Sedro-Woolley City Council Study Session
Wed, May 6, 2020 4:00 PM - 5:00 PM (PDT)

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VISION STATEMENT
SEDRO-WOOLLEY IS A FRIENDLY CITY THAT IS CHARACTERIZED BY CITY GOVERNMENT AND CITIZENS WORKING TOGETHER TO ACHIEVE A PROSPEROUS, VIBRANT AND SAFE COMMUNITY

MISSION STATEMENT
TO PROVIDE SERVICES AND OPPORTUNITIES WHICH CREATE A COMMUNITY WHERE PEOPLE CHOOSE TO LIVE, WORK AND PLAY

CITY COUNCIL STUDY SESSION
AGENDA

May 6, 2020
4:00 PM
Sedro-Woolley Municipal Building
Public Safety Training Room
220 Munro Street/325 Metcalf Street

1. SHB 1406 Affordable House Sales Tax: Options to consider…………………..…3-26
   (Staff Contact – Doug Merriman)

2. Revenue Impacts of COVID-19…...…………………………………………27-43
   (Staff Contact – Doug Merriman)

CITY COUNCIL
WORKSESSION

MAY 06 2020

AGENDA ITEM 1

CITY OF SEDRO-WOOLLEY
Sedro-Woolley Municipal Building
325 Metcalf Street
Sedro-Woolley, WA 98284
Phone (360) 855-9922
Fax (360) 855-9923

Doug Merriman Ph.D
City Supervisor

MEMO TO: City Council
FROM: Doug Merriman, City Supervisor
RE: SHB 1406 Affordable Housing Sales Tax
DATE: May 6, 2020

ISSUE: Should the City consider an Ordinance to implement SHB 1406 Affordable Housing Sales Tax?

BACKGROUND: 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, or, if eligible, for providing rental assistance to tenants.

This is not a new form of tax - the imposition of this tax is actually a reallocation of an existing state tax for this purpose. The tax will be credited against state sales taxes collected within the City. This reallocation of the State's share of sales tax represents an additional source of funding to address housing needs in the City.

In order for the City to impose the tax, within six months of the effective date of SHB 1406, or January 28, 2020, the governing body must have adopted 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.

In an effort to being the process of implementation, City Council, on September 11, 2019 adopted Resolution 1034-19 (see attached) which declared the City's intent to adopt legislation to a sales and use tax for affordable and supportive housing. The next step is for City Council to actually consider adopting an Ordinance 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.

The funds may only be used for (a) acquiring, rehabilitating, or constructing affordable housing, which may include new units within an existing structure or facilities providing supportive housing services under RCW 71.24.385 (behavioral health organizations); OR (b) operations and maintenance costs of new units of affordable or supportive housing. They may also be used to provide rental assistance to tenants that are at or below 60% of the median income of the county or city that is imposing the tax.

OPTIONS: A 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. Previous City discussions have considered the options of:

(1) Adopt an ordinance, levy the revenue, and administer as a City program, or

(2) Adopt, levy the revenue, and partner with the County to administer the funding, or
(3) Do not adopt and allow the revenue to default to the County.

This item is on our agenda as a prompt to continue the discussion on how to proceed with one of these three options.

I have attached several related informational items for your review.

RECOMMENDED ACTION: No action is requested at this time. The City will need to adopt an Ordinance no later than July 27, 2020 to continue pursuing this revenue source.

RESOLUTION NO. 1034-19

A RESOLUTION OF THE CITY COUNCIL OF SEDRO-WOOLLEY 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.

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, or, if eligible, for providing 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 of the City median income; and

WHEREAS, the City has a need for additional affordable housing units 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 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 SEDRO-WOOLLEY 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.

PASSED by majority vote of the members of the Sedro-Woolley City Council this 25th day of September, 2019, and signed in authentication of its passage this 26th day of September, 2019.

Julia Johnson, Mayor

Attest:

Doug Merriman, Ph.D., Finance Director

Approved as to form:

Eron Berg, City Attorney

SUBSTITUTE HOUSE BILL 1406

State of Washington **66th Legislature** **2019 Regular Session**

By House Housing, Community Development & Veterans (originally sponsored by Representatives Robinson, Macri, Chapman, Valdez, Senn, Peterson, Kloba, Tharinger, Gregerson, Stanford, Walen, Doglio, Frame, Jinkins, Riccelli, Slatter, Ormsby, and Santos)

READ FIRST TIME 02/08/19.

AN ACT Relating to encouraging investments in affordable and supportive housing; and adding a new section to chapter 82.14 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 82.14 RCW to read as follows:

(1) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Nonparticipating city" is a city that does not impose a sales and use tax in accordance with the terms of this section.

(b) "Nonparticipating county" is a county that does not impose a sales and use tax in accordance with the terms of this section.

(c) "Participating city" is a city that imposes a sales and use tax in accordance with the terms of this section.

(d) "Participating county" is a county that imposes a sales and use tax in accordance with the terms of this section.

(e) "Qualifying local tax" means the following tax sources, if the tax source is instated no later than twelve months after the effective date of this section:

(i) The affordable housing levy authorized under RCW 84.52.105;

(ii) The sales and use tax for housing and related services authorized under RCW 82.14.530; and

(iii) The sales tax for chemical dependency and mental health treatment services or therapeutic courts authorized under RCW 82.14.460.

(2)(a) A county or city legislative authority may authorize, fix, and impose a sales and use tax in accordance with the terms of this section.

(b) The tax under this section is assessed on the selling price in the case of a sales tax, or value of the article used, in the case of a use tax.

(c) The rate of the tax under this section for an individual participating city and an individual participating county may not exceed:

(i) Beginning on the effective date of this section until twelve months after the effective date of this section:

(A) One one-hundredth percent for a:

(I) Participating city, unless the participating city levies a qualifying local tax; and

(II) Participating county, within the limits of nonparticipating cities within the county;

(B) Two one-hundredths percent for a:

(I) Participating city that currently levies a qualifying local tax;

(II) Participating city if the county in which it is located declares they will not levy the sales and use tax authorized under this section; and

(III) Participating county within the unincorporated areas of the county and any city that declares they will not levy the sales and use tax authorized under this section;

(ii) Beginning twelve months after the effective date of this section:

(A) One one-hundredth percent for a:

(I) Participating city that is located within a participating county if the participating city is not levying a qualifying local tax; and

(II) Participating county, within the limits of a participating city if the participating city is not levying a qualifying local tax;

(B) Two one-hundredths percent within the limits of a:

(I) Participating city that is levying a qualifying local tax; and

(II) Participating county within the unincorporated area of the county and within the limits of any nonparticipating city that is located within the county.

(d) A county may not levy the tax authorized under this section within the limits of a participating city that levies a qualifying local tax.

(e)(i) In order for a county or city legislative authority to impose the tax under this section, the authority must adopt:

(A) A resolution of intent to adopt legislation to authorize the maximum capacity of the tax in this section within six months of the date in which this section takes effect; and

(B) Legislation to authorize the maximum capacity of the tax in this section within one year of the date on which this section takes effect.

(ii) Adoption of the resolution of intent and legislation requires simple majority approval of the enacting legislative authority.

(iii) If a county or city has not adopted a resolution of intent in accordance with the terms of this section, the county or city may not authorize, fix, and impose the tax.

(3) The tax imposed under this section must be deducted from the amount of tax otherwise required to be collected or paid to the department of revenue under chapter 82.08 or 82.12 RCW. The department must perform the collection of such taxes on behalf of the county or city at no cost to the county or city.

(4) By December 31, 2019, or within thirty days of a county or city authorizing the tax under this section, whichever is later, the department must calculate the maximum amount of tax distributions for each county and city authorizing the tax under this section as follows:

(a) The maximum amount for a participating county equals the taxable retail sales within the county in state fiscal year 2019 multiplied by the tax rate imposed under this section. If a county imposes a tax authorized under this section after a city located in that county has imposed the tax, the taxable retail sales within the city in state fiscal year 2019 must be subtracted from the taxable retail sales within the county for the calculation of the maximum amount; and

(b) The maximum amount for a city equals the taxable retail sales within the city in state fiscal year 2019 multiplied by the tax rate imposed under subsection (1) of this section.

