SENATE BILL REPORT
SB 5045

As of February 2, 2023

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: Senators Kuderer, Dhingra, Holy, Hunt, Liias, Nguyen, Nobles, Randall, Rolfes, Shewmake, Wellman and Wilson, C..

Brief History:
Committee Activity: Housing: 1/11/23, 1/25/23 [DPS-WM, DNP].
Ways & Means: 2/06/23.

Brief Summary of First Substitute Bill

- Allows a county with a population of 1,500,000, or more, to provide a property tax exemption for an accessory dwelling unit if certain conditions are met for as long as it is rented to a low-income household.

SENATE COMMITTEE ON HOUSING

Majority Report: That Substitute Senate Bill No. 5045 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators Kuderer, Chair; Frame, Vice Chair; Fortunato, Ranking Member; Braun, Cleveland, Gildon, Rivers, Saldaña, Shewmake and Trudeau.

Minority Report: Do not pass.
Signed by Senator Wilson, J..

Staff: Melissa Van Gorkom (786-7491)

SENATE COMMITTEE ON WAYS & MEANS

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Alia Kennedy (786-7405)

Background: 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.

Examples of property tax exemptions include exemptions for churches, nonprofit hospitals, affordable housing, and certain improvements to single-family residences. If a single-family residence is improved by remodeling, adding new rooms, decks, patios, or other improvements, the owner may apply for a three-year exemption from property taxes on the value of the physical improvement. To qualify for the exemption, the value of the improvements must be 30 percent or less of the value of the original structure. The exemption may not be claimed more than once in a five-year period. New construction of an accessory dwelling unit (ADU) qualifies as a physical improvement for this three-year exemption.

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 ten years unless an alternative expiration date is provided.

Summary of Bill (First Substitute): A county legislative authority for a county with a population of 1,500,000, or more, may choose to exempt an ADU from property tax if the ADU is maintained as a rental property for low-income households whose adjusted income is at or below 60 percent of median household income for the county. Rent charged to a tenant may not exceed more than 30 percent of the tenant's monthly income. The taxpayer must file notice of intention to participate in the exemption program. The exemption can continue for as long as the ADU is leased to a low-income household.

A county legislative authority that has opted to exempt ADUs may:

- allow the exemption for dwelling units that are attached to or within a single-family dwelling or are detached units on the same real property, or both;
- collect a fee to cover the costs of administering the program;
- designate agents to verify compliance; and
- determine penalties, if any, in cases of noncompliance.

A TPPS identifies the exemption as one intended to encourage homeowners to rent ADUs to low-income households. 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 inventory analysis of existing and projected housing needs completed 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 program on low-income households.

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

EFFECT OF CHANGES MADE BY HOUSING COMMITTEE (First Substitute):

- Authorizes a county legislative authority for a county with a population of 1,500,000, or more, to exempt from taxation the value of an ADU, rather than any county.
- Requires JLARC to 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 inventory analysis of existing and projected housing needs completed 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 program on low-income households.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Housing): *The committee recommended a different version of the bill than what was heard.* PRO: The bill builds on prior work to incentivize building ADUs, incentivizing both new and existing units to be used for affordable rental housing. As the cost of land and construction goes up, ADUs are an effective means to deliver housing immediately. This bill provides another option to promote affordable housing and provide financial incentives to home owners who rent ADUs to low income households which makes home ownership more affordable as well. Bringing this down to 60% AMI will help address the vast need for affordable housing which starts at 60% AMI and increases in need the lower a household income is. This is a unique tool that homeowners can use to help provide housing for people that are impacted by the housing crisis.

Persons Testifying (Housing): PRO: Senator Patty Kuderer, Prime Sponsor; Penny Sweet, Mayor, City of Kirkland; Michael Moran, Office of Assessments/King County Assessor John Wilson; Michele Thomas, Washington Low Income Housing Alliance.

Persons Signed In To Testify But Not Testifying (Housing): No one.