

## CITY COUNCIL STUDY SESSION

Affordable housing capital funding requests for three projects located in Bellevue, the Eastside men's shelter, Eastgate permanent supportive housing, and the Illahee Apartments.

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## DIRECTION NEEDED FROM COUNCIL

### DIRECTION

Based on Council direction, staff will prepare legislation approving funding for the three projects at a future meeting.

## RECOMMENDATION

Direct staff to prepare legislation approving three funding requests for Council's consideration and action at a future meeting.

## BACKGROUND & ANALYSIS

Since the adoption of the Affordable Housing Strategy in 2017, the City's available resources targeted at implementation have been steadily accumulating, putting the City in a position to deploy significant funds and meet immediate housing needs and opportunities. These resources are made up of several funding streams, including:

- The Council's allocation of funds to the Capital Investment Program (CIP) through the Affordable Housing Contingency, which amounts to a balance of \$7.0 million as of 2021;
- Nearly \$3.4 million in affordable housing in-lieu fees from development in the BelRed Subarea;
- Affordable housing sales tax revenues authorized under RCW 82.14.540, which have generated roughly \$800,000 since 2020; and
- Approximately \$1.2 million that have accrued in the Housing Fund, primarily through loan repayments from past projects funded through A Regional Coalition for Housing (ARCH).

These balances total over \$12 million in available funds that have not yet been committed to specific projects. CIP funds and sales tax revenues under RCW 82.14.540 will continue to accrue each year, along with future loan repayments to ARCH.

In addition, throughout the year the City has been engaging the Council on the future expenditure of sales tax revenues authorized under RCW 82.14.530, which is expected to generate a total of roughly \$8.5 million in its first year, of which \$6.7 million will remain after the first \$1.8 million is awarded for human services. While the RCW 82.14.530 process moves forward, certain requests for capital funding have arisen that have unique considerations requiring the City's timely response.

Three specific funding requests are described below for the Council's consideration. These requests total a sum of \$8.0 million, including:

- Eastgate Master Development Supplemental Funding: The Eastgate Master Development is comprised of three projects: workforce housing, men's shelter, and permanent supportive housing. Two funding allocations totaling \$4.0 million are needed to help close funding gaps that have emerged since the projects were originally funded. The requests are comprised of the following:
  - Eastside Men's Shelter: \$3.6 million in supplemental funding is requested for the development of the 100-bed shelter for homeless men.
  - Eastgate Supportive Housing: \$400,000 in supplemental funding is requested for the development of the 95-unit permanent supportive housing project.

To help meet this need, there is \$263,290 in funding that can be re-allocated from a prior commitment to the workforce housing component of the Eastgate master development that is no longer needed.

- Illahee Apartments: \$4.0 million in funding is requested for the preservation of a 36-unit apartment complex in the southern portion of the BelRed neighborhood that will be converted to affordable public housing.

Additional details about these requests are provided below. These funding allocations would have an immediate impact in producing and preserving critically needed affordable housing, leveraging significant resources from other funding partners, and ensuring the completion of the long-planned permanent shelter for homeless men.

At the same time, the City will continue to have a significant balance of remaining funds available for other priorities, such as transit-oriented development, ongoing contributions to the ARCH Trust Fund, and other acquisition or preservation opportunities. In addition, the City has added a large stream of new revenue from RCW 82.14.530, and will have continuing allocations from the 2021-2027 Affordable Housing Contingency CIP.

### **Eastgate Master Development (Men's Shelter and Supportive Housing)**

Congregations for the Homeless (CFH) is working to develop a permanent shelter for homeless men as part of the Eastgate Master Development. CFH is an experienced operator with a 29-year history of serving homeless men on the Eastside. They remain the only provider of programs on the Eastside focused on helping adult men experiencing homelessness. CFH has been working for several years to create a permanent, year-round emergency shelter for homeless men. In 2015, ARCH member cities originally provided \$700,000 (\$383,500 of Bellevue funds) to support CFH's efforts to secure a site and conduct pre-development activities. In addition, the City received a state legislative appropriation of \$1.4 million in 2016 on behalf of the shelter project, which the City has since assigned to CFH. In 2017, the City adopted an ordinance establishing a Conditional Use Permit process to establish a homeless shelter. In 2018, the City awarded \$585,000 in funding to support the operations at the temporary shelter, while CFH worked to site and develop the permanent shelter in Eastgate.

