

April 28, 2023

MEMORANDUM

To: Select Committee on 2023 Housing Levy
From: Traci Ratzliff and Jennifer LaBrecque, Analysts
Subject: Mayor's Proposed 2023 Housing Levy

On March 29 the Mayor transmitted a council bill and a resolution related to renewal of the Housing Levy. The council bill would put a new Housing Levy Measure before the Seattle voters on the November 7, 2023, general election. The companion resolution provides further direction regarding reporting and implementation of the programs to be funded by the levy. This memo provides a summary of the Mayor's Proposed 2023 Housing Levy (Proposed Levy) and related legislation, policy issues and options identified by Central Staff, and Councilmember's initial proposed amendments to the legislation. Discussion of these initial issues and options will occur at the May 3 meeting of the Select Committee on the 2023 Housing Levy.

Summary of the Mayor's Proposed 2023 Housing Levy Renewal Measure

If approved by the voters, the proposed levy would generate \$970 million in property tax revenues over seven years for affordable housing programs. The cost of the Proposed Levy in 2024, the first year of collections, would be \$.45/\$1,000 of assessed value (AV) or \$383 a year for the median home value (estimated at \$855,000 in 2023). The current 2016 Housing Levy generated \$290 million over seven years at a cost of \$0.15/\$1,000 of assessed value or \$114 a year for the median cost home (\$760,000 in 2022). Table 1 lists the programs that would be funded by the Proposed Levy.

(Table 1 on page 2 due to page break)

Table 1. Levy Program Funding

Levy Program	7-year Funding	Annual Funding	7-year Outcomes
Rental Production and Preservation Program (RPP): New Rental Production	\$631,171,000	\$90,167,000	2,881
RPP: Preservation	\$76,099,000	\$10,871,000	635
Operating, Maintenance & Services (OMS) for new Permanent Supportive Housing (PSH) ¹	\$88,300,000	\$12,571,000	510
Workforce Stabilization and OMS support for existing city funded PSH projects	\$34,000,000	\$4,857,000	646
Acquisition & Opportunity Loan Program ²	\$30,000,000	N/A	N/A
Homeownership Program: New Homebuyers	\$49,089,000	\$7,012,000	277
Homeownership Program: Homeowner Stabilization	\$1,600,000	\$228,571	90
Homelessness Prevention/Eviction Prevention/Resident Services ³	\$30,000,000	\$4,286,000	4,500
Administration	\$60,000,000	\$ 8,571,000	N/A
Total	\$970,260,000	\$138,605,000	3,158⁴

The Proposed Levy includes all of the programs supported by the 2016 Housing Levy albeit at higher funding levels. In addition, the proposal includes the following two new programs:

- \$34 million to increase Operating, Maintenance and Services (OMS) funding for 597 of the City's existing Permanent Supportive Housing (PSH) units. This program would provide \$6,796 per unit beginning in 2024 to existing OMS contracts for PSH projects with the intent that this additional funding will be used to increase the wages of workers at PSH buildings. This would be paired with \$171 million of JumpStart funds to fully support 3,900 existing City-funded PSH units over the seven-year period.
- \$10 million for Resident Services funding to provide stabilization services in existing non-PSH affordable housing projects, such as support services and/or worker wages. The Levy funding is proposed to be paired with approximately \$14 million from the JumpStart fund over the seven-year period. In 2021, the Council authorized \$2 million in funding to assist non-PSH housing projects using federal Coronavirus Local Fiscal Recovery funding (CLFR). Funds were allocated via a Request for Proposal (RFP) process. Those funds have been committed and the Office of Housing (OH) is in the process of determining how housing providers used the funds and what level of ongoing post-pandemic support is needed and for what purposes. OH is beginning this analysis to inform proposed changes to the Levy Administration and Finance (A&F) Plan that is anticipated for consideration in 2024.

¹ Additional funds may be needed for the OMS for these new PSH units; the current assumption is that JumpStart funds would help close that gap if needed.

² Short term loan program uses OMS levy funds collected but not planned for expenditure until future years. Funding amount not included in Total Levy.

³ Funding for each proposed program estimated at \$10 million over 7 years, \$1.4 million annually.

⁴ Total of newly developed or acquired affordable units (rental and homeownership)

Depending upon the level of OMS funding from other local, state, and federal sources, additional JumpStart funding may be needed for OMS for the new 1,050 PSH units anticipated to be developed with the Housing Levy Rental Production & Preservation (RPP) funding.

Summary of Key Provisions included in Levy Ordinance (ORD) and Companion Resolution

The proposed ORD contains the following key provisions:

1. Authorizes submittal to voters for approval at the November 7, 2023, election a \$970 million seven-year property tax levy – not to exceed \$138,608,596 each year;
2. Exempts certain seniors, veterans with disabilities, or other persons who qualify under [RCW 84.36.381](#);
3. Requires submittal of a Levy A&F Plan to City Council for approval every two years;
4. Establishes a Levy Oversight Committee, including the membership and oversight responsibilities;
5. Requires OH to submit annual progress reports on the implementation of the Housing Levy; and
6. In an attachment to the proposed CB, each program and the funding levels included in the levy proposal.

