Legislative Department

Seattle City Council

Memorandum

Date: November 14, 2016

To: Dr. Ben Noble, Director, City Budget Office

From: Councilmembers Bagshaw, Herbold, Johnson, O'Brien, and Sawant

Subject: $29 million Housing Bond proposal

Thank you for your November 9 memo regarding our $29 million Housing Bond proposal. We appreciate the opportunity to respond to your concerns.

Concern 1 – Proposal doesn't recognize the City's Housing Affordability and Livability (HALA) Agenda

We welcome the good progress towards implementation of the recommendations of the HALA Agenda. The proposal to (a) use the City's bonding authority to increase housing options and (b) the proposal to re-instate the Housing Growth Fund both originate from the HALA Advisory Group recommendations. As related to the use of bond authority, the recommendations state:

> *"Potential loan products include: • Subordinate permanent loans that provide some level of ongoing debt service with full/partial repayment at refinancing of first mortgage • Senior permanent loans that provide some level of ongoing debt service with full/partial repayment at refinancing of first mortgage • Subordinate short- to medium-term loans that reduce a developer's up front equity investment • Short-term acquisition loans to be repaid with permanent financing"*

Concern 2 – We have recently doubled the Housing Levy

The recent doubling of the Housing Levy is to be celebrated, but the need remains for more resources for more affordable housing. The current Housing Levy relies on additional federal investments. Because of the recent presidential election, we may need to reconsider our reliance upon those additional investments.

Concern 3 - Borrowing funds for housing development is not fiscally responsible

Cities all over the country are finding ways to add local resources for housing development. Portland, Oregon; Santa Clara County, California; and Alameda County, California have all recently enacted $267 million, $950 million; and $580 million in general obligation bonds respectively.

And closer to home, although the King County Lodging Tax revenue will not be available until 2021 for payments on the $85 million issuance of King County Affordable Housing Bonds, King County estimates that the savings from building today outweighs the cost of the interest rate paid for the bonds as land near station areas increase in cost.

Concern 4 – An approximate $2 million annual allocation of REET funds or other annual General Fund contribution to pay off the proposed Housing Bonds is not a good use of public resources

In April 2016, the Mayor announced a funding plan for the then proposed $160 million North Precinct. The Mayor's funding plan included $102 million of Long-Term General Obligation (LTGO) bonds that would be paid for by dedicating approximately $6.8 million per year of Real Estate Excise Tax (REET) to pay for 30 years of debt service. An annual debt service including principal and interest during the 30-year total repayment period proposed for the North Precinct project was proposed to be $205 million for $105 million in debt. This housing bond proposal is modeled after the funding plan developed for the North Precinct and it is a good use of our public resources.

Concern 5 – The use of debt increases the cost of each housing unit produced.

Over time, the costs of interest, land, and construction (labor/materials) will continue to increase and the ability to compete for land supply will likely only become more challenging. It is better to build as soon as possible. Building housing as soon as possible also makes that housing available for people to live in it up front and people can continue living there as the bonds are being paid off.

Concern 6 – Without a dedicated source of funding for repayment, the use of debt is not a sustainable source of funding

The City issues LTGO bonds every year that will be paid for using dedicated General Subfund (GSF) dollars. For instance, the City's most recently adopted LTGO Bond Ordinance includes LTGO bond funding for Parking Pay Stations ($9 million), Alaskan Way Corridor ($5 million), and the Pike Place Market PC 1-N ($6 million) projects. This decision to fund these three projects will require the City to dedicate about $1.3 million of GSF for each of the next 20 years.

By dedicating new property tax revenue from new construction to pay the debt service on the proposed Housing Bond, the proposed LTGO bonds for affordable housing could be paid for with a very small slice of GSF dollars (either directly from the GSF or from the same amount of GSF that is allocated to a future Growth Fund).

The Council has created an estimated $2 million in new annual revenue in this year's budget deliberations by eliminating an investment tax loophole.

Concern 7 – Using REET for housing could hurt our efforts in the State Legislature to pass a new housing-specific REET 3.

A REET III should be proposed as a needed long term funding strategy. Our current proposed use of REET should be considered as a short term strategy. To address the limit on raising City's property tax revenues to 1% plus value of new construction, cities are mobilizing to lift the 1% cap. Advocates believe this may be more feasible than getting authority for a new REET III.

Concern 8 – This proposal reduces funding for the facility enhancements needed to accommodate increased police staffing in North Seattle.

This modest proposal has a minimal impact on funding allocated to the North Area Interim & Long-Term Facilities for the following reasons. As proposed, the Executive will have $350,000 in 2017 to facilitate planning for the North Area Interim & Long-Term Facilities CIP project in 2017. The Executive will have $11.6 million in 2018 for the North Area Interim & Long-Term Facilities CIP project.

Conclusion

With the Council's authorization in the 2017-2018 Budget deliberation on the use of bond authority, the City can issue bonds as needed. We will work with the Office of Housing to evaluate and propose options for funding, either proposing utilization of the Council authorization for $29 million in bond funding for a one time project, as needed, or several smaller ones. The options to consider are available under a separate cover; we welcome others that the Executive might want to include.

We recognize that discussions are underway to develop a voter approved strategy for dedicated funding to build much more affordable housing and housing for people who are homeless, as well as increase funding for mental health treatment and drug addiction facilities. We support continued work on these measures as well and will work with the City Budget Office, the Office of Housing, and the Human Service Department in recommending allocations of the $29 million housing bond that can complement these efforts.

