



Meeting Agenda

Finance Committee

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8244

Wednesday, September 18, 2019

5:30 PM

Room 207

1. CALL TO ORDER

2. ROLL CALL

3. APPROVAL OF AGENDA

4. PUBLIC COMMENT

(Estimated Time: 0-15 Minutes)

During this portion of the meeting, citizens may address the Committee for up to three (3) minutes regarding the Committee's business meeting topics.

5. APPROVAL OF MINUTES

5.A [19-0830](#) Approval of August 21, 2019 Finance Committee Meeting Minutes

Attachments: [Minutes](#)

6. COMMITTEE BUSINESS

6.A [19-0819](#) Budget Snapshot - Investment Policy

6.B [19-0825](#) Discussion of Recommended Updates to City's Investment Policy

Attachments: [Draft Investment Policy](#)

6.C [19-0814](#) Discussion of the Preliminary 2020 Olympia School District Impact Fees

6.D [19-0804](#) Report on Input from the 2020 Budget - Your Priorities Public Engagement Process

Attachments: [Priorities, Performance, and Investment \(PPI\) Cycle](#)

[Budget Engagement Overview](#)

[Website: Engage Olympia](#)

6.E [19-0812](#) Briefing on House Bill (HB) 1406 Funding Recommendations

Attachments: [HB 1406](#)

[Housing Authority of Thurston County Letter](#)

[AWC HB 1406 Fact Sheet](#)

7. REPORTS AND UPDATES

8. ADJOURNMENT

The City of Olympia is committed to the non-discriminatory treatment of all persons in employment and the delivery of services and resources. If you require accommodation for your attendance at the City Council Committee meeting, please contact the Council's Executive Assistant at 360.753.8244 at least 48 hours in advance of the meeting. For hearing impaired, please contact us by dialing the Washington State Relay Service at 7-1-1 or 1.800.833.6384.



City Hall
601 4th Avenue E.
Olympia, WA 98501
360-753-8244

Finance Committee

Approval of August 21, 2019 Finance Committee Meeting Minutes

Agenda Date: 9/18/2019
Agenda Item Number: 5.A
File Number: 19-0830

Type: minutes **Version:** 1 **Status:** In Committee

Title

Approval of August 21, 2019 Finance Committee Meeting Minutes



Meeting Minutes - Draft

Finance Committee

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8244

Wednesday, August 21, 2019

5:30 PM

Room 207

1. CALL TO ORDER

Chair Cooper called the meeting to order at 5:33 p.m.

2. ROLL CALL

Present: 3 - Chair Jim Cooper, Committee member Jessica Bateman and Committee member Lisa Parshley

3. APPROVAL OF AGENDA

The agenda was approved.

4. PUBLIC COMMENT

Tom Crawford spoke.

5. APPROVAL OF MINUTES

5.A [19-0758](#) Approval of July 17, 2019 Finance Committee Meeting Minutes

The minutes were approved.

6. COMMITTEE BUSINESS

6.A [19-0747](#) Review of Scope of Work Related to Economic Ecosystem Study

Administrative Services Director Debbie Sullivan presented the scope of work, schedule and budget for an Economic Ecosystem Study to be conducted by Harvey M. Rose Associates. The study would be funded through the Council's Policy Analyst budget.

Councilmember Bateman moved, seconded by Councilmember Parshley, to forward the proposal as presented to City Council for approval.

Aye: 3 - Chair Cooper, Committee member Bateman and Committee member Parshley

6.B [19-0586](#) Regional Climate Mitigation Plan Update

Public Works Director Rich Hoey and Interim Planning and Engineering Supervisor Susan Clark presented an update on the development of the Regional Climate Mitigation

Plan. Staff also discussed “early action strategies” identified by a City cross-departmental internal workgroup that can be implemented within existing resources between now and the end of 2020.

The information was received.

6.C [19-0746](#) Discussion of the Preliminary Capital Facilities Plan and 2020-2025 Financial Plan

Ms. Sullivan presented the Capital Facilities revenue and expenditures for the 2020 Capital Budget and 6-year financial plan. Public Works Director Rich Hoey presented the impacts to the Transportation pavement preservation program if the City loses Transportation Benefit District funding. Director of Parks Planning and Maintenance Jonathon Turlove presented the revenue and expenditures to acquire, operate and maintain parks. Ms. Sullivan presented information on Cable TV Tax revenue and the impact of declining revenues. Assistant Superintendent of Olympia School District Jennifer Priddy discussed reducing impact fee discount in the Downtown with a potential start date in 2020.

The discussion was completed.

6.D [19-0744](#) Briefing on Second Quarter Budget Report

Fiscal Services Budget Analyst Joan Lutz presented the second quarter budget report.

The information was provided.

7. REPORTS AND UPDATES

Ms. Sullivan provided a status report of the Engage Olympia and 2020 Budget Priorities project.

8. ADJOURNMENT

The meeting adjourned at 7:48 p.m.



Finance Committee

Budget Snapshot - Investment Policy

Agenda Date: 9/18/2019
Agenda Item Number: 6.A
File Number: 19-0819

Type: report **Version:** 1 **Status:** In Committee

Title

Budget Snapshot - Investment Policy

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Receive a briefing on the City's Investment Policy. No action required.

Report

Issue:

Whether to receive a briefing on the City's Investment Policy.

Staff Contact:

Nanci Lien, Fiscal Services Director, 360.756.8465

Presenter(s):

Nanci Lien, Fiscal Services Director, Administrative Services Department

Background and Analysis:

RCW 35A.040.050 authorizes cities in Washington to invest funds that are not needed in the near future. Olympia's Investment Policy provides the direction on how the City will invest those funds. The City's portfolio is managed by Fiscal Services, in partnership with an investment consultant, Government Portfolio Advisors (GPA). The Policy requires a review by Finance Committee every two years and was last reviewed and updated in 2017.

In 2018, the City's investment portfolio averaged about \$70 million. Interest earnings for short and long-term investments were approximately \$1.4 million for 2018.

Staff will present information on the City's policy including objectives and prohibited investments.

Neighborhood/Community Interests (if known):

N/A

Type: report **Version:** 1 **Status:** In Committee

Options:

Information only.

Financial Impact:

N/A

Attachments:

None



Finance Committee

Discussion of Recommended Updates to City's Investment Policy

Agenda Date: 9/18/2019
Agenda Item Number: 6.B
File Number: 19-0825

Type: discussion **Version:** 1 **Status:** In Committee

Title

Discussion of Recommended Updates to City's Investment Policy

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Discuss recommended updates to City's Investment Policy and forward to City Council for Approval.

Report

Issue:

Whether to discuss recommended updates to the City's Investment Policy and forward to City Council

Staff Contact:

Nanci Lien, Fiscal Services Director, 360.756.8465

Presenter(s):

Nanci Lien, Fiscal Services Director, Administrative Services Department
Dave Westcott, Senior Portfolio Advisor, Government Portfolio Advisors

Background and Analysis:

The City Investment Policy provides direction on how City funds are invested. The Policy requires a review by Finance Committee every two years, and was last updated in 2017.

The City's investment portfolio is managed by Fiscal Services, in partnership with an investment consultant, Government Portfolio Advisors (GPA). The State statute regarding investments has been changed, and the City's policy needs to be updated to reflect those changes. A representative from the City's investment consultant will provide information on:

- City's current Investment Policy
- Recommended policy changes based on State statute
- Explanation of corporate vs commercial paper

- Socially responsible investing
- Return on investment over last three years

Recommended changes to the existing Policy (see attached) are as follows:

- Section 5.2 - New language is added to the “Prudence” section as recommended during Washington Public Treasurer Association review.
- Sections 8.2 and 9.1- per new State statute on Commercial paper, updated description is included in Section 8.2 (Suitable Investments) and updated issuer allocation is included in Table of Constraints in Section 9.1 Diversification, changing from 5% to 3%.