The proposed companion resolution contains the following key provisions:

1. Requires OH to develop and submit the initial Levy A&F Plan to the City Council in the second quarter of 2024; and
2. Requests OH to include several specific policies in the A&F Plan including:
 - Encouraging the geographic distribution of levy-funded projects throughout the city;
 - Collaborating with community partners and affordable housing developers to explore how housing investments can support broader community development goals;
 - Working with PSH providers on implementation of the PSH Workforce Stabilization Fund;
 - Collaborating with the Department of Finance and Administrative Services (FAS), the affordable housing community, and labor partners, to develop new standard language for inclusion in the City's Community Workforce Agreement (CWA). This would establish new criteria specific to affordable housing projects funded by OH, with a focus on projects on City-owned sites. It is anticipated that CWAs will be applied to between four and six OH-funded new rental construction projects early in the levy period;
 - Collecting and analyzing quantitative and qualitative data for CWA and non-CWA projects by a neutral third party with a report to Council on the results of this analysis that could inform updates to the City's Housing Funding Policies to incorporate additional labor equity provisions.

Issue Identification and Initial Councilmember Proposals

Staff Identified Issues:

- A. Levy Interest (investment) earnings generated from Rental Production and Preservation (RPP) Program not accounted for in RPP outcomes.** The Proposed Levy does not account for interest earnings expected to be generated from the RPP program in determining revenues available over the seven-year period. OH estimates that these interest earnings could generate approximately \$21 million over the seven-year levy period. For the 2016 Levy, these funds totaled \$6.6 million for the seven-year period, or an average of \$1.1 million per year. Interest earnings are generated from the accrual of RPP program funds that occurs due to the lag between when OH makes a financial commitment to a project and when a project begins construction and funds are expended for the project. The amount of interest earnings generated can be impacted by how quickly RPP funds are expended for projects receiving funding commitments.

The Proposed Levy stipulates that the use of interest earnings shall be addressed in the Levy A&F Plan. The 2016 Housing Levy A&F Plan included language directing OH to calculate the interest earnings at the end of each calendar year. It required that an amount not to exceed \$250,000 be used to support the Homelessness Prevention and Housing Stability Services Program, unless the Council, during the annual budget process determined all interest earnings should be retained in the RPP program.

Option: Amend the proposed companion resolution or Levy ORD to request that OH include language in the initial Levy A&F Plan that establishes priorities for use of interest earnings.

- B. Description of administrative costs does not cover all proposed expenditure activities.** The Proposed Levy allocates \$60 million over seven years for administrative costs. The proposal assumes that approximately \$10 million of the \$60 million in administrative funding would be set aside to: a) support the costs associated with maintaining land that is in City possession prior to development; b) fund predevelopment/consultant costs related to determining suitability of sites (City-owned, publicly owned, etc.) and preparing sites for affordable housing development. However, as transmitted, the Levy Ordinance does not provide that specificity.

Currently, OH spends approximately \$700,000 a year maintaining properties awaiting development. Costs include: property management fees, landscaping, county stormwater fees, interior and exterior building cleaning, and ongoing security. OH expects these expenses to increase as they anticipate acquiring more properties over the seven-year levy period. These expenses have been covered by administrative funds primarily from the Mandatory Housing Affordability (MHA) program. The Mayor's proposal would share these costs between the Proposed Levy and MHA administration funding.

Option: Amend the Proposed Levy ORD to add more details on the intended use of the administrative funds.

Councilmember Initial Proposals (listed in alphabetical order by Councilmember's last name):

CM Herbold Proposals:

1. Request a report on results of 2021 Request for Proposal for non-PSH housing providers.

As previously mentioned, in 2021 the City provided \$2 million to non-PSH housing providers. This proposal would amend the proposed companion resolution to request that OH submit a report to the City Council on how the providers spent the funding, particularly as it relates to wages, and other items including total spending (across funding sources), need, and metrics that demonstrate the impact to programs and residents. In addition, OH would be requested to use this information in the development of Levy A&F plan policies that will guide the funding included in the Levy (estimated at \$1.42m a year) for non-PSH housing providers and to include this same information in the annual Levy Implementation report and the Housing Investments report.

2. Establish a specific outcome in the Levy for the acquisition of buildings. This proposal would establish a separate outcome for acquisitions funded by the Levy, including the acquisition of: existing naturally affordable housing owned by private, for-profit entities; existing affordable units owned by non-profit entities that are reaching the end of the affordability requirement imposed by the City, State or Federal government; and newly constructed buildings available for purchase from private, for-profit entities. In addition, this would establish priority for the acquisition of buildings in areas at high risk for displacement and/or where affordable housing development has not happened with prior Levy funding.

