



TO: Elizabeth Pauli, City Manager
FROM: Jeff Robinson, Director, Community and Economic Development Department
COPY: City Council and City Clerk’s Office
 Tadd Wille, Deputy City Manager
SUBJECT: Ordinance Request for Affordable Housing Funding under House Bill 1590 – March 30, 2021
DATE: March 15, 2021

SUMMARY AND PURPOSE:

The Affordable Housing Action Strategy (AHAS) identifies “Creating dedicated sources of funding – whether general funds, property tax levy, real estate transaction fees or other methods – that provide the City’s Housing Trust Fund with greater and more reliable resources to preserve and build new housing”. By implementing the local option to increase sales taxes by 1/10 of 1% the City Council will directly address this strategic goal of the AHAS and address two of the highest ranked issues of affordable housing and homelessness identified by the community through multiple surveys conducted over the past several years.

BACKGROUND:

During the 2020 legislative session, the legislature passed House Bill (HB) 1590, which amended RCW 82.14.530, related to sales and use tax for housing and related services. Previously, this housing sales tax was required to go to the ballot for authorization from voters before enactment, but House Bill 1590 provided the option for the tax to be councilmanic. HB 1590 gave counties until September 30, 2020 to impose the tax countywide. After that date, cities could impose the tax by councilmanic action.

The allowed tax rate is 1/10 of 1% all of which must be expended for purposes specified in the legislation. The use of the proceeds must be allocated and utilized as summarized below:

Allocation	Requirements
At least 60% of proceeds	1) Constructing affordable housing – including new units within an existing structure and facilities providing housing-related services; 2) Constructing mental and behavioral health-related facilities; 3) Funding operations and maintenance of new affordable housing and facilities where housing-related programs are provided, or newly constructed evaluation and treatment centers
Remaining Funds	1) Used for operation, delivery or evaluation of mental and behavioral health treatment programs and services or housing-related services

Eligible Populations:

The following population groups with at or below 60% median income for Pierce County may be provided affordable housing and facilities providing housing-related programs generated using 1590 sales tax revenue:

- 1) Persons with behavioral health disabilities;
- 2) Veterans;
- 3) Homeless, or at-risk of being homeless, families with children;
- 4) Unaccompanied homeless youth or young adults;



- 5) Persons with disabilities; or
- 6) Domestic violence survivors.

It is anticipated that based on past investment of affordable housing funds that each dollar of 1590 funds used in the development of new, or the preservation of existing housing units, will leverage additional investment of approximately \$16.00 of other private and public funds. Based on this leverage ratio, the 60% of the estimated \$5 million annual receipts (\$3M) required to be spent on development will leverage additional investments of \$48M for projects. Based on the current average cost per unit of \$325,000 these investments of \$51M will support the funding of 157 units annually.

At this time it is not possible to identify specific projects that would be assisted but there is a substantial pipeline of prospective projects that has been created over the past two years. In addition, if a decision is made to bond against proceeds of the receipts an opportunity arises for more acquisition and preservation of housing than as a “pay as you go” new construction-only strategy. Currently HB 1070 which would allow for the acquisition of land and buildings is awaiting Senate action after having been passed by the State House of Representatives. All indications are that this bill will pass and allow for even greater flexibility in the use of the funds generated by annual receipts or those through the issuance of bonds.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

Considerable community engagement has occurred through the development and implementation of the Affordable Housing Action Strategy the 2025 Strategic Plan and during multiple community surveys over the past several years that identified affordable housing a one of the top issues facing the City and one for which additional resources should be allocated.

A broadly-based and diverse stakeholder engagement process will be conducted to develop strategic priorities for the expenditure of funds prior to any allocation or investments in projects. This process will help guide the specific targeting of funds for elements such as the types of housing, population preferences, and median income levels.

Equity and Accessibility: *(Mandatory)*

A greater percentage of the BIPOC population – both individuals and families - experience housing issues such as excessive rents, evictions and homelessness. Projects selected for City investments will utilize creative strategies allowed within legal and regulatory parameters to focus efforts on equitable and enhanced access for underserved populations, respond to gentrification and displacement and broaden the geographic dispersal of affordable housing throughout the City.

Further, the proposed Ordinance also contains language that indicates recipients undertaking development projects using these funds will be required to comply with state and federal requirements regarding labor and contracting, and to use their best efforts to comply with the City of Tacoma’s Local Employment and Apprenticeship Training Program and Equity in Contracting program by working with and encouraging developers and contractors performing work on the project to make good faith efforts to comply with those programs.

2025 STRATEGIC PRIORITIES:

- Equity and Accessibility:** High Opportunity
- Economy/Workforce:** High Opportunity
- Livability:** High Opportunity



Explain how your legislation will affect the selected indicator(s).

By substantially increasing and creating an on-going reliable source of funding for both development and supportive services, the legislation will help create, preserve and operate affordable housing while creating jobs, improving access to safe and sanitary living spaces and assisting residents in need of supportive services access to them.

ALTERNATIVES:

The alternatives to not implementing the provisions of 1590 by councilmanic action would be to put the tax to a vote of the people and delay the implementation should the voters agree to the additional 1/10th of 1%. If the vote is unsuccessful or if the Council chooses to not implement the tax the City will continue to have limited resources to meet the current and future needs for affordable housing and homeless support services. A second alternative would be to take no action either by councilmanic authority or by a vote and continue to assist a minimal level of affordable housing development into the foreseeable future.

EVALUATION AND FOLLOW UP:

Staff will provide quarterly updates to the City Council on the collection of tax proceeds and detailed reports on both the planned and actual investments and expenditures of funds to include the number and types of units and other housing assisted with funding; cost per unit; and level of operating and supportive services provided to individual projects. There will also be information provided on the number of individuals served, and if applicable, the number of individuals moving from a houseless circumstance to supportive housing and onto independent living.

STAFF RECOMMENDATION:

Staff recommends the passage of an ordinance to implement the provisions of HB 1590 that includes a provision requiring the approval of a spending plan developed by staff in coordination with community stakeholders prior to the use of any funds. This will allow the City to coordinate with the Washington State Department of Revenue and begin collection of the additional funds while concurrently developing the strategy for the deployment of the tax revenue.

FISCAL IMPACT:

Depending on the decision to bond or not, the estimated annual revenue from the tax will is \$4.5 - \$5.5 million annually, and at this time staff believes the funding can be managed with existing staff.

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
TBD	TBD	TBD	\$4,500,000 - \$5,500,000
TOTAL			\$4,500,000 - \$5,500,000



City of Tacoma

City Council Action Memorandum

What Funding is being used to support the expense?

Anticipated revenue from 1590 sales taxes and potential bond proceeds.

Are the expenditures and revenues planned and budgeted in this biennium's current budget?

NO, PLEASE EXPLAIN BELOW

This would be a new funding source not anticipated during the biennial budget process.

Are there financial costs or other impacts of not implementing the legislation?

YES

The City will continue reliance on a minimal amount of funding provided by the federal government and State sales tax credits that will not provide the significant amount of financial support necessary to carry out the housing production and preservation goals established by the AHAS.

Will the legislation have an ongoing/recurring fiscal impact?

No

Will the legislation change the City's FTE/personnel counts?

No