**COMMITTEE ACTION**

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| --- |
| ***Proposed Substitute Ordinance 2015-0177.2, which would place the Executive's Best Starts for Kids property tax levy on the November 2015 ballot, passed out of committee on July 8, 2015, without recommendation. The ordinance was amended in committee with Amendment 1 to require the Executive to transmit a plan to establish and define the duties and composition of the two levy advisory bodies, which would be approved by the Council by ordinance; to require the Executive to transmit implementation plans for the levy, which would be approved by the Council by ordinance; to restrict expenditure of levy funds until Council approves the implementation plans, with the exception of funding for public health and $2 million for levy planning; to require the implementation plan to include annual reporting requirements to the Council; to strike the $3 million that would have been set aside for neuroscience research and include those funds in the Youth and Family Homelessness Prevention Initiative (bringing the total for that initiative to $19 million); to specify that the funds for election costs and the Youth and Family Homelessness Prevention Initiative both come out of first year levy proceeds; to require that not less than $42.8 million of the "Early Childhood Allocation" be used to support existing parent-child public health services (such as MSS/WIC and Nurse Family Partnership); to reduce the percentage of levy funding for data collection and evaluation to 5% (from 6%) and increase the allocation to Communities of Opportunity to 10% (from 9%); and to make other technical changes.*** |

## STAFF REPORT

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| **Agenda Item:** | 4 | **Name:** | Rachelle Celebrezze  Wendy Soo Hoo  Mary Bourguignon  Scarlett Aldebot-Green  Katherine Cortes |
| **Proposed No**.: | 2015-0177 | **Date:** | July 8, 2015 |

**SUBJECT**

Proposed Ordinance 2015-0177 would place a six-year property tax levy to fund the Best Starts for Kids initiative on the November 2015 ballot.

**SUMMARY**

Proposed Ordinance 2015-0177 would approve placing before King County voters a November 2015 ballot measure authorizing a six-year property tax levy. The property tax would be levied at a rate of $0.14 per $1,000 of assessed valuation in 2016, with an increase of three percent for each of the five subsequent years of the levy—2017 through 2021. If approved by the voters, the levy is projected to generate a total of approximately $392.3 million in revenues to fund the initiative known as Best Starts for Kids.

Best Starts for Kids is the Executive’s proposal for a prevention-oriented regional plan that is aimed at supporting the healthy development of children and youth, families and communities across the county. The proposed Best Starts for Kids levy would make expenditures for the following six categories: Youth and Family Homeless Prevention Initiative, Research Allocation, Early Childhood Allocation, School-Aged Allocation, Communities of Opportunity Allocation, and Data and Evaluation Allocation.

This is the fifth hearing on the Best Starts for Kids initiative.

**BACKGROUND**

According to the Executive, the Best Starts for Kids initiative would provide the resources to prevent negative outcomes in the community and put the children of King County on the path toward lifelong success. Under the proposal, the Best Starts for Kids levy funding would focus on investing early in a child's life—with the heaviest investments made for children from birth through age 5—and continuing to invest at critical points in a young person's development through age 24. The expressed goal of the Best Starts for Kids initiative is to shift from addressing negative outcomes that have already occurred—outcomes like homelessness, chronic illness, and substance abuse—to preventing those outcomes from ever occurring.

This is the fifth hearing on the Best Starts for Kids initiative. This staff report has been updated to include only those topics for which additional information was obtained since the June 24th Budget and Fiscal Management Committee meeting. The staff report presented to the Regional Policy Committee on June 17th consolidated the previous staff reports for the Budget and Fiscal Management Committee; that report is included as Attachment 7.

**ANALYSIS**

Proposed Ordinance 2015-0177 would approve placing a November2015 ballot measure before King County voters authorizing a regular property tax levy in excess of the state levy limitation contained in RCW chapter 84.55. This type of tax levy increase is commonly known as a “levy lid lift”. The measure requires simple majority approval, with no voter turnout requirements.[[1]](#footnote-1)

If approved by the voters, the levy is projected to generate a total of approximately $392.3 million in revenues to fund the Best Starts for Kids initiative. The levy is estimated to cost the owner of a $400,000 home in King County approximately $56 per year in additional property taxes.

