

MEMORANDUM

To: Affordable Housing Committee

From: Housing Interjurisdictional Team (HIJT)

Date: July 25, 2019

Subject: House Bill 1406 Implementation Overview and Analysis

Earlier this year, the Washington State Legislature adopted House Bill (HB) 1406, which creates a funding tool for cities and counties to accelerate investments in affordable and supportive housing through retention of a portion of the state sales and use taxes already paid. This is the most significant new funding tool available to local jurisdictions in King County in 2019 to increase the number of affordable homes available to those who need them.

While conversations are underway throughout the county about local implementation of HB 1406, the Affordable Housing Committee (AHC or Committee) has an opportunity to provide guidance around the question: *How should this tax credit be deployed in King County to maximize progress towards the Regional Affordable Housing Task Force 5-Year Action Plan recommendations and meet the diverse needs of residents, cities, and sub-regions across the county?*

The Action Plan includes seven goals and each goal has a number of strategies and actions that can be taken over the near term to achieve the goal. The seven goals are:

1. Create and support an ongoing structure for regional collaboration
2. Increase construction and preservation of affordable homes for households earning less than 50% Area Median Income
3. Prioritize affordability accessible within a half mile walkshed of existing and planned frequent transit service, with a particular priority for high-capacity transit stations
4. Preserve access to affordable homes for renters by supporting tenant protections to increase housing stability and reduce risk of homelessness
5. Protect existing communities of color and low-income communities from displacement in gentrifying communities
6. Promote greater housing growth and diversity to achieve a variety of housing types at a range of affordability and improve jobs/housing connections throughout King County
7. Better engage local communities and other partners in addressing the urgent need for and benefits of affordable housing

In June 2019, the Committee was briefed on the local revenue sharing program established by HB 1406. The Committee directed the Housing Interjurisdictional Team (HIJT or Staff) to analyze this new funding tool and develop a decision memo for the July 30, 2019 Committee meeting. This memo provides

background context for the new revenue source and options for the Committee to consider as it develops guidance for jurisdictions.

CONTEXT

This overview of HB 1406 and local analysis is adapted from “HB 1406 – Local Sales Tax Option for Affordable Housing” a June 13, 2019 memo from A Regional Coalition on Housing (ARCH) to ARCH member cities. Many thanks to ARCH staff for letting the HIJT use much of their analysis and apply it at the county scale.

- **HB 1406 allows cities and counties to retain a portion of the sales tax** collected in their jurisdiction for investment in affordable or supportive housing. This portion is offset by a reduction in the state’s portion, and therefore does not result in an increased tax on consumers.
- **Cities with a qualifying local tax** – defined as an affordable housing levy, the sales and use tax for housing and related services, the sales and use tax for chemical dependency and mental health treatment services or therapeutic courts (MIDD), or a voter-approved property levy for affordable housing – **can retain the entire sales tax credit**. Otherwise, the credit is split between the jurisdiction and the County. Currently, only Seattle has a qualifying tax in King County.

Figure 1. Illustration of available taxing authorities

Any city or county that opts into the revenue is considered a “participating” city or county.

First 12 months:

participating city w/ qualifying tax	participating city w/out qualifying tax	nonparticipating cities	in unincorporated areas	in cities that declare they will not levy the tax
0.0146% - city	0.0073% - city 0% - county	0% - city 0.0073% - county	0.0146% - county	0.0146% - county

After 12 months:

participating city w/ qualifying tax	participating city w/out qualifying tax	nonparticipating cities	in unincorporated areas
0.0146% - city	0.0073% - city 0.0073% - county	0.0146% - county	0.0146% - county

