

Department of Revenue Fiscal Note

Bill Number: 6201 SB	Title: Multiple-unit housing REET	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
GF-STATE-State 01 - Taxes 57 - Real Estate Excise		(76,500,000)	(76,500,000)	(155,900,000)	(173,700,000)
Public Works Assistance Account-State 01 - Taxes 57 - Real Estate Excise		(1,600,000)	(1,600,000)	(3,300,000)	(11,300,000)
Education Legacy Trust Account-State 01 - Taxes 57 - Real Estate Excise		(16,900,000)	(16,900,000)	(34,400,000)	(30,700,000)
City County Assistance Account-State 01 - Taxes 57 - Real Estate Excise		(1,300,000)	(1,300,000)	(2,700,000)	(3,000,000)
Total \$		(96,300,000)	(96,300,000)	(196,300,000)	(218,700,000)

Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	1.7	4.8	3.3	3.1	3.1
Account					
GF-STATE-State 001-1	225,300	458,400	683,700	500,400	500,400
Total \$	225,300	458,400	683,700	500,400	500,400

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.

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

CURRENT LAW:

Effective January 1, 2020, the state real estate excise tax (REET) rate is 1.28 percent for real property sales where the predominate use of the property is as:

- Farm and agricultural land or farm and agricultural conservation land (must be in the current use property tax program under chapter 84.34 RCW), or
- Timberland (must be in either the current use or designated forest land property tax program in chapter 84.33 RCW or chapter 84.34 RCW) including any structures on the land and any standing timber on or sold apart from the land.

For all other types of property, the following graduated rates apply:

- 1.10 percent for the portion of the selling price less than or equal to \$500,000;
- 1.28 percent for the portion of the selling price greater than \$500,000 and less than or equal to \$1.5 million;
- 2.75 percent for the portion of the selling price greater than \$1.5 million and less than or equal to \$3.0 million; and
- 3.00 percent for the portion of the selling price greater than \$3.0 million

Beginning July 1, 2022, and every fourth year thereafter, the Department will:

- Adjust the selling price threshold of the first tier to reflect the lesser of the growth of the consumer price index for shelter or 5 percent. If the growth is less than zero percent, the current selling price threshold applies.
- Adjust the selling price threshold of the remaining tiers by the dollar amount of increase in the first tier
- The updated selling price thresholds apply beginning January 1 of every fourth year, beginning January 1, 2023.

Distributions of state REET revenue are as follows:

Beginning January 1, 2020, through June 30, 2023:

- 1.7 percent deposited in the public works assistance account;
- 1.4 percent deposited in the city-county assistance account;
- 79.4 percent deposited in the general fund; and
- Remainder deposited in the education legacy trust account.

Beginning July 1, 2023:

- 5.2 percent deposited in the public works assistance account;
- 1.4 percent deposited in the city-county assistance account;
- 79.4 percent deposited in the general fund; and
- Remainder deposited in the education legacy trust account.

PROPOSAL:

This bill includes multi-unit housing within the land uses with a tax rate of 1.28 percent, regardless of selling price. Multi-unit housing is defined as a building having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels.

The bill takes effect 90 days after final adjournment of the session in which it is enacted.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

- Thirty-five counties provide the Department with transaction-level REET data through an electronic system. For the four counties not reporting REET data electronically, this estimate assumes transactions similar to the urban or rural counties that report electronically.
- The percent change in the CPI-U for shelter between July 2019 and July 2022 is 6.7 percent, so the thresholds grow by 5 percent beginning January 1, 2023.
- Tax growth mimics the growth of REET in the Economic and Revenue Forecast Council's September 2019 forecast.
- Property sales price growth mimics the 5-year compound annual growth for existing property values by county.
- The REET affidavit only includes use codes for properties with two to four units or properties with five or more units. Sales of multi-unit housing with four units or more approximates multi-unit housing with five or more units. Four-unit properties are not included in this estimate. For this reason, the revenue impacts provided likely understate the true revenue impact of this legislation.
- Calculating the predominate use of affidavits with multiple parcels being sold that include parcels coded as multi-family housing is done in the same way established for farm and agricultural land or timberland parcels under current law beginning January 1, 2020. See the Department's Excise Tax Advisory 3215.2019, issued December 4, 2019 (available at <http://taxpedia.dor.wa.gov/documents/current%20eta/3215.2019.pdf>).
- Revenues as estimated assume this legislation is effective June 9, 2020.

