

Multiple Agency Fiscal Note Summary

Bill Number: 1966 HB	Title: Manufacturing machinery/REET
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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	0	0	0	(19,400,000)	(22,800,000)	(24,500,000)	(24,600,000)	(29,000,000)	(31,000,000)
Total \$	0	0	0	(19,400,000)	(22,800,000)	(24,500,000)	(24,600,000)	(29,000,000)	(31,000,000)

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
Joint Legislative Audit and Review Committee	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Revenue	1.7	451,100	451,100	451,100	.0	0	0	0	.0	0	0	0
Total \$	1.7	451,100	451,100	451,100	0.0	0	0	0	0.0	0	0	0

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.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

Estimated Capital Budget Breakout

Prepared by: Amy Hatfield, OFM	Phone: (360) 280-7584	Date Published: Final 1/11/2024
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Individual State Agency Fiscal Note

Bill Number: 1966 HB	Title: Manufacturing machinery/REET	Agency: 014-Joint Legislative Audit and Review Committee
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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: Tracey Taylor	Phone: 360-786-7152	Date: 01/02/2024
Agency Preparation: Pete van Moorsel	Phone: 360-786-5185	Date: 01/08/2024
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 01/08/2024
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 01/09/2024

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 1966 creates an exemption from the Real Estate Excise Tax (REET) for machinery and equipment as defined in RCW 82.08.02565.

The preference takes effect July 1, 2025, and does not specify an expiration date. As such, it is assumed that the preference expires automatically on January 1, 2036 pursuant to RCW 82.32.805.

There is no tax preference performance statement that states the legislative purpose for the new tax preference or specific metrics and data requirements to allow JLARC and the Legislature to measure the effectiveness of the preference in achieving that purpose.

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.

RCW 82.32.808 provides that if a new tax preference does not include a legislative purpose and specify metrics and data requirements, JLARC is not required to review the tax preference and it is presumed that it is the intent of the Legislature to allow the tax preference to expire upon its scheduled expiration date.

Per statute, JLARC is not required to review this tax preference and there is no fiscal impact to JLARC.

If the Citizen Commission for Performance Measurement of Tax Preferences does elect to schedule this preference for a review, it may require additional resources. The audit would be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2024 legislative session.

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: 1966 HB	Title: Manufacturing machinery/REET	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				(19,400,000)	(24,600,000)
Public Works Assistance Account-State 01 - Taxes 57 - Real Estate Excise				(1,300,000)	(1,600,000)
Education Legacy Trust Account-State 01 - Taxes 57 - Real Estate Excise				(3,400,000)	(4,400,000)
City County Assistance Account-State 01 - Taxes 57 - Real Estate Excise				(400,000)	(400,000)
Total \$				(24,500,000)	(31,000,000)

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.1	2.3	1.7		
GF-STATE-State 001-1	148,600	302,500	451,100		
Total \$	148,600	302,500	451,100		

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: Tracey Taylor	Phone: 60-786-7152	Date: 01/02/2024
Agency Preparation: Beth Leech	Phone: 60-534-1513	Date: 01/10/2024
Agency Approval: Marianne McIntosh	Phone: 60-534-1505	Date: 01/10/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/11/2024

Request # 1966-1-1

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:

Under current law, real estate or real property includes machinery and equipment for purposes of real estate excise tax (REET). Machinery and equipment means industrial fixtures, devices, support facilities, and tangible personal property that becomes an ingredient or component thereof, including repair parts and replacement parts.

PROPOSAL:

This proposal excludes machinery and equipment from the definition of real estate or real property for purposes of REET.

Machinery and equipment is defined as in current law.

EFFECTIVE DATE:

This bill takes effect on July 1, 2025.