Please note that while the policy does identify commercial paper, as required by State statute, the investment advisor follows the City’s *Guideline Portfolio Strategy* which does not allow for commercial paper investments.

Neighborhood/Community Interests (if known):

There is increasing interest in how the City invests funds to ensure they are in alignment with our values.

Options:

1. Approve Investment Policy recommended changes and forward to City Council for approval.
2. Direct staff to modify recommended changes and forward to City Council for approval.
3. Direct staff to perform additional analysis and reschedule further discussion at future Finance Committee meeting.

Financial Impact:

N/A

Attachments:

Draft Investment Policy

INVESTMENT POLICY – DRAFT 2019
ADOPTED _____, 2019

Policy Statement

This policy establishes standards and guidelines for the direction, management and oversight for all of the City of Olympia’s investable cash and funds. Funds must be invested prudently to assure preservation of principal, provide needed liquidity for daily cash requirements, and provide a market rate of return. All investments must conform to federal, state, and local statutes governing the investment of public funds.

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1.0 INTRODUCTION

This Investment Policy defines the parameters within which funds are to be invested by the City of Olympia ("City"). This policy also formalizes the framework, of the City's Policy and Procedures to provide the authority and constraints for the City to maintain an effective and judicious management of funds within the scope of this policy.

These policies are intended to be broad enough to allow the Fiscal Services Director (Finance Manager) or authorized designee to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

2.0 GOVERNING AUTHORITY

The City of Olympia's investment authority is derived from Chapter 35A.40.050 RCW. The investment program shall be operated in conformance with Washington Revised Statutes and applicable Federal Law. All funds within the scope of this policy are subject to regulations established by the State of Washington.

3.0 SCOPE

This policy applies to activities of the City of Olympia with regard to investing the financial assets of the City. The amount of funds expected to fall within the scope of this policy is \$60MM to \$80MM, including all funds under the control and management of the City of Olympia.

This investment policy applies to all investment transactions involving the financial assets and related activity of all the foregoing funds.

4.0 OBJECTIVES

All funds will be invested in a manner that is in conformance with federal, state and other legal requirements. In addition, the objectives, in order of priority, of the investment activities will be as follows:

4.1 Safety: Safety of principal is the primary objective of the City. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective, funds will be diversified, utilizing highly rated securities, by investing among a variety of securities and financial institutions.

4.2 Liquidity: The investment portfolio will provide liquidity sufficient to enable the City to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a balance to meet daily obligations.

4.3 Return on Investment: The investment portfolio will be structured with the objective of attaining a market rate of return throughout economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

4.4 Legality: The investment portfolio will be invested in a manner that meets RCW statutes and all legal requirements of the City.

5.0 STANDARDS OF CARE

5.1 Delegation of Authority:

Governing Body: The ultimate responsibility and authority for the investment of City funds resides with the City Council who have the authority to direct the management of the City investment program.

Authority: The overall management responsibility for the investment program is hereby delegated to the Director of Administrative Services, or designee, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. The Fiscal Services Director (Finance Manager) shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Investment Adviser: The City may engage the services of an external investment adviser to assist with the management of the City's investment portfolio in a manner that is consistent with the City's objectives and this policy. Such advisers shall provide recommendation and advice regarding the City investment program including but not limited to advice related to the purchase and sale of investments in accordance with this Investment Policy.

5.2 Prudence:

The standard of prudence to be used by the Fiscal Services Director (Finance Manager) or any designees in the context of managing the overall portfolio is the prudent person rule which states: *Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.*

The Fiscal Services Director (Finance Manager) and authorized investment officers and employees who act in accordance with the Fiscal Services Director's written procedures and the City's Investment Policy, and who exercise due diligence, shall be relieved of personal responsibility for the credit risk or market price change of an investment, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5.3 Ethics:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Director of Administrative Services in writing any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Olympia, particularly with regard to the time of purchases and sales.

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6.0 SAFEKEEPING, CUSTODY AND CONTROLS

6.1 Delivery vs. Payment:

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

6.2 Third Party Safekeeping:

Prudent treasury management requires that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by the City, an independent third-party financial institution, or the City's designated depository.

The City's Fiscal Services Director (Finance Manager) shall designate all safekeeping arrangements and an agreement of the terms executed in writing. The third-party custodian shall be required to provide a statement to the City listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number.

All collateral securities pledged to the City for certificates of deposit or demand shall be held in a segregated account at the issuing financial institution that is reporting to the State's Public Deposit Protection Commission (PDPC).

6.3 Internal Controls:

The Fiscal Services Director (Finance Manager) is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an investment procedures manual.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities of marketable securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Staff training and
- Review, maintenance and monitoring of security procedures both manual and automated.

7.0 AUTHORIZED FINANCIAL DEALERS

7.1 Broker/Dealers:

The Fiscal Services Director (Finance Manager) shall maintain a list of all authorized financial institutions and broker/dealers that are approved to transact with the City for investment purposes. Any firm is eligible to make an application to the City. Additions and deletions to the list will be made at the City's discretion. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following: 1) financial institutions approved by the State of Washington Public Deposit Protection Commission (RCW 39.58) and meet all regulatory capital requirements, 2) primary dealers recognized by the Federal Reserve Bank, 3) non-primary dealers qualified under SEC rule 15C3-1 and a certified member of FINRA. This responsibility can be placed with the investment adviser and the approved list should be provided to the City as updates occur.

7.2 Investment Advisers:

Advisers must be registered under the Investment Advisers Act of 1940 and must act in a non-discretionary capacity, requiring approval from the City prior to all transactions.

The adviser may only provide non-discretionary management services, which requires prior authorization from the City on all transactions.

7.3 Bank Institutions:

The City will only place funds, exceeding the current FDIC insurance limits, with banks who are currently participating in the Washington State PDPC program. Compliance/listing with the PDPC will be verified by the Adviser or designated investment officer utilizing the Washington State Treasurer's website (<http://www.tre.wa.gov/government/pdpc.shtml>).

7.4 Competitive Transactions:

Transactions must be executed on a competitive basis and documented, excluding securities and interfund loans issued by the City of Olympia. Competitive prices should be provided from at least three separate brokers, financial institutions or through a nationally electronic trading platform. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. If an Adviser handles trade executions then they must provide the competitive documentation as requested.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

8.1 Authorized Investments:

All investments of the City are limited by RCW, principally RCW 35A.40.050 and 39.59.020.

Among the authorized investments are U.S. Treasury and agency securities (i.e., obligations of any government sponsored enterprise eligible for collateral purposes at the Federal Reserve), repurchase and for collateral otherwise authorized for investment, municipal debt of this state

with one of the three highest ratings of a national rating agency at the time of investment, debt of the City of Olympia, certificates of deposit with qualified public depositories within statutory limits as promulgated by the Public Deposit Protection Commission at the time of investment, foreign and domestic Bankers Acceptances, Commercial Paper and the Washington State Local Government Investment Pool.

The State of Washington Local Government Investment Pool is the only government-sponsored Pool approved for investment of funds.

8.2 Suitable Investments:

- This policy recognizes S&P, Moody's and Fitch as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).
- In the case of split ratings, where the major NRSROs issue different ratings, the higher rating shall apply. Minimum credit ratings and percentage limitations apply to the time of purchase.
- All securities must be purchased on the secondary market and may not be purchased directly from the issuer.

The City is empowered to invest in the following types of securities:

U. S Treasury Obligations: Direct obligations of the United States Treasury

US Agency Obligations Primary: Government Sponsored Enterprises (GSEs) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bureau (FFCB).

US Agency Obligations Secondary: Other US government sponsored enterprises that are less marketable are considered secondary GSEs. They include, but are not limited to: Private Export Funding Corporation (PEFCO), Tennessee Valley Authority (TVA), Financing Corporation (FICO) and Federal Agricultural Mortgage Corporation, (Farmer Mac).

