

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 2308 S HB	<b>Title:</b> Existing structures/housing
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## Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	Non-zero but indeterminate cost and/or savings. Please see discussion.								
<b>Total \$</b>	0	0	0	0	0	0	0	0	0

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	.0	0	0	14,400	.2	0	0	88,400	.0	0	0	4,800
Department of Commerce	Fiscal note not available											
Department of Revenue	1.0	335,900	335,900	335,900	.5	114,000	114,000	114,000	.2	47,200	47,200	47,200
Housing Finance Commission	Fiscal note not available											
<b>Total \$</b>	1.0	335,900	335,900	350,300	0.7	114,000	114,000	202,400	0.2	47,200	47,200	52,000

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 Commerce	Fiscal note not available								
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Housing Finance Commission	Fiscal note not available								
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

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

This preliminary package is incomplete and may not reflect the total fiscal impact. Other agencies' fiscal notes will be distributed as soon as possible.

**Prepared by:** Amy Hatfield, OFM

**Phone:**  
(360) 280-7584

**Date Published:**  
Preliminary 2/ 4/2024

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 2308 S HB	<b>Title:</b> Existing structures/housing	<b>Agency:</b> 014-Joint Legislative Audit and Review Committee
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## 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	0.0	0.0	0.0	0.2	0.0
<b>Account</b>					
Performance Audits of Government Account-State 553-1	4,800	9,600	14,400	88,400	4,800
<b>Total \$</b>	4,800	9,600	14,400	88,400	4,800

### 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: Kristina King	Phone: 360-786-7190	Date: 02/01/2024
Agency Preparation: Eric Whitaker	Phone: 3607865618	Date: 02/02/2024
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 02/02/2024
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 02/02/2024

## 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.*

S HB 2308 creates two tax preferences:

- (1) A property tax exemption for existing commercial buildings that are converted to residential buildings containing affordable housing units.
- (2) A sales and use tax remittance for personal property used in converting a commercial building into affordable housing as well as the associated labor and service costs.

The application period of the property tax exemption expires December 31, 2029, under Section 7 (2). The sales and use tax remittance also expires on December 31, 2029, under Section 12 (9).

#### Tax Preference Performance Statement Details

Section 14 of the bill includes a tax preference performance statement. The Legislature categorizes the tax preferences as ones intended to induce certain designated behavior by taxpayers per RCW 82.32.808(2)(a).

The Legislature's specific public policy objective is to incentivize the repurposing of existing buildings for affordable housing.

JLARC is directed to refer to any data collected by the state to measure the effectiveness of the preferences in achieving the public policy objective.

### 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.*

JLARC staff will work with the Department of Revenue, the Department of Commerce, and any other appropriate agencies immediately after passage of the bill to ensure project contacts are established and the necessary data for JLARC staff's future evaluation needs are identified and collected. Staff would work with those same agencies when conducting its review. Based on the expiration date, this fiscal note assumes the preference will be reviewed in 2027. The expenditure detail reflects work conducted to prepare for and conduct the review of the preferences by July 2027.

This tax preference review may require additional resources. The audit 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. JLARC will assess all of the tax preference reviews mandated in the 2024 legislative session.

This audit will require an estimated 5 audit months.

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 2023-25 costs are calculated at approximately \$23,900 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
553-1	Performance Audits of Government Account	State	4,800	9,600	14,400	88,400	4,800
<b>Total \$</b>			4,800	9,600	14,400	88,400	4,800

**III. B - Expenditures by Object Or Purpose**

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years				0.2	
A-Salaries and Wages	3,100	6,200	9,300	57,400	3,100
B-Employee Benefits	1,000	2,000	3,000	18,200	1,000
C-Professional Service Contracts					
E-Goods and Other Services	600	1,300	1,900	11,600	600
G-Travel	100	100	200	1,200	100
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total \$</b>	4,800	9,600	14,400	88,400	4,800

**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	131,064				0.2	
Support staff	110,856				0.1	
<b>Total FTEs</b>					0.2	0.0

