HOUSE BILL REPORT
HB 1797

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

Title: An act relating to 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.

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, Jinkins, Gregerson and Pollet.

Brief History:

Committee Activity:

Community Development, Housing & Tribal Affairs: 2/7/17, 2/15/17 [DPS].

Brief Summary of Substitute Bill

- Allows 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 with a population over 1.5 million and the cities within such county to authorize the existing 0.1 percent local sales and use tax used for mental health services and affordable housing.
- Allows revenue from the local real estate excise tax (REET II) to be used for affordable housing development through 2022, so long as other local capital projects have adequate funding.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

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.

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Ryu, Chair; Macri, Vice Chair; McCabe, Ranking Minority Member; Barkis, Assistant Ranking Minority Member; Jenkin, Reeves and Sawyer.

Staff: Sean Flynn (786-7124).

Background:

Sales and Use Tax.
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 REET not to 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 include 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.

A city or county may use up to $100,00 or up to 25 percent of its revenue from REET II for the maintenance of capital projects or other capital projects authorized under REET I, so long as the city or county reports that it has adequate funding from all revenue sources to pay for all of the capital projects in its capital facilities plan.

Summary of Substitute Bill:

<u>New Sales and Use Tax Remittance</u>.
Any city or town may apply for a one-time remittance of 4.37 percent of the state sales and use tax on (1) the construction 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;
    - low-income homeownership projects; and
    - affordable housing homeownership projects;
- 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 for Affordable Housing.
The local sales and use tax for mental health services and affordable housing development may be approved by the governing body of a county with a population over 1.5 million, or any city within such county.

Real Estate Excise Tax.
A city or county may use up to $100,00 or up to 25 percent of its revenue from REET II for affordable housing development through June 30, 2022, so long as the city or county reports that it has adequate funding from all revenue sources to pay for all of the capital projects in its capital facilities plan.

Substitute Bill Compared to Original Bill:

The new local sales and use tax remittance program is expanded to all cities and towns. The councilmanic authorization to impose the existing local sales and use tax of 0.1 percent for affordable housing is removed for all jurisdictions except a county with a population over 1.5 million and the cities within such county. The expansion of REET I and creation of REET III are both removed.

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) This policy provides several innovative options to help address rising property values and costs that are putting pressure on available affordable housing. Rental rates continue to rise and vacancy rates are dropping, which is causing a severe burden on low-income families that are forced to pay more that 50 percent of their monthly income on rent. Such financial pressure is being felt from the homeless up through the workforce populations. These trends are becoming unsustainable. Providing a one-time investment of sales tax remittance to support affordable housing development will greatly help the ability of cities to develop much needed housing options for low-income families. Making the existing 0.1 sales tax for affordable housing councilmanic, rather than by county vote, will provide a more effective benefit from the sales tax revenue to be for social purposes established by the city council.

(Opposed) It is appropriate to use some of the REET financing on homelessness right now, but it should not be made permanent. We should authorize it for two or three years and see how it is working. Voters should have a voice when raising sales tax rates to higher levels, and tax increases should not be left to the city council's decision. Voters have been willing in the past to pass sales tax increases for social purposes.

Persons Testifying: (In support) Representative McBride, prime sponsor; Robin Koskey, Office of Housing; Carl Schroeder, Association of Washington Cities; Brian Enslow, Sidewalk; and Dave Asher, City of Kirkland.

(Opposed) Nathan Gorton, Washington Realtors; and Scott Hazlegrove, Washington State Auto Dealers.

Persons Signed In To Testify But Not Testifying: None.