In order to be placed on the November 2015 ballot, the Council would need to act on the proposed ordinance no later than July 20 under regular rules (assuming expedited 10-day processing) or August 3 as an emergency.

**Projected Expenditures**

Under the proposed ballot measure, Best Starts for Kids levy revenues would be used as follows:

* $16 million to fund and administer a youth and family homeless prevention initiative
* $3 million to fund research and improve outcomes for children and youth in King County
* The remaining approximately $373.3 million would be allocated as follows:
* 50 percent, or $186.65 million over the life of the levy, to be spent on strategies focused on children under 5 years old and their caregivers; pregnant women; and for individuals or families concerning pregnancy;
* 35 percent, or $130.7 million over the life of the levy, to be spent on strategies focused on children and youth ages 5 through 24;
* 9 percent, or $33.6 million over the life of the levy, to be spent on communities of opportunity; and
* 6 percent, or $22.4 million over the life of the levy, to be spent on evaluation, data collection, and improving the delivery of services and programs for children, youth and their communities.

Table 1 below shows the expected allocation of funding over the life of the levy.

Table 1: Projected Best Starts for Kids Levy Expenditures 2016-2021

|  |  |
| --- | --- |
| **Category** | **Total** |
| Early Childhood Programs | $186,650,000 |
| School-Aged Children and Youth | $130,655,000 |
| Communities of Opportunity | $33,597,000 |
| Evaluation and Data Collection | $22,398,000 |
| Youth and Family Homeless Prevention Initiative | $16,000,000 |
| Research | $3,000,000 |
| **TOTAL EXPENDITURES** | **$392,300,000** |

This staff report includes additional analysis on the City of Kirkland's proposal to dedicate a portion of the levy proceeds to building housing as well as additional analysis on the projected impact of the Best Starts for Kids levy on junior taxing districts as well as a discussion of the issues Council may wish to consider relating to the Best Starts for Kids levy that staff have identified.

**YOUTH AND FAMILY HOMELESS PREVENTION INITIATIVE**

As noted earlier, the proposed levy would reserve $16 million for a **Youth and Family Homeless Prevention Initiative.[[2]](#footnote-2)** The Executive’s stated goal is to use this Homeless Prevention Initiative as a flexible fund to help families, youth and young adults avoid homelessness with the goal of serving approximately 1,200 families or unaccompanied youth per year (with approximately $4 million in spending each year for four years) through assistance provided by non-profit service providers.

During the June 24, 2015, briefing on the proposed levy, Councilmembers asked for additional information about the City of Kirkland’s proposal to supplement this Homeless Prevention Initiative with funds for housing construction. Specifically, Councilmembers asked what it would cost to provide housing for families and youth and young adults (YYA) in need of housing, and what it would cost to provide wrap-around services for people in affordable housing.

**City of Kirkland proposal to devote funds to affordable housing construction**

During the June 17, 2015, meeting of the Regional Policy Committee, Kirkland Mayor Amy Walen shared a proposal from the Kirkland City Council that one cent from the proposed Best Starts for Kids Levy be devoted to the construction of affordable housing. She noted that Kirkland would like this funding to be in addition to the proposed $16 million Homeless Prevention Initiative. The City of Kirkland subsequently sent a letter to King County Councilmembers reiterating this request. (See Attachment 8.)

**How much money would be raised by this proposal?**

Based on Mayor Walen’s proposal for one cent from the levy, staff had made a preliminary estimate that this proposal could generate approximately $28 millionover the six-year life of the proposed levy. The City of Kirkland letter, however, specifically requested that **$26 million** be set aside over the life of the levy. This is slightly lower than, but consistent with, staff’s earlier estimate. During subsequent conversations with Council staff, Kirkland staff confirmed that the City’s proposal is to allocate this $26 million from within the proposed levy, not to add additional capacity to the levy.

Table 2 below shows how the other allocations would be affected if $26 million of the levy is set aside for construction of affordable housing.

