City of Bellevue Housing Economic Policy Analysis: Phase 1 Existing Conditions Report

FINAL DRAFT

December 8, 2023

INTRODUCTION

Background and Purpose

The City of Bellevue, King County's second-largest city, is experiencing a housing shortage in line with the remainder of the Puget Sound Region and throughout the country. Accompanying the housing shortage are increasingly more expensive housing costs associated with the region, which is creating an additional burden on Bellevue's lower-income households. Additionally, as local policies urge affordable housing development and allocate projected population growth to urban areas, Bellevue's affordable housing needs will continue to rise for the next 25 years.

This two-part study aims to conduct an analysis of housing policy and programs relevant to affordable housing and determine the impact of both voluntary and mandatory affordable housing programs on housing development. Phase I of the study includes:

- An **existing conditions report** (included below) that discusses statewide, regional, and local affordable housing policies and programs, analyzes Bellevue's existing real estate market conditions, and provides an assessment of available affordable housing funding and funding sources used by Bellevue.
- A **policy implications report** that identifies best practices and successful tools that have been used to stimulate the production of affordable housing units in Washington based on case studies and secondary research and assesses the policy implications of implementing both voluntary and mandatory affordable housing requirements in Bellevue. This is provided as a separate deliverable to the City of Bellevue.

Phase II of the study will develop a scenario analysis tool that will test parameters of programs recommended in Phase I through a financial feasibility tool. Outputs will summarize financial feasibility and development typologies under three policy scenarios. Each scenario will include the program parameters, including FAR incentives or bonuses, as well as affordable housing requirements and income limits. Findings on the development feasibility impacts of each scenario as well as scenario parameters will be documented in a final report.

Methods

The existing conditions report captures affordable housing policies at the state, region, county, and local levels, in addition to a summary of current affordable housing programs utilized by the City of Bellevue. The report also includes a real estate market analysis which uses data from Redfin, CoStar, and OFM to describe residential market conditions in the city. Lastly, an affordable housing funding review was conducted which discusses existing funding mechanisms used by and available to the City of Bellevue.

Organization of the Report

The following report is organized as follows:

- **Housing Policy Requirements and Regulations**. Summary of existing housing policy and regulations at the state, regional, and local levels.
- **Real Estate Market Analysis**. Overview of Bellevue's current real estate market conditions.
- **Affordable Housing Funding Analysis**. Summary of affordable housing funding sources and mechanisms.

Housing Policy Requirements and Regulations

Growth Management Act Statute and Recent Amendments

The Growth Management Act (GMA) provides the fastest-growing cities and counties in Washington with a framework to plan for growth through a series of statutes first adopted in 1990 and amended several times since. King County and the City of Bellevue are full GMA-planning jurisdictions. A fundamental requirement for cities and counties planning under GMA is to undertake and periodically update a Comprehensive Plan made up of 13 elements that guide development regulations, including for housing (RCW 36.70A.130).

House Bill 1220: Planning for and Accommodating Housing Needs

In 2021, House Bill 1220 amended the GMA and changed the way communities are required to plan for housing. The GMA housing goal now calls for planning for and accommodating housing affordable to all economic segments of the population (RCW.36.70A.020). This significantly strengthened the previous goal, which was to encourage the availability of affordable housing. The housing goal also calls for promoting a variety of residential densities and housing types and preservation of existing housing stock.

Cities and counties planning under the GMA must include a housing element in their comprehensive plans (WAC 365-196-410). RCW 36.70A.070(2) sets out the requirements for a housing element which have changed with the adoption of HB 1220 in 2021. The changes include:

- An inventory and analysis of existing and projected housing needs by income level as provided by the Department of Commerce.
- Planning for sufficient land capacity for housing needs, including all economic segments of the population (moderate, low, very low and extremely low income, as well as emergency housing and permanent supportive housing).
- Policies for moderate density housing options within Urban Growth Areas (UGAs), including but not limited to duplexes, triplexes, and townhomes.
- Making adequate provisions for housing for existing and projected needs for all economic segments of the community, including documenting programs and actions needed to achieve housing availability, consideration of housing locations in relation to employment locations and consideration of the role of accessory dwelling units (ADUs) in meeting housing needs.
- Identifying racially disparate impacts, displacement and exclusion in housing policies and regulations, and beginning to undo those impacts; and identifying areas at higher risk of displacement and establishing anti-displacement policies.

