

Multiple Agency Fiscal Note Summary

Bill Number: 6175 2S SB	Title: Existing structures/housing
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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	(2,147,000)	(2,147,000)	(2,150,000)	(2,766,000)	(2,766,000)	(2,770,000)
Department of Revenue	In addition to the estimate above,there are additional indeterminate costs and/or savings. Please see individual fiscal note.								
Total \$	0	0	0	(2,147,000)	(2,147,000)	(2,150,000)	(2,766,000)	(2,766,000)	(2,770,000)

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				(960,298)		(1,247,401)
Local Gov. Total				(960,298)		(1,247,401)

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	9,600	.0	0	0	9,600	.0	0	0	9,600
Department of Commerce	.2	54,115	54,115	54,115	.4	108,230	108,230	108,230	.4	108,230	108,230	108,230
Department of Revenue	.3	146,000	146,000	146,000	.1	27,000	27,000	27,000	.1	27,000	27,000	27,000
Housing Finance Commission	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total \$	0.5	200,115	200,115	209,715	0.5	135,230	135,230	144,830	0.5	135,230	135,230	144,830

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 Commerce	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Housing Finance Commission	.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 2/12/2024
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Individual State Agency Fiscal Note

Bill Number: 6175 2S SB	Title: Existing structures/housing	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:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
Account					
Performance Audits of Government Account-State 553-1	2,400	7,200	9,600	9,600	9,600
Total \$	2,400	7,200	9,600	9,600	9,600

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: Ariel Kennedy	Phone: 786-7432	Date: 02/06/2024
Agency Preparation: Geoff Cunningham	Phone: 3607865672	Date: 02/07/2024
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 02/07/2024
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 02/09/2024

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.

2S SB 6175

Section 2 of the bill narrows the exemption to a sales and use tax deferral for a period of at least ten years for underutilized commercial properties that are redeveloped into affordable housing units within an urban area.

Section 6 includes new requirements that must be met for the property to qualify. These include setting aside (1) (a) at least 20 percent of the multifamily housing units for very low, low, and moderate-income households; (b) setting aside at least 50 percent of the units for rent or sale at or below county median price; and (c) any additional affordability and income eligibility commitments adopted by a local government.

Section 10 of the bill requires property owners to submit an annual reporting statement to each city representative that indicates (a) the affordable housing units constructed on the property as of the anniversary date; (b) certification that the property has not changed use; (c) a description of changes or improvements after issuance of certificate of occupancy; and (d) any additional information requested by the city. Under (2) the conditional recipient of the tax deferral must file an annual tax performance report with the Department of Revenue beginning the year the certificate of occupancy is issued and each year thereafter for 10 years. (3) A city that issues a certificate must report annually to the Department of Commerce by December 31st of each year beginning in 2025 with (a) the number of certificates granted; (b) the total number and type of buildings converted; (c) the number of affordable housing units resulting from the conversion of underutilized commercial property to multifamily housing; and (d) the estimated value of the sales and use tax deferral for each investment project and the total estimated value of sales and use tax deferrals granted.

Section 11 changes the application approval deadline to on or before June 30, 2034.

Section 12 requires the Department of Revenue to (1) issue a sales and use tax deferral certificate on each eligible project, (2) keep a running total of all estimated sales and use tax deferrals provided during each fiscal biennium, (4) and has an expiration of July 1, 2034.

2S SB 6175 Tax Preference Performance Statement

Section 15 is the tax preference performance statement. Under (2) the Legislature categorizes this tax preference as one intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808 (2) (a). Subsection (3) outlines “the legislature’s specific public policy objective to expand affordable housing options for very low to moderate-income households, specifically in urban areas where there is underutilized commercial property.

(4) Requires JLARC to evaluate “the number of increased housing units on underutilized commercial property.” If the review finds that the number of affordable housing units has not increased, the Legislature intends to repeal this tax preference. The review must be provided by December 31, 2032. (5) JLARC may refer to any available data source including data collected by the department under section 10 of the act.

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.

JLARC staff will work with the Department of Revenue and the Department of Commerce immediately after passage of the bill to ensure project contacts are established and all necessary data for JLARC staff’s future evaluation needs are identified and collected. As dictated in the tax preference performance statement, JLARC will review these preferences in 2032.

The expenditure detail reflects work conducted to prepare for the future review of the preferences. Costs associated with the review are not included in this fiscal note. This fiscal note reflects only the costs associated with establishing data collection.

This tax preference review may require additional resources. The audit will 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.

