Multiple Agency Fiscal Note Summary

Bill Number: 1350 HB	Title: Multifamily unit conversion

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 Commerce	4.2	1,935,251	1,935,251	1,935,251	3.8	1,220,848	1,220,848	1,220,848	3.8	1,225,648	1,225,648	1,225,648
Department of Revenue	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total $	**4.2**	**1,935,251**	**1,935,251**	**1,935,251**	**3.8**	**1,220,848**	**1,220,848**	**1,220,848**	**3.8**	**1,225,648**	**1,225,648**	**1,225,648**

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Commerce	.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**

Estimated Capital Budget Breakout

Prepared by: Cheri Keller, OFM	Phone: (360) 584-2207	Date Published: Final 2/ 7/2023

FNPID 66521

Individual State Agency Fiscal Note

Bill Number: 1350 HB	Title: Multifamily unit conversion	Agency: 103-Department of Commerce

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	4.1	4.2	4.2	3.8	3.8
Account					
General Fund-State 001-1	971,860	963,391	1,935,251	1,220,848	1,225,648
Total $	971,860	963,391	1,935,251	1,220,848	1,225,648

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:	Audrey Vasek	Phone: 360-786-7383	Date: 01/27/2023
Agency Preparation:	Buck Lucas	Phone: 360-725-3180	Date: 02/06/2023
Agency Approval:	Jason Davidson	Phone: 360-725-5080	Date: 02/06/2023
OFM Review:	Gwen Stamey	Phone: (360) 790-1166	Date: 02/07/2023

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.

This bill creates a new multifamily tax exemption (MFTE) program for the conversion of at least four existing multifamily housing units to income-restricted units for households making 80% AMI or less. It would be available to cities within counties with a population greater than 300,000 (Thurston, Clark, Spokane, Snohomish, Pierce, and King).

Section 4 adds a new section to RCW 84.14 creating a new annual reporting requirement, by April 1, from cities to the Department of Commerce (department). The section outlines the requirements for these reports submitted to the department. It also adopts the same requirements for the department to audit and monitor these units and requires the department to notify the city or county if units are out of compliance. The department may collect a fee not to exceed the cost of the audit and review, from the owner under this section. The department must also provide guidance to cities and counties which issue certificates and guidance on collecting and reporting demographic information.

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.

Assumptions:

• The number of potential reports that would be received annually by the department under Section 4, is indeterminate. But for purposes of this fiscal note the department will assume the total number of cities in the 6 counties with population over 300,000, (Section 4(2)), or 106 cities, will submit annual reports to the department. In addition, there are currently 55 jurisdictions with MFTE programs.

• The number of audits and review conducted by the department under Section 4(3) is indeterminate. For purposes of this fiscal note, the department estimates an average of 50 certificates issued per city (106 cities), equal to 5,300 total. Based on an assumption that 10 percent of the reported certificates would be audited and reviewed by the department (530 audits). If each audit is assumed to take 16 hours (2 days), then the total auditing and review hours would be approximately 8,480 hours annually.

• A professional consultant would be required for development of the audit and review program, and guidance development, including outreach with stakeholders and local governments under Section 4.

• The department assumes immediate additional Information Services (IS) work to upgrade to its internal data and tracking system in FY24 for managing additional grant quarterly report tracking and related local government submittals and data collection, related to tracking eligibility.

• Rulemaking will be required to update guidance and requirements for the local government reporting and the audit and review program under Title 365 WAC.

• Assistant Attorney General (AAG) review of the audit and review programs and compliance tracking procedures development will be required in FY24.

Section 4:
1.0 FTE Commerce Specialist 4 (2088 hours) FY24-FY29, for development of the new audit and review program, outreach with local governments and stakeholders, coordination with a professional consultant, and related report review and follow-up notification annually, and consultant oversight.

1.0 FTE Commerce Specialist 3 (2088 hours) FY24-FY29, to assist Commerce Specialist 4 in above activities, including report tracking and audit and review workload annually.

0.3 FTE Management Analyst 4 (626 hours) FY24-FY25, for coordinating guidance and rulemaking updates for the reporting management and developing the new audit and review program, including rulemaking; and data management and tracking and compliance review will also be required.

0.2 FTE Administrative Assistant 3 (418 hours) FY24-FY29, to provide audit and review program administrative support, including report filing and records management. Composes office correspondence such as requests for documentation and responses to requests for information.

0.5 FTE IT Business Analyst Expert (1044 hours) FY24-FY29, for significant system maintenance and upgrades for an report management, audit and review tracking system, including ongoing maintenance and periodic upgrades thereafter.

0.5 FTE Application Developer (1044 hours) FY24-FY29, to design, develop and support, including ongoing maintenance and Office of the Chief Information Officer (OCIO) oversight, tracking IT investments over $500,000 or longer than 4 months (RCW 43.105.245).

Salaries and Benefits:

FY24: $437,150
FY25: $451,868
FY26-FY29: $415,893 per fiscal year

Professional Services Contract:
The department would require professional consultant for $500,000 for two years for IT contractors to augment the IT team with project buildout. An additional professional services contract for $100,000 over two years, would be required for OCIO oversight.

FY24: $300,000
FY25: $300,000

Goods and Services:
Attorney General costs: $10,500 in FY24 for 50 hours at $210 per hour for review of the audit and programs and compliance tracking procedures development required in FY24.

