Budget Deliberations – October 17, 2019

Office of Housing

Staff: Traci Ratzliff, Analyst, and Aly Pennucci, Supervising Analyst

Budget Summary ($ in 1,000s)

	2019 Adopted	2020 Endorsed	2020 Proposed	% Change 2020 Endorsed to 2020 Proposed
Appropriations by BSL				
Leadership and Administration	$6,116	$6,128	$5,393	(12%)
Homeownership and Sustainability	$6,468	$6,469	$30,229	367%
Multifamily Housing	$56,770	$56,771	$88,411	55%
Total Appropriation	$69,354	$69,368	$124,033	79%
Total FTEs	45.00	45.00	46.00	1.00
Fund Sources				
General Fund	$776	$754	$486	(35%)
Other Sources	$68,578	$68,614	$123,548	80%
Total Funding	$69,354	$69,368	$124,034	79%

Background

The 2020 Proposed Budget for the Office of Housing (OH) is $124 million, an increase of $55 million (79 percent) over the 2020 Endorsed Budget. The table above shows the changes in OH's budget by Budget Summary Level (BSL).

Significant changes in the 2020 Proposed Budget for OH are highlighted below. These include notable changes for which there are no issues identified at this time and changes with identified issues for the Council's consideration.

Notable Proposed Changes

1. $22 million investment for development of Permanent Supportive Housing (PSH)

In 2019, the State legislature adopted House Bill (HB) 1406 authorizing local jurisdictions to implement a local sales tax to fund affordable or supportive housing. The Council adopted Ordinance 125887 in August 2019 authorizing the imposition and use of this authority locally. The proposed budget adds funding from the sales tax to support the capital costs to develop 175 new units of PSH for homeless households.

The capital costs to develop the PSH units would be covered by the issuance of an $18 million General Obligation bond and $4 million of revenues generated from the tax in 2020. In 2021 and beyond the revenues generated from the sales tax will be used to pay the $1.8 million in debt service on the bond and $2.2 million to fund the ongoing operating and maintenance costs required to support the operation of the PSH units. The sales tax is authorized for 20 years. The repayment period on the bond will be 18 years. The annual operating and maintenance costs in the 175 PSH units will be covered for 20 years; a replacement funding source will be needed at the end of this period. Central Staff has not identified any issues at this point with this proposal.

2. $270,000 for Heating Oil Conversion Program

The proposed budget adds funding to OH's budget from the new oil heat tax for a Heating Oil Conversion Program. This Program will help low-income homeowners convert a home's heating source from oil to a sustainable heating source such as electric heat. Low-income renter households enrolled in the Seattle City Light's Utility Discount Program who live in homes heated with oil will also be eligible for assistance of up to $120 a year to mitigate the higher costs of purchasing heating oil. Renters will be eligible for assistance until the home converts to another heat source. Central Staff has not identified any issues at this point with this proposal.

Issue Identification

1. $25 Million in Real Estate Excise Tax (REET) II Funding for Affordable Rental Housing

In 2019, the State Legislature passed HB 1219 giving cities and counties authority to use real estate excise tax II (REET II) revenues to support capital investments in affordable housing and homelessness projects. The proposed 2020 budget states that the Executive intends to utilize this authority to appropriate $5 million of REET II annually in 2021 through 2025 to fund the development of affordable housing. The appropriation authority will be included in the 2021 and 2022 Proposed Budgets submitted to Council next Fall. The Executive has stated that OH will make funding commitments to rental housing projects that applied to the 2019 Notice of Funding Availability (NOFA) process to reflect these future appropriations. This funding strategy is feasible because the City would not be releasing funds for these affordable housing projects until the project begins construction, typically eighteen months to two years after receiving a funding commitment from the City.

