Department of Commerce
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Multi-Unit Housing Tax Incentives 2007-2010

Report to the Governor
Rogers Weed, Director

ACKNOWLEDGEMENTS

Washington State Department of Commerce
Karen J. Larkin, Assistant Director, Local Government & Infrastructure Division
Leonard Bauer, Managing Director, Growth Management Services
Ike Nwankwo, Technical & Financial Assistance Manager, Growth Management Services
Linda Weyl, Administrative Assistant, Growth Management Services

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Washington State Department of Commerce
Growth Management Services
1011 Plum Street SE
P.O. Box 42525
Olympia, WA 98504
www.commerce.wa.gov/growth

To obtain a copy of this report in an alternate format, please call (360) 725-3066

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Introduction

The purpose of this report is to evaluate the uses and the effects of the multi-unit housing tax incentives approved by the 2007 Legislature as Engrossed Second Substitute House Bill 1910 (ESSHB 1910). It later was codified as RCW 84.14. This report was requested by the Governor in her partial veto of the legislation.

Background Information

The Washington Growth Management Act (GMA) was passed by the Washington State Legislature in 1990. The GMA sets out 14 goals to guide planning in Washington State. Among the top goals are reduction of urban sprawl, concentrated urban growth, economic development and affordable housing (RCW 36.70A.020).

In 1995 the Legislature found that planning solutions to solve the problems of urban sprawl often lack incentive and implementation techniques needed to encourage residential redevelopment in urban centers. Subsequently, they authorized a 10-year property-tax exemption (RCW 84.14). The tax incentive created by this legislation intends to help stimulate new or enhanced residential opportunities in urban centers and achieve the housing goal mandated by the GMA.

In 2007 the Legislature modified the law to allow the tax break to run for eight years, or twelve years if the development contains twenty percent affordable housing[1]. The Legislature also lowered the population requirement for cities to be eligible for the program from 30,000 to 15,000. They added a reporting requirement. The changes were intended to become effective immediately.

When the legislation reached the Governor's desk, she expressed concerns that the program was expanded to include more cities without any evidence of its effectiveness in increasing affordable housing and was done without including counties in the decision making. She signed the bill but vetoed Section 12 which would have made the legislation effective immediately. She also asked the Department of Commerce to analyze the required annual reports from cities to evaluate its use and effects and assess the need for legislation to alter the exemption program. (Appendix #1)

ESSHB 1910 (2007)

This tax incentive program adopted by the 2007 Legislature was titled "AN ACT relating to tax incentives for certain multiple-unit dwellings in urban centers that provide affordable housing." It became effective on July 22, 2007 following the Governor's signature and partial veto.
The following is a summary of the changes made by the Legislature and their stipulations:

- Cities eligible to offer the multi-unit housing property tax exemption are those with a population of at least 15,000 people. If there is no city with a population of at least 15,000 in a county planning under the GMA, then the largest city or town located in that

[1] "Affordable Housing" is defined in the legislation as 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.

county is eligible. The legislation also allows cities with populations of at least 5,000 to participate, if they are located within "buildable lands" counties (King, Pierce, Snohomish, Kitsap, Thurston and Clark).

- Participating cities may offer a 12-year tax exemption if the developer chooses to build, develop, or rehabilitate at least 20 percent of the units as affordable housing. Developers choosing not to include affordable housing receive only 8 years of tax exemption.

- New, rehabilitated or converted multifamily housing projects in targeted residential areas are eligible for the property tax exemption. The property tax exemption may be applied to new housing construction and the increased value of a building due to rehabilitation. The exemption does not apply to the land or the non-housing related improvements.

- If the property changes use before the end of the exemption period, or no longer complies with guidelines established by the city for participation in the tax exemption program, then back taxes are recovered based on the difference between the taxes paid and taxes that would have been paid without the tax exemption program.

