

MEMORANDUM

Date: March 28, 2019

To: Councilmember Sally Bagshaw, Chair
Finance and Neighborhoods Committee

From: Ben Noble, City Budget Director

Re: Statement of Legislative Intent 1-5-B-1 (Sweetened Beverage Tax and Short-Term Rental Tax Funds)

I am writing in response to Council's Statement of Legislative intent 1-5-B-1, which requested legislation creating funds and spending policies for the Sweetened Beverage Tax and the recently-adopted Short-Term Rental Tax.

The Executive shares Council's opinion about the value of establishing separate funds to track the financial performance of both sources. Given that each taxing source has been dedicated to specific uses, separate funds will provide a transparent way to track the revenues the City receives from each and how these revenues are expended, thus offering clear public accountability.

As a practical matter, since the 2019 budget was adopted without establishing such funds, the most efficient approach from an accounting standpoint will be to create such funds as part of the 2020 budget. Accordingly, the Mayor's Proposed Budget for 2020 will request the legislative authority needed to establish both a Sweetened Beverage Tax Fund and a Short-term Rental Tax fund. This same legislation will also include proposed financial policies regarding the use of these tax sources. The Executive is not prepared to propose such policies at this time, because we are still in the early stages of implementation for both taxes, and do not yet have sufficient data and experience with the revenue streams to make appropriate recommendations.

The Short-Term Rental Tax just took effect on January 1 of this year, and with only quarterly reporting requirements, we have no actual data yet to confirm or contradict the very preliminary revenue estimates that were developed last fall. Until we know whether the revenue stream will meet, exceed, or perhaps fall short of these projections, we cannot fully assess the impact of policies that propose to dedicate "the first" dollars received for one purpose and the remaining resources for some other. To be more specific, the City has committed to using a portion of the Short-Term Rental Tax revenues to pay the approximate \$2.2 million annually in debt service owed on bonds recently issue in support of affordable

housing. How much revenue will remain beyond these commitments cannot be known until we have an actual record of revenue receipts. When the 2020 budget is submitted in the fall, we will have the advantage of two quarters of actual revenue data, and this should provide some basis for recommendations regarding financial polices to guide the use of the new funds.

The Sweetened Beverage Tax (SBT) has been in place for somewhat longer, having first been implemented in January of 2018. However, we continue to struggle to develop reliable forecasts for the magnitude of this revenue stream, and how the tax does or does not discourage soda consumption. After raising our initial revenue forecast as part of the revenue update provided with the Mayor's budget, the final data for 2018 shows that the revenues outperformed that revised forecast as well. In total, 2018 SBT revenues are expected to exceed our revised forecast of \$20.6 million by more than \$1 million. Given the lag in revenue reporting, we have only just received this information and have not had the opportunity to analyze the information ourselves or to engage the SBT Community Advisory Board (CAB) in a discussion of how additional resources might be allocated across the number of competing funding needs that have been identified as eligible for SBT resources. As we process the new information and develop yet further revised forecasts, we intend to assess current funding needs and to engage the CAB on other potential uses. We expect to do this over the coming months and to deliver a comprehensive proposal for financial policies for the newly created funds with the 2020 budget legislation transmitted to the Council in September 2019.

Cc:

Kirstan Arestad, Director, City Council Central Staff