

SUMMARY and FISCAL NOTE

Department:	Contact Person/Phone:	Executive Contact/Phone:
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1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to land use and zoning, amending the Official Land Use Map (Chapter 23.32 of the Seattle Municipal Code) to rezone certain land in Downtown, South Lake Union and adjacent IC zones; amending Sections 23.41.012, 23.48.220, 23.48.225, 23.48.230, 23.48.232, 23.48.235, 23.48.245, 23.48.250, 23.48.285, 23.49.008, 23.49.011, 23.49.013, 23.49.014, 23.49.019, 23.49.041, 23.49.058, 23.49.156, 23.49.158, 23.49.164, 23.50.020, 23.50.026, 23.50.028, 23.50.033, 23.50.039, 23.50.053, 23.50.055, 23.52.008, 23.58B.040, 23.58B.050, 23.58C.025, 23.58C.030, 23.58C.035, 23.58C.040, 23.58C.050, 23.76.004, 23.76.006, 23.86.007 and 25.05.675 of the Seattle Municipal Code; amending the Downtown Overlay Maps in Chapter 23.49 of the Seattle Municipal Code; and adding new Sections 23.48.223, 23.48.231, 23.48.290, 23.49.007, 23.49.039, 23.50.041, 23.58B.055, and 23.58C.055 to the Seattle Municipal Code to implement Mandatory Housing Affordability requirements in Downtown and South Lake Union.

Summary and background of the Legislation: This proposed legislation will increase commercial and residential development capacity and implement Mandatory Housing Affordability (MHA) requirements in Downtown and South Lake Union. Under MHA, developers will be required to contribute to affordable housing as part of most commercial or residential development. This contribution will be met by including affordable housing within new development or paying into a fund that will support development of affordable housing. The legislation also provides for additional development capacity in the form of an increase in the amount of height or floor area. The result will be increased capacity for new market-rate housing and commercial space and the creation of new rent- and income-restricted housing as Seattle grows, both of which support the City’s growth management and housing policies.

The legislation includes provisions for modifying development standards and payment and performance amounts to address limited instances in which development standards in the Land Use Code would prevent a development from being able to use the additional development capacity. It also clarifies existing provisions regarding which development is considered to be first under existing tower standards where two towers are proposed to be located in close proximity. In addition, the bill modifies the type of decision used for combined lot development and provides an option for projects that have a Master Use Permit or are vested prior to the effective date of the DT/SLU rezone ordinance to modify the project to (1) incorporate the additional capacity and (2) participate in the MHA program, without requiring additional review by the Design Review Board.

In November 2015, the City Council passed Ordinance 124895 establishing the framework for the commercial component of MHA, which was codified in a new Chapter 23.58B. In August 2016, the City Council passed Ordinance 125108 establishing the framework for the residential component of MHA, which was codified in a new Chapter 23.58C. Together, these pieces of legislation set up the basic parameters and procedural requirements that apply to commercial and residential development where MHA applies, but did not actually implement the requirements in any area of Seattle.

In addition to this proposed legislation, it is anticipated that the MHA requirements will be implemented in zones that allow commercial and multi-family development citywide. Separate rezone legislation for the University District was adopted in February 2017. Legislation for other areas outside of Downtown and South Lake Union is expected in mid-2017. Implementation of MHA in the Chinatown-International District was originally proposed to be part of this legislation, but is now proposed to be accomplished as part of the legislation implementing MHA outside of Downtown and South Lake Union.

2. CAPITAL IMPROVEMENT PROGRAM

This legislation creates, funds, or amends a CIP Project.

3. SUMMARY OF FINANCIAL IMPLICATIONS

This legislation does not have direct financial implications.

4. OTHER IMPLICATIONS

- a) **Does the legislation have indirect or long-term financial impacts to the City of Seattle that are not reflected in the above?**

The overall financial implications of MHA were included in the fiscal notes accompanying the legislation for the MHA-C and MHA-R frameworks (Ordinance 124895 and Council Bill 118692). As mentioned in those fiscal notes, implementing the MHA frameworks will likely result in increased workload and potential staffing impacts for SDCI and OH. Below is a description of the incremental impact of this legislation:

Permit and Tracking Process

This legislation will necessitate implementation of new business processes and IT infrastructure to record and track permit requirements and units of affordable housing provided under the performance option. Necessary changes include modification of the proposed Accela tracking system, an item included in the Mayor's 2017-2018 Proposed Budget, as well as development of business process documentation and staff training.

