



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0407 - Provide for affordable housing abatements (Fern, Dave )

**Status:** As Introduced

- Significant Local Gov Impact     
 Needs to be included in HB 2     
 Technical Concerns  
 Included in the Executive Budget     
 Significant Long-Term Impacts     
 Dedicated Revenue Form Attached

### FISCAL SUMMARY

|   | <u>FY 2024<br/>Difference</u> | <u>FY 2025<br/>Difference</u> | <u>FY 2026<br/>Difference</u> | <u>FY 2027<br/>Difference</u> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Expenditures:</b>                    |                               |                               |                               |                               |
| General Fund                            | \$86,249                      | \$84,560                      | \$85,672                      | \$86,802                      |
| State Special Revenue                   | \$0                           | \$0                           | \$0                           | \$0                           |
| <b>Revenue:</b>                         |                               |                               |                               |                               |
| General Fund                            | \$0                           | \$0                           | \$0                           | \$0                           |
| State Special Revenue                   | \$0                           | \$0                           | \$0                           | \$0                           |
| <b>Net Impact-General Fund Balance:</b> | <u>(\$86,249)</u>             | <u>(\$84,560)</u>             | <u>(\$85,672)</u>             | <u>(\$86,802)</u>             |

**Description of fiscal impact:** HB 407 grants county and municipal governments authority to offer for a local property tax abatements for property that meets the bill's tenant income and unit rental cost standards for housing units, multifamily housing units, and accessory dwelling units. If a jurisdiction established an affordable rental program and granted these abatements properties that apply and qualify would receive full market value abatement in the first year in the program and be cumulatively assessed an additional 9.09% (1/11<sup>th</sup>) of their market value each year until the assessment reaches 100% of market value in year 12. The local abatements would be authorized by municipalities and county governments. County governments and municipalities granting abatements would either forgo the revenue from the abated value or shift the foregone taxes to all other taxpayers in their jurisdictions, to the extent that they grant these abatements. The Department of Revenue Property Assessment Division would require 1.00 FTE ongoing FTE to coordinate these abatements to properly apply abatements to the records of the property granted these local abatements. Other than the administrative costs there is no direct impact to state government revenue.

### FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

1. HB 407 provides for local property tax abatements for affordable multifamily rental housing, affordable rental housing, and affordable accessory dwelling units.
2. Properties that qualify for these abatements are fully exempt the first year and then assessed at an additional 9.09% of market value the next 11 years until fully assessed at 100% of their market value the 12<sup>th</sup> year.
3. Applications for both abatements must be approved by resolution by the local governing body. The abatement only applies to the mills levied by the local governing body and the local school mills. The abatement would not apply to the state school equalization mills.
4. The affordable multifamily rental housing abatement applies to newly constructed property where at least 20% of the units are rent-restricted, the tenant's income must fall between 60% and 120% of the area median income, and the tenant's rent must be 35% or less of their gross household income.
5. If the property is located within a city, the property owner would need to apply and be approved by both the city and the county to receive a full abatement.
6. This bill also provides an abatement for affordable rental housing, which is multifamily rental housing with four or fewer units and accessory dwelling units. To qualify, the tenant's income must fall between 60% and 120% of the area median income and the tenant's rent must be 35% or less of their gross household income.
7. Existing properties could receive this abatement, but it would only be applied to the portion of value associated with a unit that is rent restricted.
8. For accessory dwelling units, the abatement only applies to the value associated with the accessory dwelling unit building and not any of the land value.
9. HB 407 requires that abated properties be annually reviewed and recertified by the local jurisdiction.
10. Both abatements allow for a recapture of taxes if the local governing body determines that the property failed to meet the terms for receiving the abatement outlined in the enabling resolution.

***DOR Administrative Costs***

11. Administrative rules would be necessary for outlining the process and timeframe for the local governing bodies' annual abatement review, certification of abatement qualification, and notification of the department.
12. The abatements would require the department to create new application forms, new exemption type pages, class codes to be added, and potentially change some system algorithm changes.
13. The Property Assessment Division would require 1.00 ongoing FTE to coordinate these abatements with local governments, apply the abatements to the respective records, maintain those abatements, and verify the eligibility of the affordable housing and accessory dwelling property.
14. Because both abatements only apply to the approving local governments' mills and local school mills, there would be no impact to state revenue.

| <b><u>Fiscal Impact:</u></b>        | <b><u>FY 2024</u></b>    | <b><u>FY 2025</u></b>    | <b><u>FY 2026</u></b>    | <b><u>FY 2027</u></b>    |
|-------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b><u>Department of Revenue</u></b> | <b><u>Difference</u></b> | <b><u>Difference</u></b> | <b><u>Difference</u></b> | <b><u>Difference</u></b> |
| <b>FTE</b>                          | 1.00                     | 1.00                     | 1.00                     | 1.00                     |
| <b><u>Expenditures:</u></b>         |                          |                          |                          |                          |
| Personal Services                   | \$74,691                 | \$75,863                 | \$76,812                 | \$77,774                 |
| Operating Expenses                  | \$11,558                 | \$8,697                  | \$8,860                  | \$9,028                  |
| <b>TOTAL Expenditures</b>           | <b>\$86,249</b>          | <b>\$84,560</b>          | <b>\$85,672</b>          | <b>\$86,802</b>          |

| <b><u>Funding of Expenditures:</u></b> |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
| General Fund (01)                      | \$86,249        | \$84,560        | \$85,672        | \$86,802        |
| State Special Revenue (02)             | \$0             | \$0             | \$0             | \$0             |
| <b>TOTAL Funding of Exp.</b>           | <b>\$86,249</b> | <b>\$84,560</b> | <b>\$85,672</b> | <b>\$86,802</b> |

| <b><u>Revenues:</u></b>    |            |            |            |            |
|----------------------------|------------|------------|------------|------------|
| General Fund (01)          | \$0        | \$0        | \$0        | \$0        |
| State Special Revenue (02) | \$0        | \$0        | \$0        | \$0        |
| <b>TOTAL Revenues</b>      | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

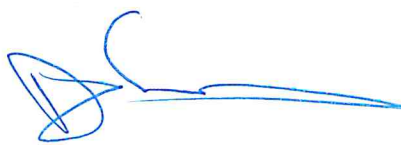
| <b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b> |            |            |            |            |
|---|------------|------------|------------|------------|
| General Fund (01)   | (\$86,249) | (\$84,560) | (\$85,672) | (\$86,802) |
| State Special Revenue (02)  | \$0        | \$0        | \$0        | \$0        |

**Effect on County or Other Local Revenues or Expenditures:**

1. The abatements provided in HB 407 would reduce the overall taxable value in approving jurisdictions.
2. To generate the same amount of revenue, mill levies impacted by these abatements could rise to offset the tax base reduction in the local jurisdictions with approved abatements.
3. The amount of abatements that would be granted by jurisdictions is unknown as is the total value of potential tax shifts.

**Long-Term Impacts:**

1. Over the 12-year life of a property's receipt of these abatements, the local property taxes paid by the property would be about 50% lower than they otherwise might have been.

 2/13/23

Sponsor's Initials

Date



Budget Director's Initials

2-10-23

Date