

HOUSE BILL REPORT

ESSB 5334

As Reported by House Committee On:

Local Government
Finance

Title: An act relating to providing a local government option for the funding of essential affordable housing programs.

Brief Description: Providing a local government option for the funding of essential affordable housing programs.

Sponsors: Senate Committee on Local Government, Land Use & Tribal Affairs (originally sponsored by Senators Lovelett, Kuderer, Frame, Hasegawa, Nguyen, Nobles and Wilson, C.).

Brief History:

Committee Activity:

Local Government: 3/21/23, 3/24/23 [DPA];

Finance: 3/30/23, 3/31/23 [DPA(LG)].

Brief Summary of Engrossed Substitute Bill

(As Amended By Committee)

- Allows the legislative authority of a county or city to impose an excise tax on the sale of lodging of short-term rentals through a short-term rental platform at a rate of up to 10 percent, with revenue from the tax used for the operation and capital costs of affordable housing programs, and to offer exemptions from the tax for one short-term rental property per operator based on the operator's age or income.
- Requires counties and cities imposing the tax to publish an annual report detailing how the revenue from the tax was spent in the prior year.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

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

Majority Report: Do pass as amended. Signed by 4 members: Representatives Duerr, Chair; Alvarado, Vice Chair; Berg and Riccelli.

Minority Report: Do not pass. Signed by 3 members: Representatives Goehner, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Griffey.

Staff: Kellen Wright (786-7134).

Background:

Lodging Taxes.

A sales tax is a tax applied to the sale, rental, repair, or installation of tangible personal property, digital products, or some services purchased for the buyer's own use. A license to use real property, for example the furnishing of lodging and other services by a hotel, is subject to sales tax. Renting or leasing property, on the other hand, is not considered a sale, and is therefore not subject to sales tax. The demarcation between a taxable license to use subject to tax and a rental or lease not subject to tax is the length of the occupancy that is sold; a sale and charge for a continuous occupancy of less than one month is presumed to be a license to use the property, while a sale or charge for a longer period is presumed to be a rental or lease.

The state imposes a sales and use tax at a rate of 6.5 percent of the selling price or value of the article sold or used, and the Legislature has authorized counties and cities to impose various sales and use taxes as well.

Counties and cities can also impose up to two separate excises taxes on the sales of short-term lodging for tourism-related purposes. An excise tax is a tax imposed on a specific good or activity. For example, the sale of real estate is subject to an excise tax, as is the privilege to use an aircraft in the state.

The first excise tax applicable to the sales of lodging can be imposed by the legislative authority of a county or city at a rate of up to 2 percent of the sale of lodging. This tax is credited against the state sales tax that would be imposed on the sale of lodging, meaning that, rather than increasing the cost to the purchaser by the rate imposed, it instead reduces the amount remitted to the state. No city within King County or Yakima County may impose the tax except for Bellevue and the City of Yakima. Other than King County and Yakima County, any county imposing the tax must credit a city for the full amount of the city's tax if a tax is also imposed by the city on a sale within the city.

Revenues from the tax can, outside of King County, be used solely for the purpose of paying for tourism promotion or for the acquisition or operation of tourism-related facilities. For King County, the revenue must be divided between affordable workforce housing; housing, facilities, and services for homeless youth; museums and the arts; and capital or operating programs that promote tourism.

An additional excise tax can be imposed on the sale of lodging by a county or most cities at a rate of up to 2 percent. Seattle can impose the tax at a rate of up to 4 percent. This tax is not a credit against the state sales tax and is instead paid by the purchaser. Cities within Snohomish County and Cowlitz County cannot impose the tax because the counties are imposing a previously authorized 4 percent lodging tax, while certain other counties and cities using tax authority that has since been changed are also authorized to continue to collect the tax at the previous, higher rate.

The imposition of the tax on lodging, when taken together with all other taxes applicable to lodging, including sales taxes with one exception, cannot exceed a total rate of 12 percent outside of Seattle. In Seattle, the combined taxes cannot exceed 15.2 percent. A specific sales and use tax that can be imposed by counties and cities for housing and related services is excluded when determining whether the lodging tax limit is exceeded.

