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**SECOND SUBSTITUTE HOUSE BILL 1157**

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**State of Washington 67th Legislature 2021 Regular Session**

**By** House Finance (originally sponsored by Representatives Bateman, Gilday, Taylor, Eslick, Robertson, Simmons, Ormsby, Lekanoff, Hackney, Ryu, Walen, Vick, Wicks, Berg, Fitzgibbon, Barkis, Harris-Talley, and Dolan)

AN ACT Relating to increasing housing supply through the growth management act and housing density tax incentives for local governments; amending RCW 82.45.060 and 82.45.230; and adding a new section to chapter 36.70A RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  A new section is added to chapter 36.70A RCW to read as follows:

(1) Cities within counties planning under RCW 36.70A.215 and those counties may establish one or more real estate excise tax density incentive zones. A real estate excise tax density incentive zone is an area within an urban growth area where the city or county adopts zoning and development regulations to increase housing supply by allowing construction of additional housing types as outright permitted uses. Creation of a real estate excise tax density incentive zone enables the local government to receive a portion of the tax imposed under chapter 82.45 RCW for sales of qualified residential dwelling units within the zone.

(2) A real estate excise tax density incentive zone may only be located within a designated urban growth area, and must allow the following housing types: Single-family detached dwellings at a net density of at least six dwelling units per acre, duplexes, triplexes, fourplexes, townhomes, accessory dwelling units, and courtyard apartments.

(3) A real estate excise tax density incentive zone may also allow as outright permitted uses housing types and densities that exceed the minimum requirements in subsection (2) of this section.

(4)(a) Additional dwelling units must be in addition to the baseline density under existing zoning to implement the housing element in RCW 36.70A.070.

(b) For the purposes of this section, a "qualified residential dwelling" is either an individual residential dwelling unit or a residential building of two or more dwelling units constructed within a real estate excise tax density incentive zone that achieves a net increase in the total number of residential dwelling units compared to the maximum number of residential dwelling units that could have been built prior to the adoption of zoning and development regulations creating the real estate excise tax density incentive zone. To be included as qualified residential dwelling units, the units must be restricted from being offered as short-term rentals for more than 30 days a year for the first 15 years after construction. The county or city shall determine within their respective jurisdictions how the residential dwelling units shall be restricted from being short-term rentals.

(c) If the qualified residential dwelling has two or more dwelling units, the amount distributed to the local government under RCW 82.45.060(4)(c) shall be reduced by the percent attributable to the number of new dwelling units within the building that could have been built under the zoning and development regulations that existed prior to the creation of the local real estate excise tax density incentive zone.

(5) A sale that does not involve a net increase above the maximum number of residential dwelling units that could have been constructed as an outright permitted use, prior to the creation of the real estate excise tax density incentive zone, is not a sale of a qualified residential dwelling unit.

(6) A real estate excise tax density incentive zone may be established for areas where a city or county previously enacted zoning and development regulations meeting the minimum requirements in this section, but not prior to January 1, 2017. A real estate excise tax density incentive zone may not be established later than one year after the date by which a city or county is required to update its growth management comprehensive plan under RCW 36.70A.130. Once a real estate excise tax density incentive zone is established in compliance with this section, a qualified residential dwelling unit may be constructed at any time.

(7)(a) Prior to establishing a real estate excise tax density incentive zone, the city or county must:

(i) Consider the race and income of existing residents within the area and the adjacent neighborhoods to be designated;

(ii) Consider displacement impacts of low, very low, and extremely low-income residents within the area and the adjacent neighborhoods to be designated; and

(iii) Assess the need for antidisplacement policies for high-risk communities within designated areas and the adjacent neighborhoods, and make the assessment publicly available.

(b) A local jurisdiction may use the requirements of RCW 36.70A.070(2) (e) through (h) (section 2(2) (e) through (h), chapter . . . (Engrossed Second Substitute House Bill No. 1220), Laws of 2021) to satisfy the requirements of this subsection.

