Multiple Agency Fiscal Note Summary

Bill Number: 5553 SB	**Title:** Multifamily housing/tax

Estimated Cash Receipts

Agency Name	2025-27			2027-29			2029-31		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(2,290,000)	(2,290,000)	(2,294,000)	(7,210,000)	(7,210,000)	(7,222,000)	(7,660,000)	(7,660,000)	(7,672,000)
Total $	**(2,290,000)**	**(2,290,000)**	**(2,294,000)**	**(7,210,000)**	**(7,210,000)**	**(7,222,000)**	**(7,660,000)**	**(7,660,000)**	**(7,672,000)**

Agency Name	2025-27		2027-29		2029-31	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other		(1,049,400)		(3,296,700)		(3,514,500)
Local Gov. Total		(1,049,400)		(3,296,700)		(3,514,500)

Estimated Operating Expenditures

Agency Name	2025-27				2027-29				2029-31			
	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	15,100	.0	0	0	10,200	.0	0	0	10,200
Department of Revenue	.2	47,900	47,900	47,900	.0	0	0	0	.0	0	0	0
Total $	**0.2**	**47,900**	**47,900**	**63,000**	**0.0**	**0**	**0**	**10,200**	**0.0**	**0**	**0**	**10,200**

Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

FNPID 73153

Prepared by: Megan Tudor, OFM	**Phone:** (360) 890-1722	**Date Published:** Final 2/18/2025

Individual State Agency Fiscal Note

Bill Number: 5553 SB	Title: Multifamily housing/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 2026	FY 2027	2025-27	2027-29	2029-31
Account					
Performance Audits of Government Account-State 553-1	10,000	5,100	15,100	10,200	10,200
Total $	10,000	5,100	15,100	10,200	10,200

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Alia Kennedy	Phone: 360-786-7405	Date: 01/27/2025
Agency Preparation:	Aaron Cavin	Phone: 360-786-5194	Date: 01/30/2025
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 01/30/2025
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 01/31/2025

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.

SB 5553 expands an existing sales and use tax deferral program for the provision of affordable housing. The expansion adds that the sales and use tax deferral may be used not only to redevelop underutilized commercial property but also to construct new multifamily housing that meets certain requirements.

The bill does not alter the expiration date of July 1, 2034.

Tax Preference Performance Statement Details
The bill does not substantially modify the tax preference performance statement for this tax preference:

- The categorization of the preference remains one intended to induce certain designated behavior by taxpayers as indicated in RCW 82.32.808(2)(a).
- The policy objective remains to expand affordable housing options for low-income households.
- JLARC must evaluate the number of increased housing units on underutilized commercial property and in areas having insufficient housing supply.
- If the JLARC review finds that the number of affordable housing units has not increased, then the Legislature intends to repeal this tax preference.

The JLARC review is due December 31, 2032.

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.

After the bill is signed, JLARC staff will work with the Department of Revenue and relevant agencies to identify the data JLARC staff will need to complete the evaluation.

JLARC is directed to review this preference in 2032. This is outside the range of this fiscal note. Further, that review is already included in JLARC's 10-year tax preference review schedule. Therefore, additional costs associated with the review of the tax preference are not included in this fiscal note. This fiscal note reflects only the costs associated with establishing contacts, and collecting appropriate information due to changes implemented by this bill.

JLARC assumes the cost to complete the audit will be only staff costs. JLARC estimates this audit will take 14 months and require an average of 0.1 FTEs per month. This equates to total staff costs of about $35,500.

JLARC assumes that the office will absorb the staff costs of this tax preference review in our base budget. However, if the workload of other tax preference legislation exceeds our staffing levels and/or our base budget, we will require additional staffing resources equal to the costs shown above.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2026	FY 2027	2025-27	2027-29	2029-31
553-1	Performance Audits of Government Account	State	10,000	5,100	15,100	10,200	10,200
		Total $	10,000	5,100	15,100	10,200	10,200

III. B - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years					
A-Salaries and Wages	6,500	3,300	9,800	6,600	6,600
B-Employee Benefits	2,100	1,000	3,100	2,000	2,000
C-Professional Service Contracts					
E-Goods and Other Services	1,300	700	2,000	1,400	1,400
G-Travel	100	100	200	200	200
J-Capital Outlays					
Total $	10,000	5,100	15,100	10,200	10,200

