Multiple Agency Fiscal Note Summary

Bill Number: 5045 S SB	Title: ADU rental/property tax

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
Joint Legislative Audit and Review Committee	.1	44,200	44,200	44,200	.0	0	0	0	.3	110,500	110,500	110,500
Department of Revenue	.0	3,700	3,700	3,700	.0	0	0	0	.0	0	0	0
Total $	0.1	47,900	47,900	47,900	0.0	0	0	0	0.3	110,500	110,500	110,500

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	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 Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
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

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	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 Capital Budget Breakout

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

Individual State Agency Fiscal Note

Bill Number: 5045 S SB	Title: ADU rental/property tax	Agency: 014-Joint Legislative Audit and Review Committee

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.1	0.1	0.0	0.3
Account					
General Fund-State 001-1	22,100	22,100	44,200	0	110,500
Total $	22,100	22,100	44,200	0	110,500

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:	Melissa Van Gorkom	Phone: 360-786-7491	Date: 01/26/2023
Agency Preparation:	Ryan McCord	Phone: 360-786-5186	Date: 01/31/2023
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 01/31/2023
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 02/06/2023

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.

The bill allows counties with a population of more than 1.5 million people to exempt certain accessory dwelling units (ADUs) from property taxation. Presently only King County qualifies. The bill applies to taxes levied for collection in 2024 and thereafter. The exemption expires January 1, 2034.

SECTION 1 sets out the qualifications that an ADU owner must meet. To participate in the program, an owner must show that:
• The ADU is valued at 30 percent or less of the original structure;
• The ADU is maintained for rental to households who earn 60% or less of the county median income;
• The rent charged does not exceed 30 percent of the tenant's income; and

A granted exemption may continue for as long as the ADU is rented to a low-income household.

The bill allows the county legislative authority to:
• Exempt attached or detached ADUs, or both;
• Impose a fee from participating taxpayers to cover administrative costs;
• Designate administrative officials or agents to verify that the ADU owner and the low-income renter are in compliance with the qualifications described above; and
• Determine penalties for non-compliance.

SECTION 2 contains a tax preference performance statement and mandates a JLARC review of the exemption. The stated purpose of the exemption is "to encourage homeowners to rent accessory dwelling units to low-income households and increase the overall availability of affordable housing."

The bill directs JLARC to review:
• The costs and benefits associated with the exemption, including the number of taxpayers filing notice to participate, the number and types (attached/detached) of exempted ADUs, and the value of exempted ADUs;
• The administrative costs of the program, including the fees charged to participating taxpayers and the costs to monitor compliance;
• The impacts of the program on low-income households; and
• The projected number of units for moderate, low, very low, and extremely low-income households necessary to manage future population growth. This information is published by the Department of Commerce, as required by 36.70A.070(2)(a).

The bill states that if the JLARC review finds that the exemption increases the amount of ADUs rented to low-income households, then the legislature intends to extend the expiration date of the preference (January 1, 2034).

JLARC's report is due December 1, 2029.

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.

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 expenditure estimates and the following description assume that the King County Council passes the exemption. If the Council does not pass the exemption, there would be no active tax preference to review and no JLARC expenditures.

Following passage of the bill, JLARC staff would establish contacts with the King County Department of Assessments and the officials designated by the county to verify taxpayer compliance. The purpose of the contacts would be to ensure that the data necessary for JLARC's future review are identified and collected, including any data regarding the race and ethnicity of ADU owners and renters.

JLARC staff would begin review of this preference in May 2028, in order to deliver a report by December 2029. JLARC staff would request ADU property data from the King County Department of Assessments, with additional data from whichever local agency is designated to verify renter income information. Additionally, JLARC staff would request low-income housing data maintained by the Department of Commerce. JLARC staff would analyze this data and calculate summary statistics responsive to the study mandate.

In order to determine whether there was an increase in the number of ADUs rented to low-income households following passage of the exemption, JLARC staff would require ADU rental data covering the period prior to the exemption. The JLARC expenditure estimates assume that some public entity collects that data. If sufficient data were available, JLARC staff would attempt to model different "but for" scenarios in which the ADU exemption was not available. JLARC staff would compare those scenarios to the actual number of ADUs rented to low-income households.