In 2019, after undergoing an extensive site search and selection process, CFH secured site control on a 10+ acre property owned by King County located in the Eastgate neighborhood. Since the property

exceeded the needs for development of a shelter, it presented a significant opportunity to leverage a larger master development that could create a range of affordable housing, including workforce housing and permanent supportive housing. CFH proceeded to select Inland Group as its master development partner, and in 2019 ARCH received funding applications for development of the shelter and workforce housing. In 2020, the City approved \$228,920, part of a \$500,000 award by ARCH members, for development of the shelter, and \$263,290, part of a \$575,000 award by ARCH members, for development of the workforce housing. The latter project was not fully funded at the time, as ARCH did not have sufficient resources to fund the full amount requested, however the shelter project successfully secured the following funds, in addition to committing \$3.5 million from a capital campaign to be undertaken by CFH:

**Committed Funds to Date: Men’s Shelter**

- \$1.2 million total award from ARCH cities
- \$3.8 million award from King County
- \$3.5 million from the State Housing Trust Fund
- \$1.4 million legislative appropriation from the State, carried over from 2016
- \$3.5 million Congregations for the Homeless capital campaign

**Total Funds Committed: \$13.4 million to date, prior to project cost increases**

***Recent Cost Increases: +\$5.7 million***

In 2020, CFH and Inland Group added Plymouth Housing to the development team to undertake development of the final building site at Eastgate. Inland and Plymouth prepared new funding applications to complete the financing package for the workforce housing component, and a permanent supportive housing project that would serve homeless individuals referred from the CFH and Sophia Way shelters. These applications were successful in securing the Low-Income Housing Tax Credit and tax-exempt bond resources that make up the majority of project financing, as well as significant awards from King County and the State Housing Trust Fund. In 2021, the City approved \$62,200, as part of a \$500,000 award by ARCH members, for development of the permanent supportive housing.

**Committed Funds to Date: Permanent Supportive Housing**

- \$500,000 total award from ARCH cities
- \$5.7 million award from King County
- \$2.0 million from the State Housing Trust Fund
- \$20.3 million from Low Income Housing Tax Credits

**Total Funds Committed: \$28.5 million to date, prior to project cost increases**

***Recent Cost Increases: +\$3.1 million***

**Details of Recent Cost Increases**

Over the last 18 months, the partners have made significant progress and invested at-risk capital toward moving this large-scale master development through the pre-development phase towards construction. During this time period, however, several factors have impacted the original cost estimates that provided the basis for each project’s funding awards, including:

- Escalation in material pricing, including lumber, wood products, steel, and copper.

- Increases in labor costs and prevailing wage rates, including for plumbing, drywall, and other trades.
- Significant upgrades to meet the 2018 Washington State Energy Code, which went into effect in January.
- Design alterations to the shelter based on COVID to promote a healthier living environment.
- Additional design changes to the shelter to meet community suggestions and expectations through the City's Conditional Use Permit process, including:
  - Incorporation of design recommendations from the Bellevue Police, such as a more robust security camera system, and wider driveway resulting in additional site grading;
  - Expanded site fencing on the perimeter property lines and in strategic areas to direct pedestrian access and movements;
  - High quality, durable materials and finishes that will be easier to maintain over time;
  - Incorporation of significant on-site, flexible and usable outdoors space for the hundred-plus people who will be on site every day, year round; and
  - Ensuring open site lines and incorporation of natural light within the main floor of the shelter that require a more robust structural frame designed in a wood/steel hybrid.
- Additional time to establish the Good Neighbor Agreement Advisory Committee (GNAAC). This has resulted in the shelter construction schedule no longer aligning with either of the other campus partners, resulting in significant added costs to re-mobilize earthwork and other contractors.

Cost increases from labor and materials have been impacting affordable housing projects (and market rate projects) across Washington State. A total of 15 out of 16 projects funded by King County have experienced cost increases resulting in new funding requests. Public funders in nearly every affordable housing project are now working to evaluate funding gaps and identify resources to ensure projects are able to move forward.

