

Multiple Agency Fiscal Note Summary

Bill Number: 5027 SB	Title: American dream homes
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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.								
Total \$	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
Department of Commerce	.1	33,460	33,460	33,460	.0	33,964	33,964	33,964	.0	33,964	33,964	33,964
Department of Revenue	.9	422,300	422,300	422,300	.3	58,600	58,600	58,600	.3	58,600	58,600	58,600
Total \$	1.0	455,760	455,760	455,760	0.3	92,564	92,564	92,564	0.3	92,564	92,564	92,564

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 Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Commerce	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

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

Prepared by: Cheri Keller, OFM	Phone: (360) 584-2207	Date Published: Final
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Individual State Agency Fiscal Note

Bill Number: 5027 SB	Title: American dream homes	Agency: 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	0.1	0.1	0.1	0.0	0.0
Account					
General Fund-State 001-1	16,478	16,982	33,460	33,964	33,964
Total \$	16,478	16,982	33,460	33,964	33,964

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: Riley Bengé	Phone: 360-786-7316	Date: 12/29/2022
Agency Preparation: Buck Lucas	Phone: 360-725-3180	Date: 01/10/2023
Agency Approval: Joyce Miller	Phone: 360-725-2710	Date: 01/10/2023
OFM Review: Gwen Stamey	Phone: (360) 790-1166	Date: 01/10/2023

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 1 adds a new section to RCW 36.70A, requiring a city or county to report to the Department of Commerce (department) by March 1, 2033, regarding the number of American dream home permits issued in its jurisdiction. The department must compile the data and report to the appropriate committees of the legislature regarding the participation by jurisdiction of the program.

Section 8 is a new section to include an emergency clause that takes effect July 1, 2023.

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.

Assumptions:

The department assumes it would need to develop a system to collect data submitted by counties and cities regarding the number of America Dream Home permits issued beginning in Fiscal Year 2024. The preparation of the legislative report would be in Fiscal Year 2034.

Summary:

The proposed legislation would require ongoing staff support to receive and collate permit data in preparation for the required legislative report. This includes:

0.1 FTE Commerce Specialist 3 (209 hours) in FY24-FY33, to receive and collate permit data.

0.2 FTE Commerce Specialist 3 (420 hours) in FY34, for data collection, data analysis and legislative report preparation.

Salaries and Benefits:

FY24: \$11,106

FY25-FY29: \$11,485

Goods, Services:

FY24-FY29: \$1,718

Intra-agency Reimbursements:

FY24: \$3,654

FY25-FY29: \$3,779

Note: Standard goods and services costs include supplies and materials, employee development and training, Attorney General costs, central services charges and agency administration. Intra-agency-administration costs (e.g., payroll, HR, IT) are funded under a federally approved cost allocation plan.

Total Costs:
 FY24: \$16,478
 FY25-FY29: \$16,982

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	16,478	16,982	33,460	33,964	33,964
Total \$			16,478	16,982	33,460	33,964	33,964

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.1	0.1		
A-Salaries and Wages	8,206	8,452	16,658	16,904	16,904
B-Employee Benefits	2,900	3,033	5,933	6,066	6,066
C-Professional Service Contracts					
E-Goods and Other Services	1,718	1,718	3,436	3,436	3,436
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	3,654	3,779	7,433	7,558	7,558
9-					
Total \$	16,478	16,982	33,460	33,964	33,964

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 - Indirect	111,168	0.0	0.0	0.0		
Commerce Specialist 3	82,056	0.1	0.1	0.1		
Total FTEs		0.1	0.1	0.1		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.

Department of Revenue Fiscal Note

Bill Number: 5027 SB	Title: American dream homes	Agency: 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	1.0	0.8	0.9	0.3	0.3
Account					
GF-STATE-State 001-1	337,800	84,500	422,300	58,600	58,600
Total \$	337,800	84,500	422,300	58,600	58,600

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: Riley Bengé	Phone: 60-786-7316	Date: 12/29/2022
Agency Preparation: Diana Tibbetts	Phone: 60-534-1520	Date: 01/10/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 01/10/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/11/2023

Request # 5027-1-1

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:

Speculative builders are those who construct buildings for sale or rental upon real estate owned by them. Amounts derived from the sale of real estate are exempt from the business and occupation (B&O) tax. Consequently, the proceeds of sales by speculative builders of completed buildings are not subject to such tax. The retail sales tax also does not apply to such sales, since the sale involves no charge made for construction for the consumer. The price paid is for the sale of real estate.

When speculative builders sell or contract to sell property upon which they are presently constructing a building, all construction done after the date of such sale or contract constitutes a retail sale. Taxes apply to the portion of the sales price allocable to construction done after the agreement. Consequently, the builder must pay B&O tax under the retailing classification on the part of the sales price attributable to construction done after the agreement. The building also collects retail sales tax from the buyer on the allocable part of the sale.