- All projects receiving tax exemption must be multiple-unit housing of four or more units that is located in a residential targeted area as designated by the city. The housing must meet the guidelines as adopted by the city which may include density, size, parking, low-income occupancy and other adopted requirements. At least fifty percent of the space must be for permanent residential occupancy. New construction must be completed within three years of the application's approval unless an extension of up to two years has been authorized by the local jurisdiction. The property to be rehabilitated must be vacant at least 12 months prior to application. The applicant must enter into a contract with the city to agree to terms and conditions.

Beginning in 2007, all cities issuing tax exemptions must report annually to the Department of Commerce regarding tax exempt properties. The annual report must include the following:

1. Total number of tax exemptions granted and the total value of those exemptions;

2. Total number of units produced and the total development cost of each unit;

3. Total monthly rent of each unit or the total sale price of each unit;

4. Income of each renter at occupancy of a rental unit, and the income of each initial purchaser of a homeownership unit if the project is using the 12-year exemption with at least 20 percent of its units rented or sold to income-eligible tenants.

When this tax exemption program was initially adopted in 1995 (RCW 84.14), only three cities were eligible; those with populations of 150,000 or more (Seattle, Tacoma and Spokane). Three subsequent amendments reduced the minimum city size, thus increasing the number of cities eligible to utilize the tax exemption program. After the program was amended again in 2007 (ESSHB 1910), reducing the population threshold to 15,000, more cities became eligible and by 2010, more than 90 cities were eligible to participate.

Department of Commerce Role: Annual Report

After signing the legislation, the Governor directed Commerce to analyze the required reports from cities and evaluate the tax exemption's use and effects and to assess the need for legislation to alter the program.

After the legislation's effective date of July 22, 2007, Commerce convened an advisory group comprised of staff from the cities of Seattle, Tacoma, Spokane, Lakewood and King County Suburban Cities (represented by ARCH - A Regional Coalition for Housing) to help develop the reporting process. It should be noted that Tacoma has had the tax abatement program in place since it was approved in 1995 and Seattle since 1998. After several meetings and discussions, the "*Department of Commerce, Multi-Unit Housing Tax Exemption Annual Report Form"* (Appendix #2) was developed and approved by the committee. Commerce received the first set of annual reports required under this program in December 2007.

Also, during the four-year period 2007–10, cities participating and/or interested in the tax exemption program sought and received assistance from Commerce staff on several issues related to the program. Most of the assistance requests involved clarification or interpretation of the legislation. Commerce consulted with the appropriate Assistant Attorney General to provide needed assistance. (Appendix #3).

Commerce sent out reminder notices to participating jurisdictions each year about the December 31 deadline for required annual reports . (Appendix #4).

In addition, a survey went to the larger participating cities asking for key information and suggestions that would enhance the review, evaluation and analysis of the program and the resulting recommendations. (Appendix #5)

Annual Report Summary

Many of the eligible cities either chose not to participate or did not file the required annual report. Commerce received 19 reports in 2007, 13 in 2008, 20 in 2009, and 19 in 2010. Most of the reports showed no activity had taken place. A few jurisdictions filed the annual report in one of the four years and some reported in three of the four years. The majority of reporting jurisdictions (mostly larger ones) submitted annual reports in all four years.

The Governor's directive was to analyze and evaluate this tax exemption program for its uses and effects. To accomplish that, Commerce had to focus only on annual reports that included development activities such as approvals or final tax exemption certificate(s) issued under the program. During the Reporting Period 2007-10, 10 jurisdictions submitted such reports: the cities of Seattle, Tacoma, Spokane, Everett, Renton, Shoreline, Wenatchee and Moses Lake, Burien and Kirkland.

The Annual Report Summaries for 2007, 2008, 2009 and 2010 from these jurisdictions are shown here.

