

SENATE BILL REPORT

SB 5189

As of January 19, 2021

Title: An act relating to promoting housing affordability by incentivizing the construction of American dream homes.

Brief Description: Promoting housing affordability by incentivizing the construction of American dream homes.

Sponsors: Senator Fortunato.

Brief History:

Committee Activity: Housing & Local Government: 1/19/21.

Brief Summary of Bill

- Authorizes a city or county to permit American Dream Homes to encourage development of single family homes for low-income households.
- Limits permit fees to \$1,250 and exempts impact fees on the development of American Dream Homes.
- Distributes the state portion of certain sales and use taxes from the construction of American Dream Homes to counties and cities.
- Provides builders of an American Dream Home a 4 percent business and occupation tax credit on the sale price of the home.

SENATE COMMITTEE ON HOUSING & LOCAL GOVERNMENT

Staff: Jeff Olsen (786-7428)

Background: Counties and cities may impose impact fees on development activity as part of financing public facilities needed to serve new growth and development. This financing

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cannot rely solely on impact fees and must provide a balance between impact fees and other sources of public funds. Impact fees may only be imposed for system improvements reasonably related to the new development, may not exceed a proportionate share of the costs of system improvements, and must be used for system improvements that will reasonably benefit the new development.

County and city ordinances imposing impact fees must conform with specific requirements. Among other obligations, these ordinances:

- must include a schedule of impact fees for each type of development activity for which a fee is imposed;
- may provide an exemption for low-income housing and other development activities with broad public purposes; and
- must allow the imposing jurisdiction to adjust the standard impact fee for unusual circumstances in specific cases to ensure fees are imposed fairly.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent. Local sales and use tax rates vary depending on the location.

Washington's major business tax is the business and occupation (B&O) tax. B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted.

Summary of Bill: A city or county may permit an American Dream Home to encourage the development of single family residential housing for low-income households. Low-income household means a single person, family, or unrelated persons living together whose adjusted income is less than 80 percent of the median family income. American Dream Homes includes a single-family detached residence under 1700 square feet. An American Dream Home may be approved if the following criteria are met:

- covenants or restrictions are included to ensure each home is reserved for low-income households;
- each home is exempt from impact fees; and
- the city or county does not charge cumulative permitting fees exceeding \$1,250.

A city or county may receive a distribution equal to the state portion of the sales and use tax for labor and services rendered during the construction of an American Dream Home. The Department of Revenue must remit qualifying amounts at least annually to cities and counties.

The builder of an American Dream Home is allowed an annual credit against the B&O tax.

The credit equals 4 percent of the gross selling price of the home and may be taken through June 30, 2031. The credit may be carried over until used, provided no credits can be claimed after June 30, 2032.

Appropriation: None.

Fiscal Note: Requested on January 15, 2021.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: There needs to be more low-income starter homes. The goal is to provide a way to get families into a small home and move people out of poverty. The bill is based on the Habitat for Humanity model. There needs to be incentives for builders to build starter homes. By buying starter homes and building wealth, it will help builders by creating a market for additional homes when these families buy another house. This is a creative idea to address how the regulatory burden and impact fees makes it more difficult to build affordable homes. With housing so expensive, there needs to be more options for families to buy a home.

OTHER: In addition to single family homes, why not include town homes or other types of multi-unit homes. Revenues could be reinvested to replace lost impact fee revenues.

Persons Testifying: PRO: Senator Phil Fortunato, Prime Sponsor; Steve Gano, Building Industry Association of Washington; Preston Tarr, citizen.

OTHER: Bryce Yadon, Futurewise.

Persons Signed In To Testify But Not Testifying: No one.