BILL ANALYSIS

Local Government & Housing Committee

HB 1973

Brief Description: Creating a housing everyone financing tool program.

Sponsors: Representatives Nelson, Kagi, Simpson, Springer, Ormsby, Eddy, Sullivan and Dickerson.

Brief Summary of Bill

- Creates the Housing Everyone Financing Tool Program (Program) within the Department of Community, Trade and Economic Development for the purpose of creating financial incentives for qualifying local governments to implement affordable housing projects meeting specified requirements.
- Authorizes local governments that qualify for the Program to receive state funding in the form of a local sales and use tax that is credited against the state sales and use tax.

Hearing Date: 2/16/09

Staff: Thamas Osborn (786-7129)

Background:

Affordable Housing Policies Under the Growth Management Act.

The housing element of a Growth Management Act (GMA) comprehensive plan must ensure the vitality and character of established residential neighborhoods. Housing elements must include an inventory and analysis of existing and projected needs that identifies the number of housing units needed to manage projected growth, and a statement of goals, policies, and provisions for the preservation, improvement, and development of housing. Housing elements must also include provisions for existing and projected housing needs for all economic segments of the community.

Legislation adopted in 2006 authorized jurisdictions fully planning under the GMA to enact or expand affordable housing incentive programs (incentive programs or programs) to provide for

---

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

the development of low-income housing units through development regulations. These programs may include, but are not limited to, provisions pertaining to:

- density bonuses within the UGA;
- height and bulk bonuses;
- fee waivers or exemptions;
- parking reductions;
- expedited permitting, conditioned on the provision of low-income housing units; or
- mixed-use projects.

Jurisdictions may enact or expand incentive programs whether or not the programs impose a tax, fee, or charge on the development or construction of property. Incentive programs may apply to all or part of a jurisdiction, and differing standards may be applied within a jurisdiction. Jurisdictions may also modify incentive programs to meet local needs and may include qualifying provisions or requirements not expressly authorized in statute.

<u>Affordable Housing Advisory Board</u>.

The Affordable Housing Program (Housing Program) was created in the Department of Community, Trade and Economic Development (Department) in 1991. The purpose of the Housing Program is the provide either loans or grants or both to local governments, public housing authorities, and nonprofit organizations to increase the availability and affordability of housing for households with incomes below 80 percent of the county median income.

The activities that are eligible for assistance through the Housing Program include, but are not limited to: (1) new construction, rehabilitation, or acquisition of housing; (2) rent subsidies in new construction or rehabilitated multifamily units; (3) down payment or closing costs assistance for first-time home buyers; (4) mortgage subsidies for new construction or rehabilitation of eligible multifamily units; and (5) mortgage insurance guarantee or payments for eligible projects.

Currently there are 21 members of the Affordable Housing Advisory Board (Board). Eighteen members are appointed by the Governor, including representatives of the residential construction industry, the mortgage lending profession, the real estate sales profession, the apartment management and operations industry, the for-profit housing development industry, the non-profit housing development industry, the homeless shelter operators, lower-income persons, special needs populations, the public housing authorities, and the Washington Association of Counties.

<u>Retail Sales and Use Taxes</u>.

Retail sales and use taxes are imposed by the state, by most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 1.4 percent.

Summary of Bill:

Overview of the Housing Everyone Financing Tool Act.

The act creates the Housing Everyone Financing Tool Program (Program) within the Department for the purpose of providing tax incentives for cities and towns to implement affordable housing development projects meeting specified requirements. Cities and towns that qualify for the Program are provided with state funding in the form of a local sales and use tax that is credited against the state sales and use tax. Participation in the program by a city or town is contingent upon approval by the Department following an application process requiring the applicant to propose projects meeting an extensive list of requirements, goals, and standards. The Act requires the Department to comply with reporting requirements and provides it with the rule-making authority necessary to implement the Act.

Program Administration and Guidelines.

