HOUSE BILL REPORT
E2SSB 5045

As Reported by House Committee On:
Housing

Title: An act relating to incentivizing rental of accessory dwelling units to low-income households.

Brief Description: Incentivizing rental of accessory dwelling units to low-income households.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kuderer, Dhingra, Holy, Hunt, Liias, Nguyen, Nobles, Randall, Rolfes, Shewmake, Wellman and Wilson, C.).

Brief History:
Committee Activity:
Housing: 3/14/23, 3/20/23 [DP].

Brief Summary of Engrossed Second Substitute Bill

- Allows a county with a population of 1.5 million or more to provide a property tax exemption for accessory dwelling units rented to low-income households, if certain conditions are met.

HOUSE COMMITTEE ON HOUSING

Majority Report: Do pass. Signed by 11 members: Representatives Peterson, Chair; Alvarado, Vice Chair; Leavitt, Vice Chair; Klicker, Ranking Minority Member; Connors, Assistant Ranking Minority Member; Barkis, Bateman, Hutchins, Low, Reed and Taylor.

Minority Report: Do not pass. Signed by 2 members: Representatives Chopp and Entenman.

Staff: Audrey Vasek (786-7383).

Background:

Property Tax.
All real and personal property is subject to a tax each year based on its highest and best use, unless a specific exemption is provided by law.

Property Tax Exemption for Improvements to Single-Family Dwellings.
Any physical improvement to a single-family dwelling, including construction of an attached or detached accessory dwelling unit (ADU), qualifies for a three-year exemption from property tax on the value of the improvement. However, the amount of the exemption cannot exceed 30 percent of the value of the original structure. To claim the exemption, the taxpayer must file notice with the county assessor before the physical improvement is completed, using forms prescribed by the Department of Revenue. The exemption may not be claimed more than once in a five-year period.

Tax Preferences.
State law creates a range of tax preferences including tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Property Tax Exemption for Accessory Dwelling Units Rented to Low-Income Households.

A county legislative authority for a county with a population of 1.5 million or more may choose to exempt from taxation the value of an ADU if all the following conditions are met:
- The ADU is maintained as a rental property for low-income households whose adjusted income is at or below 60 percent of the median household income for the county.
- The rent charged to a tenant does not exceed 30 percent of the tenant's monthly income.
- The ADU is not occupied by a person under the age of 60 who is an immediate family member of the taxpayer.
- The taxpayer files notice of intent to participate in the exemption program using forms prescribed by the county assessor.
- The improvement represents 30 percent or less of the value of the original structure.

An exemption may continue for as long as the ADU is leased to a low-income household.

A county legislative authority that provides an exemption may:

- allow the exemption for ADUs that are attached or detached, or both;
- collect a fee from the taxpayer to cover the costs of administering the exemption;
- designate administrative officials or agents to verify that participating taxpayers and low-income households are in compliance with the exemption requirements; and
- determine what property tax and penalties are due, if any, in cases of noncompliance.

Tax Preference Performance Statement and Expiration.
A TPPS specifies that the exemption is intended to encourage homeowners to rent ADUs to low-income households and increase the overall availability of affordable housing. The JLARC must review the tax preference and complete a final report by December 1, 2029, that includes:

- the costs and benefits associated with exempting from taxation the value of an ADU;
- an evaluation of the housing needs information that is required to be included in the housing element of a county's comprehensive plan under the Growth Management Act, as calculated and provided by the Department of Commerce;
- a summary of the estimated total statewide costs and benefits attributed to exempting from taxation the value of an ADU; and
- an evaluation of the impacts of the exemption program on low-income households.

The exemption applies to taxes levied for collection beginning in 2024. The exemption expires January 1, 2034.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill will incentivize the rental of ADUs to low-income households. Accessory dwelling units provide a critical opportunity to create housing in all neighborhoods for low-income residents, such as retail- and service-industry workers who make communities thrive. Kirkland has streamlined its code and incentivized the development of these housing options. However, as land and construction costs increase, development and rental of these units has slowed. This bill offers an important tool to encourage development of ADUs and increase the supply of low-income housing with no fiscal impact to the state. By providing financial incentives to homeowners who rent ADUs to low-income households, this bill creates a true private-public partnership and a win-win that benefits the homeowner, the renter, and the community. The goal is to create a test case in Kirkland that could then be exported to the rest of the state.

Creating more affordable housing will help get people off the street and help make Seattle a better place. Urban and regional planning case studies from the rest of the country and the rest of the world show that the effect of increasing affordable housing will be to decrease the rent for most Washingtonians. The 1.5 million population requirement should be removed, not only for constitutional reasons, but also because it would assist in bringing the impact of the bill to the entirety of the state rather than just King County. This will decrease rent and increase the total amount of housing. As supply increases, price decreases. This is especially true in the housing market where demand is inelastic.

(Opposed) While this bill tries to address the housing problem, it is unconstitutional because the state constitution prohibits laws that affect only one county. By including the population requirement of 1.5 million, only King County would benefit from this bill. No other county is over 1.5 million. The way to get more affordable housing is less tax and less regulation. While this bill purports to create less tax, it also creates a lot of requirements that need a certain amount of bureaucracy. For example, a bureaucracy will be needed to collect fees to administer this bill, and the bill allows bureaucracies to interrogate tenants to make sure that they are low-income. That's a privacy violation. To create affordable housing, the government needs to get out of the housing market.

Persons Testifying: (In support) Penny Sweet and Brian Enslow, City of Kirkland; and Maxwell Brooke.

(Opposed) C Davis.

Persons Signed In To Testify But Not Testifying: None.