This audit will require an estimated 1 audit month.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst’s time for a month, together with related administrative, support, and goods/services costs. JLARC’s anticipated 2023-25 costs are calculated at approximately \$23,900 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
553-1	Performance Audits of Government Account	State	2,400	7,200	9,600	9,600	9,600
Total \$			2,400	7,200	9,600	9,600	9,600

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages	1,600	4,700	6,300	6,200	6,200
B-Employee Benefits	500	1,500	2,000	2,000	2,000
C-Professional Service Contracts					
E-Goods and Other Services	300	900	1,200	1,200	1,200
G-Travel		100	100	200	200
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	2,400	7,200	9,600	9,600	9,600

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
Research Analyst	131,064					
Support staff	110,856					
Total FTEs						0.0

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.

Individual State Agency Fiscal Note

Bill Number: 6175 2S SB	Title: Existing structures/housing	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	0.0	0.4	0.2	0.4	0.4
Account					
General Fund-State 001-1	0	54,115	54,115	108,230	108,230
Total \$	0	54,115	54,115	108,230	108,230

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: Ariel Kennedy	Phone: 786-7432	Date: 02/06/2024
Agency Preparation: Buck Lucas	Phone: 360-725-3180	Date: 02/09/2024
Agency Approval: Pouth Ing	Phone: 360-725-2715	Date: 02/09/2024
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/09/2024

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.

Differences between the second substitute and the first substitute bill:

- Removes the state retail sales and tax exemption for materials and labor used in the conversion of a commercial building to affordable housing, and other related provisions.
- Adds a new retail sales and use tax deferral program for the construction of underutilized commercial property.

The differences between the first and second substitute would reduce the fiscal impact to the Department of Commerce (department).

Bill Summary:

Section 2 is a purpose statement: it is the purpose of this sales and use tax deferral program to encourage the redevelopment of underutilized commercial properties in targeted urban areas. This section authorizes any city or town to offer the retail sales and use tax deferral program; specifies that the tax deferral applies only to the conversion of underutilized commercial property to affordable multifamily housing and if an applicant maintains the property as affordable housing for the 10-year period then the deferred taxes need not be repaid.

Section 3 adds a new chapter in title 82 RCW and establishes definitions for the program.

Section 4 adds a new chapter in title 82 RCW and provides the process for adopting the tax deferral program.

Section 5 adds a new chapter in title 82 RCW and provides the procedural requirements for the property owner seeking the sales and use tax deferral.

Sections 6 and 7 add a new chapter in title 82 RCW and establish the criteria and process for cities to approve or deny the application for sales and use tax deferral. Applicants must rent or sell at least 20 percent of the housing units as affordable housing to very low, low, and moderate-income households; requires at least 50 percent of the multifamily housing units be rented at or below fair market rent for the county or sold at a price at or below county median price.

Section 8 adds a new chapter in title 82 RCW and provides the authority for a jurisdiction to change an application fee.

Section 9 adds a new chapter in title 82 RCW and establishes procedures to be completed by the applicant within 30-days of receiving the certificate of occupancy for an eligible investment project. This section also includes collaboration between the city and the Department of Revenue (DOR). This section also allows local governments to require applicants meet additional affordability or income eligibility conditions; provides that no deferrals may be approved on or after June 30, 2021.

Section 10 adds a new chapter in title 82 RCW and establishes reporting requirements for the project and the city.

The city must report annually to the department, by December 31 of each year:

- The number of program approval certificates granted;
- The total number and type of buildings converted;
- The number of affordable housing units resulting from the conversion of underutilized commercial property to multifamily housing; and
- The estimated value of the sales and use tax deferral for each investment project receiving a program approval and the total estimated value of sales and use tax deferrals granted.

Section 11 adds a new chapter in title 82 RCW and creates some additional guidance for the program, especially when a project site has more than one building and requires communication by DOR.

Section 12 adds a new chapter in title 82 RCW and establishes that DOR issues the certificate of tax deferral and track the estimated amount of deferred taxes.

Section 13 adds a new chapter in title 82 RCW and creates procedures for discontinuing the sales and use deferral.

Section 14 adds a new chapter in title 82 RCW and states the deferral runs with the property if it is sold during the time of effectiveness.

Section 15 adds a new chapter in title 82 RCW and includes a tax preference performance statement requiring the Joint Legislative Audit and Review Committee to conduct a review by December 31, 2032.

Section 16 adds a new chapter in title 82 RCW and clarifies that a property utilizing this program may also apply for the multifamily property tax exemption (MFTE).

New section 17 establishes that this bill creates a new chapter under Title 82 RCW.

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 – Local Government Division

Section 10:

Cities must report annually to the department. The MFTE program, which is similar in purpose, is adopted in 57 jurisdictions. The department assumes similar uptake of this program. This will require technical assistance and report analysis staff.

