

Memo

Date: November 18, 2015

To: City Council

From: City of Seattle Office of Housing

Subject: REDI Fund Legislation

In accordance with Resolution 31547, the Office of Housing (OH) has prepared legislation authorizing an Interlocal Agreement with King County, Pierce County, Snohomish County, and the cities of Bellevue, Issaquah, Kenmore, Kirkland, Mercer Island, Redmond, and Woodinville to create and operate a Regional Equitable Development Initiative Fund (REDI Fund) for the Puget Sound Region. This legislation also carries forward the Council’s appropriation of \$1 million in Housing Bonus Funds to be dedicated to the Fund.

Background

The idea for this fund emerged from a 3-year regional planning effort called Growing Transit Communities (GTC), which concluded in 2013 with a Regional Compact solidifying broad commitment to promote sustainable communities along transit corridors throughout the Puget Sound. GTC developed a package of recommendations organized around three main goals: (1) Attracting growth near high-capacity transit; (2) Providing affordable housing for a full range of incomes near high-capacity transit; and (3) Increasing access to opportunity for existing and future community members in transit communities. A regional TOD fund, now called the REDI Fund, was one of 24 strategies recommended to promote these goals.

Since 2013, key partners in the region have worked together to raise \$5 million in public dollars to seed the fund. Enterprise Community Partners was selected in April to act as the administrative agent of the fund, and has since worked to develop a business plan and secure commitments for private investment. Administrative costs associated with the operation of the fund will be paid by interest and fees generated by REDI Fund loans. The fund is structured into three tiers, with public dollars leveraging an estimated \$16 million in other funds. Public funds will earn zero interest, enabling the fund to charge a lower blended interest rate (currently estimated at 3.87%), Public dollars will make up approximately 20-25% of each loan, and will play a key role as the “top loss”, reducing risk for investors in the subordinate and senior tiers.

Tier	Source	\$ Amount
Top Loss	A Regional Coalition for Housing (ARCH)	500,000
	King County	1,000,000
	State of Washington	2,500,000
	City of Seattle	1,000,000
Subordinate	Living Cities	3,500,000
	King County Housing Authority	2,000,000
Senior Debt	Enterprise	10,500,000
TOTAL FUND SIZE		\$ 21,000,000

Business Plan

After many months of coordination and discussion with public funders, Enterprise completed a draft business plan which is included as an attachment to the Summary and Fiscal Note for this ordinance. In accordance with Resolution 31547, this ordinance establishes the Council’s approval of the business plan. The business plan provides a structure for implementation of the fund, providing guidelines on key topics such as basic loan terms, eligible borrowers, repayment terms, loan origination, modification and extension processes, loan loss waterfall scenarios, marketing and outreach, and the fund financial plan. OH and Council staff participated in the development of the business plan which is consistent with the terms included in the Interlocal agreement.

Interlocal Agreement

The Interlocal Cooperation Agreement authorized by this ordinance contains the key elements establishing joint support and commitment to the REDI Fund. The following is a summary of major provisions of the agreement:

- **Minimum Affordability.** All projects must provide a minimum of 10% of units affordable to households earning up to 80% AMI, or 20% below market (whichever is lower). This minimum was agreed upon as a minimum floor, with greater affordability expected for any projects seeking additional public funds or utilizing incentive programs. Affordability restrictions will be established in a 50-year regulatory agreement granted in favor of the local jurisdiction.
- **Geographic Distribution.** The following represents the agreed upon goals for geographic distribution of the fund, based on equitable distribution of local and regional funds.

Seattle	38%
East King County	24%
Balance of King County	18%
Snohomish County	9%
Pierce County	12%

- **Eligible Borrowers.** The Fund will be available to nonprofits, for profits, public development authorities, housing authorities, and nonprofit land banking agencies.
- **Eligible Properties and Target Areas.** The Fund may be used for acquisition of land for development of new housing, or preservation of existing housing. Target areas will consist of walksheds around frequent or high capacity transit. A map of target areas is included as Attachment A.
- **Governance Structure.** Three committees will be established to manage the governance and oversight of the REDI Fund.
 - The **Oversight Committee** will oversee the general direction and business of the REDI Fund, and will be comprised of one seat each for the City of Seattle, King County, and ARCH, one seat for the administrative agent, one shared seat for Pierce/Snohomish counties, one or two seats for subordinate lenders, and one or two seats for senior lenders.
 - The **Credit Committee** will review and approve loan applications and amendment requests, and will be comprised of one regular rotating public funder seat, one seat for the most local public funder, one rotating seat for subordinate lenders, and one seat for senior lenders.

- The **Advisory Committee** will provide broad stakeholder feedback and recommendations to the Oversight Committee and administrative agent, and will be convened at least once annually.
- **Public Funder Requirements.** Following are the individual requirements associated with each source of public funding.
 - **Seattle (\$1 million).** Within 5 years, there must be a minimum of 10 units at 80% funded within Seattle. In addition, Seattle’s funds may only be loaned to projects within Seattle city limits.
 - **King County (\$1 million).** Within 7 years, a minimum of 5 units at 50% AMI and 15 units at 30% AMI must be funded within King County.
 - **ARCH (\$500,000).** Eastside cities comprised of Bellevue, Issaquah, Kenmore, Kirkland, Mercer Island, Redmond and Woodinville will each contribute a portion.
 - **State of Washington (\$2.5 million).** Funds will pass through the Puget Sound Regional Council and King County, and must support affordable housing near transit stations in the Sound Transit Service Area, including King, Pierce and Snohomish Counties.
- **Master Credit Agreement.** Each investor will enter into an agreement establishing their respective investment terms, detailed policies and procedures, roles and responsibilities. This document will be consistent with the provisions included in the Interlocal agreement and the REDI fund business plan.
- **Duration of the Fund.** Public funds remain committed to the Fund for 10 years, unless the Fund fails to achieve minimum goals.

HALA Committee Recommendation

Strategic site acquisition for affordable housing was one of the key areas elevated by the HALA Committee. As a part of their final report, HALA recommended the City take action to provide seed capital to the REDI Fund, among other strategies. Authorization of this Interlocal Agreement will be the last major step toward executing this strategy. Moreover, Seattle’s participation in the REDI Fund will demonstrate its commitment to be a supportive regional partner, helping to expand the availability of acquisition tools for affordable housing throughout the region.

Attachment A: REDI Fund Target Areas