

Multiple Agency Fiscal Note Summary

Bill Number: 1628 HB	Title: Real estate excise tax
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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
Office of State Treasurer	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Department of Revenue	(97,218,000)	(114,321,000)	40,878,000	(1,501,332,000)	(1,766,038,000)	630,460,000	(2,008,842,000)	(2,363,050,000)	843,248,000
Total \$	(97,218,000)	(114,321,000)	40,878,000	(1,501,332,000)	(1,766,038,000)	630,460,000	(2,008,842,000)	(2,363,050,000)	843,248,000

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		222,351,030		449,837,190		547,150,230
Local Gov. Other	In addition to the estimate above, there are additional indeterminate costs and/or savings. Please see individual fiscal note.					
Local Gov. Total		222,351,030		449,837,190		547,150,230

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
Office of State Treasurer	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Commerce	Fiscal note not available											
Department of Revenue	5.4	1,342,700	1,342,700	1,342,700	5.3	992,200	992,200	992,200	3.3	572,800	572,800	572,800
Department of Social and Health Services	Fiscal note not available											
Total \$	5.4	1,342,700	1,342,700	1,342,700	5.3	992,200	992,200	992,200	3.3	572,800	572,800	572,800

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
Office of State Treasurer	.0	0	0	.0	0	0	.0	0	0
Department of Commerce	Fiscal note not available								
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Department of Social and Health Services	Fiscal note not available								
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

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<div> <div>Prepared by:</div> <div>Cheri Keller, OFM</div> </div>	<div> <div>Phone:</div> <div>(360) 584-2207</div> </div>	<div> <div>Date Published:</div> <div>Preliminary 2/ 7/2023</div> </div>
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Individual State Agency Fiscal Note

Bill Number: 1628 HB	Title: Real estate excise tax	Agency: 090-Office of State Treasurer
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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 Operating Expenditures from:

NONE

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: Kellen Wright	Phone: 360-786-7134	Date: 01/27/2023
Agency Preparation: Dan Mason	Phone: (360) 902-8990	Date: 01/30/2023
Agency Approval: Dan Mason	Phone: (360) 902-8990	Date: 01/30/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/01/2023

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.

HB 1628 modifies the state and local real estate excise tax.

In addition, this bill creates the developmental disabilities trust account, coupled with the general fund as the recipient of the earnings from investments under RCW 43.84.092(4).

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.

Refer to the department of revenue fiscal note for the estimates associated with section 3(3). (coordinated with DOR).

Projected cash flows are currently unavailable; therefore, estimated earnings from investments are indeterminable.

There may be an impact on the debt service limitation calculation. Changes to the earnings credited to the general fund impacts, by an equal amount, general state revenues.

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.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.

NONE

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: 1628 HB	Title: Real estate excise tax	Agency: 140-Department of Revenue
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Part I: Estimates



No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 57 - Real Estate Excise	(4,000)	(97,214,000)	(97,218,000)	(1,501,332,000)	(2,008,842,000)
Public Works Assistance Account-State 01 - Taxes 57 - Real Estate Excise		(6,401,000)	(6,401,000)	(98,302,000)	(131,602,000)
Education Legacy Trust Account-State 01 - Taxes 57 - Real Estate Excise		(17,103,000)	(17,103,000)	(264,706,000)	(354,208,000)
City County Assistance Account-State 01 - Taxes 57 - Real Estate Excise		(1,700,000)	(1,700,000)	(26,500,000)	(35,400,000)
Affordable Housing for All-State 01 - Taxes 57 - Real Estate Excise		40,800,000	40,800,000	630,300,000	843,300,000
Apple Health and Homes-State 01 - Taxes 57 - Real Estate Excise		49,000,000	49,000,000	756,400,000	1,012,000,000
Washington Housing Trust Fund Account-State 01 - Taxes 57 - Real Estate Excise		49,000,000	49,000,000	756,400,000	1,012,000,000
NEW-State 01 - Taxes 57 - Real Estate Excise		24,500,000	24,500,000	378,200,000	506,000,000
Total \$	(4,000)	40,882,000	40,878,000	630,460,000	843,248,000

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	4.6	6.3	5.4	5.3	3.3
Account					
GF-STATE-State 001-1	711,000	631,700	1,342,700	992,200	572,800
Total \$	711,000	631,700	1,342,700	992,200	572,800

Estimated Capital Budget Impact:

NONE

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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:	Kellen Wright	Phone: (360) 786-7134	Date: 01/27/2023
Agency Preparation:	Beth Leech	Phone: (360) 534-1513	Date: 02/06/2023
Agency Approval:	Valerie Torres	Phone: (360) 534-1521	Date: 02/06/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/07/2023

Request # 1628-2-2

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.