Municipal Debt Obligations: General Obligation and Revenue bonds in any local government in the State of Washington. At the time of investment the bonds must have at a minimum a rating of AA- from S&P, or Aa3 from Moody's or AA- from Fitch. Debt of the City of Olympia is not required to be rated.

Commercial Paper: Unsecured debt obligations of corporate issuers that are rated at least A1 by S&P, P1 by Moody's or F1 by Fitch. Commercial paper holdings may not have maturities

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exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase with a minimum rating of AA- by S&P, Aa3 by Moody's or AA- by Fitch. Issuer constraints for commercial paper combined with corporate notes will be limited to 3% of market value (of the total portfolio) per issuer. Unsecured debt obligations of corporate issuers that are rated at least A1 by S&P, P1 by Moody's and F1 by Fitch. Must be rated by two NRSROs at the time of purchase. Commercial paper holdings may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating of AA- from S&P, or Aa3 from Moody's or AA- from Fitch. Issuer constraints for commercial paper combined with corporate notes will be limited to 3% of market value per issuer.

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Certificates of Deposit: Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

Bank Time Deposits and Savings Accounts: Deposits in PDPC approved banks.

Banker's Acceptance: Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of some specific goods within the United States. They are issued by qualified financial institutions.

Local Government Investment Pool: Investment Pool managed by the Washington State Treasury office.

8.3 Bank Collateralization:

The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. Under the act, all public treasurers and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

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9.0 INVESTMENT PARAMETERS

9.1 Diversification:

The City will diversify the investment of all funds by adhering to the constraints by issuer type in accordance with the following table:

Table of Constraints on the Portfolio

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P	Ratings Moody's	Ratings Fitch
US Treasury Obligations	100%	None	N/A	N/A	N/A
US Agency Primary Securities FHLB, FNMA, FHLMC, FFCB	100%	35%	N/A	N/A	N/A
US Agency Secondary Securities FICO, FARMER MAC etc.	10%	5%	AA-	Aa3	AA-
Municipal Bonds (WA only)	20%	5%	AA-	Aa3	AA-
City of Olympia Debt Obligations	15%	None	N/A	N/A	N/A
Commercial Paper	15%	3%	A1	P1	F1
Certificates of Deposit	25%	10%	Long Term AA- Deposits in PDPC approved banks	Long Term Aa3 Deposits in PDPC approved banks	Long Term AA- Deposits in PDPC approved banks
Bank Time Deposits/Savings Accounts	20%	10%	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Banker's Acceptance	20%	5%	N/A	N/A	N/A
Washington LGIP	100%	None	N/A	N/A	N/A

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9.2 Investment Maturity:

9.2.1 Liquidity Funds – Tier 1

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Liquidity funds will be defined as those funds that are in the State LGIP City, bank deposits, bank certificates of deposits or money market instruments and will be available for immediate use.

9.2.2 Investment Core Funds – Tier 2

Investment funds will be defined as the funds in excess of liquidity requirements and invested in authorized investments. The investments in this portion of the portfolio are allowed to have maturities out to 5 Years and will be only invested in higher quality and liquid (marketable) securities.

9.2.3 Pension, Endowment and Trust Funds– Tier 3

Investment funds will be defined as the funds needed for long term reserves, pension funds or Trust funds and invested in authorized investments. The investments in this portion of the portfolio are allowed to have maturities out to 10 years and will be only invested in higher quality and marketable securities.

9.2.4 Total Portfolio Maturity Constraints

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	90%
Under 10 years	100%
Maturity Constraints	Maximum of Total Portfolio in Years
Weighted Average Maturity	2.00
Security Structure Constraint	Maximum % of Total Portfolio
Callable Agency Securities	25%

9.3 Strategic Allocations:

9.3.1 Funds and their Allocation

- Liquidity fund for the operating account will be allocated to LGIP, CD's, Bank Deposits, Bankers Acceptances, and Commercial Paper
- The structure of the investment core fund will be targeted to a selected market benchmark based on the risk and return objectives of the portfolio.
- Longer term funds trust funds will have an identified market benchmark to manage risk and return.

9.3.2 Monitoring and Portfolio Adjustment: As a general practice securities will be purchased with the intent to hold to maturity. However, it is acceptable for securities to be sold under the following circumstances:

- a. A security with a declining credit may be sold early to protect the principal value of the portfolio.
- b. The portfolio duration or maturity buckets should be adjusted to better reflect the structure of the underlying benchmark portfolio.
- c. A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
- d. A sell of a security to provide for unforeseen liquidity needs.

9.4 Prohibited Investments:

9.4.1 The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

9.4.2 The City shall not invest in mortgage-backed securities.

9.4.3 The City shall not invest in fossil fuel companies.

10.0 REPORTING REQUIREMENTS

10.1 Reporting:

The Fiscal Services Director (Finance Manager) shall be responsible for investment reporting. At a minimum, monthly reporting shall be made to the Director of Administrative Services including but not limited to securities holdings, cash balances, and market values in the investment portfolio will be provided on the month-end reports.

Specific Requirements:

- Book Yield
- Holdings Report including mark to market and security description
- Transactions Report
- Weighted Average Maturity or Duration

10.2 Performance Standards:

The investment portfolio will be designed to obtain a market average rate of return during economic cycles, taking into account investment risk constraints and cash flow needs. A market benchmark will be established to compare risk and return of each investment portfolio identified within each tier. This will provide for accountability of price changes in the portfolio and support the investment strategy related to the duration of the portfolio.

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The earnings benchmark will be the Local Government Investment Pool and an appropriate yield comparison.

10.3 Compliance Report

A compliance report will be generated quarterly comparing the portfolio positions to this investment policy.

11.0 INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be adopted by the City Council and reviewed by the Council Finance Committee as needed but not less than every two years.

Adopted by Olympia City Council on _____, ~~2018~~2019.

12.0 GLOSSARY OF TERMS

Agency Securities: Government sponsored enterprises of the US Government.

Bankers Acceptances: A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. BAs are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and specific assets sometimes secure it. Most bonds have a maturity of greater than one year and generally pay interest semiannually. *See* Debenture.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by corporations.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

CUSIP: A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

Debenture: Unsecured debt backed only by the integrity of the borrower, not by collateral, and documented by an agreement called an indenture.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities.

Duration: A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. This equals the sum of the present value of future cash flows.

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as "government bonds."

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Investment Funds: Core funds are defined as operating fund balance, which exceeds the City's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio that is dedicated to providing liquidity needs for the District.

LGIP: Local Government Investment Pool run by the State of Washington Treasurer's office established to help cities with short term investments.

Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

Municipals: Securities, usually bonds, issued by a state, its agencies, by cities or other municipal entities. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

Portfolio: A collection of securities held by an individual or institution.

Prudent Person Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

Quotation or Quote: A bid to buy or the lowest offer to sell a security in any market at a particular time. See Bid and Ask.

Repurchase Agreement: Range in maturity from overnight to fixed time to open end. Repos involve a simultaneous sale of securities by a bank or government securities dealer to an investor with an agreement for the bank or government securities dealer to repurchase the securities at a fixed date at a specified rate of interest.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.



Finance Committee

Discussion of the Preliminary 2020 Olympia School District Impact Fees

Agenda Date: 9/18/2019
Agenda Item Number: 6.C
File Number: 19-0814

Type: report **Version:** 1 **Status:** In Committee

Title

Discussion of the Preliminary 2020 Olympia School District Impact Fees

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Discuss the Preliminary 2020 Olympia School District Impact Fees. Discussion only. No action requested.

Report

Issue:

Whether to discuss the Olympia School District (OSD) 2020 Preliminary Capital Facilities Plan (CFP), including draft recommendation regarding school impact fees.

