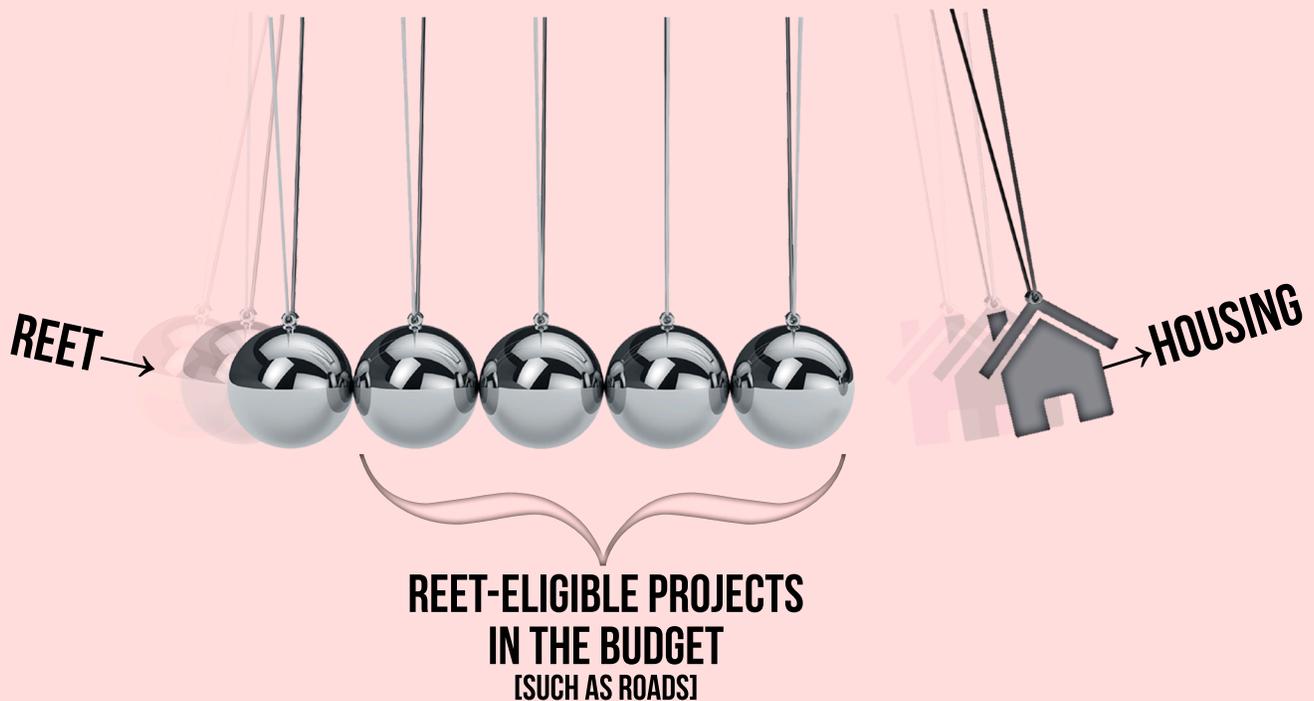


HOW TO PAY FOR 1,000 AFFORDABLE HOMES

SEATTLE CITY BUDGET



The following steps show how the Real Estate Excise Tax (REET) funding intended for a new North Precinct police building can legally be used to build affordable housing:

- Use REET money to pay for eligible items already in the budget such as roads.
- Use the money previously intended for those items to pay for housing.
- Council Central Staff found enough budget items to make 1,000 units of housing possible.
- These budget actions are not uncommon.

The attached memo from Council Central Staff provides details, explains city legislation needed to allow bonding, and identifies sufficient REET-eligible projects in the budget.



