# HOUSE BILL REPORT
# HB 2497

**As Passed Legislature**

**Title**: An act relating to adding development of permanently affordable housing to the allowable uses of community revitalization financing, the local infrastructure financing tool, and local revitalization financing.

**Brief Description**: Adding development of permanently affordable housing to the allowable uses of community revitalization financing, the local infrastructure financing tool, and local revitalization financing.

**Sponsors**: Representatives Ormsby, Leavitt, Doglio, Ramel, Tharinger, Goodman, Riccelli and Santos.

**Brief History:**

**Committee Activity:**

Finance: 2/7/20, 2/10/20 [DP].

**Floor Activity:**

Passed House: 2/16/20, 56-39.
Senate Amended.
Passed Senate: 3/3/20, 35-13.
House Concurred.
Passed House: 3/7/20, 55-42.
Passed Legislature.

**Brief Summary of Bill**

- Expands public improvement eligible for community revitalization financing, local infrastructure financing tool, and local revitalization financing to include permanently affordable housing.

## HOUSE COMMITTEE ON FINANCE

**Majority Report**: Do pass. Signed by 8 members: Representatives Tarleton, Chair; Walen, Vice Chair; Chapman, Frame, Macri, Orwall, Springer and Wylie.

**Minority Report**: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Stokesbary and Vick.

*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.*

**Staff**: Tracey O'Brien (786-7152).

**Background**:

Property Tax – Regular Levies.
All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue other than the state levies is limited as follows:

- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent plus the value of new construction.

The Washington Constitution limits regular levies to a maximum of 1 percent of the property's value ($10 per $1,000 of assessed value [AV]). There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- The state levy rate is limited to $3.60 per $1,000 of AV.
- County general levies are limited to $1.80 per $1,000 of AV.
- County road levies are limited to $2.25 per $1,000 of AV.
- City levies are limited to $3.375 per $1,000 of AV.

For property tax purposes, the state, counties, and cities, with respect to the levies listed above, are collectively referred to as senior taxing districts. Junior taxing districts—a term that includes fire, hospital, flood control zone, and most other special purpose districts—each have specific rate limits as well.

The tax rates for senior and junior taxing districts, excluding the state, must fit within an overall rate limit of $5.90 per $1,000 of AV. If the statutory $5.90 or constitutional $10 limit are exceeded, statute establishes the sequential order in which the levies must be proportionally reduced or eliminated (a process referred to as prorationing) to conform to the statutory and constitutional limits.

Some regular property tax levies—including levies for criminal justice purposes, port districts, and emergency medical services—are subject to the $10 constitutional limit but not the $5.90 aggregate rate limit. These levies have protections from general prorationing requirements and exist within the "gap" that remains after subtracting the state levy and the $5.90 in local regular levies from the constitutional $10 limit per $1,000 of AV.

Property Tax – Excess Levies.
Excess levies are imposed in addition to regular levies and are not subject to the constitutional $10 limit. Taxing jurisdictions with excess levy authority include local school districts, public facilities districts, and transportation benefit districts. Most excess levies require a 60 percent voter approval. Local school district levies for operation, transportation, and capital projects require simple majority voter approval.

Retail 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 tax applies 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.

Community Revitalization Financing.
In 2001 the Community Revitalization Financing (CRF) Act was created. It authorized cities, towns, counties, and port districts to create a tax increment area and finance public improvements within the area by using increased revenues from local property taxes generated within the area.

An increment area cannot be created without the approval of the local government imposing at least 75 percent of the regular property taxes within the area. The incremental property taxes under this program are calculated on 75 percent of any increase in the AV in the increment area. Any fire protection district with geographic boundaries in the increment area must agree to participate in the project in order for it to proceed. The CRF Act does not include any state contribution.

There are six increment areas located in Spokane County.

Local Infrastructure Financing Tool.
In 2006 the Local Infrastructure Financing Tool (LIFT) program was enacted. It is available to certain local governments for financing local public improvement projects intended to encourage economic development or redevelopment.