**Source: ARCH memo HB 1406 – Local Sales Tax Option for Affordable Housing*

- **The City of Seattle can maximize the value of the tax receipts** without partnering with other cities. The City of Seattle plans to levy the tax and already has a mechanism in place to pool the funds with other supportive and affordable housing dollars to maximize the impact.
- **To use the tax, cities and counties must pass a resolution** declaring their intent to access the source by January 31, 2020 and pass legislation to authorize the tax credit by July 27, 2020. However, jurisdictions may elect to pass such legislation before designating how the funds will be used, once collected.
- **The funds can be used only for housing and services for populations earning up to 60%** of the county median income. In 2018, this was approximately \$62,000 for a four-person household.
- **Funds may be used for acquiring, rehabilitating or constructing affordable housing**, which may include new units of affordable housing within an existing structure or facilities providing supportive housing services under RCW 71.24.385; **or the operations and maintenance** of new units of affordable or supportive housing.
- **Cities with populations under 100,000 and counties with population under 400,000** may also use the funds for rental assistance.
- **Funds may be used for repayment of general obligation or revenue bonds.** If the entirety of the revenue stream from all jurisdictions were made available for bonding, the total bonding capacity could range between \$120 and \$135 million.
- **The sales tax credit is anticipated to be available for 20 years**, with collections beginning in 2020.
- **Estimates of annual collections by sub-region**, based on 2018 tax figures, are below. See *Attachment A* for estimates of annual collections by jurisdiction.

Figure 2: Summary of Estimated Annual Revenue by Sub-Regional Area

SUB-REGIONAL AREA	0.0073%	0.0146%
<i>ARCH</i>	\$1,460,740	\$2,921,480
<i>SKHHP</i>	\$976,952	\$1,953,905
<i>Seattle</i>	\$2,065,321	\$4,130,642
<i>Other Cities</i>	\$354,850	\$709,699
<i>Unincorporated KC</i>	\$180,486	\$360,973
TOTAL	\$5,038,349	\$10,076,698

DISCUSSION

The briefing provided to AHC members at the June 21st meeting and ensuing discussion raised a number of questions for consideration. Common themes from the discussion included: **1) regional and sub-regional collaboration opportunities** and **2) target populations for the use of funds**.

Using the Regional Affordable Housing Task Force (RAHTF) Recommendations and Five-Year Action Plan and these core themes as a frame, the HIJT developed the following analysis for discussion at the July 30th AHC meeting. As jurisdictions may pass a resolution and legislation to authorize the tax credit that does not specify the use of funds, the HIJT elected not to develop extensive analysis or recommendations on implementation-related topics such as bonding options or uses of funds for capital, operations and maintenance, or rental assistance at this time. However, we think this is a crucial part of the conversation around increasing the amount of resources available for affordable housing and should be included as part of the Committee’s future work. *Attachment B* includes responses to other member questions.

We further stress the importance of centering the experiences of those most affected by racial, spatial and historical inequities in housing. Regardless of how jurisdictions proceed in implementing other goals of the Five Year Action Plan, the fifth goal of “protecting existing communities of color and low-income communities from displacement in gentrifying communities” should be seen as a central part of an implementation analysis as it affects many of the other goals of the Plan.

ANALYSIS

1. Regional and Sub-Regional Collaboration Opportunities

The Five-Year Action Plan includes strategies and actions related to supporting and funding sub-regional collaborations (Goal 1, Strategy B) and identifying local revenue sources for affordable housing production and preservation (Goal 2, Strategy A.i.). These strategies ensure affordable housing projects have access to adequate public financing through a coordinated process and foster positive collaboration between cities and King County. Figure 3 provides additional information on the collaboration opportunities available.

Figure 3: Analysis of HB 1406 Collaboration Opportunities

SUB-REGIONAL AREA	OPPORTUNITIES
Seattle	Seattle participates in a coordinated funding process with King County, ARCH and the State each year.
King County (KC)	KC currently administers Interlocal Agreements (ILAs) for smaller regional funding sources (e.g., document recording fees), and participates in the combined funders process
ARCH Cities	Cities have an existing governance structure for pooling funds and making collaborative decisions on their use. ARCH participates in a coordinated funding process with Seattle, King County and the State.