The authorization to use REET II for this purpose expires January 1, 2026. The ability to spend these funds for housing is limited only by the REET funding commitments made to transportation- and utility-related capital projects that must be funded over the next several years. The Executive has, through the Capital Improvement Plan (CIP), allocated remaining available REET II funding in 2021 to 2025 primarily to parks-related capital improvements. The Council could re-allocate REET II funding from other uses to affordable housing to take advantage of the time limited use of REET II for this purpose.

Options:

A. Increase use of REET II for affordable housing projects by reallocating a portion of REET II funds; or

B. No Action.

2. Mercer Property Sales Proceeds: Housing Investments

Proceeds from the sale of the Mercer sale would add one-time resources to support new spending in 2020. Approximately 45 percent of the proceeds are proposed for the following investments in housing and land acquisition programs:

i. $15 Million for Development of Permanently Affordable Homeownership

These funds would assist households earning less than 80 percent of Area Median Income (AMI) to become homeowners. The funds would be used as follows:

- $11 million to acquire land, potentially from Sound Transit, for development of affordable homeownership projects;
- $996,000 in reserve to fund five years of annual staffing costs, property maintenance costs (fencing, trash pick-up, etc.) and other program costs associated with land acquisitions. An additional FTE is proposed to support these efforts, as well as the proposed Accessory Dwelling Unit (ADU) Loan Program (described below). Actual development of projects on sites acquired with this funding are likely years away; and
- $3 million to fund an employer-supported homeownership program. City resources would leverage contributions by employers to a homeownership fund that would allow eligible workers with incomes between 80 and 120 percent of AMI to purchase a home of their choice in Seattle. City funds would assist home buyers below 80 percent of AMI and ensure that homes purchased are made permanently affordable to future owners of such homes. Up to $1 million of the $3 million would be used for start-up program operations, staffing costs and related administration of an outside entity who would assist with program implementation. No employers have been asked to commit funds to this program.

ii. $6 million for Accessory Dwelling Unit Loan Program

These funds would help low- and moderate-income homeowners develop affordable ADUs. Approximately $5.4 million would be directed to a loan fund and the additional $600,000 would be used for other programmatic components (staffing, tenant screenings, trainings, etc.).

The proposed program focuses on both homeowner stabilization and increasing the supply of rent- and income-restricted rental housing by providing low-cost loans up to $150,000 to homeowners at or below 120 percent of AMI to create ADUs with a 10-year rent- and income-restriction. Homeowners with incomes between 80 percent and 120 percent of AMI would be eligible for a loan with a 20-year term at a two percent interest rate. Homeowners with incomes at or below 80 percent of AMI could obtain a loan at zero (0) percent interest with a 30-year term, but payments would be deferred for the first 10-years when the rent- and income-restriction would apply.

It is unknown how the regulatory changes (Ordinance 125854) and the other programmatic work the City is working on to implement Executive Order 2019-04 will impact homeowners' ability to obtain financing to build ADUs, and the City is in the early stages of implementing a pilot program that would provide small loans (up to $50,000) to low-income homeowners that can be used for ADUs (created in [response to SLI 24-3-1-2019]). In addition, a Racial Equity Toolkit (RET) has not been completed to inform the details of the program to ensure the program will meet the needs of the households this program is intended to support (note, however, the Executive has committed to completing a RET in early 2020 to support racial equity outcomes in outreach and program implementation. A smaller investment of public dollars may be warranted; and there may be opportunities to partner with a nonprofit lender to make a smaller City investment to create a loan fund that could be leveraged by the lender.

If the primary goal of this program is an **anti-displacement** strategy for low-income homeowners, there may be an opportunity to have a geographic focus for the program and/or lower the income-threshold for homeowner eligibility.