Note: This fiscal note reflects a revision to the revenue impact, and replaces fiscal note number 1628-1.

CURRENT LAW:

STATE REAL ESTATE EXCISE TAX

The state real estate excise tax (REET) rate is 1.28% 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 rates apply as of January 1, 2023:

- 1.10% for the portion of the selling price less than or equal to \$525,000.
- 1.28% for the portion of the selling price greater than \$525,000 and less than or equal to \$1.525 million.
- 2.75% for the portion of the selling price greater than \$1.525 million and less than or equal to \$3.025 million,
- 3.00% for the portion of the selling price greater than \$3.025 million.

Beginning July 1, 2022, and every fourth year thereafter, the Department of Revenue (department):

- Adjusts the selling price threshold of the first tier to reflect the lesser of the growth of the consumer price index for shelter or 5%. If the growth is less than 0%, the current selling price threshold applies.
- Adjusts 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:

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

LOCAL REAL ESTATE EXCISE TAX

There are five different types of REET counties and cities may impose:

- Any county or city may impose a REET on the sale of real property not exceeding 0.25%. This tax is generally known as REET 1.
- Any county or city that is fully planning under the growth management act (GMA) may also impose an additional 0.25% REET on the sale of real property. This tax is generally known as REET 2.
- Any county or city that is not imposing the optional 0.5% sales tax may instead levy an additional REET up to 0.5%
- Any county may impose an additional REET of up to 1.0% for conservation areas. This tax requires voter approval.
- Any county that imposed the REET for conservation areas at the full rate of 1.0% no later than January 1, 2003, may also impose an additional REET of 0.5% for affordable housing. This tax requires voter approval.

Most counties and cities impose REET 1 and REET 2. Only a few jurisdictions impose the remaining local REET taxes.

PROPOSAL:

STATE REAL ESTATE EXCISE TAX (Section 2)

This section adds an additional threshold for the portion of sales over \$5 million at the state level. Beginning January 1, 2024, the graduated rates for state REET are as follows:

- 1.10% for the portion of the selling price less than or equal to \$525,000.
- 1.28% for the portion of the selling price greater than \$525,000 and less than or equal to \$1.525 million.
- 2.75% for the portion of the selling price greater than \$1.525 million and less than or equal to \$3.025 million.
- 3.00% for the portion of the selling price greater than \$3.025 million and less than or equal to \$5 million.
- 4.0% for the portion of the selling price greater than \$5 million.

STATE REAL ESTATE EXCISE TAX (Section 3)

By November 1st and May 1st of each year, the department must calculate the incremental increase in state REET collections due to the new 4.0% rate threshold for the portion of the selling price greater than \$5 million and notify the state treasurer. The treasurer deposits the following by December 30th and June 30th of each year:

- 30% to the housing trust fund.
- 30% to the apple health and homes account.
- 15% to the developmental disabilities trust account.
- 25% to the affordable housing for all account.

ACCOUNT CREATION FOR STATE REAL ESTATE EXCISE TAX (Section 4)

This section creates the developmental disabilities trust account to be used for:

- Housing programs to support people with developmental disabilities.
- Operations and maintenance costs of housing developments or units.
- Housing related services for individuals with developmental disabilities.
- Project-based vouchers.
- Technical assistance to nonprofit organizations serving populations with intellectual and developmental disabilities.

LOCAL REAL ESTATE EXCISE TAX (Section 5)

This section allows the legislative authority of a city or county to impose an additional REET of up to 0.25%. If a city does not impose the full tax rate by June 30, 2024, the county may impose in that city the whole or remainder of the tax. Local jurisdictions must use the taxes at follows:

- At least 50% for capital construction or acquisition of affordable housing.
- Up to 50% for operations, maintenance, and services directly tied to new units of affordable housing.

