

# SENATE BILL REPORT

## SB 5679

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As of February 14, 2025

**Title:** An act relating to expanding eligibility to utilize the multifamily tax exemption program to all counties required or choosing to plan under RCW 36.70A.040.

**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:** Senators Dozier, Braun, Gildon and Wilson, J..

**Brief History:**

**Committee Activity:** Housing: 2/14/25.

**Brief Summary of Bill**

- Expands the counties eligible to participate in the Multifamily Property Tax Exemption (MFTE) Program.
- Changes the requirements for a residential targeted area designated by a county offering the MFTE.

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### SENATE COMMITTEE ON HOUSING

**Staff:** Melissa Van Gorkom (786-7491)

**Background:** Multi-Family Property Tax Exemption. All real and personal property in the state is subject to property tax each year based on its value, unless a specific exemption is provided by law. The Multi-Family Property Tax Exemption (MFTE) exempts real property associated with the construction, conversion, or rehabilitation of qualified, multiple-unit residential structures. Certain cities, and counties with an unincorporated population of at least 170,000 may offer the MFTE. Property owners must submit an application for the tax exemption to the designated city or county. The city or county may include additional eligibility requirements for the tax exemptions. Tax exemptions available under the statute

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include:

- 8-year exemption;
- 12-year exemption if the applicant commits to renting or selling at least 20 percent of the multiple-family housing units as affordable housing to low and moderate-income households;
- 20-year exemption if the applicant commits to renting at least 20 percent of the dwelling units to low-income households for a term of 99 years, subject to certain population, high capacity transit, and zoning requirements; and
- 20-year exemption if the applicant commits to selling at least 25 percent of the units to a qualified nonprofit organization or local government that will assure permanent affordable homeownership.

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, or any extensions of existing tax exemptions on or after January 1, 2046.

*Residential Targeted Area.* To qualify for an exemption, the housing project must be located in a residential targeted area (RTA) designated by a qualifying county or city. 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 1200 students live on campus during the academic year.

For any multiunit housing located in an unincorporated area of a county, a property owner must commit to renting or selling at least 20 percent of the units as affordable housing units to low- and moderate-income households.

Growth Management Act. The Growth Management Act (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 sometimes said to be fully planning under the GMA.

**Summary of Bill:** Any county required or choosing to plan under the GMA may offer the MFTE and designate an RTA. The requirement that a county designated RTA be located in either a rural county served by a sewer system or a county with an institution of higher education where at least 1200 students live on campus is repealed.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: This bill opens up the MFTE to the unincorporated parts of our smaller counties which is going to open the door for quite a bit more growth that we hope can provide mixed use multifamily type of housing that meets the needs of both those that are financially stressed and those that are looking for other housing. MFTE is a helpful program and often helps a developer make a decision to develop in the area because it make a project pencil out. This only applies to counties within a UGA and so it will only happen in areas that are planning and won't allow for development that is currently not allowed or zoned for development.

Counties have the same goals as cities and need the same tools and this bill will incentivize growing urban areas so we can build workforce housing in places that need it. There are only five counties that meet the population threshold and there are really only two that meet the requirements for higher education and transit. Forty-four percent of Washington residents live outside the city area. There are only two UGAs in Jefferson county so it only makes sense that counties who plan under GMA and therefore are required to plan for housing in these areas have the tools to accomplish those goals. Puget Sound Regional Council has designated 30 growth centers that are meant to absorb a significant portion of growth coming to the Puget Sound region over the next 20 years, Silverdale is one of those areas and is currently unable to offer MFTE but Bremerton—which is a similar growth center—is able to offer MFTE. Kitsap can't qualify for it currently because of the transit requirement which is complicated to plan for without the density to support it. This bill removes that requirement which will allow counties to use the program. Transit follows density and diversity and counties want to help in creating additional density and diversity by creating more housing stock but there is still work to be done on the transit requirement, it might need to be limited to UGAs that are adjacent to cities. The bill is not intended to not require water and sewer so we support putting that back in.

CON: Original intent of MFTE was to address cost of housing in high cost urban areas that might be more expensive because of land values, dense areas, and the intent was to help focus that development in urban areas that provide a host of services. This may result in a targeted area outside a UGA that doesn't have transit or access to services and so we could

be trading lower cost housing for higher cost transportation. Counties struggle to provide the services needed when we develop them so we need to make sure to balance the needs. The large expansion would create a planning issue in the long run.

**Persons Testifying:** PRO: Senator Perry Dozier, Prime Sponsor; Anthony Hemstad, Washington Housing Development, LLC; BRIAN ENSLOW, Washington State Association of Counties; Heather Dudley-Nollette, Commissioner, Jefferson County; Tom McBride, Kitsap County; Jan Himebaugh, Building Industry Association of Washington; Ian Harkins , Kitsap Building Association.

CON: Bryce Yadon, Futurewise.

**Persons Signed In To Testify But Not Testifying:** No one.