

HOUSE BILL REPORT

SHB 1406

As Amended by the Senate

Title: An act relating to encouraging investments in affordable and supportive housing.

Brief Description: Encouraging investments in affordable and supportive housing.

Sponsors: House Committee on Housing, Community Development & Veterans (originally sponsored by Representatives Robinson, Macri, Chapman, Valdez, Senn, Peterson, Kloba, Tharinger, Gregerson, Stanford, Walen, Doglio, Frame, Jenkins, Riccelli, Slatter, Ormsby and Santos).

Brief History:

Committee Activity:

Housing, Community Development & Veterans: 2/1/19, 2/6/19 [DPS];

Finance: 2/21/19, 2/25/19 [DPS(HOUS)].

Floor Activity:

Passed House: 3/5/19, 66-32.

Senate Amended.

Passed Senate: 4/28/19, 33-15.

Brief Summary of Substitute Bill

- Authorizes the governing body of a county or city to impose a local sales tax, credited against the state sales tax, for affordable or supportive housing.

HOUSE COMMITTEE ON HOUSING, COMMUNITY DEVELOPMENT & VETERANS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Ryu, Chair; Morgan, Vice Chair; Gildon, Ranking Minority Member; Barkis, Assistant Ranking Minority Member; Corry, Entenman, Frame, Leavitt and Reeves.

Staff: Serena Dolly (786-7150).

HOUSE COMMITTEE ON FINANCE

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 by Committee on Housing, Community Development & Veterans be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Tarleton, Chair; Walen, Vice Chair; Chapman, Frame, Macri, Morris, Orwall, Springer and Wylie.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Stokesbary and Vick.

Staff: Richelle Geiger (786-7139).

Background:

Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales- and use-tax rate is 6.5 percent; local sales- and use-tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Summary of Substitute Bill:

County and city legislative authorities are authorized to implement a local sales tax to fund affordable or supportive housing. The maximum rate imposed may not exceed either 0.01 percent or 0.02 percent.

For the first 12 months following the effective date of the bill, the maximum rate of 0.02 percent is available only to:

- a city levying a qualifying local tax;
- a city located in a county that declares it will not levy the tax; and
- a county within its unincorporated areas and within the limits of a city that declares it will not levy the tax.

Beginning 12 months after the effective date of the bill, the maximum rate of 0.02 percent is available only to:

- a city levying a qualifying local tax; and
- a county within its unincorporated areas and within the limits of a city that is not levying the tax.

Beginning 12 months after the effective date of the bill, cities without a qualifying tax may impose a rate of 0.01 percent, and a county may impose a rate of 0.01 percent within the limits of a city imposing the tax at 0.01 percent. A county may not levy the tax within the limits of a city imposing the tax at 0.02 percent.

A "qualifying local tax" is defined as the affordable housing levy, the sales and use tax for housing and related services, or the sales and use tax for chemical dependency and mental health treatment services or therapeutic courts. To impose the tax, a county or city legislative

authority must adopt a resolution of intent within six months of the effective date of the bill and impose the tax within one year.

The tax is credited against the state sales tax collected in the jurisdiction. The amount a county or city may collect in any state fiscal year is limited based on taxable retail sales in the jurisdiction for state fiscal year 2019.

A county or city may bond against the revenue. The revenue collected or bonds issued may only be used for:

- acquiring, rehabilitating, or constructing affordable housing, including new units of affordable housing within an existing structure or facilities providing supportive housing services to individuals with mental or behavioral disorders; or
- operations and maintenance costs of new units of affordable or supportive housing.

Counties with a population of 400,000 or less and cities with a population of 100,000 or less may also use the revenue to provide rental assistance to tenants.

Housing and services may only be provided to persons whose income is at or below 60 percent of the county median income. A county or city may enter into an interlocal agreement with one or more other counties, cities, or housing authorities to provide affordable or supportive housing.

Counties and cities imposing the tax must submit annual reports on the collection and uses of the revenue to the Department of Commerce (COM), and the COM must submit a report annually to the appropriate legislative committees.

The tax expires 20 years after the jurisdiction first imposes the tax.

EFFECT OF SENATE AMENDMENT(S):

The Senate amendment: (1) adds a voter-approved property tax levy used solely for affordable housing as an eligible qualifying local tax source; (2) removes provisions regarding calculation of median income for certain cities whose median income is not available from the United States Census Bureau; (3) reduces the tax rate in the bill of 0.02 percent to 0.0146 percent and the tax rate of 0.01 percent to 0.0073 percent; (4) adds a city must have imposed at least half of the authorized rate of the sales and use tax for housing and related services to be eligible as a qualifying local tax; (5) clarifies that the sales tax for chemical dependency and mental health treatment services must be imposed by a city to be eligible as a qualifying local tax; and (6) clarifies the maximum local sales tax rate in participating counties.