(5) The tax must cease to be distributed to a county or city for the remainder of any fiscal year in which the amount of tax exceeds the maximum amount in subsection (4) of this section. The department must remit any annual tax revenues above the maximum to the state treasurer for deposit in the general fund. Distributions to a county or city meeting the maximum amount must resume at the beginning of the next fiscal year.

(6)(a) If a county has a population greater than four hundred thousand or a city has a population greater than one hundred thousand, the moneys collected or bonds issued under this section may only be used for the following purposes:

(i) 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

(ii) Funding the operations and maintenance costs of new units of affordable or supportive housing.

(b) If a county has a population of four hundred thousand or less or a city has a population of one hundred thousand or less, the moneys collected under this section may only be used for the purposes provided in (a) of this subsection or for providing rental assistance to tenants.

(7) The housing and services provided pursuant to subsection (6) of this section may only be provided to persons whose income is at or below sixty percent of the median income of the county or city imposing the tax. If the median income of a city enacting the tax under this section is not available from the United States census bureau, the housing and services provided pursuant to subsection (6) of this section may only be provided to persons whose income is at or below sixty percent of the median income of the county in which the city is located.

(8) In determining the use of funds under subsection (6) of this section, a county or city must consider the income of the individuals and families to be served, the leveraging of the resources made available under this section, and the housing needs within the jurisdiction of the taxing authority.

(9) To carry out the purposes of this section including, but not limited to, financing loans or grants to nonprofit organizations or public housing authorities, the legislative authority of the county or city imposing the tax has the authority to issue general obligation or revenue bonds within the limitations now or hereafter prescribed by the laws of this state, and may use, and is authorized to pledge, the moneys collected under this section for repayment of such bonds.

(10) A county or city may enter into an interlocal agreement with one or more counties, cities, or public housing authorities in accordance with chapter 39.34 RCW. The agreement may include, but is not limited to, pooling the tax receipts received under this section, pledging those taxes to bonds issued by one or more parties to the agreement, and allocating the proceeds of the taxes levied or the bonds issued in accordance with such interlocal agreement and this section.

(11) Counties and cities imposing the tax under this section must report annually to the department of commerce on the collection and use of the revenue. The department of commerce must adopt rules prescribing content of such reports. By December 1, 2019, and annually thereafter, and in compliance with RCW 43.01.036, the department of commerce must submit a report annually to the appropriate legislative committees with regard to such uses.

(12) The tax imposed by a county or city under this section expires twenty years after the date on which the tax is first imposed.

--- END ---

SHB 1406: Understanding the Affordable Housing Sales Tax Credit

July 17, 2019 by Toni Nelson
Category: Housing, New Legislation and Regulations, Sales and Use Taxes

Editor's note: Due to the high-profile and fast-moving nature of this topic, we will be updating this post with new information and examples as they become available. Readers are encouraged to bookmark this page and check back frequently, or eligible government agencies may also submit questions about SHB 1406 to our Ask MRSC service. Significant recent updates include:

- *January 24, 2019: Added Department of Commerce's first annual implementation report (December 2019).*
- *December 12, 2019: Updated revenue estimate worksheet with Q2 2019 sales tax data; added Port Angeles to list of cities with qualifying local tax.*
- *October 24, 2019: Added Ellensburg ordinance (city has qualifying local tax).*
- *September 9-17: Added additional ordinances/resolutions from East Wenatchee, Skamania County, Tukwila, and Tumwater.*
- *August 28: Clarified timing of adoption of enacting ordinances and calculation of maximum distribution caps, emphasizing need for counties to adopt their ordinances first to maximize revenues; added Pacific County ordinance.*
- *August 20: Added links to WSAC resources and Pierce County ordinance.*
- *August 8: Updated revenue estimate worksheet with Q1 2019 sales tax data from DOR; added sample resolutions of intent.*

- *July 24: Added examples of resolutions of intent.*

The 2019 legislative session produced a plethora of bills, but SHB 1406 (codified as RCW 82.14.540) has generated significant buzz as it will provide a new affordable housing revenue stream for those counties, cities, and towns that choose to participate. This sales tax option is actually a credit against the state sales tax rate of 6.5%, 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.

It is imperative that cities and counties communicate and coordinate closely to implement this legislation, or else both cities and counties may lose out on some revenues. See the "tax rates for participating cities" and "annual maximum distribution cap" sections below for more information.

In order to understand the foundation of this bill, it's important to understand what is considered a participating and non-participating city or county. A "participating" city or county is one that chooses to impose the affordable housing sales tax credit provided in SHB 1406 and completes the required steps for adoption within the next 12 months, while a "nonparticipating" city or county is one that chooses not to implement the affordable housing sales tax credit.

In this blog we discuss this complicated piece of legislation and some of the key decisions that eligible local governments will need to make within the next few months.

How Can This Revenue Be Used?

The intent of the legislation is to encourage local government investments in affordable and supportive housing, and as such, the funds will be considered a restricted revenue subject to reporting requirements and audit review for compliance. The use of this sales tax partially depends upon the size of your jurisdiction:

For counties over 400,000 population and cities over 100,000 population: The funds may only be used for (a) acquiring, rehabilitating, or constructing affordable housing, which may include new units within an existing structure or facilities providing supportive housing services under RCW 71.24.385 (behavioral health organizations); **OR** (b) operations and maintenance costs of new units of affordable or supportive housing.

For counties under 400,000 population and cities under 100,000 population: The funds may be used for the same purposes listed above, but they may also be used to provide rental assistance to tenants that are at or below 60% of the median income of the county or city that is imposing the tax.

For any city or county, they may finance 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 SHB 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.

How Much Revenue Will We Receive?

The answer to this question depends on whether your entity has a "qualifying local tax" (see below), the local economy, and the calculation of the revenue cap included in SHB 1406. Participating jurisdictions will receive revenues for 20 years, and the amount that you receive annually will be equivalent to either 0.0073% or 0.0146% of taxable retail sales in your jurisdiction, up to an annual maximum distribution cap that is based on FY 2019 taxable retail sales.

Tax rates for participating counties

Counties do not need a "qualifying local tax" and will automatically receive the maximum 0.0146% rate within the unincorporated areas, up to the annual maximum distribution cap described later. Within the boundaries of each city or town, you will receive 0.0146%, minus the rate being received by the city/town. Here are the variables:

- If the city chooses not to participate but the county does participate, the county will receive the full 0.0146% within the city boundaries.
- If a city elects to participate but does not have a "qualifying local tax" (see below), the city will receive the 0.0073% "half share" and the county will also receive a 0.0073% half share within the city boundaries.
- If a city elects to participate and imposes a "qualifying local tax" by the deadline, the city will receive the full 0.0146% share and the county will not receive any revenues within the city boundaries.

As the legislation is currently written, if the county elects not to participate, cities located within said county that have not enacted a qualifying local tax will not receive SHB 1406 revenues after the first year.

Tax rates for participating cities

The rate your city receive depends on whether it enacts a local qualifying tax (see below) prior to the deadline of July 27, 2020, as well as whether or not your county participates.

- For cities that impose a qualifying local tax by the deadline, you will receive the maximum 0.0146% rate, up to the annual maximum distribution cap described below, regardless of whether your county participates.
- For cities that do not have a qualifying local tax, you will receive the 0.0073% "half share," up to the annual maximum distribution cap, but *only if* your county also elects to participate.

If your county declares it will not participate or does not adopt the required resolution of intent by the end of January 2020, you will receive the full 0.0146% through July 27, 2020, but after that you will not receive any further revenues. In discussions with both Association of Washington Cities (AWC) and the Department of Revenue it is believed that this is due to a drafting error in the bill. AWC does not anticipate this scenario but asks that you let them know if your city finds itself in this situation!