Speculative builders pay retail sales tax upon all materials purchased by them and on all charges made by their subcontractors. Use tax generally applies to the use by speculative builders of all tangible personal property, including building materials (purchased or acquired by them without payment of the retail sales tax).

PROPOSAL:

This bill intends to promote housing affordability by incentivizing the construction of American dream homes.

An "American dream home" means an owner-occupied single-family residential detached dwelling of 1,700 square feet or less serving low-income households.

"Low-income household" means a single person, family, or unrelated person living together whose adjusted income is less than 80% of the median family income adjusted for household size, for the city or county where the project is located.

This bill authorizes a city or county to permit the construction of an American dream home if all the following apply:

- The home is exempt from impact fees.
- The city or county does not charge cumulative permitting fees exceeding \$1,250.
- Included covenants or restrictions ensure each home is reserved for low-income households.

This bill allows a participating city or county to receive a distribution equal to the state portion of retail sales tax paid on any of the following:

- Charges for labor and services rendered in respect to the construction of an American dream home.
- Sales of tangible personal property incorporated as an ingredient or component of an American dream home.
- Charges made for labor and services for the installation of fixtures in an American dream home.

This bill exempts an American dream home builder from paying use tax on the following:

- Charges for labor and services rendered in respect to the construction of an American dream home.
- Charges made for labor and services for the installation of fixtures in an American dream home.

Administrative duties regarding the distribution include:

- The city or county must apply to the department on an annual basis to determine remittance amounts.
- The department determines eligibility based on information provided by the city or county through audit or other administrative records.

- The department remits an estimate of the distribution to the city or county at least once annually.

Distributions to cities and counties from sales and use tax on American dream homes end on July 1, 2034.

This bill provides a builder with a B&O tax credit equal to 4% of the gross selling price of the American dream home. The builder can carry the credit forward and use the credit against any B&O tax. The builder can earn credits for tax reporting periods through June 30, 2033, and claim credits until June 30, 2034. The builder must file returns electronically to use the credit.

This bill also provides a property tax exemption for 12 years immediately following the construction of an American Dream Home. The owner files a property tax exemption claim with the county assessor. The department provides forms for the county assessor to furnish to the owner. The exemption applies to both the value of new construction and the underlying land. At the conclusion of the 12-year exemption period, the value of the new housing is considered as new construction for the limitations on regular property taxes and county assessor purposes as though the property was not exempt (Chapter 84.55 RCW and Chapter 36.21 RCW).

EFFECTIVE DATE:

This bill contains an emergency clause and takes effect July 1, 2023.

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:

- Speculative builders construct American dream homes.
- Speculative builders sell American dream homes when construction has been complete.
- Home construction takes about a year start to finish.
- The performance audit account receives 0.16% of retail sales and use tax collections. The transfer from the general fund excludes these amounts.
- Median home price in Washington is over \$555,000.
- The 2019 medium price of a starter home in Washington was \$244,000.
- This legislation passes effective July 1, 2023. Due to build time, revenue impacts will not occur until fiscal year 2025.

DATA SOURCES:

- Office of Financial Management, Median home prices
- Business Insider webpage - "Typical starter home cost by state"
- Department of Revenue, Excise tax return data

REVENUE ESTIMATES:

Due to the uncertainty of how many local governments will implement this legislation, where the building activity may take place and the number of participants, the revenue impact is indeterminate.

However, the property tax portion of this legislation results in both a loss and a shift to the state levy. A loss from the construction of these buildings not being added to the tax roll until the exemption expires.

Local regular levy districts will also experience a loss and a shift.

For example, if 50 home builders constructed 85 homes with average taxable costs of \$150,000 then this bill could decrease state B&O tax and sales and use tax revenues by an estimated \$78.4 million in fiscal year 2025.

This hypothetical revenue impact could be considerably higher depending on the number of American dream homes built.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000): Indeterminate.

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

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:

- Speculative builders will start approximately 50 American dream home projects each year.
- Due to build time, the earliest the city, county, or builder will apply to the department is July 1, 2024.
- The earliest the department can start accepting applications due to implementation is April 1, 2024.

FIRST YEAR COSTS:

The department will incur total costs of \$337,800 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 1.03 FTEs.

- Set up, program and test computer systems to create a new shared sales tax program, create a new application, create a new credit ID and worksheet. Create and update reports as needed.
- Create a special notice and update or create publications and information on the department's website.
- Respond to letter ruling requests and email inquiries.
- Create one new administrative rule.

Object Costs - \$210,800.

- Contract computer system programming.
- Print and mail a special notice to active taxpayers who do not file tax returns electronically.

SECOND YEAR COSTS:

The department will incur total costs of \$84,500 in Fiscal Year 2025. These costs include:

Labor Costs - Time and effort equate to 0.8 FTE.

