Lisa Herbold
Seattle City Councilmember

Memorandum
To: Affordable Housing, Neighborhood and Finance Committee
From: Andra Kranzler
Re: Acquisition and Preservation Housing Bond and Growth Fund
Date: 4/6/2016

Preservation and Displacement

The rapid growth in population, housing and jobs throughout Seattle leaves low-income communities at high risk of displacement. Ongoing displacement of low-income households and the need to mitigate its impacts was a consistent theme in many HALA discussions and was a major concern identified by public forum participants. Of 2,359 HALA respondents living in a Seattle zip code, sixty-two percent reported that "Friends and family have left my community due to housing costs." Further, the 2015 Department of Planning and Development Displacement Risk Analysis revealed that "displacement risk is greatest in neighborhoods that have historically been home to communities of color." The analysis also found, "Displacement risk is high now and will remain an issue under any alternative" [in the Draft Environmental Impact Statement (EIS) evaluation of four Comp Plan 2035 growth alternatives] and will require substantial anti-displacement investments where displacement risk is high."

Seattle is in a phase of demolition and construction and as the population and economy grows the redevelopment process will cause further displacement if left solely to market forces. When older housing is demolished, affected low-income tenants can rarely afford the new significantly higher rents of newly constructed housing. Efforts to mitigate displacement must be a foundational component of Seattle's housing strategy. Every year the city loses some amount of less-expensive private market housing due to demolition and redevelopment.

In response to this concern, the HALA committee agreed that strategic preservation of housing must be considered as part of the City's commitment to a racial and social justice agenda to ensure it promotes equity for all of its residents. The City's plan for growth and new development must include a dedicated funding preservation strategy to reduce displacement and minimize the loss of affordable housing.

Housing Livability and Affordability

The Mayor's [Housing Seattle: A Roadmap to Affordable and Livable City] identifies two (2) strategies for funding preservation. The first strategy allocates $42 Million for rental housing production and preservation; this isn't a new strategy, rather it is the 2015 allocation from the $104,000,000 of the 2009 Housing Levy allocation for rental preservation & production. These funds produced 1,670 units. Of this no less-expensive private market housing was preserved. The second strategy focuses on adopting a preservation tax exemption as part of a State legislative agenda. The proposed 2015-16 preservation tax exemption legislation necessary to preserve private

market housing has not been passed by the State Legislature. While the 2016 Housing Levy allocates resources that in theory could be used to preserve less-expensive private market housing, that work is market determinant (based on whether preserving an existing building or new construction is more viable for the developer) so it can't serve as a suitable preservation strategy.
Additionally, in November 2015, the City Council passed the Notice to Sell Multifamily Housing (Ordinance 124861). This new legislation requires owners of affordable rental housing to provide a notice to the City and SHA prior to an owner formally listing a property for sale. This allows the City or SHA the opportunity to evaluate and potentially prepare a purchase and sale offer in an effort to preserve the affordable housing. However, the ability of the City or SHA to make an offer is limited by the lack of available funding. In order to fully implement this legislation, the City must identify a new funding source that will help affordable housing developers purchase the properties identified as a result of this new notification requirement.

Summary of Analysis and Need

The Mayor's goal of 20,000 more affordable housing units is a net goal, with the understanding that we will lose existing affordable units with development. It's unlikely the units lost will be replaced or preserved without an explicit preservation strategy. Even with a higher housing levy and the future mandate for developers to provide affordability in approximately 5% share of the apartments in their new buildings, people with an annual income of 60% or less of the area median income cannot equitably compete in the housing market. Consequently, the City of Seattle needs new resources if it is going to achieve its affordable housing goal.

One strategy for additional resources is to issue a small Housing Bond to maximize opportunities to save existing market rate affordable housing at-risk of redevelopment, and re-establish a revised version of the 1985 Growth Fund. Both strategies were recommended by HALA stakeholders as strategies to pursue. The can both work together and they are described in more detail below.

<u>Strategy 1 - Housing General Obligation Bond</u>

The City uses its bonding capacity to fund capital improvement projects. For example, the Seattle Department of Transportation regularly issues limited tax general obligation bonds (LTGO) to finance a portions of its transportation projects. The City also uses its bonding authority for projects such as the Pike Place Market Preservation and Development Authority and the Elliott Bay Seawall Replacement Project. Generally, the City is authorized to issue limited tax general obligations if:

1. Under catastrophic or emergency conditions;
2. The project financed is expected to generate positive net revenues after debt service;
3. The debt service will be payable from a specific new revenue sources, such as a voter-approved levy lid lift, which is expected to be sufficient to pay the debt service;
4. The project is expected to significantly reduce City operating costs within the first five years;
5. An equal or greater amount of non-city matching funds will be lost if City LTGO funds are not applied in a timely manner;
6. The project to be financed is less than $25,000,000; or
7. The project to be financed provides essential City services or would so advance core City policy objectives that its value overrides the value of seeking voter approval.