The revenue from this second lodging tax must be used for funding tourism promotion or for the acquisition or operation of tourism-related facilities.

Any change in the rate of local sales and use taxes adopted by a county or city after December 1, 2000, must provide an exemption for sales of lodging that would be taxed, when all applicable taxes are summed, at the greater of 12 percent or the rate that would have applied to such a sale on December 1, 2000. The specific sales and use tax that can be imposed by counties and cities for housing and related services is also excluded when determining whether this lodging tax limit is exceeded.

Short-Term Rentals and Short-Term Rental Platforms.

A short-term rental is a lodging use, outside of a hotel, motel, or bed and breakfast, in which a dwelling unit is offered to a guest for a fee for fewer than 30 consecutive nights on a short-term rental platform. An exemption applies for dwelling units in which the owner resides for at least six months and in which fewer than three rooms at a time are rented. A short-term rental operator is a person who receives payment from owning or operating a dwelling unit as a short-term rental. A short-term platform is a company that financially benefits from providing a means through which operators can offer dwelling units for short-term rental.

Summary of Amended Bill:

The legislative authority of a county or city may impose an excise tax on the sale of lodging of short-term rentals through a short-term rental platform. The rate of the tax may be up to 10 percent of the sale, and may not be imposed in increments of less than 1 percent. The county may impose the tax in the unincorporated areas of the county, while a city may impose the tax within the city.

A county or city may offer exemptions from the excise tax based on the operator's age and/or income under criteria adopted by the county or city. Only one short-term rental property can be exempted from the tax per operator. The exemption criteria and a certification process for issuing the exemptions must be included in the resolution imposing the tax.

Revenue from the tax must be deposited in a separate fund to be used exclusively for the operating and capital costs of affordable housing programs. These programs include, but are not limited to, homeless housing assistance, temporary shelters, and related services. Revenue may be used to make grants, loans, or to let contracts to nonprofit organizations or public housing authorities for services related to affordable housing programs. Beginning the year after the tax is first imposed, a local government imposing the tax must publish an annual report by March 1 detailing how the revenue from the tax has been spent in the prior year. The report must be made available to the public.

A county or city may retain up to 5 percent of the revenue from the tax for the direct and indirect administrative costs of affordable housing services and programs.

This tax is not considered when determining whether the lodging tax limit has been exceeded, including for determinations made when a county or city changes a sales and use tax rate.

Amended Bill Compared to Engrossed Substitute Bill:

The amended bill:

- requires the revenue from the short-term rental special excise tax to be deposited into a separate fund; and
- requires a local government imposing the tax to publish an annual report detailing how revenue from the tax was spent in the prior year.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended 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) Cities currently do not have specific authority to tax short-term rentals. Short-term rentals are using homes that were previously offered as long-term rentals. This puts pressure on workforce housing, particularly in areas with significant tourism. About 8 percent of housing in San Juan County is used for short-term rentals. This bill allows cities

and counties to have a set aside of revenue for the counties and cities to retain for the costs of collecting the tax and granting money to nonprofits. Mom and pop short-term rental operators can get a waiver at the local level. Short-term rental platforms are not opposing the bill. This will allow jurisdictions to bring in additional revenue to make much needed investments in housing. There is currently a need for 500,000 additional housing units that the private market cannot deliver and this bill will help address that need.

(Opposed) None.

Persons Testifying: Senator Liz Lovelett, prime sponsor; and Carl Schroeder, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended by Committee on Local Government. Signed by 9 members: Representatives Berg, Chair; Street, Vice Chair; Chopp, Ramel, Santos, Springer, Thai, Walen and Wylie.

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

Staff: Rachelle Harris (253-444-0316).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Local Government:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended 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) Many long-term rental units have been taken off the market to be turned into short-term rentals. This bill is an attempt to leverage that fact as a way to generate revenue to support affordable housing development. Many places in the state have robust tourism that has incentivized short-term rentals which has resulted in a dearth of workforce housing. The bill contains a 5 percent administrative cap to provide cities with the capacity

to administer the program.

(Opposed) None.

Persons Testifying: Senator Liz Lovelett, prime sponsor.

Persons Signed In To Testify But Not Testifying: None.