Table 2: Projected Best Starts for Kids Levy Expenditures 2016-2021with Affordable Housing Construction Set-Aside Proposed by Kirkland

|  |  |  |
| --- | --- | --- |
| **Element** | **Executive Proposal** | **Kirkland Proposal** |
| Early Childhood Programs | $186,650,000 | $173,650,000 |
| School-Aged Children and Youth | $130,655,000 | $121,555,000 |
| Communities of Opportunity | $33,597,000 | $31,257,000 |
| Affordable Housing Construction | $0 | $26,000,000 |
| Evaluation and Data Collection | $22,398,000 | $20,838,000 |
| Youth and Family Homeless Prevention Initiative | $16,000,000 | $16,000,000 |
| Research | $3,000,000 | $3,000,000 |
| **TOTAL EXPENDITURES** |  | **$392,300,000** |

**How much housing could be created by the Kirkland proposal?**

As staff noted during the June 24, 2015, briefing, it is difficult to estimate a specific number of affordable housing units that could be developed by a given amount of due to a number factors, including land costs; development costs; the size of the units; and the amount of other housing funds that could be leveraged.

As a rough proxy, staff extrapolated from the development and leveraging experience of the 2009 Seattle Housing Levy. Based on the Seattle goal of helping to support 1,670 rental units[[3]](#footnote-3) with $104 million, staff estimate that (given similar goals and similar experience with leverage\*) **a** **$26 million investment could** **help support the development of approximately 415 units.**

Note that the Seattle Housing Levy is funding a mix of single adult and family units; a mix of units affordable to households at 65% or less of median income and 30% or less of median income; and is assuming Seattle will be able to achieve $3 in leverage for every $1 of levy funding.

*\*Please note that Executive staff caution that even if County funding available for housing construction increases, the amount of other funding sources (such as the State Housing Trust Fund) will not necessarily increase. Thus, it is possible that the amount of leveraging that could be achieved with additional County funding might not match the experience to date of the 2009 Seattle Housing Levy.*

As noted above, actual costs to develop a unit of housing vary based on where the housing is located, how large it is, and how it is structured. Attachment 9 provides capital cost comparisons for four recently funded housing developments. The attachment lists all the funding sources secured for each development, as well as target population for the development. A high-level summary of this cost comparison shows:

**Summary of Selected Housing Capital Cost Comparisons**

*Information provided by Housing Development staff, King County DCHS*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Project/Developer** | **Number Units** | **Type of Units** | **Income Level** | **Per Unit Cost** | **Total Project Cost** |
| **Velocity (S Kirkland TOD)** *Imagine Housing* | 58 | **Family Apartments:** 30 1-BR 12 2-BR 3 3-BR | **Homeless and low-income:** 29 30% AMI 15 40% AMI 14 60% AMI | $280,580 | $16.27M |
| **University Commons (Seattle Roosevelt Way)** *Low Income Housing Inst* | 48 | **Young adult, single adult:** 47 studios 1 1BR | **Range:** 24 30% AMI[[4]](#footnote-4) 12 40% AMI 12 60% AMI | $313,819 | $15.1M |
| **Mercy Othello Place (Seattle near Othello Link)** *Mercy Housing* | 107 | **Family Apartments:** 45 1 BR 53 2 BR 10 3 BR | **Range** 20 30% AMI 20 50% AMI 68 60% AMI | $286,823 | $30.69M |
| **FOY Kirkland Campus (Kirkland)** *Friends of Youth* | 10 | **Young Adult Group Home** Individual bedrooms | Below 30% AMI | $107,932 | $1.08M |

AMI = Area median income. Income level of units shown above indicate the number of units reserved for people at or below the listed income level.

As this cost comparison shows, per-unit costs vary considerably depending on the size and location of the housing development. To provide an example, if an average cost per unit of $275,000 is assumed (which would cover the cost of a development with a mix of unit sizes, though would limit the number of large family units), **an investment of $26 million could fully fund approximately 94 units.** If the County is able to secure outside funds at a leveraging ratio equivalent to Seattle’s experience, a $26 million investment could, as noted above, provide support for the development of approximately 415 units.

**What is the need for affordable housing for families and YYA?**

At the last committee meeting, Councilmembers asked how the units that might be funded through Kirkland’s proposal would address the need for affordable housing for families and youth and young adults (YYA). To estimate need, staff used the current waiting lists from Family Housing Connection and Youth Housing Connection.

