



STATE OF WASHINGTON

October 1, 2019

TO: Keenan Konopaski, Legislative Auditor
Joint Legislative Audit and Review Committee

FROM: David Schumacher, Director 
Office of Financial Management

Vikki Smith, Director 
Department of Revenue

**SUBJECT: JLARC PRELIMINARY REPORT ON 2019 TAX PREFERENCE
PERFORMANCE REVIEWS**

The Office of Financial Management and Department of Revenue have reviewed the Joint Legislative Audit and Review Committee's (JLARC) preliminary report on the 2019 tax preference performance reviews.

We appreciate JLARC's thorough analysis and the detailed assessment provided by the Citizen Commission for Performance Measurement of Tax Preferences. A system that provides for a continuous review of state tax preferences is critical to ensure that the state of Washington maintains a fair and equitable tax system.

The Department of Revenue has provided a formal response on the property tax exemption for multifamily housing in urban areas. While we have no specific comments on the other eight preferences in the 2019 preliminary report, we continue to support JLARC's recommendations for the inclusion of performance statements and specific public policy objectives for all tax preferences where they do not exist in statute today.

Thank you for the opportunity to provide comments on this material and the recommendations made by JLARC.



STATE OF WASHINGTON
DEPARTMENT OF COMMERCE

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September 19, 2019

Via email: keenan.konopaski@leg.wa.gov
Keenan Konopaski, Legislative Auditor
Joint Legislative Audit and Review Committee
106 11th Avenue Southwest Suite 2500
PO Box 40910
Olympia, WA 98504-0910

Re: JLARC 2019 Tax Preference Reviews

Dear Mr. Konopaski:

Thank you for the letter of August 29, 2019 regarding the Joint Legislative Audit and Review Committee's (JLARC) 2019 Tax Preference Reviews. We appreciate the opportunity to respond to JLARC's recommendations for Commerce.

We concur that an annual report could be a useful tool to help share information around the state about the use of the multifamily tax exemption (MFTE) program. Such a report could help cities understand where the program is being used and under what circumstances. It could also help inform programs to be more effective. However, our response to the JLARC recommendation is as follows.

RECOMMENDATION/AGENCY	AGENCY POSITION	COMMENTS
<i>Commerce should report annually to the JLARC and relevant policy committees on city compliance with the (multi-unit tax exemption) requirements, as well as metrics in statute and affordability measures. The report should include the metrics needed to assess affordability, such as income, household size and rent at the per unit level. In first report, in July 2020, in addition to providing data</i>	At this time, we do not concur with the recommendation. Commerce will need additional resources and authority to provide the recommended report.	Although RCW 84.14.100 states that cities "must report annually" to Commerce, we have no authority to compel local governments to submit complete reports each year. RCW 84.14 does not currently require Commerce to create annual reports summarizing this information, and no funding is currently available to do so. An

RECOMMENDATION/AGENCY (continued)	AGENCY POSITION (continued)	COMMENTS (continued)
<i>on compliance and metrics, if Commerce believes it needs additional resources or authority to ensure this takes place, Commerce should report back to the Legislature on what it needs.</i>		annual report to JLARC and the legislature represents a significant body of work, especially in the first year. Commerce would need to identify additional staff resources (approximately 0.2 FTE) to compile and review the data, develop the draft report, coordinate external and internal review as required, and issue the report.

In summary, we currently lack the authorization and funding to support the development of an annual report. For now, Commerce is considering revisions to the MFTE reporting form to request additional information from reporting cities for the 2019 reports. Should the Legislature consider amendments to the MFTE program in the upcoming legislative session, Commerce will work to engage and build understanding about a path forward on this issue.

Thank you again for the opportunity to comment. If you have questions, please contact Ike Nwankwo at (360) 725-3056 or Anne Fritzel at (360) 725-3064.

Sincerely,



Connie Robins
Deputy Director

cc: Mark Barkley, Assistant Director, Local Government
Diane Klontz, Assistant Director, Community Services and Housing
Jasmine Vasavada, Legislative Director
Dave Andersen, Managing Director, Growth Management Services, Commerce
Ike Nwankwo, Financial and Technical Assistance Manager, Growth Management Services
Anne Fritzel, Senior Planner, Growth Management Services
David Duvall, Department of Revenue
John Ryse, Department of Revenue
Kathy Oline, Department of Revenue
Marc Baldwin, Office of Financial Management
Jim Schmidt, Office of Financial Management
Rachel Murata, Research Analyst, JLARC
Josh Karas, Research Analyst, JLARC
Aaron Cavin, Research Analyst, JLARC
Eric Thomas, Audit Coordinator, JLARC



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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September 11, 2019

TO: Keenan Konopaski, Legislative Auditor
Joint Legislative Audit & Review Committee

FROM: Vikki Smith, Director
Department of Revenue *VKS*

SUBJECT: JLARC Preliminary Report on the 2019 Tax Preference Performance Reviews

The Washington State Department of Revenue (Department) appreciates the opportunity to review and comment on the Joint Legislative Audit and Review Committee's (JLARC) 2019 Tax Preference Reviews.