**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

<b>Bill Number:</b> 2308 S HB	<b>Title:</b> Existing structures/housing	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

No Fiscal Impact

**Estimated Cash Receipts to:**

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

**Estimated Expenditures from:**

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.4	1.6	1.0	0.5	0.2
<b>Account</b>					
GF-STATE-State 001-1	106,400	229,500	335,900	114,000	47,200
<b>Total \$</b>	106,400	229,500	335,900	114,000	47,200

**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: Kristina King	Phone: 60-786-7190	Date: 02/01/2024
Agency Preparation: Stephen Cleverdon	Phone: 60-534-1523	Date: 02/01/2024
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 02/01/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/01/2024

Request # 2308-2-1

## 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 SHB 2308, 2024 Legislative Session.

#### COMPARISON OF THE SUBSTITUTE BILL WITH THE ORIGINAL BILL:

The substitute bill removes the property tax exemption for multiunit housing, with market rents converting to affordable rents.

#### CURRENT LAW:

##### PROPERTY TAX:

Within certain authorizing cities and counties, 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 allows an extension of the exemption.

##### SALES AND USE TAXES:

State and local retail sales and use taxes apply to taxable sales. The state rate is 6.5% and the local rate varies by jurisdiction.

The sales and use taxes applying to construction projects depend on whether the project is a custom construction or a speculative build. Retail sales tax and use taxes apply to the cost of contractor labor and physical inputs.

#### PROPOSAL:

##### PROPERTY TAX:

This bill authorizes cities to create a state and local property tax exemption.

Authorizing cities create a state and local property tax exemption for qualified existing commercial buildings that convert to affordable housing. The exemption applies to the value of improvements, but not the land and not to non-housing related improvements. The exemption is a 100% property tax exemption for 30 years.

To receive the exemption, building owners must apply for this exemption on a form provided by the relevant city governing authority before the application expiration date of December 31, 2029.

If the exempt property fails to meet certain continuing qualifications for the exemption anytime throughout the exemption period, the city must notify the county assessor and an additional tax must be imposed on the property equal to the difference between the property tax paid and what the property should have paid had the property not been exempt for each of the prior 10 years the exemption was in effect, plus a 20% penalty and interest.

Property owners receiving a property tax exemption under the new and rehabilitated multiple-unit dwellings in urban centers exemption (Chapter 84.14 RCW) cannot receive this property tax exemption.

**SALES AND USE TAXES:**

The owner of a commercial property receiving a city-issued certificate of tax exemption under the new property tax exemption in this bill can apply for a refund of the state portion of the sales and use taxes paid on:

- Tangible personal property incorporated as a component part of a conversion of a commercial building into affordable housing; and
- Labor and services rendered for converting a commercial building into affordable housing.

The owner and property must continue to meet certain conditions for 10 years; otherwise, the owner must pay back the total remittance granted plus a 20% penalty. The sales and use tax exemption provisions expire December 31, 2029.

**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.

**DATA SOURCES:**

- County assessor data

**REVENUE ESTIMATES:**

**PROPERTY TAX:**

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:**

The department cannot predict how potentially qualifying building owners will respond to this exemption. They may set rents low enough to qualify or they may not. Owners may decrease rents to qualify for this exemption if the exempt property taxes offset the revenue loss from lower rents.

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.

**SALES AND USE TAXES:**

Due to the uncertainty around local government implementation of this legislation, the amount of refunded state sales and use taxes is indeterminate.

**EXEMPTION EXAMPLE:**

A commercial building in Seattle is reportedly being developed into a multi-unit residential building. The department does not have details of the developer's plans and cannot predict if this site would qualify for this exemption. However, this building

can act as an example of the revenue impact of a hypothetical conversion project.

Based on the department's modeling, the projected annual property tax exemption would save this taxpayer \$127,000. Of that amount, \$36,000 in state property taxes would shift to other parcels across the state. The rest is local property taxes, which would shift since no property taxing district in Seattle is close to its statutory maximum rate.

