

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b>	Adopting Ordinance No. 869 - Authorizing the Maximum Capacity of Local Sales and Use Tax to Fund Investments in Affordable and Supportive Housing Pursuant to SHB 1406 and Establishing a New Chapter, Chapter 3.17 of the Shoreline Municipal Code
<b>DEPARTMENT:</b>	Community Services
<b>PRESENTED BY:</b>	Colleen Kelly
<b>ACTION:</b>	<input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

**PROBLEM/ISSUE STATEMENT:**

Washington State Substitute House Bill (SHB) 1406, which was adopted during this past legislative session, authorizes the governing body of a county or city to impose a local sales tax, credited against the state sales tax, for affordable and supportive housing. Jurisdictions that wish to receive the housing sales tax credit must pass a Resolution of Intent no later than January 27, 2020 and an Authorizing Ordinance no later than July 27, 2020.

Following discussion of this issue on October 14, 2019, the Council directed staff to bring back both the Resolution of Intent and this Authorizing Ordinance, proposed Ordinance No. 869 (Attachment A), for adoption. Tonight, proposed Ordinance No. 869 is scheduled for Council adoption.

**RESOURCE/FINANCIAL IMPACT:**

The projected estimate of sales tax resources available to the City of Shoreline is about \$81,700 per year. The tax credit will be available for up to 20 years. This local sales tax authority is a credit against the state sales tax, so it does not increase the sales tax for the consumer.

**RECOMMENDATION**

Staff recommends that the Council adopt Ordinance No. 869.

Approved By:            City Manager **DT**    City Attorney **MK**

## **BACKGROUND**

Washington State Substitute House Bill (SHB) 1406, which was adopted during this past legislative session, authorizes the governing body of a county or city to impose a local sales tax, credited against the state sales tax, for affordable and supportive housing. This House Bill approved a revenue sharing program for local governments by providing up to 0.0146% of local sales and use tax credited against the state sales tax for housing investments. Because Shoreline does not have a Qualifying Local Tax (QLT), it is limited to imposing this tax at a rate of .0073%.

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, in Shoreline, 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. Jurisdictions may also issue bonds to finance authorized projects.

Jurisdictions that wish to receive the housing sales tax credit must pass a Resolution of Intent no later than January 27, 2020 and an Authorizing Ordinance no later than July 27, 2020. On October 14, 2019, the City Council discussed SHB 1406, the proposed Resolution of Intent and the proposed Authorizing Ordinance, proposed Ordinance No. 869 (Attachment A). The staff report for this Council discussion can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2019/staffreport101419-8b.pdf>.

## **ALTERNATIVES ANALYSIS**

There are two alternatives related to this item:

- 1. Adopt proposed Ordinance No. 869:** This action would authorize the City to impose a 0.0073% sales and use tax credit to be used in support of affordable housing activities as outlined above.
- 2. Decline to take action:** In this instance, the City would not impose the sales tax credit and the 0.0073% share would revert to King County, providing the County the opportunity to direct the expenditures of these funds.

Following discussion of this issue on October 14, 2019, the City Council directed staff to bring back proposed Ordinance No. 869 for adoption (Alternative No. 1 above). Council did not have any concerns with moving forward authorizing the maximum capacity of a sales tax for affordable and supportive housing in accordance with SHB 1406. Council also understood that by adopting proposed Ordinance No. 869, they were establishing a new Chapter of the Shoreline Municipal Code, Chapter 3.17 – Sales and Use Tax for Affordable and Supportive Housing, which outlines the purpose of the tax credit, how it is administered and collected, and the duration of the tax credit, which will be for 20 years.

### **COUNCIL GOAL(S) ADDRESSED**

This item directly addresses Council Goal 1 (Strengthen Shoreline's economic climate and opportunities); Action Step 4 (Encourage affordable housing development in Shoreline and engage the community to determine which additional housing types and policies may be appropriate for Shoreline...).

### **RESOURCE/FINANCIAL IMPACT**

The projected estimate of sales tax resources available to the City of Shoreline is about \$81,700 per year. The tax credit will be available for up to 20 years. This local sales tax authority is a credit against the state sales tax, so it does not increase the sales tax for the consumer.

### **RECOMMENDATION**

Staff recommends that the Council adopt Ordinance No. 869.

### **ATTACHMENTS**

Attachment A: Ordinance No. 869

**ORDINANCE NO. 869**

**AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, AUTHORIZING THE MAXIMUM CAPACITY OF LOCAL SALES AND USE TAX TO FUND INVESTMENTS IN AFFORDABLE AND SUPPORTIVE HOUSING PURSUANT TO SUBSTITUTE HOUSE BILL 1406 (CHAPTER 338, LAWS OF 2019) AND ESTABLISHING A NEW CHAPTER, CHAPTER 3.17 OF THE SHORELINE MUNICIPAL CODE.**

WHEREAS, on October 28, 2019, the City Council adopted Resolution 448 declaring its intent to adopt legislation authorizing the maximum capacity of the local sales and use tax pursuant to SHB 1406 (chapter 338, Laws of 2019) which added a new section to chapter 82.14 RCW so as to encourage investments in affordable and supportive housing through a revenue sharing program; and

WHEREAS, the revenue sharing program established by SHB 1406 allows the City to authorize and collect a local sales and use tax for the acquisition, construction, or rehabilitation of affordable housing or facilities providing supportive housing services, for the operations and maintenance costs of affordable or supporting housing, and for the provision of rental assistance to tenants; and