As of the end of June 2015, those waiting lists include:

* **Family Housing Connection:** 787 households
* **Youth Housing Connection (age 17-1/2 through 25):** 422 individuals

As background on these waiting lists, the federal Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act of 2009 requires that local communities implement a coordinated entry system for all homelessness programs. Coordinated entry for homeless families (called “Family Housing Connection”) was launched in spring 2012. Coordinated entry for homeless YYA was launched during summer 2013.

For YYA, coordinated entry was broadened to cover not only entry into formal housing programs, but also less formal engagement with providers. That is because in some cases YYA may connect back with family or extended kin after initial engagement with a provider rather than entering a formal homelessness program. As a result, the “coordinated engagement” program for YYA includes two distinct components:

* Community sign-in, an abbreviated data collection for all YYA who engage with providers (including drop-in centers and meal programs) to give providers a better sense of the needs of homeless and at-risk YYA and to connect them with resources, including extended family; and
* Youth Housing Connection, a more detailed assessment and placement program for young adults, ages 17-½ through 25, who are seeking housing. Given the significant differences between needs and housing availability for youth and young adults, Youth Housing Connection only covers young adults who are at least 17-½ years old.

Executive staff note that the waiting list of those in need of housing is not stable. That is, the list is in flux on a daily basis as households are added to the list or are removed because they have secured housing.

**What would wrap-around services cost for people living in new affordable housing?**

As with housing costs, the cost to provide services to people living in affordable housing varies depending on the level of need of the residents. Several examples illustrating the cost for different types of services include:

* The Executive’s proposal for Homeless Prevention Initiative in the Best Starts for Kids levy proposes to provide homelessness prevention services on a Housing First model to approximately 1,200 families or YYA per year using $4 million per year. This would average to approximately $3,000 per household.
* The YMCA Housing Stability Team, which is a funded item that is part of the Homeless Youth and Young Adult Initiative, aims to provide case management and wrap-around services to 50 YYA to help them succeed in permanent housing. The program is funded for $130,000 in 2016, which averages approximately $2,600 per person served.

**Prorationing Analysis**

RCW 84.52.043 establishes a maximum aggregate property tax rate of $5.90 per $1,000 of assessed valuation for counties, cities, fire districts, library districts, and certain other junior taxing districts. Under state law, if a taxing district reaches its statutory rate limitation, that district can only collect the amount of tax revenue that would be produced by that statutory maximum levy rate. In other words, the tax district’s levies must be reduced in order to comply with the state limitation. Reductions are made in accordance with a district hierarchy established under RCW 84.52.010. In general, countywide levies (such as the Best Starts for Kids levy) are the most senior taxing districts and would be the last to be reduced, or prorationed, under state law.

Staff analysis based on the March 2015 Office of Economic and Financial Analysis (OEFA) forecast and including the recently passed Puget Sound Emergency Radio Network (PSERN) levy, which added $0.07 per $1,000 of assessed valuation to the property tax rate, indicates that two park districts—Si View and Fall City—would remain prorationed for a portion of the Best Starts for Kids levy collection period. Both park districts were prorationed in 2015; Si View's total prorationing in 2015 is projected to total approximately $94,000 and Fall City's prorationing in 2015 is projected to total approximately $53,000.[[5]](#footnote-5)

Under the Best Starts for Kids Levy, which would be levied beginning in 2016, Fall City Metropolitan Park District is projected to be prorationed in the first four years of the Best Starts for Kids Levy—2016 through 2019—with a total revenue loss due to prorationing of approximately $300,000. Si View Metropolitan District is projected to be prorationed from 2016 through 2018, with a total revenue loss due to prorationing of approximately $514,000.

In addition, several Fire Districts are projected to be technically prorationed if the Best Starts for Kids levy is approved by the voters. Because Fire Districts are allowed to protect up to $0.25 over the $5.90 limitation, technical prorationing occurs if a Fire District's rate exceeds the $5.90 limitation by less than $0.25. As a result, staff analysis using the most current OEFA forecast indicates that no Fire District would be prorationed over the life of the Best Starts for Kids levy.