2007 Multi Family Tax Exemption Report

	Tax Exemption Information		Development Cost Information			Affordability Requirements	
Cities that Provided Data as Required by RCW 84.14.100	Multi Family Tax Exemption Certificates issued	Total Value of the Tax Exemptions Issued	Development Cost/Unit	Total Units	Total Development Costs	Number of Affordable/Workforce Rental Units	Number of Units Sold or Rented at Market Rate Prices
Renton	2	1,957,342	159,370	260	41,436,292	0	260
Seattle	4	8,870,011	140,743	484	68,119,612	319	165
Shoreline	1	1,394,277	132,000	88	11,616,000	0	88
Spokane	45	16,368,800	137,197	168	23,049,074	29	139
Tacoma	8	4,440,410	200,211	139	27,829,342	0	139
Wenatchee	1	40,737	19,783	23	455,009	0	23
Moses Lake	0	0	0	0		0	0
Everett	0	0	0	0		0	0
Totals	61	33,071,577		1162	172,505,329	348	814

2008 Multi Family Tax Exemption Report

	Tax Exemption Information		Development Cost Information			Affordability Requirements	
Cities that Provided Data as Required by RCW 84.14.100	Multi Family Tax Exemption Certificates issued	Total Value of the Tax Exemptions Issued	Development Cost/Unit	Total Units	Total Development Costs	Number of Affordable/Workforce Rental Units	Number of Units Sold or Rented at Market Rate Prices
Renton	2	4,310,638	199,735	245	48,935,075	0	245
Seattle	3	22,651,870	240,908	156	37,581,648	109	47
Shoreline	0	0	0	0	-	0	0
Spokane	11	20,839,100	213,066	222	15,844,884	43	169
Tacoma	16	13,616,830	149,835.00	616	92,298,360	0	616
Wenatchee	0	0	0	0	$ -	0	0
Moses Lake	0	0	0	0	$ -	0	0
Everett	0	0	0	0	$ -	0	0
Totals	32	61,418,438		1239	194,650,967	152	1077

2009 Multi Family Tax Exemption Report

	Tax Exemption Information		Development Cost Information			Affordability Requirements	
Cities that Provided Data as Required by RCW 84.14.100	Multi Family Tax Exemption Certificates issued	Total Value of the Tax Exemptions Issued	Development Cost/Unit	Total Units	Total Development Costs	Number of Affordable/Workforce Rental Units	Number of Units Sold or Rented at Market Rate Prices
Renton	2	6,666,649	175,086	532	93,145,648	92	440
Seattle	6	22,488,921	167,392	1,310	166,314,980	657	653
Shoreline	0	0	0	0	-	0	0
Spokane	44	11,676,500	288,702	44	12,702,907	0	44
Tacoma	16	6,224,244	205,470	205	42,121,350	0	205
Wenatchee	0	0	0	0	-	0	0
Moses Lake	1	768,228	??	96	??	96	0
Everett	2	329,061	289,000	31	8,959,000	0	31
Totals	71	48,153,603		2218	323,243,885	845	1373

2010 Multi Family Tax Exemption Report

	Tax Exemption Information		Development Cost Information			Affordability Requirements	
Cities That Provided Data as Required by RCW 84.14.100	Multi Family Tax Exemption Certificates Issued	Total Value of the Tax Exemptions Issued	Development Cost/Unit	Total Units	Total Development Costs	Number of Affordable/Workforce Rental Units	Number of Units Sold or Rented at Market Rate Prices
Renton	1	45,530,100	194,518	440	85,587,920	0	440
Seattle	7	17,586,163	211,478	1,023	216,341,994	261	762
Shoreline	0	-	-	0	-	0	0
Spokane	17	4,001,850	364,914	19	6,933,366	6	13
Tacoma	1	14,036,200	180,000	8	1,440,000	0	8
Wenatchee	0	-	-	0	-	0	0
Moses Lake	0	-	-	0	-	0	0
Everett	1	447, 965.62	350,905	40	14,036,200	8	32
Kirkland	1	402,538	230,760	52	11,999,520	5	47
Burien	1	31,555,903	192,976	124	23,929,024	0	124
Totals	29	113,560,720		1582	360,268,024	280	1426

These Annual Report Summaries show that these 10 cities issued 193 tax exemption certificates during the reporting period. The projected value of the exemptions over the 8, 10 or 12-year term is more than $255 million. They produced 6,326 housing units, of which 1,625 are considered affordable housing.