If there were no government data about ADU rental history available, JLARC staff could attempt to survey a sample of King County ADU owners to inquire about rental history prior to the exemption. In that case, JLARC would require additional resources in FY2029 beyond the estimates in this fiscal note.

The review will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing.

This review will require an estimated 7 audit months in fiscal years 2024 through 2029. In addition, the review will require an additional 1.8 audit months in FY2030, which is beyond the scope of this fiscal note and not included in the expenditure amounts.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately $22,100 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	22,100	22,100	44,200	0	110,500
		Total $	22,100	22,100	44,200	0	110,500

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.1	0.1		0.3
A-Salaries and Wages	14,300	14,300	28,600		71,500
B-Employee Benefits	4,500	4,500	9,000		22,500
C-Professional Service Contracts					
E-Goods and Other Services	3,000	3,000	6,000		15,000
G-Travel	300	300	600		1,500
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	22,100	22,100	44,200	0	110,500

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Research Analyst	126,694	0.1	0.1	0.1		0.2
Support staff	89,671					0.1
Total FTEs		0.1	0.1	0.1		0.3

III. D - 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

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 5045 S SB	Title: ADU rental/property tax	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.0		
Account					
GF-STATE-State 001-1	3,700		3,700		
Total $	3,700		3,700		

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:	Melissa Van Gorkom	Phone: 360-786-7491	Date: 01/26/2023
Agency Preparation:	Frank Wilson	Phone: 360-534-1527	Date: 02/01/2023
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 02/01/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/02/2023

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 language in SSB 5045, 2023 Legislative Session.

COMPARISON OF THE SUBSTITUTE BILL WITH THE ORIGINAL:
The substitute version adds that only a county with a population of 1,500,000 or more may exempt an accessory dwelling units (ADU) under certain conditions. It also requires the Joint Legislative Audit and Review Committee (JLARC) to review the tax preference for ADUs and complete a final report by December 1, 2029.

CURRENT LAW:
Physical improvement to single family dwellings upon real property, including ADUs on the same real property, are exempt from taxation for three assessment years after the completion of the improvement when:
- The improvements represent 30% or less of the value of the original structure, and
- The taxpayer files notice with the county assessor of their intent to construct said improvements prior to starting construction.

PROPOSED LAW:
A county with a population of 1,500,000 or more may exempt an ADU if the ADU is rented to a "low-income household" and represents 30% or less of the value of the original structure.

Defines "low-income household" to mean a single person, family, or unrelated persons living together whose adjusted income is at or below 60% of the median household income adjusted for household size, for the county where the household is located, as reported by the United States department of housing and urban development.

- Provides that the rents charged to the tenant cannot exceed 30% of the tenant’s monthly income.
- Allows the exemption for ADUs that are within or attached to a single-family dwelling in addition to detached units.
- Allows the county authority to collect a fee from the taxpayer to cover the costs or administering this exemption.
- Allows the county to determine what tax and penalties will be due, if any, in the case of a finding of noncompliance by a taxpayer.
- The county authority may designate an official or agent, other than the assessor, to verify that both the low-income household and the tenants are complying.

Requires JLARC to review the tax preference for ADUs and complete a final report by December 1, 2029.

This exemption expires January 1, 2034.

EFFECTIVE DATE:
This bill takes effect beginning with property taxes due for calendar year 2024.

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:
- There are very few ADUs receiving this exemption and even fewer rented to qualifying low-income households. The total exempted value would be small.

DATA SOURCES:
- County assessor data

REVENUE ESTIMATES:
Part 1 and part 2 of the state school levy are budget based; therefore, this exemption would result in a minimal shift of taxes to nonexempt property owners. The state levy would not experience a loss in revenues.

The impact of this legislation on local taxing districts is indeterminate but assumed minimal.

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.

