Multiple Agency Fiscal Note Summary

Bill Number: 6175 E 2S SB	**Title:** Existing structures/tax

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. Courts						
Loc School dist-SPI						
Local Gov. Other				(960,298)		(1,247,401)
Local Gov. Other	In addition to the estimate above, there are additional indeterminate costs and/or savings. Please see individual fiscal note.					
Local Gov. Total				(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	Fiscal note not available											
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 $	**0.3**	**146,000**	**146,000**	**155,600**	**0.1**	**27,000**	**27,000**	**36,600**	**0.1**	**27,000**	**27,000**	**36,600**

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	Fiscal note not available								
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

This preliminary package is incomplete and may not reflect the total fiscal impact. Other agencies' fiscal notes will be distributed as soon as possible.

Prepared by: Amy Hatfield, OFM	**Phone:** (360) 280-7584	**Date Published:** Preliminary 2/22/2024

Individual State Agency Fiscal Note

Bill Number: 6175 E 2S SB	Title: Existing structures/tax	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
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.

X 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:	Austin Borcherding	Phone: 360-786-7094	Date: 02/16/2024
Agency Preparation:	Geoff Cunningham	Phone: 3607865672	Date: 02/21/2024
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 02/21/2024
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 02/22/2024

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.

The second engrossed substitute defines “conversion” in Section 17 (4) as “any nonresidential building” for the purpose of meeting the requirements for the tax use and deferral exemption regarding underutilized commercial property.

2ES 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) updates the “the legislature’s specific public policy objective to expand affordable housing options for low-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.

Department of Revenue Fiscal Note

Bill Number: 6175 E 2S SB	Title: Existing structures/tax	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	0.2	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:	Austin Borcherding	Phone: 360-786-7094	Date: 02/16/2024
Agency Preparation:	Kari Kenall	Phone: 360-534-1508	Date: 02/16/2024
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 02/16/2024
OFM Review:	Amy Hatfield	Phone: (360) 280-7584	Date: 02/18/2024

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 E2SSB 6175, 2024 Legislative Session.

COMPARISON OF THE ENGROSSED SECOND SUBSTITUTE BILL WITH THE SECOND SUBSTITUTE BILL:
The engrossed second substitute bill clarifies the definitions of terms used for the sales and use tax deferral and adds a definition to the multifamily housing tax exemption (MFTE) program. The engrossed second substitute bill also clarifies that the department certifies a project and determines the qualifying deferred sales and use tax.

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.

A property tax exemption is available for the value of new housing construction, conversion, and rehabilitation improvements that qualify under the multifamily housing tax exemption program.

Multiple-unit housing means a building or a group of buildings having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from new construction or rehabilitated or conversion of vacant, underutilized or substandard buildings to multifamily housing.

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 10% 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. The owner must notify the department of the city’s approval so the department can determine the qualifying deferred taxes.

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.

An owner of underutilized commercial property claiming a sales and use tax deferral may also apply for a property tax exemption under the multifamily property tax exemption program. For applicants receiving the multifamily property tax exemption, the amount of affordable housing units required for eligibility for the sales and use tax deferral is in addition to the affordability conditions in the multifamily property tax exemption program.

For the multifamily property tax exemption program, conversion means the conversion of a nonresidential building, in whole or in part, to multi-unit housing.

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.
- Local governments administer the MFTE program, applicants that will participate in the program are unknown.

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:

SALES AND USE TAX:
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)

PROPERTY TAX:
The Economic and Revenue Forecast Council predicts the state property tax levy remains below the $3.60 limit throughout the 2027-29 biennium. This bill results in a shift to other taxpayers and no loss to the state levy.

PROPERTY TAX SHIFTS:
Due to the uncertainty around local government implementation of this legislation, the state levy shift is indeterminate.

Local districts will also experience an indeterminate shift of taxes to other taxpayers. The local shift may result in a local revenue loss due to levy limits.

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 E 2S SB	Title: Existing structures/tax	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:	Austin Borcherding	Phone: 360-786-7094	Date: 02/16/2024
Agency Preparation:	Daniel Page	Phone: 206-287-4476	Date: 02/20/2024
Agency Approval:	Lucas Loranger	Phone: 206-254-5368	Date: 02/20/2024
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/20/2024

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 E 2S SB	Title: Existing structures/tax

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

Legislation Impacts:

- [X] Cities: loss of local sales and use tax revenue
- [X] Counties: loss of local sales and use tax revenue
- [X] 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:
- [X] 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)

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

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 02/20/2024
Leg. Committee Contact: Austin Borcherding	Phone: 360-786-7094	Date: 02/16/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/20/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/20/2024

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 engrossed second substitute bill:
- adds a definition of "underutilized commercial property" in section 3,
- adds reporting requirements of a local government opting to create a program in section 9 and 12,
- removes the retroactive nature of penalties when a building no longer meets the program requirements in section 13 and 14, and
- adds definitions in section 17.

SUMMARY OF CURRENT BILL VERSION
This bill allows cities to create a sales and use tax 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.

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
Changes in this engrossed second substitute bill do not alter the previous analysis of local government 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 engrossed second substitute bill do not alter the previous analysis of local government revenue impact.

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

This bill creates a local option. It is unknown what city governing authorities will opt to establish a underutilized commercial building conversion program with a sales and use tax deferral element.

SOURCES

Department of Revenue Fiscal Note

Department of Revenue Local Tax Distributions