



MONROE CITY COUNCIL

Agenda Bill No. 19-197

<b>SUBJECT:</b>	<b>Resolution No. 019/2019, Declaring Intent to Adopt Legislation to Authorize a Sales and Use Tax for Affordable and Supportive Housing In Accordance With Substitute House Bill 1406</b>
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<b>DATE:</b>	<b>DEPT:</b>	<b>CONTACT:</b>	<b>PRESENTER:</b>	<b>ITEM:</b>
09/24/2019	Administration	Deborah Knight	Deborah Knight	<b>New Business #2</b>

**Discussion:** 08/27/2019 (Legislative Affairs Committee); 09/17/2019; 09/24/2019

- Attachments:**
1. Resolution No. 019/2019
  2. HB 1406 Power Point
  3. HB 1406 Revenue Estimate
  4. AWC "Implementing HB 1406"

**REQUESTED ACTION:** Move to approve Resolution No. 019/2019, declaring the intent of the City 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.

**POLICY CONSIDERATION**

*House Bill 1406 requires the City Council to adopt a "resolution of intent" between July 28, 2019, and January 31, 2020, in order to receive a portion of the state's sales tax for affordable housing and rental assistance programs for twenty years.*

*The City Council discussed the issue at its September 17, 2019, meeting and provided direction to the Mayor Thomas and City Staff to bring back the issue at a Council regular meeting for action.*

**DESCRIPTION/BACKGROUND**

In the 2019 legislative session the state approved a revenue sharing program for local governments (cities and counties) by providing up to a 0.0146 percent local sales and use tax credited against the state sales tax for affordable housing and rental assistance (Attachment A).

This sales tax option is actually a credit against the state sales tax rate of 6.5 percent, so it **will not** increase the tax rate for consumers. However, cities, towns, and counties have a limited time to take advantage of this option and must act rather quickly if they wish to participate.

The Association of Washington Cities estimates the City of Monroe would receive approximately \$45,000 (Attachment 3) if the City Council adopts an ordinance by the July 27, 2020, deadline to implement the program.

The City is eligible to receive between 0.0073 and 0.0146 percent of the state sales tax. The exact amount received depends the local economy and whether the City implements a "qualifying local tax" by July 31, 2020.

There are two scenarios under which the city would receive the full amount of the 0.0146 percent tax credit under HB 1406:

1. City Adopts Qualifying Local Tax: a) One percent sales tax for affordable housing under HB 2263; or; b) the City implements an affordable housing levy under RCW 84.52.105; c) or the City implements a sales tax for chemical dependency and mental health services

(RCW 82.14.460); d) or the City levies a property tax under RCW 84.55.050 for affordable housing.

2. Snohomish County declares it will not levy the tax or does not adopt a resolution of intent by February 1, 2020; and city does not adopt qualifying local tax.

#### What Is a Qualifying Local Tax?

A “qualifying local tax” (QLT) is a local property or sales tax that a City has imposed, separately from SHB 1406, to address affordable housing or related issues. This provision within the bill *only applies to cities and towns*, and it allows them to double the sales tax credit. **The qualifying local tax is a “multiplier” that gives the City access to double the tax credit even when the County chooses to participate in the program.**

The QLT options are:

- An affordable housing levy ([RCW 84.52.105](#));
- A sales and use tax for affordable housing ([RCW 82.14.530](#));
- A levy lid lift ([RCW 84.55.050](#)) that is restricted solely to affordable housing; or
- A mental health and chemical dependency sales tax ([RCW 82.14.460](#)), which is only authorized by statute for those cities of at least 30,000 population located within Pierce County.

All of the qualifying local taxes require voter approval with a simple majority vote (with the exception of the mental health and chemical dependency sales tax) and may be presented at any special, primary, or general election.

#### Adopting 1406

To receive the affordable housing sales tax credit, the City Council must:

- **Pass a resolution of intent by January 27, 2020**, that indicates intention to impose the sales tax credit at the maximum capacity by a simple majority vote of the legislative body. *This is the single most important step in being able to receive this sales tax credit option.* If this deadline is missed, there are no other opportunities to access the tax.
- **Adopt legislation to authorize by July 27, 2020**, to impose the maximum capacity of the affordable sales tax credit. This step must be completed in order to continue to access this sales tax credit whether you decide to impose a qualifying local tax or not.

