HOUSE BILL REPORT
HB 2650

As Reported by House Committee On:
Community Development, Housing & Tribal Affairs

Title: An act relating to allowing the use of lodging taxes for financing workforce housing.

Brief Description: Allowing the use of lodging taxes for financing workforce housing.

Sponsors: Representatives Fitzgibbon, Pettigrew, Sullivan, Orwall, Pollet and Freeman.

Brief History:
Committee Activity:
Community Development, Housing & Tribal Affairs: 1/28/14, 2/4/14 [DPS].

Brief Summary of Substitute Bill

- Clarifies that hotel-motel tax revenues can be used to pay off bonds issued for affordable workforce housing.
- Allows certain hotel-motel tax revenues dedicated for affordable workforce housing to pay off revenue bonds issued for projects by a community preservation and development authority.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Appleton, Chair; Sawyer, Vice Chair; Johnson, Ranking Minority Member; Holy, Assistant Ranking Minority Member; Gregerson, Hope, Robinson, Santos and Young.

Staff: Sean Flynn (786-7124).

Background:

The state imposes an excise tax on the sale of goods and services provided in the state, including the furnishing of lodging by a hotel, motel, rooming house, private campground, trailer park, and similar short-term accommodation. Cities and counties are authorized to

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impose an additional special local excise tax on lodging services, known as a local hotel-motel tax.

One type of local hotel-motel tax allows cities and counties to levy up to 2 percent of a lodging charge, which is credited against the state tax rate of 6.5 percent. Counties imposing this "state shared hotel-motel tax" also must provide a credit for a similar tax imposed by any city within the county. Counties and cities also have authority to levy an additional special hotel-motel tax that may be added onto the state tax rate.

Revenue generated from these local hotel-motel taxes generally are used for tourism promotion or the acquisition and operation of tourism-related facilities. A county may issue general obligation and revenue bonds that are payable from the special hotel-motel tax revenues.

There are certain exceptions on the application and use of the 2 percent state shared hotel-motel tax in certain cities. Cities in King County, except the City of Bellevue, are prohibited from imposing this tax. Currently, all revenues from the state shared hotel-motel tax in King County must be used in the following manner:

- Through 2015 all revenue must be used first to pay off the Kingdome bonds. Once the debt on those bonds is retired, the revenues are distributed into a special account dedicated to art, culture, and heritage museums and arts programs.
- From 2016-2020 all tax revenues must be deposited into the account created to finance the football stadium and exhibition center. That debt is anticipated to be retired in 2020.
- Beginning in 2021:
  - at least 37.5 percent of the state shared hotel-motel tax revenues for King County must be distributed to a special art, culture, and heritage museums and arts programs account;
  - at least 37.5 percent of the state shared hotel-motel tax revenues must be distributed for affordable workforce housing within one-half mile of a transit station, or for homeless youth services; and
  - the remainder must be used for capital and operating programs that promote tourism.

Yakima County is exempt from providing a tax credit for the state shared hotel-motel taxes imposed within the City of Yakima. As a result, Yakima County benefits from a double credit against the state sales tax for hotel charges in the City of Yakima. The Yakima double credit is scheduled to end January 1, 2035.

<u>Workforce Housing and Homeless Services</u>.
For purposes of the state shared hotel-motel tax revenues, affordable workforce housing means housing for households whose income is between 30 and 80 percent of the median income in the county where the housing is located. For King County in 2013 the 30 to 80 percent range of the median income was as follows: for a single person: \$18,200-\$45,100; and for a family of four: \$26,000-\$64,400.

The King County Housing and Community Development Program provides financing for housing projects through local housing authorities and nonprofit organizations. The Housing and Community Development Program also provides services for homeless persons, including homeless youth and young adults.

Community Preservation and Development Authority.
The Legislature may authorize the creation of a Community Preservation and Development Authority (CPDA) that is proposed by residents, property owners, employers, and business owners of a community adversely impacted by the construction and operation of publicly funded facilities. The community proposal must identify a stable source of revenue that has a nexus with multiple publically funded facilities that have adversely impacted the community and that can be used to fund operating and capital projects.

The board of directors for a CPDA must include business representatives, residents, nonprofit and social service providers, persons with knowledge of the community, as well as local legislative representatives who serve ex-officio. Board elections are held during required annual local town hall meetings.

Among its powers, a CPDA has the authority to fundraise, employ, enter into real estate contracts, invest, and incur debt. The CPDA may accept public funding, however, it may not use funds to support a political candidate or party.

The CPDA must establish its geographic boundaries and develop a strategic plan to restore and promote the health, safety, and economic welfare and cultural and historic identity of the impacted community. The CPDA may establish funding mechanisms to support capital and operating projects, including private and public funding, that address the negative impacts of multiple publicly funded projects on the community. The CPDA also must report to the Legislature and at its annual town hall meeting on implementation of its strategic plan. State and local government agencies must consult with the CPDA regarding the siting and construction of future major public facilities.