Annual maximum distribution cap

SHB 1406 sets a cap on the maximum sales tax revenues to be credited to local government within any state fiscal year (July 1 to June 30). The cap will be calculated based upon the jurisdiction's taxable retail sales during the state's 2019 fiscal year (July 1, 2018 – June 30, 2019). Just like the state shared revenue cycle, distributions will start July 1, and the state will cease distribution until the beginning of the next fiscal cycle if at any time during the fiscal period your distributions meet the cap.

It is very important that counties adopt the enacting legislation prior to cities and towns, or else the counties may lose out on some revenues. (This applies only to the enabling "legislation" – the order of adoption of the "resolutions of intent" does not matter.) If the county adopts the imposing legislation prior to the city(s) within its boundaries, the county's revenue cap will be calculated based on the total countywide taxable retail sales in FY 2019, including both the unincorporated and incorporated areas of the county. But if any city adopts their enabling ordinance before the county, that city's taxable retail sales will be subtracted from the county's taxable retail sales, resulting in the county's annual maximum distribution cap being reduced for the entire 20-year state tax sharing period. (See section 4(a) of the legislation.)

It's also important to remember that retail sales can fluctuate from year to year depending upon a number of economic factors, so your revenues being generated from this sales tax credit (particularly in the early years when some jurisdictions might not hit their annual caps) may fluctuate as well.

Revenue Estimates

We have developed a worksheet for your revenue forecasting that was updated on December 16, 2019 with projections for both the 0.0073% and 0.0146% tax credit options. This data comes from DOR's Retail Sales for Cities and Counties. However, these are estimates only, and the actual distribution caps will be calculated by the Department of Revenue.

How Do We Impose This New Tax Option?

To receive the affordable housing sales tax credit, you 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. Here is a sample resolution of intent that has been prepared by Pacifica Law Group for the Association of Washington Cities (AWC) that will assist you in this process. Also see the sample resolutions at the end of this article.

- **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. See the examples at the end of this article.

Since the bill explicitly requires both a "resolution of intent," which must be adopted by January 27, 2020, and "legislation to authorize the maximum capacity of the tax" (an ordinance for most jurisdictions, but for some counties this may be a resolution), which must be adopted by July 27, 2020, it is our recommendation that these documents be adopted separately.

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.** Counties do not need a qualifying local tax to receive the maximum distribution.

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.

According to our data, there are currently only seven cities that have implemented at least one of these qualifying local taxes: Bellingham, Ellensburg, Olympia, Port Angeles, Seattle, Tacoma, and Vancouver. (Port Angeles successfully passed an affordable housing sales tax in November 2019 – see the resolution at the end of this article which also provides a good analysis of election timing and costs.)

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. (For more detailed information on any of these qualifying local taxes, refer to our Revenue Guide for Cities and Towns.)

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 12 months of the effective date of SHB 1406. This deadline is July 27, 2020. The deadline for placement on the general election ballot is fast approaching (August 6), and the only other elections before the July 2020 deadline are the special elections in February and April.

When Will We Start to Receive Revenues from SHB 1406?

The Department of Revenue (DOR) typically requires a 75-day notice for sales tax rate changes, but since this is a sales tax credit (not a new sales tax) it will therefore only require a 30-day wait period. The credit will take effect on the first day of the month following the 30-day period (RCW 82.14.055(2)). For example, if you adopt the resolution of intent and then the enabling legislation (ordinance/resolution) during August 2019, the tax will take effect on October 1. The sales tax revenues from October will be remitted by retailers to DOR by the 25th of the following month (November), and you will receive your first distribution of this tax credit on your end-of-month December disbursement from the State Treasurer's office. *Editor's note: In this example, the original article incorrectly stated that the revenues would be distributed at the end of November.*

For cities that have a qualifying local tax in place, you will receive the full credit of 0.0146% as soon as you adopt the enacting ordinance. For all other cities and towns that have adopted the enacting ordinance, you will collect a tax credit of 0.0073% until your ballot measure for a qualifying local tax has passed.

This piece of legislation is complex and a bit confusing. We have worked closely with the DOR and the AWC to bring you as much information as possible to assist with your decisions to take the first step in the process — which is to pass a resolution of intent. MRSC is ready to answer any further questions that you may have. Please do not hesitate to send me an email or give me call.

Additional Resources

For cities, the Association of Washington Cities (AWC) has prepared an implementation guide and flowchart to help in your decision-making process.

For counties, the Washington State Association of Counties (WSAC) has prepared an implementation guide and flowchart.

In December 2019, the Department of Commerce published its first annual implementation update describing how the sales tax credit works, which cities and counties have enacted it so far, a summary of the department's role and rulemakings, and next steps.

Sample Resolutions

In addition to the Pacifica Law Group sample resolution of intent provided by AWC, below are a few examples of SHB 1406 resolutions we have come across. This is not a comprehensive list of all the cities and counties that are adopting resolutions. Many of the resolutions that have been adopted use very similar language based on the Pacifica Law Group example, but we will continue to monitor this topic and periodically add distinct or noteworthy examples to this list.

Counties

- **Pierce County** Resolution No. R2019-103 (2019) – Resolution of intent for county over 400,000 population
- **Skamania County** Resolution No. 2019-30 (2019) – Resolution of intent for county under 400,000 population
- **Thurston County** Resolution No. 15801 (2019) – Resolution of intent for county under 400,000 population, with intent to enter into interlocal agreement with cities to pool revenue.

Cities

- **East Wenatchee** Resolution No. 2019-18 (2019) – Resolution of intent for city under 100,000 population
- **Port Angeles** Resolution No. 14-19 (2019) – Submitting 0.1% affordable housing sales tax (RCW 82.14.530) to voters as a qualifying local tax under SHB 1406. Includes analysis of election timing and costs, concluding it is much less expensive to submit a measure at the November 2019 general election (filing deadline: August 6) than at the February or April special election.
- **Tumwater** Resolution No. R2019-006 (2019) – Resolution of intent for city under 100,000 population.
- **Vancouver** Resolution No. M-4026 (2019) – Resolution of intent for city over 100,000 population. Includes staff report; note that Vancouver qualifies for the maximum 0.0146% because it already has a qualifying local tax.

Sample Adopting Ordinances

We will post selected examples of enacting ordinances that we receive below.

- **Ellensburg** Ordinance No. 4836 (2019) – Adopting maximum 0.0146% rate for city under 100,000 population that has a qualifying local tax in place
- **Pacific County** Ordinance No. 188 (2019) – Adopting maximum sales tax credit for county under 400,000 population. Ordinance clearly indicates which cities plan to participate; note that "qualifying local taxes" apply only to cities and are not required for counties to receive maximum distribution.
- **Pierce County** Ordinance No. 2019-57s (2019) – Adopting maximum sales tax credit for county over 400,000 population.
- **Tukwila** Ordinance No. 2613 (2019) – Adopting maximum sales tax tax credit for city under 100,000 population; includes potential for interlocal cooperation with other cities to be determined at a later date.
- **Tumwater** Ordinance No. O2019-024 (2019) – Adopting maximum sales tax credit for city under 100,000 population. Effective date is January 1, 2020.

MRSC is a private nonprofit organization serving local governments in Washington State. Eligible government agencies in Washington State may use our free, one-on-one Ask MRSC service to get answers to legal, policy, or financial questions.

About Toni Nelson

Toni has over 24 years of experience with Local Government finance and budgeting. Toni's area of expertise include "Cash Basis" accounting and reporting, budgeting, audit prep and the financial issues impacting small local government.

VIEW ALL POSTS BY TONI NELSON

Implementing HB 1406

2020

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 median income of the city imposing the tax. 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 28, 2020 to pass a resolution of intent. The tax ordinance must then be adopted by July 28, 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.

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.

Deadlines to participate:

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

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.

Timing considerations

HB 1406 makes a distinction about whether a county or a city adopts the tax first. For cities, the amount you are eligible to receive will not change in either event. But for counties, if they adopt the tax before their cities, they will potentially be eligible to receive more revenue over the course of the twenty years of revenue sharing. Because of this, many cities are working with their counties to sequence their ordinances in order to maximize housing resources into the region.

