

Multiple Agency Fiscal Note Summary

Bill Number: 1859 S HB	Title: Housing dev./religious orgs.
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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	(460,000)	(460,000)	(461,000)	(1,440,000)	(1,440,000)	(1,442,000)	(1,530,000)	(1,530,000)	(1,532,000)
Total \$	(460,000)	(460,000)	(461,000)	(1,440,000)	(1,440,000)	(1,442,000)	(1,530,000)	(1,530,000)	(1,532,000)

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	Non-zero but indeterminate cost and/or savings. Please see discussion.					
Local Gov. Total						

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
Department of Commerce	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Revenue	.3	81,600	81,600	81,600	.1	19,400	19,400	19,400	.1	19,400	19,400	19,400
Total \$	0.3	81,600	81,600	81,600	0.1	19,400	19,400	19,400	0.1	19,400	19,400	19,400

Agency Name	2025-27			2027-29			2029-31		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Commerce	.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

Agency Name	2025-27			2027-29			2029-31		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Breakout

Prepared by: Marie Davis, OFM	Phone: (360) 890-1163	Date Published: Final 3/19/2025
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Individual State Agency Fiscal Note

Bill Number: 1859 S HB	Title: Housing dev./religious orgs.	Agency: 103-Department of Commerce
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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: Kristina King	Phone: 360-786-7190	Date: 02/23/2025
Agency Preparation: Jodi Barnes	Phone: (564) 669-0071	Date: 02/26/2025
Agency Approval: Jodi Barnes	Phone: (564) 669-0071	Date: 02/26/2025
OFM Review: Marie Davis	Phone: (360) 890-1163	Date: 02/27/2025

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.

Difference between SHB 1859 and HB 1859:

Increases the portion of units that must be provided as affordable, at 80% area median income, to qualify for the density bonus for affordable housing on religious property from 20% to 50%.

Removes language which would make development of affordable housing on religious property eligible for the sales and use tax deferral program for conversion of underutilized commercial property to affordable housing.

Adds an exemption from retail sales taxes for labor, services, or personal property used in the development of affordable housing and requires creation of a certification process by the Department of Revenue to implement this.

Adds an exemption from use taxes for property used in the development of affordable housing.

SHB 1859 does not change the fiscal impact to the Department of Commerce (Department).

Sections 1 amends RCW 35.63.280 and Section 2 amends RCW 35A.63.300 with the same effect for cities and code cities, respectively, and specifies that at least 50% of units in a housing project are affordable to access a density bonus for building on properties owned by religious organizations. It requires that policies establishing a density bonus be developed if such a bonus is requested by a religious organization. It allows local governments to establish policies requiring that greater than 50% of units be affordable.

Section 1(3) and Section 2(3), respectively, add that entities leasing property from a religious organization for the purpose of affordable housing development are responsible for fees and charges related to development.

Section 1(6) and Section 2(6), respectively, change the definition of affordable housing development to align with the requirement for 50% of units to be affordable. It also clarifies language regarding monthly housing costs and area median income for qualifying households.

Section 3 amends RCW 36.70A.545 and specifies that at least 50% of units in a housing project are affordable to access a density bonus for building on properties owned by religious organizations. It requires that policies establishing a density bonus be developed if such a bonus is requested by a religious organization (developing policies in response to the request was previously optional). It allows local governments to establish policies requiring that greater than 20% of units be affordable.

Section 3(3) adds that entities leasing property from a religious organization for the purpose of affordable housing development are responsible for fees and charges related to development (in addition to a religious organization developing housing directly).

Section 3(6) changes the definition of affordable housing development to align with the requirement for 50% of units to be affordable. It also clarifies language regarding monthly housing costs and area median income for qualifying households.

Section 4 creates a new section in chapter 82.08 RCW to create an exemption from taxes levied by RCW 82.08.020 when residential projects are on property owned or managed by a religious organization, 50% of the units are set aside as affordable, and restricted covenants are filed. The tax exemption applies to charges made for labor and services and sales of tangible personal property that become part of buildings/structures. This section expires on January 1, 2036.

Section 5 adds a new section to chapter 82.12 RCW, to state that the projects which comply are exempt from use taxes levied by RCW 82.12.020.

Section 6 adds a new section to implement sections 4 and 5, creating an effective date of October 1, 2025, for retail sales and use tax exemptions established by this bill.

Section 7 states that exemptions under sections 4 and 5 of SHB 1859 are not subject to RCW 82.32.805 (tax preference expiration dates) and RCW 82.32.808 (tax preference performance statement requirements).

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.