House Bill 1110 "Middle Housing" and 1337 "Accessory Dwelling Unit"

In 2023, House Bill 1110 further amended the GMA and shifted state-wide land use policies to increase housing density in fully planning cities in Washington. The City of Bellevue must implement the requirements of HB 1110 no later than June 30, 2025. The law requires the City of Bellevue, a fully GMA planning city with a population over the legislative threshold of 75,000 residents, to allow[1]:

- At least 4 units per lot in predominantly residential zones

[1] Final Bill Report, Engrossed House Bill 1110, Washington State Legislature.

- At least 6 units per lot within .25 miles walking distance of a major transit stop in predominantly residential zones
- At least 6 units per lot in predominantly residential zones, if at least two units are affordable housing.

HB 1110 allows jurisdictions the ability to enforce these changes to 75% of the lots that are dedicated to single-family detached housing units, given the remaining 25% are restricted to areas that may be subject to future displacement, lack sufficient infrastructure, or are in environmentally critical areas prone to flooding.

HB 1110 creates an affordability bonus (allowing additional units in a development if they are affordable) and includes requirements for the affordable housing sizes and configurations to be similar to market rate units. It also allows cities with affordable housing incentive zoning programs to vary these requirements and require any development, including middle housing[2], to provide affordable housing, either on site or through an in-lieu payment[3]. Affordable units produced as a result of increased development by HB 1110 must retain income restrictions for at least 50 years, including up to 60% of AMI for renter households, and 80% of AMI for ownership dwellings.

HB 1110 directs the Washington State Department of Commerce (Commerce) to develop middle housing model ordinances for implementing the bill. Commerce will also develop a user guide that will cover topics that are not directly addressed in the model ordinance, such as financial, physical, and administrative considerations for affordable middle housing units.

Another bill that was enacted in 2023 is House Bill 1337 which requires GMA planning cities like the City of Bellevue to permit two ADUs per lot in all UGAs and eases other ADU occupation restrictions and regulations.[4] HB 1337 permits both attached accessory dwelling units (AADU) or detached accessory dwellings units (DADU), any combination up to two total ADUs are allowed on the same lot. While ADUs are generally more affordable than a typical single-family home, most are not affordable to household earning less than 80% of the area

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[2] Middle housing includes homes that are in between the size of a single-family home and large multi-unit properties that typically include between two and six units.
[3] Ibid.
[4] Final Bill Report, Engrossed House Bill 1337, Washington State Legislature.

median income (AMI)[5]. Jurisdictions can offer incentives to encourage ADUs that are affordable to lower-income households, like higher densities in the form of an additional ADU or requiring affordability in exchange for providing a "bonus".

Other housing legislation including affordable housing specific legislation from 2023 is summarized in Appendix A.

Countywide Planning Policies

The GMA includes a requirement that fully planning counties and their cities develop countywide planning policies (CPPs) to promote coordination and consistency for items of regional importance within the county. RCW 36.70A.210 requires that CPPs address "policies that consider the need for affordable housing, such as housing for all economic segments of the population and parameters for its distribution". Additional context CPP's and Multicounty Planning Policies (MPPs) relevant to housing can be found in Appendix B.

A major update of the King County CPPs occurred in 2021. As part of the motion to adopt that update, the Growth Management Planning Council (GMPC), a body of elected officials from King County and the cities that oversee the CPPs, directed additional work on affordable housing. This additional work resulted in recommended amendments to the CPPs which were adopted by the King County Council in August 2023 and ratified by the Bellevue City Council on November 20, 2023 in Resolution 10320. For the amendments to become effective at least 30% of city and county governments representing 70% of King County population must ratify by November 30, 2023. The amendments are meant to[6]:

- Establish **countywide and jurisdictional housing needs**, informed by local data and guidance provided by Commerce.
- Establish an **accountability framework** for equitably meeting countywide affordable housing needs.
- Align **monitoring requirements** with the new accountability framework.
- **Align the policies** with the GMA as amended by 2021 Washington State House Bill 1220.

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[5] Washington State Department of Commerce, Guidance for Accessory Dwelling Units in Washington State, May 15, 2023.
[6] King County, AN ORDINANCE adopting and ratifying amendments to the 2021 King County Countywide Planning Policies, 2023-0224 Transmittal letter, June 21, 2023.