In projecting the growth in assessed valuation over the life of the Best Starts for Kids levy, Executive staff used the most recent OEFA forecast to estimate the growth rate for taxing districts that are levied on a countywide basis as well as those that are levied in the unincorporated areas. For all other taxing districts, Executive staff developed the estimated growth rate by setting the rate of growth 1.0 percent lower than the countywide OEFA forecast or unincorporated OEFA forecast, as appropriate. Thus, the model takes a conservative approach to forecasting assessed valuation growth and takes into account the fact that assessed valuations in some portions of King County are not growing as quickly as in others.

It should be noted that if assessed valuation in King County were to decline significantly (as in the case of a major recession), several Fire Districts, park districts, and hospital districts' levies would likely be subject to prorationing.

Update from June 24th Budget and Fiscal Management Committee Meeting

At the June 24th Budget and Fiscal Management Committee meeting, Councilmembers asked how long Fire Districts would be able to protect up to $0.25 over the $5.90 limitation in state law. That provision, RCW 84.52.125, does not have a sunset provision and therefore, as currently enacted, would be in place for the life of the Best Starts for Kids Levy.

Councilmembers also expressed interest in obtaining more information about Fall City Metropolitan Park District and Si View Metropolitan Park District. Under RCW 84.52.120, a metropolitan park district with a population of 150,000 or more, or any metropolitan park district located in a county with a population of 1.5 million or more, may, via a ballot measure approved by a majority of voters in the district, protect up to $0.25 over the $5.90 limitation for up to six years. Si View Metropolitan Park District sought and received that approval for 2012 through 2017, and the estimates discussed earlier have taken that protection into account. Fall City Metropolitan Park District has not placed such a measure before its voters, and the estimates discussed earlier do not assume protection for the additional $0.25.

**Prohibition on Supplantation**

Under state law[[6]](#footnote-6), a levy lid lift proposition, such as Best Starts for Kids, may only be used for the specific limited purpose of the levy, as identified in the ballot title.  In addition, state law allows for levy funds to be used to provide for existing programs and services, provided the levy funds are used to supplement, but not supplant existing funds.  Existing funding is determined based on actual spending in the year in which the levy is placed on the ballot; in the case of the Best Starts for Kids Levy, existing funding would be determined using actual expenditures in 2015. **Existing funding excludes lost federal funds, lost or expired state grants or loans, extraordinary events not likely to reoccur, changes in contract provisions beyond the control of the taxing district receiving the services, and major nonrecurring capital expenditures.**

For the Best Starts for Kids Levy, this prohibition on supplantation means that levy funds may be used for entirely new programs and services—in any amount over the life of the levy—and to fund existing programs and services, but only in an amount additional to the amounts the County spent on those programs or services in 2015, unless one of the exceptions noted earlier applies.  Thus, in the case of the existing public health services proposed to be supported by the Best Starts for Kids Levy (Maternity Support Services/WIC and Nurse Family Partnership) and the Communities of Opportunity program, the Best Starts for Kids Levy proceeds may be used to fund those programs and services only in amounts that exceed actual expenditures for those programs in 2015, unless the levy proceeds are being used to replace lost federal or state funding or to fill a gap due to an extraordinary event that is not likely to reoccur.[[7]](#footnote-7)

At the June 24th Budget and Fiscal Management Committee meeting, Councilmembers asked whether the Best Starts for Kids Levy would be eligible for an exemption from the prohibition on supplantation in a manner similar to that allowed for the Mental Illness and Drug Dependency (MIDD) sales tax. As mentioned in that meeting, because the state statute that authorizes the MIDD funding (RCW 82.14.460 – a local sales and use tax) is different from the statute that authorizes the Best Starts for Kids Levy (RCW 84.550.05 – a property tax levy), the MIDD exemption would not apply to the Best Starts for Kids Levy. As noted earlier, the state statute governing levy lid lifts (RCW 84.55.050) prohibits supplantation (with a few exceptions, also discussed earlier) in counties with a population greater than 1.5 million—such as King County.  RCW 82.14.460 has different restrictions concerning supplanting that apply to the MIDD.