0.20 Commerce Specialist 3 (416 hours) each year FY25-29, to provide technical assistance to jurisdictions who adopt the program. This staff will also create and operate the reporting process for the program in collaboration with project staff from Department of Revenue. This staff will serve as the lead to analyze submitted reports, communicate with jurisdictions who have not met the reporting requirements and produce an annual report.

0.10 Commerce Specialist 5 (208 hours) each year FY25-29, to provide day to day direction to staff and create policy for the tax exemption incentive to convert commercial buildings to residential uses. This staff would also provide complex and technical information to jurisdictions using this new tool to estimate land capacity in their comprehensive plans.

Salaries and Benefits:

FY25-FY29: \$36,055 per fiscal year

Goods and Other Services:

FY25-FY29: \$2,880 per fiscal year

Travel Costs:

Travel includes outreach to communities across the state to provide information about the availability of this new program. Annual travel will consist of 15 days of outreach and engagement, with half of them requiring lodging due to outreach and engagement to Eastern Washington communities.

FY25-FY29: \$3,318 per fiscal year

Intra-agency Reimbursement:

FY25-FY29: \$11,862 per fiscal year

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:

FY25-FY29: \$54,115 per fiscal year

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	0	54,115	54,115	108,230	108,230
Total \$			0	54,115	54,115	108,230	108,230

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		0.4	0.2	0.4	0.4
A-Salaries and Wages		26,708	26,708	53,416	53,416
B-Employee Benefits		9,347	9,347	18,694	18,694
C-Professional Service Contracts					
E-Goods and Other Services		2,880	2,880	5,760	5,760
G-Travel		3,318	3,318	6,636	6,636
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements		11,862	11,862	23,724	23,724
9-					
Total \$	0	54,115	54,115	108,230	108,230

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		0.1	0.1	0.1	0.1
Commerce Specialist 3	84,518		0.2	0.1	0.2	0.2
Commerce Specialist 5	98,040		0.1	0.1	0.1	0.1
Total FTEs			0.4	0.2	0.4	0.4

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: 6175 2S SB	Title: Existing structures/housing	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 01 - Retail Sales Tax				(2,147,000)	(2,766,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax				(3,000)	(4,000)
Total \$				(2,150,000)	(2,770,000)

In addition to the estimates above, there are additional indeterminate costs and/or savings. Please see discussion.

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2	0.3	0.3	0.1	0.1
Account					
GF-STATE-State 001-1	101,500	44,500	146,000	27,000	27,000
Total \$	101,500	44,500	146,000	27,000	27,000

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: Ariel Kennedy	Phone: 86-7432	Date: 02/06/2024
Agency Preparation: Stephen Cleverdon	Phone: 60-534-1523	Date: 02/12/2024
Agency Approval: Marianne McIntosh	Phone: 60-534-1505	Date: 02/12/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/12/2024

Request # 6175-3-1

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 2SSB 6175, 2024 Legislative Session.

COMPARISON OF THE BILL SECOND SUBSTITUTE BILL WITH THE SUBSTITUTE BILL:

The second substitute bill removes the property tax exemption and the sales and use taxes refund program. A sales and use tax deferral for converting commercial property to affordable housing replaces the exemption and refund program.

CURRENT LAW:

State and local retail sales and use taxes apply to taxable sales. The state rate is 6.5%, and the local rate varies by jurisdiction.

The sales and use taxes applying to construction projects depend on whether the project is custom or speculative. Retail sales tax and use taxes apply to the cost of contractor labor and physical inputs.

PROPOSAL:

This bill authorizes cities to create a sales and use taxes deferral program to convert underutilized commercial property to affordable housing. The deferral is for state and local sales and uses taxes due on each eligible investment project. An investment project means an investment in multifamily housing and includes:

- Labor, services, and materials incorporated in the project's planning, installation, and construction.
- Investment in related facilities such as playgrounds, sidewalks, and facilities used for business use for mixed-use development.

A minimum of 20% of residential units in a multiunit residential building subject to a tax deferral must be rented or sold as affordable housing units to low-income households for a period of no less than 10 years to address local market conditions. If these conditions are met, then the sales and use tax owed is waived. If these conditions are not met, then the deferred amount of tax is owed plus interest.

To receive the exemption, building owners must apply for this exemption on a form provided by the relevant city governing authority and receive a conditional certificate of program approval.

