

HOUSE BILL REPORT

HB 2559

As Reported by House Committee On:
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: Representatives Parshley, Ramel, Ormsby, Street, Macri, Pollet, Reed, Duerr and Hill.

Brief History:

Committee Activity:

Finance: 1/20/26, 1/29/26 [DP].

Brief Summary of Bill

- Allows counties, cities, and towns to impose a short-term rental tax of up to 4 percent.
- Requires revenue from the short-term rental tax to be used for affordable housing programs.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives Berg, Chair; Street, Vice Chair; Mena, Ramel, Santos, Scott, Springer, Wylie and Zahn.

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

Minority Report: Without recommendation. Signed by 2 members: Representatives Penner and Walen.

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.

Staff: Serena Dolly (786-7150).

Background:

Lodging Taxes.

State-Shared Lodging Tax.

A city or county legislative authority may impose a 2 percent special excise tax on the sale or charge made for the furnishing of lodging at hotels, motels, and short-term rentals. The tax is credited against the state sales tax that would be imposed on the sale of lodging. In most cases, a city's lodging tax is credited against the county's lodging tax, so that the rate is 2 percent countywide; however, the county does not receive any revenue from lodging sales within a city's boundaries. There are two instances where statutory exemptions allow a city and a county to both impose the 2 percent lodging tax, thus reducing the state sales tax on lodging within the city and county by 4 percent.

Outside of King County, revenues from the tax can be used solely for the purpose of paying for tourism promotion or for the acquisition or operation of tourism-related facilities. In 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.

Special Lodging Tax.

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. 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.

Public Facilities Lodging Tax.

A public facilities district created by most counties also may levy an excise tax on lodging that has at least 40 units. In most counties, the tax may not exceed 2 percent, and the revenue may only be used for the acquisition, design, construction, remodeling, maintenance, equipping, reequipping, repairing, and operation of its public facilities.

Convention Center Lodging Tax.

A public facilities district in a county with a population of 1.5 million or more can impose a convention center lodging tax on the sale of lodging in the district, including short-term rentals. Hostels, temporary medical housing, and lodging facilities with fewer than 60 units when located in a town with a population of less than 300 are exempt from the tax. The tax cannot exceed 7 percent within the boundaries of the largest city within the district, and 2.8 percent in the rest of the district. An additional tax of 2 percent can be imposed within the boundaries of the largest city within the district. This additional tax is a credit against state

sales taxes due.

Lodging Tax Limits.

The imposition of the tax on lodging, when taken together with other taxes, including state and local sales taxes, public facilities district sales taxes, transit district sales taxes, and the convention center lodging tax, cannot exceed a total rate of 12 percent outside of Seattle. In Seattle, the combined taxes cannot exceed 15.2 percent.

Short-Term Rentals.

A short-term rental (STR) 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. An STR does not include dwelling units in which the owner resides for at least six months during the calendar year and in which fewer than three rooms at a time are rented.

Summary of Bill:

Beginning April 1, 2027, a county, city, or town may impose a tax on the sale of lodging in STRs. The rate of the STR tax may not exceed 4 percent and must be imposed in increments of 1 percent. The Department of Revenue must collect the tax on behalf of the local government imposing the tax at no cost to the local government. A county must allow a credit against the county STR tax for the amount of STR tax imposed by any city or town on the same taxable event. The tax does not count toward the combined rate of other lodging taxes.

The legislative body of the taxing authority must adopt a resolution of intent to adopt legislation authorizing the STR tax before imposing it. Adoption of the resolution and the legislation requires a simple majority approval of the enacting legislative authority. The local taxing authority may exclude from the tax any STRs that are located in common interest communities approved as a resort, second home, or vacation community, as well as those that are exempt from local ordinances that regulate and license STRs and vacation lodging.

Revenues from the tax must be deposited into a newly created Essential Affordable Housing Local Assistance Account. Revenues must be used for:

- acquiring, rehabilitating, or constructing affordable, workforce, or supportive housing;
- funding the operations and maintenance costs of affordable, workforce, or supportive housing services;
- providing rental assistance to tenants; or
- funding the operations of organizations dedicated to providing services and assistance related to attaining and maintaining housing.

The county, city, or town may retain up to 15 percent of the revenues for the direct and

indirect costs to administer services and programs and may enter into interlocal agreements to jointly undertake projects.

A county or city imposing the tax is required to publish an annual report detailing how tax revenues were spent in the prior year.

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:

(In support) Every community in Washington needs more resources to build and preserve affordable housing. Short term rentals (STRs) take housing stock out of the community. This bill will use revenue from STRs to help replace the permanent housing that has been lost. Many STRs sit empty most of the year. This is a balanced bill that exempts people who are simply renting out a room in their own home. Vacationers will pay the tax, not the owners. Some cities are losing their identity due to the popularity of second homes and STRs, and the workers who support tourism in these cities have no place to live.

(Opposed) Short term rental owners are in a difficult situation. Taxes and the cost of insurance, utilities, and supplies continue to rise. Most owners use the rental to supplement fixed incomes. People who stay in STRs are not just vacationers. Many of them live in the state. Some are visiting family members in the military or college. Others are looking for a homelike place while a family member seeks medical care. Short term rentals often cost less than hotel rooms. The people who stay in STRs spend money in the community and already pay enough in taxes. The research on the impact of STRs on affordable housing is mixed. The problem is not STRs; the problem is regulations that prohibit people from building more housing units on their land. A smaller tax on all lodging types would be more impactful while not singling out one segment of the market.

(Other) Short term rentals are sometimes used as housing for people who do not have good credit or enough money for monthly rent and deposits.

Persons Testifying: (In support) Representative Lisa Parshley, prime sponsor; Carl Florea, City of Leavenworth; Kurt Peterson; Brian Enslow, Washington State Association of Counties; Caitlin Sullivan; Zeke Reister; Barbara Rossing; Michele Thomas, Washington Low Income Housing Alliance; and Candice Bock, Association of Washington Cities.

(Opposed) Mitzi Cameron; Tory Gildred; Steve Turpen; Allison Moser, WA Hosts

Collaborative Alliance; Sean Lynn, WA Hosts Collaborative Alliance; Richard Moser, WA Hosts Collaborative Alliance; Guillermo Maldonado Ibarquen; Russell Williams; Johan Lysne; Mac Brown; Shelley Bacon; Erin Deinzer; Jon Harwood; and Warren Newton.

(Other) Justin Vorhees.

Persons Signed In To Testify But Not Testifying: Leslie Hubbard and Amy Morris-Young.