As part of the LIFT program, a sponsoring local government (a city, town, county, port district, or federally recognized Indian tribe) creates a "revenue development area" from which annual increases in revenues from local sales and use taxes and local property taxes are measured. These increases in revenues and any additional revenues from other local public sources are then used to pay for public improvements in the revenue development area and are also used to match a state contribution.

State funding for the LIFT program is provided through a credit against the state sales and use tax. The sponsoring local government is allowed to retain a certain amount of state sales and use tax revenue that would otherwise be deposited in the State General Fund.

The maximum state contribution that a sponsoring local government may receive each year is the lesser of:

- $1 million;
- the amount of local matching funds (local excise tax allocation revenues, local property tax allocation revenues, and other revenues from local public sources) dedicated to the payment of the public improvements or bonds in the previous calendar year;
- the amount of the project award granted; or

- the highest amount of state retail sales and use tax revenues and state property tax revenues for any one calendar year.

The local funds and state contribution are used for the payment of bonds issued for financing local public improvements within the revenue development area. The public improvements may be financed on a pay-as-you-go basis.

The maximum statewide contribution for all of the LIFT projects is capped at $7.5 million per year. Nine projects have been awarded state contributions under the LIFT program. The projects are located in Bellingham, Bothell, Everett, Federal Way, Mount Vernon, Puyallup, Vancouver, Yakima, and Spokane County.

The application process for the LIFT program is closed. The expiration date for the LIFT program is June 30, 2044.

Local Revitalization Financing.
In 2009 the Legislature created the Local Revitalization Financing (LRF) program, administered by the Department of Revenue (DOR). Under the LRF program, cities and counties are authorized to create "revitalization areas" and the program allows certain increases in local sales and use tax revenues and local property tax revenues generated from within the revitalization area, additional funds from other local public sources, and a state contribution to be used for the payment of bonds issued for financing local public improvements within the revitalization area.

The state contribution is a new local sales and use tax that is credited against the state portion of the sales and use tax. The local government that created a revitalization area must apply to the DOR to receive the state contribution. Under the legislation, up to seven demonstration projects were authorized and additional projects could apply for approval on a first-come basis.

The statewide maximum allowed for state contributions to the LRF program is $4.75 million per state fiscal year. Of this amount, $2.25 million is allocated for seven demonstration projects, and $2.5 million is allocated for other approved projects. The range of state contributions to each local government is $200,000 to $500,00 per project.

The LRF program has approved projects (demonstration and competitive) in Auburn, Bremerton, Spokane, Tacoma, University Place, Vancouver, Whitman County, Bellevue, Clark County, Federal Way, Kennewick, Renton, Wenatchee, Lacey, Mill Creek, Puyallup, Renton, and Richland.

**Summary of Bill**:

The purchasing, rehabilitating, retrofitting for energy efficiency, and constructing housing for the purpose of creating or preserving permanently affordable housing is added to the public improvement costs authorized for the CRF Act, the LIFT, and the LRF programs.

"Permanently affordable housing" is defined as housing, regardless of ownership, for which there is a legally binding, recorded document in effect that limits the price at which the owner may sell. The type of documents could include affordability covenants, deed restrictions, and community land trust leases. Resale restrictions could include continuous ownership of land by a public entity or nonprofit housing provider with a lease allowing ownership of the structure by an income-eligible household; or a nonpossessory interest or right, such a deed restriction, in real property that ensures affordability. However, the recorded document limiting the sales price or restricting the occupancy of the unit is limited to 40 years for property used by a shelter or rental housing, or 25 years if the property is owned by a low-income household.

**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) The City of Spokane requested this legislation and supports expanding these financing tools to include affordable housing. There is a crisis in adequate affordable housing in this state. Unfortunately, there is no single, easy solution to address the need. This legislation proposes using existing tools to address affordable housing as part of an area's overall redevelopment and revitalization. In fact, attracting residents to these new redeveloped and revitalized areas that often include mixed-use development is integral to their success. Moreover, this legislation would allow Spokane to preserve existing affordable housing with adjacent low-income housing in the CRF area. It is a good option to allow the preservation of affordable housing when gentrification occurs.

(Opposed) None.

**Persons Testifying**: Nick Federici, City of Spokane; and Candice Bock, Association of Washington Cities.

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