

# HOUSE BILL REPORT

## HB 1938

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

**Title:** An act relating to creating a local infrastructure investment program to support the development of affordable housing, workforce housing, and revitalization efforts.

**Brief Description:** Creating a local infrastructure investment program to support the development of affordable housing, workforce housing, and revitalization efforts.

**Sponsors:** Representatives Steele, Barkis and Chapman.

**Brief History:**

**Committee Activity:**

Housing, Community Development & Veterans: 2/15/19, 2/20/19 [DPS];  
Finance: 2/27/19, 3/8/19 [DP2S(w/o sub HOUS)].

**Brief Summary of Second Substitute Bill**

- Allows cities and counties to apply for a remittance of a portion of the state sales and use tax on the construction of affordable or workforce housing under a local infrastructure investment program.

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### HOUSE COMMITTEE ON HOUSING, COMMUNITY DEVELOPMENT & VETERANS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Ryu, Chair; Morgan, Vice Chair; Jenkin, Ranking Minority Member; Gildon, Assistant Ranking Minority Member; Barkis, Leavitt and Reeves.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Frame.

**Staff:** Serena Dolly (786-7150).

**Background:**

Sales and Use Tax.

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*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.*

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 apply to the value of property, digital product, or service when used in this state. The state, all counties, and all 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 separately disclose the sales tax. 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.

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#### **Summary of Substitute Bill:**

##### Local Infrastructure Investment Program.

A city or county may establish a local infrastructure investment program (program) to support affordable housing, workforce housing, or revitalization efforts within a revitalization district. "Affordable housing" and "workforce housing" are defined as residential housing units that are rented or owned by a person or household whose income is at or below 80 percent of county median income.

To initiate a program, a city or county must adopt an ordinance containing the local definition of revitalization efforts and the geographic boundaries of the revitalization district. Before adopting the ordinance, a city or county must provide public notice and hold a public hearing. After passing an ordinance, the city or county must notify the Department of Revenue (DOR) that a program is established.

##### Sales and Use Tax Remittance.

A city or county establishing a program may receive a remittance equal to 4.37 percent of the sales or use tax on the construction of housing developed under the program. The tax remittance is credited against the state sales tax due on the same sales and may be claimed once per project.

To collect the sales tax remittance, the city or county must use a web-based platform to provide the DOR with the amount of money spent on the eligible infrastructure investment, a brief description of the type of infrastructure investment, and the eligible project the remittance will support.

**Substitute Bill Compared to Original Bill:**

The substitute bill defines "affordable housing" and "workforce housing" as residential housing units rented or owned by a person or household whose income is at or below 80 percent of county median and removes provisions for establishing local housing definitions. The substitute bill provides a participating local jurisdiction with a remittance based on the construction of housing instead of the local infrastructure investment.

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**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available.

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

**Staff Summary of Public Testimony:**

(In support) Many communities in the twelfth legislative district are resort communities. The median home price is \$500,000, and homes are not affordable for the local work force, such as teachers. Some residents pay 70 percent of income on housing. A regionwide survey in the Wenatchee area found major employers are unable to find employees because of high housing costs. The competitive housing markets in Seattle and Portland exacerbate the supply of developers working in other parts of the state. This bill allows the local community to work with for-profit and nonprofit developers. Cities would build infrastructure and then apply for a rebate on the sales tax paid. The broad definitions allow local flexibility. This is one solution in the overall problem of a lack of affordable housing.

(Opposed) None.

**Persons Testifying:** Representative Steele, prime sponsor; and Bruce Beckett, Wenatchee Valley Chamber of Commerce.

**Persons Signed In To Testify But Not Testifying:** None.

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**HOUSE COMMITTEE ON FINANCE**

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Housing, Community Development & Veterans. Signed by 10 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Chapman, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

**Staff:** Richelle Geiger (786-7139).

**Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Housing, Community Development & Veterans:**

Local jurisdictions are required to apply for a remittance from the Department of Revenue (DOR) in a form and a manner prescribed by the DOR. The terms "eligible projects" and "retail sales and use tax" are applied consistently throughout the language.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) Recruiting people to work in Chelan is challenging because of shortages of workforce housing. For many, it is less expensive to live outside of a major city. Housing is needed for teachers and nurses. Affordable housing is needed in downtown Chelan to support retail shops.

This bill is a simple mechanism that brings housing supply to where it is needed. The local jurisdiction retains a portion of the state sales and use tax revenue paid by the housing developer. The bill provides local control and allows cities to leverage funds to invest in infrastructure. This is an additional tool in the toolbox to leverage private and public partnerships to develop more workforce housing.

It is more advantageous for developers to develop affordable housing in King County than elsewhere in the state. This bill provides an incentive for developers to take projects outside of King County.

In the previous committee, there were some changes made to the language that will need to be addressed. The Area Median Income needs to be increased from 80 percent to 115 percent. Workers earning a median wage require affordable housing.

(Opposed) None.

**Persons Testifying:** Representative Steele, prime sponsor; Frank Kuntz, City of Wenatchee Mayor's Office; and Shiloh Burgess, Wenatchee Valley Chamber of Commerce.

**Persons Signed In To Testify But Not Testifying:** None.