By June 30, 2034, a conditional recipient must apply to the Department of Revenue (department) to receive a deferral certificate. If approved, the department must inform the conditional recipient of the required documentation to substantiate the sales and use taxes deferred. The department must keep a running total of all estimated sales and use taxes deferred under this bill. The deferral certificate expires on the day the city issues a certificate of occupancy for the investment project.

EFFECTIVE DATE:

The bill takes effect 90 days after the final adjournment of the session.

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:

- All cities can create the proposed sales and use tax deferral program.
- The bill requires cities to adopt a resolution to create a sales and use tax deferral. For this estimate, two cities establish

programs within a year, with two projects starting per year beginning in fiscal year 2026.

- The average construction cost of a five-story, 50-unit apartment building is \$10.5 million.
- Commercial conversions to multi-family units cost 30% less than newly constructed apartments.
- The average time to complete a commercial conversion to a multi-family unit is 18 months.
- Local revenue estimates use the statewide average local sales and use tax rate of 2.95%.
- The revenue impact of this proposal could be considerably higher if all eligible cities create the exemption program and construction costs continue to increase.

POTENTIAL LITIGATION:

Legislation creating new exemptions and deferrals for construction projects presents a risk that the federal government or federal contractors will seek to re-litigate *Washington v. United States*. This risk increases with each additional exemption or deferral that the state enacts.

The department's legal counsel at the Attorney General's Office has opined that the federal contractor risk applies to all exemptions and deferrals of construction activity, not just construction projects of the type that the federal government is likely to engage in. It also applies even if the exemption or deferral applies to federal construction projects as well as non-federal construction projects.

Sales/use tax exemptions pose the greatest legal risk because they plainly treat the beneficiaries of the exemption more favorably than federal contractors are treated. Sales/use tax deferrals also pose a significant legal risk. Each such exemption or deferral increases the likelihood that the federal government or federal contractors will seek to re-litigate *Washington v. United States* in which they would claim that Washington now discriminates against federal contractors.

If a legal challenge to a deferral or exemption were successful, in addition to lost future revenues, refunds potentially would be owed under the statutory period (current year plus four previous years). Each year approximately \$90 million is collected on federal government contracting. If refunds were included as part of a potential court decision, the revenue impact could reach nearly \$500 million.

DATA SOURCES:

- IHS Markit forecast for CPI-Residential Construction of Multi-family Buildings, November 2023
- "How Much Does it Cost to Build an Apartment Building?" (2021, July 8). Retrieved January 12, 2022. Fixr.com
- Amarnath, Nish. (2023) "Office-to_residential conversion costs can be 30% lower than new construction: Gensler" facilitiesdive.com

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$0.8 million in fiscal year 2026 and \$1.3 million in fiscal year 2027. This bill also decreases local revenues by an estimated \$0.4 million in fiscal year 2026 and by \$0.6 million in fiscal year 2027.

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	\$ 0
FY 2026 -	(\$ 840)
FY 2027 -	(\$ 1,310)
FY 2028 -	(\$ 1,360)
FY 2029 -	(\$ 1,410)

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

FY 2024 - \$ 0
FY 2025 - \$ 0
FY 2026 - (\$ 380)
FY 2027 - (\$ 590)
FY 2028 - (\$ 620)
FY 2029 - (\$ 640)

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 a minimal number of taxpayers.

FIRST YEAR COSTS:

The department will incur total costs of \$101,500 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.21 FTE.

- Implementation meetings, gather system requirements, and document system changes.
- Create a Special Notice and information on the department's website.

Object Costs - \$72,300.

- Computer system changes, including contract programming.

SECOND YEAR COSTS:

The department will incur total costs of \$44,500 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.3 FTE.

- Set up, program, and test computer system changes.
- Compile statistics and reports.

Object Costs - \$1,200.

- Employee computer software, training, and travel.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$27,000 and include similar activities described in the second-year costs. Time and effort equate to 0.1 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2	0.3	0.3	0.1	0.1
A-Salaries and Wages	18,500	27,400	45,900	17,600	17,600
B-Employee Benefits	6,100	9,000	15,100	5,800	5,800
C-Professional Service Contracts	72,300		72,300		
E-Goods and Other Services	3,200	5,700	8,900	2,600	2,600
G-Travel		300	300	400	400
J-Capital Outlays	1,400	2,100	3,500	600	600
Total \$	\$101,500	\$44,500	\$146,000	\$27,000	\$27,000

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
IT B A-SR/SPEC	101,376	0.1		0.1		
IT SYS ADM-JOURNEY	96,552		0.1	0.1		
TAX POLICY SP 2	78,120	0.1		0.0		
TAX POLICY SP 3	88,416	0.0	0.2	0.1	0.1	0.1
WMS BAND 2	98,456	0.0		0.0		
Total FTEs		0.2	0.3	0.3	0.1	0.1

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: 6175 2S SB	Title: Existing structures/housing	Agency: 148-Housing Finance Commission
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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: Ariel Kennedy	Phone: 786-7432	Date: 02/06/2024
Agency Preparation: Daniel Page	Phone: 206-287-4476	Date: 02/08/2024
Agency Approval: Lucas Loranger	Phone: 206-254-5368	Date: 02/08/2024
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/09/2024

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.