The sales and use taxes refunded because the remodeling costs are unknown.

## 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:

This bill affects a minimal number of taxpayers.

### FIRST YEAR COSTS:

The department will incur total costs of \$106,400 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.38 FTE.

- Implementation meetings, gather system requirements, and document system changes.
- Set up, program, and test computer system changes.
- Create a Special Notice and information on the department's website.

Object Costs - \$54,200.

- Computer system changes, including contract programming.

### SECOND YEAR COSTS:

The department will incur total costs of \$229,500 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 1.64 FTEs.

- Adopt one new standard rule and excise tax advisory (ETA).
- Update information on the department's website.
- Continue computer system testing, monitoring, and maintenance.
  - Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.

### ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$114,000 and include similar activities described in the second-year costs. Time and effort equate to 0.45 FTE.

## Part III: Expenditure Detail

### III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.4	1.6	1.0	0.5	0.2
A-Salaries and Wages	33,000	146,500	179,500	76,200	31,200
B-Employee Benefits	10,900	48,300	59,200	25,100	10,200
C-Professional Service Contracts	54,200		54,200		
E-Goods and Other Services	5,700	24,100	29,800	9,900	4,600
J-Capital Outlays	2,600	10,600	13,200	2,800	1,200
<b>Total \$</b>	<b>\$106,400</b>	<b>\$229,500</b>	<b>\$335,900</b>	<b>\$114,000</b>	<b>\$47,200</b>

**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	131,684		0.0	0.0		
EMS BAND 5	153,836		0.0	0.0		
EXCISE TAX EX 3	64,092		0.2	0.1	0.2	0.1
IT B A-JOURNEY	91,968	0.1	0.8	0.5	0.2	0.1
IT B A-SR/SPEC	101,376	0.1	0.3	0.2	0.1	
IT SYS ADM-JOURNEY	96,552		0.1	0.1		
MGMT ANALYST4	76,188		0.0	0.0		
TAX POLICY SP 2	78,120	0.1	0.0	0.1		
TAX POLICY SP 3	88,416	0.1	0.1	0.1		
TAX POLICY SP 4	95,184		0.0	0.0		
WMS BAND 2	98,456	0.0	0.0	0.0		
WMS BAND 3	111,992		0.0	0.0		
<b>Total FTEs</b>		<b>0.4</b>	<b>1.6</b>	<b>1.0</b>	<b>0.5</b>	<b>0.2</b>

### 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 standard process to adopt WAC 458-20-XXX, titled: "Retail sales and use tax exemption for construction of low-income housing." Persons affected by this rulemaking would include owners of commercial property that qualify for the exemption.

Request # 2308-2-1

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

**Bill Number:** 2308 S HB

**Title:** Existing structures/housing

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

### Legislation Impacts:

- Cities: indeterminate increase
- Counties:
- Special Districts:
- Specific jurisdictions only: cities currently operating commercial building conversion exemption programs
- Variance occurs due to:

## Part II: Estimates

- No fiscal impacts.
- Expenditures represent one-time costs: costs to amend currently operating programs
- Legislation provides local option: allows city governing authorities to establish commercial building conversion exemption programs by ordinance or resolution
- Key variables cannot be estimated with certainty at this time: costs to amend current programs

### 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: 02/01/2024
Leg. Committee Contact: Kristina King	Phone: 360-786-7190	Date: 02/01/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/01/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/02/2024

## **Part IV: Analysis**

### **A. SUMMARY OF BILL**

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

#### **CHANGES FROM PREVIOUS BILL VERSION**

This substitute bill:

- In section 3, 4, 5, 6 removes a property tax exemption for multiunit residential buildings converted for low-income housing.

#### **SUMMARY OF CURRENT BILL VERSION**

Section 1 describes intent.

Section 2 creates a new section to add definitions.

Section 3 creates a new section to allow a city governing authority to, by ordinance or resolution, establish a state and local property tax exemption program for the value of real property that consists of:

- a) a commercial building converted from a commercial building to a multiunit residential building and contains affordable housing units for low-income households, excluding land and nonhousing-related improvements.