**Best Starts for Kids Policy Issues**

In staff reports presented previously in the Budget and Fiscal Management Committee, staff began to identify key policy issues for the committee’s consideration. These issues are consolidated below.

1. Programs and services eligible for funding open-ended

* The six categories are broadly defined to provide flexibility in how the funds may actually be spent. The six categories are:
  + Youth and Family Homeless Prevention Initiative ($16 million specific set-aside)
  + Research ($3 million)
  + Early Childhood Allocation (50% of the remaining funds – about $187 million over life of the levy)
  + School-Aged Allocation (35% of the remaining funds – about $131 million over life of the levy)
  + Communities of Opportunity (9% of the remaining funds – about $34 million over life of the levy)
  + Data and Evaluation (6% of the remaining funds – about $22 million over life of the levy)
* Parent/child services currently provided through the public health centers are not required to be funded by the levy ordinance as currently drafted.

1. Timing of funding

* None of the funds are required to be released or available at any specific time. This is particularly applicable to the Youth and Family Homeless Prevention Initiative and the Research Allocation. Although Executive staff have indicated the intention to fund these allocations using a portion of the first year’s collections, this is not required by the levy ordinance as currently drafted.

1. Advisory Bodies

* The levy ordinance does not establish the advisory body for any funding other than Communities of Opportunity funding.
* The levy ordinance states that a children and youth advisory board established in accordance with Youth Action Plan recommendations would serve as the advisory body for the levy funds other than the Community of Opportunity funds. Although the Council has adopted the Youth Action Plan,[[8]](#footnote-8) the plan does not specify the composition or size of the advisory board and no advisory board has been established.
* The duties and responsibilities of the advisory board are not defined in the ordinance.

1. Implementation Plan

* The levy ordinance does not provide for an implementation plan/timeline for how the specific strategies to be funded will be determined and prioritized and does not require Council approval of an implementation plan prior to spending levy proceeds.
* Following the passage of the MIDD and VHSL ordinances, subsequent legislation was transmitted by the Executive and adopted by Council setting forth implementation plans for spending proceeds. Note that the ordinance approving the MIDD sales tax included a requirement that the Executive transmit implementation, oversight and evaluation plans for approval by Council.

1. Allocation method

* The levy ordinance would specify two set-asides and the remaining funding would be divided by percentage into four categories. Both set-asides could be funded under the four "percentage-based" categories – it is a policy choice whether to designate specific set-asides for Youth and Family Homeless Prevention Initiative and the Research Allocation.

1. Technical issues in the proposed ordinance

* Some of the definitions need to be refined (i.e. "youth" and “children” overlap).
* As drafted, elections costs would come out of one of the four percentage-based funding categories. Legal counsel and the Prosecuting Attorney’s Office indicate that elections costs could be funded as a specific set-aside.
* Other technical errors.

1. Pursuant to RCW 84.55.050(1) [↑](#footnote-ref-1)
2. Proposed Ordinance 2015-0177 lines 199-200 [↑](#footnote-ref-2)
3. The Seattle Housing Levy is funding a mix of single adult and family units; a mix of units affordable to households at 65% or less of median income and 30% or less of median income; and is assuming Seattle will be able to achieve $3 in leverage for every $1 of levy funding. [↑](#footnote-ref-3)
4. Including 15 units for homeless young adults, ages 18-24 [↑](#footnote-ref-4)
5. Hospital District 1 (Valley Medical Center) is projected to be prorationed in 2015, with a total revenue impact of approximately $320,500. Using the March 2015 OEFA forecast (including the PSERN levy), Hospital District 1 is not projected to experience any prorationing for the 2016-2021 period (the life of the Best Starts for Kids Levy). [↑](#footnote-ref-5)
6. RCW 84.55.050. [↑](#footnote-ref-6)
7. In projecting the $43 million in levy proceeds that would support the public health services, Executive staff assumed no growth in state and Medicaid Administrative Claiming revenues, slow growth in other patient generated revenues (0.8 percent), and modest growth in County General Fund revenues (Consumer Price Index plus one percent). [↑](#footnote-ref-7)
8. Motion 14378, adopted June 15, 2015. [↑](#footnote-ref-8)