Office of Councilmember Kshama Sawant

Contact: 206-684-8016, kshama.sawant@seattle.gov, [@cmckshama](https://twitter.com/cmckshama)

MEMORANDUM

To: Councilmember Kshama Sawant
From: Dan Eder, Central Staff Deputy Director
Date: September 22, 2016
Subject: North Precinct and Affordable Housing

You requested an evaluation as to whether Real Estate Excise Tax (REET) funding currently proposed for the North Precinct project (Project ID A1PS107 in the Adopted 2016-2021 Capital Improvement Program [CIP]) could be used by the City to fund the development of affordable housing. This memo describes the constraints on the uses of REET funding and outlines an approach that would make REET funding available for affordable housing while satisfying those constraints.

In brief, the City cannot circumvent State law that prevents using REET directly to fund the development of affordable housing. However, the City could amend its financial policies to employ REET as a substitute for other more flexible funding sources and then use those flexible fund sources to pay for affordable housing.

History and Current Funding Plan

The Adopted CIP includes a significant amount of “to be determined” funding to pay for the \$160 million North Precinct project (Attachment A). The original plan was to seek a voter-approved public safety levy. In April 2016, the Mayor announced that he would not propose a public safety levy (Attachment B). Instead, he expected to fund the project (a) using net proceeds from the sale of the Pacific Place Garage and (b) amending the City’s financial policies to allow using REET to pay debt service for the North Precinct project. In August 2016, the Council and the Mayor determined through Resolution 31698 (Attachment C) that the North Precinct project scope and cost estimate could be trimmed to \$149 million.

Consistent with the Mayor’s April announcement, the City Budget Office (CBO) proposed spending approximately \$24 million in available REET on the North Precinct, and CBO also proposed supporting the project with an additional \$100 million in Limited-Term Obligation (LTGO) Bonds. When the Mayor transmits the proposed 2017-2022 CIP, we will know more about his funding proposals for the North Precinct project in light of his September 2016 announcement to delay the project (Attachment D), but it seems a reasonable expectation that REET will continue to play a significant role.

Restrictions on REET Use

The Revised Code of Washington (RCW) restricts uses of REET funding to certain purposes. The City’s financial policies for the Cumulative Reserve Subfund (CRS) also places additional limits on use of REET revenues.

There are two types of REET revenues collected by the City. [RCW: 82.46.010](#) and [RCW 82.46.035](#) require that REET I and II be used only to fund certain types of capital projects

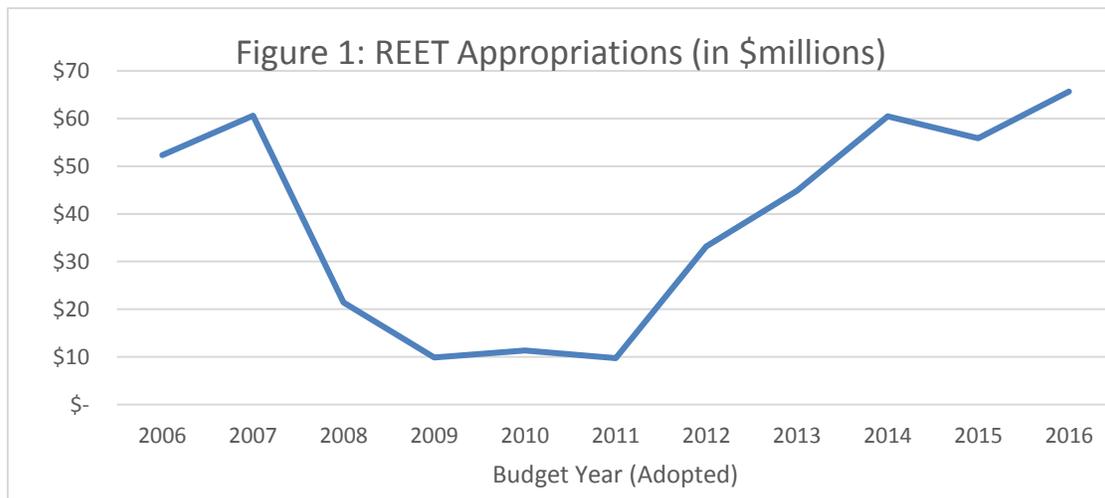
included in the City’s Adopted CIP. As shown below in Table 1, REET I can fund a wider variety of projects than REET II; but neither REET I nor REET II may be used for developing new affordable housing.

