

# HOUSE BILL REPORT

## SSB 5604

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**As Passed House:**

April 5, 2023

**Title:** An act relating to county sales and use taxes for mental health and housing.

**Brief Description:** Concerning county sales and use taxes for mental health and housing.

**Sponsors:** Senate Committee on Local Government, Land Use & Tribal Affairs (originally sponsored by Senators Robinson, Nguyen and Stanford).

**Brief History:**

**Committee Activity:**

Local Government: 3/15/23, 3/22/23 [DP];

Finance: 3/30/23, 3/31/23 [DP].

**Floor Activity:**

Passed House: 4/5/23, 98-0.

**Brief Summary of Substitute Bill**

- Allows counties, like cities, to use revenue from the chemical dependency and mental health treatment program sales and use tax to make modifications to existing facilities to address health and safety needs necessary for the provision of the programs.
- Allows all counties and cities, regardless of population, to use the affordable and supportive housing sales and use tax for the same purposes, and allows the county or city to retain up to 10 percent of the revenue from the tax for administrative costs.

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**HOUSE COMMITTEE ON LOCAL GOVERNMENT**

**Majority Report:** Do pass. Signed by 7 members: Representatives Duerr, Chair; Alvarado, Vice Chair; Goehner, Ranking Minority Member; Jacobsen, Assistant Ranking

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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 part of the legislation nor does it constitute a statement of legislative intent.*

Minority Member; Berg, Griffey and Riccelli.

**Staff:** Kellen Wright (786-7134).

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 13 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Thai, Walen and Wylie.

**Staff:** Kristina King (786-7190).

### **Background:**

A sales tax is a tax applied to the sale, rental, repair, or installation of tangible person property, digital products, or some services purchased for the buyer's own use. It is a percentage tax based on the selling price of the items. A use tax is similar, except that it applies to the value of goods used within the state when a sales tax for them has not been paid. For example, a sales tax would be imposed on the sale of a car inside Washington, while a use tax would be imposed on a car purchased outside of Washington when it is registered in Washington if no sales tax, or a sales tax at a lower rate than Washington's, was paid at the time of the car's purchase.

The state imposes a sales and use tax at a rate of 6.5 percent of the selling price or value of the article sold or used. Counties and cities can also impose sales and use taxes when authorized to do so by the Legislature. When the Legislature does authorize a local sales and use tax, the revenue from the tax is often required to be used for a specific purpose.

### Chemical Dependency and Mental Health Treatment Programs Sales and Use Tax.

One such sales and use tax has been authorized for providing chemical dependency or mental health treatment programs and for therapeutic court services. The programs can include, but are not limited to, components of coordinated services such as treatment services, case management, transportation, and housing. Cities can also use the revenue from the tax to make modifications to existing facilities to address health and safety needs necessary for the provision of the programs. A county that imposes this tax must operate a therapeutic court for dependency proceedings.

This tax may be imposed by the legislative authority of a county. If a county with a population of more than 800,000 has not imposed the tax by January 1, 2011, then any city within the county with a population of more than 30,000 may impose the tax. A county that later imposes the tax must provide a credit against its tax in the full amount of the tax imposed by the city. The tax can be imposed at a rate of up to 0.1 percent of the selling price or value of the article.

A county with a population of more than 25,000, or a city with a population of more than 30,000 may use the revenue from the tax to supplant existing funding for a limited time. For the first three years that the tax is collected, up to 50 percent of the revenue may be used to supplant existing funding. For the fourth and fifth years, up to 25 percent of the revenue may be used in this way.

Affordable and Supportive Housing Sales and Use Tax.

Another limited-use local sales and use tax can be imposed for affordable and supportive housing services for persons with income at or below 60 percent of the median income for the county or city imposing the tax. The tax was available for imposition by a county or city legislative authority between July 28, 2019, and July 28, 2020.

The allowed use of the revenue depends on the population of the jurisdiction imposing the tax. All counties and cities may use the revenue for acquiring, rehabilitating, or constructing affordable housing, including adding new units within an existing facility providing supportive housing services. Counties with fewer than 400,000 people, and cities with fewer than 100,000, may additionally use the revenue for providing rental assistance to tenants. Counties and cities above those population thresholds can instead use the revenue for the operation and maintenance cost of new units of affordable or supportive housing.

