

SENATE BILL REPORT

SHB 1406

As Reported by Senate Committee On:
Housing Stability & Affordability, March 25, 2019
Ways & Means, April 26, 2019

Title: An act relating to encouraging investments in affordable and supportive housing.

Brief Description: Encouraging investments in affordable and supportive housing.

Sponsors: House Committee on Housing, Community Development & Veterans (originally sponsored by Representatives Robinson, Macri, Chapman, Valdez, Senn, Peterson, Kloba, Tharinger, Gregerson, Stanford, Walen, Doglio, Frame, Jinkins, Riccelli, Slatter, Ormsby and Santos).

Brief History: Passed House: 3/05/19, 66-32.

Committee Activity: Housing Stability & Affordability: 3/20/19, 3/25/19 [DPA-WM].
Ways & Means: 4/03/19, 4/26/19 [DPA, w/oRec, DNP].

Brief Summary of Amended Bill

- Authorizes the governing body of a county or city to impose a local sales tax, credited against the state sales tax, for affordable or supportive housing.

SENATE COMMITTEE ON HOUSING STABILITY & AFFORDABILITY

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Kuderer, Chair; Das, Vice Chair; Zeiger, Ranking Member; Darneille, Saldaña and Warnick.

Staff: Jeff Olsen (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Bailey, Billig, Conway, Darneille, Hunt, Keiser, Liias, Palumbo, Pedersen, Van De Wege and Warnick.

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.

Minority Report: That it be referred without recommendation.

Signed by Senator Hasegawa.

Minority Report: Do not pass.

Signed by Senators Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Becker, Rivers, Schoesler, Wagoner and Wilson, L..

Staff: Jeffrey Mitchell (786-7438)

Background: 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. 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.

Counties and cities may impose an affordable housing property tax levy each year for up to ten years to finance affordable housing for very low-income households. Counties and certain cities and towns may place a ballot proposition before the voters for a sales tax up to 0.1 percent for affordable housing and related services. A county legislative authority or certain cities may authorize a mental health or chemical dependency sales and use tax of 0.1 percent.

Summary of Amended Bill: County and city legislative authorities are authorized to implement a local sales tax to fund affordable or supportive housing. The maximum rate imposed may not exceed either 0.01 percent or 0.02 percent.

For the first 12 months following the effective date of the bill, the maximum rate of 0.0146 percent is available only to:

- a city levying a qualifying local tax;
- a city located in a county that declares it will not levy the tax; and
- a county within its unincorporated areas and within the limits of a city that declares it will not levy the tax.

Beginning 12 months after the effective date of the bill, the maximum rate of 0.0146 percent is available only to:

- a city levying a qualifying local tax; and
- a county within its unincorporated areas and within the limits of a city that is not levying the tax.

Beginning 12 months after the effective date of the bill, cities without a qualifying tax may impose a rate of 0.0073 percent, and a county may impose a rate of 0.0073 percent within the limits of a city imposing the tax at 0.0073 percent. A county may not levy the tax within the limits of a city imposing the tax at 0.0146 percent.

If HB 1923 is enacted by the Legislature, a city may not impose the local tax authorized for affordable housing and the existing sales and use tax for affordable housing if the city fails to take action to qualify for a planning grant from the Department of Commerce by April 1, 2021.

A "qualifying local tax" is defined as the affordable housing levy, property tax levies dedicated to affordable housing, the sales and use tax for housing and related services, or the sales and use tax for chemical dependency and mental health treatment services or therapeutic courts. To impose the tax, a county or city legislative authority must adopt a resolution of intent within six months of the effective date of the bill and impose the tax within one year.

The tax is credited against the state sales tax collected in the jurisdiction. The amount a county or city may collect in any state fiscal year is limited based on taxable retail sales in the jurisdiction for state fiscal year 2019.

A county or city may bond against the revenue. The revenue collected or bonds issued may only be used for:

- acquiring, rehabilitating, or constructing affordable housing, including new units of affordable housing within an existing structure or facilities providing supportive housing services to individuals with mental or behavioral disorders; or
- operations and maintenance costs of new units of affordable or supportive housing.

Counties with a population of 400,000 or less and cities with a population of 100,000 or less may also use the revenue to provide rental assistance to tenants.

Housing and services may only be provided to persons whose income is at or below 60 percent of the county median income. A county or city may enter into an interlocal agreement with one or more other counties, cities, or housing authorities to provide affordable or supportive housing.