**Sec.**  RCW 82.45.060 and 2019 c 424 s 1 are each amended to read as follows:

(1) There is imposed an excise tax upon each sale of real property.

(a) Through December 31, 2019, the rate of the tax imposed under this section is 1.28 percent of the selling price.

(b) Beginning January 1, 2020, except as provided in (c) of this subsection, the rate of the tax imposed under this section is as follows:

(i) 1.1 percent of the portion of the selling price that is less than or equal to five hundred thousand dollars;

(ii) 1.28 percent of the portion of the selling price that is greater than five hundred thousand dollars and equal to or less than one million five hundred thousand dollars;

(iii) 2.75 percent of the portion of the selling price that is greater than one million five hundred thousand dollars and equal to or less than three million dollars;

(iv) Three percent of the portion of the selling price that is greater than three million dollars.

(c) The sale of real property that is classified as timberland or agricultural land is subject to the tax imposed under this section at a rate of 1.28 percent of the selling price.

(2) Beginning July 1, 2022, and every fourth year thereafter:

(a) The department must adjust the selling price threshold in subsection (1)(b)(i) of this section to reflect the lesser of the growth of the consumer price index for shelter or five percent. If the growth is equal to or less than zero percent, the current selling price threshold continues to apply.

(b) The department must adjust the selling price thresholds in subsection (1)(b)(ii) through (iv) of this section by the dollar amount of any increase in the selling price threshold in subsection (1)(b)(i) of this section.

(c) The department must publish updated selling price thresholds by September 1, 2022, and September 1st of every fourth year thereafter. Updated selling price thresholds will apply beginning January 1, 2023, and January 1st every fourth year thereafter. Adjusted selling price thresholds must be rounded to the nearest one thousand dollars. No changes may be made to adjusted selling price thresholds once such adjustments take effect.

(d) The most recent selling price threshold becomes the base for subsequent adjustments.

(e) The department must report adjustments to the selling price thresholds to the fiscal committees of the legislature, beginning December 1, 2022, and December 1st every fourth year thereafter.

(3)(a) The department must publish guidance to assist sellers in properly classifying real property on the real estate excise tax affidavit for purposes of determining the proper amount of tax due under this section. Real property with multiple uses must be classified according to the property's predominant use. The department's guidance must include factors for use in determining the predominant use of real property.

(b) County treasurers are not responsible for verifying that the seller has properly classified real property reported on a real estate excise tax affidavit. The department is solely responsible for such verification as part of its audit responsibilities under RCW 82.45.150.

(4)(a) Beginning July 1, 2013, and ending December 31, 2019, an amount equal to two percent of the proceeds of this tax must be deposited in the public works assistance account created in RCW 43.155.050, an amount equal to four and one‑tenth percent must be deposited in the education legacy trust account created in RCW 83.100.230, an amount equal to one and six-tenths percent must be deposited in the city-county assistance account created in RCW 43.08.290, and the remainder must be deposited in the general fund.

(b) Beginning January 1, 2020, except as provided under (c) of this subsection (4), amounts collected from the tax imposed under this section must be deposited as provided in RCW 82.45.230.

(c) Beginning July 1, 2023, the amounts collected on the sale of a qualified residential dwelling constructed within a real estate excise tax density incentive zone created under section 1 of this act shall be distributed to a city or county as follows:

(i) For a qualified residential dwelling unit located less than or equal to .25 miles, as measured by direct distance, from a mass transit stop as defined in RCW 43.21C.420(3), 50 percent of the amounts collected to the city or county where the dwelling is located;

(ii) For a qualified residential dwelling unit located more than .25 miles, as measured by direct distance, from a mass transit stop as defined in RCW 43.21C.420(3), 25 percent of the amounts collected to the city or county where the dwelling is located;

(iii) If any portion of the qualified residential dwelling unit is located less than or equal to .25 miles, as measured by direct distance, from a mass transit stop as defined in RCW 43.21C.420(3), the entire building qualifies for distribution pursuant to (c)(i) of this subsection (4).

