2022 Task Force Topic Sheet

Date	04	18	22
	MM	*DD*	*YY*

Category: Housing

Topic: Tax incentives to encourage higher density housing and necessary infrastructure

Topic Overview: Housing has been a focus of legislative efforts in recent sessions and was a topic on which prior reports and studies focused. The Road Map to Washington's Future (Roadmap 1) and Updating Washington's Growth Policy Framework (Roadmap 2) both highlighted the need to reform the state's tax structure to improve and provide fiscal tools for cities and counties which will encourage housing at higher densities within urban areas. See Attachment A.

While broad tax reform may be beyond the scope of this project, the Task Force can weigh in on several tax and revenue generation options that could encourage housing: this includes implementation of housing benefit districts, and recent legislation which has provided taxing options, including HB 1157, 11298, and 1880 (Attachment B).

Problems this topic could address:

- **Systemic imbalances in jurisdictions' ability to pay for public services:** As the Road Map projects noted, cost of providing services has consistently outstripped the ability of jurisdictions to raise funds via local taxes to pay for services.
- **Inequitable property tax structure:** Taxing property based on land and improvement values together can incentivize speculation and lead to perverse incentives that result in underinvestment in the highest value areas and overinvestment in areas where the per capita cost of providing services is much higher. This can also lead to structural issues for counties and rural areas, where property taxes can present a burden above and beyond what development pressure would suggest.
- **Incentives to cities and counties to increase densities in urban areas:** Certain options could provide strong incentives for cities and counties to increase residential densities, especially in areas that are in close proximity to transit.

Preliminary recommendation options:

1. **Review and provide recommendations on taxing options** that could encourage middle and higher density housing near transit and that may provide ways to help pay for capital facilities necessary to support growth.

How these problems are impacting people/groups:

- Inadequate provision of infrastructure is extending and deepening the crisis of housing availability and affordability that has plagued the region for years.
- Options which result in providing a variety of housing types at all income levels could assist with our regional housing crisis.

Budgetary impacts:

- Changing how property is taxed at the state level would have an impact on revenue generated.

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New statutes or revision to existing statutes? New ☒ Revision☐
Complexity – time to develop recommendations: Low ☐ Medium ☐ High ☒
Are the required changes technical, substantive, or both? Technical changes alone could be run through working groups primarily, while substantive changes (new GMA comp plan elements, for example) would have to be worked extensively through the Task Force. **Technical ☐ Substantive ☒**
Is this issue based on recent legislation? Yes ☒ No ☐ **If yes, link to the most recent legislation.** House Bill 1157 House Bill 1128 (same as HB 1880)

ATTACHMENT A

A Road Map to Washington's Future (Roadmap 1)

"Participants also suggested evaluating tools and approaches used in other states, for example, regional tax base sharing, tax increment financing, value-added, personal and corporate income taxes. For example, some participants suggested amending state law to enable Tax Increment Financing (TIF), a tool that is available in most other states, including Oregon. Participants pointed to public parks, utility systems, and housing projects built in Portland and Lake Oswego, Oregon as examples of what can be achieved with TIF. Some participants believed that TIF is the only way to create the large amounts of revenue to pay for large-scale capital projects that will be needed to support growth, particularly in areas that are rezoned to higher densities but lack adequate water, sewer, roads, parks, or drainage facilities. Some suggested that research about the successes and challenges in other states could inform ways to design a TIF system that is targeted to specific kinds and locations of projects and is transparent and accountable." (p. 44, What is Not Working Well in the Growth Planning Framework and Ideas for Improvements)

"To address housing issues, participants also talked about needing greater collaboration between the public and private sector, to connect public policy to emerging market trends, and the need to tap private sector innovation, support, and resources to help finance or underwrite new housing starts. Also suggested was for affordable housing be treated as public infrastructure that serves a documented public need, and as such should be publicly funded, built, and managed, potentially by a regional authority with access to new fiscal tools, such as tax increment financing (TIF). Preliminary research has been done on both

potential revisions to the MFPTE program and the possibilities for TIF (See UW Fiscal Tools Report in Volume II)." (p. 49, What is Not Working Well in the Growth Planning Framework and Ideas for Improvements)

