

Budget Deliberations – October 22, 2018

## **SHORT-TERM RENTAL (STR) TAX**

Staff: Aly Pennucci, Alan Lee, Lish Whitson

This memo discusses (1) the background of the Short-term Rental Tax (STR Tax) and the proposed allocation of funds across departments in the 2019-2020 Proposed Budget; (2) issues identified by staff for Council's consideration; and (3) specific Councilmember proposals for the use of funds.

### **Background:**

In November 2017, the Council adopted [Ordinance 125422](#), that imposed a per night tax on each short-term rental operator in the City of Seattle at a rate of \$8 per night for a private or shared room, and \$14 per night for an entire unit. The ordinance outlined the Council's intent to direct the proceeds from the short-term rental tax, after covering one-time costs for implementation, ongoing administration costs, and offsetting the cost of implementing and administering the short-term rental regulatory license, as follows:

1. The first \$5,000,000 of net proceeds, after monies spent for implementation and administration, shall be applied to investments in community-initiated equitable development projects;
2. The next \$2,000,000 of net proceeds shall be applied to investments in affordable housing; and
3. The remainder of net proceeds shall be used to support community-initiated equitable development projects, including the affordable housing component of those projects.

Within King County, a lodging excise tax, often described as the Convention and Trade Center Tax, is imposed on lodging businesses that have 60 or more units. This tax is collected by the Public Facilities District (PFD) that operates the Washington State Convention Center. In March 2018, the state adopted [SSHB 2015](#), that extended the authority for the Convention and Trade Center Tax to include short-term rentals. The state bill requires that any tax revenue generated from short-term rentals within Seattle be directed to the City provided that the City repeals any local tax that existed at the time SSHB 2015 was approved. In June 2018, the Council adopted [Ordinance 125594](#), repealing the local tax. SSHB 2015 specifies that STR Tax revenue generated in Seattle is to be used by the City to support community-initiated equitable development projects and affordable housing programs.

STR Tax Spending Plan:

The proposed budget assumes that the STR Tax will generate \$10.5M in 2019. This is based on the State Department of Revenue's estimates developed for the fiscal note to SSHB 2015. The State will begin collecting and remitting the STR Tax in 2019. The allocation of the \$10,500,000 of total forecasted STR Tax revenues by department in the 2019 Proposed Budget is summarized in Table 1.

**Table 1: Programming of Short-term Rental Tax Revenues in Proposed 2019-2020 Budget**

(Amounts in \$1,000s)	2019 Proposed		2020 Proposed	
	\$	%	\$	%
<b>Expenditures</b>				
<b>OPCD - Equitable Development Initiative (EDI)</b>				
EDI - Administration and Project Management (6 FTE)	(865)	8.2%	(869)	8.3%
EDI - Consultant Services	(200)	1.9%	(200)	1.9%
EDI - Project Awards	(3,935)	37.5%	(3,931)	37.4%
<b>Human Services Department</b>				
Permanent Supportive Housing	(3,737)	35.6%	(3,300)	31.4%
Homelessness Prevention - Seattle Rental Housing Assistance Pilot	(1,000)	9.5%	-	-
<b>Finance General (Debt Service) (2018 Bond Issue)</b>	<b>(357)</b>	<b>3.4%</b>	<b>(1,355)</b>	<b>12.9%</b>
<b>Finance General (Debt Service) (2019 Bond Issue)</b>	<b>(406)</b>	<b>3.9%</b>	<b>(844)</b>	<b>8.0%</b>
<i>Total Expenditures</i>	<b>(10,500)</b>	<b>100%</b>	<b>(10,500)</b>	<b>100%</b>

**Department Budget Summaries and Issue Identification:**

The proposed spending plan may support several Council priorities, broadly speaking, related to housing and equitable development; however, it is unclear if it is consistent with the Council's original intent for this specific revenue source. When first considering this new revenue source, discussions focused on creating a more stable source of funds for the EDI grant program and to support development of affordable housing (including paying the debt service on bonds issued for affordable housing projects).

Directing this revenue to support staff and consultant resources for the EDI program, rather than grants to the community, and to support existing supportive housing programs and the Seattle Rental Housing Assistance pilot, rather than investments in new affordable housing projects, may not align with the original intent. The Council may modify the proposed spending plan. However, modification could result in a funding shortfall for EDI staff, EDI consultant services, and the two HSD programs. Below, more detail is provided on the proposed spending by department and options identified by staff or Councilmembers for the Council's consideration.

## **Office of Planning and Community Development (OPCD) - Lish Whitson**

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The Equitable Development Initiative (EDI) was created through the 2016 Adopted Budget to support public investments and opportunities for public-private partnership that minimize displacement of marginalized populations and increase their access to opportunity. In the 2018 Adopted Budget, \$16 million in one-time proceeds from the sale of the Civic Square property were provided to the Equitable Development Initiative to pay for grants to support capital projects proposed by community-based organizations that will help to reduce displacement and increase access to opportunity in the City's underinvested communities. Permanent funding was to be provided through the STR Tax. In addition, the EDI fund receives \$430,000 a year from the Community Development Block Grant.

There are currently six staff in the EDI division of OPCD: five Strategic Advisors and one Land Use Planner III. The Mayor's budget proposes to abrogate the Land Use Planner position and add a Planning and Development Specialist Senior. Across the six staff, approximately 1.25 FTE work on program administration, approximately 3.8 FTE work on direct support for EDI projects, and approximately 0.95 FTE is spent on equity-related community development and community planning efforts.

