Multiple Agency Fiscal Note Summary

Bill Number: 5118 P S SB PSSB 5118_S-3851.1	Title: Concerning modifying the multifamily property tax exemption to promote development of long-term affordable housing.

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: Amy Hatfield, OFM	Phone: (360) 280-7584	Date Published: Final 1/10/2024

Department of Revenue Fiscal Note

Bill Number: 5118 P S SB PSSI 5118_S-3851.1	**Title:** Concerning modifying the multifamily property tax exemption to promote development of long-term affordable housing.	**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:	Melissa Van Gorkom	Phone: 360-786-7491	Date: 01/05/2024
Agency Preparation:	Frank Wilson	Phone: 360-534-1527	Date: 01/09/2024
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 01/09/2024
OFM Review:	Amy Hatfield	Phone: (360) 280-7584	Date: 01/09/2024

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:
Currently, 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, 12, or 20 years. The exemption is commonly known as the "multifamily housing tax exemption".

Each of the 8, 12, 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, rent affordability 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. Meeting certain requirements allow an extension of the exemption.

PROPOSAL:
PROPOSAL:
This bill makes the following changes:
- For the 12 and 20-year multifamily tax exemptions, applicants must commit to rent 20% of the multifamily housing square footage as affordable housing units rather than market rate units. The number of bedrooms in the units should be proportional to the number of bedrooms in market-rate units at the property.

- This bill 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.

- This bill eliminates the density/transit proximity requirement for the 20-year exemption.

- This bill loosens the requirements on counties when designating residential targeted areas. A regional targeted area designated by a county must be in a rural county served by a sewer system, in a county that includes a higher education campus, or must be located within 0.25 miles of a sufficient bus transit corridor. Previously, the higher education and transit requirements were both required together, instead of requiring one or the other.

- For properties exempt under the 12 and 20-year multifamily tax exemptions, this bill exempts part of a qualifying property's land value proportional to the building's square footage dedicated to affordable housing.

EFFECTIVE DATE:
The bill takes effect 90 days after the final adjournment of the session.

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. The bill also 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 to other taxpayers. 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 $2,540 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 PSSI 5118_S-3851.1	**Title:** Concerning modifying the multifamily property tax exemption to promote development c long-term affordable housing.

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: 01/10/2024
Leg. Committee Contact: Melissa Van Gorkom	Phone: 360-786-7491	Date: 01/05/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/10/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/10/2024

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill:
- updates the requirements for the multifamily property tax exemption
- includes the value of new affordable housing constructed and corresponding land for the 12 and 20 year exemptions
- defines conversion as either the conversion of an existing residential building or a nonresidential building to multiple-unit housing
- removes the density/transit proximity requirement for the 20-year exemption

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.

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 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 (2024)
Senate Bill Report, Housing Committee, SB 5118 (01/08/2024)