Jurisdictional Housing Need and Allocations

The methodology establishing the housing needs and allocations by income for jurisdictions in King County was informed by guidance from Commerce and represents a collaborative effort between Affordable Housing Committee members, jurisdictional staff, subject matter experts, and communities most impacted by housing cost burden[7].

The housing needs established within the CPP amendments allocate nearly 35,000 net new units to Bellevue through 2044. Of these, 26,975 or 77% target affordability levels serving households earning 50% of area median income (AMI) or less, typically requiring the most subsidy from public funding sources (**Exhibit 1**). An additional 8% target affordability levels between 51% and 80% of AMI. In total 29,646, or 85% target affordability levels serving households earning 80% or less of AMI.

Exhibit 1. Bellevue Net New Units Allocation by 2044

Area Median Income	Net New Units Allocation	% of Total
30% and below	18,195	52%
31%-50%	8,780	25%
51%-80%	2,671	8%
81%-100%	703	2%
101%-120%	798	2%
121% and above	3,853	11%
Total	**35,000**	**100%**

Sources: King County, GMPC Motion 23-1, 2023; Community Attributes Inc., 2023.

As part of the Bellevue 2024–2044 Comprehensive Plan Periodic Update, the city is analyzing as part of an Environmental Impact Statement the impacts of development capacity that would occur beyond the 2044 growth target of 35,000 housing units. The additional development capacity beyond the 2044 housing targets allows the city to meet its growth targets in different ways, letting potential developers

[7] King County Housing Needs Dashboard, https://tableaupub.kingcounty.gov/t/Public/views/AllocationMethodComparisonsUpdated/AllocationsStory?%3Aembed=y&%3AisGuestRedirectFromVizportal=y&%3Aorigin=card_share_link

respond to the market demands relating to the type of housing and commercial space and provide flexibility for market demands[8].

The CPPs policies guide jurisdictions through a five-step process that is meant to help them plan for and accommodate their share of countywide housing needs[9]:

- Conduct a housing inventory and analysis.
- Implement policies and strategies to meet housing needs equitably.
- Ensure alignment with CPP Housing Chapter goals through GMPC or designee review of comprehensive plans.
- Monitor and report at least annually to evaluate progress in achieving CPP Housing Chapter goals.
- Adjust strategies to meet housing needs.

Monitoring and Reporting

The CPPs provide guidance to jurisdictions and sets policies to guide their participation in the monitoring and reporting process to ensure that they are successful in their efforts to plan for and accommodate their share of allocated countywide housing needs and meet the goals of the CPPs Housing chapter. Some of the monitoring and reporting actions are[10]:

- The GMPC or its designee will conduct a housing focused review of all King County jurisdiction's draft periodic comprehensive plan updates, including a comprehensive review five years after a periodic comprehensive plan update, to assess program successes and shortfalls.
- The County and cities will collect and report housing data at least annually to help evaluate progress toward meeting countywide and jurisdictional housing needs and eliminating disparities in access to housing and neighborhood choices. The County will help coordinate a necessary data collection and reporting process with cities.

City of Bellevue Programs

As per [RCW 36.70A.540](), local governments planning under GMA can enact *affordable housing incentive programs* to encourage the

[8] 2024-2044 Comprehensive Plan Periodic Update and Wilburton Vision Implementation, Draft Environmental Impact Statement, City of Bellevue, April 2023.
[9] King County GMPC, Motion 23-1, March 22, 2023.
[10] Ibid.

development of affordable housing through development regulations or conditions on rezoning or permit decisions, or both, on residential, commercial, industrial, or mixed-use development. The programs may include mandatory or optional elements, such as density bonuses within the UGA, height and bulk bonuses, fee waivers or exemptions, parking reductions, expedited permitting, tiny house communities, or mandatory amount of affordable housing provided by each development.

The incentives or bonuses shall provide units for low-income rental (50% or less of county median family income) or for purchase (80% or less of county median family income). Jurisdictions have the discretion to increase income levels to address local housing needs and market conditions. Income limits for rental units may not exceed 80% of AMI and may not exceed 100% of AMI for ownership units. Low-income housing developed under an affordable housing incentive program must remain affordable for 50 years or a jurisdiction may accept payments in lieu of continuing affordability. Affordable housing incentive programs may also allow payment of money or property in lieu of housing units[11].

