

Multiple Agency Fiscal Note Summary

Bill Number: 5258 S SB	Title: Condos and townhouses
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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	(1,060,000)	(1,240,000)	0	(2,140,000)	(2,520,000)	0	(4,320,000)	(5,090,000)	0
Total \$	(1,060,000)	(1,240,000)	0	(2,140,000)	(2,520,000)	0	(4,320,000)	(5,090,000)	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 Revenue	1.7	376,000	376,000	376,000	1.3	263,400	263,400	263,400	1.3	263,400	263,400	263,400
Department of Enterprise Services	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total \$	1.7	376,000	376,000	376,000	1.3	263,400	263,400	263,400	1.3	263,400	263,400	263,400

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 Revenue	.0	0	0	.0	0	0	.0	0	0
Department of Enterprise Services	.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 3/ 3/2023
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Department of Revenue Fiscal Note

Bill Number: 5258 S SB	Title: Condos and townhouses	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	(250,000)	(810,000)	(1,060,000)	(2,140,000)	(4,320,000)
Public Works Assistance Account-State 01 - Taxes 57 - Real Estate Excise	(20,000)	(50,000)	(70,000)	(140,000)	(290,000)
Education Legacy Trust Account-State 01 - Taxes 57 - Real Estate Excise	(40,000)	(140,000)	(180,000)	(380,000)	(770,000)
City County Assistance Account-State 01 - Taxes 57 - Real Estate Excise	(4,000)	(10,000)	(14,000)	(40,000)	(80,000)
NEW-State 01 - Taxes 57 - Real Estate Excise	314,000	1,010,000	1,324,000	2,700,000	5,460,000
Total \$					

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	2.0	1.3	1.7	1.3	1.3
GF-STATE-State 001-1	244,300	131,700	376,000	263,400	263,400
Total \$	244,300	131,700	376,000	263,400	263,400

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.

Legislative Contact: Alia Kennedy	Phone: 60-786-7405	Date: 02/16/2023
Agency Preparation: Beth Leech	Phone: 60-534-1513	Date: 03/01/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 03/01/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 03/02/2023

Request # 5258-2-1

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.

Note: This fiscal note reflects language in SSB 5258, 2023 Legislative Session.

This fiscal note only addresses sections 10, 11, and 12 of the bill, which impact the Department of Revenue (department).

COMPARISION OF SUBSTITUTE BILL WITH ORIGINAL BILL:

The substitute bill removes the real estate excise tax (REET) exemption on the sale of condominium as written in the original bill. Now, the seller pays the REET on the sale of condominium or townhouse to a person using the down payment assistance program. The state then remits the REET to the Housing Finance Commission (commission) as payment against the buyer's down payment assistance amount. It also creates a new REET exemption for the sale of condominiums and townhouses constructed in buildings that qualify for the new and rehabilitated multifamily housing in urban centers property tax exemption (Chapter 84.14 RCW).

CURRENT LAW:

REET applies to the sale or transfer of real property unless the transaction qualifies for a specific tax exemption.

PROPOSAL:

The seller pays the state REET on the sale of a condominium or townhouse to a person who uses the down payment assistance program offered by the commission. The state then remits the state REET to the commission as payment against the buyer's down payment assistance amount.

This bill also exempts the sale of a condominium or townhouse constructed in buildings qualifying for the new and rehabilitated multifamily housing in urban centers property tax exemption (Chapter 84.14 RCW).

Townhouse means a dwelling unit constructed in a row of two or more attached units where each dwelling unit shares at least one common wall with an adjacent unit and is accessed by a separate outdoor entrance.

This bill also requires changes to the local ordinances that impose impact fees.

EFFECTIVE DATE:

Section 10 takes 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:

- The purchase price of qualified condominium will average \$434,000 through December 31, 2026, and \$612,000 thereafter.
- All of the qualified condominiums will fall under the first and second graduated REET tiers with a state rate of 1.1% and 1.28%.
- Approximately 360 condominium buyers will participate in in the down payment assistance program.
- Counties will continue to impose and keep an administrative fee of 1.3% of the state REET due.
- Growth mimics the growth of REET in the Economic and Revenue Forecast Council's November 2022 forecast.
- Property sales price growth mimics the 5-year compound annual growth for existing property values by county.

DATA SOURCES:

- Department Integrated Property Tax Models
- Economic and Revenue Forecast Council November 2022 forecast
- Washington State Housing Finance Commission
- National Association of Realtors

REVENUE ESTIMATES:

The revenue impact of the REET exemption for the sale of a condominium or townhouse constructed in a building that qualifies for the new and rehabilitated multifamily housing in urban centers property tax exemption is indeterminate. The property tax exemption that would qualify the sale of such a property for exemption from REET is approved by the local jurisdiction and what properties have been approved is unknown to the department.

The rest of the bill has a net zero impact on state revenues collected by the department, but decreases the amounts transferred to the funds that receive collections from REET by \$314,000 in the five months of impacted collections in fiscal year 2024, and by \$1.0 million in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

- FY 2024 - \$ 0
- FY 2025 - \$ 0
- FY 2026 - \$ 0
- FY 2027 - \$ 0
- FY 2028 - \$ 0
- FY 2029 - \$ 0

Local Government, if applicable (cash basis, \$000): None

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.

