

Authorize the use of Revenue from the HB 1406 tax credit and Appropriate Funding for the ARCH Administrative Budget



AB 5655 | February 4, 2020

Agenda

1. Authorize the use of revenue from the HB 1406 tax credit
2. Appropriate funding for the ARCH Administrative Budget

HB 1406: Sales Tax Credit for Affordable Housing

- State legislation passed in 2019 authorizing counties and cities to implement a local sales tax and a 20-year reduction in the State's portion of the sales tax to fund affordable or supportive housing
- Eligible expenditures:
 - Acquiring, rehabilitating, or constructing affordable housing
 - Operations and maintenance of new affordable housing
 - Rental assistance to tenants
- Mercer Island enacted the sales tax in November 2019
- Dept of Commerce has capped Mercer Island's tax credit at \$37,373 per year
 - Actual revenue will vary based on the sales tax collected each year

HB 1406: Sales Tax Credit for Affordable Housing

OPTIONS FOR ALLOCATING THE HB 1406 REVENUE

1. Rental assistance for households earning <60% of city median income
2. Acquire or construct affordable housing locally
3. Pool funds with other jurisdictions to create affordable housing

HB 1406: Sales Tax Credit for Affordable Housing

OPTION 1: YFS EMERGENCY ASSISTANCE PROGRAM

- Direct revenue to existing YFS emergency assistance program
- Currently funded by donations, ~ \$20,000/year
- Provides \$1,000 grants to assist households with emergency rent or utility assistance
- Current program demand would support additional \$20,000/year in rental assistance grants
- Analysis: effective stopgap measure, does not address larger need for affordable housing

HB 1406: Sales Tax Credit for Affordable Housing

OPTION 2: HOLD REVENUE IN RESERVE FOR LOCAL HOUSING PROJECT

- Hold tax credit revenue in reserve (or bond)
 - Approximately \$720,000 over 20 years
- Identify local project to acquire or build affordable housing
- Likely requires public-private partnership with developer or housing provider to implement
- Analysis: complex logistics and modest revenue capacity make this option challenging to implement

HB 1406: Sales Tax Credit for Affordable Housing

OPTION 3: CONTRIBUTE TO ARCH HOUSING TRUST FUND (HTF)

- Pool revenue with other East King County cities in the ARCH HTF
- Leverages M.I. contribution with other public and private funding
- ARCH benefits from economy of scale – has staff capacity and expertise to identify and support high quality projects
- Analysis: pooling and leveraging funds maximizes the value of each dollar and this approach will have the biggest impact in terms of helping people in need

ARCH Administrative Budget

Administrative Budget

- Approved 2020 Administrative Budget = \$1,110,097
- 53% increase over 2019 budget
 - Make permanent 2 new staff positions to provide additional capacity to administer the Homeownership Program and monitor compliance with rental housing covenants
- Increase Mercer Island's contribution to \$50,222
 - Budgeted amount is \$33,990
 - **Requires additional appropriation of \$16,232**

ARCH Administrative Budget

PART II: OPTIONS FOR FUNDING THE ARCH ADMINISTRATIVE BUDGET

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

ARCH Administrative Budget

OPTION A: SAVINGS FROM THE ARCH HTF

- Mercer Island budgeted \$50,000 for the HTF in 2020
- HB 1406 will potentially generate \$36,000-\$37,000 in 2020
- Some or all of this revenue could be contributed to the HTF
- A portion of the resulting budget savings could be applied to the ARCH administrative budget
- Analysis: allows City to meet ARCH admin budget and HTF commitments without additional general fund revenue

ARCH Administrative Budget

OPTIONS B & C: GENERAL FUND

- Identify other funding sources in the general fund:
 - 2018 general fund surplus
 - Alternate general fund revenue source
- Analysis: less favorable approach due to demands on general fund revenue

Staff Recommendation

- Staff recommends pursuing Option 1 and Option A
 - Directs HB 1406 revenue to the ARCH HTF for the biggest impact
 - Uses general fund savings from the \$50,000 budgeted for the HTF to fund the \$16,232 needed for the ARCH administrative budget
- Key benefit: Funds the ARCH HTF and administrative budget without placing further demands on general fund revenue

Next Steps

- Tonight: provide direction to staff on 1) the use of HB 1406 revenue and, 2) appropriate funds to the ARCH administrative budget
- Staff will incorporate this direction into a budget amending ordinance – bring to Council as a part of the Q1 financial status report (April)
- March 3: Approve projects for funding from the 2019 ARCH HTF funding round

Discussion

PART I: OPTIONS FOR ALLOCATING THE HB 1406 REVENUE

1. Rental assistance for households earning <60% of city median income
2. Acquire or construct affordable housing locally
3. Pool funds with other jurisdictions to create affordable housing

PART II: OPTIONS FOR FUNDING THE ARCH ADMINISTRATIVE BUDGET

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

Action

PART I: OPTIONS FOR ALLOCATING THE HB 1406 REVENUE

- 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

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