Permit Review

Overall, about half of the City's commercial development and one quarter of the City's residential development is expected to be located in Downtown and South Lake Union. Since development projects in this area are generally very large and many already have to demonstrate compliance with incentive zoning, impacts to permit review time will likely be small relative to

implementation outside of Downtown and South Lake Union.

Affordable Housing Funding and Compliance Monitoring

Under MHA, developers will have the option of providing affordable housing units in their building (performance option) or paying into a fund that the City will use to fund affordable housing (payment option). In Downtown and South Lake Union, it is anticipated very few residential highrise projects will use the performance option; however, smaller projects might result in a mix of payment and performance. Commercial projects are also unlikely to perform on-site, particularly if there is no residential component to their project, though it is unknown whether some developers will choose off-site performance over the payment option. If all projects use the payment option, we estimate that MHA in Downtown and South Lake Union would generate \$130M from commercial development and \$60M from residential development over 10 years. This would result in a total of \$190M in funding for affordable housing development over 10 years. This revenue amount would be reduced if a significant number of projects used the performance option. As an example, if 25% of residential projects used the performance option it would reduce the overall revenue by \$15M.

Revenue generated by the payment option would likely be leveraged with other sources of funding and awarded to affordable housing developers through OH's existing competitive processes. If the \$190M revenue estimate were used exclusively to develop units affordable to households making 60% of Area Median Income or less using only 4% Low Income Housing Tax Credits and tax exempt bonds as leverage, it is estimated it would produce about 2,100 units of affordable housing.

Overall, MHA in Downtown and South Lake Union is expected to produce about 45% of the citywide MHA revenue from the payment option and a very small part of the performance units. Because the MHA program will generally replace the affordable housing requirements of today's incentive zoning program, a large portion of the MHA revenue in Downtown and South Lake Union is revenue that would have otherwise been collected under today's incentive zoning program. However, MHA will increase the total revenue collected which will result in a corresponding increase in the amount of OH lending and asset management activity. In addition, OH expects a significant upfront workload for program development related to on-site and off-site performance projects.

b) Is there financial cost or other impacts of not implementing the legislation?

If the legislation is not adopted, significantly less affordable housing will be generated and the City will be unlikely to be able to meet its goals for affordable housing production.

c) Does this legislation affect any departments besides the originating department?

Fiscal impacts, described herein, are primarily on the Office of Housing (OH) and Seattle Department of Construction and Inspections (SDCI). Other departments that may be impacted are the Office of Civil Rights (OCR) and, during the implementation phase, the Office of Planning & Community Development (OPCD), and the Department of Neighborhoods (DON).

d) Is a public hearing required for this legislation?

Yes. A public hearing is expected to be held in early 2017.

e) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

Publication is required in the Daily Journal of Commerce.

f) Does this legislation affect a piece of property?

The legislation will apply to residential, live-work, and commercial development in select Downtown and Seattle Mixed zones throughout Downtown and South Lake Union as well as an area zoned IC 85-160 just south of Downtown.

g) Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities?

MHA is a critical step in furthering City goals for racial and social justice since it is an important piece of the City's plan to address housing affordability. Communities of color are disproportionately burdened by increasing housing costs.

Analysis of displacement suggests MHA will reduce displacement as the legislation will result in additional affordable and market-rate housing and is not likely to increase the likelihood that new properties will redevelop. Rather, the legislation will tend to encourage development that would otherwise occur to be incrementally larger.

The locational criteria for expenditure of MHA payment dollars and OH's Housing Funding Policies emphasizes housing choice, access to opportunity and community development investments, and preventing displacement. OH will encourage affordable housing locations that afford low-income residents the access to jobs, quality education, parks and open space, and services. Affordable housing development will continue to support community development investments that improve quality of life in low-income communities and help mitigate displacement of low-income residents in locations where new development is driving up housing prices. Access to transit is a priority, since transportation costs are second only to housing costs for a majority of low-income households, many of whom do not own a car. Over half of the households served by providers of City-funded low-income housing are households of color. MHA enables the City to strategically locate affordable housing in neighborhoods to serve lower income households where displacement risk is high and where other community development efforts and investments clearly support the City's RSJI principles.

Inclusion of affordable housing within new market rate development in Seattle's fast-growing neighborhoods is another important way to increase access to opportunity for low-income households.

h) If this legislation includes a new initiative or a major programmatic expansion: What are the long-term and measurable goals of the program? Please describe how this legislation would help achieve the program's desired goals.

The goal of MHA citywide is to produce 6,000 net new units of affordable housing over 10 years, when fully implemented. It is projected that implementation of MHA in Downtown and South Lake Union will generate about 2,100 of these units. OH is developing a tracking process for measuring progress toward this goal.

i) Other Issues: None.

List attachments below: None.