Staff Contact:

Leonard Bauer, Deputy Director, Community Planning and Development, 360.753.8206
Debbie Sullivan, Administrative Services Director, 360.753.8499

Presenter(s):

Jennifer Priddy, Assistant Superintendent of Finance & Operations, OSD

Background and Analysis:

In order for the Olympia School District (OSD) to receive school impact fees from new development, the City of Olympia must adopt the OSD Capital Facilities Plan (CFP), which includes the Impact Fee schedule. At its August 21, 2019, meeting, the Finance Committee was briefed by Ms. Priddy on the preliminary draft OSD CFP. It included a proposal that eliminates the 100 percent discount for impact fees for residential development in downtown Olympia. The Finance Committee expressed concerns and continued discussion to its September 18, 2019, meeting. To assist in this discussion, City and OSD staff have met and will share potential optional approaches.

The Planning Commission is in the process of reviewing the CFP for consistency with the other chapters of the Comprehensive Plan. They will hold a public hearing on Monday, September 16 and

provide comments directly to City Council. The Bicycle Pedestrian Advisory Committee, Parks & Recreation Advisory Committee, and the Utility Advisory Committee are also reviewing and commenting on the annual capital projects. They will provide comments directly to the City Council. None of these advisory commissions typically review school district impact fee proposals.

The City Council is scheduled to hold a public hearing on the CFP on October 29, 2019.

Neighborhood/Community Interests (if known):

The Preliminary City CFP and 2020-2025 Financial Plan is posted on the City's website. There may be interest citywide in specific projects or programs included in the draft CFP, including impact fees.

Options:

Discussion only; no action requested

Attachments:

None



Finance Committee

Report on Input from the 2020 Budget - Your Priorities Public Engagement Process

Agenda Date: 9/18/2019
Agenda Item Number: 6.D
File Number: 19-0804

Type: information **Version:** 1 **Status:** In Committee

Title

Report on Input from the *2020 Budget - Your Priorities* Public Engagement Process

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Receive a report on the input collected from the *2020 Budget - Your Priorities* public engagement process, and consider how the input from community members can inform the 2020 budget process.

Report

Issue:

Whether to receive a report on the results of the *2020 Budget - Your Priorities* public engagement process and discuss how to use it as part of this year's budget process.

Staff Contact:

Debbie Sullivan, Administrative Services Director, 360.753.8499
Stacey Ray, Senior Planner, Administrative Services, 360.753.8046

Presenter(s):

Stacey Ray, Senior Planner, Office of Performance & Innovation, Administrative Services

Background and Analysis:

Olympia has an inspiring community vision - a healthy, vibrant, beautiful capital city. Our budget is one of the most important ways in which we demonstrate how we will achieve that vision.

In 2018, the City hosted a Community Conversation on Budget Priorities to hear directly from citizens their top priorities for the City. The City Council used that input to inform the 2019 budget process, including allocating additional funds to top priority areas identified by participants. Other positive outcomes included Councilmembers receiving input from community members not normally engaged through traditional outreach means, and participants having reported a greater awareness of and trust in City government.

Hosting the community conversation in 2018 was piloted as part of the first full year of implementing the annual Priorities, Performance, and Investment (PPI) Cycle. The PPI cycle includes gathering the community's priorities and evaluating our performance so we can adjust investments as necessary to achieve the community's vision.

This year, staff piloted using the online engagement tool, *Engage Olympia*, to invite even more community members into a virtual conversation called *2020 Budget - Your Priorities*. The goal was the same as last year: to listen to citizen's perspectives on the top priorities for the City, so City Council can use those perspectives to inform the 2020 budget.

The survey launched on Tuesday, July 9, and was open until Friday, August 23. A variety of methods, including social media and direct email invitations were used to invite citizens to participate. This year's process resulted in 471 completed surveys from 186 individuals. The number of surveys completed is higher than the individual participants because they could reply to one or more surveys (one for each Action Plan focus area). The surveys asked respondents to prioritize desired outcomes, and comment on how they felt the community was doing at achieving those outcomes.

A second goal of this process was to educate citizens about the City's budget process and finances. *Engage Olympia* included links to fun and informative videos that explained how the City budget works and to *OlyFinance* where they could read a "data story" about how we budget using the PPI cycle.

A third goal was to test if a virtual process could work to engage new or typically underrepresented community members in City decision-making. The objective being to see if input could be collected from a pool of respondents that matched as closely as possible a demographic sample of Olympia citizens.

Staff will review and share what's been learned from this year's virtual engagement process, a snapshot of who responded to the surveys, and an analysis of the input, with an emphasis on topics for consideration to inform the 2020 budget. .

Neighborhood/Community Interests (if known):

Opportunities for citizens to engage with the City on budget priorities are of high community interest, and the result of the 2020 budget process will have citywide impacts.

Options:

1. Receive the report on community input from the *2020 Budget - Your Priorities* public engagement process
2. Do not receive the report.

Financial Impact:

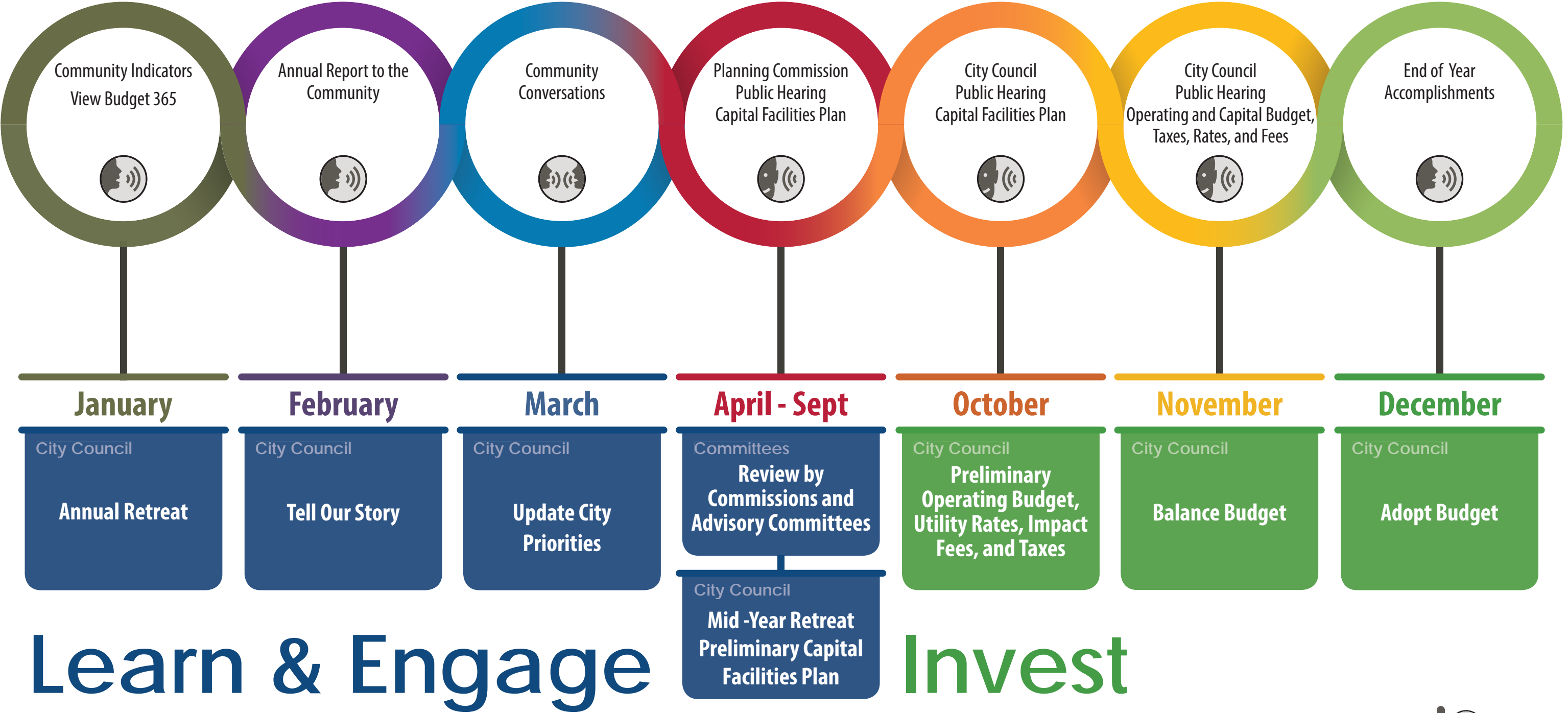
None; this engagement effort was completed as a work plan item for the Office of Performance & Innovation in partnership with staff from Information Services and Communication Services.