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 2026	FY 2027	2025-27	2027-29	2029-31
Research Analyst	139,776					
Support staff	110,556					
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: 5553 SB	Title: Multifamily housing/tax	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2026	FY 2027	2025-27	2027-29	2029-31
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax		(2,290,000)	(2,290,000)	(7,210,000)	(7,660,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax		(4,000)	(4,000)	(12,000)	(12,000)
Total $		(2,294,000)	(2,294,000)	(7,222,000)	(7,672,000)

Estimated Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.4		0.2		
Account					
GF-STATE-State 001-1	47,900		47,900		
Total $	47,900		47,900		

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:	Alia Kennedy	Phone: 360-786-7405	Date: 01/27/2025
Agency Preparation:	Beth Leech	Phone: 360-534-1513	Date: 01/31/2025
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 01/31/2025
OFM Review:	Megan Tudor	Phone: (360) 890-1722	Date: 02/18/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:
Cities may create a state and local sales and use taxes deferral program to convert underutilized commercial property to affordable housing. Low-income households must rent or buy a minimum of 10% of the residential units in the multi-unit residential building receiving a tax deferral. The conditional recipient of the deferral must meet this condition for 10 years. If the conditional recipient of the deferral meets these conditions, the department waives the deferred sales and use taxes; otherwise, the conditional recipient must pay the deferred amount of tax plus interest.

PROPOSAL:
This bill adds the construction of new multifamily housing to the state and local sales and use taxes deferral program cities may create to provide affordable housing.

For construction of new multifamily housing, the investment project must have a conditional certificate of acceptance for the tax exemption under the multifamily housing property tax (MFPT) exemption. The MFPT provides a multiyear property tax exemption for the value associated with new construction, conversion, or rehabilitation of qualifying multi-unit residential improvements located in residential targeted areas designated by a qualifying county, city, or town. The amount of affordable housing units required for eligibility under this new sales and use taxes deferral is in addition to the affordability conditions required for the property tax exemption.

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 taxes deferral program.
- There will be four projects started each year, beginning in fiscal year 2027.
- The average construction cost of a 50-unit apartment building is $12.5 million in 2025.
- The average time to complete a new apartment building with at least 20 units is 18 months.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3.00%.
- All properties applying for the proposed sales and use taxes deferral already qualify for the MFPT exemption. So, this bill does not expand the MFPT exemption.
- The annual growth rate reflects the S&P Global Market Intelligence November 2024 forecast for CPI-Residential Construction of Multi-family Buildings.
- 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 MFPT exemption program. The applicants who will participate in the program are unknown.

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

The department's legal counsel at the Attorney General's Office opined that the federal contractor risk applies to all exemptions and deferrals of construction activity, not just construction projects of the type 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 or use tax exemptions pose the greatest legal risk because they plainly treat the beneficiaries of the exemption more favorably than federal contractors. Sales or use tax deferrals also pose a significant legal risk. Each such exemption or deferral increases the likelihood the federal government or federal contractors will seek to re-litigate Washington v. United States claiming Washington now discriminates against federal contractors.

If a legal challenge to a deferral or exemption was successful, in addition to lost future revenues, Washington would potentially owe refunds for taxes paid by impacted federal contractors during the statutory period (current year plus four previous years). Each year the department collects approximately $90 million is from federal government contracting. If a court decision included refunds, the revenue impact could reach nearly $500 million.

DATA SOURCES:
- S&P Global Market Intelligence, November 2024 forecast for CPI-Residential Construction of Multi-family Buildings
- U.S. Census Bureau, New Residential Construction
- Janover, Apartment construction Costs in 2025
- Department of Revenue, Excise tax data

REVENUE ESTIMATES:
This bill decreases state revenues by an estimated $2.3 million in impacted collections in fiscal year 2027, and by $3.6 million in fiscal year 2028.

This bill also decreases local revenues by an estimated $1.1 million in impacted collections in fiscal year 2027, and by $1.6 million in fiscal year 2028.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2026 -	$ 0
FY 2027 -	($ 2,294)
FY 2028 -	($ 3,556)
FY 2029 -	($ 3,666)
FY 2030 -	($ 3,776)
FY 2031 -	($ 3,896)

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

FY 2026 -	$ 0
FY 2027 -	($ 1,060)
FY 2028 -	($ 1,640)
FY 2029 -	($ 1,690)
FY 2030 -	($ 1,750)
FY 2031 -	($ 1,800)

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

FIRST YEAR COSTS:
The department will incur total costs of $47,900 fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 0.42 FTE.
- Amend one administrative rule.
- Update excise tax advisory, special notice, and relevant information on the department's website.
- Process deferral applications.
- Answer additional phone calls and counter inquiries from businesses, individuals, and accountants regarding tax questions and tax return preparation.