The rate of tax that can be imposed also varies. The maximum tax rate is 0.0073 percent for a city if the county is also imposing the tax and the city has not imposed an affordable housing levy, a sales and use tax for housing and related services at a rate of at least half of the authorized maximum, the sales and use tax for chemical dependency and mental health treatment programs, or an increase in a regular property tax levy solely for the purposes of affordable housing before July 28, 2020. A county may impose the tax at up to the same rate within such a city.

The maximum rate is instead 0.0146 percent if imposed by a city that is levying one or more of the other taxes, or if imposed by a county in the unincorporated portions of the county or within a city that has not imposed the affordable and supportive housing sales and use tax. A county may not impose a tax within a city that is imposing both the affordable and supportive housing tax and one of the other taxes.

The tax is credited against the sales and use tax collected for the state. This means that, rather than the person paying the tax paying a greater rate of tax, the amount of the tax is instead deducted from the sales and use tax revenue remitted to the Department of Revenue. The maximum that may be collected by a county or city under this tax is the total taxable retail sales within the county or city in 2019 multiplied by the rate of the tax imposed, with any sales that were made within a city that is imposing the tax subtracted from the total sales made within the county. Any revenue exceeding this amount must go to the State General Fund.

The affordable and supportive housing sales and use tax expires 20 years after it is first

imposed.

**Summary of Bill:**

Counties, like cities, may use revenue from the chemical dependency and mental health treatment program sales and use tax to make modifications to existing facilities to address health and safety needs necessary for the provision of the programs.

All counties and cities, regardless of size, imposing the affordable and supportive housing sales and use tax may use the tax for acquiring, rehabilitating, or constructing affordable housing; providing rental assistance to tenants; and for the operation and maintenance cost of new units of affordable or supportive housing. Counties and cities may retain up to 10 percent of the annual revenue from the tax for administrative costs related to administering the tax and the affordable and supportive housing programs.

**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 (Local Government):**

(In support) Local governments are searching for ways to use capital and operating dollars for housing and homelessness, and this bill will help with funding. The bill does not change the way that the tax is structured or how local governments access the revenue, but only changes the uses of the revenue that are allowed. The bill corrects an oversight and allows counties, as well as cities, to use the behavioral health sales and use tax for capital expenses, and allows all local governments to use revenue from the affordable housing tax for affordable housing operations and rental assistance regardless of size. The approaches for addressing housing and homelessness have changed, and when counties are thinking about purchasing hotels or apartments to use as housing, the counties need revenue to support the people brought into the structures. The bill that initially authorized the sales tax for affordable housing also contained a provision that allowed counties and cities to retain some portion of the revenue to go towards administrative costs, but this was vetoed by the Governor because of concerns over COVID-19 funding. This should be restored now, as there is a desperate need for administrative funds. This bill addresses multiple important considerations. This will help to ensure housing stability for those in larger jurisdictions, and will enable jurisdictions to use the funds in the most efficient way. These changes will help projects move forward. These funds can be used to replace lapsed federal funding, and allowing replacement for state funding should be looked at as well.

(Opposed) None.

**Staff Summary of Public Testimony (Finance):**

(In support) This bill was suggested by the Snohomish County Human Services Department as they try to piece together funding to address a housing and homelessness crisis in their community. In the case of the sales tax for behavioral health, mental health, and chemical dependency, the use is adjusted to allow cities to use the funding for capital projects and they are requesting that counties also be allowed to use that funding in the same manner. It is a tax that the county has imposed on themselves, and this bill allows counties to be able to use that revenue for capital projects if they choose to do so. The second tax, the affordable and supportive housing, was a bill that was passed a few years ago here in the Legislature, where counties, and in some cases, cities, are authorized to retain a portion of their state sales tax and use it for affordable housing. There are population thresholds that dictate which counties and cities can use it for construction and which can use it for rental assistance. Methods for addressing housing and homelessness change over time. This bill removes the population threshold and allows counties and cities to be able to use the funds for rental assistance. This bill does not change any revenues and it allows flexibility for local communities to be able to address the issues that they are faced with.

(Opposed) None.

**Persons Testifying (Local Government):** Senator June Robinson, prime sponsor; Juliana Roe, Washington State Association of Counties; Mary Jane Brell-Vujovic, Snohomish County; and LaDon Linde, Yakima County.

**Persons Testifying (Finance):** Senator June Robinson, prime sponsor.

**Persons Signed In To Testify But Not Testifying (Local Government):** None.

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