FINAL BILL REPORT
HB 2497

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Synopsis as Enacted

Brief Description: Adding development of permanently affordable housing to the allowable uses of community revitalization financing, the local infrastructure financing tool, and local revitalization financing.

Sponsors: Representatives Ormsby, Leavitt, Doglio, Ramel, Tharinger, Goodman, Riccelli and Santos.

House Committee on Finance
Senate Committee on Housing Stability & Affordability

Background:

Property Tax – Regular Levies.
All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue other than the state levies is limited as follows:

- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent plus the value of new construction.

The Washington Constitution limits regular levies to a maximum of 1 percent of the property's value ($10 per $1,000 of assessed value [AV]). There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- The state levy rate is limited to $3.60 per $1,000 of AV.
- County general levies are limited to $1.80 per $1,000 of AV.
- County road levies are limited to $2.25 per $1,000 of AV.
- City levies are limited to $3.375 per $1,000 of AV.

Property Tax – Excess Levies.
Excess levies are imposed in addition to regular levies and are not subject to the constitutional $10 limit. Taxing jurisdictions with excess levy authority include local school districts, public facilities districts, and transportation benefit districts. Most excess levies

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require a 60 percent voter approval. Local school district levies for operation, transportation, and capital projects require simple majority voter approval.

Retail 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 tax applies 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.

Community Revitalization Financing.
In 2001 the Community Revitalization Financing (CRF) program was created. Under the CRF program, cities, towns, counties, and port districts are authorized to create a tax increment area and finance public improvements within the area by using increased revenues from local property taxes generated within the area.

An increment area cannot be created without the approval of the local government imposing at least 75 percent of the regular property taxes within the area. The incremental property taxes under this program are calculated on 75 percent of any increase in the AV in the increment area. Any fire protection district with geographic boundaries in the increment area must agree to participate in the project in order for it to proceed. The CRF program does not include any state contribution.

Local Infrastructure Financing Tool.
In 2006 the Local Infrastructure Financing Tool (LIFT) program was enacted. The LIFT program is available to certain local governments for financing local public improvement projects intended to encourage economic development or redevelopment.

As part of the LIFT program, a sponsoring local government (a city, town, county, port district, or federally recognized Indian tribe) creates a "revenue development area" from which annual increases in revenues from local sales and use taxes and local property taxes are measured. These increases in revenues and any additional revenues from other local public sources are then used to pay for public improvements in the revenue development area and are also used to match a state contribution.

State funding for the LIFT program is provided through a credit against the state sales and use tax. This allows the sponsoring local government to retain a certain amount of state sales and use tax revenue that would otherwise be deposited in the State General Fund.

The maximum state contribution that a sponsoring local government may receive each year is the lesser of:
- $1 million;
- the amount of local matching funds (local excise tax allocation revenues, local property tax allocation revenues, and other revenues from local public sources) dedicated to the payment of the public improvements or bonds in the previous calendar year;

- the amount of the project award granted; or
- the highest amount of state retail sales and use tax revenues and state property tax revenues for any one calendar year.

The local funds and state contribution are used for the payment of bonds issued for financing local public improvements within the revenue development area. The public improvements may also be financed on a pay-as-you-go basis.

Local Revitalization Financing.
In 2009 the Legislature created the Local Revitalization Financing (LRF) program, administered by the Department of Revenue (DOR). Under the LRF program, cities and counties are authorized to create "revitalization areas" and issue bonds to finance local public improvements within the revitalization area. The city or county may use certain increases in local sales and use tax revenues and local property tax revenues generated from within the revitalization area, additional funds from other local public sources, and a state contribution to be used for the payment of the bonds.

The state contribution is a new local sales and use tax that is credited against the state portion of the sales and use tax. The local government that created a revitalization area must apply to the DOR to receive the state contribution. Under the legislation, up to seven demonstration projects were authorized and additional projects could apply for approval on a first-come basis.

Summary:

The purchasing, rehabilitating, retrofitting for energy efficiency, and constructing housing for the purpose of creating or preserving permanently affordable housing is added to the public improvement costs authorized for the CRF Act, the LIFT, and the LRF programs.

"Permanently affordable housing" is defined as housing, regardless of ownership, for which there is a legally binding, recorded document in effect that limits the price at which the owner may sell. The legally binding, records documents could include affordability covenants, deed restrictions, and community land trust leases.

"Resale restrictions" could include continuous ownership of land by a public entity or nonprofit housing provider with a lease allowing ownership of the structure by an income-eligible household; or a nonpossessory interest or right, such a deed restriction, in real property that ensures affordability. However, the recorded document limiting the sales price or restricting the occupancy of the unit is limited to 40 years for property used by a shelter or rental housing, or 25 years if the property is owned by a low-income household.

Votes on Final Passage:

House	56	39	
Senate	35	13	(Senate amended)
House	55	42	(House concurred)

Effective: June 11, 2020