3. Add a new program for preserving existing, City-funded affordable housing projects coming to end of affordability requirements. This proposal would amend the companion resolution to request that OH develop a formal program that seeks to preserve existing City-funded affordable housing projects that are coming to the end of the mandated affordability requirements. The goal of this program would be to preserve as many of these projects as possible as long-term affordable housing. The proposed program would include the following elements:

- Establish a formal process for tracking and monitoring the expiration of affordability requirements on OH-funded projects;
- Conduct outreach to housing providers in advance of lapsing affordability requirements to explore how and whether OH can support the provider to extend the affordability requirements;
- Develop a package of options that could be offered to providers of such buildings that could support the continuation of affordability requirements.

In addition, it could include information to residents about the status of the building, assistance for potential tenant purchase, and relocation assistance in the event affordability requirements will cease. OH is also requested to consider whether a set aside of funding, beyond what is provided in the proposed preservation program, could be made available to housing providers who agree to extend affordability requirements. Such funding could be used for deferred maintenance and capital needs.

4. **Modify language in the companion resolution regarding mixed-use, low-income housing projects that support broader community development goals.** This proposal would amend the companion resolution to specifically mention that child-care, health services, affordable commercial space, and other desired community services should be considered in mixed-use, low-income housing developments. In addition, OH would be requested to work with the Office of Economic Development (OED), the Office of Planning and Community Development (OPCD), and Department of Early Learning and Education (DEEL) to facilitate funding of such mixed-use projects.
5. **Add language regarding affordable homeownership program being used to assist those at risk of displacement and to address racial equity gap.** This proposal would request that OH include language in the Levy A&F plan that indicates the Levy-funded homeownership program offers a way to address the racial equity gap in the city, particularly for those at risk of displacement from their communities or who have faced barriers to equitably accessing homeownership in all parts of the city.

Chair Mosqueda Proposals:

6. **Require annual review of administrative expenditures.** This proposal would amend the companion resolution to request that OH, as part of the annual budget process, provide information on proposed expenditures of Levy administrative funding for the upcoming year relative to available resources. This annual review will ensure funds targeted for administrative costs are needed and that there are no surplus funds that could be available to be redirected to other Levy-funded housing programs.
7. **Allow use of administrative funds for pre-development costs.** A portion of the proposed Levy funds for administrative purposes would be used for land holding and predevelopment costs. This proposal would specify that a portion of those funds could be used for predevelopment costs for projects developed by small, community based non-profit housing developers who do not have access to other sources of pre-development funding.
8. **Add language supporting development of family-sized units through the Levy Rental Production and Preservation and Homeownership Programs.** This proposal would amend the companion resolution to request OH include language in the initial Levy A&F plan supporting development of family-sized units through the RPP and Homeownership programs along with a recognition that funding from Jumpstart will also support such projects.

CM Nelson Proposals:

9. **Authorize up to 10 percent of the Rental Production Program to be used to develop workforce housing serving households from 61 – 80 percent of AMI.** As proposed, the Levy funds for the RPP would only be used to develop housing for households with incomes up to 60 percent of AMI. This proposal would allow up to \$9 million over seven years to be used to develop rental housing for households with incomes from 61 to 80 percent of AMI (in 2023, that would serve households with incomes ranging from \$54,350 to \$66,750 a year for a single person).

- 10. Request OH to explore extending the length of time rental assistance can be provided by the homelessness prevention program.** This proposal would amend the companion resolution to request that OH explore providing a longer period of rental assistance to those served by the homelessness prevention program in order to ensure long term housing stability. The City's current homelessness prevention program provides up to 12 months of assistance over a 36-month period. This may not be adequate for some households to achieve housing stability.
- 11. Increase funding for the homelessness prevention program.** This proposal would increase funding for the homelessness prevention program to assist more households who are homeless or at risk of homelessness to be housed or to stay housed.
- 12. Require reporting and performance measures for workforce stabilization funding.** This proposal would request that OH develop and include in the initial Levy A&F Plan specific reporting and performance measures for the workforce stabilization funding program. The intent is to ensure that this funding is used to steadily increase wages of workers at PSH housing projects, as is the stated intended goal of this program.

CM Pedersen Proposals:

- 13. Explore a different approach to increase funding for low-income housing that reduces reliance on property taxes.** The Proposed Levy would triple the size of the current Housing Levy. There are other fund sources available, such as JumpStart Fund and Mandatory Housing Affordability (MHA) revenues, that are dedicated to low-income housing development. If you apply a different set of assumptions compared to what is assumed in the Executive's proposal on the amount of available JumpStart and MHA revenues, and introduce new progressive revenues, such as a local capital gains tax, the size of the housing levy could be reduced while still raising about the same amount of funds annually for low-income housing. This proposal contemplates that alternative approach.
- 14. Refine collection of vacancy data and use of vacant units.** OH collects data on vacancy rates of City-funded housing units annually. CM Pedersen believes it is not collected with great enough frequency to understand to what extent the City's current housing units are occupied, nor to allow the City to work with providers to address vacancy issues when identified to ensure current housing units are fully utilized. This proposal would request that OH collect vacancy information at least quarterly and enable the City and the King County Regional Homelessness Authority to have providers with available vacant units place, to the extent practicable, individuals experiencing homelessness who do not need PSH.

cc: Esther Handy, Director
Aly Pennucci, Deputy Director
Brian Goodnight, Lead Analyst