FIRST YEAR COSTS:

The department will incur total costs of \$244,300 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 2.0 FTEs.

- Create special notice and update relevant information on the department’s website.
- Create new letters and update affidavits for validating the exemption.
- Provide training, policy support, and education to the counties for the addition of the new exemption.
- Implementation meetings, documentation, and testing of system changes.
- Set up, program, and test computer system changes.
- Run reports and validate transfers prior to the remittance to the Washington State Housing Finance Commission.

Object Costs - \$19,800.

- Computer system changes, including contract programming.

SECOND YEAR COSTS:

The department will incur total costs of \$131,700 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 1.3 FTEs.

- Run reports, audit, and validate transfers prior to the remittance to the Washington State Housing Finance Commission.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$263,400 and include similar activities described in the second-year costs. Time and effort equate to 1.3 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	2.0	1.3	1.7	1.3	1.3
A-Salaries and Wages	126,500	82,100	208,600	164,200	164,200
B-Employee Benefits	41,700	27,100	68,800	54,200	54,200
C-Professional Service Contracts	19,800		19,800		
E-Goods and Other Services	32,300	13,900	46,200	27,800	27,800
G-Travel	7,000	4,600	11,600	9,200	9,200
J-Capital Outlays	17,000	4,000	21,000	8,000	8,000
Total \$	\$244,300	\$131,700	\$376,000	\$263,400	\$263,400

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
EXCISE TAX EX 3	61,632	1.5	1.0	1.3	1.0	1.0
EXCISE TAX EX 4	68,076	0.5	0.3	0.4	0.3	0.3
Total FTEs		2.0	1.3	1.7	1.3	1.3

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

Individual State Agency Fiscal Note

Bill Number: 5258 S SB	Title: Condos and townhouses	Agency: 179-Department of Enterprise Services
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

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: Alia Kennedy	Phone: 360-786-7405	Date: 02/16/2023
Agency Preparation: Michael Diaz	Phone: (360) 407-8131	Date: 02/21/2023
Agency Approval: Ashley Howard	Phone: (360) 407-8159	Date: 02/21/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/22/2023

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.

The original version of this legislation added a new section to RCW 19.27, which impacted the State Building Code Council (SBCC). All references to this RCW have been removed from this substitute version. Therefore, there is no fiscal impact to the Department of Enterprise Services (DES).

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.

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.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5258 S SB

Title: Condos and townhouses

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

Legislation Impacts:

- Cities: Indeterminate impacts
- 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: Costs to amend codes
- Legislation provides local option: Jurisdictions may reduce building code and energy standards to make projects more affordable.
- Key variables cannot be estimated with certainty at this time: Number of cities with "housing type" based impact fees, Number of jurisdictions where subdivision and code changes would be required.

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: Allan Johnson	Phone: 360-725-5033	Date: 03/03/2023
Leg. Committee Contact: Alia Kennedy	Phone: 360-786-7405	Date: 02/16/2023
Agency Approval: Alice Zillah	Phone: 360-725-5035	Date: 03/03/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 03/03/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

CHANGES FROM PREVIOUS BILL VERSION:

Multiple changes were made between the original bill version and the first substitute. The changes that impact local governments are:

- Removing the requirement for the Building Code Council to adopt specific building and energy code provisions for multiunit residential buildings.
- Allowing impact fees schedule to reflect the proportionate impact of new housing units based on the trips generated in the housing unit.
- Exempting sales of condominiums and townhouses to a person who uses a down payment assistance program offered by the Washington State housing finance commission, and sales of condominiums and townhouses that are constructed in buildings qualifying for the multifamily housing tax exemption, from the real estate excise tax.

SUMMARY OF CURRENT BILL VERSION:

This legislation contains multiple provisions that pertain to construction defect claims and warranties for condominium construction that would not result in impacts to local governments. The provisions that would apply to local governments include:

- The sale of a condominium unit to a participation in the down payment assistance program offered by the Washington State Housing Finance Commission is exempt from the real estate excise tax.
- Impact fee schedules shall reflect the proportionate impact of new housing units, including multifamily and condominium units, based on the square footage, number of bedrooms in the housing unit, or trip generation.
- All cities, towns, and counties shall include in their short plat regulations procedures for unit lot subdivisions allowing division of a parent lot into separately owned unit lots. Portions of the parent lot not subdivided for individual units shall be owned in common by the owners of the individual unit lots or by a homeowner's association.

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.

CHANGES FROM PREVIOUS BILL VERSION:

Multiple changes were made between the original bill version and the first substitute. The changes that impact local governments expenditures are:

- Removing the requirement for the Building Code Council to adopt specific building and energy code provisions for multiunit residential buildings.
- Allowing impact fees schedule to reflect the proportionate impact of new housing units based on the trips generated in the housing unit.