SHB 1859 amends an existing density bonus under the Growth Management Act. Any technical assistance on and implementation of housing incentives and bonuses is part of the Department's standard operations and a core function of the Department. Therefore, the Department assumes no fiscal impact.

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: 1859 S HB	Title: Housing dev./religious orgs.	Agency: 140-Department of Revenue
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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		(460,000)	(460,000)	(1,440,000)	(1,530,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax		(1,000)	(1,000)	(2,000)	(2,000)
Total \$		(461,000)	(461,000)	(1,442,000)	(1,532,000)

Estimated Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.4	0.2	0.3	0.1	0.1
Account					
GF-STATE-State 001-1	57,700	23,900	81,600	19,400	19,400
Total \$	57,700	23,900	81,600	19,400	19,400

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: 02/23/2025
Agency Preparation: Beth Leech	Phone: (360) 534-1513	Date: 02/26/2025
Agency Approval: Marianne McIntosh	Phone: (360) 534-1505	Date: 02/26/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 03/03/2025

Request # 1859-2-1

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 SHB 1859, 2025 Legislative Session.

This fiscal note only addresses sections four through seven of the bill, which impacts the Department of Revenue (department).

COMPARISON OF SUBSTITUTE BILL WITH ORIGINAL BILL:

This substitute bill establishes a new sales and use tax exemption rather than modifying an existing deferral.

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 recipient must pay the deferred tax plus interest.

The property owner is the recipient of the tax deferral.

PROPOSAL:

This bill creates a new retail sales and use taxes exemption for the following:

- Labor and services related to the construction, repair, decorating, or improvement of existing buildings or structures in an affordable housing project in which at least 50% of the housing units are used as affordable housing.
- Sales of tangible personal property that becomes a component of such buildings or other structures during construction, repair, decoration, or improvement of such buildings or other structures.

This new exemption applies to all housing units in the development and related facilities such as sidewalks, common areas, parking lots, and playgrounds. It does not apply to nonhousing-related buildings such as retail, offices, churches, or other commercial spaces unrelated to affordable housing.

This exemption requires the buyer to provide the seller with an exemption certificate in a form and manner prescribed by the department. Applications for exemption certificates may be accepted by the department on or after October 1, 2025, but no later than October 1, 2034. The department must rule on applications within 60 days, but may extend the time of processing with notice to the taxpayer.

Any land owned or leased and used for an affordable housing project must include restrictive covenants to ensure the land continues to be used for affordable housing for a minimum of 50 years.

To qualify for this exemption, the affordable housing project must be:

- Owned by a nonprofit recognized religious organization.
- Built on land owned by a nonprofit recognized religious organization.
- Built or owned in partnership with the nonprofit recognized religious organization. The nonprofit recognized religious organization must be at least a 50% partner, and the other partner must also be a nonprofit organization whose purpose includes developing or redeveloping real property for affordable housing.

Affordable housing means residential housing rented by a low-income household whose monthly housing costs do not

exceed 30% of the household's monthly income.

Affordable housing project means a multiunit housing project consisting of a building or a group of buildings having four or more dwelling units not designed or used as transient accommodations and not used for hotels and motels.

Low-income household means a household whose adjusted income is at or below 80% of the median family income for the county, city, or metropolitan statistical area where the project is located, as reported by the US Department of Housing and Urban Development.

A nonprofit organization means a nonprofit exempt from federal income tax under 26 U.S.C. Sec, 501(c)(3) of the federal Internal Revenue Code.

Nonprofit recognized religious organization means a nonprofit organization with a federally protected practice of a recognized religious assembly, school, or institution.

This exemption expires on January 1, 2036.

The new tax preference performance provisions do not apply to this bill (see section seven of the bill).

EFFECTIVE DATE:

These sections take effect October 1, 2025.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- Two projects will be started each year, beginning in fiscal year 2027.
- The average construction cost of a 20-unit apartment building is \$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%.
- The annual growth rate reflects the S&P Global Market Intelligence November 2024 forecast for CPI-Residential Construction of Multi-family Buildings.
- Currently, tribes with compacts receive a share of state sales and use taxes and certain business and occupation taxes (RCW 43.06.523). Additionally, local governments may also receive a portion of state sales and use taxes. Under this legislation, the amount of revenue shared with tribes and local governments may decrease.

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 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 \$461,000 in impacted collections in fiscal year 2027, and by \$711,000 in fiscal year 2028.

