

SUMMARY and FISCAL NOTE*

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** Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

1. BILL SUMMARY

- a. Legislation Title:** AN ORDINANCE relating to land use and zoning; amending the Official Land Use Map (Chapter 23.32) to rezone certain land in the Chinatown/International District; and amending Sections 23.49.007, 23.49.008, 23.49.011, 23.49.013, 23.49.014, 23.49.023, 23.49.156, 23.49.158, 23.49.164, 23.49.208, 23.49.212, 23.49.242, 23.58B.040, 23.58B.050, 23.58C.035, 23.58C.040, and 23.58C.050 to implement Mandatory Housing Affordability requirements in the Chinatown/International District.
- b. Summary and background of the Legislation:** This proposed legislation will increase commercial and residential development capacity and implement Mandatory Housing Affordability (MHA) requirements in the Chinatown/International District. 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.

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, including implementation of MHA, is anticipated to be adopted in February of 2017. Legislation for other areas outside of Downtown and South Lake Union is expected in mid-2017.

2. CAPITAL IMPROVEMENT PROGRAM

- a. Does this legislation create, fund, or amend a CIP Project? ___ Yes X No

3. SUMMARY OF FINANCIAL IMPLICATIONS

- a. Does this legislation amend the Adopted Budget? ___ Yes X No
- b. Does the legislation have other financial impacts to the City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?

The overall financial implications of MHA were included in the fiscal notes accompanying the legislation for the MHA-C and MHA-R frameworks (Ordinances 124895 and 125108). 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 Review

Overall, only about 3% of the City's future development is expected to be located in the Chinatown/International District. Since development projects in this area are generally large and complicated and many already have to demonstrate compliance with incentive zoning, impacts to permit review time will likely be small relative to implementation in areas 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 the Chinatown/International District, 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 the Chinatown/International District would generate \$2M from commercial development and \$11M from residential development over 10 years. This would result in a total of \$13M 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.

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 \$13M 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 145 units of affordable housing.

Overall, MHA in the Chinatown/International District is expected to produce about 3% 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 portion of the MHA revenue in Chinatown/International District 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.

c. 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.

3.e. Revenues/Reimbursements

X This legislation adds, changes, or deletes revenues or reimbursements.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

| Fund Name and Number | Dept | Revenue Source | 2017 Revenue | 2018 Estimated Revenue |
|--------------------------------|-------------|---|---------------------|-------------------------------|
| Low Income Housing Fund, 16400 | OH | Payment-in-lieu from development projects | 0 | \$0 - \$500,000 |
| TOTAL | | | | \$0 - \$500,000 |

Is this change one-time or ongoing?

The legislation would require new development in the affected area to contribute to affordable housing by providing affordable housing units on site or providing payment to OH's low income housing fund in lieu of performance. The requirement would be permanent, but the extent to which the City would receive revenue in any given year will be subject to the amount and scale of development that occurs and the degree to which developer choose to use the payment option rather than the performance option. Payments would be made at the time a building permit is issued for a project.

Revenue/Reimbursement Notes:

The program is estimated to result in \$13M in payments from Chinatown/International District over 10 years. However, this program replaces the existing voluntary incentive zoning program which currently generates revenue for the low-income housing fund so the actual change in revenue will be less than \$13M. Given the length of permitting and the slowing construction market, it is very possible that the City will not receive any funding in 2018. However, a single project could easily bring in a couple million dollars (although some of this revenue would otherwise still have come in through incentive zoning). Consequently, a range of \$0-\$500,000 is provided.

OH's adopted budget already assumes revenue from MHA, including Chinatown/International District, in 2018, so the revenue from this legislation is already anticipated in the 2018 endorsed budget.

4. OTHER IMPLICATIONS

a. 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).

b. Is a public hearing required for this legislation?

Yes. A public hearing is expected to be held in the middle of 2017.

c. Does this legislation require landlords or sellers of real property to provide information regarding the property to a buyer or tenant?

No.

d. 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.

e. Does this legislation affect a piece of property?

The legislation will apply to residential, live-work, and commercial development in select zones in the Chinatown/International District neighborhood.

f. 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.

g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s).

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 Chinatown/International District will generate about 150 of these units. OH is developing a tracking process for measuring progress toward this goal.

h. Other Issues: None.

List attachments/exhibits below: None.