City Hall, 600 Fourth Avenue, Floor 2, PO Box 34025, Seattle, Washington 98124-4025
(206) 684-8804, Fax: (206) 684-8587, TTY: (206) 233-0025
E-mail: bruce.harrell@seattle.gov

The HALA committee recommended, “The City should consider a bond issue to generate a pool of lower-cost capital for making loans with flexible terms/uses, including in new construction and preservation projects, and in projects that may or may not use the 4% LIHTC/bond programs.” Currently, the city does not use its general obligation bonds to finance affordable housing. However, in 1981, Seattle issued $48 million in bonds to fund senior housing. This bond resulted in the creation of 1,297 units. Similarly, other jurisdictions are using their bonding authority for affordable housing including: the City of Raleigh, City of Palo Alto, and the County of Los Angeles.
The City Budget Office provided five (5) different bonding scenarios that could be used if the Council wishes to pursue this strategy. All of the options assumed that private financing and 4% tax credits, with City funding and housing bond financing, would be used as gap fillers. County funds could also be combined with City funds if they became available for a given project. The most promising of all the bonding scenarios are Options 4 and 5 because they are preservation projects and able to sustain some payments to support a small city bonds. Bonding scenarios 2 and 3 support less debt service because the rent levels charged will not provide sufficient funding to make the payments, consequently general fund revenue would need to be diverted to support the annual debt service subsidy. Options 1,2, and 3 focuses on new construction, which is already adequately funded by the 2016 proposed housing levy. (See, attached Housing Bond Scenarios Overview).
The chart below illustrates the total gap funding needed to fully finance each project (city capital needed to develop project).

> <u>Option 4: Acquisition and Preservation of Existing Low Income Housing. Include Rehab Assumptions</u>. Assume 100% of the units at 60% AMI and below for 50 units privately owned project to be acquired by a nonprofit. The total project estimated cost is $13.5 million, of which $7.6 million is covered through private debt, 4% tax credits and a deferred developer fee. The project needs $5.9 million (the housing bond) in capital from the City to fill the gap, but it could only support $39,146 in annual debt service payments, compared to $413,150 needed to service a bond of that size at (3.5% interest over 20 years). The Growth Fund would be used to cover the $374,004 annual gap for 20 years.

Summary of Capital Financing Needed for Five Options

	Option 1	Option 2	Option 3	Option 4	Option 5
	New Construction Workforce	New Construction ELI	New Construction Homeless*	Acq Rehab @ 60% AMI	Acq Rehab @60/80% AMI
City Capital Needed to Develop Project	$ 11,869,740	$ 13,732,367	$ 16,016,246	$ 5,871,855	$ 5,874,665
(1) Debt Service Subsidy Needed if Fully Financed with City Bonds					
Annual Bond Debt Service	$ 835,168	$ 966,224	$ 1,126,920	$ 413,150	$ 413,348
Annual Debt Service Supported By Rents	$ 79,187	$ 0	$ 0	$ 39,146	$ 149,879
Annual Gap in Debt Service	$ 755,981	$ 966,224	$ 1,126,920	$ 374,004	$ 263,469
Total 20 Year Gap in Debt Service	$ 15,119,613	$ 19,324,482	$ 22,538,406	$ 7,480,087	$ 5,269,380
(2) Capital Subsidy if Small Portion Financed with City Bonds Fully Supported by Rents					
Up front capital subsidy	$ 10,750,000	NA	NA	$ 5,350,000	NA
Portion financed with City bonds	$ 1,119,740	NA	NA	$ 521,855	NA

*assumes other funding for rental subsidy and supportive services

An equal opportunity employer
City Hall, 600 Fourth Avenue, Floor 2, PO Box 34025, Seattle, Washington 98124-4025
(206) 684-8804, Fax: (206) 684-8587, TTY: (206) 233-0025
E-mail: bruce.harrell@seattle.gov

Currently, Financial Administrative Services (FAS) is preparing the 2016 bonding process for the City's upcoming issuance of 3 series of limited tax general obligation bonds (LTGO) (collectively, the "Bonds"):

1. $115,740,000 of LTGO Improvement and Refunding Bonds, 2016A tax exempt; and $6,040,000 of LTGO Improvement Bonds, 2016B taxable.
    a. Ordinance 124924 authorized the issuance and sale of these LTGO bonds to pay all or part of the costs of various elements of the City's capital improvement program and to provide a contribution to the Pike Place Market Preservation and Development Authority for the financing of certain improvements, and to pay the costs of issuance of the bonds.
2. $36,610,000 of Unlimited Tax General Obligation Improvement Bonds, 2016 tax exempt.
    a. Ordinance 123922, through a voter approved ballot measure held on November 6, 2012, that authorized the City to pay costs related to the design, construction, renovation, improvement and replacement of the Alaskan Way seawall and associated public infrastructure.

Strategy 2 - Growth Fund

According to Resolution 27322, between 1960 and 1985 nearly 16,000 units had been lost in downtown. In response to this crisis, the Council adopted Ordinance 113753; to establish the growth fund was established to acquire and rehabilitate existing low-income housing that was at risk of being redeveloped and to develop new low income housing. The growth fund used a set formula to calculate the amount of funding generated from property tax revenues tied to new construction downtown. The total growth fund allocation from 1985 to 2002 was $15.4 million and it financed 32 projects resulting in the preservation of 2100 units of housing. (See, attached Growth Fund History).

An Urban Growth Fund is one resource identified in the HALA Recommendations, "Strategy R.7 – dedicate property taxes derived from new construction to affordable housing by reinstating the growth fund." A portion of the property tax from new construction, which is paid for by owners/developers of new projects in the first year could be dedicated to reinstate the growth fund. The reinstated growth fund would be used to preserve existing affordable housing units; address the subsidy needed to maintain and operate such housing into the future; and support the implementation of the Notice to Sell Multifamily Housing Ordinance by creating a dedicated funding resource that will help the City or SHA with purchasing the affordable housing properties identified of as a result of the legislation.

Conclusion

The City of Seattle should consider using its general obligation bonding authority to create a small Housing Bond to fund acquisition and preservation of less-expensive private market housing; and resource the Notice to Sell Multifamily Housing legislation. The scale of the bond must be small so the City does not jeopardize its bond rating and negatively impact other critical capital projects. The growth fund should be reinstated to pay off the annual gap in debt service over the life of the bond, 20 years, and provide funding to resource the Notice to Sell Multifamily Housing Legislation.