Section 4 creates a new section to specify existing building conversion exemption programs adopted by a governing authority must be amended to include certain qualifying standards for commercial building conversions.

Section 5 creates a new section to describe the property tax exempt period of qualifying properties, and specifies a new exemption may not apply if one already applies under RCW 84.14 [New and rehabilitated multiple-unit dwellings in urban centers].

Section 6 creates a new section to describe requirements that property's must meet in order to be eligible for a property tax exemption under a commercial building conversion program.

Section 7 creates a new section to describe requirements that the property owner must meet in order to be eligible for a property tax exemption under a commercial building conversion program.

Section 8 creates a new section to describe a property tax exemption application process: a period (that a local government opting to manage a building conversion program with a tax exemption element) has to review applications, details regarding extensions, issuing certificates, rules around application denial, and appeal.

Section 9 creates a new section to describe what information the property owner must report annually to the local government opting to manage a building conversion program with tax exemption element.

Section 10 creates a new section to describe what a formerly property exempt property owner is responsible for should they lose their property tax exempt status under a new building conversion program.

Section 11 creates a new section to require property owners provide tenants of affordable housing rental units with notification of intent to provide the tenant with rental relocation assistance should the unit convert from affordable housing to market rate housing.

Sections 12 and 13 create a new sales and use tax exemption on (a) the sale of or charge made for tangible personal property incorporated as a component of a conversion of a commercial building into affordable housing; and (b) Labor and services rendered for the conversion of a commercial building into affordable housing.

Section 14 requires a tax preference performance statement be completed to evaluate the building conversion exemption programs.

## **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:

- In section 3, 4, 5, 6 removes a property tax exemption for multiunit residential buildings converted for low-income housing.

### **SUMMARY OF CURRENT BILL'S EXPENDITURE IMPACTS**

It is unknown what the details of all of the currently existing local government programs are, and if they will all be impacted by this commercial building conversion element change.

According to the Washington State Dept. of Commerce, currently 57 jurisdictions operate a multifamily housing tax exemption program that may have a commercial property conversion element. It is estimated that all jurisdictions with a commercial building conversion element will need to undertake an ordinance amendment, although the complexity of that ordinance amendment may range from simple to complex.

According to the local government fiscal note program's unit cost model, the cost to adopt a simple ordinance is about \$3,143 per city in one-time costs to amend commercial building conversion programs. It is unknown how many of the 57 jurisdictions with these programs have a commercial building conversion element and how many may need to amend their programs via ordinance amendments.

According to the Dept. of Revenue, local districts will experience an indeterminate shift of taxes to other taxpayers. The local shift may result in a local revenue loss due to levy limits.

## **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:

- In section 3, 4, 5, 6 removes a property tax exemption for multiunit residential buildings converted for low-income housing.

### **SUMMARY OF CURRENT BILL VERSION REVENUE IMPACTS**

Sections 2-3, 5-14 of this bill describe the specific requirements of a local option program for cities opting to create a commercial building conversion exemption program that includes a property tax exemption element. Since this is a local option and does not require cities to create a program this part of the bill has no impact.

### **PROPERTY TAX EXEMPTION – LOCAL OPTION UNCERTAINTY**

It is uncertain how many local jurisdictions will opt to create a commercial building conversion exemption program that includes a property tax exemption element.

Property tax exemptions lower the taxable value against which taxing districts levy their taxes. When exemptions are enacted, taxing districts may compensate for the loss in taxable value by increasing the tax rate for taxpayers who are not eligible for the exemptions. Consequently, taxpayers who do not benefit from the exemption would pay a higher tax. This higher tax results in a tax shift from the exempt taxpayers to the non-exempt taxpayers. However, when a taxing district is restricted from increasing the tax rate due to a levy limit, the taxing district incurs a revenue loss.

The sales and use tax exemption mentioned in this bill is against the state's tax and will not impact local governments.

SOURCES

Dept. of Revenue Fiscal Note