MEMORANDUM

To: Councilmembers
From: Lisa Herbold
Re: $29 Million Housing Bond Proposal
Date: November 14, 2016

The $29 million housing bond proposal made by Councilmembers Bagshaw, Herbold, Johnson, O'Brien and Sawant is a measured approach that adds bond financing for housing which, if leveraged with other resources, could support additional affordable housing efforts. Housing production would be funded by newly using the City's existing bonding capacity for housing and paying off the principal and interest over a 30-year term. The $29 million would be available, in addition to $54 million included in the 2017 Proposed Budget for affordable housing. With the Council's authorization of the use of bond authority, the City can issue bonds as needed. When the City issues bonds to finance capital needs we gain the ability to deliver projects faster and enjoy their benefits sooner.

Impact on the North Precinct Project and Transportation Needs
Under the proposal, the Executive will still have $350,000, to facilitate planning for the North Area Interim & Long-Term Facilities CIP project in 2017. The Executive will have $11.6 million in 2018 for the North Area Interim & Long-Term Facilities CIP project. The level of GSF reduction to SDOT necessary for this project is above the minimum threshold established in the Move Seattle Levy for 2017 and 2018. Moreover, the GSF reduction to SDOT is matched dollar for dollar with Real Estate Excise Tax funding; there is no change to total transportation funding in 2017 or 2018. This housing proposal recognizes our need to prioritize housing in the budget process, but it does not pit Seattle's housing needs against other citywide priorities, such as transportation or public safety.

Possible Sources of funding to pay the debt service on the bond starting in 2019
The budget proposal uses $1.4 million in 2017 and $1.9 million in 2018 of REET funding to pay the debt service for the housing bond, meaning in 2019 and thereafter a source of funding to pay the debt must be identified. The options are as follows:

1. Prioritize the use of GSF for the balance of the bond term.
2. Reestablish the growth fund in 2019 by dedicating property taxes derived from new construction to affordable housing to pay the debt service on the loan.
3. Revenue from the proposed elimination of an investment tax loophole that will add $2M per year to the General Fund could be directed to pay the debt.
4. New REET III funds.

Options For Use of Council Housing Bond Financing
The Council's Housing Bond proposal requests the Office of Housing to work with the Council to evaluate the following options for funding, either utilizing the Council authorization for $29 million in bond funding for a one time bond measure or smaller, as needed, bond measures as follows:

1. *Council's Home & Hope Budget Proposal*. Enterprise Community Partners is convening public and non-profit land owners and developers to accelerate the creation of housing. This bond issuance proposal could provide financing to bring these developments to reality. Using non-traditional building types on public properties, like manufactured steel modules being used in Seattle by Compass Housing Alliance and designed by OneBuild, a Seattle-based modular-

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housing supplier; or Blokables we could provide financing for a housing option that doesn't take the same long period of time to permit and build as a traditional housing project (which typically takes about three years). Read here for more.

2. *Funds could be used as permanent take-out financing for projects (land or building acquisition).* The two scenarios prepared by OH provide information on potential unit production and costs. (Attachments A & B) The projects would have to tap only four-percent tax credits and no other subsidy, thus maintaining leverage for Levy projects and not putting production goals at risk.

3. *Funds could be used as permanent financing for specific acquisition/preservation project(s) that require no/minimal rehab in buildings where tenants are income eligible.* The projects would have to tap only four-percent tax credits and no other subsidy source, thus maintaining leverage for Levy projects and not putting production goals at risk.
   a. Housing experts have estimated that there are 40,000 units held by private owners in Seattle that are currently operated at rates that are affordable for working families and individuals in Seattle, and at the rate they are being lost, half of those units will disappear in the next few years unless they can be placed in public or non-profit ownership.
   b. There are approximately, 1,000 unreinforced masonry buildings in lower-income and quickly gentrifying neighborhoods that require expensive structural work to make them earthquake resilient. Without funds, owners may instead redevelop these properties. City investment could preserve this housing as affordable over the long term as well as making it safe, implementing two HALA recommendations – the first to fund unreinforced masonry seismic retrofitting work and the second to use public funds in privately-owned buildings to extract long term affordability commitments.

4. *Funds for a multi-family tenant ownership project.* Homeownership funding in the 2016 levy is limited ($1.35m a year) so additional financing could provide additional support.

5. *Preservation of homeownership, while creating long term affordability.* Cities across the country are working towards buying "non-performing loans" from Fannie and Freddie Mac. These are loans held by individuals facing foreclosure. In Seattle we know that there are approximately 270 non-performing loans. Community partners have been discussing a pilot with Fannie and Freddie Mac to save some of those loans and, in doing so, preserve long term homeownership opportunities for people who may not otherwise have it. See link here for more.

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Backfill Transitional Housing Chart

Project	Grant End Date	Number of months we will back fill with this funding.	Additional information about the project	Amount
Compass/LIHI Four Houses for young adults & singles (Byrant, Cedar, Phinney, Evanston)	8/31/2017	4	22 Units	$38,799
ARCS Beacon House for singles (Beacon Hill)	11/30/2017	1	6 units	$825
VVAW Bennett House for Veterans (Columbia City)	2/28/2017	10	6 units	$1,961
CPC El Ray for mentally ill (Belltown)	2/28/2017	10	16 units	$62,643
YWCA Windermere House for families (Central Area)	8/31/2017	4	4 units	$9,894
YWCA Union Street for families (central Area)	1/31/2017	11	7 units	$78,480
Columbia Court for refugees, families (Central Area)	3/31/2017	9	13 units	$27,106
			74 Units	$219,706