#### Using Funds from HB1406

The City of Monroe may use funds distributed through HB 1406 for:

1. Acquiring, rehabilitating, or constructing affordable housing (< 60 percent AMI), which may include new units within an existing structure or facilities providing supportive housing services under [RCW 71.24.385](#) (behavioral health organizations);
2. Operations and maintenance costs of new units of affordable or supportive housing.
3. Rental assistance to tenants that are at or below 60 percent of the median income.
4. Financing loans or grants to nonprofit organization or public housing authorities to carry out the purposes of the bill and may pledge the tax proceeds from HB 1406 for repayment of bonds in accordance with debt limitations imposed by the state constitution or statute.

Additionally, any participating city or county may enter into an interlocal agreement with other cities, counties, and/or housing authorities to pool and allocate the tax revenues received under SHB 1406 to fulfill the intent of the legislation.

#### **FISCAL IMPACTS**

The Association of Washington Cities estimates the City of Monroe would receive approximately \$45,000 (Attachment B) from HB 1406 if the City Council adopts an ordinance by the July 27,

2020, deadline to implement the program. According to Municipal Research,<sup>1</sup> the Department of Revenue (DOR) typically requires a seventy-five day notice for sales tax rate changes, but this is not a new sales tax and therefore will only require a thirty-day wait period.

The credit will take effect on the first day of the month following the thirty-day period ([RCW 82.14.055\(2\)](#)).

For example, if the City adopts the resolution of intent and then the enabling legislation (ordinance/resolution) during September 2019, the tax will take effect on November 1. The sales tax revenues from November will be remitted by retailers to DOR by the 25th of the following month (December), and the City will receive its first distribution of this tax credit on its end-of-month January disbursement from the State Treasurer's office.

Cities that have a qualifying local tax in place, will receive the full credit of 0.0146 percent as soon as they adopt the enacting ordinance.

All other cities and towns that have adopted the enacting ordinance, will collect a tax credit of 0.0073 percent until a ballot measure for a qualifying local tax has passed.

### **TIME CONSTRAINTS**

- HB 1406: Pass a resolution of intent by January 27, 2020, and adopt an ordinance to authorize by July 27, 2020.
- Qualifying Local Sales Tax: Adopt a Qualifying Local Sales Tax by July 31, 2020.

Deciding to present a qualifying local tax before the voters in order to gain the full tax credit will require some timing considerations, as the legislation requires that the qualifying local tax must be "instated" (which DOR is interpreting to mean "approved by voters") within twelve months of the effective date of SHB 1406.

This deadline is July 27, 2020. The deadline for placement on the general election ballot has past (August 6), and the only other elections before the July 2020 deadline are the special elections in February and April.

### **ALTERNATIVES TO REQUESTED ACTION**

- Do not approve Resolution No. 019/2019 and direct Mayor and City Staff to areas of concern.
- Direct Mayor and City Staff to bring the alternatives to the Homelessness Policy Advisory Committee or Affordable Housing Committee for discussion and recommendations.

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<sup>1</sup> (MRSC <http://mrsc.org/Home/Stay-Informed/MRSC-Insight/July-2019/SHB-1406-Affordable-Housing-Sales-Tax-Credit.aspx>)

**CITY OF MONROE  
RESOLUTION NO. 019/2019**

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MONROE, WASHINGTON, DECLARING THE INTENT OF THE CITY 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, for the operations and maintenance costs of affordable or supportive housing, and rental assistance to tenants; and

WHEREAS, the tax will be credited against state sales taxes collected within the City and, therefore, will not result in higher sales and use taxes within the City 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 (60%) of the City median income; and

WHEREAS, the City 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 28, 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 28, 2020, must adopt legislation to authorize the maximum capacity of the tax; and

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

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

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MORNOE AS FOLLOWS:

Section 1. Resolution of Intent. The City Council declares its intent to adopt 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 28, 2020.

