

SENATE BILL REPORT

SB 5189

As Reported by Senate Committee On:
Housing & Local Government, February 11, 2021

Title: An act relating to promoting housing affordability by incentivizing the construction of American dream homes.

Brief Description: Promoting housing affordability by incentivizing the construction of American dream homes.

Sponsors: Senator Fortunato.

Brief History:

Committee Activity: Housing & Local Government: 1/19/21, 2/11/21 [DPS-WM, w/oRec].

Brief Summary of First Substitute Bill

- Authorizes a person to apply for an American Dream home permit through December 31, 2031 to encourage development of single family homes for low-income households.
- Limits permit fees to \$1,250 and exempts impact fees on the development of American Dream Homes.
- Distributes the state portion of certain sales and use taxes from the construction of American Dream Homes to counties and cities.
- Provides builders of an American Dream Home a 4 percent business and occupation tax credit on the sale price of the home.

SENATE COMMITTEE ON HOUSING & LOCAL GOVERNMENT

Majority Report: That Substitute Senate Bill No. 5189 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Signed by Senators Kuderer, Chair; Das, Vice Chair; Fortunato, Ranking Member; Gildon, Assistant Ranking Member; Short, Assistant Ranking Member; Lovelett and Warnick.

Minority Report: That it be referred without recommendation.

Signed by Senators Cleveland and Salomon.

Staff: Jeff Olsen (786-7428)

Background: Counties and cities 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. 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.

County and city ordinances imposing impact fees must conform with specific requirements. Among other obligations, these ordinances:

- must include a schedule of impact fees for each type of development activity for which a fee is imposed;
- may provide an exemption for low-income housing and other development activities with broad public purposes; and
- must allow the imposing jurisdiction to adjust the standard impact fee for unusual circumstances in specific cases to ensure fees are imposed fairly.

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 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.

Summary of Bill (First Substitute): A person may apply for a permit for an American Dream Home through December 31, 2031 to encourage the development of single family 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. American Dream Homes includes a single-family detached residence under 1700 square feet that must be built to conform to local building

codes. If an American dream home is resold any time before December 31, 2031, the price must be affordable for low-income households. An American Dream Home may be approved if the following criteria are met:

- covenants or restrictions are included to ensure each home is owner-occupied and reserved for low-income households;
- each home is exempt from impact fees; and
- the city or county does not charge cumulative permitting fees exceeding \$1,250.

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 the construction of an American Dream Home. The Department of Revenue must remit qualifying amounts at least annually to cities and counties.

The builder of an American Dream Home is allowed an annual credit against the B&O tax. The credit equals 4 percent of the gross selling price of the home and may be taken through June 30, 2031. The credit may be carried over until used, provided no credits can be claimed after June 30, 2032.

EFFECT OF CHANGES MADE BY HOUSING & LOCAL GOVERNMENT COMMITTEE (First Substitute):

- Authorizes a person to apply for an American Dream Home permit through December 31, 2031.
- Specifies that a covenant must provide an American Dream home is owner-occupied and affordable for low-income families earning 80 percent of area median income.
- Provides that if an American Dream home is re-sold the price must be affordable for low-income households.
- Requires that an American Dream home conform to local residential building codes.

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 Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: There needs to be more low-income starter homes. The goal is to provide a way to get families into a small home and move people out of poverty. The bill is based on the Habitat for Humanity model. There needs to be incentives for builders to build starter homes. By buying starter homes and building wealth, it will help builders by creating a market for additional homes when these families buy another house. This is a creative idea to address how the regulatory burden

and impact fees makes it more difficult to build affordable homes. With housing so expensive, there needs to be more options for families to buy a home.

OTHER: In addition to single family homes, why not include town homes or other types of multi-unit homes. Revenues could be reinvested to replace lost impact fee revenues.

Persons Testifying: PRO: Senator Phil Fortunato, Prime Sponsor; Steve Gano, Building Industry Association of Washington; Preston Tarr, citizen.

OTHER: Bryce Yadon, Futurewise.

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