Object Costs - $2,400.
- Computer system changes, including contract programming.

SECOND YEAR COSTS:
The department will not incur costs in fiscal year 2027.

ONGOING COSTS:
There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.4		0.2		
A-Salaries and Wages	28,100		28,100		
B-Employee Benefits	10,100		10,100		
C-Professional Service Contracts	2,400		2,400		
E-Goods and Other Services	5,400		5,400		
G-Travel	400		400		
J-Capital Outlays	1,500		1,500		
Total $	$47,900		$47,900		

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 2026	FY 2027	2025-27	2027-29	2029-31
EMS BAND 4	135,635	0.0		0.0		
EMS BAND 5	158,451	0.0		0.0		
EXCISE TAX EX 3	66,012	0.1		0.1		
MGMT ANALYST4	78,468	0.0		0.0		
TAX INFO SPEC 1	47,988	0.1		0.1		
TAX POLICY SP 2	80,460	0.1		0.0		
TAX POLICY SP 3	91,068	0.1		0.1		
TAX POLICY SP 4	98,040	0.0		0.0		
WMS BAND 2	101,410	0.0		0.0		
WMS BAND 3	115,352	0.0		0.0		
Total FTEs		0.4		0.2		

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

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

NONE

Part V: New Rule Making Required

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

Should this legislation become law, the department will use the standard process to amend WAC 458-20-305, titled: "Sales and use tax deferral—Conversion of underutilized commercial property into affordable housing ."

This rulemaking would affect cities that want to convert and/or build underutilized commercial property into affordable housing.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5553 SB	Title: Multifamily housing/tax

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

Legislation Impacts:

- [X] Cities: decrease in sales tax revenue
- [X] Counties: decrease in sales tax revenue
- [X] Special Districts: decrease in sales tax revenue
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2026	FY 2027	2025-27	2027-29	2029-31
City		(316,604)	(316,604)	(994,614)	(1,060,324)
County		(390,377)	(390,377)	(1,226,372)	(1,307,394)
Special District		(342,419)	(342,419)	(1,075,714)	(1,146,782)
TOTAL $		(1,049,400)	(1,049,400)	(3,296,700)	(3,514,500)
GRAND TOTAL $					(7,860,600)

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 02/03/2025
Leg. Committee Contact: Alia Kennedy	Phone: 360-786-7405	Date: 01/27/2025
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/03/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 02/18/2025

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill adds the construction of new multifamily housing to the state and local sales and use taxes deferral program cities may create to provide affordable housing as defined and outlined in the bill.

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.

This bill would not impact local government expenditures because no action is required.

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.

By adding the construction of new multifamily housing to the current state and local sales and use taxes deferral program, this bill would decrease local government sales tax revenue.

According to the Department of Revenue (DOR) this bill decreases local revenues by an estimated $1.1 million in impacted collections in fiscal year 2027, and by $1.6 million in fiscal year 2028. Please see the DOR fiscal note for a complete list of their data sources and assumptions.

TAX REVENUE LOSS BREAKDOWN

Counties:

FY 2026	$0
FY 2027	-$390,377
FY 2028	-$603,979
FY 2029	-$622,393
FY 2030	-$644,490
FY 2031	-$662,904

Cities:

FY 2026	$0
FY 2027	-$316,604
FY 2028	-$489,840
FY 2029	-$504,774
FY 2030	-$522,695
FY 2031	-$537,629

Special Districts:

FY 2026	$0
FY 2027	-$342,419
FY 2028	-$529,781
FY 2029	-$545,933
FY 2030	-$565,315
FY 2031	-$581,467

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 2023. Distributions in 2023 were 37.20 percent to counties, 30.17 percent to cities, and

32.63 percent to special districts. A one percent DOR administrative fee has been deducted from the total.

SOURCES:
Department of Revenue Fiscal Note, SB 5553 (2025)
Department of Revenue Local Tax Distributions (2023)
Local Government Fiscal Note program, Local Sales Tax model (2025)
Local Government Fiscal Note Program “Sales and Use Tax Distribution Model” (2025)