

# Individual State Agency Fiscal Note

<b>Bill Number: P2SHB 1628</b>	<b>Bill Title: AN ACT Relating to increasing the supply of affordable housing by modifying the state and local real estate excise tax</b>	<b>Agency: 140 Department of Revenue</b>
<b>Part I: Estimates</b> <input type="checkbox"/> No Fiscal Impact		

## Estimated Cash Receipts to:

Fund	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Affordable Housing for All Real Estate Excise Tax		6,000,000	6,000,000	46,400,000	101,600,000
Apple Health and Homes Real Estate Excise Tax		7,200,000	7,200,000	55,800,000	121,700,000
City County Asst Real Estate Excise Tax		(60,000)	(60,000)	(310,000)	40,000
Educ Legacy Trust Real Estate Excise Tax		(243,000)	(243,000)	(1,336,000)	(468,000)
GF-State Real Estate Excise Tax	(4,000)	(1,384,000)	(1,388,000)	(7,102,000)	(582,000)
Housing Trust Fund Real Estate Excise Tax		7,200,000	7,200,000	55,800,000	121,700,000
NEW Real Estate Excise Tax		3,600,000	3,600,000	28,200,000	61,300,000
Publ Works Assist Real Estate Excise Tax		(61,000)	(61,000)	(272,000)	128,000
<b>Total</b>	<b>(4,000)</b>	<b>22,252,000</b>	<b>22,248,000</b>	<b>177,180,000</b>	<b>405,418,000</b>

## Estimated Expenditures from:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
<b>FTE Staff Years</b>	6.58	7.7	7.14	5.65	3.45
<b>Fund</b>					
GF-State 001	1,015,800	807,600	1,823,400	1,074,800	601,000
<b>Total</b>	<b>1,015,800</b>	<b>807,600</b>	<b>1,823,400</b>	<b>1,074,800</b>	<b>601,000</b>

*The revenue and expenditures 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.

<b>Legislative Contact:</b>	<b>TRACEY TAYLOR</b>	<b>Phone:</b>	<b>360-786-7196</b>	<b>Date:</b>	<b>4/10/2023</b>
<b>Agency Preparation:</b>	<b>BETH LEECH</b>	<b>Phone:</b>	<b>(360) 534-1513</b>	<b>Date:</b>	<b>4/11/2023</b>
<b>Agency Approval</b>	<b>KATHY OLINE</b>	<b>Phone:</b>	<b>(360) 534-1534</b>	<b>Date:</b>	<b>4/13/2023</b>

<b>OFM Review:</b>	<b>Phone:</b>	<b>Date:</b>
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## **Part II: Narrative Explanation**

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

Note: This fiscal note reflects language in P2SHB 1628 (H-1928.3), 2023 Legislative Session.

#### **COMPARISON OF THE PROPOSED SECOND SUBSTITUTE BILL WITH THE SUBSTITUTE BILL:**

This proposed second substitute bill:

- Increases the portion of the selling price subject to a real estate excise tax (REET) rate of 1.1% from \$525,000 to \$750,000.
- Increases the REET for the portion of the selling price greater than \$3.025 million from 3.0% to 3.5%.
- Delays the increase in REET for the portion of the selling price greater than \$3.025 for commercial properties to January 1, 2027.
- Changes the portion of REET collections distributed to the various accounts beginning January 1, 2025, and January 1, 2027.

#### **CURRENT LAW:**

##### **STATE REAL ESTATE EXCISE TAX**

The state real estate excise tax (REET) rate is 1.28% for real property sales where the predominate use of the property is:

- Farm and agricultural land or farm and agricultural conservation land (must be in the current use property tax program under chapter 84.34 RCW), or
- Timberland (must be in either the current use or designated forest land property tax program in chapter 84.33 RCW or chapter 84.34 RCW) including any structures on the land and any standing timber on or sold apart from the land.