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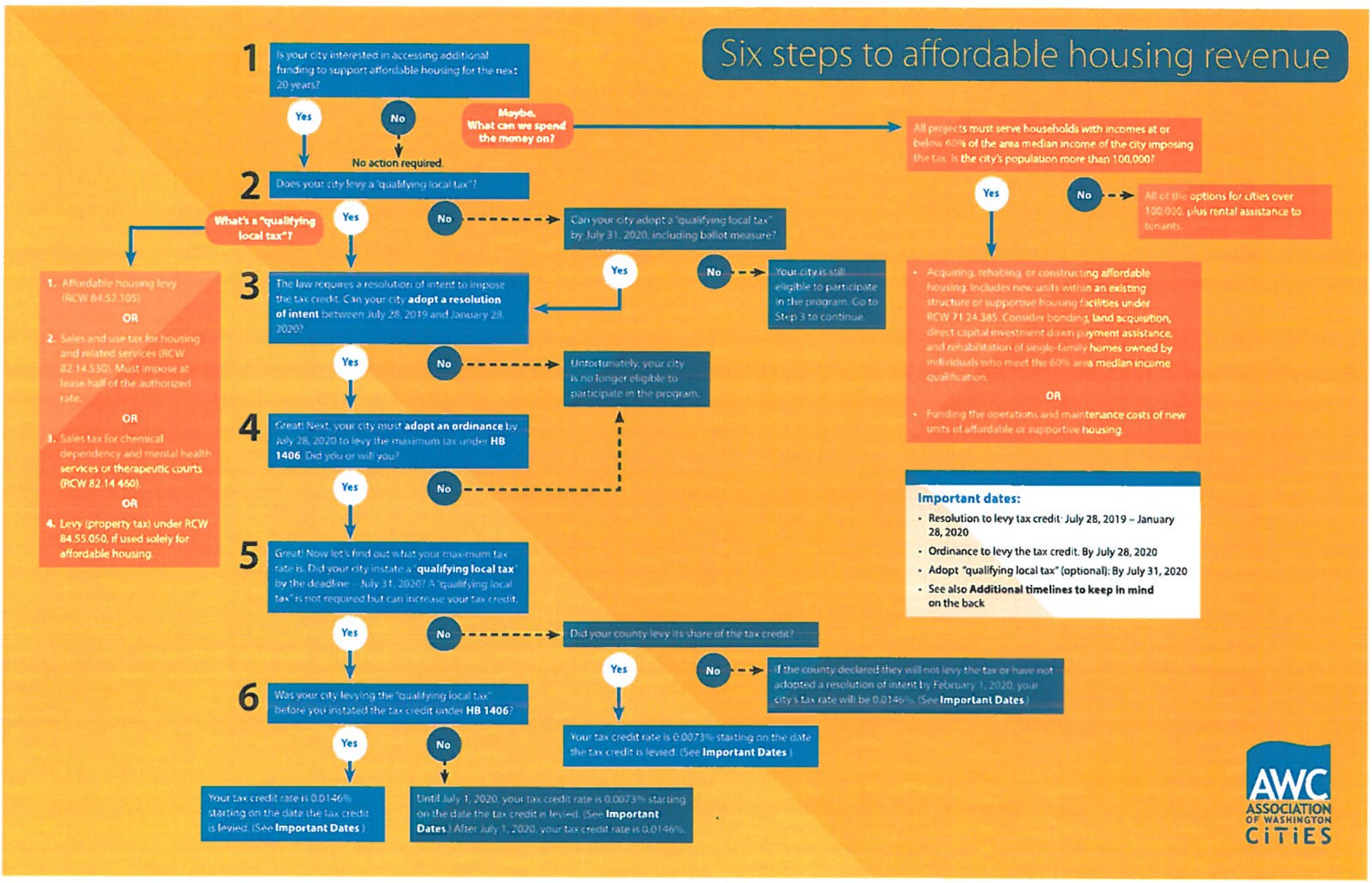

Six steps to affordable housing revenue
1
Is your city interested in accessing additional funding to support affordable housing for the next 20 years?
Yes
No
No action required.
Maybe. What can we spend the money on?
All projects must serve households with incomes at or below 60% of the area median income of the city imposing the tax. Is the city's population more than 100,000?
Yes
No
All of the options for cities over 100,000, plus rental assistance to tenants.
Acquiring, rehabing, or constructing affordable housing. Includes new units within an existing structure or supportive housing facilities under RCW 71.24.385. Consider bonding, land acquisition, direct capital investment down payment assistance, and rehabilitation of single-family homes owned by individuals who meet the 60% area median income qualification.
OR
Funding the operations and maintenance costs of new units of affordable or supportive housing.
2
Does your city levy a "qualifying local tax"?
What's a "qualifying local tax"?
1. Affordable housing levy (RCW 84.52.105)
OR
2. Sales and use tax for housing and related services (RCW 82.14.530). Must impose at lease half of the authorized rate.
OR
3. Sales tax for chemical dependency and mental health services or therapeutic courts (RCW 82.14.460).
OR
4. Levy (property tax) under RCW 84.55.050, if used solely for affordable housing.
Yes
No
Can your city adopt a "qualifying local tax" by July 31, 2020, including ballot measure?
Yes
No
Your city is still eligible to participate in the program. Go to Step 3 to continue.
3
The law requires a resolution of intent to impose the tax credit. Can your city adopt a resolution of intent between July 28, 2019 and January 28 2020?
Yes
No
Unfortunately, your city is no longer eligible to participate in the program.
4
Great! Next, your city must adopt an ordinance by July 28, 2020 to levy the maximum tax under HB 1406. Did you or will you?
Yes
No
5
Great! Now let's find out what your maximum tax rate is. Did your city instate a "qualifying local tax" by the deadline – July 31, 2020? A "qualifying local tax" is not required but can increase your tax credit.
Yes
No
Did your county levy its share of the tax credit?
Yes
No
If the county declared they will not levy the tax or have not adopted a resolution of intent by February 1, 2020, your city's tax rate will be 0.0146%. (See Important Dates.)
Your tax credit rate is 0.0073% starting on the date the tax credit is levied. (See Important Dates.)
6
Was your city levying the "qualifying local tax" before you instated the tax credit under HB 1406?
Yes
No
Your tax credit rate is 0.0146% starting on the date the tax credit is levied. (See Important Dates.)
Until July 1, 2020, your tax credit rate is 0.0073% starting on the date the tax credit is levied. (See Important Dates.) After July 1, 2020, your tax credit rate is 0.0146%.
Important dates:
Resolution to levy tax credit: July 28, 2019 – January 28, 2020
Ordinance to levy the tax credit: By July 28, 2020
Adopt "qualifying local tax" (optional): By July 31, 2020
See also Additional timelines to keep in mind on the back
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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% of the area median income of the city imposing the tax.
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 at or 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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11/22/19

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To:	Mayor Jill Boudreau; Mayor Laurie Gere; Mayor Julia Johnson; Mayor Steve Sexton
Cc:	Board of County Commissioners; Trisha Logue, County Administrator; Jennifer Johnson, Public Health Director
From:	Kayla Schott-Bresler, Deputy County Administrator
Date:	October 7, 2019
Re:	County Staff Recommendation for City-County Cooperation on Implementation of SHB 1406

Background

In 2019, the Washington State Legislature passed SHB 1406 "Encouraging investments in affordable and supportive housing" (RCW 82.14.540). This bill provides a pathway for every Washington city, town, and county to receive dedicated revenue for affordable housing at no additional cost to the taxpayers. If a jurisdiction chooses to implement this local option, it must impose a local sales and use tax, which is then credited against revenue otherwise payable to the State. This tax mechanism does not increase sales tax to the public but redirects it to local authority. Revenue can only be used for affordable housing serving people at 60% or less of Area Median Income.

Maximum tax rates are .0146% on taxable retail sales, with a 50/50 revenue split between each City and the County. The County is entitled to the full .0146% in unincorporated Skagit County. A city is entitled to the full .0146% within its boundaries if it levies a qualifying local tax. The bill allows for jurisdictions to pool revenue.