If the primary goal is to **increase affordable housing options** in single-family zones through the production of rent- and income-restricted rental units, removing an income limit for the homeowner/applicant and exploring opportunities to modify the requirements for the income-restrictions for the rental unit may be possible. However, lowering the income eligibility for both the homeowner and the renter may reduce participation because the risk of taking on the loan for low-income homeowners combined with the rent restriction may be too high.

iii. $41.7 Million for a Strategic Investment Fund

The proposed budget adds $41.7 million to Finance General to create a fund for strategic investments. These investments are intended to achieve multiple community benefits through development of mixed-use and mixed-income projects that include housing, affordable commercial and cultural space, public open space, and childcare. An interdisciplinary team including relevant city departments (OH, Office of Planning and Community Development (OPCD), Office of Economic Development, Department of Neighborhoods, and City Budget Office) and community partners experienced in community organizing/development will establish criteria and principles regarding use of these funds. This team will assist with identifying potential priority acquisitions utilizing available funds. The Executive will submit a spending plan to the City Council in the first or second quarter of 2020. Development of actual projects on property acquired with this funding is likely years away.

Options:

A. Reallocate some or all funds described above from the Mercer property sale to address other Council priorities. This funding could be redirected to increase funding for affordable housing projects that applied through the 2019 NOFA and are ready to begin development.

B. For the proposed ADU Loan Program described under 3(ii) above, the following options could be considered (note that some options could be combined):

B1) Redirect all or a portion of the $6 million investment to support other Council priorities.

B2) Request the Executive work with a nonprofit lender to leverage this investment (either the full $6 million or a smaller investment), and redirect the remaining funds to support other Council priorities. This option could include imposing a imposing a proviso on the funds until the Executive has completed a RET and fully developed the programmatic details.

B3) Request specific programmatic details, such as modifying income limits for the borrowers or the renters or including a geographic focus.

C. No Action.

Budget Actions Proposed by Councilmembers as of October 10, 2019

1. **$43 million of additional funding for 2019 Rental Housing NOFA projects (Councilmember Mosqueda) –** This action would redirect $28 million from the Mercer properties sales proceeds from the proposed site acquisition, employer-supported homeownership, and the ADU loan program, and would increase the use of REET II funds by $3 million a year for five years, to fund housing projects that have submitted proposals in OH's 2019 Rental Housing NOFA. Many of the projects seeking funding through the NOFA are ready to begin development. The addition of these funds will increase the total funds available for the 2019 NOFA to $134 million. The Mayor's Proposed Budget provides $91 million**.** In August 2019, projects totaling $190 million indicated an Intent to Apply for funds in the 2019 NOFA.

2. **$100,000 to implement Affirmative Marketing and Community Preference Plans (Councilmember Mosqueda) –** This action would add $100,000 to OH's budget to support implementation of Community Preference policies for levy-funded affordable housing projects in neighborhoods at high risk of displacement. Funding would assist non-profit housing developers working with community partners to conduct outreach and affirmative marketing efforts that will lead to successful implementation of a community preference policy at specific levy-funded affordable housing projects. Such efforts seek to allow people to stay in or return to neighborhoods where they have long time social, cultural, faith and family ties.

   OH and OPCD would also be asked to coordinate on the compilation of data for Community Preference areas, to be made available to housing developers organizations pursuing community preference strategies.

3. **$20 million to fund debt service on $500 million bond to fund affordable housing (Councilmember Sawant) –** This action would redirect $20 million from the Mercer properties sales proceeds in 2020 to fund the partial year's debt service payment on a $500 million bond to fund development of 5,000 units of affordable housing.

4. **$220,000 for pre-development costs for an affordable housing project in Little Saigon (Councilmember Harrell) –** This would add $220,000 to OH's budget to support pre-development costs for a proposed housing project in Little Saigon that will assist American Indian and Alaskan Native individuals.

5. **Modify proposed investment for the ADU Loan Program (Councilmember González) –** This action would reduce the proposed $6 million investment for the ADU Loan Program to $2.5 million and place a proviso on the funds until a RET has been completed and the programmatic details are fully developed. The remaining funds, $3.5 million, would be redirected to (1) support the Equitable Development Initiative; and (2) coordinate work between OH and community land trusts for housing stabilization and community ownership.