Table 1: State Law Restrictions on REET I and REET II

REET I	REET II
Transportation (e.g., roads, sidewalks, street lights, traffic signals)	Transportation (e.g., roads, sidewalks, street lights, traffic signals, bridges)
Utilities (e.g., water and sewer systems)	Utilities (e.g., water and sewer systems)
Parks	Parks
Police & Fire Facilities	
Trails	
Libraries	
Court Facilities	
Housing Relocation Assistance (e.g., certain moving expenses, deposits, utility connection fees)	

Resolution 31083 (Attachment E) currently guides the City’s use of REET revenues. Policy 7 provides that “except for fire facilities projects ... no new debt service for new facilities shall be charged to the Real Estate Excise Tax.” The existing financial policy recognized that REET is not an ideal funding source to pay for long-term commitments such as annual debt service. As shown in Figure 1, REET revenues have risen and fallen dramatically over time with changes in the City’s economic activity. Generally speaking, debt service on LTGO bonds remains constant every year, and the City pledges its “full faith and credit” to pay in full all annual debt service payments.

The Mayor’s previously announced proposal for funding the North Precinct relied on issuing LTGO bonds paid over many years with a relatively volatile funding source (REET) to free up 20 or more years of debt service payments. In the event that that REET revenues fall below the levels needed to pay both debt service and other REET eligible maintenance needs during the bond repayment period, the City would be required to defer required maintenance or cut General Subfund (GSF) expenditures to replace the REET shortfall.



While the City's current financial policies allow REET to be used to pay for fire station debt service, the policies do not allow REET to be used for debt service on the North Precinct project. The Mayor has therefore proposed amendments to the City's current financial policies to allow for the use of REET to pay debt service on all "Public Safety" projects (including but not limited to the North Precinct). The Mayor transmitted a resolution (Attachment F) in August that would allow the City to use REET to pay debt service for the North Precinct project. He justified using REET for this new purpose asserting that "additional resources are now available ... for asset preservation work" (such as Metropolitan Parks District funding and the Move Seattle Levy).

Potential Actions to Fund Affordable Housing

There are multiple, and likely competing, policy objectives and considerations that Council may wish to evaluate before taking any actions. The Council can change the City's CRS financial policies governing the use of REET by adopting a resolution that would have the effect of funding affordable housing by re-directing REET funds to service debt on LTGO bonds previously issued for REET-eligible projects.

This approach is consistent with the Mayor's recently transmitted proposed financial policies legislation, changing only the eligible use from the North Precinct project to a list of other projects already funded with LTGO bonds that the City has already issued in recent years. Using REET funding to pay for debt service on these projects would displace GSF revenues otherwise expected to be used for such debt service; the newly available GSF dollars could then be used for debt service on new LTGO bonds to develop affordable housing. This approach includes some inherent risks, specifically that volatile REET revenues will be lower than needed in some future years; but the risks of relying on REET to free up more flexible funding are not different than the risks of doing so to fund the North Precinct project.

Projects shown in Attachment G appear to be REET-eligible and were funded using LTGO bonds planned to be repaid using GSF revenues.¹ This list contains a large enough amount of REET-eligible LTGO bonds (between \$131 million and \$183 million) that it would enable the City to "wash" all of the anticipated REET funding for the North Precinct and make an equivalent amount of GSF available for affordable housing. Given that some of the LTGO bonds were issued several years ago, it would be prudent to identify a higher dollar amount than the amount of REET funding from the North Precinct project. This will allow for additional flexibility that may be needed for the last few years of debt service on the proposed affordable housing investment when the earliest REET swap for previous LTGO bonds are retired.