Jurisdictions can bond against the revenue in order to fund larger capital outflow up front. Bonds do not have to be issued immediately. If an opportunity arises in the future, the balance of tax levy authority can be bonded. Because the bill explicitly allows for bonding, if a jurisdiction pledges this revenue to bond repayment, the legislature cannot eliminate this revenue source in the future.

Timing

In order to receive the funding, a jurisdiction must pass a Resolution of Intent by January 28, 2020 and an Ordinance by July 28, 2020. The dedicated revenue expires twenty years after the date a jurisdiction adopts an Ordinance. The maximum amount of revenue to be received in any year is limited, based on actual taxable retail sales from July 1, 2018 to June 30, 2019 (state FY 2019).

Interlocal Cooperation

Representatives of the County met with all four mayors on June 24, 2019 and August 21, 2019. The County has requested the cities consider pooling their revenue with the County's share of funds. Advantages of pooled revenue include: cost sharing for debt issuance, leveraging state and federal funds, improved coordination with developers and other funders, administrative efficiency, and an ability to support larger projects to address the countywide need for different populations.

If a city wishes to join with the County, it may pass a Resolution and Ordinance then subsequently enter into an interlocal agreement with Skagit County. Alternatively, it could forgo passing a resolution and ordinance, in which case the city's revenue would automatically default to the County. **Please note: in order for the community to receive the maximum amount authorized under the statute, the County**

must pass its Ordinance before any city. If this timing fails, a portion of the revenue will default back to the State general fund.

On August 5, 2019, the Board of County Commissioners passed a Resolution of Intent to implement SHB 1406 (R#20190132). A Public Hearing and possible action on an Ordinance is scheduled for Monday, October 14, 2019 at 10:30am.

Allocations Planning

The State Department of Revenue has provided estimates (below) of potential **maximum** revenue received under SHB 1406.

Table 1: Maximum Revenue Receivable from SHB 1406

Countywide Estimated Revenue $ 474,284

Jurisdiction	Taxable Retail Sales	Potential County Revenue (1)	Potential City Revenue (1)
SKAGIT COUNTY	$516,359,091	$75,388	
ANACORTES	570,620,350	41,655	$41,655
BURLINGTON	1,004,185,594	73,306	73,306
CONCRETE	15,298,527	1,117	1,117
HAMILTON	6,620,283	483	483
LA CONNER	56,405,258	4,118	4,118
LYMAN	3,641,401	266	266
MOUNT VERNON	883,131,470	64,469	64,469
SEDRO WOOLLEY	192,259,687	14,035	14,035
		$274,836	$199,448

Revenue may be used for the following purposes: acquiring, rehabilitating, or constructing affordable housing; funding the operations and maintenance costs of new units of affordable or supportive housing; or providing rental assistance to tenants.

If full cooperation amongst cities, towns, and the County is achieved, County staff recommends the following allocations plan:

- *Capital Program:* Bond 50% of revenue, generating more than $3,000,000 in capital funds for housing development projects. This revenue would be spent over a five-year period.
- *Operations & Maintenance (O&M) Program*: Reserve 50% of revenue, approximately $230,000 per year, for operations & maintenance of new units of permanent supportive housing. If another source of O&M funding is identified, this money could be re-allocated to the capital program.

Under this plan, there is the risk that the legislature could revoke the SHB 1406 option for the un-bonded funds.

There is a wide spectrum of housing need across the County, creating economic development, workforce recruitment, social, law enforcement, and humanitarian challenges. A balance between a workforce housing capital program and a supportive housing operations & maintenance program helps address this diverse set of needs.

If the jurisdictions collectively wished to pursue a larger capital program (80% capital/20% O&M), a bond could generate up to $5,000,000 in capital funds. Approximately $93,296 would be leftover for O&M annually, assuming maximum revenue is achieved each year. If revenue declines significantly, bond payment obligations would be shared proportionally amongst the jurisdictions.

<u>Project Pipeline</u>

Currently, there are capital projects proposed in the cities of Anacortes, Burlington, and Mount Vernon (Appendix A). All jurisdictions benefit from a proposed 70-unit permanent supportive housing project in Mount Vernon, as the project will provide housing and care for people currently living on the streets throughout the community. Permanent supportive housing is an evidenced-based housing program which is shown to improve health outcomes, support long-term housing stability, and reduce law enforcement and EMS calls.

<u>Governance and Project Selection</u>

Staff does not recommend creating a complex or ongoing governance structure to administer these funds. Instead, the jurisdictions could collectively issue two Requests for Proposals (one in 2020; one in 2022), administered by Skagit County Public Health. An ad-hoc committee comprised of 3 unelected representatives from Skagit County and 1 unelected representative from each City would form in 2020 and 2022 to score proposals based on the below criteria:

- ✓ Project readiness
- ✓ Leverage of outside capital (recommend requiring at least 75% of project funds come from other sources)
- ✓ Project selection promotes geographic dispersion of funds
- ✓ Meets a critical housing need
- ✓ Serves an income spectrum with a demonstrated housing gap
- ✓ Developer capacity and experience
- ✓ Project design, services, and location

RCW 82.14.540 states "in determining the use of funds...a county or city must consider the income of the individuals and families to be served, the leveraging of the resources made available under this section, and the housing needs within the jurisdiction of the taxing authority." The above criteria are in alignment with this regulation and allow the jurisdictions to make an informed decision about a project's chance for success.

Examples of potential applicants are attached in Exhibit A. The Committee would determine the year funding would be dispersed if the applicant proposes leveraging state and federal funding. This ensures a coordinated pipeline that does not create unnecessary competition amongst projects. Cities that do not currently have a project to put forward for funding could begin planning for the 2022 RFP.

Skagit County Public Health could meet with prospective developers and stakeholders to get their feedback on RFP timing, criteria, and process.

Contact

Please feel free to contact me at (360) 416-1304 or kayla@co.skagit.wa.us with questions or to provide feedback and reflections on this proposal.

DOR Estimated Revenue Potential SHB 1406

Countywide Estimated Revenue $ 474,284

		Potential County Revenue (1)	Potential City Revenue (1)
SKAGIT COUNTY	$516,359,091	$75,388	
ANACORTES	570,620,350	41,655	$41,655
BURLINGTON	1,004,185,594	73,306	73,306
CONCRETE	15,298,527	1,117	1,117
HAMILTON	6,620,283	483	483
LA CONNER	56,405,258	4,118	4,118
LYMAN	3,641,401	266	266
MOUNT VERNON	883,131,470	64,469	64,469
SEDRO WOOLLEY	192,259,687	14,035	14,035
		$274,836	$199,448

(1) Assumes no city imposes a "qualifying tax" under the legislation. If a city imposes a qualifying tax, they receive all potential revenue in their jurisdiction.

Updated: September 4, 2019

CITY COUNCIL
WORKSESSION

MAY 06 2020

AGENDA ITEM 2

CITY OF SEDRO-WOOLLEY
Sedro-Woolley Municipal Building
325 Metcalf Street
Sedro-Woolley, WA 98284
Phone (360) 855-9922
Fax (360) 855-9923

Doug Merriman Ph.D
City Supervisor

MEMO TO: City Council
FROM: Doug Merriman, City Supervisor
RE: Budget Responses to COVID-19 Revenue Impacts
DATE: May 6, 2020

ISSUE: At issue is the potential negative revenue impacts to the City due to restrictions on businesses during the current COVID-19 crisis.

BACKGROUND: The challenging financial impact to the City of the shutdown of businesses and organizations caused by the coronavirus pandemic is quickly becoming a certainty. In order to prepare our budget and our core operations for possible reductions in our revenues, staff have already been reviewing current funding sources in an effort to quantify what this possible downtown may mean for the City of Sedro-Woolley. While some of the revenues the City receives may experience mild fluctuations, sales tax revenues which represents approximately 21% of our General Fund budget as well as being a primary funding source for other areas such as Parks, Cemetery, and Streets, is historically extremely sensitive to fluctuations in our economy – in particular consumer spending. Accordingly, one may very easily draw a correlation between the reduction in business activity during the stay-at-home shutdown to what we will shortly be seeing in the reduction of revenue receipts.

