

SENATE BILL REPORT

SB 5755

As of February 17, 2025

Title: An act relating to incentivizing residential development with public benefits on underutilized commercial properties.

Brief Description: Incentivizing residential development with public benefits on underutilized commercial properties.

Sponsors: Senators Alvarado, Saldaña and Wilson, C..

Brief History:

Committee Activity: Housing: 2/21/25.

Brief Summary of Bill

- Requires the Department of Commerce (Commerce) solicit letters of interest from owners or developers of retail or commercial properties with substantial potential for redevelopment as residential or mixed-use properties providing market rate and affordable housing supply.
- Requires Commerce determine high priority, eligible applications based on scoring criteria and facilitate development agreements between local governments and high priority projects.
- Provides certain assistance, density bonus, parking, and funding options to high-priority projects.

SENATE COMMITTEE ON HOUSING

Staff: Melissa Van Gorkom (786-7491)

Background: Department of Commerce. The Department of Commerce (Commerce) administers many of the state's housing and homelessness programs. These programs include providing funding and support to local governments and nonprofit organizations

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who provide housing. Some examples include the following:

- Connecting Housing to Infrastructure Program (CHIP) which was established by the Legislature in 2021 to fund utility connections to affordable housing;
- Early Learning Facilities (ELF) Program, which provides grants and loans to eligible organizations to plan, renovate, purchase, and construct early learning facilities; and
- energy efficiency retrofits grants provide competitive funding for energy efficiency improvements at public buildings and facilities, such as schools, hospitals, community centers, affordable housing, and wastewater treatment plants.

Multi-Family Property Tax Exemption. The multi-family property tax exemption (MFTE) exempts real property associated with the construction, conversion, or rehabilitation of qualified, multiple-unit residential structures. 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. 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.

Sales and Use Tax Deferral Program for Affordable Housing. A city governing authority may establish by resolution a sales and use tax deferral for a conversion of a commercial building to provide affordable housing. An authorized administrative official or committee of the city may approve an application and grant a conditional certificate of Sales and Use Tax Deferral Program approval if:

- the investment project is set aside primarily for multifamily housing units and the applicant commits to renting or selling at least 10 percent of the units as affordable housing to low-income households;
- at least 50 percent of the investment project set aside primarily for multifamily housing units will be rented at a price at or below fair market rent or sold at a price at or below county median price;
- the project will occur on underutilized commercial property and is, or will be at the time of completion, in conformance with all local plans and regulations;
- the area is located within an area zoned for residential or mixed uses and was not acquired through a condemnation proceeding; and
- all other requirements of the city are met.

If a conditional recipient maintains the property for qualifying purposes for at least ten years, deferred sales and use taxes need not be repaid. If the city discovers that a portion of the property no longer meets the requirements, the city must notify the Department of Revenue (DOR) and all deferred sales and use taxes are immediately due and payable. DOR must assess interest at the rate provided for delinquent taxes retroactively to the date of deferral.

Beginning in 2025, any city issuing a certificate of Sales and Use Tax Deferral Program approval must report annually by December 31st to the Department of Commerce (Commerce) on the:

- number of Sales and Use Tax Deferral Program approval certificates granted;
- number and type of buildings converted and affordable housing units resulting from the conversion; and
- the estimated value of the sales and use tax deferral for each investment project and total estimated value of sales and use tax deferrals granted.

Summary of Bill: Commerce must solicit letters of interest from owners or developers of retail or commercial properties with substantial potential—the project is in the planning, permitting, or financing stage that demonstrates a strong readiness to proceed to construction but may not be fully funded or approved for construction—for redevelopment as residential or mixed-use properties providing market rate and affordable housing supply. Letters of interest must be received no later than October 1, 2025, and include the following information:

- information on the location of the property and its proximity to employment centers, public schools, transit and local amenities or services;
- description of the existing land uses and future operations of existing businesses at the property;
- any concepts or plans to convert the property into primarily residential use and any associated commercial or retail uses that would serve residents in the area;
- proposed phasing plan for the development, if necessary;
- description of any fees, taxes, or incentives that could delay, prevent, or expedite redevelopment for housing;
- assessment of infrastructure improvements needed to convert from commercial or retail use to residential or mixed use;
- status of any environmental review or permitting activity to date, including the status of any development agreements with local governments; and
- the degree of funding that has already been committed by nonstate entities.

Commerce determine eligible applications by October 31, 2025. Eligible properties must:

- be: in a commercial zone located on sites inside the urban growth area where redevelopment of the property would produce a minimum of 250 new housing units in one or more existing buildings; and on a street with a right-of-way of at least 50 to 150 feet; and
- not: be within 3200 feet of an active oil or gas refinery; be adjacent to a site dedicated to industrial use; be on any type of environmentally sensitive area, such as wetlands and flood zones; or require demolition of a historic structure or housing occupied by tenants.

Commerce must score the applicants by November 15, 2025, to assess the depth and breadth of public benefits provided in the project and the project location. Scoring must be based on:

- degree of leveraging other funds;
- local government project contributions;
- the amount and length of affordability provided;
- projects that provide employment and training opportunities for disadvantaged youth;
- projects involving collaborative partnerships between local school districts and either public housing authorities or nonprofit providers that help children of low-income families succeed in school;
- projects that include a licensed early learning or health care facility;
- projects that incorporate energy efficient and renewable energy improvements;
- whether or not projects will include: a requirement to pay prevailing wage; payroll records requirements; apprenticeship utilization; and contracting inclusion plans; and
- project location and access to employment centers and available public transportation services.

Once Commerce has determined the prioritization of eligible applicants based on the scoring criteria, Commerce must facilitate development agreements between local governments and the high priority projects. High priority projects must:

- be given technical assistance from Commerce with permit applications. Permit applications must be informed of inconsistencies with all qualifying criteria within 90 days and deemed to be compliant with relevant zoning rules and other land use standards if the jurisdiction misses the deadline;
- receive priority funding for CHIP, ELF, and energy efficiency retrofits grants, if the funding is necessary to move forward with the project;
- allow a density bonus consistent with local needs if certain conditions are met;
- eliminates minimum parking requirements, except for parking necessary for compliance with the Americans with Disabilities Act and parking within one-mile of a commercial airport in Washington with at least 9 million enplanements;
- be considered underutilized commercial property eligible for the Sales and Use Tax Deferral Program; and
- qualify for a new 20-year MFTE Program if the applicant meets all required affordability and income eligibility conditions adopted by the governing authority and commits to providing at least 20 percent of the units as affordable to low-income households for a term of at least 50 years. The applicant must record a covenant or deed restriction that ensures the continuing rental or sale of units subject to the affordability requirements for a period of no less than 50 years and include policies to maintain public benefit if the property is converted to a use other than permanently affordable housing.

These provisions expire June 30, 2027.

Appropriation: None.

Fiscal Note: Requested on February 13, 2025.

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

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