Counties and cities imposing the tax must submit annual reports on the collection and uses of the revenue to the Department of Commerce (Commerce), and Commerce must submit a report annually to the appropriate legislative committees.

The tax expires 20 years after the jurisdiction first imposes the tax.

EFFECT OF WAYS & MEANS COMMITTEE AMENDMENT(S):

- Adds a voter-approved property tax levy used solely for affordable housing as an eligible qualifying local tax source.
- Removes provisions regarding calculation of median income for certain cities whose median income is not available from the United States Census Bureau.
- Reduces the tax rates as follows:
 1. 0.02 percent in bill changed to 0.0146 percent;
 2. 0.01 percent in bill changed to 0.0073 percent.
- Specifies, if HB 1923 is enacted by the Legislature, a city may not impose the local tax authorized for affordable housing and the existing sales and use tax for affordable

housing if they fail to take action to qualify for a planning grant from the Department of Commerce by April 1, 2021.

- Adds that a city must have imposed at least half of the authorized rate of the sales and use tax for housing and related services to be eligible as a qualifying local tax.
- Clarifies that the sales tax for chemical dependency and mental health treatment services must be imposed by a city to be eligible as a qualifying local tax.
- Clarifies the maximum local sales tax rate in participating counties and cities.

EFFECT OF HOUSING STABILITY & AFFORDABILITY COMMITTEE AMENDMENT(S):

- Adds a voter approved property tax levy used solely for affordable housing as a qualifying local tax source.
- Removes provisions regarding the calculation of median income for certain cities whose median income is not available from the United States Census Bureau.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Substitute House Bill (Housing Stability & Affordability): *The committee recommended a different version of the bill than what was heard.* PRO: The local affordable housing tax is a great tool that will dramatically increase the supply of affordable housing. The funding source is flexible and allows local jurisdictions to use the funds to address the housing issues in their community. The flexibility for smaller communities to use the funding for rental assistance reflects that there may not be sufficient revenues in some areas to build housing. Local communities are prioritizing current revenues to address the most vulnerable, but the state needs to partner with local governments to address homelessness. Even with the current booming economy, there are not enough resources dedicated to addressing the problem. There is not a solution for the behavioral health crisis that does not involve more stable housing. The funding mechanism in the bill allows for the certainty needed to use bonds to address the housing shortage. Funding is urgently needed to maintain existing low-income housing units in Mason County. The bill provides more than a tool for addressing housing, it is a game changer. There is a lack of affordable housing available for Washington's lowest income households.

Persons Testifying (Housing Stability & Affordability): PRO: Representative June Robinson, Prime Sponsor; Emily Alvarado, City of Seattle Office of Housing; Jay Arnold, Deputy Mayor, City of Kirkland; Len Mc Comb, Community Health Network of Washington and Washington State Hospital Association; Doug Levy, Cities of Renton, Lake Stevens, and Fife; Michele Thomas, Washington Low Income Housing Alliance; Kathryn Haigh, Mason County Housing Authority.

Persons Signed In To Testify But Not Testifying (Housing Stability & Affordability): No one.

Staff Summary of Public Testimony on Bill as Amended by Housing Stability & Affordability (Ways & Means): *The committee recommended a different version of the bill than what was heard.* PRO: Local governments have been faced with a rising level of homelessness and limited affordable housing. There is a lack of affordable housing in our state, with 71 percent of the lowest income households in Washington paying over 50 percent of their income towards rent. The lack of affordable homes is the primary driver of homelessness. Affordable housing and permanent supportive housing is a smart investment that saves money in the future by preventing costly hospital room and institutional stays. At current funding levels, local governments are unable to keep up with the demand for safe and affordable housing and our communities need more housing resources. This funding source will empower counties and cities to employ proven solutions, including the use of bonding to build more housing. Even if we are successful at addressing mental health issues, if they do not have a stable, affordable place to live we will fail. Seattle needs to build more affordable housing, and with this revenue source it could provide a \$100 million bond amount to make immediate progress. This funding source gives counties and cities the means and flexibility to makes investments in affordable housing.

Persons Testifying (Ways & Means): PRO: Doug Levy, Cities of Renton, Lake Stevens, Fife; Michele Thomas, Washington Low Income Housing Alliance; Kurt Wiest, Bremerton Housing Authority; Paul Benz, Faith Action Network; Emily Alvarado, Seattle Office of Housing; Len McComb, Washington State Hospital Association, Community Health Network of Washington; Carl Schroeder, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying (Ways & Means): PRO: Juliana Roe, Washington State Association of Counties.