For all other types of property, the following rates apply as of January 1, 2023:

- 1.10% for the portion of the selling price less than or equal to \$525,000.
- 1.28% for the portion of the selling price greater than \$525,000 and less than or equal to \$1.525 million.
- 2.75% for the portion of the selling price greater than \$1.525 million and less than or equal to \$3.025 million,
- 3.00% for the portion of the selling price greater than \$3.025 million.

Beginning July 1, 2022, and every fourth year thereafter, the Department of Revenue (department):

- Adjusts the selling price threshold of the first tier to reflect the lesser of the growth of the consumer price index for shelter or 5%. If the growth is less than 0%, the current selling price threshold applies.
- Adjusts the selling price threshold of the remaining tiers by the dollar amount of increase in the first tier.
  - The updated selling price thresholds apply beginning January 1 of every fourth year, beginning January 1, 2023.

Distributions of state REET revenue are as follows:

- 5.2% deposited in the public works assistance account.
- 1.4% deposited in the city-county assistance account.
- 79.4% deposited in the general fund.
- Remainder deposited in the education legacy trust account.

##### **LOCAL REAL ESTATE EXCISE TAX**

There are five different types of REET counties and cities may impose:

- Any county or city may impose a REET on the sale of real property not exceeding 0.25%. This tax is generally known as REET 1.
- Any county or city fully planning under the growth management act (GMA) may also impose an additional 0.25% REET on the sale of real property. This tax is generally known as REET 2. In those counties voluntarily planning under the GMA, imposing REET 2 requires a vote of the people.

- Any county or city not imposing the optional 0.5% sales tax may instead levy an additional REET up to 0.5%
- Any county may impose an additional REET of up to 1.0% for conservation areas with voter approval.
- Any county imposing the REET for conservation areas at the full rate of 1.0% no later than January 1, 2003, may also impose an additional REET of 0.5% for affordable housing with voter approval.

Most counties and cities impose REET 1 and REET 2. Only a few jurisdictions impose the remaining local REET taxes.

#### PROPOSAL:

##### STATE REAL ESTATE EXCISE TAX (Section 2)

Beginning January 1, 2025, the graduated rates for state REET are as follows:

- 1.10% for the portion of the selling price less than or equal to \$750,000.
- 1.28% for the portion of the selling price greater than \$750,000 and less than or equal to \$1.525 million.
- 2.75% for the portion of the selling price greater than \$1.525 million and less than or equal to \$3.025 million.
- 3.50% for the portion of the selling price greater than \$3.025 million, except for commercial property that will continue to pay 3.0% on the portion of the sale above \$3.025 million.

Beginning January 1, 2027, the increase to 3.50% becomes effective for the portion of the selling price of commercial property that is greater than \$3.025 million.

Commercial property means property that is used primarily for business activities including, but not limited to, manufacturing, transportation, communication, utilities, trade, services, entertainment, and recreation. It does not include agricultural land, timberland, or real property consisting solely of residential structures.

##### STATE REAL ESTATE EXCISE TAX (Section 3)

Beginning January 1, 2025, distributions of state REET revenues will be as follows until December 31, 2026:

- 5.07% deposited in the public works assistance account.
- 1.36% deposited in the city-county assistance account.
- 77.36% deposited in the general fund.
- 13.64% deposited in the education legacy trust account.
- 0.77% deposited in the housing trust fund.
- 0.77% deposited in the apple health and homes account.
- 0.39% deposited in the developmental disabilities trust account created by this bill.
- 0.64% deposited in the affordable housing for all account.

Beginning January 1, 2027, distributions of state REET revenues will be as follows:

- 4.94% deposited in the public works assistance account.
- 1.33% deposited in the city-county assistance account.
- 75.40% deposited in the general fund.
- 13.29% deposited in the education legacy trust account.
- 1.51% deposited in the housing trust fund.
- 1.51% deposited in the apple health and homes account.
- 0.76% deposited in the developmental disabilities trust account created by this bill.
- 1.26% deposited in the affordable housing for all account.