Attachments:

Priorities, Performance, and Investments Cycle
2019 Virtual Budget Engagement Overview

Type: information **Version:** 1 **Status:** In Committee

Website: Engage Olympia



Key

- Inform
- Involve
- Consult

Community Engagement on the 2020 Budget | OVERVIEW

WHAT	2020 Budget: Your Priorities	
PURPOSE	Listen to citizen’s perspectives on the top priorities for the City of Olympia, so that City Council can use those perspectives to inform the City’s budget.	
WHO	Olympia residents who responded to the 2017 citizen survey, and residents who register for <i>Engage Olympia</i> . We will strive to engage a demographic sample of our citizens—using targeted outreach to typically underrepresented residents as needed.	
WHEN	Launch: July 9, 2019 Close: August 23, 2019 (this date was extended by two weeks from the original closing date)	
WHERE	Online: <i>Engage Olympia</i>	
HOW	We will replicate the community conversation model we piloted in 2018 using the City’s online engagement tool, <i>Engage Olympia</i> . The goal is to host an interactive virtual conversation that is readily accessible to residents, and welcoming for people from a diversity of backgrounds, experiences and abilities.	
INTENT	The intent is to provide information on how we budget as a City, and use the various <i>Engage Olympia</i> tools, a series of “We Budget Differently” videos, and <i>OlyFinance</i> to inform and engage citizens in expressing their top priorities. City Council will be able to hear directly from citizens, and use that information to inform the budget decision-making process. In addition, we want this model will continue to build on the meaningful relationships and trust that was fostered at last year’s Community Conversation.	
MORE INFO	Debbie Sullivan Director, Administrative Services dsullivan@ci.olympia.wa.us	Stacey Ray Senior Planner, Office of Performance and Innovation sray@ci.olympia.wa.us



Working Better, Together!

Engage Olympia is the place for citizens to get involved, participate in community decisions and provide ideas and feedback on a variety of City projects and topics affecting our community. We work better, smarter and stronger with community input. Sign up and engage now!



Olympia's Homelessness Response

Sign up



Get Started Here



2020 Budget: Your Priorities



Kaiser Woods Park Plan



New Project Coming Soon



New Project Coming Soon

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Finance Committee

Briefing on House Bill (HB) 1406 Funding Recommendations

Agenda Date: 9/18/2019
Agenda Item Number: 6.E
File Number: 19-0812

Type: discussion **Version:** 1 **Status:** In Committee

Title

Briefing on House Bill (HB) 1406 Funding Recommendations

Recommended Action

Committee Recommendation:

The Home Fund Advisory Board discussed Olympia's HB1406 revenue options at their August meeting and developed funding recommendations.

City Manager Recommendation:

Receive a briefing on the Home Fund Advisory Board's HB1406 funding recommendations and discussion of other HB1406 matters. Discussion only. No action requested.

Report

Issue:

Whether to receive a briefing on the Home Fund Advisory Board's HB1406 recommendations and an update on HB1406 implementation.

Staff Contact:

Cary Retlin, Home Fund Manager, Community Planning & Development, 360.570.3956

Presenter(s):

Cary Retlin, Home Fund Manager, Community Planning & Development

Background and Analysis:

Background on HB 1406 and Council Action

During the 2019 legislative session the state enacted House Bill 1406, a local option to retain existing sales tax revenue and retain it locally for specific affordable housing uses. The new authority is a credit against the state sales tax, so it does not increase taxes for the consumer. Because Olympia has passed a 'qualifying local tax' in the Home Fund, it can claim the higher increment of 0.0146% of local sales and use tax for up to 20 years. A city with similar revenue would only be able to withhold half the revenue from the state without a 'qualifying tax'. The revenue must be used for acquiring, rehabilitating, or constructing affordable housing; operations and maintenance of new affordable or supportive housing facilities; and rental assistance. The funding must be spent on projects that serve persons whose income is at or below 60 percent of area median income. Cities can also issue bonds

to finance the authorized projects.

Council adopted an ordinance to impose the tax credit on August 20.

Home Fund Advisory Board Recommendations on HB1406

The Home Fund Advisory Board discussed Olympia's HB1406 revenue options at their August meeting including bonding and operating support. The group felt that operating and rent support should be the priority since that is the biggest local and regional challenge for supportive housing. They recommended that up to 25 percent of HB1406 revenue for operating and rent support be made available for the Martin Way Home Fund project (based on a review of need). They also recommended that funds that accrue before that time could be invested in emerging capital opportunities that could house as many households as possible. Potential opportunities for those investments include the upcoming Housing Trust Fund round for modular housing.

Neighborhood/Community Interests (if known):

Passage of the Home Fund levy is a sign that there is broad community support for dedicating tax revenue to local affordable housing investments. However, siting affordable housing can be controversial.

Options:

Discussion only

Financial Impact:

Department of Revenue estimates approximately \$330,000 in 2020 for new revenue for specific affordable housing uses in Olympia as a result of HB 1406 and Council's related Ordinance 7200.

Attachments:

HB 1406

Housing Authority of Thurston County Letter

AWC HB 1406 Fact Sheet

CERTIFICATION OF ENROLLMENT

SUBSTITUTE HOUSE BILL 1406

Chapter 338, Laws of 2019

66th Legislature
2019 Regular Session

AFFORDABLE AND SUPPORTIVE HOUSING--LOCAL SALES AND USE TAX

EFFECTIVE DATE: July 28, 2019

Passed by the House April 28, 2019
Yeas 62 Nays 36

FRANK CHOPP

Speaker of the House of Representatives

Passed by the Senate April 28, 2019
Yeas 33 Nays 15

CYRUS HABIB

President of the Senate

Approved May 9, 2019 2:51 PM

JAY INSLEE

Governor of the State of Washington

CERTIFICATE

I, Bernard Dean, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 1406** as passed by the House of Representatives and the Senate on the dates hereon set forth.

BERNARD DEAN

Chief Clerk

FILED

May 13, 2019

**Secretary of State
State of Washington**

SUBSTITUTE HOUSE BILL 1406

AS AMENDED BY THE SENATE

Passed Legislature - 2019 Regular Session

State of Washington

66th Legislature

2019 Regular Session

By House Housing, Community Development & Veterans (originally sponsored by Representatives Robinson, Macri, Chapman, Valdez, Senn, Peterson, Kloba, Tharinger, Gregerson, Stanford, Walen, Doglio, Frame, Jinkins, Riccelli, Slatter, Ormsby, and Santos)

READ FIRST TIME 02/08/19.

1 AN ACT Relating to encouraging investments in affordable and
2 supportive housing; and adding a new section to chapter 82.14 RCW.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 NEW SECTION. **Sec. 1.** A new section is added to chapter 82.14
5 RCW to read as follows:

6 (1) The definitions in this subsection apply throughout this
7 section unless the context clearly requires otherwise.

8 (a) "Nonparticipating city" is a city that does not impose a
9 sales and use tax in accordance with the terms of this section.

10 (b) "Nonparticipating county" is a county that does not impose a
11 sales and use tax in accordance with the terms of this section.

12 (c) "Participating city" is a city that imposes a sales and use
13 tax in accordance with the terms of this section.

14 (d) "Participating county" is a county that imposes a sales and
15 use tax in accordance with the terms of this section.

