

July 8, 2019

MEMORANDUM

To: Finance and Neighborhoods Committee
From: Aly Pennucci, Council Central Staff
Subject: Council Bill 119402 - Short-Term Rental Tax Funds

On July 10, 2019, the Finance and Neighborhoods Committee (Committee) will discuss and may vote on [Council Bill \(CB\) 119402](#). The bill would establish a fund and financial policies for Short-Term Rental (STR) Tax revenues. This memorandum (1) provides a brief background on CB 119402; and (2) describes CB 119402 and proposed amendments for the Committee’s consideration.

Background

The STR Tax was primarily established to generate at least \$5 million annually for grants to community organizations for [Equitable Development Initiative \(EDI\)](#) projects. The Mayor’s proposed 2019-20 Budget allocated STR Tax revenues in a manner that did not fully align with this intent and did so in a manner that made it difficult to amend the spending plans without reducing or eliminating funding for other Council/City priorities (see Table 1). In response, CB 119402 was introduced in Fall 2018 during Council’s budget deliberations to ensure that the Council’s intent was clear and to provide transparency in tracking this revenue source. Because the Council was unable to find the ongoing resources to fully align the proposed spending plan with the original intent in Fall 2018, and at the request of the City Budget Office (CBO), the Council did not act on CB 119402.¹

Table 1. Programming of Short-Term Rental Tax Revenues: 2019-2020 Budget

(Amounts in \$1,000s)	2019 Adopted		2020 Endorsed	
	\$	%	\$	%
Expenditures				
Office of Planning & Community Development - Equitable Development Initiative (EDI)				
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%
Human Services Department				
Permanent Supportive Housing	(3,737)	35.6%	(3,300)	31.4%
Homelessness Prevention - Seattle Rental Housing Assistance Pilot	(1,000)	9.5%	-	-
Finance General (Debt Service) (2018 Bond Issue)	(357)	3.4%	(1,355)	12.9%
Finance General (Debt Service) (2019 Bond Issue)	(406)	3.9%	(844)	8.0%
Total Expenditures	(10,500)	100%	(10,500)	100%

¹ For additional background information about the STR Tax and CB 119402, see Central Staff memoranda from the [06/12/19](#) and [6/26/19](#) Committee meetings.

CB 119402 & Potential Amendments

CB 119402 would establish a fund and financial policies for STR Tax revenues. As introduced, the proposed financial policies would be consistent with the original intent for use of STR Tax revenues; however, the policies are inconsistent with the adopted 2019 and endorsed 2020 Budgets presented in Table 1. If adopted as proposed, some funding for the programs included in the spending plan would need to be cut or new revenues identified.

Proposed Amendments

The two amendments proposed for the Committee's considerations (described below) both adjust implementation of the fund and financial policies in 2020. The proposed financial policies in the two amendments are mutually exclusive options; only one could be adopted.

Amendment 1 (Sponsor: Councilmember O'Brien)

This amendment would establish a STR Tax fund beginning on January 1, 2020, and financial policies that would allow spending as follows:

- (1) Prioritize the first \$5 million for EDI Grants;
- (2) Direct the next \$2.2 million to debt service payments on bonds issued for affordable housing projects;
- (3) Direct the next \$3.3 million to permanent supportive housing;
- (4) Direct the next \$1.1 million to EDI staffing and consultant services; and
- (5) Direct any additional revenues to EDI grants.

Unless revenues come in higher than projected, this will result in a \$1.1 million shortfall for funding for EDI staffing and consultant services. To avoid cutting EDI staffing and consultant services, which would hinder the Office of Planning and Community Development's ability to administer the EDI program, either reductions to other General Fund programs or new revenues will need to be identified to backfill this shortfall.

Amendment 2 (Sponsor: Councilmember Bagshaw)

This amendment would establish a STR Tax fund beginning on January 1, 2020, and financial policies for 2020 that are consistent with the spending plan for STR Tax revenues included in the endorsed 2020 Budget. Any surplus funds in 2020 would be directed to support EDI grants. In 2021 and beyond, the financial policies would:

- (1) Prioritize the first \$2.2 million for paying the debt service on bonds issued for affordable housing projects;
- (2) Direct the next \$6.1 million to the EDI program, including \$5 million for grants and \$1.1 million for staffing and consultant services;

- (3) Direct the next \$3.3 million to permanent supportive housing; and
- (4) Direct any additional revenues to EDI grants.

