SENATE BILL REPORT
SB 5576

As of February 25, 2025

Title: An act relating to providing state funding for essential affordable housing programs.

Brief Description: Providing state funding for essential affordable housing programs.

Sponsors: Senators Lovelett, Alvarado, Saldaña, Bateman, Salomon, Valdez, Hasegawa, Nobles, Wilson, C. and Ramos.

Brief History:

Committee Activity: Ways & Means: 2/25/25.

Brief Summary of Bill

- Establishes a 6 percent state tax on sales of lodging in short-term rentals facilitated through a short-term rental platform.
- Creates the Essential Affordable Housing Local Assistance Account.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: Lodging Taxes. *State-Shared Lodging Tax.* A city or county legislative authority may impose a 2 percent special excise tax on the sale or charge made for the furnishing of lodging at hotels, motels, and short-term rentals. This tax is credited against the state sales tax that would be imposed on the sale of lodging.

In most cases, a city's lodging tax is credited against the county's lodging tax, so that the rate is 2 percent countywide; however, the county will not receive revenues from the city's jurisdictions. There are two instances where statutory exemptions allow a city and a county to both impose the 2 percent lodging tax, thus reducing the state sales tax on lodging within the city and county to 2.5 percent.

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.

Outside of King County, revenues from the tax can be used solely for the purpose of paying for tourism promotion or for the acquisition or operation of tourism-related facilities. In King County, the revenue must be divided between affordable workforce housing; housing, facilities, and services for homeless youth; museums and the arts; and capital or operating programs that promote tourism.

Special Lodging Tax. An additional excise tax can be imposed on the sale of lodging by a county or most cities at a rate of up to 2 percent. Seattle can impose the tax at a rate of up to 4 percent. This tax is not a credit against the state sales tax and is instead paid by the purchaser. Cities within Snohomish County and Cowlitz County cannot impose the tax because the counties are imposing a previously authorized 4 percent lodging tax. Certain other counties and cities using tax authority that has since been changed are also authorized to continue to collect the tax at the previous, higher rate.

Convention and Trade Center Tax. The convention and trade center tax is a tax the consumer pays for lodging on stays less than 30 days at lodging businesses in King County. The rate is 7 percent within the city of Seattle and 2.8 percent in King County outside the city of Seattle

The imposition of the tax on lodging, when taken together with all other taxes, including state and local sales taxes, public facilities district sales taxes, transit district sales taxes, and the convention center tax, cannot exceed a total rate of 12 percent outside of Seattle. In Seattle, the combined taxes cannot exceed 15.2 percent.

<u>Short-Term Rentals and Short-Term Rental Platforms.</u> A short-term rental (STR) is a lodging use, outside of a hotel, motel, or bed and breakfast, in which a dwelling unit is offered to a guest for a fee, for fewer than 30 consecutive nights, and on an STR platform. An exemption applies for dwelling units in which the owner resides for at least six months during the calendar year and in which fewer than three rooms at a time are rented. An STR platform is a company that financially benefits from providing a means through which owners can offer dwelling units for STR.

Summary of Bill: Starting January 1, 2026, a statewide excise tax of 6 percent is levied on each retail sale of lodging in STRs that are facilitated through an STR platform. Revenues from the tax are deposited in the newly created Essential Affordable Housing Local Assistance (EAHLA) Account. The tax does not count toward the combined rate of other lodging taxes. The STR tax is included in the definition of trust fund taxes collected from the purchaser and held in trust by the seller before being remitted to the Department of Revenue.

Counties receive the amount of the STR tax revenues from sales occurring within unincorporated areas of the county. Cities and towns receive the amount of STR tax revenues from sales occurring within the incorporated area of the city or town.

The EAHLA account is created in the state Treasury. Expenditures from the account may be used exclusively for operating and capital costs of affordable housing programs, including homeless housing assistance, temporary shelters, or housing infrastructure projects. Revenues may be used for contracts, loans, or grants to nonprofits or public housing authorities for related services. The county or city can retain up to 20 percent of the revenues for costs incurred to administer programs and services provided.