FY24: $72,368
FY25: $60,213
FY26-FY29: $55,057 per fiscal year

Travel:
The department assume travel statewide in FY24 for local government outreach and development and training for the audit/review program. Ongoing standard travel is assumed for audit/review work.

FY24: $8,520
FY25-FY29: $2,645 per fiscal year

Equipment:
The department assumes standard workstations in FY24 and replacement tablet in FY28.

FY24: $10,000
FY28: $4,800

Intra-agency Reimbursements:

FY24: $143,822
FY25: $148,665
FY26-FY29: $136,829 per fiscal year

Note: Standard goods and services costs include supplies and materials, employee development and training, Attorney General costs, central services charges and agency administration. Agency administration costs (e.g., payroll, HR, IT) are funded under a federally approved cost allocation plan.

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Total Costs:

FY24: $971.860
FY25: $963,391
FY26-FY27: $610,424 per fiscal year
FY28: $615,224
FY29: $610,424

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	971,860	963,391	1,935,251	1,220,848	1,225,648
		Total $	971,860	963,391	1,935,251	1,220,848	1,225,648

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	4.1	4.2	4.2	3.8	3.8
A-Salaries and Wages	328,127	337,970	666,097	622,660	622,660
B-Employee Benefits	109,023	113,898	222,921	209,126	209,126
C-Professional Service Contracts	300,000	300,000	600,000		
E-Goods and Other Services	72,368	60,213	132,581	110,114	110,114
G-Travel	8,520	2,645	11,165	5,290	5,290
J-Capital Outlays	10,000		10,000		4,800
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements	143,822	148,665	292,487	273,658	273,658
9-					
Total $	971,860	963,391	1,935,251	1,220,848	1,225,648

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
Administrative Assistant 3	52,616	0.2	0.2	0.2	0.2	0.2
Administrative Services - Indirect	111,168	0.6	0.7	0.7	0.6	0.6
Commerce Specialist 3	82,056	1.0	1.0	1.0	1.0	1.0
Commerce Specialist 4	86,212	1.0	1.0	1.0	1.0	1.0
IT APP Development	120,457	0.5	0.5	0.5	0.5	0.5
IT Business Analyst	126,485	0.5	0.5	0.5	0.5	0.5
Management Analyst 4	86,212	0.3	0.3	0.3		
Total FTEs		4.1	4.2	4.2	3.8	3.8

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.

Section 4: Rulemaking to update Title 365 WAC for procedures governing the reporting and audit program.

Department of Revenue Fiscal Note

Bill Number: 1350 HB	Title: Multifamily unit conversion	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:	Audrey Vasek	Phone: 360-786-7383	Date: 01/27/2023
Agency Preparation:	Frank Wilson	Phone: 360-534-1527	Date: 01/29/2023
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 01/29/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 01/30/2023

Request # 1350-1-1

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.

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” (MFTE).

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. Allows an extension of the exemption upon meeting certain requirements.

PROPOSAL:
Adds the definition of "conversion," which is committing existing units within multiple unit housing facilities not older than 15 years from the time granted the exemption to housing low-income households.

Adds the definition of “Low-income conversion target area,” as an area within an urban center or urban growth area designated by the governing authority as a target area to commit existing units to low-income households.

Changes the definition of “Multiple-unit housing” to include converting units in existing buildings to low-income housing u

For the exemption in Sec. 2(1)(a)(ii)(B)(I), allows buildings with conversion units to qualify for a 12-year exemption if they comply with new subsection (1)(a)(ii)(B)(II), which requires the multifamily facility to be in a low-income conversion target area designated by a city in a county with a population greater than 300,000, and either:
- Rent or sell at least 30% of the multifamily housing units as affordable housing units to low-income households; or
- Rent or sell at least 50% more multifamily housing units to low-income households than already required by the local government.

Adds the extension option for the preferences in Sec. 2(1)(a)(ii)(B)(II) for cities that meet the criteria for low-income conversion target areas.

Requires cities meet certain criteria before designating an area as a low-income conversion target area and requires the owner of the multifamily property to file an annual report 30 days after the anniversary date the certificate of the tax exemption was granted and every year until the expiration on January 1, 2058.

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.

- A city must meet the requirements of a low-income conversion target area prior to receiving a certificate of tax exemption.

- According to the Office of Financial Management's estimated population data, only cities in the counties of King, Pierce, Snohomish, Spokane, Clark, and Thurston meet the eligibility of counties with a population greater than 300,000.

DATA SOURCES:
- Office of Financial Management, Population data

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: 1350 HB	**Title:** Multifamily unit conversion

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

Legislation Impacts:

- [X] Cities: Loss of property tax revenue, tax shift
- [X] Counties: Loss of property tax revenue, tax shift
- [X] Special Districts: Loss of property tax revenue, tax shift
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [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: 01/30/2023
Leg. Committee Contact: Audrey Vasek	Phone: 360-786-7383	Date: 01/27/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/30/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/30/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill would expand and amend the multi-family property tax exemption by:
- adding the definition of "conversion"
- adding the definition of “Low-income conversion target area”
- changing the definition of “Multiple-unit housing” to include converting units in existing buildings to low-income housing units
- requiring cities to meet certain criteria before designating an area as a low-income conversion target area

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

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 legislation 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 (DOR) this exemption is administered by local governments, 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. Please see the DOR note for their assumptions and data sources.

SOURCES:
Department of Revenue fiscal note, HB 1350 (2023)
Local Government fiscal note, SB 5832 (2022)
Senate Bill Report, SB 5832, Housing and Local Government Committee (2022)