Multiple Agency Fiscal Note Summary

Bill Number: 2308 2S HB	**Title:** Existing structures/housing

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)
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. Total				(960,298)		(1,247,401)
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other				(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	14,400	.2	0	0	88,400	.0	0	0	4,800
Department of Commerce	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Revenue	.1	101,000	101,000	101,000	.0	0	0	0	.0	0	0	0
Housing Finance Commission	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total $	**0.1**	**101,000**	**101,000**	**115,400**	**0.2**	**0**	**0**	**88,400**	**0.0**	**0**	**0**	**4,800**

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

NONE

Prepared by: Amy Hatfield, OFM	Phone: (360) 280-7584	Date Published: Final 2/13/2024

Individual State Agency Fiscal Note

Bill Number: 2308 2S HB	**Title:** Existing structures/housing	**Agency:** 014-Joint Legislative Audit and Review Committee

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	0.0	0.0	0.2	0.0
Account					
Performance Audits of Government Account-State 553-1	4,800	9,600	14,400	88,400	4,800
Total $	4,800	9,600	14,400	88,400	4,800

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:	Kristina King	Phone: 360-786-7190	Date: 02/05/2024
Agency Preparation:	Eric Whitaker	Phone: 3607865618	Date: 02/06/2024
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 02/06/2024
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 02/08/2024

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 HB 2308 would allow the legislative authority of a city to authorize a sales and use tax deferral for qualifying commercial building conversions. If the recipient maintains the property for qualifying purposes for at least 10 years, the deferred sales and use taxes do not need to be repaid.

The application period for the deferral program expires December 31, 2029, under Section 7 (2).

Tax Preference Performance Statement Details

Section 16 of the bill includes a tax preference performance statement. The Legislature categorizes the tax preference as one intended to induce certain designated behavior by taxpayers per RCW 82.32.808(2)(a).

The Legislature's specific public policy objective is to incentivize the repurposing of existing buildings for affordable housing.

The Legislature's intent is to provide a deferral from qualifying sales and use taxes for the conversion of commercial buildings into affordable housing units for low-income households.

JLARC is directed to refer to any data collected by the state to measure the effectiveness of the preferences in achieving the public policy objective.

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, the Department of Commerce, and any other appropriate agencies immediately after passage of the bill to ensure project contacts are established and the necessary data for JLARC staff's future evaluation needs are identified and collected. Staff would work with those same agencies when conducting its review. Based on the expiration date, this fiscal note assumes the preference will be reviewed in 2027. The expenditure detail reflects work conducted to prepare for and conduct the review of the preferences by July 2027.

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 5 audit months.

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	4,800	9,600	14,400	88,400	4,800
		Total $	4,800	9,600	14,400	88,400	4,800

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years				0.2	
A-Salaries and Wages	3,100	6,200	9,300	57,400	3,100
B-Employee Benefits	1,000	2,000	3,000	18,200	1,000
C-Professional Service Contracts					
E-Goods and Other Services	600	1,300	1,900	11,600	600
G-Travel	100	100	200	1,200	100
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 $	4,800	9,600	14,400	88,400	4,800

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				0.2	
Support staff	110,856				0.1	
Total FTEs					0.2	0.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 2308 2S HB	Title: Existing structures/housing	Agency: 103-Department of Commerce

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:	Kristina King	Phone: 360-786-7190	Date: 02/05/2024
Agency Preparation:	Buck Lucas	Phone: 360-725-3180	Date: 02/08/2024
Agency Approval:	Pouth Ing	Phone: 360-725-2715	Date: 02/08/2024
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/08/2024

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:

• The second substitute bill removes the tax exemption program and the required requirements for communities to report to the Department of Commerce (department).

The differences between the second substitute and the first substitute remove the fiscal impact to the department.

Bill Summary:

2SHB creates a sales and use tax deferral program for the conversion of commercial buildings to residential buildings.

Section 2 creates a new section in Title 84 RCW and gives city governments the authority to establish a tax exemption programs on the value of real property that consists of a commercial building converted from a commercial building to a multiunit residential building and contains affordable housing units for low-income households, excluding land and nonhousing-related improvements.

Section 3 creates a new section in Title 84 RCW and establishes definitions for the program. This includes a requirement for the department to provide County median income for areas not within a standard metropolitan statistical area, and to establish the percentage of family income that may be spent on housing costs.

Section 4 – 15 create a new section in Title 84 RCW and set the terms of the tax deferral and requirements for the applicants, authorizing government authority and the Department of Revenue.

Section 17 adds Sections 1 through 15 of the proposed legislation as new chapters in 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.

There is no fiscal impact to the department. The department can meet the requirements of Section 3, to establish the percentage of family income that may be spent on housing costs and to establish county median income for areas not within a standard metropolitan statistical area with minimal additional staff time.

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: 2308 2S HB	Title: Existing structures/housing	Agency: 140-Department of Revenue

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)

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.1	0.1		
Account					
GF-STATE-State 001-1	85,800	15,200	101,000		
Total $	85,800	15,200	101,000		

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:

[X] 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).

[X] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:	Kristina King	Phone: 360-786-7190	Date: 02/05/2024
Agency Preparation:	Stephen Cleverdon	Phone: 360-534-1523	Date: 02/12/2024
Agency Approval:	Marianne McIntosh	Phone: 360-534-1505	Date: 02/12/2024
OFM Review:	Amy Hatfield	Phone: (360) 280-7584	Date: 02/13/2024

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.

Note: This fiscal note reflects language in 2SHB 2308, 2024 Legislative Session.