This bill also decreases local revenues by an estimated \$210,000 in impacted collections in fiscal year 2027, and by \$330,000 in fiscal year 2028.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 0
FY 2027 -	(\$ 461)
FY 2028 -	(\$ 711)
FY 2029 -	(\$ 731)
FY 2030 -	(\$ 751)
FY 2031 -	(\$ 781)

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

FY 2026 -	\$ 0
FY 2027 -	(\$ 210)
FY 2028 -	(\$ 330)
FY 2029 -	(\$ 340)
FY 2030 -	(\$ 350)
FY 2031 -	(\$ 360)

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:

These expenditures assume two projects will be started each year, starting in fiscal year 2027. More projects could increase expenditure costs.

FIRST YEAR COSTS:

The department will incur total costs of \$57,700 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 0.41 FTE.

- Create a special notice and update relevant information on the department's website.
- Respond to data requests and questions, compile statistics, and manage data.
- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email, web message and paper correspondence.
- Examine accounts and make corrections as necessary.
- Gathering requirements, attending implementation meetings, and documenting and testing system changes.

Object Costs - \$4,700.

- Computer system changes, including contract programming.

SECOND YEAR COSTS:

The department will incur total costs of \$23,900 in fiscal year 2027. These costs include:

Labor Costs – Time and effort equate to 0.2 FTE.

- Respond to data requests and questions, compile statistics, and manage data.
- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email, web message and paper correspondence.
- Examine accounts and make corrections as necessary.

ONGOING COSTS:

Ongoing costs for the 2027-29 biennium equal \$19,400 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 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.4	0.2	0.3	0.1	0.1
A-Salaries and Wages	33,200	15,100	48,300	12,000	12,000
B-Employee Benefits	12,000	5,500	17,500	4,400	4,400
C-Professional Service Contracts	4,700		4,700		
E-Goods and Other Services	6,200	2,900	9,100	2,600	2,600
J-Capital Outlays	1,600	400	2,000	400	400
Total \$	\$57,700	\$23,900	\$81,600	\$19,400	\$19,400

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
EXCISE TAX EX 2	59,844	0.1	0.1	0.1	0.1	0.1
IT B A-JOURNEY	94,728	0.1		0.1		
TAX POLICY SP 2	80,460	0.1		0.0		
TAX POLICY SP 3	91,068	0.1	0.1	0.1		
WMS BAND 2	101,410	0.0		0.0		
Total FTEs		0.4	0.2	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

LOCAL GOVERNMENT FISCAL NOTE

Revised

Department of Commerce

Bill Number: 1859 S HB

Title: Housing dev./religious orgs.

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

Legislation Impacts:

- ☒ Cities: Indeterminate costs to update ordinances if requested to do so. Revenue decrease from Sales and Use Tax exemption.
- ☒ Counties: Same as above, for counties with a population of greater than 125,000 planning under RCW 36.70A. Revenue decrease from Sales and Use Tax exemption.
- ☒ Special Districts: Same as above, for Local transit authorities.
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

Part II: Estimates

- ☐ No fiscal impacts.
- ☒ Expenditures represent one-time costs: Ordinance costs.
- ☐ Legislation provides local option:
- ☒ Key variables cannot be estimated with certainty at this time: Costs to establish and/or administer density bonus program.
Proportion of revenue decrease for cities and counties.

Estimated revenue impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated expenditure impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Part III: Preparation and Approval

Fiscal Note Analyst: Hailey Brown	Phone: 360-725-5035	Date: 03/03/2025
Leg. Committee Contact: Kristina King	Phone: 360-786-7190	Date: 02/23/2025
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 03/03/2025
OFM Review: Marie Davis	Phone: (360) 890-1163	Date: 03/19/2025

Part IV: Analysis

A. SUMMARY OF BILL

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

CHANGES BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

The substitute bill increases the amount of affordable units required to qualify for a density bonus from 20 percent to 50 percent of housing units.

The substitute bill removes provisions allowing an entity leasing a property owned by a religious organization to qualify for the sales and use tax deferral for a conversion of commercial buildings for affordable housing. It establishes a new sales and use tax exemption for the construction or improvement of existing buildings or structures to be used for affordable housing that:

- are owned by, built on land owned by, or owned or built in partnership with a nonprofit religious organization;
- devote at least 50 percent of units as affordable to low-income households with an adjusted income at or below 80 percent of area median family income; and
- include restrictive covenants to ensure the land continues to be used for affordable housing for a minimum of 50 years.

SUMMARY OF CURRENT BILL:

AN ACT Relating to expanding opportunities for affordable housing developments on properties owned by religious organizations.

RCW 35.63.280, 35A.63.300, 36.70A.545 are each amended to include the following:

To qualify for a density bonus, affordable housing developed on property owned by a religious organization must maintain at least 50 percent of the development as affordable housing for low-income households. A planning city or county may establish policies to require a greater amount of affordable housing for a property to qualify for a density bonus.