##### ACCOUNT CREATION FOR STATE REAL ESTATE EXCISE TAX (Section 4)

This proposal creates the developmental disabilities trust account to be used for:

- Housing programs to support people with developmental disabilities.
- Preservation, operations, and maintenance costs of housing for people with developmental disabilities.
- Housing related services for individuals with developmental disabilities.

- Rental subsidies.
- Technical assistance to nonprofit organizations serving populations with intellectual and developmental disabilities.

#### LOCAL REAL ESTATE EXCISE TAX (Sections 5 through 9)

These sections allows the legislative authority of a city or county to impose an additional REET of up to 0.25%. If a city does not impose the full tax rate by June 30, 2025, the county may impose in that city the whole or remainder of the tax.

Local jurisdictions must use the taxes at follows:

- At least 50% for capital construction or acquisition of affordable housing.
- Up to 50% for operations, maintenance, and services directly tied to new units of affordable housing.

A city or county imposing this new REET rate may enter into interlocal agreements with other entities to accomplish these affordable housing projects.

Counties and the cities within them voluntarily planning under the GMA may impose the additional 0.25% REET known as REET 2 without a vote of the people. These sections also makes changes to the allocations of these collections.

These sections make changes to how local jurisdictions may use the collections from local REET.

#### NEW REAL ESTATE EXCISE TAX EXEMPTION (Section 10 and 11)

These sections create a REET exemption for the sale of qualified space in a development that qualifies for certain property tax exemptions to a nonprofit organization, a housing authority, or public corporation for use for an exempt community purpose.

Affordable housing development means housing provided to low-income households.

Exempt community purpose means any use that provides a service that benefits affordable housing development tenants or the public such as health clinics, senior day care facilities, food banks, community centers, or early learning facilities.

Low-income means household income that does not exceed 80% of the median household income at initial occupancy, adjusted for household size, for the county in which the dwelling is located.

A qualified space is a portion of an affordable housing development that is accessible to tenants or the public.

Nonprofit organization means an organization exempt from taxation under section 501(c)(3) of the internal revenue code.

Section 10 expires January 1, 2030. Section 11 takes effect January 1, 2030.

#### EFFECTIVE DATE:

The state REET changes (Sections 2 through 4) take effect on January 1, 2025. The local REET changes and the new REET exemption (Sections 5 through 10) take effect on January 1, 2024.

## II. B - Revenue Impact

#### ASSUMPTIONS:

- Growth mirrors the growth of REET in the Economic and Revenue Forecast Council's November 2022 forecast.
- Property sale price growth mirrors the 5-year compound annual growth for existing property values by county.

#### STATE REAL ESTATE EXCISE TAX:

- Thirty-six counties provide the Department with transaction-level REET data through an electronic system. For the three counties not reporting REET data electronically, this estimate assumes transactions similar to the urban or rural counties that report electronically.
- The percent change in the CPI-U for shelter between July 2022 and July 2026 is 11.2%, so the first threshold grows by 5% and the remaining thresholds grow by \$38,000 beginning January 1, 2027.
- Commercial property includes transient rental and institutional lodging properties.
- The new fund in the table above corresponds to the developmental disabilities trust account.
- These sections take effect January 1, 2025, and impact five months of collections in fiscal year 2025.
- The delayed rate increase for commercial properties takes effect January 1, 2027, and impacts five months of collection in fiscal year 2027.

#### LOCAL REAL ESTATE EXCISE TAX:

- Implementing the new tax does not require a vote of the people.
- All local jurisdictions within counties voluntarily planning under the GMA and levying REET 1 will also levy REET 2.
- Of these jurisdictions, 75% implement the new local REET. Of jurisdictions implementing the new local REET, 75% implement the new local REET in fiscal year 2024 and 25% implement the new local REET in fiscal year 2025.
- The department needs 60 days to make changes after local jurisdictions notify the department of a change to the local REET rates. The local REET sections take effect January 1, 2024, and are implemented by March 1, 2024, impacting three months of collections in fiscal year 2024.