If revenues come in as projected in the 2020 Endorsed budget, this amendment would not result in a budget shortfall in 2020. If the revenues remain static in 2021, there will be a shortfall of \$1.1 million for permanent supportive housing in 2021 and beyond.

If the Council acts on this legislation prior to transmittal of the 2020 Budget, and the Mayor proposes a budget that is inconsistent with the adopted policies, it will be in direct disagreement with the Council's articulated intent. The Council would then have the option of amending the proposed budget and associated budget legislation to align with the adopted financial policies.

Attachments:

1. Amendment 1 to CB 119402
2. Amendment 2 to CB 119402

cc: Kirstan Arestad, Central Staff Director

Sponsor: Councilmember O’Brien

Description:

Establish financial policies for 2020 that would allow spending as follows:

1. Direct the first \$5 million to Equitable Development Initiative (EDI) Grants;
2. Direct the next \$2.2 million to debt service payments on bonds issued for affordable housing projects;
3. Direct the next \$3.3 million to support permanent supportive housing;
4. Direct the next \$1.1 million for EDI staffing and consultant services; and
5. Direct any additional revenues to EDI grants.

Unless revenues come in higher than projected, this will result in a \$1.1 million shortfall for funding for consultant services, administration, and project management to support the EDI program.

Notes:

Double underlines in red text indicate new language to be added.

~~Double strikeouts in red text~~ indicate language proposed to be removed.

CITY OF SEATTLE

ORDINANCE _____

COUNCIL BILL _____

..title

AN ORDINANCE related to funding for the Equitable Development Initiative and affordable housing; creating a fund for short-term rental tax revenue.

..body

WHEREAS, on November 13, 2017, the City Council passed Ordinance 125442, authorizing a

tax on every person engaging within Seattle in the business of being a short-term rental operator, with specific direction on how the proceeds generated from the short-term rental tax should be expended; and

WHEREAS, on March 23, 2018, the Governor signed House Bill (HB) 2015, modifying the

lodging excise tax under RCW 36.100.040 to remove the exemption for premises with fewer than 60 lodging units and to impose the tax on short-term rentals; and

1 WHEREAS, HB 2015 requires that a public facilities district within a county with a population
2 of 1,500,000 or more must make quarterly payments to a city in which a convention and
3 trade center is located from tax revenue from short-term rentals collected by a public
4 facilities district only if: (1) the city had authorized on or before December 31, 2017, a
5 tax on engaging in the business of being a short-term rental operator; and (2) the city has
6 repealed the ordinance authorizing a tax on engaging in the business of being a short-term
7 rental operator; and

8 WHEREAS, as a result of HB 2015, the public facilities district that operates the Washington
9 State Convention Center will impose the lodging tax under RCW 36.100.040 on short-
10 term rentals in Seattle; and

11 WHEREAS, in order to receive the tax revenue from short-term rentals as authorized by HB
12 2015, on June 4, 2018, the City Council passed Ordinance 125594, thereby repealing
13 Ordinance 125442, repealing the City’s short-term rental tax that would have been
14 imposed under Chapter 5.54 of the Seattle Municipal Code beginning January 1, 2019;
15 and

16 WHEREAS, HB 2015 requires that the payments made to a city must be used to support
17 community-initiated equitable development and affordable housing programs, as
18 determined by the city in its sole discretion; NOW, THEREFORE,

19 **BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

20 Section 1. A new Short-Term Rental Tax Fund is created in the City Treasury effective
21 January 1, ~~2019~~ 2020, to which proceeds remitted to The City of Seattle (“City”) from the
22 Washington State Convention Center Public Facilities District (“District”), from revenues
23 collected by the District derived from short-term rental activity within the City, must be

1 deposited, and from which expenditures may be paid for the purposes described in Section 2 of
2 this ordinance. The purpose of creating the Short-Term Rental Tax Fund is to separately account
3 for revenues received from the District and expended by City departments. The Fund shall
4 receive earnings on its positive balances and pay interest on its negative balances.