The Program must be developed and administered by the Department with advice and input from the Board. Beginning July 1, 2011, the Department must provide funding awards to qualifying local governments to assist in the financing of local affordable housing development projects. This funding is limited to a statewide total of $15 million dollars per fiscal year for all monies granted to local governments combined. Upon reaching this $15 million dollar threshold in a given year, no additional funding may be disbursed through the Program until the following fiscal year.

"Affordable housing" means housing that is either; (1) affordable to and *rented* by an eligible household or; (2) affordable to and *purchased* by an eligible household. In turn, "eligible household" means, a single person, family, or unrelated persons living together whose adjusted income is at or below 80 percent of the adjusted median family income.

"Local government" generally means a city or town, but can include a county that has filed a joint application with a city or town.

In evaluating applications for project awards, the Department must give priority consideration to projects that meet specified criteria, each of which relate to the overall goals of the Program. Preference will be given to those projects that:

- finance projects for moderate or high density residential development;
- finance projects that are near specified public transportation services;
- maximize the affordability of housing offered to low and very low-income households;
- leverage other sources of funding for the development of the project;
- maintain the affordability of the housing to be developed for the greatest period of time; and
- demonstrate a readiness to proceed.

The Department must periodically report to the Governor and the Legislature regarding the implementation of the program and make recommendations for modifications of program requirements, when appropriate.

The Department is responsible for monitoring the performance of local governments in implementing approved projects and, generally, in contributing to the goal of creating affordable housing. If a local government fails to satisfactorily achieve its affordable housing goals under the Program, the Department may require repayment of the project award.

Local Government Eligibility Requirements.

To qualify for funding through the sales and use tax authorized under the Act, a local government must apply to the Department for a project funding award. The application must include specified information regarding:

- the "designated area" in which the proposed development is to occur, including information relating to area boundaries, current land uses and other characteristics, information about available transit services, a survey of existing affordable housing, and plans relating to existing low-income residents in the area;
- projected construction-related development in the area and the projected fiscal impacts of such development;
- the type and number of affordable housing units that are expected to be constructed in the area;
- the amount of local public funding/resources that will be dedicated to the affordable housing project;
- the amount of state award funds requested for the project and a description of how they will be used; and
- the anticipated effective date for imposing the local sales and use taxes authorized under the Program and the number of years that the taxes will be imposed.

The "designated area" in which the project is to be developed must meet criteria requiring that the location be an area:

- that is a compact geographic area within the local governments designated urban growth area;
- where commercial and residential growth is projected;
- that contains a mixture of commercial and residential uses; and
- that has high capacity transit or frequent transit service.

Local Sales and Use Tax / Funding Mechanisms.

Local governments approved for participation in the Program by the Department are authorized to impose a local sales and use tax to fund projects for the development of affordable housing in accordance with specified requirements. This local sales and use tax is implemented in the form of a credit against state sales and use taxes. The Department of Revenue (DOR) must collect the taxes on behalf of the local government and at no cost to the local government. Tax revenues are provided to the city in the form of a remittance received from the DOR.

The local sales and use tax imposed by a local government under the Act cannot be imposed until the local government has received formal approval for participation in the Program and not before July 1, 2012. In addition, the taxing authority of the local government is subject to the following terms and conditions:

- the tax must be approved through the passage of an ordinance by the legislative body of the participating local government;
- the tax may be imposed for a maximum of 25 years;

- the tax rate cannot exceed that which is necessary for the jurisdiction to receive its entire project award for a given fiscal year in a 10-month period during that year;
- the cumulative amount of the tax received in any fiscal year cannot exceed the amount of the project award for that year;
- the tax must cease to be distributed to the local government for the remainder of any fiscal year in which the amount received by the local government equals the amount of the project award for that year; and
- the proceeds from the tax may be used by the local government for the payment of debt service on bonds issued by the local government to finance a Program project.

Appropriation: None.

Fiscal Note: Requested on February 14, 2009.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.