Section 2. Further Authority; Ratification. All City 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 Resolution. All acts taken pursuant to the authority of this Resolution but prior to its effective date are hereby ratified.

Section 3. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

ADOPTED by the City Council of the City of Monroe, at its regular meeting thereof, and APPROVED by the Mayor this 24th day of September 2019.

Approved: September 24, 2019  
Effective: September 24, 2019

CITY OF MONROE, WASHINGTON

(SEAL)

\_\_\_\_\_  
Geoffrey Thomas, Mayor

ATTEST:

APPROVED AS TO FORM:

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Elizabeth M. Adkisson, MMC, City Clerk

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J. Zachary Lell, City Attorney

## HOUSE BILL 1406

### POLICY QUESTIONS:

1. DOES THE CITY COUNCIL WANT TO IMPLEMENT HB 1406 BEFORE JULY 27, 2020?
2. DOES THE CITY COUNCIL WANT TO CONSIDER A "QUALIFYING LOCAL TAX" BEFORE JULY 27, 2020?

## WHAT IS HOUSE BILL 1406?

- Revenue sharing program for local governments by providing up to a .0146% local sales and use tax credit
- Will not increase the tax rate – It's like a “rebate” from state sales taxes collected
- Monroe anticipated to receive \$46,000/year
- Money can be used for acquiring, rehab, constructing affordable housing (< 60% AMI)
- Operations and maintenance costs of new units of affordable or supportive housing
- Rental assistance at or below 60% AMI
- Loans or grants to public housing authorities

## WHAT IS A QUALIFYING LOCAL TAX?

- Voter approved/Simple majority
  - Affordable housing levy (RCW 84.52.1005)
  - Sales and use tax for affordable housing (RCW 82.14.530)
  - Levy lid lift for affordable housing (RCW 84.55.050)
  - Mental Health and chemical dependency sales tax (Pierce County Only)



# County and City Shares HB 1406

\* w/ QLT – With Qualifying Local Tax  
\*\* w/o QLT – With Out Qualifying Local Tax

**County**  
In Unincorporated Areas

**Cities**  
In City Limits

0.0146%  
County  
Receives

Participating  
City w/ QLT\*

Participating  
City w/o QLT\*\*

Non-  
Participating  
City

0.0146%  
City  
Receives

0.0073%  
City  
Receives

0.0073%  
County  
Receives

0.0146%  
County  
Receives

## TIMELINE

### HB 1406

- Pass a resolution of intent by January 27, 2020
- Adopt an ordinance to authorize by July 27, 2020

### Qualifying Local Sales Tax

- Voter approved by July 31, 2020

## ALTERNATIVES

- Discuss HB 1406 and Qualifying Local Sales Tax options.
- Direct Mayor and City Staff to bring back one or more options for discussion at the next City Council Finance/Human Resources Committee meeting.
- Direct Mayor and City Staff to bring a Resolution of Intent to the city council for action.
- Direct Mayor and City Staff to bring the alternatives to the Homelessness Policy Advisory Committee or Affordable Housing Committee for discussion and recommendations.



## Taxable Retail Sales in All Cities, Towns, and Counties for Q2 2018-Q1 2019 for Estimation of Potential Affordable Housing Revenues Under SHB 1406

This file contains the taxable retail sales for all cities, towns, and counties in Washington State, as well as estimates for the maximum amount of revenue that can be generated if each jurisdiction chooses to participate in the new affordable housing sales tax credit under SHB 1406, effective July 28, 2020.

**IMPORTANT: The amounts shown here are estimated *maximum* distributions only.** Actual distributions will depend on taxable retail sales within each jurisdiction's state fiscal year. The estimated maximum distributions presented here are based on taxable retail sales for Q2 2018-Q1 2019 (April 1, 2018-March 31, 2019). The distribution caps will be determined by the taxable retail sales in state fiscal year 2018 (July 1, 2018-June 30, 2019). At the time this spreadsheet was created, data on taxable retail sales from Q2 2019 (April 1-June 30, 2019) was not yet available.

