

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 2308 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	1.2	373,316	373,316	373,316	1.2	389,090	389,090	389,090	1.2	389,090	389,090	389,090
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	.0	0	0	0	.0	0	0	0	.0	0	0	0
<b>Total \$</b>	<b>2.2</b>	<b>709,216</b>	<b>709,216</b>	<b>723,616</b>	<b>1.9</b>	<b>503,090</b>	<b>503,090</b>	<b>591,490</b>	<b>1.4</b>	<b>436,290</b>	<b>436,290</b>	<b>441,090</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			179,151						
Local Gov. Other	In addition to the estimate above, there are additional indeterminate costs and/or savings. Please see individual fiscal note.								
Local Gov. Total			179,151						

## 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	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Housing Finance Commission	.0	0	0	.0	0	0	.0	0	0
<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

<b>Prepared by:</b> Amy Hatfield, OFM	<b>Phone:</b> (360) 280-7584	<b>Date Published:</b> Final 1/22/2024
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# Individual State Agency Fiscal Note

<b>Bill Number:</b> 2308 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: Austin Borcharding	Phone: 360-786-7094	Date: 01/17/2024
Agency Preparation: Geoff Cunningham	Phone: 3607865171	Date: 01/22/2024
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 01/22/2024
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 01/22/2024

## 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.*

HB 2308 creates two tax preferences:

- (1) A property tax exemption for multiunit residential buildings that are converted to buildings containing affordable housing units and 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 services costs.

The application period for 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 obtain data for the review.

### 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.*

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 2308 HB	<b>Title:</b> Existing structures/housing	<b>Agency:</b> 103-Department of Commerce
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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	1.1	1.2	1.2	1.2	1.2
<b>Account</b>					
General Fund-State      001-1	178,771	194,545	373,316	389,090	389,090
<b>Total \$</b>	178,771	194,545	373,316	389,090	389,090

### 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: Austin Borcharding	Phone: 360-786-7094	Date: 01/17/2024
Agency Preparation: Hayley Tresenriter	Phone: 360-725-3042	Date: 01/22/2024
Agency Approval: Hayley Tresenriter	Phone: 360-725-3042	Date: 01/22/2024
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/22/2024

## 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.*

Section 2: Requires Commerce to establish the percentage of family income that may be spent on monthly housing costs, including utilities other than telephone, for residential homeowners housing. Requires Commerce to report on the county median income for areas not within a standard metropolitan statistical area (MSA).

Section 4: Requires Commerce to be available to local governments for input in developing affordability requirements for units dedicated to affordable housing.

Section 9: Requires Commerce to receive annual reports from local governments issuing tax exemption certificates under this act. Commerce is to be able to provide assistance to local governments implementing housing affordability tax incentives for existing structures. This assistance is for developing affordability requirements for units dedicated to affordable housing. The components of affordability requirements are:

- Affordable housing is defined as low-income rental housing costing no more than 30 percent of the adjusted area median income
- Affordable housing, defined as low-income homeownership housing, costing no more than a percent, not be established by Commerce
- Area median income as defined within an MSA or, for areas outside of MSAs, the county area median income.

### 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.*

Section 2: Commerce would compile information for each standard metropolitan statistical area (MSA) or county in Washington. Commerce would publish this information.

Sections 4 & 9: Commerce would develop annual reporting materials. Commerce would receive, log, and file the annual reports.

Commerce assumes that 0.1 FTE Commerce Specialist 2 is necessary to complete these actions. This will cost the Department of Commerce \$14,224 per year. All costs are on-going.

Commerce also assumes a stand-alone system would be required to support the filing and reporting requirements. This will cost commerce \$180,321 in FY24 to support the development and maintenance of a stand-alone system. All costs are on-going.

- 0.25 IT Business Analyst – Journey (522 hours) in FY24 and in FY25 – FY29 to support system development of the data reporting application, including specifications, requirements collection, and coordination of ongoing maintenance and periodic upgrades thereafter.

- 0.25 IT App Development – Journey (522 hours) in FY24 and in FY25 – FY29 for system development and maintenance for upgrades to the data and data reporting database Existing structures/housing 103-Department of Commerce



•0.3 IT Systems Admin – Journey (626 hours) inFY24 and in FY25 - FY29 for security, user management, data backups, system/server configuration, and management

•0.1 FTE IT Data Management – Journey (208 hours) in FY 24 and in FY25 and 0.1 FTE (208 hours) in FY 26 – FY29 for overall system and data coordination and management. Oversee and establish data security and access protocols and work closely with BA and App Development staff for system design efforts.

