

# HOUSE BILL REPORT

## HB 1972

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### As Reported by House Committee On:

Finance

**Title:** An act relating to local option real estate excise taxes for affordable housing purposes.

**Brief Description:** Authorizing a local option real estate excise tax for affordable housing purposes.

**Sponsors:** Representatives Quall, Morris, Wood and McIntire.

### Brief History:

#### Committee Activity:

Finance: 1/30/02, 2/11/02 [DPS].

#### Brief Summary of Substitute Bill

- Authorizes an additional county 0.5 percent real estate excise tax for the development of affordable housing for counties imposing the additional 1 percent real estate excise tax for conservation areas.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Conway, Morris, Santos and Veloria.

**Minority Report:** Do not pass. Signed by 5 members: Representatives Cairnes, Ranking Minority Member; Nixon, Orcutt, Roach and Van Luven.

**Staff:** Rick Peterson (786-7150).

### Background:

The real estate excise tax applies to sales of real property and is collected when the sale document is recorded with the county. The tax is imposed on the value of the real property transferred.

The state tax rate is 1.28 percent of the selling price. Cities and counties may levy a tax

of 0.25 percent for capital improvements. Cities and counties may impose an additional 0.5 percent for general purposes if they do not impose the second 0.5 percent of the local sales tax, but this tax is subject to referendum. Cities and counties may levy additional taxes of up to 0.25 percent for growth management programs, but cities and counties not required to plan under the Growth Management Act must obtain voter approval before imposing the tax. Finally, counties may impose a tax of up to 1.0 percent to finance the acquisition of conservation areas, subject to voter approval. San Juan County is the only county imposing the 1.0 percent tax for conservation areas. City taxes are imposed in the city and county taxes are imposed in the unincorporated areas of the county, except the tax for conservation areas, which is county-wide. The taxes are paid by the seller, except the conservation area tax is paid by the buyer.

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**Summary of Substitute Bill:**

An additional real estate excise tax is authorized for counties equal to 0.5 percent of the selling price to be used exclusively for the development of affordable housing, including acquisition, building, rehabilitation, and maintenance and operation of housing for very low, low, and moderate income persons and those with special needs.

The tax requires voter approval. The proposal for the tax may be initiated by the county commissioners or by petition signed by 10 percent of the total number of voters voting in the last county election. No tax may be imposed unless the county imposes the 1.0 percent tax for conservation areas on January 1, 2003.

The tax is imposed county-wide. The tax is imposed on both the purchaser and the seller with at least one-half of the tax being on the purchaser.

The county legislative authority will develop an expenditure plan in consultation with officials of cities located within the county. Moneys are distributed on a competitive grant and loan process. Eligible recipients of grants and loans include private nonprofit, affordable housing providers, the housing authority for the county, or other housing programs conducted or funded by a public agency, or by a public agency in partnership with a private nonprofit entity.

**Substitute Bill Compared to Original Bill:**

The substitute bill restricts the additional 0.5 percent real estate excise tax to counties imposing the 1 percent real estate excise tax for conservation areas by January 1, 2003.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** San Juan County has a unique problem concerning affordable housing. They have come to an agreement on how to solve this problem. Teachers cannot afford to live on the islands. Teachers have accepted positions but later turned them down because they could not afford housing. The county commission is asking for permission to place the tax before the voters of the county. The voters are familiar with the real estate excise tax. The bill provides one more vehicle to work toward housing affordability. The revenue will fund a housing trust which will purchase land and provide gap funding for affordable housing. These funds will be leveraged with other affordable housing financing sources. The program will provide stability for families that cannot afford market rates in the county.

(Concerns) The lack of affordable housing is not unique to San Juan County. But increasing the tax on it flies in the face of housing affordability. Currently REET is used for infrastructure. This is clearly a new tax. Washington has not ranked higher than thirty-ninth in homeownership rates. This tax could be extended to other counties.

**Testimony Against:** Real estate excise tax serves to raise housing prices. Increasing the real estate excise tax will increase property values and so increase property taxes. The real estate excise tax is too narrow a tax, it make sense for infrastructure but not for affordable housing. Another tax source, such as a property tax bond levy, should be used instead of the real estate excise tax.

**Testified:** Representative Quall, prime sponsor; Darcie Nelson, San Juan County; Rhea Miller, San Juan County; and Arnie Klaus, San Juan County.