There are three (3) tabs in this worksheet:

- **Overview** – the sheet you're reading right now
- **Cities** – Taxable retail sales and estimated distribution caps for all cities and towns
- **Counties** – Taxable retail sales and estimated distribution caps for *unincorporated counties only*. For data on any cities within the county, refer to the Cities tab.

Last updated August 8, 2019

Source:

[Washington Department of Revenue, Local Retail Sales 2018](#)

[Washington Department of Revenue, Local Retail Sales 2019](#)



## Taxable Retail Sales for All Cities and Towns for Purposes of SHB 1406

The data below are for Q2 2018 to Q1 2019 (April 1, 2018 to March 31, 2019).

Actual distribution caps will be based on taxable retail sales for state fiscal year 2019 (July 1, 2018 to June 30, 2019)

CITY	COUNTY	TAXABLE RETAIL SALES					ESTIMATED MAXIMUM CAPS			
		Q2 2018	Q3 2018	Q4 2018	Q1 2019	Total, Q2 2018-Q1 2019	0.0073% annual cap	0.0073% over 20 years	0.0146% annual cap	0.0146% over 20 years
Ione	Pend Oreille	1,340,585	1,790,795	1,565,686	1,340,224	6,037,290	\$441	\$8,814	\$881	\$17,629
Issaquah	King	428,290,110	439,821,827	448,309,123	364,230,031	1,680,651,091	\$122,688	\$2,453,751	\$245,375	\$4,907,501
Kahlotus	Franklin	331,062	442,239	807,851	296,162	1,877,314	\$137	\$2,741	\$274	\$5,482
Kalama	Cowlitz	16,621,867	17,332,049	14,857,089	12,520,936	61,331,941	\$4,477	\$89,545	\$8,954	\$179,089
Kelso	Cowlitz	71,018,171	73,859,683	72,320,742	66,350,870	283,549,466	\$20,699	\$413,982	\$41,398	\$827,964
Kenmore	King	72,146,184	71,466,337	80,960,120	70,334,176	294,906,817	\$21,528	\$430,564	\$43,056	\$861,128
Kennewick	Benton	547,551,400	576,183,113	581,448,260	490,415,740	2,195,598,513	\$160,279	\$3,205,574	\$320,557	\$6,411,148
Kent	King	639,346,299	655,326,155	662,711,694	629,944,149	2,587,328,297	\$188,875	\$3,777,499	\$377,750	\$7,554,999
Kettle Falls	Stevens	5,596,179	5,912,726	5,861,004	4,571,758	21,941,667	\$1,602	\$32,035	\$3,203	\$64,070
Kirkland	King	686,901,140	725,829,404	742,092,365	676,829,898	2,831,652,807	\$206,711	\$4,134,213	\$413,421	\$8,268,426
Kittitas	Kittitas	2,857,260	3,306,578	2,388,215	2,279,850	10,831,903	\$791	\$15,815	\$1,581	\$31,629
Krupp (Marlin)	Grant	32,748	82,272	87,030	48,432	250,482	\$18	\$366	\$37	\$731
La Center	Clark	7,412,603	8,549,296	9,530,825	8,209,787	33,702,511	\$2,460	\$49,206	\$4,921	\$98,411
La Conner	Skagit	14,161,875	16,844,487	14,506,425	10,892,471	56,405,258	\$4,118	\$82,352	\$8,235	\$164,703
Lacey	Thurston	360,500,006	396,966,199	401,419,854	330,914,713	1,489,800,772	\$108,755	\$2,175,109	\$217,511	\$4,350,218
LaCrosse	Whitman	945,532	1,212,551	1,102,156	836,660	4,096,899	\$299	\$5,981	\$598	\$11,963
Lake Forest Park	King	35,290,161	34,990,168	38,251,211	30,321,439	138,852,979	\$10,136	\$202,725	\$20,273	\$405,451
Lake Stevens	Snohomish	101,177,133	114,735,783	130,844,626	112,001,737	458,759,279	\$33,489	\$669,789	\$66,979	\$1,339,577
Lakewood	Pierce	307,013,612	320,732,721	341,021,162	321,282,669	1,290,050,164	\$94,174	\$1,883,473	\$188,347	\$3,766,946
Lamont	Whitman	72,489	44,603	78,948	67,637	263,677	\$19	\$385	\$38	\$770
Langley	Island	12,322,089	14,895,321	12,443,107	10,251,888	49,912,405	\$3,644	\$72,872	\$7,287	\$145,744
Latah	Spokane	199,427	229,015	1,095,327	711,691	2,235,460	\$163	\$3,264	\$326	\$6,528