5 Section 2. The new Short-Term Rental Tax Fund shall receive revenues from the
6 payments made to the City from the District from revenue collected from short-term rentals in
7 Seattle. In accordance with HB 2015, the services funded by the proceeds of the short-term rental
8 tax shall support investments in affordable housing programs and community-initiated equitable
9 development projects, including but not limited to projects described in Resolution 31711. The
10 proceeds shall be used as follows:

11 A. ~~In 2019, the proceeds shall be used as follows: 1.~~ The first \$5,000,000 of proceeds
12 shall be directed to the Office of Planning and Community Development for grants made to
13 organizations for investments in community-initiated equitable development projects. Grants
14 made to organizations for community-initiated equitable development projects can be used for
15 community capacity building and project development;

16 ~~2. Up to \$4,734,000 of the remaining funds may be directed to the Human~~
17 ~~Services Department to support investments in permanent supportive housing and homelessness~~
18 ~~prevention services; and~~

19 ~~3. The remaining funds may be directed to debt service payments on bonds~~
20 ~~issued for affordable housing projects or applied to grants made to organizations for investments~~
21 ~~in community-initiated equitable development projects, including the affordable housing~~
22 ~~component of those projects.~~

~~B. In 2020 and beyond, the proceeds shall be used as follows:~~

~~1. The first \$5,000,000 of proceeds shall be directed to the Office of Planning and Community Development for grants made to organizations for investments in community-initiated equitable development projects;~~

~~2. The next \$2,200,000 of proceeds shall be directed to the Office of Housing for investments in new affordable housing projects or directed to debt service payments on bonds issued for affordable housing projects; and~~

~~3. The remaining proceeds shall be applied to grants made to organizations for investments in community-initiated equitable development projects, including the affordable housing component of those projects.~~

B. The next \$2,200,000 of proceeds shall be directed to debt service payments on bonds issued for affordable housing projects until that debt is retired;

C. The next \$3,300,000 of the proceeds shall be directed to the Human Services Department to support investments in permanent supportive housing;

D. The next \$1,069,000 of proceeds shall be directed to the Office of Planning and Community Development for consultant services, administration, and project management to support the program that provides grants to organizations for investments in community-initiated equitable development projects; and

E. Any remaining funds shall be directed to grants made to organizations for investments in community-initiated equitable development projects.

Section 3. The Director of Finance is authorized to create other Accounts or Subaccounts as may be needed to implement the Fund’s purpose and intent as established by this ordinance.

1 Section 4. This ordinance shall take effect and be in force 30 days after its approval by
2 the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it
3 shall take effect as provided by Seattle Municipal Code Section 1.04.020.

4 Passed by the City Council the _____ day of _____, ~~2018~~
5 2019, and signed by me in open session in authentication of its passage this ____ day of
6 _____, ~~2018~~ 2019.

7 _____
8 President _____ of the City Council

9 Approved by me this _____ day of _____, ~~2018~~ 2019.

10 _____
11 Jenny A. Durkan, Mayor

12 Filed by me this _____ day of _____, ~~2018~~ 2019.

13 _____
14 Monica Martinez Simmons, City Clerk

15 (Seal)

Sponsor: Councilmember Bagshaw

Description:

Establish financial policies for 2020 that are consistent with the spending plan for STR Tax revenues included in the 2020 endorsed budget. Any surplus funds in 2020 would be directed to support EDI grants. In 2021 and beyond, the financial policies would:

1. Prioritize paying the debt service on bonds issued for affordable housing projects by directing the first \$2.2 million for this purpose;
2. Direct the next \$6.1 million in revenues to the Equitable Development Initiative (EDI), including \$5 million for grants and \$1.1 million for staffing and consultant services;
3. Direct the next \$3.3 million to permanent supportive housing; and
4. Direct any excess STR Tax revenues to EDI grants.

This proposal is consistent with the 2020 endorsed budget and would not result in any budget shortfalls unless revenues come in below what is projected for 2020.