The Metropolitan Parks District provides significant funding to the Parks and Recreation Department (Parks), and the Move Seattle Levy similarly funds the Seattle Department of Transportation (SDOT). As a condition for receiving annual tranches of property tax revenues, each of these voter-approved measures requires that the City provide a minimum annual amount of GSF funding. In other words, the City cannot supplant GSF funds for these purposes with the levy proceeds. Attachment G includes projects in both Parks and SDOT, and it will be

¹Central Staff would consult with CBO if this proposal moves forward.

important to ensure that the City does not dip below the minimum thresholds for either of the voter-approved measures.

This approach is consistent with more limited actions in recent budgets. Specifically, green sheet 2-1-A-1 in the 2016 Adopted Budget used approximately \$5.6 million in unanticipated REET to fund a portion of the debt service on REET-eligible projects freeing up GSF for other Council priorities.

Council could also repurpose non-REET funding from the North Precinct project to pay for affordable housing:

1. Use the \$15 million of net GSF revenues from the sale of the Pacific Place Garage for affordable housing rather than the North Precinct project. No change to financial policies would be required. However, IRS restrictions mandate that these funds be spent on an asset owned by the City; and there may be other IRS restrictions.
2. The City acquired approximately \$14 million of land for the North Precinct project. The City could sell this land and use the proceeds to support affordable housing. Staff would need time to review the City's surplus property policies and consult with Law before determining what changes (if any) may be required.

The amount and proportion of the various funding sources to be used for affordable housing would be subject to Council's discretion and further action.

I am happy to develop the necessary resolution or budget actions if you would like to proceed with any or all of these options and have them reviewed by law.

Attachments

- Attachment A – Adopted North Precinct CIP
- Attachment B – Mayor's April 2016 Press Release
- Attachment C – North Precinct Resolution 31698
- Attachment D – Mayor's September 2016 Press Release
- Attachment E – Adopted Financial Policies
- Attachment F – Mayor's Proposed New Financial Policies
- Attachment G – REET Eligible Projects Funded by LTGO Bonds

cc: Kirstan Arestad, Central Staff Executive Director
Ted Virdone, Legislative Aide to Councilmember Sawant

Attachment G - REET Eligible Projects Funded by LTGO Bonds

	2012 Ordinance (for 2013 Projects)		2013 Ordinance (for 2014 Projects)		2014 Ordinance (for 2015 Projects)		2015 Ordinance (for 2016 Projects)		Cumulative Amount (\$ in Millions)	
	Ordinance 124053		Ordinance 124341		Ordinance 124637		Ordinance 124924			
	Project	Amount	Project	Amount	Project	Amount	Project	Amount		
REET Eligible	South Park Bridge	\$ 10.0	Mercer West	\$ 8.4	Bridge Rehab	\$ 5.1	Pay Stations	\$ 9.0		
	Golf	\$ 7.3	South Park Bridge	\$ 15.0	South Park Bridge	\$ 5.0	Alaskan Way Corridor (GSF)	\$ 5.0		
	Rainier Beach CC	\$ 6.6	North Precinct	\$ 6.6	Fire Facilities	\$ 4.9	Transit Corridors	\$ 1.0		
	Magnison Park Bldg 30	\$ 5.2	Golf	\$ 5.5	Golf	\$ 2.0	Fire Stations	\$ 10.9		
	Fire Facilities	\$ 12.7					Fire Station 5	\$ 2.0		
	North Precinct	\$ 4.2					North Precinct	\$ 5.0		
		\$ 46.0		\$ 35.5		\$ 17.0		\$ 32.9		\$ 131.4
	Police Video Terminals	\$ 4.5	Waterfront ROW	\$ 5.0	Pike Place Market PC 1-N	\$ 28.0	Pike Place Market PC 1-N	\$ 6.0		
			Pike Place Market Refi	\$ 3.0	Alaskan Way Corridor	\$ 4.1				
					CWF Overlook	\$ 1.4				
Subtotal - Potential REET Eligible	\$ 4.5		\$ 8.0		\$ 33.5		\$ 6.0	\$ 52.0		
Grand Total	\$ 50.5		\$ 43.5		\$ 50.5		\$ 38.9	\$ 183.4		

all figures in \$millions