Leavenworth	Chelan	49,414,735	62,425,921	64,171,877	38,714,474	214,727,007	\$15,675	\$313,501	\$31,350	\$627,003
Liberty Lake	Spokane	110,117,191	103,284,934	93,541,808	82,690,766	389,634,699	\$28,443	\$568,867	\$56,887	\$1,137,733
Lind	Adams	959,286	1,141,267	1,165,721	849,494	4,115,768	\$300	\$6,009	\$601	\$12,018
Long Beach	Pacific	17,565,546	24,307,244	15,712,938	16,656,436	74,242,164	\$5,420	\$108,394	\$10,839	\$216,787
Longview	Cowlitz	256,021,979	261,888,856	262,109,020	230,399,089	1,010,418,944	\$73,761	\$1,475,212	\$147,521	\$2,950,423
Lyman	Skagit	735,040	1,005,049	982,735	918,577	3,641,401	\$266	\$5,316	\$532	\$10,633
Lynden	Whatcom	80,052,888	84,248,067	76,218,946	68,250,421	308,770,322	\$22,540	\$450,805	\$45,080	\$901,609
Lynnwood	Snohomish	652,800,280	680,814,079	721,783,499	599,440,493	2,654,838,351	\$193,803	\$3,876,064	\$387,606	\$7,752,128
Mabton	Yakima	3,540,626	4,044,217	2,637,554	2,115,843	12,338,240	\$901	\$18,014	\$1,801	\$36,028
Malden	Whitman	70,823	70,487	85,964	103,317	330,591	\$24	\$483	\$48	\$965
Mansfield	Douglas	757,692	579,004	759,504	651,632	2,747,832	\$201	\$4,012	\$401	\$8,024
Maple Valley	King	105,447,697	113,908,533	109,173,651	92,572,353	421,102,234	\$30,740	\$614,809	\$61,481	\$1,229,619
Marcus	Stevens	46,661	143,790	97,154	67,063	354,668	\$26	\$518	\$52	\$1,036
Marysville	Snohomish	291,277,609	317,039,891	340,732,135	290,540,123	1,239,589,758	\$90,490	\$1,809,801	\$180,980	\$3,619,602
Mattawa	Grant	7,559,978	7,756,766	6,195,746	5,600,769	27,113,259	\$1,979	\$39,585	\$3,959	\$79,171
McCleary	Grays Harbor	3,669,920	4,278,283	4,624,662	3,964,619	16,537,484	\$1,207	\$24,145	\$2,414	\$48,289
Medical Lake	Spokane	8,901,345	9,073,221	10,919,038	9,663,245	38,556,849	\$2,815	\$56,293	\$5,629	\$112,586
Medina	King	33,415,175	33,813,882	34,289,494	28,345,745	129,864,296	\$9,480	\$189,602	\$18,960	\$379,204
Mercer Island	King	131,593,875	131,110,694	137,814,620	111,523,907	512,043,096	\$37,379	\$747,583	\$74,758	\$1,495,166
Mesa	Franklin	2,586,340	2,822,229	2,338,377	1,797,685	9,544,631	\$697	\$13,935	\$1,394	\$27,870
Metaline	Pend Oreille	391,443	409,692	683,371	279,071	1,763,577	\$129	\$2,575	\$257	\$5,150
Metaline Falls	Pend Oreille	777,761	937,846	837,992	677,127	3,230,726	\$236	\$4,717	\$472	\$9,434
Mill Creek	Snohomish	90,976,014	82,820,236	85,654,037	77,635,092	337,085,379	\$24,607	\$492,145	\$49,214	\$984,289
Millwood	Spokane	16,215,981	15,633,573	15,403,824	13,948,946	61,202,324	\$4,468	\$89,355	\$8,936	\$178,711
Milton	King	2,037,201	2,661,008	13,012,135	3,079,682	20,790,026	\$1,518	\$30,353	\$3,035	\$60,707
Milton	Pierce	30,242,041	29,397,183	30,738,636	30,004,245	120,382,105	\$8,788	\$175,758	\$17,576	\$351,516
Monroe	Snohomish	154,304,424	160,465,981	160,300,977	139,349,214	614,420,596	\$44,853	\$897,054	\$89,705	\$1,794,108
Montesano	Grays Harbor	14,675,202	16,515,062	15,903,229	14,569,846	61,663,339	\$4,501	\$90,028	\$9,003	\$180,057
Morton	Lewis	8,333,535	9,644,481	9,311,817	7,970,261	35,260,094	\$2,574	\$51,480	\$5,148	\$102,959
Moses Lake	Grant	196,788,387	201,718,788	193,532,916	171,808,550	763,848,641	\$55,761	\$1,115,219	\$111,522	\$2,230,438
Mossyrock	Lewis	2,199,974	2,321,762	2,125,813	1,785,867	8,433,416	\$616	\$12,313	\$1,231	\$24,626



