



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5655
February 4, 2020
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 5655: Authorize the use of Revenue from the HB1406 Tax Credit and Appropriate Funding for the ARCH Administrative Budget.	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed:
RECOMMENDED ACTION:	Authorize how tax credit revenues will be used and appropriate funding for the ARCH administrative budget.	<input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

DEPARTMENT:	Community Planning and Development
STAFF:	Alison Van Gorp, Deputy Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Department of Revenue Letter
CITY COUNCIL PRIORITY:	1. Implement a Fiscal Sustainability Plan

AMOUNT OF EXPENDITURE	\$ 50,222
AMOUNT BUDGETED	\$ 33,990
APPROPRIATION REQUIRED	\$ 16,232

SUMMARY

Approved in the 2019 legislative session, HB 1406 provides new resources for cities and counties for affordable housing and supportive services through a credit against the state share of local sales taxes. Staff presented information on the legislation to Council on September 17, 2019 ([AB 5608](#)). The Council passed a resolution of intent to enact the sales and use tax authorized by HB 1406 on October 15 ([AB 5614](#)) and adopted Ordinance No. 19C-16 enacting the sales tax on November 4, 2019 ([AB 5621](#)). City staff notified the Department of Revenue (DOR) of the adoption of Ordinance No. 19C-16; DOR notified the City on December 23, 2019 (see Exhibit 1) that the tax would be imposed beginning January 1, 2020.

DOR has determined that the tax credit will be capped at \$37,372.56 annually. The sales tax credit of 0.0073% will be dispersed to the City up to that maximum each year. Thus, the exact amount of revenue collected each year will be variable, depending on the sales tax, but will not exceed \$37,372.56. At this time, Council direction is needed to allocate the revenue for 2020.

ARCH ADMINISTRATIVE BUDGET ADJUSTMENT

On November 19, 2019, Council approved the 2020 administrative budget for ARCH ([AB 5626](#) and [AB 5627](#)). The approved budget includes an ARCH staffing increase to enable more robust stewardship of the

homeownership and rental housing programs. The additional staffing increased the ARCH administrative budget by 53%, which resulted in a commensurate increase to Mercer Island's contribution for 2020. A budget amendment is required to appropriate an additional \$16,232 in funds to cover the gap between the amount budgeted and the amount required for the approved 2020 ARCH administrative budget. One option for consideration is using a portion of the HB 1406 revenue to offset the increase in the ARCH administrative budget, described in more detail below.

PART I: OPTIONS FOR ALLOCATING THE HB 1406 REVENUE

The City has three options for the use of the tax credit revenue, as prescribed by HB 1406:

1. Provide rental assistance for households earning less than 60% of the city's median income;
2. Construct affordable housing; or,
3. Support the creation of affordable housing by pooling funds with other jurisdictions.

Option 1 could be accomplished by directing funds to the existing emergency assistance program operated by Youth and Family Services (YFS). This program is currently funded by donations and provides \$20,000 in annual assistance grants to families in need. The \$1,000 grants allowed per household per year can be applied to emergency rent or utility assistance. YFS estimates that the current demand for this program is about double what is currently provided – staff believe that an additional \$20,000 (\$40,000 total) in rental assistance grants could be allocated to qualifying Mercer Island families each year. This option provides an effective stopgap measure to address immediate needs and keep families housed in the near term, but it does not address the larger need for greater affordability of housing both on Mercer Island and across the region.

Option 2 might be accomplished by holding HB 1406 revenue in reserve until a local project is identified where affordable housing can be created by the City or via a public-private partnership. The City also has the option of bonding against the HB 1406 revenue for this purpose. While using the revenue to directly construct affordable housing is theoretically possible, there are many logistical challenges to implementing it in Mercer Island. For example, the amount of revenue is modest, totaling approximately \$720,000 over the 20-year life of the tax credit. In addition, a local project must be identified, purchased/built, and managed to provide affordable housing, all of which would require additional staff capacity/capabilities or a partnership with an entity that can provide this expertise.

Option 3 can be accomplished by contributing funds to the ARCH Housing Trust Fund (HTF). Mercer Island has been a member of ARCH since the mid-1990s and the City contributes annually to the HTF. The HTF pools funds from sixteen ARCH member jurisdictions and contributes to affordable housing projects through a competitive selection process each year. The HTF contributions are leveraged with other public and private funding sources to maximize the impact of each contribution. Between 1993 and 2018, the HTF invested over \$62 million to create 3,645 units of East King County housing for families, seniors, homeless, and persons with special needs. This option is the most effective method for addressing the growing need locally and regionally for more affordable housing. It also has the advantage of helping the City address the funding gap for the ARCH administrative budget. HB 1406 revenue can be used to replace some of the funds budgeted for the HTF in 2020, freeing these funds up for use in the administrative budget.

Staff recommends that the City Council allocate the funds as described in Option 3. This would allow the City to meet its commitments to both the ARCH administrative budget and the HTF without utilizing additional general fund revenue. The staff are prepared to further discuss the pros and cons of each option at the City Council meeting.

PART II: OPTIONS FOR FUNDING THE ARCH ADMINISTRATIVE BUDGET

The City has three options for providing the additional \$16,232 required for the ARCH administrative budget. The funds can be appropriated from one of the following:

- A. Savings achieved by using HB 1406 revenue for the ARCH HTF; or,
- B. 2018 General Fund surplus; or
- C. Another general revenue source.

HB 1406 restricts the use of revenue from the tax credit to either rental assistance or the creation of affordable housing. The revenue cannot be used for administrative costs. As such, HB 1406 revenue cannot be used to directly fund the ARCH administrative budget. However, since the City has \$50,000 of general fund dollars budgeted to contribute to the HTF in 2020, the City could allocate portion of the HB 1406 revenue towards the HTF commitment. This would create a savings in general fund dollars which would then be available to fund the additional \$16,232 in needed for the ARCH administrative budget.

Alternatively, the City could also identify other funding sources in the general fund to cover the additional cost of the ARCH administrative budget, including the 2018 General Fund Surplus, or an alternate general fund revenue source.

NEXT STEPS

City Council direction is needed related to the use of the HB 1406 tax credit revenue and the appropriation for the ARCH administrative budget. Once that direction is received, staff will prepare a formal budget amending ordinance for Council consideration as a part of the next regular quarterly financial status report.

RECOMMENDATION

PART I: OPTIONS FOR ALLOCATING THE HB 1406 REVENUE

1. Authorize the City Manager to allocate XX% of the revenue received from the HB 1406 tax credit to [selected option(s) here].

PART II: OPTIONS FOR FUNDING THE ARCH ADMINISTRATIVE BUDGET

2. Appropriate an additional \$16,232 in 2020 for the City's contribution to the ARCH administrative budget using [insert option here].