ANALYSIS/EVALUATION

The Governor requested a report on the effectiveness of property tax exemptions in general and the effect of changes provided in ESSHB 1910 in particular. The response to her request focuses on four questions:

1. Do property tax exemptions generate new housing?
2. Do property tax exemptions generate affordable housing?
3. Did ESSHB1910 increase the number of cities that provide property tax exemptions?
4. Is consultation with counties necessary in tax exemption decision making?

1. <u>Do property tax exemptions generate new housing?</u>

This question focuses on the general effectiveness of property tax exemptions as an incentive to generate housing, particularly in high-cost areas and within the downtown of relatively large cities. One way to answer the question is by comparing the number of housing units created using tax exemptions to the total number of new housing units in each of the participating cities.

Table 1 below compares the number of housing units generated using property tax exemptions to the total number of new housing units produced from 2007 to 2010 in the participating cities. The numbers of tax exemption housing units are provided in the annual reports from participating cities. The number of total new housing units[2] was derived from the State of Washington's Office of Financial Management (OFM). Each year, OFM updates the population estimate of Washington cities. Their estimate is based on the number of housing units in each city. The data is available online at *http://www.ofm.wa.gov/pop/april1/default.asp*.

[2] Some of the total new housing units derived from the OFM website were adjusted by the reporting cities

Table 1

Comparison of New Housing Units in Cities Using Property Tax Exemptions 2007 to 2010

	Total New Housing	Housing Without Tax Exemptions	Housing With Tax Exemptions	% Housing Without Tax Exemptions	% Housing With Tax Exemptions
Renton	3,775	2,298	1,477.00	61%	39%
Seattle	16,549	13,576	2,973.00	82%	18%
Shoreline	738	650	88	88%	12%
Spokane	1,712	1,259	453	74%	26%
Tacoma	2,426	1,458	968	60%	40%
Everett	1,161	1,090	71	94%	6%
Wenatchee	310	287	23	93%	7%
Kirkland	1,123	1,071	52	95%	5%
Burien	529	405	124	77%	23%
Total	28,323	22,094	6,229	78%	22%

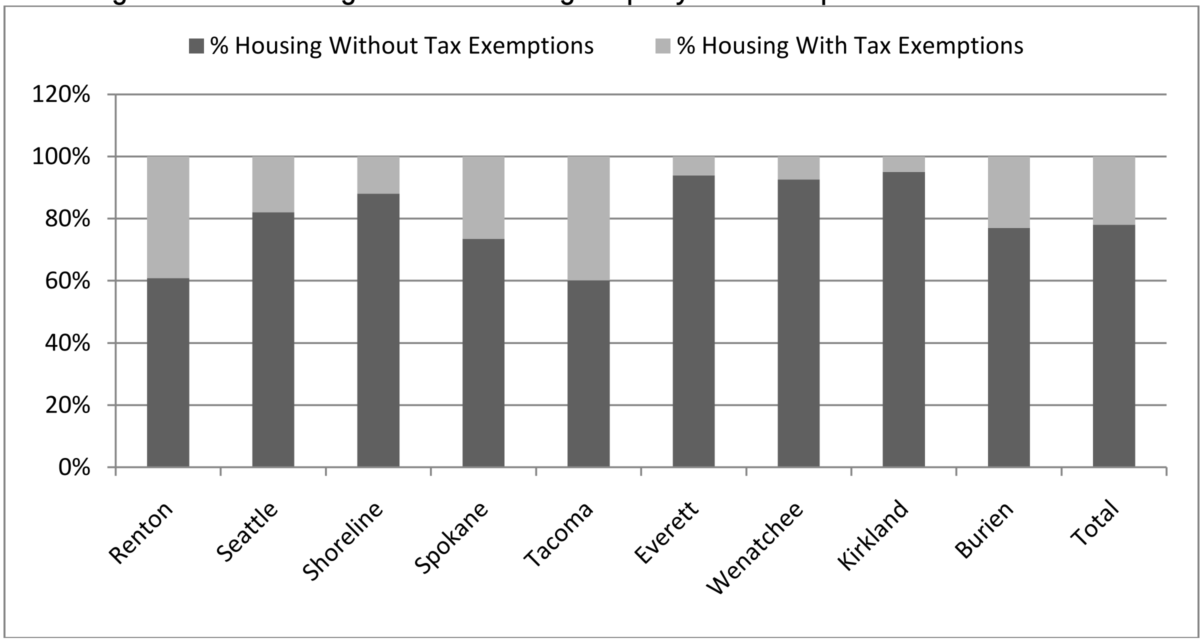
It should be noted that Moses Lake did not report additional data; therefore, only data from the other nine jurisdictions were used in the following evaluation.