# Implementing HB 1406

2019

## Don't miss out on up to 20 years of shared revenue for affordable housing

In the 2019 legislative session, the state approved a local revenue sharing program for local governments by providing up to a 0.0146% local sales and use tax credited against the state sales tax for housing investments, available in increments of 0.0073%, depending on the imposition of other local taxes and whether your county also takes advantage. The tax credit is in place for up to 20 years and can be used for acquiring, rehabilitating, or constructing affordable housing; operations and maintenance of new affordable or supportive housing facilities; and, for smaller cities, rental assistance. The funding must be spent on projects that serve persons whose income is at or below sixty percent of the area median income. Cities can also issue bonds to finance the authorized projects.

This local sales tax authority is a credit against the state sales tax, so it does not increase the sales tax for the consumer. There are tight timelines that must be met to access this funding source – the first is January 31, 2020 to pass a resolution of intent. The tax ordinance must then be adopted by July 27, 2020 to qualify for a credit.

The following information is intended to assist your city in evaluating its options and timelines. It is not intended as legal advice. Check with your city's legal counsel and/or bond counsel for specific questions on project uses and deadlines for implementation.

### Deadlines to participate:

- Resolution to levy tax credit: July 28, 2019 – January 31, 2020
- Ordinance to levy the tax credit: By July 27, 2020
- Adopt "qualifying local tax" (optional): By July 31, 2020

### Eligibility to receive shared revenues

- The state is splitting the shared resources between cities and counties. However, cities can receive both shares if they have adopted a "qualifying local tax" by July 31, 2020. Qualifying taxes are detailed below. Cities who are levying a "qualifying local tax" by July 28, 2019, the effective date of the new law, will receive both shares immediately once they impose the new sales tax credit.
- If a city does not implement a qualifying local tax by the deadline, they can still participate in the program if they meet the other deadlines but will be eligible for a lower credit rate.
- A city can adopt the sales tax credit before designating how the funds will be used once collected.

### Qualifying local taxes

The following are considered "qualifying local taxes" and, if levied, give the city access to both shares of the tax credit (i.e. 0.0146% rate instead of the single share rate of 0.0073%):

- Affordable housing levy (property tax) under RCW 84.52.105
- Sales and use tax for housing and related services under RCW 82.14.530. The city must have adopted at least half of the authorized maximum rate of 0.001%.
- Sales tax for chemical dependency and mental health (optional .1 MIDD) under RCW 82.14.460
- Levy (property tax) authorized under RCW 84.55.050, if used solely for affordable housing

Think of the "qualifying local tax" as a multiplier or "doubler." It gives the city access to double the tax credit even when the county chooses to participate in the program.