(d) The distribution to a city or county under (c) of this subsection (4) applies to both the initial and all subsequent sales of a qualified residential dwelling unit if the residential dwelling unit continues to meet the original requirements of a qualified residential dwelling unit. Counties are required to revalidate that the residential dwelling unit continues to meet the original applicable requirements on each subsequent sale of the residential dwelling unit. The amounts distributed to a city and county may be used solely for:

(i) Implementation of the housing element in RCW 36.70A.070 as required by chapter . . . (Engrossed Second Substitute House Bill No. 1220), Laws of 2021;

(ii) Costs for infrastructure, construction, and service support for moderate, low, very low, and extremely low-income housing;

(iii) Construction of capital facilities that promote livable and walkable neighborhoods, such as neighborhood-scale parks, trails, or other recreational amenities; or

(iv) Creation of permanently affordable homeownership, which means housing that is:

(A) Sponsored by a nonprofit organization or governmental entity; and

(B) Subject to a ground lease or deed restriction that includes:

(I) A resale restriction designed to provide affordability for future low and moderate-income home buyers;

(II) A right of first refusal for the sponsor organization to purchase the home at resale; and

(III) A requirement that the sponsor must approve any refinancing, including home equity lines of credit; or

(C) Sponsored by a nonprofit organization or governmental entity and the sponsor organization:

(I) Executes a new ground lease or deed restriction with a duration of at least 99 years at the initial sale and with each successive sale; and

(II) Supports homeowners and enforces the ground lease or deed restriction.

(5)(a) Counties are required to validate and identify sales of qualified residential dwelling units within real estate excise tax density incentive zones, including any reduction in real estate excise tax distribution based on:

(i) The number of new dwelling units within the building that could have been built under prior zoning regulations compared to the number of new dwelling units built under the real estate excise tax density incentive zone pursuant to section 1(4)(c) of this act; and

(ii) The distance from a mass transit stop pursuant to subsection (4)(c) of this section.

(b) A county must provide the information required in (a) of this subsection to the department when the real estate excise tax affidavit is submitted to the department by the county.

((~~(5)~~)) (6) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Agricultural land" means farm and agricultural land and farm and agricultural conservation land, as those terms are defined in RCW 84.34.020, including any structures on such land.

(b) "Consumer price index for shelter" means the most current seasonally adjusted index for the shelter expenditure category of the consumer price index for all urban consumers (CPI-U) as published by July 31st by the bureau of labor statistics of the United States department of labor.

(c) "Growth of the consumer price index for shelter" means the percentage increase in the consumer price index for shelter as measured from data published by the bureau of labor statistics of the United States department of labor by July 31st for the most recent three-year period for the selling price threshold adjustment in 2022, and the most recent four-year period for subsequent selling price threshold adjustments.

(d) "Timberland" means land classified under chapter 84.34 RCW or designated under chapter 84.33 RCW, including any structures and standing timber on such land, and standing timber sold apart from the land upon which it sits.

**Sec.**  RCW 82.45.230 and 2019 c 424 s 2 are each amended to read as follows:

(1) Beginning January 1, 2020, and ending June 30, 2023, the amounts received for the tax imposed on each sale of real property under RCW 82.45.060 must be deposited as follows:

(a) 1.7 percent must be deposited into the public works assistance account created in RCW 43.155.050;

(b) 1.4 percent must be deposited into the city-county assistance account created in RCW 43.08.290;

(c) 79.4 percent must be deposited into the general fund; and

(d) The remainder must be deposited into the educational legacy trust account created in RCW 83.100.230.

(2) Beginning July 1, 2023, and thereafter, the amounts received for the tax imposed on each sale of real property under RCW 82.45.060 must be deposited as follows:

(a) 5.2 percent must be deposited into the public works assistance account created in RCW 43.155.050;

(b) 1.4 percent must be deposited into the city-county assistance account created in RCW 43.08.290;

(c) 79.4 percent less the percentage of any amounts distributed to a city or county under RCW 82.45.060 must be deposited into the general fund; and

(d) The remainder must be deposited into the education legacy trust account created in RCW 83.100.230.

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