Between 2007 and 2010, nine cities provided property tax exempt certificates. These certificates include over 6,000 housing units. During that same period, these cities added more than 28,000 housing units. The number of housing units created using property-tax exemptions represents 22 percent of the total new housing units generated in the nine participating cities from 2007 to 2010.

Between 2007 and 2010 approximately 100,978 housing units were added in Washington overall, according to OFM's estimate. Approximately 28 percent of all these new housing units were built in the nine participating cities. The number of units produced using property tax exemptions represents more than 6 percent of the total new housing units produced in the state of Washington during the same four-year period.

Table 2 below illustrates the percentage of new housing units built using property tax exemptions. The gray portion of each column is the percentage of the total new housing units built using property tax exemptions. The black portion represents the percentage of new housing units built *without* exemptions. Large portions of the new housing units built in Renton and Tacoma from 2007 to 2010 were built using property tax exemptions.

Table 2
Percentage of Total Housing Units Built Using Property Tax Exemptions 2007-2010



Property tax exemptions appear to have some impact on the generation of new housing units. At least in the participating cities, about one in five housing units built between 2007 and 2010 relied upon property tax exemptions.

On average, new housing units exempt from property taxes represent 22 percent of the total new housing units in the participating cities. The impact is particularly noticeable in Renton and Tacoma, where housing with tax exemptions account for nearly 40 percent of the total housing units constructed from 2007 to 2010. In Spokane and Burien, it accounts for 26 percent and 23 percent, respectively. In Seattle it accounts for 18 percent and in Everett and Kirkland it accounts for less than 10 percent of the total new housing units.

2. Do property tax exemptions generate new affordable housing?

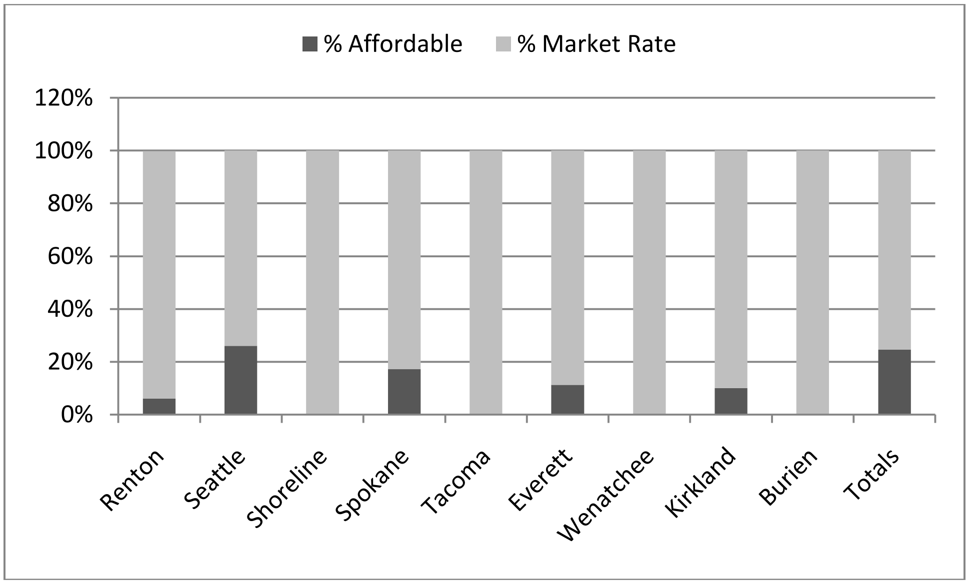
Property tax exemptions appear to generate affordable housing units only when municipal ordinances require that they do and with additional incentives added. Seattle requires affordable housing to be provided in both the 8-year and the 12-year programs (the 8-year exemption only applies to homeownership projects with less than 20 percent affordable units, but they still must be sold to an income-qualified buyer). The other jurisdictions do not have those requirements. As a result, 26 percent of the housing units built in Seattle using property tax exemptions were affordable. In Spokane and Everett, the numbers of affordable units were lower - 17 percent and 11 percent, respectively. Kirkland reported that 10 percent of the units were affordable, and in Renton only 6 percent. The other cities did not report any affordable units during the 2007-10 period. Table 3 below compares the number of affordable and market rate housing units. The information was derived from the annual reports submitted by each of the participating cities.