Affordable housing incentive programs can take many forms and are often classified in the literature as “incentive zoning”, “density bonus”, “inclusionary zoning”, or “commercial fee in-lieu”. This report uses the City of Bellevue’s terms and definitions for these programs. The City of Bellevue considers inclusionary zoning programs as regulatory tools that incentivize affordable housing in exchange for additional development capacity, generally height, floor area ratio or other benefits to the development[12]. The programs can have the following characteristics[13]:

- Apply to residential, commercial, and mixed-use development.
- Are voluntary (allow developers to choose incentives such as density bonuses or tax incentives in exchange for building affordable housing) or mandatory (have an explicit requirement to include some units at certain affordability levels or require the developer to pay an in-lieu fee).
- Allow for on-site performance, off-site performance, or a fee in-lieu.
- Can include zoning, tax, and development capacity incentives.

[11] Washington State Legislature, RCW 36.70A.540.
[12] City of Bellevue, https://bellevuewa.gov/city-government/departments/community-development/housing/constructing-affordable-housing.
[13] City of Bellevue, Affordable Housing Tools, November 14, 2022.

Exhibit 2 outlines the affordable housing incentive programs adopted by the City of Bellevue under analysis for this study. Additional information about each housing program is available in this section. There are other programs in Bellevue that support affordable housing production, but this review is limited to affordable housing incentive programs under analysis for this study.

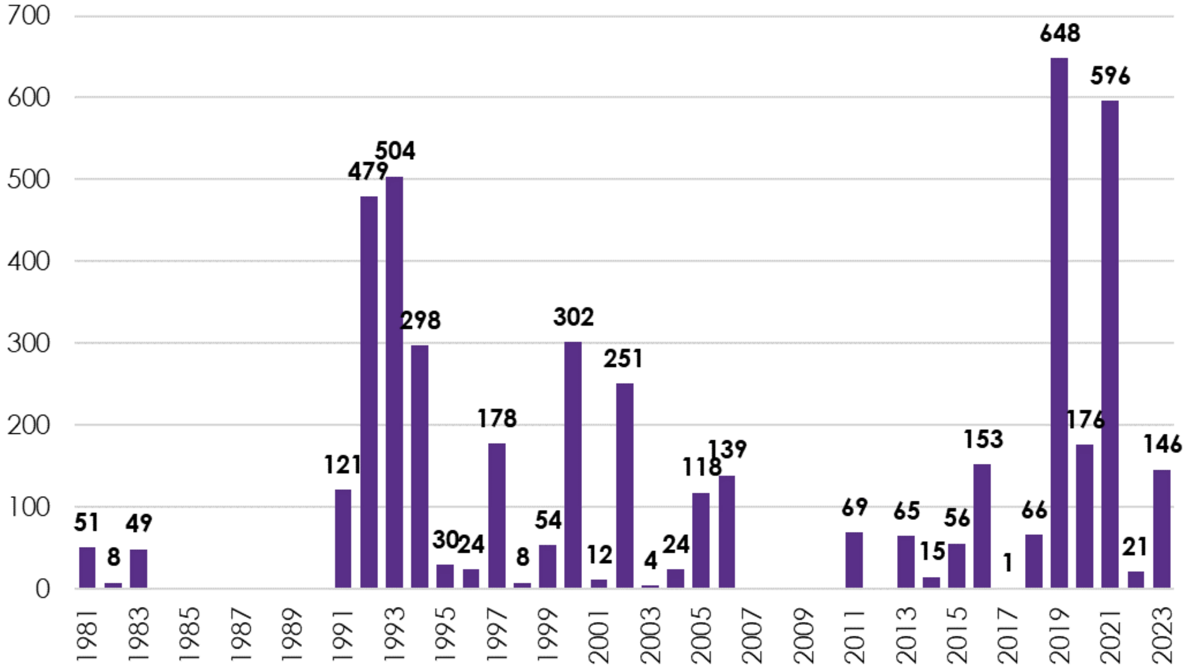
In total, Bellevue has 5,026 income-restricted affordable housing units currently in service. The timeline of these units is shown in **Exhibit 3** using data provided by the City of Bellevue. During this time, 2019 and 2021 saw the largest numbers of affordable units come into service (a total of 1,182 units comprising 24% of all Bellevue's affordable housing stock). This recent affordable unit production is primarily a result of enactment of the 2017 Affordable Housing Strategy, which prioritizes establishing a high-level and sustainable level of funding for affordable housing production and preservation from state, county, and local funding sources, and King County Housing Authority's purchase of several properties in Bellevue in recent years.

