Multiple Agency Fiscal Note Summary

Bill Number: 5118 P S SB S-0523.1	**Title:** Multifamily property tax ex.

Estimated Cash Receipts

NONE

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total $	**0.0**	**0**	**0**	**0**	**0.0**	**0**	**0**	**0**	**0.0**	**0**	**0**	**0**

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

Prepared by: Cheri Keller, OFM	**Phone:** (360) 584-2207	**Date Published:** Final

FNPID 65503

Department of Revenue Fiscal Note

Bill Number: 5118 P S SB S-0523.1	Title: Multifamily property tax ex.	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Riley Benge	Phone: 360-786-7316	Date: 01/11/2023
Agency Preparation:	Frank Wilson	Phone: 360-534-1527	Date: 01/12/2023
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 01/12/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 01/12/2023

Request # 5118-2-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Note: This fiscal note reflects Senate amendment S-0523.1 to HB 5118, 2023 Legislative Session.

COMPARISON OF THE SUBSTITUTE BILL WITH THE ORIGINAL:
The substitute version eliminates all changes to “multifamily housing tax exemption” (MFTE) exemption requirements from the original version, and instead adds two new 99-year exemptions and a new 99-year extension option.

CURRENT LAW:
Under current law, the value associated with new construction, conversion, or rehabilitation of qualifying multi-unit residential improvements located in residential targeted areas designated by a qualifying county, city, or town may be exempt from property tax for either 8-years, 12-years, or 20 years. The exemption is commonly known as the “multifamily housing tax exemption”.

Each of the 8-year, 12-year, or 20-year exemptions have their own qualifying requirements that include, but are not limited to, some combination of the following: proximity to transit, density, zoning, rental restrictions on a percentage of units, the length of time the restriction lasts, tenant relocation assistance at the end of the exemption, etc. Additionally, the city, town, or county where the project is located may adopt or implement more stringent qualifying requirements. An extension of the exemption is allowed if certain requirements are met.

PROPOSAL:
- Adds the definition of "conversion", which is the conversion of an existing residential building or the conversion of a nonresidential building to multiple-unit housing. The conversion of nonresidential buildings to multiple-unit housing does not exempt the value of improvements constructed prior to submitting the application unless the improvements are integral to the use of the building for multiple-unit housing purposes.

- All existing MFTE exemptions and extensions are maintained as-is.

-Specifies that the existing 8-year exemption cannot be granted for rehabilitation or conversion of non-residential buildings.

- Adds an exemption for 99 successive years starting January 1st immediately following the calendar year of issuance or the certificate and the requirement for an applicant renting 35% of the multifamily housing “square footage” to low and moderate-income housing as its own exemption in Sec. 2(1)(a)(ii)(C).

- For the 99-year exemption in Sec. 2(1)(a)(iii)(B) above, adds requirement that the project be in a city as defined in RCW 84.14.010(3)(d) and the area must be zoned to have a density of at least 15 units per acre or, for cities with a population above 20,000, 25 units per acre.

- Creates a new 99-year extension option for the existing 8- and 12-year exemptions if the 35% affordability requirement is met, as in the 99-year exemption above.

- For the exemption in Sec. 2(1)(a)(ii)(B) through (D) and (iii), land value is also exempt proportionally to the percentage of housing space dedicated to qualifying units.

- Twenty-year exemption for permanently affordable home ownership in Sec. 3(1)(a) also now includes land value in the same proportion.

- For Sec. 2 and 3, no new exemptions may be provided as of January 1, 2032. For Sec. 2, no extensions may be granted as of January 1, 2046.

EFFECTIVE DATE:
The bill takes effect 90 days after final adjournment of the session in which it is enacted.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:
Local governments administer this exemption, the bill allows local governments to choose to adopt the exemption or not, and allows local governments to set additional qualifying restrictions.

REVENUE ESTIMATE:
This exemption will result in no revenue loss to the state school levy as the tax burden will shift to other taxpayers. Due to the uncertainty around local government implementation of this legislation, the amount of shift is indeterminate.

Local regular levy districts will also experience an indeterminate shift of taxes. The shift could result in local revenue loss due to levy limits.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

The Department of Revenue will have minimal costs of approximately $2,460 for 40 hours of work by a property acquisition specialist to implement this legislation and will absorb within current funding.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

NONE

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5118 P S SB S-0523.1	**Title:** Multifamily property tax ex.

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [X] Cities: potential loss of property tax revenue, tax shift
- [X] Counties: same as above
- [X] Special Districts: same as above
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [X] Legislation provides local option: Local governments can approve the tax exemption
- [X] Key variables cannot be estimated with certainty at this time: Which properties would be granted a tax exemption and for how much

Estimated revenue impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 01/12/2023
Leg. Committee Contact: Riley Benge	Phone: 360-786-7316	Date: 01/11/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/12/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/13/2023

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

CHANGES BETWEEN THIS SUBSTITUTE VERSION AND THE ORIGINAL BILL:

The substitute version eliminates all changes to “multifamily housing tax exemption” (MFTE) exemption requirements from the original version, and instead adds two new 99-year exemptions and a new 99-year extension option.

The changes in this bill version do not create any new fiscal impacts to local governments.

SUMMARY OF CURRENT BILL

This substitute bill would modify the Multifamily Housing Tax Exemption by:
- adding a definition for "conversion"
- modifying the definition of "multiple unit housing" to include residential or nonresidential
- modifying the definition of "rehabilitation improvements" to include residential, nonresidential, or underutilized
- adding an exemption for 99 successive years starting January 1st immediately following the calendar year of issuance or the certificate and the requirement for an applicant renting 35% of the multifamily housing “square footage” to low and moderate-income housing as its own exemption in Sec. 2(1)(a)(ii)(C)
- adding the requirement that the project be in a city as defined in RCW 84.14.010(3)(d) and the area must be zoned to have a density of at least 15 units per acre or, for cities with a population above 20,000, 25 units per acre
- creating a new 99-year extension option for the existing 8- and 12-year exemptions if the 35% affordability requirement is met
- exempting land value in proportion to the percentage of housing space dedicated to qualifying units for the exemption in Sec. 2(1)(a)(ii)(B) through (D) and (iii)

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

This substitute bill would not impact local government expenditures. The program already exists and no new action is required.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

This substitute bill would have an indeterminate revenue impact on local governments. The number of newly eligible properties applying for and receiving the tax exemption is unknown, therefore the tax revenue loss cannot be calculated.

According to the Department of Revenue, local governments administer this exemption, the bill allows local governments to choose to adopt the exemption or not, and allows local governments to set additional qualifying restrictions.

This exemption will result in no revenue loss to the state school levy as the tax burden will shift to other taxpayers. Due to the uncertainty around how local governments will implement this legislation, the amount of shift is indeterminate.

Local regular levy districts will also experience an indeterminate shift of taxes. The shift could result in local revenue loss due to levy limits.

Sources:
Department of Revenue fiscal note, PSSB 5118 (2023)
Senate Bill Report, SB 5118 (01/12/2023)