A city or county imposing this new REET rate may enter into interlocal agreements with other entities to accomplish these affordable housing projects.

NEW REAL ESTATE EXCISE TAX EXEMPTION (Section 7 and 8)

These sections create a REET exemption for the sale of qualified space in a development that qualifies for certain property tax exemptions to a nonprofit organization, a housing authority, or public corporation for use for an exempt community purpose.

Affordable housing development means housing provided to low-income households.

Exempt community purpose means any use that provides a service that benefits affordable housing development tenants or the public such as health clinics, senior day care facilities, food banks, community centers, or early learning facilities.

A qualified space is a portion of an affordable housing development that is accessible to tenants or the public.

Low-income means household income that does not exceed 80% of the median household income at initial occupancy, adjusted for household size, for the county in which the dwelling is located.

Section 7 expires January 1, 2030. Section 8 is effective January 1, 2030.

EFFECTIVE DATE:

Sections 2 through 4 take effect on January 1, 2025. Sections 5 through 7 take effect on January 1, 2024.

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:

- Growth mimics the growth of REET in the Economic and Revenue Forecast Council's November 2022 forecast.
- Property sale price growth mimics the 5-year compound annual growth for existing property values by county.

STATE REAL ESTATE EXCISE TAX

- Thirty-six counties provide the Department with transaction-level REET data through an electronic system. For the three 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 5.7%, so the first threshold grows by 5% and the remaining thresholds grow by \$25,000 beginning January 1, 2023, and by \$26,000 beginning January 1, 2027.
- The new fund in the table above corresponds to the developmental disabilities trust account.
- The department initially deposits the collections from the new threshold into the general fund.
- The May 1, 2025, distribution calculation includes collections from January and February of 2025.
- The November 1, 2025, distribution calculation includes collections from March through September of 2025.
- Ongoing distribution calculations:
 - The May 1 calculation includes collections from October through December of the previous year and January and February of the current year.
 - The November 1 calculation includes collections from March through September of the current year.
- These sections take effect January 1, 2025, and impact five months of collections in fiscal year 2025.

LOCAL REAL ESTATE EXCISE TAX

- Implementing this tax does not require a vote of the people.
- This estimate includes those jurisdictions that currently levy REET 1 and REET 2 and 75% of these jurisdictions implement the new local REET. Of jurisdictions implementing the new local REET, 75% of them implement the new local REET in fiscal year 2024 and 25% implement the new local REET in fiscal year 2025.
- These sections take effect January 1, 2024, and impact three months of collections in fiscal year 2024. The department needs 60 days to make changes after local jurisdictions notify the department of a change to the local REET rates.

DATA SOURCES:

- Department of Revenue, Real Estate Excise Tax Administration System

- Department of Revenue, Integrated Property Tax Models
- County assessor data
- Economic and Revenue Forecast Council, November 2022 forecast
- Office of Financial Management designated rural counties as of April 1, 2022
- Bureau of Labor Statistics

REVENUE ESTIMATES:

The new REET exemption decreases state revenues by an estimated \$4,000 in the five months of impacted collections in fiscal year 2024. The rest of this bill increases state revenues by \$40.9 million in fiscal year 2025.

This bill also increases local revenues by an estimated \$30.1 million in the three months of impacted collections in fiscal year 2024, and by \$194.5 million in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	(\$ 4)
FY 2025 -	\$ 40,882
FY 2026 -	\$ 288,381
FY 2027 -	\$ 342,079
FY 2028 -	\$ 400,575
FY 2029 -	\$ 442,673

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

FY 2024 -	\$ 30,100
FY 2025 -	\$ 194,497
FY 2026 -	\$ 213,591
FY 2027 -	\$ 240,790
FY 2028 -	\$ 263,889
FY 2029 -	\$ 288,788

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:

This proposal affects buyers and sellers of real estate over \$5 million for state real estate excise tax (REET) and those in counties that decide to impose an additional local REET.