Exhibit 2. Bellevue Affordable Housing Incentive Programs

Program	Type	City Code Reference	Fee in-lieu	Geography	Program Start	Income – Restricted Units Produced
Density Bonus: Current program	Voluntary	LUC 20.20.128	No	Citywide	1996	95 units
Density Bonus: Inclusionary Zoning (1991-1996)	Mandatory	N/A	No	Citywide	1991	170 units
Location Specific Density Bonuses (FAR and Amenity Incentives)	Voluntary	LUC 20.25D.090.C	Yes ($7.6 mil generated)	BelRed	2009	181 units (includes pipeline)
	Voluntary	LUC 20.25A.070.c.2	No	Downtown	2017	24 units
	Voluntary	LUC 20.25P.060.B.2.a/ LUC 20.20.010 (note 49)	No	Eastgate TOD/ Neighborhood Mixed Use District	2017	None to date
	Voluntary	LUC 20.25Q.070	Yes, commercial	East Main District	2021	None to date
Multi-Family Housing Tax Exemption (MFTE)	Voluntary	Chapter 4.52 BCC	No	Citywide	2015	84 units

Source: City of Bellevue, Affordable Housing Tools, November 14, 2022; City of Bellevue, Affordable Housing Inventory, 2023; Community Attributes, 2023; A Regional Coalition for Housing (ARCH).

Exhibit 3. Number of Affordable Housing Units in Service by Year (including Bellevue Affordable Housing Incentive Programs and Other Income-Restricted Units), 1981 to 2023



Source: City of Bellevue, 2023; Community Attributes, 2023.

Citywide Density Bonus

The citywide density bonus program also referred to by the City of Bellevue as a voluntary inclusionary zoning program provides a density bonus of up to 15% above existing density limits with the inclusion of affordable units for multifamily developments. Projects with affordable units can also earn increased lot coverage and reduced parking and open space requirements, as additional incentives. Units must be affordable to residents earning less than 80% of AMI, and units must be affordable for the life of the project.

In 2017, the City of Bellevue adopted the Affordable Housing Strategy Land Use Code Amendment (LUCA) Action C-1, which offers density bonuses for affordable housing developments on land owned by public entities, faith-based groups, and non-profit housing organizations. In December 2021 the City of Bellevue adopted Ordinance 6626 which established a 50% density bonus for affordable housing developments meeting the criteria outlined in Action C-1. Additionally, the Bellevue City Council adopted Ordinance 6743 in June 2023, which established in full development criteria for qualifying organizations and landowners to leverage the density bonuses outlined in Action C-1.

Mandatory Inclusionary Zoning

Between July 1991 and February 1996, the City of Bellevue had a mandatory inclusionary zoning program that required all new multifamily development with more than 10 units include 10% of units affordable at 80% AMI. The bonus was also available to new single family subdivision developments greater than 10 lots. A bonus of one market rate unit was permitted for each affordable unit provided, up to 15% above the maximum allowed zoning density.

Location Specific Density Bonuses

The City of Bellevue outlines the following affordability conditions required to receive density bonuses offered for affordable housing developments.

- **Downtown**. At least 1 square foot of affordable housing space for every 2.5 square feet of market-rate units. In other words, 1 in 3.5 square feet (28.6%) of the additional FAR must be made up of affordable housing to receive the offered density bonus.
- **BelRed**. In exchange for the bonus density the development must provide at least 1 square foot of affordable housing for every 4.5 square feet of market-rate rentals or for every 7.2 square feet of market-rate owner-occupied units. Additionally rental units must be affordable for households earning up to 80% of the AMI and sale units must be affordable to households earning up to 100% AMI. Developers can pay a fee-in-lieu to leverage these bonuses without producing affordable units. The fee is $26.85 per square foot of bonus area for Tier I residential units and$22.38 per square foot of bonus area for Tier 2 units and nonresidential components.
- **Eastgate and Neighborhood Mixed Use Districts**. At least one affordable unit for every 2.5 market-rate units. Affordable studio and 1-bedroom units are also given a reduced parking ratio of 0.25 spaces per unit. Affordable units provided as part of these incentives must remain affordable for the life of the project.
- **East Main Transit Oriented District**. To leverage the incentive bonus available, the development must earn 80% through affordable housing (75% for nonresidential development). The provision of affordable housing earns development 3.2 bonus square feet per 1 square foot of affordable housing. Developers may also pay a fee-in-lieu to access the density bonus on the nonresidential component of the development, $30 per square foot of bonus area.