- Ongoing testing of computer system changes.
- Respond to tax ruling requests, email inquiries, and more difficult call backs from the telephone information center.
- Review applications and work with local jurisdictions.
- Process credit applications and return work items, assist taxpayers with reporting questions and respond to inquiries via email and web message and paper correspondence.
- Verify eligibility of new projects through desk audit review.
- Work with informational reporting to reconcile with estimated remittances.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$58,600 and include similar activities described in the second-year costs. Time and effort equate to 0.3 FTE per year.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.0	0.8	0.9	0.3	0.3
A-Salaries and Wages	78,600	53,800	132,400	37,800	37,800
B-Employee Benefits	25,900	17,800	43,700	12,600	12,600
C-Professional Service Contracts	209,000		209,000		
E-Goods and Other Services	17,200	9,700	26,900	6,400	6,400
J-Capital Outlays	7,100	3,200	10,300	1,800	1,800
Total \$	\$337,800	\$84,500	\$422,300	\$58,600	\$58,600

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	126,619	0.0		0.0		
EMS BAND 5	147,919	0.0		0.0		
EXCISE TAX EX 3	61,632	0.1	0.3	0.2	0.2	0.2
IT SYS ADM-JOURNEY	92,844	0.3		0.2		
MGMT ANALYST4	73,260	0.3	0.3	0.3		
TAX INFO SPEC 4	66,420	0.2	0.2	0.2	0.1	0.1
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.1		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		1.0	0.8	1.0	0.3	0.3

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-NEW, titled: "American Dream Homes." Persons affected by this rulemaking would include local jurisdictions and those building qualifying housing units.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5027 SB

Title: American dream homes

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- Cities: Indeterminate increase in expenditures to meet criteria to permit American dream homes; indeterminate change in sales tax revenue and indeterminate loss in property tax revenue
- Counties: Same as above.
- Special Districts:
- Specific jurisdictions only:
- Variance occurs due to:

Part II: Estimates

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time: Which cities or counties would permit American Dream Homes, how many American Dream Homes would be built, or the value of such homes

Estimated revenue impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated expenditure impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 01/11/2023
Leg. Committee Contact: Riley Bengé	Phone: 360-786-7316	Date: 12/29/2022
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/11/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/11/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill would promote housing affordability by incentivizing the construction of American dream homes.

Section 1 would add a new section to RCW 36.70A that:

- Authorizes a person to request a permit until December 31, 2033, for an American Dream Home to encourage the development of single family homes for low-income housing
- Requires a city or county to approve a permit for a new American Dream Home if requirements outlined in the bill are met
- Exempts American Dream Homes from impact fees under RCW 82.02.050
- Allows a city or county to authorize the siting of an American Dream Home outside the urban growth area and may authorize the extension of public facilities and utilities to serve residential building sites for American Dream Homes

Section 2 would add a new section to RCW 82.08 that:

- Allows a city or county to receive a distribution equal to the state portion of the sales and use tax for labor and services rendered during the construction of an American Dream Home
- Requires the Department of Revenue to remit qualifying amounts at least annually to cities and counties
- Requires the city or county to submit an annual application, in a form and manner as required by the Department of Revenue, containing any information the department deems necessary in determining remittance amounts under this section
- Adds an expiration date of July 1, 2034

Section 3 would add a new section to RCW 82.12 that would specify exceptions to provisions in this chapter.

Section 4 would add a new section to RCW 82.04 that:

- Allows the builder of an American Dream Home an annual credit against the B&O tax equal to 4 percent of the gross selling price of the home
- Specifies that credits may only be earned on the sale of American Dream Homes meeting the requirements outlined in the bill
- Specifies that the credit could be carried over until used
- Allows credits to be earned for tax reporting periods through June 30, 2034
- Adds an expiration date of July 1, 2034

Section 5:

- Exempts the value of an American Dream Home from property taxation for 12 years, if it no longer meets the requirements outlined in the bill it would be subject to immediate taxation
- Requires any exemption to be filed with the county assessor
- Specifies the exemption to apply to both the value of the construction and the underlying land

Section 7 specifies this applies to taxes levied for collection in 2024 and thereafter.

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.

This bill would require cities and counties to permit American Dream Homes if requirements outlined in the bill are met.

It is unknown where these permits would be issued or how many, but would increase staff workloads for those cities and counties where American Dream Homes are granted a permit.

According to the Department of Revenue, since it is unknown which cities or counties would permit American Dream Homes, the expenditure impact of this legislation is 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.

Section 2 would allow a city or county to receive a distribution equal to the state portion of the sales and use tax for labor and services rendered during the construction of an American Dream Home. According to the Department of Revenue, since it is unknown which cities or counties would permit American Dream Homes, the revenue impact of this legislation is indeterminate.

Section 5 would exempt the American Dream Home from property tax for 12 years. According to the Department of Revenue, the property tax portion of this legislation results in both a loss and a shift to the state levy. A loss from the construction of these buildings not being added to the tax roll until the exemption expires. Local regular levy districts will also experience a loss and a shift. Due to the uncertainty of how many local governments will implement this legislation, where the building activity may take place and the number of participants, the revenue impact is indeterminate.

SOURCES

Department of Revenue fiscal note

Senate Bill Report, SB 5027, Housing Committee 1/11/2023