DATA SOURCES:

- Department Real Estate Excise Tax Administration System
- Department Integrated Property Tax Models
- County property tax rolls
- Economic and Revenue Forecast Council November 2019 Forecast
- Office of Financial Management designated rural counties as of April 1, 2019
- Bureau of Labor Statistics

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$96.3 million in Fiscal Year 2021, and by \$95.3 million in Fiscal Year 2022. This bill also decreases local revenues by an estimated \$1.3 million in Fiscal Year 2021, and by \$1.3 million in Fiscal Year 2022.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2020 -	\$ 0
FY 2021 -	(\$ 96,300)
FY 2022 -	(\$ 95,300)
FY 2023 -	(\$ 101,000)
FY 2024 -	(\$ 108,400)
FY 2025 -	(\$ 110,300)

Local Government, if applicable (cash basis, \$000):

FY 2020 -	\$ 0
FY 2021 -	(\$ 1,300)
FY 2022 -	(\$ 1,300)

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FY 2023 - (\$ 1,300)
FY 2024 - (\$ 1,400)
FY 2025 - (\$ 1,500)

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

FIRST YEAR COSTS:

The Department will incur total costs of \$225,300 in Fiscal Year 2020. These costs include:

Labor Costs - Time and effort equates to 1.7 FTEs.

- Increased stakeholder work, technical advice and interpretation of legislation.
- Test and verify computer system for REET configuration and interface schema changes.
- Modify reports as needed.
- Answer additional phone calls and respond to email and correspondence concerning the reporting change.

Object Costs - \$41,800.

- Contract computer system programming.

SECOND YEAR COSTS:

The Department will incur total costs of \$458,400 in Fiscal Year 2021. These costs include:

Labor Costs - Time and effort equates to 4.83 FTEs.

- Increased stakeholder work, technical advice and interpretation of legislation.
- Continued computer systems testing.
- Answer additional phone calls and respond to email and correspondence concerning the reporting change.
- Review paper affidavits and run discovery lead reports.
- Conduct sampling of audits to validate transactions reported.
- Hear additional administrative reviews.
- Adopt one new administrative rule.

THIRD YEAR COSTS:

The Department will incur total costs of \$250,200 in Fiscal Year 2022. These costs include:

Labor Costs - Time and effort equates to 3.1 FTES.

- Answer additional phone calls and respond to email and correspondence concerning the reporting change.
- Review paper affidavits and run discovery lead reports.
- Conduct sampling of audits to validate transactions reported.
- Hear additional administrative reviews.

ONGOING COSTS:

Ongoing costs for Fiscal Year 2023 equal \$250,300 and include similar activities described in the third year costs. Time and effort equates to 3.1 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	1.7	4.8	3.3	3.1	3.1
A-Salaries and Wages	112,400	278,300	390,700	310,400	310,400
B-Employee Benefits	33,800	83,500	117,300	93,200	93,200
C-Professional Service Contracts	41,800		41,800		
E-Goods and Other Services	20,200	54,500	74,700	62,800	62,800
G-Travel	4,200	14,000	18,200	21,000	21,000
J-Capital Outlays	12,900	28,100	41,000	13,000	13,000
Total \$	\$225,300	\$458,400	\$683,700	\$500,400	\$500,400

III. B - 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 2020	FY 2021	2019-21	2021-23	2023-25
EMS BAND 4	119,061		0.0	0.0		
EMS BAND 5	139,090		0.0	0.0		
EXCISE TAX EX 1	42,132	0.2	1.0	0.6	1.0	1.0
EXCISE TAX EX 2	52,536		2.0	1.0	2.0	2.0
EXCISE TAX EX 3	57,948	0.5	0.5	0.5		
MGMT ANALYST3	59,436		0.0	0.0		
MGMT ANALYST4	68,892	0.5	0.5	0.5		
TAX POLICY SP 3	79,944	0.4	0.7	0.5	0.1	0.1
TAX POLICY SP 4	86,064	0.1	0.1	0.1		
WMS BAND 3	101,257		0.0	0.0		
Total FTEs		1.7	4.8	3.3	3.1	3.1

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

NONE

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the complex rule-making process to adopt one new rule under chapter 458-61A WAC. Persons affected by this rule-making would include buyers and sellers of real property considered multi-unit housing for property tax purposes and County Treasurers who act as an agent for the state in collection of REET from sellers.