If revenues from the STR tax are being used for housing infrastructure projects, certain requirements must be met for the project. The housing infrastructure project must be designed to meet the maximum allowed density of the parcels it will serve. If the city or county imposes impact fees for new development, then they must reduce the fees by the proportional costs that are paid by the STR tax. Projects cannot be in areas limited to single family residential housing. The city or county must limit the size of any single-family residential unit constructed to 2000 square feet or less. If the infrastructure project is within an urban growth area, the city must agree to annex the project area upon completion of the project.

The new state excise tax is exempt from the combined sales and use tax rate caps.

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: STRs by their nature reduce long-term or permanent housing. We need resources to help meet the 500,000 affordable housing units that the market is not providing. This is a modest assessment for people that can afford a vacation home. We appreciate the flexibility on capital and operating expenditures. In 2018, there was legislation that applied the convention and trade center tax to STRs. Almost 40 percent of the homes in our area are second homes. We are pricing out our community and workforce.

This bill will provide a funding stream that will allow us to grab affordable housing units. We can't build enough units, they just get grabbed by other people. STRs have undeniably contributed to the housing shortage. By implementing this bill, we can tap into that market and invest directly in affordable housing while not throwing up roadblocks to STRs in general. This bill offers a thoughtful and effective solution while allowing the STR model to continue to thrive. Hotels are not allowed in residential areas. What is driving up the cost in residential zones is the conversion of homes to STRs. This is how the housing inventory shrinks. Hotels are not causing the problem.

CON: STR operators have to pay a number of expenses. This bill will cause a 38 percent tax increase. Excess taxation will drive STR operators out of the business and the current taxes will go away. This is a tax on the guests staying at STRs. In Leavenworth, almost two-thirds of bookings were Washington residents. This places an unfair burden on our own residents. This will substantially increase taxes on small businesses operating as STRs but not hotels operating as large chains. Homelessness has increased dramatically in Washington despite all the funding going towards it. Hosts will have to lower their daily rate, which will hurt their businesses. I have to give up my home 90 to 100 days a year so I can afford to live there. STRs provide a better service than hotels. STRs allow homeowners to cover their mortgages and other expenses. This bill would be a burden on everyday families. The extra income has kept me from losing my home.

STRs are misunderstood as the wealthy getting wealthier while some are unable to find affordable housing. Out of our 30 STRs in Gig Harbor, one was considered affordable. The majority of property owners are using the proceeds to pay their mortgages, high property taxes, and maintenance. The tax is uneven by ignoring hotels and motels. The state would be better off by helping with regulations, timelines, fees, and permits. Many of the people that use STRs can’t afford expensive overseas vacations. STRs support an ecosystem of small and micro enterprises. We need to look at increasing inventory, decreasing regulation, and being open and trusting with the free market; however, this unfair tax does not solve the problem.

OTHER: Owner-occupants would not be impacted by this bill since they are not short-term rentals; however, there is no realistic way to make that distinction. The bill fails to distinguish between alternative dwelling units and owner-occupied dwellings.

Persons Testifying: PRO: Carl Florea, City of Leavenworth; Kurt Peterson; BRIAN ENSLOW, Washington State Association of Counties; Barbara Rossing; Zeke Reister, resident of Leavenworth.

CON: Owen Johnson, Propertyfinderz, Co; Richard Moser, Washington hosts collaborative alliance; Allison Moser, Washington Hosts Collaborative Alliance; ROBBIE WRIGHT, Bloomer Estates Vacation Rentals; Jake Mayson, Greater Spokane Inc.; Sean Lynn, Founder and CEO of Love Leavenworth Vacation Rentals; Thomas McCarthy; Lisa Evans; Craig Sternagel, NA; Michelle Larkin; Steve Carr; Kirsten Evangelista; Carolyn Allen, Washington Hosts Collaborative Alliance; James McQuillan; Janet Spesock; Scott Lawhon; Cassy Gilbertson; Ann Jolie; Don MacKenzie; Charisse Bennett; Joe Slawter, NA; Leimback V; Ajeet Dhaliwal; Colin Campbell; Sid Bahadur; LISA VIZZINI; David Baumgardner; Ken Ploeger, Seattle Airbnb Host Community; Amy Baker, Willa Villas; Judy Cusack-Peterson, Airbnb Host; Kandra Kent.

OTHER: Glen-Erik Cortes.

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