We believe that continuous review of state tax preferences is important to help the state of Washington maintain a fair and equitable tax system. However, because of the limited time provided for the review, this response is limited to JLARC's request that the Department formally respond to its recommendation regarding the property tax exemption for multifamily housing in urban areas (MFTE).

RECOMMENDATION/AGENCY	AGENCY POSITION	COMMENTS
The Department of Revenue should report to JLARC and the relevant policy committees on which statutory ambiguities can be resolved through guidance and which require statutory changes. These include items such as the timing of new construction, eligibility of assisted living facilities, composition of low- and moderate-income households in affordable units, and inclusion of short-term rental units.	The Department does not concur with JLARC's recommendation.	The Department believes local jurisdictions that have implemented the MFTE are in the best position to report to JLARC and the Legislature on which statutory ambiguities can be resolved through guidance and which require statutory changes. Responsibility for implementing the MFTE lies solely with eligible local jurisdictions. While the Department, upon request, will

		<p>provide guidance to local jurisdictions and county assessors regarding the MFTE, we do not approve applications, audit taxpayers' claiming this exemption, or audit the local authority's administration of the exemption program.</p> <p>For these reasons, the Department suggests that JLARC recommend local authorities report on any interpretive or administrative issues they have encountered and the best methods for resolving them.</p>
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Thank you again for the opportunity to review and comment on JLARC's recommendation regarding the MFTE program.

Sincerely,

Vikki Smith
Director

cc: David Schumacher, Director, Office of Financial Management
Lisa Brown, Director, Department of Commerce
David Duvall, Legislative and External Affairs Liaison, Department of Revenue
Jasmine Vasavada, Legislative Director, Department of Commerce

September 20, 2019

Keenan Konopaski
Legislative Auditor
Joint Legislative Audit and Review Committee
Washington State Legislature

Mr. Konopaski,

Thank you for the invitation to provide comments in response to the preliminary 2019 Tax Preference Performance Review for the Property Tax Exemption for Multifamily Housing in Urban Areas. We appreciate the efforts of your office and your staff to evaluate the effectiveness of this program, and your recommendations for areas of potential improvement.

As the citizen's commission and ultimately the legislature considers their response to the report and potential changes to the operation of this program, we wanted to share some thoughts based on feedback over the years from our members on multifamily tax exemption (MFTE) program.

We have consistently heard support for this program as a critical tool for cities to influence housing development. There has been much conversation in recent years about the role of cities in promoting housing development and a desire for cities to do more, through revisiting zoning, regulations, fees etc. Those approaches can only go so far. As you know, as much as cities may crave and attempt to set the table for development – we are generally dependent on the private sector to choose to build in our cities.

Despite some of the lowest vacancy rates in the country, Washington has a number of cities that struggle to attract even market rate multifamily development, let alone rent-restricted affordable housing. As the report notes, there are cities where rents will not support multifamily development even with this property tax abatement. In cities on the margins, we hear statements like: "We have permitted about 1,200 housing units with the program, and each developer has indicated they could not have built the project without it." As an illustrative example of how many cities feel about this tool, the multifamily tax exemption program was described to us by one member as the most effective tool that the legislature has provided cities to promote housing development.

It is important to cities that we do not lose access or make impossible to utilize one of the few tools we have to directly affect the bottom line of housing development and therefore make it more likely that building will occur. It is also important to our members that this program remain, as it was originally created, eligible to promote market-rate development.

We appreciate the identification of possible areas of improvement in this program, and the thorough review of how different cities have chosen to operate their programs within the statute. One challenge that cities always face is developing and maintaining the staffing capacity and expertise to effectively operate programs. Different cities have varying capacity, both financial and institutional, to administer all programs and these are no different. Providing access to a profitability assessment tool would allow for greater information for local decisionmakers when deploying this program. How to make that available for cities who would like that information is worthy of further conversation. We believe it would be most effective and most likely to utilized if the state assisted cities by developing and promulgating the means to assess these factors.

We would like to be involved in conversations about how to improve consistency and accuracy of reporting under this program. Over the years we have also wished that there was more readily available information on these programs. There may be opportunities to improve and provide clarity to the reporting process.

We appreciate the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter B. King". The signature is fluid and cursive, with a small mark at the end.

Peter B. King
Chief Executive Officer
Association of Washington Cities