Notes:

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operator, with specific direction on how the proceeds generated from the short-term

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WHEREAS, on March 23, 2018, the Governor signed House Bill (HB) 2015, modifying the

lodging excise tax under RCW 36.100.040 to remove the exemption for premises with

fewer than 60 lodging units and to impose the tax on short-term rentals; and

1 WHEREAS, HB 2015 requires that a public facilities district within a county with a population
2 of 1,500,000 or more must make quarterly payments to a city in which a convention and
3 trade center is located from tax revenue from short-term rentals collected by a public
4 facilities district only if: (1) the city had authorized on or before December 31, 2017, a
5 tax on engaging in the business of being a short-term rental operator; and (2) the city has
6 repealed the ordinance authorizing a tax on engaging in the business of being a short-term
7 rental operator; and

8 WHEREAS, as a result of HB 2015, the public facilities district that operates the Washington
9 State Convention Center will impose the lodging tax under RCW 36.100.040 on short-
10 term rentals in Seattle; and

11 WHEREAS, in order to receive the tax revenue from short-term rentals as authorized by HB
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3 for revenues received from the District and expended by City departments. The Fund shall
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5 Section 2. The new Short-Term Rental Tax Fund shall receive revenues from the
6 payments made to the City from the District from revenue collected from short-term rentals in
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8 tax shall support investments in affordable housing programs and community-initiated equitable
9 development projects, including but not limited to projects described in Resolution 31711. The
10 proceeds shall be used as follows:

11 A. In ~~2019~~ 2020, the proceeds shall be used as follows:

12 1. The first ~~\$5,000,000~~ \$3,931,000 of proceeds shall be directed to the Office
13 of Planning and Community Development for grants made to organizations for investments in
14 community-initiated equitable development projects. Grants made to organizations for
15 community-initiated equitable development projects can be used for community capacity
16 development and project development;

17 ~~2. Up to \$4,734,000 of the remaining funds may be directed to the Human~~
18 ~~Services Department to support investments in permanent supportive housing and homelessness~~
19 ~~prevention services; and~~

20 2. The next \$1,069,000 of proceeds shall be directed to the Office of
21 Planning and Community Development for consultant services, administration, and project
22 management to support the program that provides grants to organizations for investments in
23 community-initiated equitable development projects;

1 3. The next \$2,200,000 of proceeds shall be directed to debt service
2 payments on bonds issued for affordable housing projects;

3 4. The next \$3,300,000 of the remaining funds may be directed to the Human
4 Services Department to support investments in permanent supportive housing and homelessness
5 prevention services; and

6 ~~3. 5. The Any~~ remaining funds ~~may shall~~ be directed to ~~debt service payments~~
7 ~~on bonds issued for affordable housing projects or applied to~~ grants made to organizations for
8 investments in community-initiated equitable development projects, ~~including the affordable~~
9 ~~housing component of those projects.~~

10 B. In ~~2020~~ 2021 and beyond, the proceeds shall be used as follows:

11 1. The first \$2,200,000 of proceeds shall be directed to debt service
12 payments on bonds issued for affordable housing projects until that debt is retired;

13 2. The next \$1,100,000 of proceeds shall be directed to the Office of
14 Planning and Community Development for consultant services, administration, and project
15 management to support the program that provides grants to organizations for investments in
16 community-initiated equitable development projects;

17 ~~3.~~ 3. ~~The first~~ The next \$5,000,000 of proceeds shall be directed to the Office
18 of Planning and Community Development for grants made to organizations for investments in
19 community-initiated equitable development projects. Grants made to organizations for
20 community-initiated equitable development projects can be used for community capacity
21 development and project development;

22 ~~2.~~ 4. The next ~~\$2,200,000~~ \$3,300,000 of proceeds shall be directed to the
23 Office of Housing for ~~investments in new affordable housing projects or directed to debt service~~

1 ~~payments on bonds issued for affordable housing projects ongoing operation and maintenance of~~
2 ~~permanently affordable housing or other affordable housing programs; and~~

3 ~~3.5. The Any~~ remaining proceeds shall be applied to grants made to
4 organizations for investments in community-initiated equitable development projects, ~~including~~
5 ~~the affordable housing component of those projects.~~

6 Section 3. The Director of Finance is authorized to create other Accounts or Subaccounts
7 as may be needed to implement the Fund’s purpose and intent as established by this ordinance.

1 Section 4. This ordinance shall take effect and be in force 30 days after its approval by
2 the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it
3 shall take effect as provided by Seattle Municipal Code Section 1.04.020.

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