**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	178,771	194,545	373,316	389,090	389,090
<b>Total \$</b>			178,771	194,545	373,316	389,090	389,090

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

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.1	1.2	1.2	1.2	1.2
A-Salaries and Wages	98,589	105,881	204,470	211,762	211,762
B-Employee Benefits	31,099	35,146	66,245	70,292	70,292
C-Professional Service Contracts					
E-Goods and Other Services	6,416	7,120	13,536	14,240	14,240
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements	42,667	46,398	89,065	92,796	92,796
9-					
<b>Total \$</b>	178,771	194,545	373,316	389,090	389,090

**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 Services	111,168	0.2	0.2	0.2	0.2	0.2
Commerce Specialist 2	72,942		0.1	0.1	0.1	0.1
IT App Development - Journey	107,149	0.3	0.3	0.3	0.3	0.3
IT Business Analyst - Journey	107,149	0.3	0.3	0.3	0.3	0.3
IT Data Management - Journey	112,538	0.1	0.1	0.1	0.1	0.1
IT Systems Admin - Journey	112,538	0.3	0.3	0.3	0.3	0.3
<b>Total FTEs</b>		1.1	1.2	1.2	1.2	1.2

**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 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: Austin Borcharding	Phone: 60-786-7094	Date: 01/17/2024
Agency Preparation: Stephen Cleverdon	Phone: 60-534-1523	Date: 01/22/2024
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 01/22/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/22/2024

Request # 2308-1-1

## 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:

##### 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 allow 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.
- Qualified existing multiunit residential buildings with four or more units that convert certain market-rate rents to more affordable rents as specified in the bill.

The exemption applies to the value of improvements, but not the land. The level of exemption and duration depend on if the building is currently commercial or currently a market-rate multi-unit residential building as follows:

- Existing multi-unit residential buildings converting to affordable rental rates may qualify for a property tax exemption up to 20 successive years. The exemption is 100% for the first 10 years, and 50% for the second 10 years.
- Commercial buildings converting to affordable housing units qualify for 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.

The department cannot predict how multi-unit residential building owners will respond to this exemption. Owners may decrease rents to qualify for this exemption if the value of the exemption offsets the revenue loss from lower rents.

#### 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.

#### 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:

There is a commercial building in Seattle 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 # 2308-1-1

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 2308 HB	<b>Title:</b> Existing structures/housing	<b>Agency:</b> 148-Housing Finance Commission
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## Part I: Estimates

**No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Operating 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: Austin Borcharding	Phone: 360-786-7094	Date: 01/17/2024
Agency Preparation: Daniel Page	Phone: 206-287-4476	Date: 01/17/2024
Agency Approval: Lucas Loranger	Phone: 206-254-5368	Date: 01/17/2024
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/18/2024



## 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.*

No Fiscal Impact: Because the Commission is a non-appropriated, non-allocated agency, all the costs associated with the contemplated legislation connected to the Commission will flow through the Commission's operating funds, therefore the Commission believes it has no fiscal impact on the state's budget.

### 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.*

## Part III: Expenditure Detail

### III. A - Operating Budget Expenditures

NONE

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

NONE

**III. C - Operating FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

### 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.*

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

<b>Bill Number:</b> 2308 HB	<b>Title:</b> Existing structures/housing
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**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 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 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:**

Jurisdiction	FY 2024	FY 2025	2023-25	2025-27	2027-29
City		179,151	179,151		
<b>TOTAL \$</b>		179,151	179,151		
<b>GRAND TOTAL \$</b>					<b>179,151</b>

In addition to the estimates above, there are additional indeterminate costs and/or savings. Please see discussion.

**Part III: Preparation and Approval**

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 01/22/2024
Leg. Committee Contact: Austin Borcharding	Phone: 360-786-7094	Date: 01/17/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/22/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/22/2024

## **Part IV: Analysis**

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

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

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 multiunit residential building converted from a market rate residential building to a building that contains affordable housing units for low-income households, excluding land.
- b) 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 affordable housing.

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 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 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.*

Section 4 of this bill requires cities that currently operate a building conversion exemption program to amend their program to include qualifying standards introduced in this bill.

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

The Local Government Fiscal Note Program assumes, for the purposes of this analysis, that all 57 jurisdictions will need to undertake at least a simple amendment. 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 resulting in expenditure impacts of at least \$179,151 in Fiscal Year 2025 (57 jurisdictions x \$3,143 per amendment = \$179,151) in one-time costs to amend conversion programs.

It is likely that an unknown number of jurisdictions will need to undertake moderate or complex ordinance changes which could result in additional indeterminate expenditure impacts. These additional expenditure impacts could add up to \$7,000 per jurisdictions. Because the number of jurisdictions requiring these more complex amendments is not known, these supplemental impacts 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.*

Sections 2-3, 5-14 of this bill describe the specific requirements of a local option program for cities opting to create a 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 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

Dept. of Commerce Housing Program