

Multiple Agency Fiscal Note Summary

Bill Number: 5045 E 2S SB	Title: ADU rental/property tax
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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	Fiscal note not available											
Department of Revenue	.0	3,700	3,700	3,700	.0	0	0	0	.0	0	0	0
Total \$	0.0	3,700	3,700	3,700	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 Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	Fiscal note not available								
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: (360) 584-2207	Date Published: Preliminary 3/29/2023
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Department of Revenue Fiscal Note

Bill Number: 5045 E 2S SB	Title: ADU rental/property tax	Agency: 140-Department of Revenue
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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: Rachelle Harris	Phone: 60-786-7137	Date: 03/27/2023
Agency Preparation: Frank Wilson	Phone: 60-534-1527	Date: 03/29/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 03/29/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 03/29/2023

Request # 5045-3-1

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 language in E2SSB 5045, 2023 Legislative Session.

COMPARISON OF THE ENGROSSED SECOND SUBSTITUTE BILL WITH THE SUBSTITUTE:

This version of the bill lists the individuals that qualify for "immediate family" instead of referring to the definition listed in RCW 59.18.030.

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.

PROPOSAL:

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" that is not immediate family, and the ADU 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.

Defines "immediate family" as any person under age sixty that is a state registered domestic partner, spouse, parents, grandparents, children, including foster children, siblings, and in-laws.

- 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

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exempted value would be small.

DATA SOURCES:

- County assessor data

REVENUE ESTIMATES:

The Economic and Revenue Forecast Council predicts the state property tax levy remains below the \$3.60 limit throughout the 2027-29 biennium. The now budget-based state levy results in this new exemption having a minimal shift to non-exempt property owners and no loss to the state levy.

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 E 2S SB

Title: ADU rental/property tax

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

Legislation Impacts:

- Cities: indeterminate and minimal impact
- Counties: indeterminate and minimal impact
- 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: 03/29/2023
Leg. Committee Contact: Rachele Harris	Phone: 360-786-7137	Date: 03/27/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 03/29/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 03/29/2023

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 engrossed second substitute bill revises the definition of “immediate family;” the person must be under age sixty.

SUMMARY OF CURRENT BILL VERSION

This bill amends RCW 84.36.400 [Improvements to single-family dwellings] to add a conditions 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 conditions are the ADU must be rented to a low-income household that is verified by the city or the county, must be rented to a low-income household that is not immediate family, and the ADU represents 30% or less of the value of the original structure. These additional property tax exemption conditions 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. tee 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 engrossed second substitute bill revises the definition of “immediate family;” the person must be under age sixty. This added detail will further restrict the pool of eligible taxpayers and will reduce the staff-time costs mentioned below, indeterminately.

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 eligible for the property tax exemption. 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 (and less restricted) 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 engrossed second substitute bill revises the definition of “immediate family;” the person must be under age sixty. This added detail will further restrict the pool of eligible taxpayers and will reduce, further, the revenue loss and shift.

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 and 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 additional conditions to the property tax exemption. By making the criteria of eligibility more specific, by applying the legislation to King County only, and by excluding immediate family over the age of sixty. 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

Washington State Dept. of Revenue: 2SSB 6231 Fiscal Note Draft 2020

Washington State Dept. of Revenue : E2SSB 5045 Fiscal Note Draft 2023

Association of Washington Cities