SUMMARY OF CURRENT BILL VERSION:

This legislation would have an indeterminate impact on cities and counties planning under the Growth Management Act (GMA) to incorporate new impact fee schedules. Additional indeterminate costs to all cities and counties would be associated changes to subdivision ordinances and other code changes. Optional changes to building and energy codes may result in indeterminate costs in jurisdictions which elect to take action, but as this is a local option there is no impact to local governments for these provisions.

IMPACT FEE EXPENDITURES:

Indeterminate – Jurisdictions planning under GMA that currently have impact fees based on “housing type” (such as those

that have different fee rates for detached single family units and multi-family units) would be required to undertake reconfiguration of their schedule of some combination of transportation, park, school, and fire protection impact fees. Each jurisdiction planning under the Growth Management Act is authorized to impose these impact fees to help pay for new or expanded public capital facilities, however, not all jurisdictions impose impact fees to pay for expanded services of all these public facilities.

This work may require studies estimated at \$7,000 - \$10,000 per jurisdiction, per impact fee. The costs per jurisdiction are indeterminate, as the number of jurisdictions with “housing type” impact fees is not known and the extent of changes to fee schedules cannot be predicted in advance.

Analysis of the Association of Washington Cities (AWC) 2023 Tax and User Fee Survey indicates that the majority of cities based their impact fees on “housing type” related to the style of dwelling or the number of units. There were seven of the 44 cities that based impact fees on square footage of the unit. Only four cities out of 44 that reported using impact fees, based these fees on the number of bedrooms. If the impact fee schedule methodology for jurisdictions statewide follows similar patterns to the AWC Tax and User Fee Survey, it could indicate that a majority of cities and counties would need to amend existing impact fee schedules.

SUBDIVISION ORDINANCE AND CODE CHANGE EXPENDITURES:

Indeterminate - All cities and counties would be required to adopt changes to their short plat regulations to allow condominium style developments of parent lots. For the purposes of this analysis, it is assumed that no changes to the density of units per acre are required by these provisions.

It is anticipated that those jurisdictions which do not currently allow such development, that adoption of a complex ordinance with hearing will be required. The Local Government Fiscal Note Program estimates that each jurisdiction undertaking this action will incur costs of \$9,600 although costs could reach \$17,200 per jurisdiction based upon assessment of grants provided by the Department of Commerce to support middle housing ordinances and Housing Action Plans through HB 1921 (2019).

The extent of these changes will depend upon existing subdivision and short plat regulations that allow condominium and townhouse style development. For instance, the Washington State Association of Counties estimate that the majority of counties already have provisions in their codes for unit lot subdivisions as described in this bill.

The number of jurisdictions undertaking this action is not known and thus these expenditure impacts are indeterminate. It is possible that jurisdictions amending codes to allow condominiums and townhouses within traditional single family areas may need to amend comprehensive plan elements and zoning maps as well as conduct transportation, environmental impact and infrastructure evaluations. The scope and scale of these indeterminate cost would vary based on the impacted jurisdiction, as well as the number of affected residential lots that allow for condominiums and townhouses. These costs cannot be determined in advance.

Amendments to Zoning Maps and/or Documents.

According to AWC, the costs for cities to adopt new zoning maps may start at \$5,000 per jurisdiction and would include changes to printed documents and digitally accessible maps.

Amendments to City Housing Plan Elements

Amending comprehensive plan housing elements may have costs ranging from approximately \$16,200 to \$32,500 for cities planning under the GMA. These figures assume the scope and scale of the amended elements is minor. Some impacted cities may have housing elements that already incorporate condominiums and townhouses and therefore will not incur expenditures while other jurisdictions may need to make changes incorporate these types of development.

Because the density of planned land use categories is assumed to remain constant, the need for broader changes to comprehensive plans, ordinances, environmental analysis and capital facility plans will likely be mitigated.

ASSUMPTIONS: For the purposes of this analysis, it is assumed that no changes to the density of units per acre are required by these provisions.

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.

CHANGES FROM PREVIOUS BILL VERSION:

There no longer would be a reduction of REET to local jurisdictions according to the Department of Revenue..

SUMMARY OF CURRENT BILL VERSION:

This legislation would result in an indeterminate fiscal impact to local jurisdictions.

IMPACT FEE REVENUE:

Jurisdictions would experience an indeterminate change in impact fee revenue. This legislation would adjust the way that impact fees are calculated for residential units by an indeterminate number of jurisdictions. This change would switch the calculation of impact fees from “housing type” based to “proportionate impact” based on the unit size, bedroom count or trip generation.

It is possible that the number of units that are subject to fees could increase if this legislation results in additional development within a community charging impact fees. However, the amount of revenue collected would likely remain similar unless the scale of capital facility improvements must be increased in response to the added residential capacity. These impacts will vary by jurisdiction and cannot be determined with certainty in advance. Therefore, these revenue impacts are indeterminate.

SOURCES

Association of Washington State Cities (AWC)
Association of Washington Cities’ Tax and User Fee Survey (2023)
Department of Commerce
Department of Revenue fiscal note, SSB 5258 (2023)
Local Government Fiscal Note Program, FN HB 1337 (2023)
Municipal Research and Services Center, Impact Fees
Washington State Association of Counties (WSAC)