The EDI program is currently supporting fifteen community-based projects with the resources from the Civic Square property:

- African Women Business Alliance  
Permanent Home
- Africatown – Midtown affordable  
housing project
- Black and Tan Hall
- Chief Seattle Club
- Duwamish Valley Affordable Housing  
Coalition
- Ethiopian Community in Seattle
- Filipino Community of Seattle
- HomeSight Opportunity Center
- Little Saigon Landmark Project
- Multicultural Community Center
- Rainier Beach Food Innovation Center
- Refugee and Immigrant Family Center
- United Indians of All Tribes
- West African Community Council
- William Grose Center

Most EDI projects receive funding over the course of multiple years as they move from early concept to project development to land acquisition to construction and operation. The EDI fund seeks to be flexible enough to provide support through any of these stages. There is a maximum cap for each project. EDI funds that are not expended in a particular year automatically carry over to continue to support EDI projects.

In the Mayor's proposed budget, a total of \$5,000,000 of STR Tax proceeds is allocated to the EDI program:

- \$865,000 would be spent to cover staffing costs, including the new Planning and Development Specialist Senior position (\$130,173);
- \$200,000 would be spent for consulting assistance; and
- \$3,935,000 would be available for project awards.

Out of the \$10,500,000 of STR Tax proceeds, the project awards and consulting funds are the only non-fixed costs proposed. All the other funds would be dedicated to staff costs, paying off bonds, or operating costs for permanent supportive housing.

**Issue Identification:**

**1. Commitment of Short-term Rental Tax Funds**

Because the STR Tax is a new tax that has not yet started to generate revenue for the City, there is the possibility that the City will receive much less or much more funding than estimated. The Council may want to limit any commitments for use of these funds until the City receives at least two quarters of funding.

**Options:**

- A. Proviso the OPCD budget to prevent hiring of the Planning and Development Specialist Senior position until the City has received at least two quarters of funding from the STR Tax.
- B. Proviso the OPCD budget to prevent the commitment of funds toward project awards until the City has received at least two quarters of funding from the STR Tax.
- C. Remove the project awards funds and the new Planning and Development Specialist Senior position from the 2019-2020 budget and add them back as part of a Supplemental Budget once the City has received at least two quarters of proceeds from the STR Tax.
- D. No action.

## **Human Services Department (HSD) – Alan Lee**

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The Proposed Budget includes two budget neutral funding swaps involving STR Tax revenue:

- Permanent Supportive Housing (PSH) (\$3.7 million)
- Seattle Rental Housing Assistance Pilot (\$1 million)

The PSH funding pays for services such as case management and nursing for individuals with significant medical, behavioral health, and/or substance use disorders at scattered-site and project-based supportive housing units; the funding does not support capital expenses. Of the \$3.7 million in PSH programming, \$2.75 million was added to the 2018 budget by the Council and backed by a one-time interfund loan (\$4.2 million) involving the sale of a City-owned property; the ongoing cost was to be borne by a progressive revenue source.

The Seattle Rental Housing Assistance Pilot is a two-year pilot that provides homelessness prevention services to households on the Seattle Housing Authority (SHA) voucher waitlist. Households on the SHA voucher waitlist that are determined to be most at risk of homelessness qualify for rental assistance for the duration of their wait period; the funding does not support capital expenses. There is currently \$2 million appropriated for the pilot in 2018. Program expenditures in 2018 are expected to be \$1 million, with the remaining \$1 million to be reabsorbed into the General Fund in 2019; the proposed \$1 million in STR Tax revenue will fill the gap.

Swapping General Funds for the STR Tax revenue 1) dedicates a revenue stream for the \$2.75 million Council add for PSH and 2) frees General Funds to pay for emergency service (i.e. not housing-related) homelessness programming such as shelter, outreach, permitted encampments and hygiene services, which have been prioritized for greater investment in the Proposed Budget over other kinds of homelessness intervention strategies.

## **Finance General (FG) – Aly Pennucci**

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In the 2017 Adopted Budget, the Council authorized issuance of \$29 million in Limited Term General Obligation (LTGO) bonds to be used for Affordable Housing projects. Those bonds were partially issued in 2018 and the remainder will be issued in 2019. Approximately seven percent (\$763,000) of the STR Tax revenue in 2019 will be used to cover the debt service on those bonds. Beginning in 2020, this increases to 21 percent (\$2.2 million). As described previously, the Council's intent for use of STR Tax revenues included \$2 million to support investments in affordable housing.

**Budget Actions Proposed by Councilmembers as of October 10, 2018:**

- 1. Equitable Development Initiative Funding (Councilmember O'Brien)** – This request would provide \$5 million in funding from the STR Tax for EDI grants. In Ordinance 125422, the Council established an ongoing funding source to ensure resources for community-driven projects with the creation of the short-term rental tax. That legislation clearly stated the Council's intent that a minimum of \$5 million per year would go to the EDI funding for community projects. The Mayor's proposed budget uses STR tax proceeds to pay for staff and consulting. The General Fund had been covering these costs. This budget action would return the \$1,065,000 that would pay for staff and consulting in the Mayor's Proposed Budget to the General Fund.
- 2. Short-term Rental Fund (Councilmember O'Brien)** – The Council would create a separate Short-term Rental fund to collect and disburse short-term rental tax proceeds. Creating a fund would allow for better management of the funds and better tracking of short-term rental tax proceeds. The fund would include explicit restrictions ensuring that resources from the STR Tax go to EDI grants.
- 3. Bond issuance for affordable housing and EDI (Councilmember Mosqueda and Councilmember Herbold)** – This proposal is for a Statement of Legislative Intent requesting that the Executive explores the feasibility of issuing additional bonds for affordable housing and for EDI projects, dedicating future STR Tax revenue to cover the debt service. If determined to be feasible, then the SLI response should include a detailed plan outlining the actions necessary to issue bonds as early as possible. The intent is to develop a strategy that would ensure that dedication of future STR Tax revenue would support the EDI program goals and provide stable funding for the EDI program.