
**Community Development, Housing &
Tribal Affairs Committee**

HB 1797

Brief Description: Concerning encouraging affordable housing development and preservation by providing cities limited sales tax remittance for qualifying investments, providing cities and counties authority to use real estate excise taxes to support affordable housing, and providing cities and counties with councilmanic authority to impose the affordable housing sales tax.

Sponsors: Representatives McBride, Kloba, Springer, Robinson, Macri, Frame, Doglio, Chapman, Farrell, Sells, Fey, Senn, Jenkins, Gregerson and Pollet.

Brief Summary of Bill

- Allows first and second class cities to apply for a one-time remittance of 4.37 percent of the state sales and use tax on public purchases for affordable housing development or public infrastructure to support such development.
- Allows the governing body of a county to authorize the local sales and use tax used for mental health services and affordable housing.
- Authorizes cities and counties to impose an additional local real estate excise tax, up to 0.25 of the property selling price, for the purpose of funding affordable housing development.
- Allows revenue from the existing local real estate excise taxes (REET I & REET II) to be used for affordable housing development.

Hearing Date: 2/7/17

Staff: Sean Flynn (786-7124).

Background:

Sales and Use Tax.

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.

The state levies a tax on the retail sale of tangible personal property, digital goods, and certain services within the state. A taxable retail sale also includes the installation, repair, alteration, or improvement made to a consumer's personal property. If a retail sales tax is not collected on the property or services at the time of sale to the consumer, then a separate tax is imposed on the value of the property or services used within the state. The state sales and use tax rate is 6.5 percent.

In addition to other tax authority, counties are authorized to impose a local sales and use tax up to an additional 0.10 percent for mental health services and affordable housing development. Local authorization requires a county vote.

Real Estate Excise Tax

The state imposes an excise tax on the sale of real property at a rate of 1.28 percent of the selling price. Most of the revenue from the real estate excise tax (REET) is deposited into the general fund, though through 2019, certain amounts are directed to financing local public works projects and education funding. Penalties collected for delinquent payments are deposited in the state housing trust fund.

In addition to the state REET, cities and counties are authorized to impose two additional excise taxes on real property sales.

REET I. First, the legislative body of a city or county may impose a real estate excise tax not exceed a rate of 0.25 percent of the selling price of property (REET 1). Up to an additional 0.5 percent excise tax may be imposed in lieu of the city or county local sales and use tax.

Proceeds from the REET I are dedicated for financing certain capital projects and improvements, that includes public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of certain types of facilities and infrastructure. Such qualifying projects include:

- streets, roads, highways, and sidewalks;
- street and road lighting systems;
- storm and sanitary sewer systems;
- recreational facilities;
- parks;
- law enforcement and fire protection facilities;
- administrative and judicial facilities; and
- river and waterway flood control projects.

REET II. Counties and cities that are required to plan under the Growth Management Act may impose an additional real estate excise tax (REET II) to not exceed a rate of 0.25 percent of the selling price of property. Such an option must be voter approved in the qualifying county or city.

Counties and cities may use REET II revenue for financing capital projects specified in their comprehensive plan that include:

- streets, roads, highways, and sidewalks;
- street and road lighting systems; and

- storm and sanitary sewer systems.

Summary of Bill:

Sales and Use Tax Remittance

Any first or second class city may apply for a one-time remittance of 4.37 percent of the state sales and use tax on (1) the construction or purchase of affordable housing acquired or built by the city, and (2) local infrastructure built by the city to facilitate affordable housing development. The affordable housing development must be used to provide rental housing units for families who are not paying over 30 percent of their monthly income on housing costs. The tax remittance is credited against the state tax charged on the same transactions.

Cities must apply to the Department of Revenue (Department) in order to qualify for the tax remittance. Applications may be submitted from 2018 through 2022.

Affordable housing development projects. For the remittance on affordable housing development, the city's application must include information on the need for affordable housing in the city, the estimated cost of the development and on-going operating costs over 25 years, the amount of the remittance, and the date remittance is expected. The Department must determine whether to award a remittance on affordable housing development based on:

- the immediate need for affordable housing;
- the number of units the development will create;
- the city's rental vacancy rate; and
- how fast the project can begin.

Infrastructure-related projects. For the remittance on local infrastructure projects, the city's application must include information on the need for infrastructure to support an approved private affordable housing project, the cost of the project, the amount of remittance requested, and the expected date of the remittance. The Department must determine whether to award a remittance on an infrastructure program based on:

- how fast the project can begin;
- the type of affordable housing development, with descending priority among:
 - low-income family units, which includes families at or below 60 percent of the adjusted median income in the county;
 - affordable housing units; and
 - low-income homeownership projects; and
 - affordable housing homeownership projects; and
- the city's rental vacancy rate; and
- how fast the project can begin.

Upon approval of either tax remittance, the city must open a special account used solely for affordable housing development and related infrastructure, and must deposit 0.85 percent of any local sales and use tax collected by the city into the special account.

Local Sales and Use Tax

The local sales and use tax for mental health services and affordable housing development may be approved by the governing body of a county.

Real Estate Excise Tax

REET I & REET II. The revenue from REET I for counties and cities under 5,000 people, or otherwise not planning under the GMA, may be used for affordable housing development and operations, in addition to capital improvement plan projects. The revenue from REET II may be used for affordable housing development for all counties and cities. Affordable housing development is used for families from very low to moderate incomes, as well as persons with special needs.

REET III. A city or county may impose an additional excise tax on the sale of real property of up to 0.25 percent of the selling price of the property. This tax is in addition to the other local real estate excise taxes already authorized, under REET I & REET II. A county with a population over 1 million may only begin imposing the new tax after October 1, 2020.

The affordable housing eligible for such funding includes housing units with rent levels that do not exceed 30 percent of income for families at or below 60 percent of the county median incomes, or families at or below 80 percent for owner-occupied units.

The proceeds from the tax revenue must be placed in an account used exclusively for the development of affordable housing. The city or county must designate an entity to administer the account through a grant and loan mechanism for developing affordable housing, including the buying, building, rehabilitation, and maintenance of such housing. The entity may keep up to three percent of revenue proceeds for administrative costs. The entity must hold at least one public hearing before adopting a funding mechanism.

Appropriation: None.

Fiscal Note: Available.

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