SKHHP Cities	Cities have an existing governance structure for pooling funds and making collaborative decisions on their use.
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Other Cities	Cities do not have an existing ILA for this purpose. Could consider joining ILA with King County, ARCH, or SKHHP.
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2. Use of Funds: Populations Most Impacted by Racial and Economic Inequities

House Bill 1406 requires jurisdictions to consider housing needs and leverage opportunities in the jurisdiction in determining the use of funds. In addition, the goal for producing supportive housing for homeless populations was a significant factor in legislators’ support for the bill.

The overarching goal of the RAHTF Five-Year Action Plan prioritizes serving households at or below 50 percent of area median income (AMI). The analysis that informed the Plan also highlights that the populations experiencing the highest housing cost burden in the county are households at or below 30 percent AMI and Black and Native American/ Alaskan Native households. The Five-Year Action Plan also includes a focus on protecting existing communities of color and low-income communities from displacement in gentrifying communities. This focus includes residents of manufactured housing communities. In addition, the 2019 Point in Time count found over 11,000 people experiencing homelessness in King County.

3. Leveraging Opportunities

Leveraging opportunities exist for a wide range of housing projects that serve households up to 60 percent AMI. King County and Seattle currently invest significant local and federal funding sources, most of which are restricted for use in housing serving specific populations or household incomes.

For example:

- Seattle Housing Levy dedicates the majority of funds to housing affordable at 30% AMI and below.
- ARCH funds largely come from local general fund sources and have generally been prioritized for housing affordable at 50% AMI and below (with flexibility to fund 0-30% AMI up to 80% AMI).
- Some King County funds serve populations with mental health and chemical dependency needs.

Local funds are typically used to leverage state, federal and private funding. Existing financing programs serve populations from 0-60% AMI, with a range of additional population set-asides.

QUESTIONS FOR CONSIDERATION

- Should the Committee recommend a coordinated approach to serving a priority population (e.g., households earning at or below 30 percent AMI, at or below 50 percent AMI, homeless households, etc.), or take no position?

- Should King County offer an incentive through its capital fund request for proposals process that prioritized those jurisdictions that contributed HB 1406 proceeds to 0-30% AMI projects, to encourage more jurisdictions to prioritize lower income households?
- How can the Committee recommendation support the needs of racial and ethnic groups with high cost burden and/or communities at risk of displacement in the use of these funds? For example, should the Committee recommend that jurisdictions prioritizing use of funds for preserving existing low-income/high-cost-burdened communities at high risk of displacement ?
- What do cities or sub-regional collaborations need in terms of technical assistance to move forward with implementation?

NEXT STEPS

- Consider and take possible action on the proposed *Affordable Housing Committee Recommendations for Implementation of House Bill 1406 in King County*.
- Provide HIJT with guidance on any additional analysis requested, such as: use of funds for capital, Operations and Maintenance, and rental assistance.
- Determine AHC mechanism for reporting progress on the use of these and other funds in addressing Five-Year Action Plan goals.
- Determine need for any technical assistance for cities or sub-regional collaborations.

