

HOUSE BILL REPORT

HB 1581

As Reported by House Committee On:
Housing, Community Development & Veterans

Title: An act relating to funding local housing trust fund programs in certain cities.

Brief Description: Funding local housing trust fund programs in certain cities.

Sponsors: Representatives Fey, Riccelli, Wylie, Doglio, Jinkins and Ormsby.

Brief History:

Committee Activity:

Housing, Community Development & Veterans: 2/5/19, 2/6/19 [DPS].

Brief Summary of Substitute Bill

- Authorizes cities to create local housing trust funds for affordable housing.
- Distributes the state portion of the sales and use tax imposed on construction activities to a qualifying city's local housing trust fund, up to an annual maximum of \$5 million per city.

HOUSE COMMITTEE ON HOUSING, COMMUNITY DEVELOPMENT & VETERANS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Ryu, Chair; Morgan, Vice Chair; Gildon, Ranking Minority Member; Barkis, Assistant Ranking Minority Member; Corry, Entenman, Frame, Leavitt and Reeves.

Staff: Serena Dolly (786-7150).

Background:

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 taxes applies to the value of property, digital product, or service when used in this state. The state, all counties, and all

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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.

Taxation of Construction Activities.

Prime contractors must collect retail sales tax from the purchaser of the construction project on the gross contract price. Billing invoices must disclose the sales tax separately. If the contract requires retainage, sales tax must be computed before deducting such amounts. Retail construction services are sourced to the location where the construction takes place. A contractor is considered the consumer of items purchased for use in the construction process and not used as component parts of the finished structure. Therefore, retail sales tax must be paid to the vendors of such items.

The purchase of materials by custom contractors that will become part of the completed project are purchases for resale (wholesale). Such purchases are not subject to retail sales tax. Reseller permits allow businesses to purchase items or services for resale without paying retail sales tax. Use tax is due if sales tax has not been paid on items the contractor uses as a consumer. Use tax is generally due on the following: equipment, tools, supplies, and rentals of equipment, even if the cost for these items is passed along to the purchaser of the construction project.

Summary of Substitute Bill:

City legislative authorities may establish a local housing trust fund to provide funding for affordable housing. The fund may be used for:

- the construction, rehabilitation, or acquisition of low- and very-low-income units;
- matching funds for social services directly related to providing housing for special needs tenants in assisted projects;
- technical assistance, design and finance services and consultation, and administrative costs for eligible nonprofit community or neighborhood-based organizations;
- administrative costs for housing assistance groups or organizations when a grant or loan will substantially increase access to other housing funds;
- shelters and related services for the homeless;
- mortgage subsidies, including temporary rental and mortgage payment subsidies to prevent homelessness;
- mortgage insurance guarantees or payments for eligible projects;
- down payment or closing cost assistance for eligible first-time home buyers;
- acquisition of housing units for preservation as low- or very-low-income housing;
- projects making housing more accessible to families with members who have disabilities; and
- remodeling and improvements on certain properties as required to meet building code, licensing requirements, or legal operations when transferred from the parent of a child with developmental disabilities.

Up to 100 percent of the state portion of the sales and use tax imposed on construction activities within city limits may be distributed to a qualifying city's local housing trust fund, up to an annual maximum of \$5 million per city.

A qualifying city must have a population of at least 200,000 and be located in a county with a population of less than 1.5 million. In addition, a qualifying city must establish a local housing trust fund by July 1, 2021, and provide 100 percent of the state contribution in annual matching funds.

The distributions expire on January 1, 2041.

Substitute Bill Compared to Original Bill:

The original bill authorized certain cities to impose a new local sales and use tax to be deposited in the city's local housing trust fund. The substitute bill distributes the state portion of the sales and use tax imposed on construction activities to a qualifying city's local housing trust fund, up to an annual maximum of \$5 million per city.

The substitute bill requires a city to provide annual matching funds equal to at least 100 percent of the state distribution, instead of the 50 percent local match in the original bill.

The original bill allowed a city to impose the new local sales and use tax for 20 years. The substitute bill expires state distributions on January 1, 2041.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on August 1, 2019.

Staff Summary of Public Testimony:

(In support) There is an affordable housing crisis in the state. During a recent two-year period in the City of Tacoma, home prices rose 33 percent and rents rose 17 percent. Forty percent of Tacoma residents pay at least 30 percent in housing costs. The city has 1,600 people living on the streets, and the number is rapidly increasing.

There are many different proposals to deal with affordable housing. This bill does not create a new tax. It is a remittance of a portion of state sales tax to a local housing trust fund. That sales tax would otherwise go to the State General Fund. It allows cities to retain \$5 million annually in revenue generated from construction activities within the jurisdiction. This would provide essential state matching funds to help local jurisdictions take near term actions to preserve and create affordable housing.

A local housing trust fund is a new concept. That is why this is a pilot project. The City of Tacoma has already established a housing trust fund and seeded it with \$1.2 million. The City of Spokane also intends to create one.

Housing authorities should be eligible for all of the funding purposes in the bill.

(Opposed) None.

Persons Testifying: Representative Fey, prime sponsor; Briahna Murray and Jeff Robinson, City of Tacoma; and Michael Mirra, Tacoma Housing Authority.

Persons Signed In To Testify But Not Testifying: None.