#### DATA SOURCES:

- Department of Revenue, Real Estate Excise Tax Administration System
- Department of Revenue, Integrated Property Tax Models
- County assessor data
- Economic and Revenue Forecast Council, November 2022 forecast
- Office of Financial Management, Designated rural counties as of April 1, 2022
- U.S. Bureau of Labor Statistics

#### REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$22.2 million in the 2023-25 Biennium, and by \$177.2 million in the 2025-27 Biennium.

This bill also increases local revenues by an estimated \$239.4 million in the 2023-25 Biennium, and by \$478.3 million in the 2025-27 Biennium.

#### TOTAL REVENUE IMPACT:

##### State Government (cash basis, \$000):

FY 2024 -	(\$ 4)
FY 2025 -	\$ 22,252
FY 2026 -	\$ 65,931
FY 2027 -	\$ 111,249
FY 2028 -	\$ 194,295
FY 2029 -	\$ 211,123

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

FY 2024 -	\$ 32,400
FY 2025 -	\$ 207,097
FY 2026 -	\$ 224,791
FY 2027 -	\$ 253,490

FY 2028 - \$ 278,289  
FY 2029 - \$ 304,388

## II. C - Expenditure Impact

### ASSUMPTIONS:

This proposal affects buyers and sellers of real estate over \$525,000 for state real estate excise tax (REET) and those in counties that decide to impose an additional local REET.

### FIRST YEAR COSTS:

The department will incur total costs of \$1,015,800 in fiscal year 2024. These costs include:

- Labor Costs - Time and effort equate to 6.58 FTEs.
  - Amend two administrative rules.
  - Set up, program, and test computer system changes for a new reporting line, including supporting indicators and issuance codes.
  - Update affidavits and identify website publications and information the department may need to create or update.
  - Gather system requirements, implementation meetings, and documentation.

Object Costs - \$244,300.

- Computer system changes, including contract programming.

### SECOND YEAR COSTS:

The department will incur total costs of \$807,600 in fiscal year 2025. These costs include:

- Labor Costs - Time and effort equate to 7.7 FTEs.
  - Maintain affidavits and tax returns.
  - Support and educate counties on the new rates and calculation methods.
  - Continued computer system testing, monitoring, and maintenance.
  - Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

### ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$1,074,800 and include similar activities described in the second-year costs. Time and effort equate to 6.5 FTEs in fiscal year 2026 and 4.8 FTEs in fiscal year 2027.

## Part III: Expenditure Detail

### III. A - Expenditures by Object or Purpose:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Salaries and Wages	453,200	497,700	950,900	665,000	364,900
Benefits	149,500	164,300	313,800	219,400	120,400
Personal Service Contracts	244,300		244,300		
Supplies & Material	103,300	92,600	195,900	121,300	73,400
Travel	13,700	19,300	33,000	34,000	21,000
Office Equipment	51,800	33,700	85,500	35,100	21,300
<b>Total</b>	<b>1,015,800</b>	<b>807,600</b>	<b>1,823,400</b>	<b>1,074,800</b>	<b>601,000</b>

### III. B - FTE Detail:

Job Classification	Salary	FY 2024 FTEs	FY 2025 FTEs	2023 - 2025 Total	2025 - 2027	2027 - 2029
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OFM Form FN (10/95)