WHEREAS, this tax will be credited against the State of Washington sales tax collected within the City and, therefore, will not result in higher sales and use taxes within the City and will provide an additional source of funding to address affordable and supportive housing needs in the City to persons whose income is at or below sixty percent of the City's median income; and

WHEREAS, SHB 1406 authorizes the City to issue general obligation or revenue bonds to carry out the purposes of the legislation and to pledge the revenue collected by the local sales and use tax for repayment of such bonds; and

WHEREAS, the City Council adopted Resolution 379 expressing its commitment to address homelessness, including implementing policies that encourage and incentivize the development of affordable housing for all members of the Shoreline community; and

WHEREAS, the Housing Element of the Shoreline Comprehensive Plan sets forth goals and policies related to housing affordability and regional coordination including Goals H-III and H-VII and Policies H-7 through H-20; and

WHEREAS, the City Council has determined that authorizing and collecting the sales and use tax pursuant to SHB 1406 is in the best interests of the City and all of its residents;

**NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, DO ORDAIN AS FOLLOWS:**

**Section 1. New Chapter Established: SMC Chapter 3.17 – Sales and Use Tax for Affordable and Supportive Housing.** A new chapter, Chapter 3.17 of the Shoreline Municipal Code (SMC), entitled “Sales and Use Tax for Affordable and Supportive Housing” is added to SMC Title 3 as set forth on Exhibit A, attached hereto.

**Section 2. Administrative Services Director.** The Administrative Services Director, or designee, is authorized to provide any required notice to the Washington State Department of Revenue to effectuate the tax enacted by this Ordinance and to execute, for and on behalf of the City of Shoreline, any necessary agreement with the Department of Revenue for the administration and collection of the tax enacted by this Ordinance.

**Section 3. Corrections by City Clerk or Code Reviser.** Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this Ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

**Section 4. Severability.** Should any section, subsection, paragraph, sentence, clause, or phrase of this Ordinance or its application to any person or situation be declared unconstitutional or invalid for any reason, such decision shall not affect the validity of the remaining portions of this Ordinance or its application to any person or situation.

**Section 5. Publication and Effective Date.** A summary of this Ordinance consisting of the title shall be published in the official newspaper. This Ordinance shall take effect five days after publication.

**PASSED BY THE CITY COUNCIL ON OCTOBER 28, 2019**

\_\_\_\_\_  
Mayor Will Hall

ATTEST:

APPROVED AS TO FORM:

\_\_\_\_\_  
Jessica Simulcik Smith  
City Clerk

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Margaret King  
City Attorney

Date of Publication: October 31, 2019  
Effective Date: November 5, 2019

**Shoreline Municipal Code**

**Chapter 3.17 Sales and Use Tax for Affordable and Supportive Housing**

**Section 3.17.010 Administration and collection.**

The administration and collection of the tax imposed by this chapter shall be in accordance with the provisions of Substitute House Bill 1406 (chapter 338, Laws of 2019), as subsequently codified in chapter 82.14 RCW and, as amended from time to time.

**Section 3.17.020 Credit against State's share of tax - Imposition of sales and use tax for affordable and supportive housing.**

- A. Imposition. There is imposed a sales and use tax as authorized by Substitute House Bill 1406 (chapter 338, Laws of 2019), which shall be subsequently codified in chapter 82.14 RCW, upon every taxable event, as defined in chapter 82.14 RCW, occurring within the City of Shoreline. The tax shall be imposed upon and collected from those persons from who the State of Washington sales tax or use tax is collected pursuant to chapters 82.08 and 82.12 RCW.
- B. Tax Rate. The rate of the tax imposed by this section shall be 0.0073 percent of the selling price or value of the article used.
- C. Tax Deduction. The tax imposed by this section shall be deducted from the amount of tax otherwise required to be collected or paid to the Washington State Department of Revenue under chapters 82.02 or 82.12 RCW. The Department of Revenue shall perform the collection of such taxes on behalf of the City at no cost to the City.
- D. Tax Distribution. The Washington State Department of Revenue shall calculate the maximum amount of tax distributions for the City based on the taxable retail sales in the City in State Fiscal Year 2019, and the tax imposed by this section shall cease to be distributed to the City for the remained of any State Fiscal Year in which the amount of tax exceeds the maximum amount of tax distribution for the City as properly calculated by the Department of Revenue. Distributions to the City that have ceased during a State Fiscal Year shall resume at the beginning on the next State Fiscal Year.

**Section 3.17.030 Purpose of tax.**

- A. The City may use moneys collected by the tax imposed by SMC 3.17.020 or bonds issued may be used solely for the following purposes:
  - 1. 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
  - 2. Providing the operations and maintenance costs of new units of affordable or supportive housing; or
  - 3. Providing rental assistant to tenants.
- B. The housing and services provided under subsection A above may only be provided to persons whose income is at or below sixty percent (60%) of the median income of the City.
- C. In determining the use of funds under this section, the City must consider the income of the persons to be served, the leveraging of the resources made available under SMC 3.17.020, and the housing needs of the City.

- D. The Administrative Services Director, or designee, shall report annually to the Washington State Department of Commerce, in accordance with rules adopted by that department, on the collection and use of the revenue from the tax imposed under SMC 3.17.020.

**Section 3.17.040 Expiration of tax.**

- A. The tax imposed by the City under SMC 3.17.020 shall expire twenty (20) years after the date on which the tax is first imposed. The Administrative Services Director, or designee, shall provide notice to the City Council and the City Manager of the expiration date of the tax each year beginning three (3) years before the expiration date.
- B. If there are any changes to the expiration, the Administrative Services Director, or designee, shall promptly notify the City Council and the City Manager.