16 (e) "Qualifying local tax" means the following tax sources, if
17 the tax source is instated no later than twelve months after the
18 effective date of this section:

19 (i) The affordable housing levy authorized under RCW 84.52.105;

1 (ii) The sales and use tax for housing and related services
2 authorized under RCW 82.14.530, provided the city has imposed the tax
3 at a minimum or at least half of the authorized rate;

4 (iii) The sales tax for chemical dependency and mental health
5 treatment services or therapeutic courts authorized under RCW
6 82.14.460 imposed by a city; and

7 (iv) The levy authorized under RCW 84.55.050, if used solely for
8 affordable housing.

9 (2)(a) A county or city legislative authority may authorize, fix,
10 and impose a sales and use tax in accordance with the terms of this
11 section.

12 (b) The tax under this section is assessed on the selling price
13 in the case of a sales tax, or value of the article used, in the case
14 of a use tax.

15 (c) The rate of the tax under this section for an individual
16 participating city and an individual participating county may not
17 exceed:

18 (i) Beginning on the effective date of this section until twelve
19 months after the effective date of this section:

20 (A) 0.0073 percent for a:

21 (I) Participating city, unless the participating city levies a
22 qualifying local tax; and

23 (II) Participating county, within the limits of nonparticipating
24 cities within the county and within participating cities that do not
25 currently levy a qualifying tax;

26 (B) 0.0146 percent for a:

27 (I) Participating city that currently levies a qualifying local
28 tax;

29 (II) Participating city if the county in which it is located
30 declares they will not levy the sales and use tax authorized under
31 this section or does not adopt a resolution in accordance with this
32 section; and

33 (III) Participating county within the unincorporated areas of the
34 county and any city that declares they will not levy the sales and
35 use tax authorized under this section or does not adopt a resolution
36 in accordance with this section;

37 (ii) Beginning twelve months after the effective date of this
38 section:

39 (A) 0.0073 percent for a:

1 (I) Participating city that is located within a participating
2 county if the participating city is not levying a qualifying local
3 tax; and

4 (II) Participating county, within the limits of a participating
5 city if the participating city is not levying a qualifying local tax;

6 (B) 0.0146 percent within the limits of a:

7 (I) Participating city that is levying a qualifying local tax;
8 and

9 (II) Participating county within the unincorporated area of the
10 county and within the limits of any nonparticipating city that is
11 located within the county.

12 (d) A county may not levy the tax authorized under this section
13 within the limits of a participating city that levies a qualifying
14 local tax.

15 (e)(i) In order for a county or city legislative authority to
16 impose the tax under this section, the authority must adopt:

17 (A) A resolution of intent to adopt legislation to authorize the
18 maximum capacity of the tax in this section within six months of the
19 date in which this section takes effect; and

20 (B) Legislation to authorize the maximum capacity of the tax in
21 this section within one year of the date on which this section takes
22 effect.

23 (ii) Adoption of the resolution of intent and legislation
24 requires simple majority approval of the enacting legislative
25 authority.

26 (iii) If a county or city has not adopted a resolution of intent
27 in accordance with the terms of this section, the county or city may
28 not authorize, fix, and impose the tax.

29 (3) The tax imposed under this section must be deducted from the
30 amount of tax otherwise required to be collected or paid to the
31 department of revenue under chapter 82.08 or 82.12 RCW. The
32 department must perform the collection of such taxes on behalf of the
33 county or city at no cost to the county or city.

34 (4) By December 31, 2019, or within thirty days of a county or
35 city authorizing the tax under this section, whichever is later, the
36 department must calculate the maximum amount of tax distributions for
37 each county and city authorizing the tax under this section as
38 follows:

39 (a) The maximum amount for a participating county equals the
40 taxable retail sales within the county in state fiscal year 2019

multiplied by the tax rate imposed under this section. If a county imposes a tax authorized under this section after a city located in that county has imposed the tax, the taxable retail sales within the city in state fiscal year 2019 must be subtracted from the taxable retail sales within the county for the calculation of the maximum amount; and

(b) The maximum amount for a city equals the taxable retail sales within the city in state fiscal year 2019 multiplied by the tax rate imposed under subsection (1) of this section.

(5) The tax must cease to be distributed to a county or city for the remainder of any fiscal year in which the amount of tax exceeds the maximum amount in subsection (4) of this section. The department must remit any annual tax revenues above the maximum to the state treasurer for deposit in the general fund. Distributions to a county or city meeting the maximum amount must resume at the beginning of the next fiscal year.

(6)(a) If a county has a population greater than four hundred thousand or a city has a population greater than one hundred thousand, the moneys collected or bonds issued under this section may only be used for the following purposes:

(i) Acquiring, rehabilitating, or constructing affordable housing, which may include new units of affordable housing within an existing structure or facilities providing supportive housing services under RCW 71.24.385; or

(ii) Funding the operations and maintenance costs of new units of affordable or supportive housing.

(b) If a county has a population of four hundred thousand or less or a city has a population of one hundred thousand or less, the moneys collected under this section may only be used for the purposes provided in (a) of this subsection or for providing rental assistance to tenants.

(7) The housing and services provided pursuant to subsection (6) of this section may only be provided to persons whose income is at or below sixty percent of the median income of the county or city imposing the tax.

(8) In determining the use of funds under subsection (6) of this section, a county or city must consider the income of the individuals and families to be served, the leveraging of the resources made available under this section, and the housing needs within the jurisdiction of the taxing authority.

1 (9) To carry out the purposes of this section including, but not
2 limited to, financing loans or grants to nonprofit organizations or
3 public housing authorities, the legislative authority of the county
4 or city imposing the tax has the authority to issue general
5 obligation or revenue bonds within the limitations now or hereafter
6 prescribed by the laws of this state, and may use, and is authorized
7 to pledge, the moneys collected under this section for repayment of
8 such bonds.

9 (10) A county or city may enter into an interlocal agreement with
10 one or more counties, cities, or public housing authorities in
11 accordance with chapter 39.34 RCW. The agreement may include, but is
12 not limited to, pooling the tax receipts received under this section,
13 pledging those taxes to bonds issued by one or more parties to the
14 agreement, and allocating the proceeds of the taxes levied or the
15 bonds issued in accordance with such interlocal agreement and this
16 section.

17 (11) Counties and cities imposing the tax under this section must
18 report annually to the department of commerce on the collection and
19 use of the revenue. The department of commerce must adopt rules
20 prescribing content of such reports. By December 1, 2019, and
21 annually thereafter, and in compliance with RCW 43.01.036, the
22 department of commerce must submit a report annually to the
23 appropriate legislative committees with regard to such uses.

24 (12) The tax imposed by a county or city under this section
25 expires twenty years after the date on which the tax is first
26 imposed.

Passed by the House April 28, 2019.
Passed by the Senate April 28, 2019.
Approved by the Governor May 9, 2019.
Filed in Office of Secretary of State May 13, 2019.

--- END ---



Sent to Each
Councilmember Individually

RECEIVED

AUG 19 2019

**City of Olympia
Executive Department**

Housing Authority of Thurston County
1206 12th Avenue SE • Olympia, WA 98501
Tel: (360) 753-8292 • Fax: (360) 586-0038
www.hatc.org

cc: Steve Hall
Jay Burney
icellie Braseth
Cary Retlin
Keith Stahley

August 16, 2019

Cheryl Selby, Mayor
City of Olympia
PO Box 1967
Olympia, WA 98507-1967

Mayor Selby,

Seasoned developers of housing for our most vulnerable neighbors confirm that affordable housing requires a funding commitment to funding both development and rental property operations.

Augmenting Federal rental subsidy programs with a Local commitment will facilitate the creation of more housing in Thurston County for our most vulnerable neighbors.

The Legislature's passage of SHB 1406 provides our Cities and County with a funding mechanism to develop an operating subsidy program using sales tax revenues that presently flow to the state.