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 Department of Revenue (department) electronically receives transaction-level REET data from 36 counties. For the three counties not reporting REET data electronically, this estimate assumes transactions similar to the urban or rural counties that report electronically.
- Growth rate mirrors the REET growth rates reflected in the Economic and Revenue Forecast Council's November 2023 forecast.
- The exclusion from REET for machinery and equipment will be a deduction on the REET affidavit.
- Approximately 55% of real property value of manufacturing facilities is machinery and equipment.
- The local government amounts below are due to the decrease in the county administrative fees and the decrease in local REET collections.
- This proposal is effective on July 1, 2025, and impacts 11 months of collections in fiscal year 2026.

DATA SOURCES:

- Department of Revenue, Real estate excise tax administration system fiscal year 2023 data
- Department of Revenue, Property tax data
- Department of Revenue, Audit data
- County property rolls
- Economic and Revenue Forecast Council, November 2023 forecast

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$11.1 million in the 11 months of impacted collections in fiscal year 2026 and by \$13.4 million in fiscal year 2027, the first full year of impacted collections. This bill also decreases local revenues by an estimated \$2.3 million in the 11 months of impacted collections in fiscal year 2026 and by \$2.8 million in fiscal year 2027, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 - \$ 0
 FY 2025 - \$ 0
 FY 2026 - (\$ 11,100)
 FY 2027 - (\$ 13,400)
 FY 2028 - (\$ 14,800)
 FY 2029 - (\$ 16,200)

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

FY 2024 - \$ 0
 FY 2025 - \$ 0
 FY 2026 - (\$ 2,300)
 FY 2027 - (\$ 2,800)
 FY 2028 - (\$ 3,100)
 FY 2029 - (\$ 3,400)

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 bill affects buyers and sellers of machinery and equipment considered real estate/real property.

FIRST YEAR COSTS:

The department will incur total costs of \$148,600 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 1.1 FTEs.

- Set up, program, and test computer system changes.
- Update forms and identify website publications and information the department may need to create or update.
- Gather system requirements, implementation meetings, and documentation.

SECOND YEAR COSTS:

The department will incur total costs of \$302,500 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 2.3 FTEs.

- Amend and adopt three administrative rules.
- Support and educate counties on the new exemption.
- Continued computer system testing, monitoring, and maintenance.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Create a Special Notice and identify publications and information the department may need to create or update on the department’s website.

Object Costs - \$18,100.

- Computer system changes, including contract programming.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.1	2.3	1.7		
A-Salaries and Wages	88,300	176,500	264,800		
B-Employee Benefits	29,100	58,300	87,400		
C-Professional Service Contracts		18,100	18,100		
E-Goods and Other Services	17,900	30,500	48,400		
G-Travel	3,900	6,300	10,200		
J-Capital Outlays	9,400	12,800	22,200		
Total \$	\$148,600	\$302,500	\$451,100		

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	131,684		0.0	0.0		
EMS BAND 5	153,836		0.0	0.0		
EXCISE TAX EX 3	64,092	0.3	1.0	0.7		
EXCISE TAX EX 4	70,800	0.3	0.3	0.3		
IT B A-SR/SPEC	101,376	0.2	0.2	0.2		
IT QA-JOURNEY	91,968	0.3	0.3	0.3		
IT SYS ADM-JOURNEY	96,552		0.1	0.1		
MGMT ANALYST4	76,188		0.0	0.0		
TAX POLICY SP 2	78,120		0.1	0.1		
TAX POLICY SP 3	88,416		0.2	0.1		
TAX POLICY SP 4	95,184		0.0	0.0		
WMS BAND 2	98,456		0.0	0.0		
WMS BAND 3	111,992		0.0	0.0		
Total FTEs		1.1	2.3	1.7		

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 the following rule:

Request # 1966-1-1

WAC 458-61A-NEW, titled: "New REET rule re the M&E exclusion".

The department will use the standard process to amend the following rule:

WAC 458-61A-212, titled: "Transfers where gain is not recognized under the Internal Revenue Code".

The department will use the expedited process to amend the following rule:

WAC 458-61A-102, titled: "Definitions".

Persons affected by this rulemaking would include sellers of real estate/real property that may include machinery and equipment.