A fully planning city or county, or a city planning under the planning-enabling statutes, must develop policies to implement a density bonus if it receives a request from a religious organization.

ASSUMPTIONS:

- While counties of less than 125,000 planning under the GMA would not be required to comply with these provisions, it is assumed through the addition of these provisions to RCW 35.63, RCW 35A.63 and 36.70A that all cities and towns would be required to comply with this legislation.
- This legislation states that to qualify for this density bonus the affordable housing development would be 50% occupied by low-income housing and as a result it is assumed that 50% of the units, and not solely the bonus units, in the development must be affordable to low-income households in contrast to most current density bonus provisions.
- While this legislation would apply to religious organizations that have already developed an affordable housing development, it is assumed that other religious organizations would not be precluded from these provisions as they are not specifically prohibited from doing so.
- This legislation states that religious organizations developing the housing would be required to pay all fees, mitigation costs and other charges and for the purposes of this analysis it is assumed that non-religious organizations developing affordable housing on land owned or controlled by a religious organization would also be required to comply with these provisions.

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 IN EXPENDITURE IMPACTS BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

Changes made to the bill may impact the amendments to update ordinances, but they will remain complex processes. See discussion below.

EXPENDITURE IMPACTS OF CURRENT BILL – ORDINANCE COSTS:

The bill will have indeterminate impacts on local government expenditures. Cities and counties fully planning under these provisions must amend their code if they receive a request from a religious organization for an increased density bonus for an affordable housing development. The Local Government Fiscal Note Program (LGFN) does not have data on the number of jurisdictions that will receive requests from religious organizations, and therefore cannot make estimates of the costs to local governments.

LGFN assumes that the amendments to update ordinances will be complex processes because the legislation does not set the minimum or maximum parameters of the bonus and indicates that the bonus should be consistent with local needs. It is anticipated that this will require a review and analysis of local housing needs and a public process including hearing(s). The Local Government Fiscal Note Program estimates that the cost of a complex ordinance with hearing is \$10,950. There are 281 cities and 10 counties that plan under the Growth Management Act.

-- If all jurisdictions were required to amend their code to allow for density bonuses in a manner consistent with the provisions of this legislation, the costs would total \$3,186,450 (291 jurisdictions x \$10,950).

-- If 50% of jurisdictions were required to amend their codes, the costs would total \$1,593,225 (291 jurisdictions x \$10,950 x 50%)

-- If 10% of jurisdictions had to amend their codes, the costs would total \$318,645 (291 jurisdictions x \$10,950 x 10%)

DENSITY BONUS PROGRAM ADMINISTRATION:

In addition, jurisdictions that have not established a program to administer a density bonus program will face additional undetermined expenses. These expenses will relate to tasks such as review of prospective buyers or renters for compliance with income requirements, calculation of annual maximum rents and compliance monitoring. These costs will vary from jurisdiction to jurisdiction and can't be predicted in advance.

Local transit agencies will incur indeterminate expenditures working with religious organizations to ensure appropriate transit service are provided to the development

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 IN REVENUE IMPACTS BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

The substitute bill creates an exemption to a sales and use tax that will result in an indeterminate decrease in revenue for local governments.

Sales and Use Tax Exemption.

The construction, repair, decoration, or improvement of existing buildings or structures for an affordable housing project is exempt from sales and use tax if:

- the project is owned by, built on land owned by, or owned or built in partnership with a nonprofit religious organization
- at least 50 percent of units are dedicated as affordable to low-income households with an adjusted income at or below 80 percent of area median family income; and
- the property includes restrictive covenants to ensure the land continues to be used for affordable housing for a minimum of 50 years.

The exemption does not apply to any nonhousing-related buildings, structures, or facilities, such as retail space, office space, churches, or commercial space. The exemption expires on January 1, 2036.

REVENUE IMPACTS OF CURRENT BILL:

Under this legislation, the amount of revenue shared with tribes and local governments may decrease, according to the Department of Revenue (DOR).

According to DOR, this bill decreases local revenues by an estimated \$210,000 in impacted collections in fiscal year 2027, and by \$330,000 in fiscal year 2028.

Local Government, if applicable:

FY 2026 - \$0
FY 2027 - \$210,000
FY 2028 - \$330,000
FY 2029 - \$340,000
FY 2030 - \$350,000
FY 2031 - \$360,000

The proportion of the revenue decrease between cities and counties is unknown at this time.

SOURCES

Department of Revenue Fiscal Note, SHB 1859 (2025)

Local Government Fiscal Note, HB 1377 (2019)

Local Government Fiscal Note Program Unit Cost Model (2025)

Municipal Research and Services Center

Washington State House of Representatives House Bill Analysis, SHB 1859 (2025)