## Contact:

**Carl Schroeder**  
Government Relations Advocate  
carls@awcnet.org

**Shannon McClelland**  
Legislative & Policy Analyst  
shannonm@awcnet.org

# Six steps to affordable housing revenue



## Tax credit rate examples

Max tax credit rate under HB 1406	City with qualifying local tax	City without qualifying local tax	City doesn't levy a tax credit, county does participate	County doesn't participate, city participates but doesn't have a qualifying tax.*
City	0.0146%	0.0073%	0.0%	July 2020: 0.0%
County	0.0%	0.0073%	0.0146%	0.0%

\*We believe that this was an error in bill drafting. Please let us know if you are in this situation. We can work to address it in future legislative sessions.

### Eligible uses of the funds:

1. Projects must serve those at or below 60% AMI.
2. Acquiring, rehabilitating, or constructing affordable housing, which may include new units of affordable housing within an existing structure or facilities providing supportive housing services. In addition to investing in traditional subsidized housing projects, this authority could potentially be used to provide for land acquisition, down payment assistance, and home repair so long as recipients meet the income guidelines.
3. Funding the operations and maintenance costs of new units of affordable or supportive housing.
4. For cities with a population under 100,000, the funds can also be used for rental assistance to tenants.

### Additional timelines to keep in mind:

1. Department of Revenue (DOR) requires 30-days-notice of adoption of sales tax credits. The credit will then take effect on the first day of the month following the 30-day period.
2. If your city is adopting a "qualifying local tax", DOR requires 75-days-notice of adoption of sales tax increases. Local sales tax increases may only take effect on the first day of the first, second, or third quarter – not the fourth (April 1, July 1, or October 1).
3. If your city is adopting a "qualifying local tax" remember to factor in the ballot measure process into the timeline, as these must be approved by the voters.
4. If you are intending to bond the revenues for a project under this authority, check with your legal counsel and bond counsel about other deadlines that may apply to your city.

### Frequently asked questions:

1. **This program sounds very familiar. Didn't a local option, affordable housing sales tax law pass a few years ago?** Yes, but the new law has important differences. The Legislature passed HB 2263 in 2015 that authorized cities and towns to levy up to a 0.1% sales tax for affordable housing—

but, importantly, only after voter approval. This sales tax levy is considered a "qualifying local tax" under HB 1406. Another important distinction is that the affordable housing sales tax from 2015 is an additional tax on the consumer, and not a credit on an existing state-imposed tax.

2. **Do we have to levy a "qualifying local tax" to participate?** No. Your city is still eligible to participate in the program, but your tax credit rate will depend on whether the county participates in the program. See *Tax credit rate examples* chart to the left.
3. **Do we only have access to the program if the county declines to participate?** No. A city can participate, and receive funds, even if the county participates. Unfortunately, if your city does not impose a "qualifying local tax" by the deadline and your county declines to participate, then you will not have access to funds after the first year, due to a drafting error in the bill. We don't anticipate this scenario to occur, but please let us know if you find yourself in that situation. We will work with the Legislature to address it if this proves problematic. In all cases you must meet the program deadlines to participate. See *Deadlines to participate*.
4. **Does it make a difference at all if our county participates?** Only if you have not adopted a "qualifying local tax." If you have adopted a "qualifying local tax" you can access the higher credit rate regardless of county participation. If you don't have a "qualifying local tax" then you can only access the higher rate if the county does not participate.
5. **How is "rental assistance" defined? Does that include rent vouchers?** The term "rental assistance" is not defined in the chapter 82.14 RCW; however, both federal and state housing programs use the term "rental assistance" to mean providing rent, security deposits, or utility payment assistance to tenants.
6. **Can we pool our revenue with another entity? Can we issue bonds or use the money to repay bonds?** Yes! Cities can enter into an interlocal agreement with other local governments or a public housing authority to pool tax receipts, pledge tax collections to bonds, allocating collected taxes to authorized affordable housing expenditures, or other agreements authorized under chapter 39.34 RCW. Cities may also use the tax credit revenue to issue or repay bonds in order to carry out the projects authorized under the new law.
7. **Is the amount of tax credit we receive limited only by the amount of sales tax collected per year?** No. The maximum amount will be based on state fiscal year 2019 sales.
8. **Does the tax credit program expire?** Yes, the tax expires 20 years after the date on which the tax is first levied.

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