FIRST YEAR COSTS:
The department will incur total costs of $3,700 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.07 FTE.
- Amend one administrative rule.
- Prepare applications and update training materials.

SECOND YEAR COSTS:
The department will not incur costs in fiscal year 2025.

ONGOING COSTS:
There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.0		
A-Salaries and Wages	2,400		2,400		
B-Employee Benefits	800		800		
E-Goods and Other Services	300		300		
J-Capital Outlays	200		200		
Total $	$3,700		$3,700		

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
MGMT ANALYST4	73,260	0.0		0.0		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.0		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.1		0.1		

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

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited process to amend WAC 458-16-080, titled: "Improvements to single family dwellings-Definitions-Exemption-Limitations-Appeal rights." Persons affected by this rulemaking would include property owners who qualify for the expanded exemption.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5045 S SB	**Title:** ADU rental/property tax

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

Legislation Impacts:

- [X] Cities: indeterminate and minimal impact
- [X] Counties: indeterminate and minimal impact
- [X] Special Districts: indeterminate and minimal impact
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

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

Estimated expenditure impacts to:

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

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 02/01/2023
Leg. Committee Contact: Melissa Van Gorkom	Phone: 360-786-7491	Date: 01/26/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/01/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/01/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

CHANGES TO THIS BILL VERSION

This substitute bill revises the legislation to apply to King County only, it revises the legislative intent and adds a requirement for the joint legislative audit and review committee to review the tax preference and complete a report for the legislature. The change that makes this legislation applicable to King County only will likely reduce the indeterminate and minimal expenditure and revenue impacts for local governments.

SUMMARY OF CURRENT BILL VERSION

This bill amends RCW 84.36.400 [Improvements to single-family dwellings] to add a condition to a dwelling unit property tax exemption rule that allows property owners with newly constructed ADUs to be exempt from paying property taxes for the dwelling unit for three assessment years after completion of the ADU. The added condition is that the ADU must be rented to a low-income household that is verified by the city or the county. This additional property tax exemption condition will narrow the pool of eligible property owners for an, already, minimally-used property tax exemption, and will have a minimal impact upon local government revenues.

This bill applies to King County only.

The joint legislative audit and review committee must review the tax preference and complete a report for the legislature by December 1, 2029.

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.

CHANGES FROM PREVIOUS BILL VERSION

This substitute bill adds detail that will make the legislation apply to King County only. This is expected to reduce the impact to local governments.

SUMMARY OF CURRENT BILL EXPENDITURE IMPACTS

This bill specifies that cities and counties in King County will be responsible for verifying that an ADU is rented to a low-income household. County assessors are involved in the reviewing of qualifying criteria for property tax exemptions; cities are not. It is estimated that the impact upon county assessors (in reviewing property tax exemption claims) will be negligible due to the minimal use of the current property tax exemption for physical improvements to single-family dwellings.

It is unknown what the start-up costs for cities in King County reviewing criteria for property tax exemptions will be.

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.

CHANGES FROM PREVIOUS BILL VERSION

This substitute bill adds detail that will make the legislation apply to King County only. This is expected to reduce the impact to local governments.

SUMMARY OF CURRENT BILL REVENUE IMPACTS

This bill will result in a negligible decrease in revenue loss for local governments in King County (double negative = negligible revenue increase).

Under current law, local governments are experiencing a negligible loss of revenue due to the property tax exemption described in RCW 84.36.400 due to a minimal shift of taxes to nonexempt property owners. In 2020, the Dept. of Revenue estimated the revenue impact of the exemption for physical improvements to a single-family dwelling to be approximately -$300,000 annually.

This bill will narrow the pool of eligible property owners by adding an additional condition to the property tax exemption, by making the criteria of eligibility more specific, and by applying the legislation to King County only. This will result in a decrease in the number of eligible property owners and a corresponding decrease in the amount of local government revenue lost.

SOURCES
Local Government Fiscal Note ESHB 1841 2022 Session
Washington State Dept. of Revenue: 2SSB 6231 Fiscal Note Draft 2020
Washington State Dept. of Revenue
Association of Washington Cities