"Action 1.1
Focus legislative efforts on enhanced state funding and new fiscal tools that enable cities, counties, regions, and state agencies to address needs and manage growth.
[…]

- Consider changes to the entire state tax and revenue system including the property tax, retail sales tax, real estate excise tax, gasoline tax, road tax, business and occupation tax, impact fees, and open space and multifamily property tax exemption programs.
- Examine potential additional fiscal tools available in other states including tax increment financing, regional tax base sharing, value added, and personal and corporate income taxes, at the statewide or regional scales." (p. 82, Transformational and Systemic Change Actions)

ATTACHMENT B

House Bill 1157 - Increasing housing supply through the growth management act and housing density tax incentives for local governments.

Summary of Bill: Real Estate Excise Tax Density Incentive Zones. Planning counties and cities are authorized to establish REET density incentive zones. A REET density incentive zone is an area within a UGA where the city or county adopts zoning and development regulations to increase housing supply by allowing construction of additional housing types as outright permitted uses.

Upon establishing an incentive zone, the local government receives a portion of the state REET imposed for sales of qualified residential dwelling units within the incentive zone. A qualified residential dwelling is either an individual residential dwelling unit or a residential building of two or more dwelling units constructed within an incentive zone that achieves a net increase in the total number of residential dwelling units compared to the maximum number of residential dwelling units that could have been built prior to the adoption of zoning and development regulations creating the incentive zone. To be included as qualified residential dwelling units, the units must be restricted from being offered as short-term rentals for more than 30 days a year for the first 15 years after construction, and the county or city must determine how the residential dwelling units are to be restricted from being short-term rentals within their respective jurisdictions. An incentive zone may only be located within a UGA and must allow single-family detached dwellings at a net density of at least six dwelling units per acre, duplexes, triplexes, fourplexes, townhomes, accessory dwelling units, and courtyard apartments.

An incentive zone may also allow housing types and densities that exceed the minimum UGA requirements as outright permitted uses. An incentive zone may not be established later than one year after the date by which a city or county is required to update its comprehensive plan. Once an incentive zone is established, a qualified residential dwelling unit may be constructed at any time. Prior to establishing an incentive zone, the city or county must:

- consider the race and income of existing residents within the area and adjacent neighborhoods to be designated;
- consider displacement impacts of low, very low, and extremely low-income residents within the area and the adjacent neighborhoods to be designated; and
- assess the need for antidisplacement policies for high-risk communities within designated areas and the adjacent neighborhoods and make the assessment publicly available.

REET collected within an incentive zone is distributed to a county or city as follows:

- for a qualified residential dwelling unit located less than or equal to 0.25 miles from a mass transit stop, 50 percent of the amounts collected to the city or county where the dwelling is located; and
- for a qualified residential dwelling unit located more than 0.25 miles from a mass transit stop, 25 percent of the amounts collected to the city or county where the dwelling is located.

The distribution to a city or county applies to both the initial and all subsequent sales of a qualified residential dwelling unit if the residential dwelling unit continues to meet the original requirements of a qualified residential dwelling unit. Counties must

revalidate that the residential dwelling unit continues to meet the original applicable requirements on each subsequent sale of the residential dwelling unit. The amounts distributed to a city and county may only be used for:

- implementation of the housing element of the comprehensive plan under the GMA; costs for infrastructure, construction, and service support for moderate, low, very low, and extremely low-income housing;
- construction of capital facilities that promote livable and walkable neighborhoods; or
- creation of permanently affordable homeownership.

House Bill 1128 (same as 1880) - Concerning housing benefit districts

Summary of Bill: The legislative authority of a county or city is authorized to establish a housing benefit district (District) for the purpose of acquiring, land banking, predevelopment contracting, selling, improving, funding, and leasing land for the creation of affordable low- and middle-income housing and community development projects within the District consistent with any existing state, regional, or county housing plans and the Washington Housing Policy Act. A District is a municipal corporation with taxing authority and may include two or more cities or counties or a combination of both.

The governing body of the District consists of the members of the legislative authority proposing to establish the District, acting ex-officio and independently, constitute the governing body of the district.