To date, our revenues have been following our budget as originally expected. We must keep in mind, however, that many of our revenues come to us on a lagged basis. For example, it takes two months for sales taxes to travel from the point of sale at a business, to the state, then to the City. Accordingly, the business slowdown we witnessed in March will be evident in the sales tax receipts we receive in May. Accordingly, there is no time like the present to prepare our action plan as to how we will respond to this issue.

As with any challenge, the first step is to quantify the scope of the problem, then to develop a strategic and proactive action plan. For the last two weeks, my office has been modeling the potential revenue shortfalls using current budget data to project what a 5%, 10%, or 20% revenue down turn might mean. Using different scenarios in this manner is key as the difficult part is that we have no method to know what the amount of the revenue loss will be.

At the same time, staff has already started the process of looking at steps to tighten our budget. This involves looking at each department's budget line items, it involves a review of our fund balance reserves, and it will involve looking at how we allocate out costs and revenues to different programs around the City. While staff may be able to adjust to a certain percentage of the shortfall through reductions in department costs, we will most likely encounter decisions that will require your assistance as policy makers.

What is vitally important is our communicating the process of adapting to the revenue shortfall both internally and externally. Accordingly, this agenda item is presented for us to set aside time to discuss what we are seeing as the potential revenue impacts to the City budget. In addition, we might discuss possible additional funding sources that are becoming available specifically to assist cities with this issue.

INFORMATION: I have attached a couple of articles which discuss certain elements of how to respond to the fiscal impacts of COVID-19. In addition, using our actual financial information through April 30, 2020, staff are completing a model report for your review which will be provided prior to the work session.

REQUESTED ACTION: There will be no requested action for this item. This is informational only at this time.

The Avenue

When will your city feel the fiscal impact of COVID-19?

Michael A. Pagano and Christiana K. McFarland Tuesday, March 31, 2020

The economic impacts of COVID-19 are already shaping up to be significant, yet uneven, across the country. Not only are workers and businesses affected, but so too is the fiscal capacity of governments that rely on a healthy economy for their revenue. As the crisis unfolds, the impact on cities' bottom line will be driven not only by overall economic conditions but specifically the parts of the economy where revenue is generated: retail sales, income and wages, and real estate.

To understand when cities can anticipate the brunt of COVID-19's impact on their general fund revenues, we examined the extent to which a city relies on general tax sources that respond quickly to economic swings. An important factor is whether the city's underlying regional economy is composed of industries that are more immediately exposed to coronavirus-related employment declines.

The results indicate an uneven geography of fiscal impact, with many heartland cities likely to be hit harder and more quickly than others.

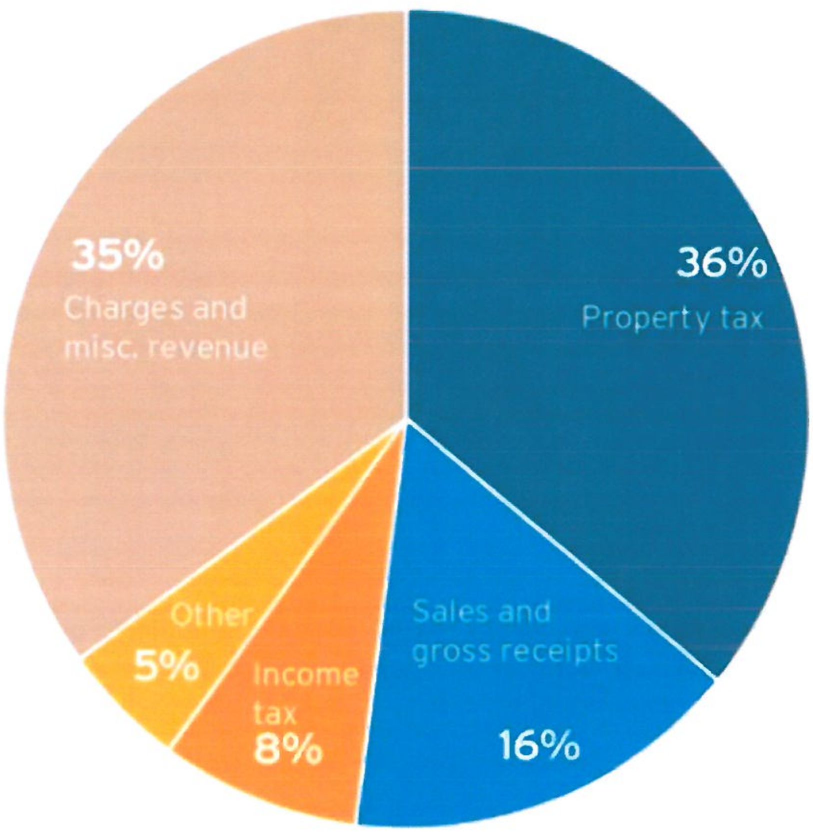
» Download the appendix table

A city's tax structure will affect its short-term outlook

Cities in the U.S. generate the majority of their revenue by designing their own tax and fee structures within the limits imposed by their states (e.g., property tax limits, debt limits, constraints on access to some tax sources). As a consequence, cities' tax structures vary across the country, with some relying heavily on property taxes and others primarily on sales taxes. Only a few cities—approximately one in 10—rely most on income or wage taxes.

FIGURE 1

Composition of municipal own-source revenue



Source: Authors' calculations of Census of Governments 2017

Source: Authors' calculations of Census of Governments 2017 data.

Metropolitan Policy Program at BROOKINGS

Federal aid amounts to some 5% of total municipal revenue, while state aid is 20% to 25%. In other words, a city's tax structure accounts for 70% to 75% of what it can spend to meet the health, safety, and welfare needs of its residents and visitors.

After less than a month of shelter-at-home edicts, it's clear that retail sales have plummeted and unemployment is skyrocketing. A city that generates the majority of its revenue from sales or income taxes will be hit hard and immediately when it experiences such consumer declines and job losses.

A city that relies on property taxes, however, will not experience such an immediate collapse in its revenues. Local assessment practices require that cities wait to estimate the value of land and property until the property is exchanged on the market or an assessment is conducted. Current property tax bills, therefore, typically reflect values of the property anywhere from 18 months to several years prior to collection. Property tax collection is less responsive, or "elastic," in the short term—but over time, as rising unemployment dampens real-estate demand, even these property-tax-dependent cities will feel COVID-19's impact.