The first and only CPDA was authorized in 2007 in the Seattle Pioneer Square and International District communities. The CPDA is currently called the "Historic South Downtown."

Summary of Substitute Bill:

Affordable workforce housing includes housing that promotes reasonable workplace access in proximity to a community, including a community negatively impacted by major public or tourism-related facilities, for households whose income is between 30 and 80 percent of the median income.

Counties and cities may issue general obligation or revenue bonds for affordable workforce housing within 0.5 miles of a transit station that are paid with hotel-motel tax revenues.

Beginning in 2021 at least 37.5 percent of revenues from the state shared hotel-motel tax revenue for King County must be used for the following:

- contracts, loans, or grants to nonprofit organizations or public housing authorities that provide affordable workforce housing;
- services for homeless youth; or
- repayment of general or revenue bonds used to finance such contracts, loans, or grants.

The revenues used to finance revenue bonds may also be used to finance projects authorized by a CPDA that promote sustainable workplace opportunities within or near a community impacted by a major public or tourism-related facility.

Revenue bonds issued by a county or city for purposes of funding affordable workforce housing must require that the debt service is limited to no more than 50 percent of the revenue that may be used for such purposes. Ten percent of that amount must be used to finance projects authorized by a CPDA.

Substitute Bill Compared to Original Bill:

The definition of affordable workforce housing adds an element that such housing must promote reasonable workplace access within or near a community. The King County hotel-motel tax revenues used for affordable workforce housing include financing projects by a CPDA. Projects financed by the CPDA must make up 10 percent of the tax revenue funding used to finance revenue bonds for affordable workforce housing projects.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Prior legislation allowed hotel-motel tax revenue in King County to be used for financing bonds for both affordable housing and tourism promotion. This revenue distribution is unique to King County. In other counties, the money primarily funds tourism projects. This bill focuses on the urgent need in King County to provide affordable housing, and does not touch the proportional share dedicated for tourism. This makes clear the tax revenues can be used to finance bonds for affordable housing projects. The authority to finance these projects through bonds allows the county to address the affordable housing needs now and will be cheaper than waiting until the revenue is available. This will also help stimulate construction work.

This bill would allow King County to generate up to $45 million in bonds for affordable housing, which could leverage up to $180 million in other funds and create 900 housing units. The clarifying language in this proposed bill gives King County the ability to invest these funds as the need and opportunity presents itself. It maintains a robust revenue stream for housing investments for decades to come by including a restriction to use no more than half of future revenues to pay for housing bonds.

Most affordable housing funds are not available for workforce housing. The Housing Trust Fund is targeted to extremely low-income households. Workforce population includes people who work in housekeeping, restaurant services, janitorial services, day care, elder care, and retail, whose incomes are about one-half the amount needed to afford housing in the Seattle area. This is forcing workers to move further away from the workplace and spend more of their time commuting to their jobs. Longer commutes for workers make it difficult for businesses to maintain a stable workforce. King County has partnered with Puget Sound Regional Council's Growing Transit Communities to provide housing options near transit stations and to coordinate housing and transportation development. In 2011 the Legislature determined that King County should fund low-income housing near transit centers, but the funding is not available for seven more years. A recent study found that none of the new market-rate units developed in light rail station areas were affordable by very low-income families and rents are increasing rapidly. Sound Transit will soon be expanding light rail lines. It is important to acquire and develop property for affordable housing in those areas now, before the cost of land becomes prohibitive. Certain potential funding opportunities from national private sources are currently being considered for projects for affordable housing, transit oriented development in central Puget Sound as well as other areas across the country, with the availability of local funding as a key criterion in which community will be targeted for funding.

Workforce housing is connected to education. There are 27,000 homeless students in the state and 5,000 in King County. Children who are homeless have impediments to learning. Housing authorities have worked with school districts on pilot programs to provide housing to families with students.

This bill provides a local source of revenue for workforce housing that is not otherwise available. Federal funding has decreased over recent years. The public housing waitlists are the longest they have ever been, including over 14,000 households in King County. Currently over 124,000 households in King County are paying one-half of their income for housing, which places them at high risk for homelessness. In some areas, a person earning minimum wage would have to work 143 hours a week to afford market-rate apartment rent.

(Opposed) None.

Persons Testifying: Representative Fitzgibbon, prime sponsor; Terry Mark, King County Department of Community and Human Services; Sarah Lewontin, Bellwether Housing; M. A. Leonard, Enterprise Community Partners; Mega Hyla, King County Housing Authority; Dan Landes, Shelter Resources, Inc; Sharon Lee, Low Income Housing Institute; and Kelly Rider, Housing Development Consortium.

Persons Signed In To Testify But Not Testifying: None.