

HOUSE BILL REPORT

SHB 1223

As Passed House:
March 5, 2015

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: House Committee on Community Development, Housing & Tribal Affairs (originally sponsored by Representatives Springer, Kochmar, Sullivan, Rodne, Pettigrew, Wilcox, Fitzgibbon, McBride, Tarleton, Stokesbary, Sells, Lytton, Bergquist, Ormsby, Pollet, Fey, Santos and Walkinshaw).

Brief History:

Committee Activity:

Community Development, Housing & Tribal Affairs: 1/26/15, 2/9/15 [DPS];
Finance: 2/17/15, 2/25/15 [DPS(CDHT)].

Floor Activity:

Passed House: 3/5/15, 63-35.

Brief Summary of Substitute Bill

- Provides 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 5 members: Representatives Appleton, Chair; Robinson, Vice Chair; Johnson, Ranking Minority Member; Zeiger, Assistant Ranking Minority Member; Sawyer.

Minority Report: Do not pass. Signed by 2 members: Representatives Hawkins and Van De Wege.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Staff: Sean Flynn (786-7124).

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Community Development, Housing & Tribal Affairs be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Tharinger, Vice Chair; Nealey, Ranking Minority Member; Fitzgibbon, Manweller, Pollet, Reykdal, Robinson, Ryu, Springer, Stokesbary, Vick, Wilcox and Wylie.

Minority Report: Do not pass. Signed by 2 members: Representatives Orcutt, Assistant Ranking Minority Member; Condotta.

Minority Report: Without recommendation. Signed by 1 member: Representative Carlyle, Chair.

Staff: Dominique Meyers (786-7150).

Background:

Hotel-Motel Tax.

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 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 local 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 0.5 miles of a transit station, or for homeless youth services; and
 - the remainder must be used for capital and operating programs that promote tourism.

Workforce Housing and Homeless Services.

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. According to the 2014 federal guidelines, the 30 to 80 percent range of the median income in King County is as follows: \$18,550-\$45,750 for a single person; and \$26,450-\$63,900 for a family of four.

The King County Housing and Community Development Program (Program) provides financing for housing projects through local housing authorities and nonprofit organizations. The 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 as ex-officio members. Board elections are held during 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 "Historic South Downtown."

Summary of Substitute Bill:

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 contracts, loans, or grants to nonprofit organizations or housing authorities for affordable workforce housing within 0.5 miles of a transit station or for homeless youth services, or to repay general obligation or revenue bonds to finance those contracts loans, or grants; or
- to repay revenue bonds used to finance projects authorized by a CPDA that promote sustainable workplace opportunities near a community impacted by the construction or operation of tourism-related facilities.

The debt service on revenue bonds issued by a county or city for purposes of funding affordable workforce housing is limited to no more than 50 percent of the hotel-motel tax revenue on projects reasonably expected to spend funds within three years. Ten percent of the proceeds from all revenue bonds issued for affordable workforce housing must be used to finance projects authorized by a CPDA to promote sustainable workplace opportunities near a community impacted by the construction of tourism-related facilities.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony (Community Development, Housing & Tribal Affairs):

(In support) The real estate expansion in King County is a good thing, but there is a cost to affordable housing for all the new construction and development. Speculative development and large scale construction threatens the goals of mixed income development and small businesses. The county needs the ability to raise bond revenues a little earlier to take advantage of opportunity costs and find land to develop for affordable housing that likely will be unaffordable to purchase in five years. This is not raising any new taxes, just speeding up the process. This bill provided for local decisions about a local resource and does not force the county to do anything.

The bonding authority in this bill will allow the county to double the amount it can invest in workforce housing now, before prices rise. This allows the county to build at today's cost, which will save the county \$67 million, rather than having to wait to purchase property after real estate prices have risen.

Bonding capacity will be \$45 million over two issuance periods. The funding amount for Historic South Downtown will be about \$4.5 million. Downtown communities continue to be impacted by public projects. The tunnel and waterfront developments have negative impacts, even if there is long-term benefit. This bill provides a dedicated resource for Historic South Downtown and will allow necessary planning to address these issues facing both the International and Pioneer Square communities.

Affordable housing close to transit centers helps communities grow and relieves stress on commuting traffic. Transit nexus helps relieve congestion. It is critical to use funds now, while transit centers are being chosen, so housing can be developed alongside new transit centers. This nexus allows people to save money in transit costs. Someone making \$18 dollars an hour can barely afford the average rent in Seattle.

(Opposed) None.

Staff Summary of Public Testimony (Finance):

(In support) There is a lot of development pressure in Seattle currently. This bill would allow the city to start the processes of developing affordable workforce housing that would otherwise have to wait. Rents are rising throughout the county so there is a need to develop affordable housing in the county now. This is a fiscally prudent and advisable action for the county to get affordable housing online in the county. By bonding, today it is believed that there would be a savings of \$58 million in the long run by purchasing and building now instead of waiting until 2021 when revenues will come in. The purpose is to build up to 900 units of affordable workforce housing. This would create 1,000 construction jobs for the next three years. It would put over 2,000 lower income families into affordable and stable housing and keep them in their neighborhoods. There are limited funding options in King County for affordable housing but the need for affordable housing is rising. This bill is necessary to develop housing sooner. This will allow the county to build at today's costs during a time when interest rates are low. Costs for building are going up monthly; this is just one tool to help develop affordable housing for lowing income residents of King County.

(Opposed) None.

Persons Testifying (Community Development, Housing & Tribal Affairs): Representative Springer, prime sponsor; Jim Kelley, Historic South Downtown; Bryce Yadon, Futurewise; Michael Shaw, King County; Sarah Lewontin, Bellwether Housing; and Paul Purcell, Beacon Development Group.

Persons Testifying (Finance): Representative Springer, prime sponsor; Mark Ellerbrook, King County; Kim Herman, Washington State Housing Finance Commission; Beth Boram, Compass Housing Alliance; and Paul Purcell, Beacon Development Group.

Persons Signed In To Testify But Not Testifying (Community Development, Housing & Tribal Affairs): None.

Persons Signed In To Testify But Not Testifying (Finance): None.