Table 3
Comparison of Affordable and Market Rate Housing Units 2007 - 2010

	Total Units	Affordable	Market Rate	% Affordable	% Market Rate
Renton	1477	92	1385	6%	96%
Seattle	2,973	1346	1627	26%	74%
Shoreline	88	0	88	0	100%
Spokane	453	78	375	17%	83%
Tacoma	968	0	968	0%	100%
Everett	71	8	63	11%	89%
Wenatchee	23	0	23	0	100%
Kirkland	52	5	47	10%	90%
Burien	124	0	124	0%	100%
Totals	6,118	1524	4589	25%	75%
Seattle	2,973	1346	1627	45%	55%
Remainder	3,145	178	2962	6%	94%

Table 4 below illustrates the percentage of affordable housing units to market rate housing units in each of the participating cities. The gray portion of each column represents the percentage of housing units that were rented or sold at market rate prices. The black portion represents the percentage rented or sold that was affordable to lower-income households.

Table 4
Percentage of Affordable vs. Market Rate Housing Units 2007-2010



Approximately 87 percent of the total affordable housing units are located within the city of Seattle. In the other cities, only 6 percent of the housing units were affordable. This fact underscores the point that property tax exemptions generate affordable housing units only when municipal ordinances require that they do – Seattle requires affordable housing for both the 8-year and the 12-year.

3. <u>Did ESSHB 1910 increase the number of cities that provide property tax exemptions?</u>

ESSHB 1910 decreased the population threshold for cities to qualify for property tax exemptions from 30,000 people to 15,000 people. The reduction made 19 cities eligible to participate in the incentive program, only two of which provided property tax exemptions during the first three years: Wenatchee and Moses Lake. During the fourth year, none of the 19 cities provided exemptions.

Based on the annual reports, reducing the population threshold to 15,000 did not have a significant impact on the number of cities participating in the property tax incentive program. A variety of factors may have impeded the participation of smaller cities. For instance, the changes took effect amidst a national housing crisis. This undoubtedly had an impact on the number of property tax exemptions that were issued. Additionally, it has only been four years since the new law was passed and some of these smaller jurisdictions may not have had time and resources to review, design and approve the tax exemption program for use in their jurisdictions.

4. <u>Is consultation with counties necessary in tax exemption decision making?</u>

The tax exemption program affects tax revenues of the state, county, and districts such as library, park, and school districts. Involving all governmental entities affected by the exemption program would help ensure full consideration of their perspectives. This issue of consultation with counties was discussed by the Advisory Group convened by Commerce to develop the process for annual report. The need to involve counties was vital, the group concluded.

However, it was pointed out that informal coordination was happening at staff level and it is the county assessor that processes the tax exemptions.

