Seattle City Council

Central Staff - Memorandum

Date: April 15, 2016

To: Councilmembers

From: Traci Ratzliff and Brian Goodnight, Central Staff Analysts

Subject: Issues and Options related to Mayor's Proposed 2016 Housing Levy Measure

---

This memo provides information concerning the issues and options that have been identified by Central Staff and also by Councilmembers, as it relates to the Mayor's Proposed 2016 Housing Levy Measure. The information in this memo will be discussed at the Select Committee on the 2016 Housing Levy meeting on April 15.

STAFF IDENTIFIED ISSUES

1) **Federal leveraging sources are underestimated.** (*$2 million per year; $14 million over 7 years)*
The financial model developed by the Executive for the Rental Production and Preservation (RPP) program underestimates the amount of HOME and Community Development Block Grant (CDBG) funds that will be available for the production of units with the new 2016 Levy. On average, these funds have amounted to over $2 million per year over the past five years. During this period, HOME has been a relatively stable funding source, whereas CDBG funding has fluctuated with a definite downward trend in the City's overall allocation.

2) **Levy interest earnings are underestimated.** (*$2.7 million over 7 years)*
The proposal has also not accounted for interest earnings expected to be generated from RPP program fund balances. The fiscal note for the levy ordinance estimates that interest earnings will amount to approximately $2.7 million over 7 years. The 2009 Levy has generated approximately $1.3 million in interest earnings to date, and those funds have been used in the RPP program.

3) **Additional $4.25 million is available for the Homeownership program.**
Since the proposed 2016 Housing Levy Measure was released, the Executive has provided updated numbers on the funding that will be available to the Homeownership program. The additional funding includes carryover funds and loan repayments from the 2009 Levy ($3.5 million) and an estimate of loan repayments for the 7 years of the proposed levy ($750,000). This brings the total amount of funding available to the Homeownership program to $13.75 million for the 2016 Levy – $1,250,000 in excess of the Mayor's original levy proposal. This also assumes that the Office of Housing (OH) will issue one final Notice of Funding Availability for the 2009 Levy of $1 million.

COUNCILMEMBER IDENTIFIED ISSUES AND OPTIONS

1) **Use interest earnings generated from levy fund balances for RPP program.**
As mentioned previously, the Rental Production and Preservation program fund balances will generate approximately $2.7 million in interest earnings over the 7-year levy period. The 2009 Levy retained such interest earnings in the RPP program. A similar policy is proposed for the 2016 Levy.

2) **Add a new Rental Rehabilitation Loan program.**
Expand the eligible activities under the RPP program to include a pilot program to rehabilitate privately-owned multi-family or single-family homes to: make them healthier (by addressing mold, asbestos, or other unhealthy elements); bring them up to current City building codes, as identified through the Rental Registration and Inspection program; or make other needed improvements to units. As a condition of receiving City funding, rent and income restrictions would be imposed on a certain percentage of units in a building for a certain time period. This program would include an affordability level of up to 80% of Area Median Income (AMI), as some of the eligible buildings could have existing tenants at those income levels.

3) **Increase total levy to increase the production of Permanent Supportive Housing (PSH) units.**
The Mayor's proposed 2016 Levy includes operating funding to produce up to 510 units of PSH, assuming federal funds and other operating and services dollars are matched with the 2016 Levy Operating & Maintenance (O & M) funding. In addition, the Seattle Housing Authority will provide 300 vouchers that, when paired with services dollars, will fund additional PSH units, bringing the total number of PSH units that could be produced to 810 units. An increase of the levy amount to fund the creation of additional new rental units targeted as PSH units would need to provide funding for both the capital costs of the units and the O & M needs. Alternatively, the addition of only O & M funding could allow the conversion of rental units already proposed to be created by the levy into PSH units.

4) **Add a $30 million Acquisition and Preservation program.**
This new program would fund the acquisition of land and/or the preservation of existing affordable market rate or subsidized housing at risk of redevelopment, when such acquisitions can be done in a cost effective manner. Acquisitions could be prioritized in areas at high risk of displacement and/or areas supported by frequent transit service. The program would be funded with existing levy funds that are not needed in the short–term, and would be repaid with the usual permanent financing sources, including: Levy, state, and federal funds. This program would include an affordability level of up to 80% of AMI, as some of the eligible buildings could have existing tenants at those income levels.

   This program could be used with other available sources of acquisition funding, which have been fairly limited in terms of City projects accessing such funds over the last several years (See Attachment 1). A similar program was authorized in the 2009 Levy with $6.5 million in funding. Seven rental projects and two homeownership projects were developed utilizing this program.

5) **Increase levy to continue funding programs supported by the Mayor's State of Emergency declaration.**
The Mayor's State of Emergency funds a variety of services, including: shelters, day centers, encampment operations, child care services, rapid rehousing, housing assistance, and diversion services. The 2016 Levy ordinance includes language that requires OH and the Human Services Department to allocate funds assisting people experiencing homelessness or at risk of homelessness to evidence-based homelessness prevention efforts, or the development, preservation, or operation of affordable housing. Some of the services funded by the State of Emergency would not meet this requirement (e.g. shelter, day centers, encampment operations), and would require an amendment to the ordinance language.