Funds could be used for other affordable housing purposes; but SHB 1406 provides a rare opportunity to provide operating subsidies that are needed to maximize the development of affordable housing for our neighbors with the lowest incomes.

Programs like Federal Low Income Housing Tax Credits, Tax-Exempt Bonds (loans), Washington's Housing Trust Fund, and local programs such as Olympia's Home Fund provide critically needed funds to develop affordable housing units for low-moderate income households. Unfortunately, other than the Federal voucher programs there are very few sources for long-term operating subsidies.

Once built, apartments are expensive to operate, not even including the supportive services that are often a necessary component of helping people transition into long term housing stability

Examples of operating expenses include water, sewer, garbage collection, common area electricity, landscaping and storm water system maintenance, insurance, property management, preparing units for new households following resident turnover, reserves for anticipated replacements of items such as appliances, floor coverings, paint, and roofs, and if not benefiting from an exemption property taxes are a significant operating cost.

Operating costs can vary for a number of reasons, but commonly range from \$400 to \$600 per unit on a monthly basis.

This does not include bond or loan payments which can easily add at least \$650 to \$1,000 per unit each month, if the property is funded 50-75% with debt financing.



A single, working parent with one child could be housing cost burdened even if rent only covered direct, immediate operating expenses. Assume the parent's annual income was at 30% of our area's median income for a two person household, or \$20,100 (not uncommon for neighbors in many retail and service positions). If rent was only \$500 and tenant electricity expense was a typical average of \$77, the total housing cost of \$577 would be 35%, exceeding the 30% generally accepted standard. The percentage understates the real burden when income is extremely low.

There are not enough dollars in soft equity, grant programs to build a sufficient number of units without debt financing. Thus when payments on bonds, loans are added to the financing mix, rents must rise to cover it.

Mixed income apartment communities to a degree can mitigate some of the challenge. HATC has mixed income properties. But the concept has its limits, particularly when the goal is to serve as many of our most vulnerable neighbors as possible. Additionally many development funding sources impose limitations on that concept.

HATC's total Federal rent subsidy budget is approximately \$14.7 million.

The subsidies ensure that over 4,000 people in Thurston County have safe, decent housing. These are neighbors that would be at extreme risk of being unsheltered without this support

Over 75% of the households HATC supports with rent subsidies have income at or below 30% of the area's median income. Adding to the vulnerability, over 70% of our rental subsidy client households are elderly or people with disabilities and minimal opportunities for increased income.

HATC fully utilizes the Federal funding. In fact, to address the urgency of our community's present housing problems, in the past three years HATC used reserves to fund needs beyond the annual Federal allocations.

In the past year, from HATC's tenant-based Housing Choice Voucher waiting list 109 new households were provided with rental assistance, including 56 households experiencing homelessness.

HATC successfully strives to bring more Federal rental subsidy dollars to Thurston County. For example, with the crucial support of local partners, in a national competition HATC was awarded \$300,000 annually for Mainstream vouchers, exceeding awards granted to some areas with much larger populations.

Mainstream provides rent subsidies for non-elderly disabled neighbors who are either experiencing homelessness or at high risk of it, including those coming out of institutional settings. HATC is currently in the process of assisting 50 households in lease-up efforts with these new funds.

HATC allocates \$2.5 million of its \$14.7 million rental subsidy budget to "Project Based Vouchers." While this allocation limits movement on the tenant-based voucher waiting list, it provides essential rental property operating subsidies tied to 358 units owned and operated by

nine non-profits that serve some of our lowest income, most vulnerable, special needs neighbors.

These project-based voucher commitments account for 17% of HATC's Federal rental subsidy budget, out of its allowed 20%. Based solely on present averages, HATC capacity for new project based subsidies is less than forty-nine new units.

With funding from SHB 1406 our Cities and County can increase the number of affordable units built for our lowest income neighbors. Operating subsidies are a necessary ingredient.

The commitment of operating subsidy dollars is a common attribute of winning applications for soft equity, grants, and loans needed for development.

The availability of additional dollars for operating subsidies will make development funding applications from our community more competitive as projects compete for the limited development funding dollars.

It will also give us leverage in efforts to secure additional Federal rental subsidy dollars.

A Local rental subsidy program has the potential for a streamlined process. For example, a development award from the Home Fund could be paired with an annual operating subsidy commitment to be funded with SHB 1406 dollars.

HATC has considerable rent subsidy program expertise. HATC is available to discuss concepts and share expertise. HATC emphasizes that with a simplified structure, such as mentioned above, program administration would not necessarily need to involve HATC.

Urgency. We have neighbors who are unsheltered and many others who lack decent, stable housing. To leverage the SHB 1406 opportunity, Cities and Counties have only until January 28, 2020 to pass a Resolution of Intent.

A sample Resolution is available by following the below URL and then scrolling down to "Sample Resolution"

<https://www.wliha.org/resources/webinars-and-tools>

HATC is available to share our expertise with you as our community explores this rare opportunity to create a Local rental operating subsidy program to foster the development of more housing for our most vulnerable neighbors.

Sincerely,



Craig Chance
Executive Director

We know Olympia is looking at these options. HATC is hopeful that the County & Cities can join forces for a local rental assistance program. It's expensive to operate apartments, esp. to maintain them as good quality housing. Thank you for all of your work on behalf of our vulnerable neighbors.



Implementing HB 1406

2019

Don't miss out on up to 20 years of shared revenue for affordable housing

In the 2019 legislative session, the state approved a local revenue sharing program for local governments by providing up to a 0.0146% local sales and use tax credited against the state sales tax for housing investments, available in increments of 0.0073%, depending on the imposition of other local taxes and whether your county also takes advantage. The tax credit is in place for up to 20 years and can be used for acquiring, rehabilitating, or constructing affordable housing; operations and maintenance of new affordable or supportive housing facilities; and, for smaller cities, rental assistance. The funding must be spent on projects that serve persons whose income is at or below sixty percent of the area median income. Cities can also issue bonds to finance the authorized projects.

This local sales tax authority is a credit against the state sales tax, so it does not increase the sales tax for the consumer. There are tight timelines that must be met to access this funding source – the first is January 31, 2020 to pass a resolution of intent. The tax ordinance must then be adopted by July 27, 2020 to qualify for a credit.

The following information is intended to assist your city in evaluating its options and timelines. It is not intended as legal advice. Check with your city's legal counsel and/or bond counsel for specific questions on project uses and deadlines for implementation.

Deadlines to participate:

- Resolution to levy tax credit: July 28, 2019 – January 31, 2020
- Ordinance to levy the tax credit: By July 27, 2020
- Adopt "qualifying local tax" (optional): By July 31, 2020

Eligibility to receive shared revenues

- The state is splitting the shared resources between cities and counties. However, cities can receive both shares if they have adopted a "qualifying local tax" by July 31, 2020. Qualifying taxes are detailed below. Cities who are levying a "qualifying local tax" by July 28, 2019, the effective date of the new law, will receive both shares immediately once they impose the new sales tax credit.
- If a city does not implement a qualifying local tax by the deadline, they can still participate in the program if they meet the other deadlines but will be eligible for a lower credit rate.
- A city can adopt the sales tax credit before designating how the funds will be used once collected.

