SENATE BILL REPORT
SB 5802

As of February 22, 2019

Title: An act relating to establishing housing affordability zones.

Brief Description: Establishing housing affordability zones.

Sponsors: Senator Fortunato.

Brief History:
Committee Activity: Housing Stability & Affordability: 2/20/19.

Brief Summary of Bill

- Authorizes a city or county planning under the Growth Management Act to designate housing affordability zones to develop single family homes for low-income households.
- Limits permit fees and exempts impact fees on the development of homes in housing affordability zones.
- Distributes the state portion of certain sales and use taxes from the construction of homes in housing affordability zones to counties and cities.
- Provides a business and occupation tax credit on the sale of eligible homes.

SENATE COMMITTEE ON HOUSING STABILITY & AFFORDABILITY

Staff: Jeff Olsen (786-7428)

Background: The Growth Management Act (GMA) is the comprehensive land-use planning framework for counties and cities in Washington State. The GMA establishes land use designations and environmental protection requirements for all Washington State counties and cities. The GMA also establishes a significantly wider array of planning duties for 28 counties, and the cities within those counties, that are obligated to satisfy all planning requirements of the GMA**.** Cities and counties engaging in comprehensive planning may enact ordinances and codes to regulate the use of land and zoning of certain developments and activities.

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.

Counties and cities that are obligated by population or choice to fully plan under the GMA may impose impact fees on development activity as part of financing public facilities needed to serve new growth and development. This financing cannot rely solely on impact fees and must provide a balance between impact fees and other sources of public funds. Additionally, impact fees may only be imposed for system improvements reasonably related to the new development, may not exceed a proportionate share of the costs of system improvements, and must be used for system improvements that will reasonably benefit the new development.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value when used in this state. The state, most cities, and all counties 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.

Washington's major business tax is the business and occupation (B&O) tax. B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services, and activities not classified elsewhere.

Summary of Bill: A city or county planning under the GMA may designate housing affordability zones within a designated urban growth area to permit development of residential housing for low-income households. Low-income household means a single person, family, or unrelated persons living together whose adjusted income is less than 80 percent of the median family income. A city or county may only permit single-family residential housing within these housing affordability zones. A city or county may approve a new housing affordability zone if the following criteria are met:

- any permits granted within the zone are limited to the development of owner occupied single-family residential detached dwellings serving low-income households;
- each dwelling developed within the zone is exempt from impact fees;
- the city or county does not charge cumulative permitting fees exceeding $1,250;
- each dwelling developed must be reserved for low-income households; and
- in selecting potential zones, the city or county coordinates with the Department of Ecology and the Department of Commerce to identify possible sites for healthy housing remediation.

A city or county may receive a distribution equal to the state portion of the sales and use tax for labor and services rendered during construction of dwellings and in housing affordability zones. The Department of Revenue must remit qualifying amounts at least annually to cities and counties.

A person is allowed an annual credit of 4 percent of the taxable amount against the B&O tax due for ten years on the sale of an eligible single-family home. The credit may be carried over until used. No credits can be claimed after June 30, 2030.

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: PRO: This bill provides incentives for ownership of single family homes for low income families. A local government is able to establish a zone, including in an area that has been remediated, allowing individuals to own their own home. By not imposing impact fees and limiting the costs of permits, development costs can more affordable. Certain labor and materials would be exempt from sales tax, similar to legislation the committee heard earlier this session for Habitat for Humanity. Washington needs more housing, and to do that we need more supply. There are incentives for cities and developers to build more housing. Limiting fees and reducing the costs and barriers frees up the market to develop more housing.

CON: There are concerns about focusing low income development in one area. It is preferable to created mixed income developments and link access to transit, schools and employment.

OTHER: This approach could be a useful tool for increasing single family housing. Mixed income communities are preferable, and it is not clear that zones are necessary to do this.

Persons Testifying: PRO: Senator Phil Fortunato, Prime Sponsor; Roger Valdez, Seattle For Growth.

CON: Bryce Yadon, Futurewise.

OTHER: Carl Schroeder , Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: No one.