6) **Add funding to the Homelessness Prevention program.**
Funding could be used to expand the rental assistance program, or increase other homelessness prevention and housing services recommended in the forthcoming Homeless Investment Policy report that will be issued by the Executive in the next several months. The report is expected to include recommendations on the types of services that the City should invest in to most effectively assist homeless households or those at risk of homelessness.

7) **Add a new Foreclosure Prevention program.**
Currently available data related to foreclosures (e.g. Notice of Trustee Sales, homeowners with negative equity and delinquent on mortgage payments), are on the decline. However, information indicates there may be a need for a loan program to assist homeowners at risk of foreclosure. The Executive would be directed to collect information on the need for a Foreclosure Prevention program and, if a program is warranted, develop appropriate program guidelines, recommended funding levels, and program goals for inclusion in the 2016 Levy Administration and Finance (A & F) plan. The Foreclosure Prevention program would exist as an eligible activity of the Homeownership program. Funding for the Homeownership program would not be increased, particularly in light of the availability of additional resources, as discussed above. If the levy is approved by voters, the Council would anticipate adoption of the A & F plan in early 2017.

8) **Require compliance with All Home tenant screening criteria and participation in coordinated entry for providers accessing levy funding.**
All Home (the region's homelessness Continuum of Care coordinating entity) is developing standard tenant screen criteria for the different types of homeless programs, including PSH, non-PSH homeless housing with services, rapid rehousing, etc. Regional funders of such services would require providers of these services to comply with the screening criteria to facilitate the efficient placement of homeless households into appropriate housing/services and eliminate unnecessary barriers that prevent households from being served. In addition,

All Home has created, or is in the process of creating, coordinated assessment and referral systems for all homeless populations, including: families, youth, and single adults. These systems help to identify and refer clients to appropriate services (i.e. housing, rental assistance, etc.) based on the needs of the clients. Again, All Home desires all providers of such services to participate in the coordinated entry systems to permit the efficient referral of appropriate clients to such services. Language would be added to the levy A & F plan to require providers assisting homeless households or households at risk of homelessness, who desire to access levy program funding, to comply with the All Home tenant screening criteria and participate in the appropriate coordinated entry system(s).

9) **Encourage the development of family-sized housing units (2+ bedrooms) to the maximum extent financially feasible.**
There is continued interest in the desire to develop family-sized housing in the city and to use the levy as a vehicle to accomplish this. The Executive's 2016 Levy proposal does include an assumption that a larger number of 2- and 3-bedroom units, in particular, will be created versus what has been created to date with the 2009 Levy. Language could be added to the A & F plan that encourages, to the maximum extent financially feasible, the development of family-sized housing units.

10) **Add a new Affordable Housing Preservation program.**
Request that OH implement an Affordable Housing Preservation program using levy funding serving households up to 80% AMI. Council adopted Resolution 31622 stating the intent to expeditiously consider specific strategies recommended by the Housing Affordability and Livability Agenda (HALA) Advisory Committee. One such recommendation was the development and implementation of an affordable housing preservation program. OH is scheduled to provide a report to the Council on such a program by the 3rd Quarter of 2016. Proposed levy program guidelines, policies, and staffing requirements would be included in the A & F plan submitted to Council in early 2017. These guidelines would permit quick access to levy funding and programs to be used for the preservation of existing rental buildings identified as a result of the Multifamily Notice of Intent to Sell ordinance, and could prioritize areas identified as having high displacement risks. Buildings could continue to be used as rental housing or converted to permanently affordable owner-occupied buildings.

Attachment

Attachment 1

Acquisition Funding – Available Resources

Program	Maximum Loan Amount	Interest Rate	Length of Loan	Type of project	Total Funding Available	Comment
Regional Equity Development (Enterprise/City of Seattle, King County, Pierce County, Snohomish County)	N/A	Approximately 3.5% – 4%	Up to 7 years	Land or existing building	$8 million (revolves) – In City of Seattle	Fund just approved in late 2015. No loans to date.
Land Acquisition Program (Washington State Housing Finance Commission)	None but loan generally cannot exceed 70% of acquisition cost	1% deferred 1% loan fee	Up to 8 years	Land or existing building	$17.5 million (revolves) - Statewide	3 projects funded in City from 2011 to 2016 – **Total funding $2.69 million.** No building acquisition or preservation projects.
Impact Capital	Up to $2 million	5.5 % - 7 % depending on LTV and length of loan	Up to 3 years but can extend to 5 years	Buildings that serve or will serve low-income populations	$17 million (revolves)- Statewide and Portland	6 projects funded in City from 2011-2016 – **Total funding $5.4 million.** One building acquisition/ preservation project.
Office of Housing	N/A limited by maximum funds available	3% deferred (can be lower)	2 years, can be extended by Director	Land or existing building	$5 million (revolves)	6 projects funded, 5 rental and 1 homeownership since 2009.