Qualifying local taxes

The following are considered "qualifying local taxes" and, if levied, give the city access to both shares of the tax credit (i.e. 0.0146% rate instead of the single share rate of 0.0073%):

- Affordable housing levy (property tax) under RCW 84.52.105
- Sales and use tax for housing and related services under RCW 82.14.530. The city must have adopted at least half of the authorized maximum rate of 0.001%.
- Sales tax for chemical dependency and mental health (optional .1 MIDD) under RCW 82.14.460
- Levy (property tax) authorized under RCW 84.55.050, if used solely for affordable housing

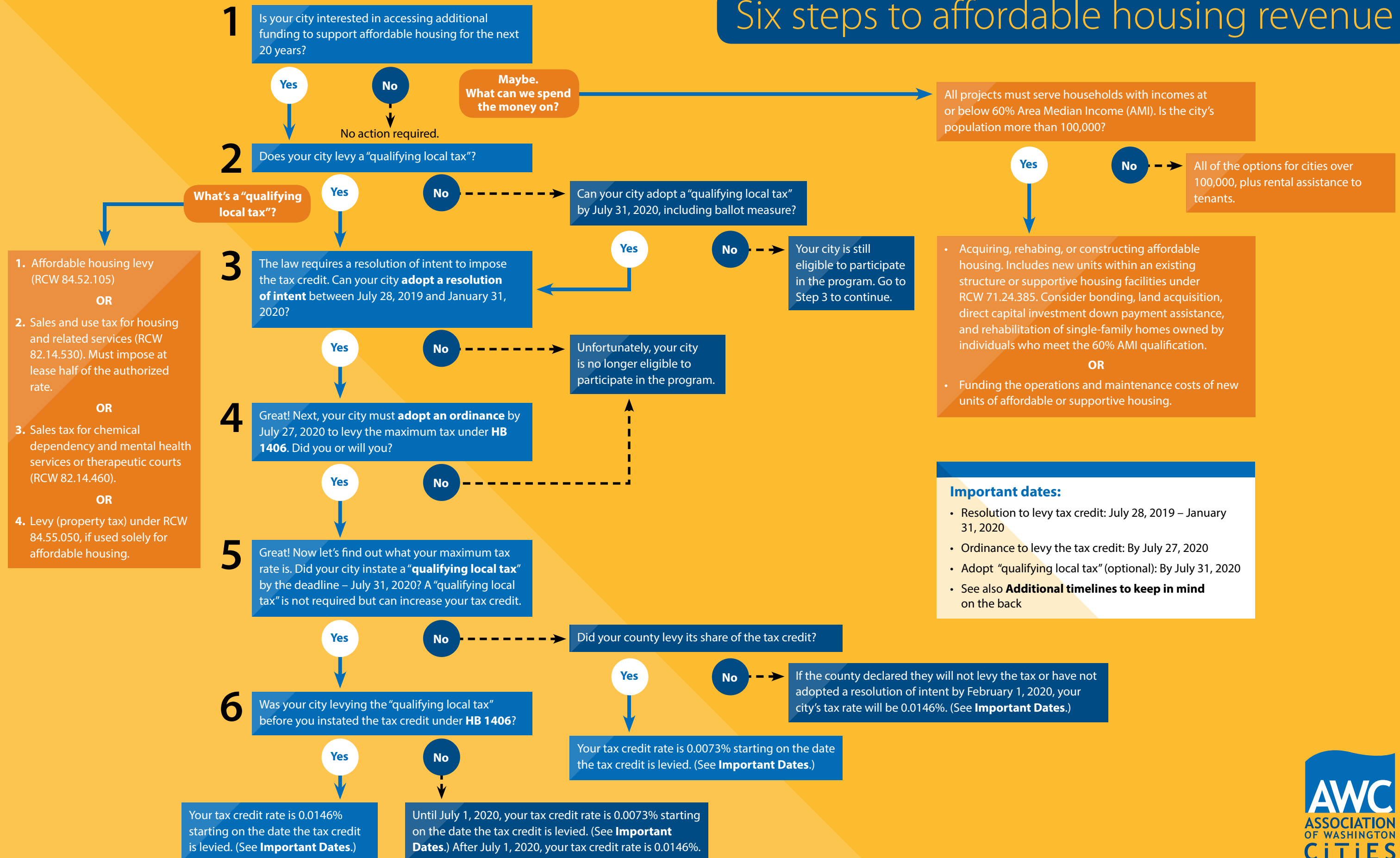
Think of the "qualifying local tax" as a multiplier or "doubler." It gives the city access to double the tax credit even when the county chooses to participate in the program.

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Six steps to affordable housing revenue



Tax credit rate examples

Max tax credit rate under HB 1406	City with qualifying local tax	City without qualifying local tax	City doesn't levy a tax credit, county does participate	County doesn't participate, city participates but doesn't have a qualifying tax.*
City	0.0146%	0.0073%	0.0%	July 2020: 0.0%
County	0.0%	0.0073%	0.0146%	0.0%

**We believe that this was an error in bill drafting. Please let us know if you are in this situation. We can work to address it in future legislative sessions.*

Eligible uses of the funds:

1. Projects must serve those at or below 60% AML.
2. Acquiring, rehabilitating, or constructing affordable housing, which may include new units of affordable housing within an existing structure or facilities providing supportive housing services. In addition to investing in traditional subsidized housing projects, this authority could potentially be used to provide for land acquisition, down payment assistance, and home repair so long as recipients meet the income guidelines.
3. Funding the operations and maintenance costs of new units of affordable or supportive housing.
4. For cities with a population under 100,000, the funds can also be used for rental assistance to tenants.

Additional timelines to keep in mind:

1. Department of Revenue (DOR) requires 30-days-notice of adoption of sales tax credits. The credit will then take effect on the first day of the month following the 30-day period.
2. If your city is adopting a "qualifying local tax", DOR requires 75-days-notice of adoption of sales tax increases. Local sales tax increases may only take effect on the first day of the first, second, or third quarter – not the fourth (April 1, July 1, or October 1).
3. If your city is adopting a "qualifying local tax" remember to factor in the ballot measure process into the timeline, as these must be approved by the voters.
4. If you are intending to bond the revenues for a project under this authority, check with your legal counsel and bond counsel about other deadlines that may apply to your city.

Frequently asked questions:

1. **This program sounds very familiar. Didn't a local option, affordable housing sales tax law pass a few years ago?** Yes, but the new law has important differences. The Legislature passed HB 2263 in 2015 that authorized cities and towns to levy up to a 0.1% sales tax for affordable housing—

but, importantly, only after voter approval. This sales tax levy is considered a "qualifying local tax" under HB 1406. Another important distinction is that the affordable housing sales tax from 2015 is an additional tax on the consumer, and not a credit on an existing state-imposed tax.

2. **Do we have to levy a "qualifying local tax" to participate?** No. Your city is still eligible to participate in the program, but your tax credit rate will depend on whether the county participates in the program. See *Tax credit rate examples* chart to the left.
3. **Do we only have access to the program if the county declines to participate?** No. A city can participate, and receive funds, even if the county participates. Unfortunately, if your city does not impose a "qualifying local tax" by the deadline and your county declines to participate, then you will not have access to funds after the first year, due to a drafting error in the bill. We don't anticipate this scenario to occur, but please let us know if you find yourself in that situation. We will work with the Legislature to address it if this proves problematic. In all cases you must meet the program deadlines to participate. See *Deadlines to participate*.
4. **Does it make a difference at all if our county participates?** Only if you have not adopted a "qualifying local tax." If you have adopted a "qualifying local tax" you can access the higher credit rate regardless of county participation. If you don't have a "qualifying local tax" then you can only access the higher rate if the county does not participate.
5. **How is "rental assistance" defined? Does that include rent vouchers?** The term "rental assistance" is not defined in the chapter 82.14 RCW; however, both federal and state housing programs use the term "rental assistance" to mean providing rent, security deposits, or utility payment assistance to tenants.
6. **Can we pool our revenue with another entity? Can we issue bonds or use the money to repay bonds?** Yes! Cities can enter into an interlocal agreement with other local governments or a public housing authority to pool tax receipts, pledge tax collections to bonds, allocating collected taxes to authorized affordable housing expenditures, or other agreements authorized under chapter 39.34 RCW. Cities may also use the tax credit revenue to issue or repay bonds in order to carry out the projects authorized under the new law.
7. **Is the amount of tax credit we receive limited only by the amount of sales tax collected per year?** No. The maximum amount will be based on state fiscal year 2019 sales.
8. **Does the tax credit program expire?** Yes, the tax expires 20 years after the date on which the tax is first levied.

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