No Fiscal Impact: Because the Commission is a non-appropriated, non-allocated agency, all the costs associated with the contemplated legislation connected to the Commission will flow through the Commission’s operating funds, therefore the Commission believes it has no fiscal impact on the state’s budget.

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: 6175 2S SB	Title: Existing structures/housing
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Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- ☒ Cities: loss of local sales and use tax revenue
- ☒ Counties: loss of local sales and use tax revenue
- ☒ Special Districts: loss of local sales and use tax revenue
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

Part II: Estimates

- ☐ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☒ Legislation provides local option: allows city governing authorities to establish commercial building conversion programs with a sales and use tax deferral element by ordinance or resolution
- ☐ Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2024	FY 2025	2023-25	2025-27	2027-29
City				(283,480)	(368,233)
County				(361,264)	(469,272)
Special District				(315,554)	(409,896)
TOTAL \$				(960,298)	(1,247,401)
GRAND TOTAL \$					(2,207,699)

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 02/12/2024
Leg. Committee Contact: Ariel Kennedy	Phone: 786-7432	Date: 02/06/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/12/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/12/2024

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

The second substitute bill version removes a property tax exemption and the sales and use tax refund elements of programs that convert commercial buildings to affordable housing, and replaces those elements with a sales and use tax deferral element.

SUMMARY OF CURRENT BILL VERSION

This bill allows cities to create a sales and use tax deferral program to convert commercial property to affordable housing. The deferral is for state and local sales and uses taxes due on each eligible investment project. An investment project means an investment in multifamily housing and includes:

- Labor, services, and materials incorporated in the project's planning, installation, and construction.
- Investment in related facilities such as playgrounds, sidewalks, and facilities used for business use for mixed-use development.

The bill takes effect 90 days after the final adjournment of the session.

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

This second substitute bill alters the tax incentive involving commercial building conversion programs for local governments. It changes the tax incentive from a property tax exemption to a sales and use tax deferral (on each eligible investment project: an investment in multifamily housing includes: labor, services, and materials incorporated in the project's planning, installation, and construction, and investment in related facilities such as playgrounds, sidewalks, and facilities used for business use for mixed-use development).

The requirement for existing local government-run programs to convert existing programs (with this type of tax incentive) to meet new/additional standards no longer applies to this second substitute bill analysis because there are no commercial building conversion programs with a sales and use tax deferral element currently operating in the state. Therefore, this second substitute bill has no local expenditure impact.

SUMMARY OF CURRENT BILL'S LOCAL EXPENDITURE IMPACTS

This bill does not impact local government expenditures.

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

Changes in this second substitute bill alter the impact to local governments as the types of tax incentive introduced in this bill utilize a different revenue source.

SUMMARY OF CURRENT BILL VERSION LOCAL REVENUE IMPACTS

According to the Dept. of Revenue, this bill decreases local government revenues by an estimated \$0.4 million in fiscal year 2026 and by \$0.6 million in fiscal year 2027.

TOTAL - ALL LOCAL GOVERNMENTS

FY 2024 -	\$ 0
FY 2025 -	\$ 0
FY 2026 -	(\$ 380,000)

FY 2027 - (\$ 590,000)
FY 2028 - (\$ 620,000)
FY 2029 - (\$ 640,000)

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 2022. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. The result is a distribution of 37.62 percent to counties, 29.52 percent to cities, and 32.86 percent to special districts. The one percent DOR administrative fee has also been deducted.

COUNTIES

FY 2024 \$0
FY 2025 \$0
FY 2026 -\$141,526
FY 2027 -\$219,738
FY 2028 -\$230,912
FY 2029 -\$238,360

CITIES

FY 2024 \$0
FY 2025 \$0
FY 2026 -\$111,054
FY 2027 -\$172,426
FY 2028 -\$181,194
FY 2029 -\$187,039

SPECIAL DISTRICTS

FY 2024 \$0
FY 2025 \$0
FY 2026 -\$123,619
FY 2027 -\$191,935
FY 2028 -\$201,695
FY 2029 -\$208,201

SOURCES

Department of Revenue Fiscal Note
Department of Revenue Local Tax Distributions