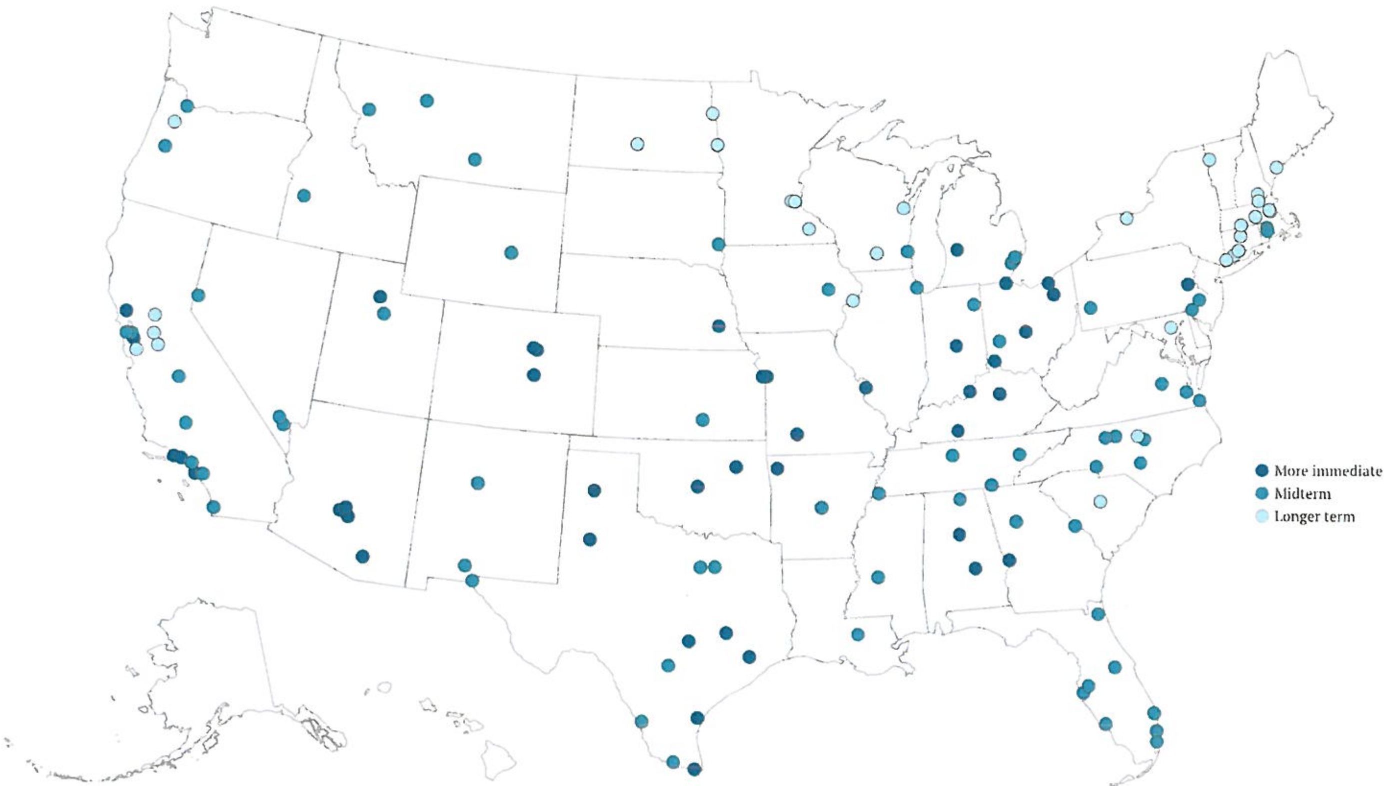
In addition to taxes, approximately one-third of city-sourced revenues are derived from fees and charges for services such as trash collection and water. Although COVID-19 will adversely affect some fee-driven services (think transit and parking) because demand is reduced, it will affect other services (water, sewer, etc.) less severely, as residents remain in place and continue to use them.

Local industries will play a role, too

To illustrate the impact of tax structures on city-revenue responses to COVID-19, we evaluated the share of regional employment in high-risk industries (mining/oil and gas, transportation, employment services, travel arrangements, and leisure and hospitality) and the share of general fund revenues from sales and income taxes across 139 cities. These cities are diverse in their geographies, economies, and revenue structures.

Cities with both a vulnerable economic composition (greater than 15% share of employment in high-risk industries) and a tax structure that is highly reliant on elastic sources of revenue (greater than 25% share of general fund revenues) will feel a dip in revenues more quickly than those with alternative economic and fiscal structures.

Map 1. Heartland Cities Stand to Be Most Fiscally Impacted More Immediately



Source: Authors' calculations of city budget data; Zandi, "Covid-19: A Fiscal Stimulus Plan," Moody's Analytics 2020; Brookings analysis of Emsi data.

Note: High risk industries include mining (NAICS 21), transportation (NAICS 48), employment services (NAICS 5613), travel arrangements (NAICS 5615), and leisure & hospitality (NAICS 71 & 72)

This analysis reveals that many of the most fiscally impacted cities in the shorter term are in America's heartland. For example, 76% of Columbus, Ohio's general fund comes from income taxes, and 16% of regional employment is in highly vulnerable industries. Cities in Ohio rely heavily on the flat income tax, which correlates immediately to changes in employment.

In places that rely heavily on sales taxes—such as Tulsa, Okla., Lincoln, Neb., and Denver—the closing of retail sales outlets will generate an immediate reduction in city revenue. Oklahoma City's sales tax contributes 54% of its general fund revenues, for example, while 20% of its workers are in vulnerable industries.

A reliance on income taxes (as in Columbus) or sales taxes (as in Oklahoma City) will generate a strong shock to a city's fiscal system as the COVID-19 pandemic continues. The fiscal impacts will likely appear within a month or two, and require those cities to adjust their budgetary expenditures in short order.

TABLE 1

Cities with most immediate fiscal impacts from COVID-19

City	State	Share of general fund revenues from elastic sources, 2019	Share of metro employment in high risk industries, 2019
Columbus	OH	75.47%	16.0%
Cincinnati	OH	71.76%	17.1%
Bowling Green	KY	71.18%	16.5%
Toledo	OH	70.72%	16.7%
Cleveland	OH	67.52%	15.1%
Aurora	CO	66.12%	17.1%
Colorado Springs	CO	66.02%	16.5%
Springfield	MO	63.33%	16.7%
Grand Rapids	MI	62.19%	18.3%
Tulsa	OK	61.26%	17.9%
Louisville	KY	59.85%	16.6%
Fayetteville	AR	58.49%	19.1%
Akron	OH	56.87%	15.2%
Lexington	KY	54.79%	16.7%
Oklahoma City	OK	53.76%	20.1%
Denver	CO	52.93%	17.1%
Kansas City	MO	52.25%	15.6%

Birmingham	AL	51.30%	15.6%
Lincoln	NE	51.09%	16.7%

Note: High risk industries include mining (NAICS 21), transportation (NAICS 48), employment services (NAICS 5613), travel arrangements (NAICS 5615), and leisure & hospitality (NAICS 71 & 72)

Source: Authors' calculations of city budget data; Zandi, "Covid-19: A Fiscal Stimulus Plan," Moody's Analytics 2020; Brookings analysis of Emsi data.

B Metropolitan Policy Program at BROOKINGS

Those cities likely to feel mid- to longer-term impact are more reliant on property taxes and have a less-exposed local economy. Durham, N.C., for example, does not have a local sales or income tax, and less than 12% of regional employment is in high-risk industries.

It is possible, however, that foreclosures in property-tax-dependent cities (due to unemployment and the inability to pay taxes and mortgages) might happen more quickly than anticipated, driving property tax revenue down sooner than the typical 18 to 24 months.

The immediately impacted cities—those reliant on sales and incomes taxes with a high share of vulnerable industries—are likely to feel fiscal declines within the next month or two. Others are more likely to feel COVID-19's economic effects in the next few quarters to a year. Although higher reliance on property tax revenue is generally more favorable in the short term, a less-diversified structure will limit the resilience of city budgets in long term.

Strong Intergovernmental Partnerships are Vital

The fiscal capacity of local governments to manage public health and economic resilience in the face of COVID-19 is uncertain at best. The federal government has committed to providing much-needed assistance to cities to meet the immediate needs of residents, households, and small businesses on the economic margins. This includes expanded funding for Community Development Block Grants, transit, education, broadband, and housing and homelessness. Notably, cities with a population over 500,000 will also receive direct financial assistance via a stabilization grant program, the Coronavirus Relief Fund.

Unfortunately, the potential impact on most local budgets is largely unknown, because states will have maximum discretion to allocate resources to cities as they see fit based on population size. Future federal bills should consider much lower population thresholds for direct local funding.

Under the current bill, states and cities should coordinate in unprecedented ways to ensure that measures of local fiscal capacity—including tax structures and the share of high-risk workers—are considered in funding distribution.

States should also allow their local governments to modify tax structures so they are in line with their underlying economic bases. Flexibility to collect a better mix of sales, income, and property taxes will offer cities the tools they need to respond in the short and long term as economic conditions and the needs of their residents change. This flexibility will be especially important in the months ahead, as state revenues and aid to cities begin to take a hit.

American cities will face very different situations as COVID-19's economic impact becomes clear. The most effective solutions to this unprecedented situation will take into account the uneven magnitude and timing of the fiscal impact that cities will experience across the country.

Coronavirus (COVID-19) Local Government Fiscal Impacts

This page provides information on the fiscal impacts of the 2020 novel coronavirus pandemic (COVID-19) on local governments in Washington State, including revenue impacts, the CARES Act and federal stimulus funding, annual financial reporting, and furloughs.

It is part of MRSC's Coronavirus (COVID-19) Resources for Local Governments series.

