Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1206

Brief Description: Expanding eligibility to utilize the multifamily tax exemption program to all counties required or choosing to plan under RCW 36.70A.040.

Sponsors: Representatives Low, Leavitt and Jacobsen.

Brief Summary of Bill

- Expands the number of counties eligible to designate a residential targeted area under the Multifamily Housing Property Tax Exemption.

Hearing Date: 1/21/25

Staff: Kristina King (786-7190).

Background:

Property Tax.
All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for each property and calculates property taxes. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of the property, or $10 per $1,000 of assessed valuation. In addition, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed $5.90 per $1,000 of assessed valuation.

Multifamily Property Tax Exemption.

The multifamily property tax exemption (MFTE), also referred to as the multi-unit urban housing property tax exemption, exempts real property associated with the construction, conversion, or rehabilitation of qualified, multiple-unit residential structures. Property owners must submit an application for the MFTE to the designated city or county. The city or county may include additional eligibility requirements for the tax exemptions. The MFTEs authorized under the statute include:

- an 8-year exemption;
- a 12-year exemption if the applicant commits to renting or selling at least 20 percent of multifamily housing units as affordable housing to low- and moderate-income households;
- a 20-year exemption for homeownership if at least 25 percent of the units are sold to a qualified nonprofit or local government partner for permanent affordable homeownership; and
- a 20-year exemption for rental housing that meets the following criteria: at least 20 percent of the units are rented to low-income households for a term of 99 years; and the property is located within one mile of high-capacity transit, in a city that has implemented a mandatory inclusionary zoning requirement and has a population of not more than 65,000.

To qualify for an exemption, the housing project must be located in a residential targeted area (RTA) designated by a qualifying county or city. Cities and counties must meet certain criteria to designate an RTA and offer the MFTE. Counties must have an unincorporated population of at least 175,000. Cities must:

- have a population of at least 15,000;
- be the largest city in a fully planning county if there is no city with a population of at least 15,000; or
- have a population of at least 5,000 and be located in a county subject to buildable lands requirements.

In addition, any city not meeting the criteria above may offer the 12-year exemption and the 20-year exemption for homeownership in areas with minimum density requirements.

For counties offering the MFTE, the RTA must be located in an unincorporated area within the urban growth area (UGA), and the area also must be:

- in a rural county served by a sewer system and designated by a county prior to January 1, 2013; or
- in a county that includes a campus of an institution of higher education where at least 1,200 students live on campus during the academic year; and
- until July 15, 2024, in a county seeking to promote transit-supportive densities and efficient land use in an area located within a designated UGA and within 0.25 miles of frequent bus service.

Five counties in the state qualify under these requirements.

A property that qualified for and used an 8- or 12-year exemption that is within 18 months of expiration may apply to extend the exemption for an additional 12 years if it meets minimum locally adopted requirements for affordability. To qualify, an applicant must be approved by the city or county and commit to rent or sell at least 20 percent of the housing units to low-income households.

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 property tax purposes as though the property was not exempt under the MFTE program. No new MFTE applications may be approved on or after January 1, 2032, and no new extensions of existing tax exemptions may be approved on or after January 1, 2046.

Growth Management Act.
The GMA is the comprehensive land use planning framework for counties and cities in Washington. The GMA establishes land use designation and environmental protection requirements for all Washington counties and cities. The GMA also establishes a significantly wider array of planning duties for 28 counties, and the cities within those counties, that are obligated to satisfy all planning requirements of the GMA. These jurisdictions are said to be fully planning under the GMA.

Summary of Bill:

The eligibility requirements for counties to designate an RTA under the MFTE are revised to allow eligibility for all counties required or choosing to fully plan under the GMA. The requirement that the RTA must be located in an unincorporated area within an urban growth area designated under the GMA is retained.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.