#### Financing Summary and Request to Bellevue

To address these cost impacts, both Plymouth and CFH have set aggressive value engineering targets and submitted requests for additional funding to help close the remaining gap. The Eastside Men's Shelter has a current funding gap of \$5.7 million, and the Eastgate Supportive Housing a gap of \$3.1 million. King County and the State Department of Commerce have conditionally committed to providing an additional \$3.1 million and \$1.7 million, respectively, leaving a remaining gap of \$4.0 million that is requested from the City of Bellevue (\$3.6 million for the men's shelter and \$400,000 for the permanent supportive housing). CFH has also committed to increasing its capital campaign by another \$1.0 million for the shelter. While the workforce housing component has also experienced significant cost increases, these are mitigated by the significant investment King County has made in the project, plus the ability of the project to raise more private debt and equity through a change in tax credit rules. No additional funds are requested for the workforce housing, and in addition, the \$263,290 in Bellevue funds previously allocated to the workforce housing through ARCH are available to be shifted to the other Eastgate projects.

The combined total of the committed and proposed financing sources for the entire Eastgate master development (workforce housing, men's shelter, and permanent supportive housing) is \$184.8 million.

Bellevue's overall portion of the financing would be \$4.7 million if the proposed funds are approved, or about 2.5 percent of the combined sources. ARCH cities have historically provided about 10 percent of the funding for projects in the past.

### Timing Considerations

Because the property acquisition from King County is required to be transacted for all three components of the master development simultaneously, CFH and Plymouth must both assemble the remaining needed funds to close on the property to ensure that all three projects proceed. Deadlines associated with the tax-exempt bond issuance, as well as a deadline in the purchase and sale agreement with King County, have created urgency for these remaining funds to be identified and committed as quickly as possible. ARCH, King County, and the State Department of Commerce have already begun work on financing documents to facilitate the closing of various sources of financing for the projects to ensure deadlines can be met.

By providing significant financial support for these projects, the City will be advancing several policy objectives, including: creation of a permanent year-round 100-bed shelter for homeless men; supporting project enhancements identified through the GNAAC process; creation of a 95-unit permanent supportive housing project that will serve homeless individuals referred from Eastside shelters; advancement of a 360-unit workforce housing development for households earning 50 to 60 percent Area Median Income (AMI) and leveraging over \$180 million in other public and private funds, including over \$20 million in combined awards from King County, and \$8.6 million in combined awards from the State.

### **Illahee Apartments**

In late October 2020, the King County Housing Authority (KCHA) became aware that the Illahee Apartments were going to be listed for sale on the open market. The Illahee Apartments are a 36-unit development built in 1968 located in the BelRed Subarea near Highland Park and Community Center. The owners at the time had owned the property for over 30 years and kept rents affordable while housing costs increased significantly in the broader rental market. The current tenant population includes a significant proportion of immigrant households. While the property was on the market, it was advertised as an opportunity for new ownership to make significant rent increases or demolish the apartments to build higher end townhomes. There are a number of other townhome developments that are being built in this portion of the BelRed Subarea where older office buildings previously existed, so redevelopment was a likely outcome without preservation.

To prevent the likely displacement of all of the residents and a loss to the City of an important affordable housing resource, KCHA secured site control and closed on the acquisition of the property for \$10.8 million. At the same time, KCHA approached the City and Amazon to request support in the form of long-term financing. KCHA has an existing partnership with Amazon to preserve 1,000 units of workforce housing in Bellevue and was able to secure an additional commitment of grant funds for the Illahee to match a potential commitment from the City in the amount of \$4.0 million. KCHA has pledged to come up with the remaining \$2.8 million in financing, either from its own equity or from another funding source such as the State Housing Trust Fund, as well as any additional funding needed to rehabilitate the property. These are shown in the table below:

## **Summary of Illahee Preservation Proposal**

### Sources of Funds:

- \$4.0 million grant from Amazon
- \$4.0 million from City of Bellevue
- \$2.8 million from KCHA equity/other

### **Acquisition Cost by KCHA: \$10.8 million**

KCHA is committed to maintaining low rents for the current tenant population and will not be relocating tenants for rehabilitation activities. KCHA's long-term vision is to bring federal public housing subsidy to the property so that it will provide deeply affordable rents for households with very low incomes who meet the criteria for public housing.