Latest Updates

To help you keep track of the rapidly changing situation related to COVID-19, here is a summary of recent changes to this page:

Thursday, April 30

- Added CARES Act funding distributions for cities and counties under 500,000 population in Washington.
- Reorganized the former "COVID-19 Economic Impacts and Mitigation" page into two pages: COVID-19 Local Government Fiscal Impacts (this page) and COVID-19 Small Business and Tenant Assistance Programs.
- Moved annual financial reporting section to this page.

Tuesday, April 28

- Added webinar recording and materials for How Your Agency Can Survive and Recover Fiscally from the COVID-19 Outbreak.

Overview

The economic shock from the coronavirus pandemic has been sudden and unprecedented. Within the span of just a couple weeks, many businesses and public gathering spaces were shut down statewide, consumer spending on non-emergency items plummeted, and initial unemployment filings shattered old records. The full effect of these impacts will not be known for some time, but it is clear they will be significant.

The Washington State Economic and Revenue Forecast Council produces quarterly Economic and Revenue Forecasts, with monthly updates released in the middle of each month. These reports forecast statewide economic activity as well as state general fund revenues.

For free information on weekly U.S. consumer spending and how it has changed in response to COVID-19, see the Facteus Insight Report on Consumer Spending and Transactions (FIRST). Facteus states that its goal is "to help businesses, governments, and economists have a current, accurate view of the COVID-19 data so that they can make informed and timely decisions." You can view current and previous weekly reports on the Facteus website, and you can also sign up for email updates using their "Contact" button.

Free On-Demand Webinars

MRSC has recorded two free webinars on the fiscal impacts of COVID-19.

How Your Agency Can Survive and Recover Fiscally from the COVID-19 Outbreak (April 28)

Watch the entire one-hour webinar recording, download the slides, or skip directly to the following sections:

- Resource recap (starts at 7:57)
- Financial forecasting (starts at 13:04)
- Communication (starts at 52:35)
- Scenario development (starts at 57:38)

Fiscal Impacts of COVID-19 (March 26)

Watch the entire one-hour webinar recording, download the slides, or skip directly to the following sections:

- Continuity of operations (starts at 7:18)
- Fiscal implications for your agency (starts at 26:21)
- Fiscal first aid (starts at 46:38)
- Economic development impacts (starts at 53:55)

Budget Impacts

Due to the sudden and extensive economic impacts, many local governments will see their revenues drop. In particular, local governments are likely to see drops in sales tax revenues, lodging taxes, motor vehicle fuel tax (MVFT) distributions, admissions taxes, and other related revenue sources.

Some counties are also deferring certain property taxes paid directly by individual property owners, which could have a significant impact on cash flow for a number of local agencies.

For more information, see:

- **MRSC Insight:** Fiscal Issues to Consider During the Coronavirus Outbreak (March 18 blog post)

- **Charles Francis:** What Three Items Can Local Government Fiscal Officers Take Today to Protect Their Agencies from Coronavirus? (March 8)
- **Governing:** States and Cities Face the Prospect of Severe Budget Shortfalls (March 19)
- **Government Finance Officers Association (GFOA):** Fiscal First Aid Resource Center – 12-step process for government agencies to cope with financial crises; includes training webinars, short-term cash flow strategies, and longer-term recovery planning

Sample Documents – Mitigating Fiscal Impacts

- **Whatcom County** Ordinance Nos. 2020-13 and 2020-14 (March 24) – Creating COVID-19 special revenue fund, including money from general fund and City of Bellingham, and authorizing interfund loan from utility enterprise fund to COVID-19 fund for cash flow purposes, to be repaid within 18 months in part through anticipated FEMA reimbursement.

CARES Act and Federal Stimulus

H.R. 748, the federal Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law on March 27. This is a massive and wide-ranging stimulus bill that includes significant aid for state and local governments.

Some funding will be distributed to local governments to use for necessary expenditures between March 1 and December 30 to address the impacts of COVID-19 that are not in the agency's current budget. Local governments with over 500,000 population may apply directly to the federal government for funds, but for all other local agencies the funding will be distributed to the State of Washington and it will be up to the state to decide how funds are passed through.

On April 27, the governor's office announced that the state will distribute almost $300 million to cities and counties with a population under 500,000 population. On April 29, the state released distribution amounts for all cities and counties under 500,000 population, based upon an allocation of $30 per capita with each county receiving a minimum of $250,000 and each city and town receiving a minimum of $25,000.

Details associated with the distribution process will be released by the Department of Commerce in the coming days. Preliminary information indicates that these distributions will be on a reimbursement basis using the Treasury Guidance for State, Territorial, Local and Tribal Governments (issued April 22, 2020).

Other CARES Act provisions include increased funding for a wide variety of existing federal programs. As with all federal grant programs it will be important to meet federal compliance guidelines of 2 CFR 200 (Uniform Guidance).

For more information, see:

- **State of Washington:** CARES Act Funding Distribution – For all cities and counties under 500,000 population
- **Envisio:** How the CARES Act Will Benefit Local Government and School Districts
- **Pacifica Law Group:** Federal Stimulus Law: Resources for State and Local Governments in Funding COVID-19 Response Costs – Summary of the CARES Act
- **National League of Cities:** Summary of CARES Act
- **King County:** CARES Act and Other Federal/State COVID-19 Funding (March 31 council briefing) – Information regarding CARES Act funding and other federal/state COVID-19 funding, including public health, small business relief, emergency housing grants, and more.
- **U.S. Treasury Department:** The CARES Act Provides Assistance for State and Local Governments – Information about direct CARES Act distributions to local governments over 500,000 population; does not apply to smaller local governments.
- **Government Finance Officers Association (GFOA):** Resource Center for Coronavirus Response – Updates on federal COVID-19 response efforts and financial programs; includes links to FEMA resources, other federal government response websites, and related resources from other organizations
- **International City/County Management Association (ICMA):** Understanding the CARES Act and Other Recent Federal Legislation for Local Governments – Free recorded webinar provides information on federal sources of

grants and loans for local governments, including tips on effectively organizing to secure COVID-19 resources. Also see slide deck and FAQs.

FEMA Reimbursement

It is important to document all costs (both direct and indirect) that may be eligible for Federal Emergency Management Agency (FEMA) reimbursement. For information on filing for FEMA reimbursement, see the following resources:

- FEMA Coronavirus (COVID-19) Pandemic: Eligible Emergency Protective Measures – Guidance on the types of emergency expenditures that may be eligible under FEMA's Public Assistance Program.
- **National League of Cities:** Seeking FEMA Assistance to the COVID-19 Pandemic – Instructions to help local governments seek reimbursement of eligible expenses related to COVID-19 under Category B of FEMA's Public Assistance Program

Annual Financial Reporting

A number of agencies and associations have requested relief from the 150-day annual financial reporting deadline (May 29 this year). On March 26, the governor issued Proclamation 20-34 temporarily suspending the 150-day deadline. This suspension was extended until May 4 by Proclamation 20-34.1.

However, the proclamation does not provide an alternate deadline, which means the May 29 filing deadline would be reinstated unless the order is extended further. We have reached out to the state for clarity on this issue.

Regardless, we encourage all agencies that are still able to meet the original May 29 filing deadline to do so.

Furloughs and Layoffs

As local governments look to mitigating the fiscal impacts of COVID-19 on their budgets, many jurisdictions will be examining the possibility of temporary furloughs or permanent layoffs. For an overview of these considerations, see our blog post Furloughs and More: Employer Options During the COVID-19 Pandemic.

Also see the local government examples below:

- **Auburn** Furlough Leave Program FAQ – Auburn (2020) (April 17) – Answers frequently asked questions about the city's furlough leave program in response to COVID-19. City's program is an alternative to traditional furloughs and allows employees to essentially "buy" 46 hours of furlough leave to be used with supervisor's approval by the end of the year, in order to spread out the leave and minimize the impact on any individual paycheck.
- **Issaquah** Ordinance No. 2905 (April 20) – Authorizes the mayor, city administrator, or designee to implement unpaid furloughs for non-represented positions and temporary salary reductions for high-level administrators from May 1 to December 31, 2020.

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