Multiple Agency Fiscal Note Summary

Bill Number: 2141 HB	Title: Housing in unincorp. areas

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	No fiscal impact					
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

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	No fiscal impact								
Local Gov. Total									

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

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	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Breakout

FNPID 69127

Prepared by: Amy Hatfield, OFM	**Phone:** (360) 280-7584	**Date Published:** Final 1/16/2024

Department of Revenue Fiscal Note

Bill Number: 2141 HB	Title: Housing in unincorp. areas	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.

X 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:	Serena Dolly	Phone: 360-786-7150	Date: 01/09/2024
Agency Preparation:	Mark Studer	Phone: 360-534-1507	Date: 01/13/2024
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 01/13/2024
OFM Review:	Amy Hatfield	Phone: (360) 280-7584	Date: 01/16/2024

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 (MFTE).

Each of the 8, 12, or 20-year exemptions has 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 allows an extension of the exemption.

PROPOSAL:
This bill allows counties with a population greater than 275,000 to designate unincorporated areas of the county as a residential targeted area. This designation allows the county to offer the MFTE if the area meets the exemption requirements.

This bill removes counties with a campus of an institution of higher education where at least 1,200 students live on campus from qualifying for the MFTE.

The new tax preference performance provisions do not apply to this bill (see section 3 of the bill).

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:
- This legislation passes effective beginning with property taxes due for calendar year 2025.
- Local governments administer this exemption, and the bill allows local governments to choose to adopt the exemption or not. Local governments may set additional qualifying restrictions. The additional local governments allowing this new exemption are unknown. The number of taxpayers using the new exemption, the size of the projects receiving the new exemption, the total new construction value exempted, and what additional qualifying restrictions local governments require of the exempted properties are unknown.

REVENUE ESTIMATE:
The Economic and Revenue Forecast Council predicts the state property tax levy remains below the $3.60 limit throughout the 2027-29 biennium. This new exemption results in a shift to other taxpayers and no loss to the state levy.

PROPERTY TAX SHIFTS:
Due to the uncertainty around local government implementation of this legislation, the state levy shift is indeterminate.

Local districts will also experience an indeterminate shift of taxes to other taxpayers. The local shift may result in a 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.

FIRST YEAR COSTS:
The department will not incur costs in fiscal year 2024.

SECOND YEAR COSTS:
The department will have minimal costs of approximately $2,500 in fiscal year 2025 associated with updating forms and will absorb these costs within current funding.

ONGOING COSTS:
There are no ongoing costs.

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: 2141 HB	Title: Housing in unincorp. areas

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

Legislation Impacts:

- [ ] Cities:
- [x] Counties: Counties with populations of more than 275,000 residents may establish residential targeted areas and multifamily tax exemption programs.
- [ ] Special Districts:
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [x] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [x] Legislation provides local option: : To adopt a property tax exemption in unincorporated portions of a county to encourage housing.
- [x] Key variables cannot be estimated with certainty at this time: How many jurisdictions would choose to provide the tax exemption and the number of projects that would qualify for the exemption.

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Jordan Laramie	Phone: 360-725-5044	Date: 01/16/2024
Leg. Committee Contact: Serena Dolly	Phone: 360-786-7150	Date: 01/09/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/16/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/16/2024

Part IV: Analysis

A. SUMMARY OF BILL

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

This act would authorize counties with greater than 275,000 residents to designate unincorporated areas of the county as a residential targeted area. This designation allows the county to offer the multifamily tax exemption if the area meets the exemption requirements.

Section 1 would amend RCW 84.14.040. The condition that a county would qualify for the multifamily tax exemption if it had a campus of an institution of higher learning has been removed. This provision is replaced with a condition that the county has a population greater than 275,000 residents.

Sec. 2 would amend RCW 84.14.060 which details the approval process for applications related to multifamily housing projects in residential targeted areas. This amendment removes the institution of higher learning condition from Sec. 1.

Sec. 3 is an exemption clause stating that RCW 82.32.805 and 82.32.808 (new tax preference performance provisions) do not apply to this act.

The bill takes effect 90 days after adjournment of the session in which the bill is passed.

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 legislation would have no impact on local government expenditures as it does not require a county to act.

The bill enables the state's largest counties to create residential targeted areas in unincorporated portions of the counties where multifamily tax exemptions (MFTE) may be offered, given certain other conditions are met. Under current statute, the only residential targeted area permitted in any county is within the urban growth area around Pacific Lutheran University in Pierce County.

Discussion:
According to the most recent Office of Financial Management population estimate, there are seven counties with populations greater than 275,000 residents. These are King, Pierce, Snohomish, Spokane, Clark, Thurston, and Kitsap counties. According to the most recent Multifamily Tax Exemption annual report available from the Department of Commerce, there are 55 cities and one county (Pierce County) that offer the MFTE incentive.

Counties adopting new multifamily tax exemption programs would have costs related to conducting displacement risk analysis reports on the new residential targeted area, implementing the program through ordinance, standing up the office or establishing its responsibilities within an existing development, building, or community planning department, and staffing the program.

The costs incurred by a county to establish and administer a multifamily tax emption program would vary based upon the extent of the program and the existence of similar existing affordable housing programs within the jurisdiction. These costs cannot be estimated in advance and are indeterminate.

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 no revenue impact by itself, as it creates a local option for counties with more than 275,000 residents form residential targeted areas (RTAs) in unincorporated portions of urban growth areas and offer multifamily tax exemption (MFTE) incentives for affordable housing development.

Discussion:
For counties that take the local option, there would be indeterminate costs that would likely vary between jurisdictions. The magnitude of the revenue impact would depend on the number of jurisdictions that establish new programs, the number of new developments that are covered by these programs, and the qualifying criteria of each project that would create 8-, 12-, or 20-year exemptions. These factors cannot be known in advance and are therefore indeterminate. The only county with a MFTE program, Pierce County, assessed the number of projects thaw t were enabled under its Garfield RTA and other affordable housing incentive measures from 2010 to 2019. During this time period, the incentive program was responsible for four projects and the creation of nearly 700 new units, while no projects were completed in the Garfield RTA.

The Department of Revenue (DOR) issued a fiscal note assessing the local government impact of this legislation. Uncertainty surrounding the number of new or expanded MFTE programs resulted in indeterminate revenue impacts. The DOR fiscal note indicates, "local districts would also experience an indeterminate shift of taxes to other taxpayers. The local shift may result in a local revenue loss due to levy limits." Please see the DOR's fiscal note for HB 2141 (2024) for more details.

SOURCES:
BERK Consulting, "Pierce County Affordable Housing Incentives Evaluation" (Aug. 2019)
Department of Commerce, "Overview of 2021 Changes to the Multifamily Housing Tax Exemption Program" (2021)
Department of Commerce, "MFTE Annual Report" (2023)
Department of Revenue, FN HB 2141 (2024)
House Bill Analysis, HB 2141 (2024)
Local Government Fiscal Note Program, FN SB 5287 (2021)
Office of Financial Management, 2023 Population Estimate
Senate Bill Report, SB 5287 (2021)