COMPARISON OF THE SUBSTITUTE BILL WITH THE ORIGINAL BILL:
The 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 for qualified existing commercial buildings converting to affordable housing. The deferral is for state and local taxes and applies to:
-The sale of or charge made for tangible personal property incorporated as a component in a building converted from a commercial building into affordable housing.
-Labor and services rendered for the entire building during the conversion of a commercial building into affordable housing.

The deferral certificate is valid during active construction of a qualified commercial building conversion and expires at the end of the 10-year affordable housing requirement.

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.

Beginning January 1, 2025, but by or before December 31, 2029, an applicant can apply to the city for a deferral. The city must process the application within 30 days, and if approved, the city must issue a conditional certificate of program approval. Before initiation of the commercial building conversion and no later than December 31, 2029, the conditional recipient must apply to the Department of Revenue (department), and the department must rule on the application within 30 days.

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 department must annually report the following:
-The number of sales and use tax deferral certificates granted.
-The number and type of units in building properties receiving a tax deferral.
-The number and type of units meeting affordable housing requirements.
-The total monthly rent amount for each affordable and market rate unit.
-The dollar amount of the tax deferral issued for each conversion and the total amount of tax deferrals granted within the city.

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 the cost of 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 by $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 $85,800 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.11 FTE.
- 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 $15,200 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.1 FTE.
- Set up, program, and test computer system changes.

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	0.1	0.1	0.1		
A-Salaries and Wages	8,400	9,700	18,100		
B-Employee Benefits	2,800	3,200	6,000		
C-Professional Service Contracts	72,300		72,300		
E-Goods and Other Services	1,600	1,600	3,200		
J-Capital Outlays	700	700	1,400		
Total $	$85,800	$15,200	$101,000		

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 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		0.0		
WMS BAND 2	98,456	0.0		0.0		
Total FTEs		0.1	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

None.

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 2308 2S HB	**Title:** Existing structures/housing	**Agency:** 148-Housing Finance Commission

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:	Kristina King	Phone: 360-786-7190	Date: 02/05/2024
Agency Preparation:	Daniel Page	Phone: 206-287-4476	Date: 02/06/2024
Agency Approval:	Lucas Loranger	Phone: 206-254-5368	Date: 02/06/2024
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/06/2024

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: 2308 2S HB	**Title:** Existing structures/housing

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

Legislation Impacts:

- [X] Cities: loss of sales and use tax revenue
- [X] Counties: loss of sales and use tax revenue
- [X] Special Districts: loss of sales and use tax revenue
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [X] Legislation provides local option: allows city governing authorities to establish commercial building conversion program 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: 02/13/2024
Leg. Committee Contact: Kristina King	Phone: 360-786-7190	Date: 02/05/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/13/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/13/2024

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

This second substitute bill:

- Removes mention of a property tax exemption for commercial conversion programs
- In section 2, allows a city to authorize a sales and use tax deferral for commercial building conversions that meet certain requirements.
- In sections 3, 4, 5, 6, 7, 13, changes "property tax exemption" to "sales and use tax deferral."
- In section 6, decreases the period of which property owners participating in the tax deferral have to meet affordability requirements from 30 years, to 10 years.
- Adds a new section (section 9) to describe how a conditional recipient must apply to the Dept. of Revenue.
- Adds a new section (section 10) to describe Dept. of Revenue record keeping for reporting purposes.
- Adds a new section (section 11) to describe administrative procedures a city must take for deferral transfer when a property is sold.
- Adds a new section (section 12) to describe administrative procedures a city must take in regard to a conditional recipient's application, review, and appeal.

SUMMARY OF CURRENT BILL VERSION

Section 1 describes intent.

Section 2 allows a city to authorize a sales and use tax deferral for commercial building conversions that meet certain requirements.,

Section 3 creates a new section to add definitions.

Section 4 creates a new section to allow a city governing authority to, by ordinance or resolution, establish a state and local sales and use tax deferral program for:

a) The sale of or charge made for tangible personal property incorporated as a component in a building that is converted from a commercial building into affordable housing;

b) Labor and services rendered for the entire building during the conversion of a commercial building into affordable housing.

Section 5 creates a new section to specify existing building conversion sales and use tax deferral programs adopted by a governing authority must be amended to include certain qualifying standards for affordable housing.

Section 6 creates a new section to describe requirements the property owner must meet in order to be eligible for a sales and use tax deferral under a commercial building conversion program.

Section 7 creates a new section to describe requirements that the property owner must meet in order to be eligible for a sales and use tax deferral under a commercial building conversion program.

Section 8 creates a new section to describe a tax deferral application process: a period that a "local government opting to manage a building conversion program with a tax deferral element" has to review applications, details regarding extensions, issuing certificates, rules around application denial, and appeal.

Section 9 describes how a conditional recipient must apply to the Dept. of Revenue.

Section 10 describes the Dept. of Revenue record keeping for reporting purposes.

Section 11 describes administrative procedures a city (opting to manage a building conversion program with tax deferral element) must take for a deferral transfer when a property is sold.

Section 12 describes administrative procedures a city (opting to manage a building conversion program with tax deferral element) must take in regard to a conditional recipient's application, review, and appeal.

Section 13 describes what information the property owner must report annually to the local government opting to manage a building conversion program with tax deferral element.

Section 14 creates a new section to describe what a formerly property exempt property owner is responsible for should they lose their property tax exempt status.

Section 15 creates a new section to require property owners provide tenants of affordable housing rental units with rental relocation assistance should the unit convert from affordable housing to market rate housing.

Section 16 requires a tax preference performance statement be completed to evaluate the building conversion tax deferral programs.

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 the sale of or charge made for tangible personal property incorporated as a component in a building that is converted from a commercial building into affordable housing, and on labor and services rendered for the entire building during the conversion of a commercial building into affordable housing).

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.

LOCAL GOVERNMENT, ALL TYPES
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