



**MEMO TO:** City Council

**FROM:** Malisa Files, Finance Director

**DATE:** August 20, 2019

**SUBJECT:** Resolution of Intent/Ordinance: Sales Tax Credit Against the State for Affordable Housing Purposes in Alignment with Substitute House Bill 1406

**I. PURPOSE** ☐ For Info Only ☒ Potential Agenda Item ☐ Scheduled for Council Action

**II. RECOMMENDATION**

Approve a resolution of intent/ordinance to access additional funding to support affordable housing and discuss Council's willingness to pursue a "qualifying local tax" in order to access a part of the sales tax credit, as explained below.

**III. DEPARTMENT CONTACTS**

Malisa Files, Finance Director

425-556-2166

Erika Vandenbrande, Planning and Community Development Director

425-556-2457

**IV. DESCRIPTION/BACKGROUND**

In support of housing choices, in the 2019 legislative session, the state approved a local revenue sharing program for local governments by providing up to 0.0146% local sales and use tax credit against the state sales tax for housing investments. The tax credit is available in increments of 0.0073% depending on the imposition of other local taxes and whether King County also takes advantage of the tax. The local tax credit is a credit against the state sales tax, thus it does not increase sales tax for consumers. The tax credit is in place for up to 20 years and can be used for a variety of housing needs, including:

- Acquiring, rehabilitating or constructing affordable housing including new units within an existing structure or supportive housing facilities under RCW 71.24.385.
- Operations and maintenance of new affordable or supportive housing facilities.
- Bonding, land acquisition, direct capital investment down payment assistance and rehabilitation of single family homes owned by individuals who meet the 60% AMI qualifications.
- Rental assistance for cities with populations less than 100,000.

The funding must be spent on projects that serve persons whose income is at or below sixty percent of the area median income.

The state has split the revenue into two halves. For the first half, cities can receive 0.0073% of the revenue by passing a resolution of intent and ordinance to levy the tax credit by January 31, 2020. Based on 2019 revenues, the City of Redmond would receive approximately \$320,000 annually for the first half of the sales tax credit.

The City can access the second half by adopting a “qualifying local tax” by July 31, 2020.

For the second half, “qualifying local taxes” include:

- Affordable housing property tax levy under RCW 84.52.105. The statute allows cities or counties to impose up to 50 cents per \$1,000 of assessed valuation of property tax for up to ten years with a majority vote of the jurisdiction. A one cent property tax increase for Redmond equals approximately \$270,000 annually.
- Sales and use tax for housing and related services under RCW 82.14.530. The City must adopt at least half of the authorized maximum rate of 0.001%. Collections at the maximum rate for Redmond would fluctuate from year to year, but would equal approximately \$2.5 million annually based on average collections.
- Property Tax levy increase authorized under RCW 84.55.050, if used solely for affordable housing. This would be a general property tax increase designated to affordable housing expenditures, much like the levy lid lift the City currently has for public safety and parks.

Such a qualifying local tax would act as a multiplier to the tax credit that would be available to the City for affordable housing needs.

King County’s actions also play a role in the amount of the sales tax credit the City would receive. If the City chooses not to levy a “qualifying local tax” and the County declares they will not levy the tax or have not adopted a resolution of intent by February 1, 2020 the City would receive the entire (0.0146%) tax credit. Staff believes that it is unlikely King County will not take advantage of the revenue proposal. If the City chooses not to levy a “qualifying local tax” and the County chooses to levy the tax, the City would receive the first half (0.0073%) and the County would receive the second half (0.0073%).

### **Recommendation**

In order to take advantage of the revenue sharing proposal, Council will need to make several decisions as outlined below.

***First One-Half (0.0073%)***

- Council approval of a Resolution of Intent/Ordinance by January 31, 2020. Staff recommends the Council take action on the first half as soon as is practical. Please note, the Council can choose to adopt a resolution of intent and then adopt an ordinance or the two can be done simultaneously.

***Second One-Half (0.0073%)***

- Discuss the Council's desire to go to the voters to levy a "qualifying local tax." In order to levy a "qualifying local tax" Council will need to take the following steps as outlined below.
  - Council decides to choose one of the qualifying local taxes to levy. Council choices are explained above.
  - Council approval of an ordinance to levy a "qualifying local tax."
  - Put a ballot measure before the voters at either the February or April, 2020 special elections in order to meet the deadline of having the tax in place by July 31, 2020.
  - Petition the state for the tax credit, assuming voter approval.