Survey responses from key cities indicate that some informal consultation with counties took place. Everett reported that they did consult Snohomish County when the program was initially established. The county supported the program, because they agreed that it would lead to construction of housing that eventually would be paying property taxes, and without it, the housing would not be built. Everett also pointed out that since the city would be providing services to the housing, there was very little impact on the county from the program.

Seattle similarly reported good coordination with King County and Renton informally consulted with the King County Department of Assessments when the Multi-Family Housing Property Tax Exemption program was established there in 2003.

RECOMMENDATIONS/CONCLUSIONS

<u>Establish a formal process in statute for early notification regarding this tax exemption.</u>
A formal early notification process should be established and added to the legislation even though an informal process was undertaken by participating jurisdictions. This would require any jurisdiction participating in the tax exemption program to officially notify their county of their intention to offer property tax exemption as authorized under RCW 84.14. This early notification should include the projected amount of the tax exemption and the sunset date.

<u>Is the property tax exemption effective?</u>
<u>(a)</u> <u>Housing as Economic Development Tool - The Case for Market Rate Housing:</u>
Housing (especially multi-unit) - affordable or not - provides a broad range of benefits to the communities in which it is located. It can enrich these communities, fill diverse and significant market needs and most importantly, provide economic benefits through its construction. Jurisdictions benefit from the construction of new housing units or rehabilitation of existing properties through the jobs created to produce or rehabilitate them. Economic benefits also result from the creation of the products that go into these buildings and the jobs related to the design, finance and management of the projects.

In addition to the job creation and tax revenue benefits at the local level, new multi-unit construction also produces “ripple effects” as the construction wages generated by the project are spent on local goods and services and as the new residents begin spending in the local economy.

According to the National Association of Homebuilders, a typical 100-unit housing development project generates, over 10 years, 445 jobs, $15.5 million in local income, and $2.6 million in local taxes. Once the project is completed, ongoing economic benefits are generated in the form of property taxes, employment for people who work to manage and maintain the units, and consumer spending by the occupants.

Benefits are also generated by the more efficient delivery of services from both the public and private sectors because of the greater densities associated with multi-unit developments. The multi-unit housing authorized under this legislation is required to be located in designated centers within the Urban Growth Areas (UGAs). If these UGAs are appropriately sized and designated, and services and facilities provided effectively and efficiently, additional benefits and efficiencies would be realized depending on the scale of the development. These include sprawl reduction, more efficient land uses resulting in greater densities, more efficient multi-modal traffic/transportation (transit, light rail, pedestrian), lower carbon footprint, more efficient infrastructure and utilities (cost effective sewer, roads, water, gas) and other services such as parks, schools, library, police and fire.

In a mixed-use project in a town center as authorized in this legislation, new businesses, retail, restaurants and professional services attracted to these new mixed used buildings would generate significant revenues for the community in the form of sales tax and business and occupation licenses and fees. This is in addition to the benefits from construction activities.

In Everett, the downtown is the only center in which the multi-unit property tax exemption is allowed, unlike some other cities where the exemption is much more broadly available across their communities. Everett purposely kept the area narrow to encourage market rate housing in their downtown. The downtown had experienced very little housing development over the preceding 20 years, most of which was subsidized low income housing. The city had been successful in getting low income housing without the tax exemption program, and really needed market-rate housing to create more balance in the downtown center. This program successfully attracted developers to the area. Each of the developers who has used the program, either with or without the affordable housing option, indicated they could not have developed their projects without the benefit of the tax exemption.

According to the City of Everett, the program as amended in 2007 is producing both market rate and affordable housing: "*We believe this is one of the best innovations ever to come out of the legislature in support of GMA. The intent was to stimulate housing development in centers. The 8/12 year compromise bill was a win for both the cities that need more affordable housing, and the cities that need housing of all types in their urban centers. Our recommendation is to leave the program alone with respect to the affordable housing issue. It has worked well in Everett to encourage both affordable and market rate housing that would never have been built without the property tax exemption. The program has tipped the balance so that housing can be viable as part of the redevelopment of our downtown*"[3].

