tax claimed and the qualifying purchases or uses for which the exemption is claimed. The owner must retain, in adequate detail, records to enable the department to determine whether the qualifying owner is entitled to an exemption under this section, including invoices, proof of tax paid, and construction contracts.

(4) The department must determine eligibility under this section based on information provided by the qualifying owner, including the annual certification required under section 9 of this act. Owner eligibility is subject to audit verification by the department.

(5) If the owner intends to discontinue compliance with the affordable housing requirements as described under this section or any other condition to the exemption, the owner must notify the department at least 60 days before the owner's discontinuance. If the department discovers that eligibility conditions for the exemption are no longer met, the department shall notify the owner within 60 days. The owner shall pay the total remittance granted under this section and an additional 20 percent of the total remittance granted as a penalty.

(6) The department may adopt rules necessary to implement this section.

(7) The provisions of chapter 82.32 RCW apply to this section.

(8) The definitions in section 2 of this act apply to this section.

(9) This section expires December 31, 2029.

NEW SECTION. **Sec.**  A new section is added to chapter 82.12 RCW to read as follows:

(1) Subject to the requirements of chapter 84.--- RCW (the new chapter created in section 15 of this act), the tax levied by RCW 82.12.020 does not apply to:

(a) The use of tangible personal property incorporated as a component of a conversion of a commercial building into affordable housing; and

(b) Labor and services rendered for the conversion of a commercial building into affordable housing.

(2)(a) The exemption in this section is in the form of a remittance.

(b) A qualifying owner claiming an exemption under this section must pay all applicable state and local use taxes imposed or authorized under RCW 82.12.020 for all uses qualifying for the remittance.

(c) The amount of the remittance is 100 percent of the state sales and use taxes paid on purchases and uses qualifying under subsection (1) of this section. Local sales and use taxes paid do not qualify for the remittance.

(d) A qualifying owner claiming an exemption under this section shall rent or sell a minimum of 10 percent of residential units in a multiunit residential building subject to a tax exemption under chapter 84.--- RCW (the new chapter created in section 15 of this act) to low-income households for at least 10 years. Up to and including the midpoint, the percentage requirement may be rounded down to the nearest whole number of units.

(3) An owner must specify the amount of exempted tax claimed and the qualifying uses for which the exemption is claimed. The owner must retain, in adequate detail, records to enable the department to determine whether the qualifying owner is entitled to an exemption under this section, including invoices, proof of tax paid, and construction contracts.

(4) The department must determine eligibility under this section based on information provided by the qualifying owner, including the annual certification required to be provided to the department under section 9 of this act. Owner eligibility is subject to audit verification by the department.

(5) If the owner intends to discontinue compliance with the affordable housing requirements as described under this section or any other condition to the exemption, the owner must notify the department at least 60 days before the owner's discontinuance. If the department discovers that eligibility conditions for the exemption are no longer met or the annual certification is delinquent for more than 24 months, the department shall notify the owner within 60 days. The owner shall pay the total remittance granted under this section and an additional 20 percent of the total remittance granted as a penalty.

(6) The department may adopt rules necessary to implement this section.

(7) The provisions of chapter 82.32 RCW apply to this section.

(8) The definitions in section 2 of this act apply to this section.

(9) This section expires December 31, 2029.

NEW SECTION. **Sec.**  (1) This section is the tax preference performance statement for the tax preferences contained in chapter . . ., Laws of 2024 (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 these tax preferences as ones intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808(2)(a).

(3) It is the legislature's specific public policy objective to incentivize the repurposing of existing buildings for affordable housing.

(4) It is the legislature's intent to provide an exemption from ad valorem property taxation for residential improvements qualifying under chapter 84.--- RCW (the new chapter created in section 15 of this act) and to provide other incentives to property owners to convert existing market rate and commercial buildings into affordable housing units for low-income households.

(5) In conducting a review under this section, the joint legislative audit and review committee should consider, among other measures:

(a) The total number of property tax exemptions granted and the value of those exemptions;

(b) The total number of sales and use tax remittances granted and the value of those remittances;

(c) The total number and type of units in building properties receiving a tax exemption or remittance;

(d) The total number and type of units meeting affordable housing requirements; and

(e) The average monthly rent amount for affordable and market rate units.

(6) In order to obtain the data necessary to measure the effectiveness of these tax preferences in achieving the public policy objective described in this section, the joint legislative audit and review committee may refer to any data collected by the state.

(7) The joint legislative audit and review committee shall complete its review by December 31, 2028.

NEW SECTION. **Sec.**  Sections 1 through 11 of this act constitute a new chapter in Title 84 RCW.

**--- END ---**