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 (Housing, Community Development & Veterans):

(In support) Communities across the state are struggling with affordable housing issues. Many people are paying more than 50 or 60 percent of income on rent. People are living in places that are not meant to be housing, such as cars or streets. Others are on the verge of homelessness. People without homes are dying on the streets. The revenue in this bill targets people who need it most.

Housing is needed to help relieve behavioral health issues. Without progress on the housing issue, there cannot be progress on the behavioral health crisis. People in crisis need housing to stabilize. Housing is healthcare. Without housing, treatment for mental illness or substance abuse cannot be successful. Affordable housing investments save money in the long term.

It is difficult to find resources to fund affordable housing. Federal benefits have been maxed out for three years. The capital budget is strained. This bill will allow access to the Medicaid supportive housing benefit. The bill will also provide much needed options for local investments in housing. It will allow local governments to leverage additional resources with bonding capacity. This bill will also generate much needed resources to maintain existing affordable housing. This is not a new tax mechanism.

In the first year, this bill will allow Pierce County to build 177 new units of affordable housing and preserve 32 existing units. Additional resources would allow the Renton Housing Authority to build new units of affordable housing on land that it already owns. In some parts of the city, increasing rents are displacing long-term residents. The City of Seattle has a 35-year track record of using its own funds for housing, including an affordable housing levy. The city has prioritized investments for most vulnerable populations with supportive housing. These investments leverage private investments. The City of Seattle had to deny funding to 11 projects with 1,200 affordable units.

(Opposed) None.

Staff Summary of Public Testimony (Finance):

(In support) Without stable housing, behavioral health treatment does not work. Those recovering need stable housing or their recovery will fail. This bill is a critical piece to the puzzle of behavioral health treatment. Investment in affordable housing now will save the state money in the long run with lower behavioral health care costs. This bill will help the subpopulation of the homeless who battle with severe mental illness. This will help them move forward. This bill will help homeless veterans who need clean and sober housing to be eligible for veterans' court.

Housing stability improves educational attainment, mental and physical health outcomes, and is necessary for a successful work force. Many children are in unstable situations and this bill could help some of them.

The affordable housing stock is not adequate all over the state, not just in urban areas. In some areas of the state, not even 10 percent of the need is met.

This is an efficient revenue tool for all communities, large and small, because it can be used to leverage other revenue sources, such as local debt capacity and, increasingly rare, federal dollars. The lack of resources is the greatest hinderance to a city's response to the housing crisis. Counties are using the resources they have at their disposal, such as the real estate excise tax and cities sharing revenue, but there are not enough to address the crisis.

There are great projects that are in the planning phase but the guaranteed funding in the coming year is low. Additional resources are needed to get them off the ground. The competition for current funding sources is fierce.

In Washington's housing market, no matter how hard some work, they will never be able to enter the housing market.

This tax mechanism has been used to house many of our local professional sports teams. It should be used to house the people who need it most.

This bill is the result of collaboration among many stakeholders and legislators. The affordable housing crisis is the top legislative priority for many organizations.

(Opposed) None.

Persons Testifying (Housing, Community Development & Veterans): Representative Robinson, prime sponsor; Len McComb, Community Health Network and Washington State Hospital Association; Mark Santos-Johnson, City of Renton; Paul Benz, Faith Action Network; Kim Herman, Washington State Housing Finance Commission; Michele Thomas, Washington Low Income Housing Alliance; Joe Roszak and Monica Bernhard, Kitsap Mental Health Services; Ashley Martin, Community Frameworks; Emily Alvarado, City of Seattle; Greg Winter, Opportunity Council; Amanda DeShazo, Tacoma-Pierce County Affordable Housing Consortium; Mark Smith, Housing Consortium of Everett and Snohomish County; Carl Schroeder, Association of Washington Cities; Nathan Gorton, Washington Realtors; Juliana Roe, Washington State Association of Counties; Kathy Haigh, Mason County Housing Authority; and Saeed Hajarizadeh, Vancouver Affordable Housing and Association of Washington Housing Authorities.

Persons Testifying (Finance): Representative Robinson, prime sponsor; Len McComb, Community Health Network of Washington and Washington State Hospital Association; Michele Thomas, Washington Low Income Housing Alliance; Mark Smith, Housing Consortium of Everett and Snohomish County; Carl Schroeder, Association of Washington Cities; Monica Bernhard, Kitsap Housing and Homeless Coalition; Joe Roszak, Kitsap Mental Health; Jennifer Gregerson, City of Mukilteo; Josh Weiss, Skagit County; Mike Cooney, City of Chelan; Juliana Roe, Washington State Association of Counties; and Tom Davis, Mason County Veterans Mentoring.

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

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