Fiscal Note # 1628-5  
Bill # P2SHB 1628

EMS BAND 4	126,619	.01		.01		
EXCISE TAX EX 1	44,808	1	2	1.5	2	2
EXCISE TAX EX 3	61,632	2.4	2.7	2.55	2.25	1.25
EXCISE TAX EX 4	68,076	.5	.5	.5	.35	
IT SYS ADM-JOURNEY	92,844	1.3	1	1.15		
MGMT ANALYST4	73,260	.81	.9	.86	.65	.1
MGMT ANALYST5	80,952	.3	.5	.4	.3	
TAX POLICY SP 2	75,120	.01		.01		
TAX POLICY SP 3	85,020	.13	.1	.12	.1	.1
TAX POLICY SP 4	91,524	.01		.01		
WMS BAND 2	94,669	.1		.05		
WMS BAND 3	107,685	.01		.01		
<b>Total</b>		6.58	7.7	7.17	5.65	3.45

### III. C - Expenditures by Program (optional):

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
<b>Total</b>					

### Part IV: Capital Budget Impact

None.

### Part V: New Rule Making Required

Should this legislation become law, the department will use the expedited process to amend WAC 458-61A-100, titled: "Real estate excise tax-Overview," and WAC 458-61A-1001, titled: "Graduated real estate excise tax rates-Exceptions to graduated rates-Tax avoidance arrangements."

Persons affected by this rulemaking would include buyers and sellers of real estate.



### Revenue Impact Detail

FUND	SOURCE	CODE	First Biennium		Second Biennium		Third Biennium	
			1st YEAR	2nd YEAR	3rd YEAR	4th YEAR	5th YEAR	6th YEAR
GF-State	Real Estate Excise Tax	0157	(4,000)	(1,384,000)	(4,085,000)	(3,017,000)	(260,000)	(322,000)
Total			(4,000)	(1,384,000)	(4,085,000)	(3,017,000)	(260,000)	(322,000)
OTHER								
Affordable Housing for All	Real Estate Excise Tax	0157		6,000,000	17,700,000	28,700,000	48,700,000	52,900,000
Apple Health and Homes	Real Estate Excise Tax	0157		7,200,000	21,300,000	34,500,000	58,300,000	63,400,000
City County Asst	Real Estate Excise Tax	0157		(60,000)	(180,000)	(130,000)	20,000	20,000
Educ Legacy Trust	Real Estate Excise Tax	0157		(243,000)	(733,000)	(603,000)	(224,000)	(244,000)
Housing Trust Fund	Real Estate Excise Tax	0157		7,200,000	21,300,000	34,500,000	58,300,000	63,400,000
NEW	Real Estate Excise Tax	0157		3,600,000	10,800,000	17,400,000	29,400,000	31,900,000
Publ Works Assist	Real Estate Excise Tax	0157		(61,000)	(171,000)	(101,000)	59,000	69,000
Total				23,636,000	70,016,000	114,266,000	194,555,000	211,445,000
Net			(4,000)	22,252,000	65,931,000	111,249,000	194,295,000	211,123,000

### Revenue Impact - by Biennium

FUND	SOURCE	CODE	1st Biennium	2nd Biennium	3rd Biennium
GF-State	Real Estate Excise Tax	0157	(1,388,000)	(7,102,000)	(582,000)
Total			(1,388,000)	(7,102,000)	(582,000)
OTHER					
Affordable Housing for All	Real Estate Excise Tax	0157	6,000,000	46,400,000	101,600,000
Apple Health and Homes	Real Estate Excise Tax	0157	7,200,000	55,800,000	121,700,000
City County Asst	Real Estate Excise Tax	0157	(60,000)	(310,000)	40,000
Educ Legacy Trust	Real Estate Excise Tax	0157	(243,000)	(1,336,000)	(468,000)
Housing Trust Fund	Real Estate Excise Tax	0157	7,200,000	55,800,000	121,700,000
NEW	Real Estate Excise Tax	0157	3,600,000	28,200,000	61,300,000
Publ Works Assist	Real Estate Excise Tax	0157	(61,000)	(272,000)	128,000
Total			23,636,000	184,282,000	406,000,000
Net			22,248,000	177,180,000	405,418,000