Staff recommends the City Council take action on the first half of the sales tax credit by passing a resolution of intent/ordinance by January 31, 2020 deadline (see Attachment A). If Council is interested, additional discussion regarding levying a "qualifying local tax" can be explored at a Study Session, date to be determined, or at a Committee of the Whole meeting.

**V. TIME CONSTRAINTS**

The proscribed timelines under House Bill 1406 are as follows:

- Resolution to levy tax credit by January 31, 2020.
- Ordinance to levy the tax credit by July 27, 2020.
- Adopt "qualifying local tax" by July 31, 2020.

**VI. LIST OF ATTACHMENTS**

Attachment A: Resolution/Ordinance Levying Sales Tax Credit

Attachment B: Implementing Substitute House Bill 1406 (Association of Washington Cities)

**ATTACHMENT A**  
**CITY OF REDMOND**  
**ORDINANCE NO.**

A ORDINANCE OF THE CITY COUNCIL OF THE CITY OF REDMOND, WASHINGTON, DECLARING THE INTENT OF THE CITY OF REDMOND TO ADOPT LEGISLATION TO AUTHORIZE A SALES AND USE TAX FOR AFFORDABLE AND SUPPORTIVE HOUSING IN ACCORDANCE WITH SUBSTITUTE HOUSE BILL 1406 (CHAPTER 338, LAWS OF 2019), AND OTHER MATTERS RELATED THERETO.

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WHEREAS, in the 2019 Regular Session, the Washington State Legislature approved, and the Governor signed, Substitute House Bill 1406 (Chapter 338, Laws of 2019) (“SHB 1406”); and

WHEREAS, SHB 1406 authorizes the governing body of a city or county to impose a local sales and use tax for the acquisition, construction or rehabilitation of affordable housing or facilities providing supportive housing, and for the operations and maintenance costs of affordable or supportive housing, for cities of 100,000 population or less: or, if eligible, for providing rental assistance to tenants; and

WHEREAS, the tax will be credited against state sales taxes collected within the City of Redmond and, therefore, will not result in higher sales and use taxes within the City of Redmond and will represent an additional source of funding to address housing needs in the City; and

WHEREAS, the tax must be used to assist persons whose income is at or below sixty percent of the City of Remond median income; and

WHEREAS, the City of Redmond has identified the housing need for persons of all ages, incomes, abilities and family sizes, through the Housing Choices Strategic Plan and has determined that imposing the sales and use tax to address this need will benefit its citizens; and

WHEREAS, in order for a city or county to impose the tax, within six months of the effective date of SHB 1406, or January 31, 2020, the governing body must adopt a resolution of intent to authorize the maximum capacity of the tax, and within twelve months of the effective

date of SHB 1406, or July 31, 2020, must adopt legislation to authorize the maximum capacity of the tax; and

WHEREAS, this ordinance constitutes the resolution of intent required by SHB 1406; and

WHEREAS, the City Council now desires to impose a local sales and use tax as authorized by SHB 1406 as set forth herein;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF REDMOND, WASHINGTON, HEREBY RESOLVES AS FOLLOWS:

Section 1.     Resolution of Intent. The City Council of the City of Redmond declares its intent to adopt the legislation to authorize the maximum capacity of the sales and use tax authorized by SHB 1406 within one year of the effective date of SHB 1406, or by July 27, 2020.

Section 2.     Further Authority; Ratification. All City of Redmond officials, their agents, and representatives are hereby authorized and directed to undertake all action necessary or desirable from time to time to carry out the terms of, and complete the actions contemplated by, this ordinance. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified.

Section 3.     Effective Date. This Ordinance shall become effective immediately upon passage by the Redmond City Council.

ADOPTED by the Redmond City Council this \_\_\_\_ day of \_\_\_\_\_, 2019.

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JOHN MARCHIONE, MAYOR

ATTEST:

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CHERYL XANTHOS, INTERIM CITY CLERK

(SEAL)

FILED WITH THE CITY CLERK:

PASSED BY THE CITY COUNCIL:

EFFECTIVE DATE:

RESOLUTION NO.