Local Revenue Tools

The region cannot fully address affordability needs until the housing needs of extremely low-income, less than 30% AMI, households are met. Addressing the needs of the lowest-income households will cause a chain reaction, freeing up more moderately priced housing units that are more affordable for households at higher income thresholds. Providing for extremely low-income households require significant incentives, subsidies, and funding as the private market cannot produce housing affordable to these households without public intervention.

There are a variety of tools that can establish long-term funding for the creation, preservation, and acquisition of income-restricted affordable housing, including:

- Adopting a sales and use tax up to 0.1% for housing and related services.
- Establishing a capital fund.
- Adopting a housing levy.
- Adopting a payroll expense tax.

This tool focuses on dedicated revenue streams that can be structured to provide ongoing funding over the long term.

WHAT ISSUES DO LOCAL REVENUE TOOLS ADDRESS?

Cities and counties of every size are grappling with a lack of affordable housing for low-wage workers and their families. Part of the reason for this is that the financial returns from low-income housing developments are not high enough to attract traditional banking institutions and developers. Housing developments are usually financed based on high market rents or sale prices that will guarantee the repayment of construction loans to banks and result in enough profit for developers to take on the many risks of development. As a result, most housing is constructed for residents at or above median income levels.

TOOL PROFILE

Objectives

Housing Options in Expensive Markets

Mitigate Residential Displacement

Type of Tool

Other Financial Tools

Project Type

Single Family

Multifamily

Ownership

Rental

Affordability Level

Most effective for units <50% AMI

HOUSING INNOVATIONS PROGRAM

Local revenue tools can create a dedicated funding source to help build, preserve, and acquire affordable housing. Funding can also be used to acquire land, which may be critical in areas with significant future investments and planned growth, such as areas around light rail stops and other high-capacity transit. While the use of various revenue tools differs, funding can generally be used for both ownership and rental housing.

Funding created through local revenue tools can also be critical in providing a "match" for grants and for partnerships with a local housing authority, and other affordable housing and service providers.

Ongoing, long-term funding from dedicated funding sources may vary year to year but are generally a more consistent source of funding for affordable housing than annual appropriations or one-time grant funds.

Dedicated revenue streams have proven to be effective in building and preserving units in the region. Seattle's Housing Levy has created and preserved thousands of rental and homeownership opportunities throughout the city. A Regional Coalition for Housing has also been able to create affordable housing in east King County through a shared capital fund. The South King Housing and Homelessness Partners (SKHHP) established a shared subregional capital fund in 2022 that will be used to create affordable housing in south King County.

WHERE ARE LOCAL REVENUE TOOLS APPLICABLE?

MRSC's Revenue Guide for Cities and Towns in Washington State and Revenue Guide for Counties in Washington State discuss the types of taxes that may be imposed by counties, cities, and towns. The publications also discuss any restrictions on tax revenue, whether or not voter approval is required, and any limits to how long a tax may be imposed. The Washington State constitution guides how local jurisdictions can impose taxes to generate funding for affordable housing.

Local funding can be critical to "match" other funding sources and to demonstrate an ongoing commitment to increasing housing affordability. Local housing funds have played a significant role in building housing and are often coordinated through subregional housing agencies. Recognizing that it may be infeasible for smaller communities to individually develop and manage local housing funds, strengthening multijurisdictional housing organizations may be key to raising and coordinating housing funding.

Considerations for implementing local revenue tools

Jurisdictions should discuss the long-term commitment and relative importance of funding affordable housing in the context of competing priorities. A dedicated revenue source does not guarantee program funding. Some revenue sources are likely to decline when the need for affordable housing is greatest. In an economic downturn, for example, new development activity and related permit fee revenues are likely to decline. In a tight budget environment, dedicated revenue sources may be diverted by city councils or state legislatures looking to fill budget gaps. Smaller jurisdictions in soft housing markets may find it challenging to reallocate limited revenue sources toward housing affordability. However, to the extent that a local jurisdiction has determined housing affordability is a priority worth supporting, establishing a dedicated revenue source can help to mitigate the risks associated with reliance on annual appropriations decisions and provide a higher level of total funding for affordable housing programs.

Dedicating a revenue stream to affordable housing limits a local jurisdiction's ability to use those funds for another purpose. Community engagement and outreach can help to identify if affordable housing is a priority worth supporting, and if so, residents may support the creation of a new tax or fee dedicated to that purpose.

Three key questions can help to guide early discussions on potential local revenue sources:

1. Are any potential revenue sources already in use for housing or other purposes? If so, can they be expanded or repurposed?
2. What other revenue options are feasible? While not a comprehensive list, a few options to consider include:
   - Adopt a sales and use tax up to 0.1% for housing and related services.
   - Establish a capital fund.
   - Housing levy.
   - Payroll expense tax.
   - Real estate excise tax (REET).
3. Which of the feasible options is likely to have the most support? Which have the greatest revenue potential?

RESOURCES

Local Housing Solutions: Dedicated Revenue Sources (2023)

Housing Development Consortium of Seattle-King County: Affordable Housing Toolkit - Financing Tools (2023)

MRSC: Affordable Housing Funding Sources (2023)

MRSC: Options for Funding Local Affordable Housing Efforts (2022)