Attachment A: Estimated Revenue from HB 1406, based on 2018 Sales Tax Revenue

SUB-REGIONAL AREA, City*	0.0073%	0.0146%
ARCH	\$1,460,740	\$2,921,480
<i>Beaux Arts Village</i>	\$567	\$1,134
<i>Bellevue</i>	\$600,907	\$1,201,813
<i>Bothell/King</i>	\$53,444	\$106,888
<i>Clyde Hill</i>	\$6,087	\$12,173
<i>Hunts Point</i>	\$1,177	\$2,354
<i>Issaquah</i>	\$122,725	\$245,450
<i>Kenmore</i>	\$21,018	\$42,036
<i>Kirkland</i>	\$202,172	\$404,345
<i>Medina</i>	\$9,394	\$18,789
<i>Mercer Island</i>	\$37,519	\$75,037
<i>Newcastle</i>	\$11,203	\$22,407
<i>Redmond</i>	\$277,767	\$555,534
<i>Sammamish</i>	\$53,428	\$106,856
<i>Woodinville</i>	\$61,320	\$122,640
<i>Yarrow Point</i>	\$2,012	\$4,024
SKHHP	\$976,952	\$1,953,905
<i>Auburn/King</i>	\$139,836	\$279,672
<i>Burien</i>	\$63,877	\$127,754
<i>Covington</i>	\$43,590	\$87,181
<i>Des Moines</i>	\$30,862	\$61,724
<i>Federal Way</i>	\$122,034	\$244,068
<i>Kent</i>	\$183,039	\$366,078
<i>Normandy Park</i>	\$5,229	\$10,458
<i>Renton</i>	\$223,838	\$447,677
<i>Tukwila</i>	\$164,647	\$329,294
Other Cities	\$354,850	\$709,699
<i>Algona</i>	\$2,565	\$5,130
<i>Black Diamond</i>	\$5,789	\$11,579
<i>Carnation</i>	\$3,876	\$7,751
<i>Duvall</i>	\$8,792	\$17,584
<i>Enumclaw</i>	\$27,035	\$54,071
<i>Lake Forest Park</i>	\$10,031	\$20,062
<i>Maple Valley</i>	\$30,751	\$61,501
<i>Milton/king</i>	\$1,449	\$2,897
<i>North Bend</i>	\$21,768	\$43,536
<i>Pacific/king</i>	\$4,408	\$8,816
<i>SeaTac</i>	\$132,732	\$265,463
<i>Shoreline</i>	\$80,531	\$161,063
<i>Skykomish</i>	\$597	\$1,194
<i>Snoqualmie</i>	\$24,526	\$49,053
Seattle	\$2,065,321	\$4,130,641
Unincorporated King County	\$180,486	\$360,973

*Cities in *red* have populations greater than 100,000

TOTAL

\$5,038,349

\$10,076,698

Attachment B: Responses to Committee Questions

Questions and considerations raised by AHC members at the June 21 meeting.

Regional and Sub-regional Collaboration

AHC:

- Evaluate if there is value in developing a regional approach for implementing the sales tax
 - If so, what is it?
 - How does this build off efforts of ARCH and SKHHP?

HIJT: See memo recommendation regarding regional and sub-regional collaboration

Use of Funds: Target Populations

AHC:

- Consider prioritizing use of funds for populations at 30% area median income (AMI) or below instead of 60% AMI or below
- Identify if incentives are needed for jurisdictions to focus on populations below 30% AMI

HIJT: See memo questions for consideration regarding target populations

Use of Funds: Smaller Jurisdictions

AHC:

- Evaluate how/if the Committee can support smaller jurisdictions in utilizing the funds
 - How can the funds have an impact and/or be pooled in smaller communities?
 - Will cities choose to pool their funds to help support a project in another jurisdiction?

HIJT: See memo recommendation regarding regional and sub-regional collaboration

AHC:

- Determine how much money would be generated by cities with populations above and below 100,000.

HIJT: See Attachment A

Use of Funds: Other

AHC

- Can the funds be used for manufactured home preservation? What would that look like?

HIJT: We could not find information that would suggest this is prohibited use. See also memo questions for consideration regarding target populations

AHC:

- For cities with populations under 100,000, would rental assistance have more impact than pooling regionally or sub-regionally?
- What portion of the funds should be bonded against for acquisition, rehab, and construction and how much should be reserved for operations and maintenance?
- What bonding capacity should jurisdictions consider?

HIJT: The HIJT elected not to develop extensive analysis or recommendations on implementation-related topics such as bonding options or uses of funds for capital, operations and maintenance, or rental assistance.