FIRST YEAR COSTS:

The department will incur total costs of \$711,000 in fiscal year 2024. These costs include:

- Labor Costs – Time and effort equate to 4.58 FTEs.
 - Amend two administrative rules.
 - Set up, program and test computer system changes for a new reporting line, including supporting indicators and issuance codes.
 - Update affidavits and identify website publications and information the department may need to create or update.
 - Gathering requirements, implementation meetings, documentation, and testing of system changes.

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- Calculate increased state REET collections and distribution amounts.

Object Costs - \$200,900.

- Computer system changes, including contract programming.

SECOND YEAR COSTS:

The department will incur total costs of \$631,700 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 6.3 FTEs.

- Maintain affidavits and tax returns.
- Support and educate counties on the new rates and calculation methods.
- Continued computer system testing, monitoring and maintenance.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Calculate increased state REET collections and distribution amounts

ONGOING COSTS:

Ongoing costs for the 2026-27 biennium equal \$992,200 and include similar activities described in the second-year costs. Time and effort equate to 6.0 FTEs in fiscal year 2026 and 4.5 FTEs in fiscal year 2027.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	4.6	6.3	5.4	5.3	3.3
A-Salaries and Wages	293,400	377,700	671,100	611,600	346,400
B-Employee Benefits	96,900	124,700	221,600	201,900	114,400
C-Professional Service Contracts	200,900		200,900		
E-Goods and Other Services	71,900	79,000	150,900	112,600	70,600
G-Travel	11,200	18,900	30,100	33,600	21,000
J-Capital Outlays	36,700	31,400	68,100	32,500	20,400
Total \$	\$711,000	\$631,700	\$1,342,700	\$992,200	\$572,800

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		
EXCISE TAX EX 1	44,808	1.0	2.0	1.5	2.0	2.0
EXCISE TAX EX 3	61,632	1.9	2.5	2.2	2.1	1.1
EXCISE TAX EX 4	68,076	0.2	0.4	0.3	0.3	
IT SYS ADM-JOURNEY	92,844	0.4		0.2		
MGMT ANALYST4	73,260	0.7	0.9	0.8	0.5	0.1
MGMT ANALYST5	80,952	0.2	0.4	0.3	0.3	
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.1	0.1	0.1	0.1	0.1
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		4.6	6.3	5.5	5.3	3.3

III. C - Expenditures By Program (optional)

NONE

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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 expedited process to amend WAC 458-61A-100; 1001, titled: "Real estate excise tax-Overview; Graduated real estate excise tax rate-Exceptions to graduated rates-Tax avoidance arrangements".

Persons affected by this rulemaking would include buyers and sellers of real estate over \$5 million.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1628 HB

Title: Real estate excise tax

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

Legislation Impacts:

☒ Cities: potential increase in real estate excise tax revenue, potential grant or loan awards

☒ Counties: same as above

☒ Special Districts: same as above

☐ Specific jurisdictions only:

☐ Variance occurs due to:

Part II: Estimates

☐ No fiscal impacts.

☐ Expenditures represent one-time costs:

☒ Legislation provides local option: local governments can impose an additional real estate excise tax

☐ Key variables cannot be estimated with certainty at this time: which local governments would impose an additional real estate excise tax, at what rate, any grant or loans awarded through the Developmental Disabilities Trust Account

Estimated revenue impacts to:

Jurisdiction	FY 2024	FY 2025	2023-25	2025-27	2027-29
City	8,875,072	57,348,000	66,223,072	133,975,545	162,958,402
County	10,909,770	70,495,599	81,405,369	164,690,770	200,318,237
Special District	10,014,158	64,708,431	74,722,589	151,170,875	183,873,591
TOTAL \$	29,799,000	192,552,030	222,351,030	449,837,190	547,150,230
GRAND TOTAL \$					1,219,338,450

In addition to the estimates above, there are additional indeterminate costs 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: 02/06/2023
Leg. Committee Contact: Kellen Wright	Phone: 360-786-7134	Date: 01/27/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/06/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/06/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill would modify the state and local real estate excise tax (REET) in several ways:

- Adds a new state real estate excise tax threshold of \$5,000,000 on January 1, 2025, with the portion of the selling price that is above the threshold taxed at a rate of 4%
- Provides for the distribution of the increase in revenue from the new threshold over what would have been collected had the new threshold not been imposed, including to a newly created Developmental Disabilities Trust Account that can be used for housing support for individuals with developmental disabilities
- Allows a county or city to impose an additional 0.25% real estate excise tax for the construction and support of affordable housing
- Removes the expiration date on the ability to use certain local government real estate excise tax funds for facilities for those experiencing homelessness or for affordable housing, and removes a \$1,000,000 limit on the annual use of such funds in larger jurisdictions
- Creates a real estate excise tax exemption for certain sales or transfers of properties that qualify for a property tax exemption that will be used for a community purpose

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 create the Developmental Disabilities Trust Account. This account may be used for providing grants and forgivable loans to housing programs to support people with developmental disabilities. These grants and loans can be used for operations and maintenance costs, housing related services, technical assistance to nonprofit organizations serving or housing populations with intellectual or developmental disabilities, and rental subsidies. It is unknown which local governments will apply for these grants and loans or what will be required to apply for these grants. There would be administrative costs for those jurisdictions seeking grants or loans, but those costs are 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.

Beginning January 1, 2025, a new threshold is added for state REET. This tax applies at a rate of 4% to the portion of the sale price that is over \$5,000,000. The increased revenue of this portion of the state real estate excise tax over what would have been collected without the new price threshold must be deposited separately from the other portions. The revenue must be deposited as follows: 30% to the Washington State Housing Trust Fund, 30% to the Apple Health and Homes Account, 15% to a new Developmental Disabilities Trust Account, and 25% to the Affordable Housing for All account for operations, maintenance, and service for permanent supportive housing. It is unknown how this increase in REET revenue would benefit or be distributed to local governments through the programs funded. It is unknown which jurisdictions would apply for grants or loans through the Developmental Disabilities Trust Account or the amounts of any grant or loan that will be awarded to local governments. This impact is indeterminate.

This bill also creates a local option, beginning on January 1, 2024, the legislative authority of a local government may impose an additional REET at a rate of up to 0.25%. If a city does not impose the tax at the full rate by June 30, 2024, the county may impose the tax within the city up to a combined rate of 0.25%. The expiration date of January 1, 2026, for the use of revenue from the second of the 0.25% local government REET options on facilities for those experiencing homeless or for affordable housing projects is removed. Up to \$100,000 or 25% of the revenue from this tax option, whichever is greater, can be used on homeless or affordable housing facilities; and the \$1,000,000 cap on the maximum amount of the revenue that could be used in this way is removed. For local governments imposing this REET, there would be an increase in tax revenue.

According to the Department of Revenue (DOR) this bill increases local revenues by an estimated \$30.1 million in the

three months of impacted collections in fiscal year 2024, and by \$194.5 million in fiscal year 2025, the first full year of impacted collections. Please see the DOR fiscal note for their assumptions and data sources.

LOCAL GOVERNMENT TAX INCREASE BREAKDOWN

Counties:

FY 2024	\$10,909,770
FY 2025	\$70,495,599
FY 2026	\$77,416,235
FY 2027	\$87,274,535
FY 2028	\$95,646,787
FY 2029	\$104,671,450

Cities:

FY 2024	\$8,875,072
FY 2025	\$57,348,000
FY 2026	\$62,977,921
FY 2027	\$70,997,624
FY 2028	\$77,808,430
FY 2029	\$85,149,972

Special Districts:

FY 2024	\$10,014,158
FY 2025	\$64,708,431
FY 2026	\$71,060,934
FY 2027	\$80,109,941
FY 2028	\$87,794,893
FY 2029	\$96,078,698

METHODOLOGY:

The distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from Calendar Year 2021. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. The result is a distribution of 36.61 percent to counties, 29.78 percent to cities, and 33.61 percent to special districts. The one percent DOR administrative fee has also been deducted.

SOURCES:

- Department of Revenue fiscal note, HB 1628 (2023)
- Department of Revenue Local Tax Distributions (2021)
- House Bill Analysis, HB 1628, Local Government Committee (2023)
- Local Government Fiscal Note program, Local Sales Tax model 2023
- Local Government Fiscal Note program, Sales and Use Tax Distribution model 2023