Seattle has noticed significantly more program interest by private developers due to the economic downturn. The program helps projects reach financial feasibility in the current economic climate.

(b) Workforce Housing – The Case for Affordable Housing:

In her veto message and directives to Commerce, the Governor emphasized the need for "evidence of the effectiveness of the tax exemption program in increasing affordable housing". The 2007 – 2010 Multi Family Tax Exemption Tables on pages 7-8 show that a total of 6,201 housing units were produced under the program and 1,625 of these were affordable housing. Most of these affordable units are located in Seattle, Renton and Spokane.

[3] Information contained in a report submitted by Allan Giffen, Director of Planning and Community Development, City of Everett.

All eight cities that issued tax exemption certificates adopted ordinances providing for the 8-year and the 12-year tax exemption program. ESSHB 1910 requires 20 percent affordable housing set-aside for the 12-year exemption but not for the 8-year. Seattle, however, requires affordable housing be provided in both the 8-year and the 12-year programs.

It is important to point out that Seattle, Renton, Spokane, Everett and Kirkland produced affordable housing during this reporting period and the other jurisdictions did not. In Seattle, the explanation is that only projects with affordable housing are eligible to participate in either the 8 or 12 year program. Additionally, a number of Seattle non-profit housing developers have used the tax exemption along with other public funds, and these funding sources require greater affordability than the tax exemption program. Finally, Seattle granted a tax exemption certificate to the Linden 143, a for-profit project financed with low income housing tax credits. This project has 476 units, all of which are affordable to households at or below 60% of median income.

Since July 22, 2007 (the effective date of the 8-year and 12-year exemptions under RCW 84.14), Renton has received two exemption applications. One (Second & Main Apartments) was for the 8-year exemption and the other (Liberty Square Apartments) was for the 12-year exemption. The city noted that Liberty Square would not have been possible without other public funds such as equity tax credit investors and below-market rate financing (including federal low-income housing tax credits, tax-exempt bond financing, Washington State Housing Trust Fund, King County housing development funds and City of Renton CDBG funds).

According to the City of Renton, no developer has expressed an interest in using the 12-year exemption by itself without other significant public subsidies. The primary reason is that the value of the additional 4-year exemption does not adequately offset the projected lost revenue associated. For example, meeting the affordable housing requirements for at least 20 percent of the units for 12 years, the exemption benefit is too "shallow" to facilitate affordable housing by itself. There is also the obvious reality that development in general is significantly lower due to the national housing crisis and economic recession.

It should be noted, however, that jurisdictions such as Burien and possibly others in which no affordable housing was produced during this reporting period may have projects with affordable units in the pipeline. These units will be reported when the projects are completed and tax exemption certificates issued. Everett did not produce any affordable housing until this reporting period.

Based on the information reported to Commerce by the participating cities, the tax exemption program is producing housing in a few, mostly larger jurisdictions (see Table 3 above). Both market rate and affordable housing are being produced but market rate housing production outpaces affordable housing during this reporting period (see Table 4). This could change next reporting period if the affordable units now in the pipeline are completed and included in the next annual report to Commerce.

It is our conclusion that the tax exemption program is working for these local governments and they are using it as needed to achieve different objectives. Some, including Renton, Tacoma and Burien, are developing market rate housing in targeted areas and others, like Seattle, are producing affordable housing. The program is achieving both policy goals included in the 2007 legislation (ESSHB 1910).

ACTION OPTIONS:

1. To continue providing for both policy goals, no change to the legislation is currently needed. Leave the tax exemption program as amended, which allows participating jurisdictions the option to use the 8 year program for market rate housing, the 12 year program that requires some affordable housing, or both for a mix of housing.

2. If the policy goal of achieving affordable housing units is considered a higher priority, the legislation could be amended to require that to receive the 8-year tax exemption, a minimum percentage of the housing units within a development (perhaps 10 or 15 percent) be affordable units. However, it should be noted that this approach could have an adverse impact on achieving market rate housing in some areas.