For Districts with more than one participating jurisdiction, the District must be governed under an interlocal agreement with a governing body composed of at least five members, including:

- at least one elected official from the legislative authority of each participating jurisdiction; and
- any remaining members appointed by the legislative authority of the participating jurisdictions in a manner determined in the interlocal agreement with expertise in the following areas:
    1. public or private real estate finance;
    2. affordable housing development;
    3. neighborhood and community planning;
    4. design and architecture;
    5. transit-oriented development; or
    6. economic development.

Alternatively, the governing body of the metropolitan planning organization serving the District may serve as the governing body, but only if the District boundaries are identical to the boundaries of the metropolitan planning organization.

The treasurer of the participating jurisdiction proposing to establish the District is the ex officio treasurer of the District, unless the interlocal agreement states otherwise.

Before forming a District, the participating jurisdictions must adopt a housing action plan as described in the Growth Management Act that includes at least two actions to increase its residential building capacity and results in development within the station area producing the following mix of affordable housing:

- a minimum of 5 percent affordable to extremely low-income households;
- a minimum of 10 percent affordable to very low-income households;
- a minimum of 19 percent affordable to low-income households;
- a minimum of 33 percent affordable to middle-income households; and
- the remainder at market rate.

A station area is an area within one-half mile of a major transit stop that is zoned to have an average minimum density of 15 dwelling units or more per gross acre.

A city or county that establishes a District within an encompassing county with a population of at least 750,000 is required to adopt a station area plan. The plan must be consistent with accommodating 65 percent of future population growth and must be approved by the Housing Benefit District Advisory Board before any proposition for tax is submitted to the voters. A District is eligible to apply to the Department of Commerce for a grant up to $100,000 for planning assistance.

To carry out its objectives, a District is authorized to impose sales and use taxes and property taxes. Upon voter approval, a District may impose a sales and use tax at a rate not to exceed 0.2 percent of the selling price in the case of a sales tax, or 0.2 percent of the value of the article used in the case of a use tax. For Districts consisting of a single participating jurisdiction with a population over 750,000, or Districts with at least two participating jurisdictions with a combined population over 250,000, the rate of tax may be up to 0.3 percent. A District may also impose a one-time sales and use tax without majority approval not to exceed a rate of 0.1 percent. This tax is in addition to any other taxes authorized by law.

Any additional sales and use tax imposed beyond the one-time tax must be approved by a majority of voters. Beginning with taxes levied for collection in calendar year 2022, a District can impose a regular property tax up to $1 per $1,000 of the assessed value of property in the District. The tax may be imposed each year for six consecutive years when specifically authorized by a majority of voters in the District.

Taxes imposed may not exceed a duration of 20 years. A District is also authorized to issue and retire general obligation and revenue bonds to carry out its objectives, including:

- the retirement of voter-approved general obligation bonds, issued for capital purposes only, by levying bond retirement ad valorem property tax levies in excess of the one percent limitation upon voter approval;
- general obligation bonds without voter approval equal to 1.5 percent of the value of taxable property within the District; and
- general obligation bonds for capital purposes only and the retirement of those bonds by excess property tax levies imposed upon voter approval.

The revenue from taxes imposed or bonds issued must be used exclusively to implement or reimburse jurisdictions for implementing the specific objectives of the District, including:

- station area planning strategies, including creating new or updating existing plans, identifying a community vision, assessing the current regulatory environment and identify possible barriers to affordable housing development, assessing displacement risk for current low-income residents and underrepresented racial and ethnic minorities, creating a displacement mitigation plan, promoting equitable homeownership opportunities for underrepresented racial and ethnic minorities, and assessing alternate pathways to ownership models such as community land trusts and limited or shared equity cooperatives;
- land acquisition, based on station area plans and working with local jurisdictions and both nonprofit and for-profit developers to acquire, assemble, lease, land bank parcels, or sell, in cases where the station area plan clearly demonstrates that it is not financially feasible to lease all development parcels, with the net proceeds directed to subsidies for affordable housing and to promote community land trusts and infrastructure costs; and
- infrastructure development, such as area-wide environmental plans, sewers, and sidewalks.