Before such subsidies are turned on, KCHA is also making efforts to meet a critical City priority by partnering with the Bellevue School District (BSD) and Youth Eastside Services (YES) to place homeless families into currently vacant units. Since taking possession of the property, KCHA has had nine vacant units, with three additional units undergoing renovation due to a fire at the property last year. Two have already been occupied by referrals from the BSD/YES and there are four more referrals whose applications are in process as of late June. In exchange for the City's financial support, KCHA will execute agreements with the City that commit the property to serving eligible households for the long-term and solidify its immediate commitment to house homeless families before public housing subsidies are turned on.

By providing significant financial support for this property, the City will be advancing several policy objectives, including: the preservation of affordable housing; preventing displacement of existing residents in the community; providing immediate housing opportunities for homeless families in the community; leveraging private philanthropic support; and creating permanently affordable housing that will serve very low income residents well into the future.

## **POLICY & FISCAL IMPACTS**

### **Policy Impact**

The requests to allocate funds towards preserving critically needed affordable housing, leveraging significant resources from other funding partners, and ensuring the completion of the long-planned permanent shelter for homeless men would further City policy direction as outlined below:

### **Comprehensive Plan Policies:**

#### **Housing Element:**

HO-21. Address the entire spectrum of housing needs, including the need for housing affordable to very low, low, and moderate-income households, through the City's affordable housing programs.

HO-22. Work cooperatively with King County, A Regional Coalition for Housing (ARCH), and other Eastside jurisdictions to assess the need for, and to create, affordable housing.

HO-25. Provide funding to support housing need, especially for low and very low-income households. Assess housing fund guidelines on a regular basis to ensure they are consistent with changing community needs and priorities.

HO-26. Provide incentives and work in partnership with not-for-profit and for-profit developers and agencies to build permanent low- and moderate-income housing.

HO-27. Encourage preservation, maintenance and improvements to existing affordable housing.

HO-28. Explore all available federal, state, and local programs and private options for financing affordable housing.

HO-30. Ensure that all affordable housing created in the City with public funds or by regulation remains affordable for the longest possible term.

HO-38. Support regional efforts to prevent homelessness, and make homelessness rare, brief, and one time when it occurs. Provide a range of affordable housing options and support efforts to move homeless persons and families to long-term financial independence.

HO-39. Collaborate with other jurisdictions and social service organizations to assure availability of emergency shelters and day centers that address homelessness.

#### **Human Services Element:**

HS-13. Encourage partnerships among public and private institutions, schools, human services providers, and others to collectively address needs of children and families using schools as a focal point for the community.

HS-18. Support an intentional local community response to homelessness with housing and supportive services provided to families, youth and single adults.

#### **Affordable Housing Strategy:**

A-1. Partner with non-profit organizations and housing agencies to fund the purchase of existing, affordable multi-family housing to preserve it for the long term.

E-1. Tap additional local sources to dedicate more funding to affordable housing (e.g. reallocation of general fund and/or REET, increase of property tax and/or business & occupation tax, bonds).

E-2. Pursue funding partnerships with employers, financial institutions, foundations, and others.

#### **Fiscal Impact**

The City has available accumulated resources targeted at implementation of Bellevue's Affordable Housing Strategy and furthering Council's priorities relating to housing. The combined requests of \$8.0 million outlined in this memo could be covered from current resources totaling over \$12 million, including:

- The Affordable Housing Contingency CIP, which has a balance of \$7.0 million as of 2021, and is available for use based on Council direction;
- BelRed affordable housing in-lieu fees collected to date of \$3.4 million which could be used for opportunities, such as the Illahee, that are within the BelRed Subarea;
- Affordable housing sales tax revenues authorized by RCW 82.14.540, which have generated roughly \$800,000 since 2020; and
- Approximately \$1.2 million accrued in the Housing Fund, primarily through loan repayments.

Based on Council direction to proceed with funding these requests, staff will seek to use the most-restrictive funds first, and funds with the most flexibility last. This will provide the highest level of flexibility for future investment of the remaining funds.

### **OPTIONS**

1. Direct staff to prepare legislation approving the three funding requests for Council's consideration and action at a future meeting
2. Provide alternative direction to staff.

### **ATTACHMENTS & AVAILABLE DOCUMENTS**

N/A

### **AVAILABLE IN COUNCIL LIBRARY**

N/A