Multi-Family Housing Property Tax Exemption

The Multifamily Tax Exemption (MFTE) Program is a voluntary affordable housing incentive for new multi-family rental developments. The MFTE provides a 12-year exemption from property taxes paid on the housing portion of qualifying projects in exchange for setting aside 20% of the units for income eligible households for those 12 years.

To date, developers who have leveraged the 12-year MFTE program have constructed 84 income-restricted units and 330 market-rate units in Bellevue. This includes 16 units restricted at or below the 60% AMI threshold, 47 at or below 70% AMI, and 21 at the 80% AMI level. An additional 54 income-restricted units at 80% of AMI and 348 market-rate dwellings are currently under construction.[14] There are 862 units that are currently in the development pipeline or have been approved in Bellevue, including 173 income-restricted units at the 80% AMI threshold, and 689 market-rate units.

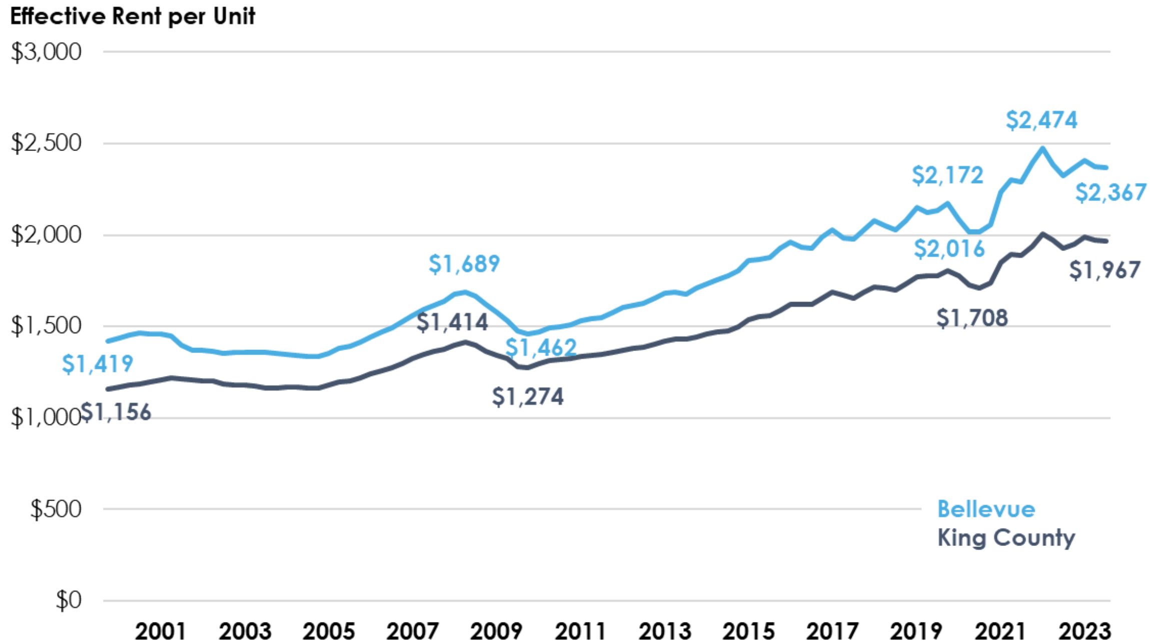
Real Estate Market Analysis

The following section reviews current real estate market conditions in Bellevue and aims to provide a greater understanding of Bellevue's single-family and multifamily housing markets, retail, and office markets.

Effective rents, which account for concessions and pass through expenses, have remained near $2,400 per unit in Bellevue since early 2022. During this time, the average unit size in Bellevue was roughly 850 square feet, placing effective rents near $2.80 per square foot. By comparison, the average effective rent per unit in King County has remained near $2,000 since early 2022. Average unit size throughout King County is smaller, settling near 770 square feet since 2018, putting 2022 through 2023 rents around $2.60 per square foot, or about 20 cents lower than the Bellevue average (**Exhibit 4**).

[14] A Regional Coalition for Housing (ARCH), 2023.

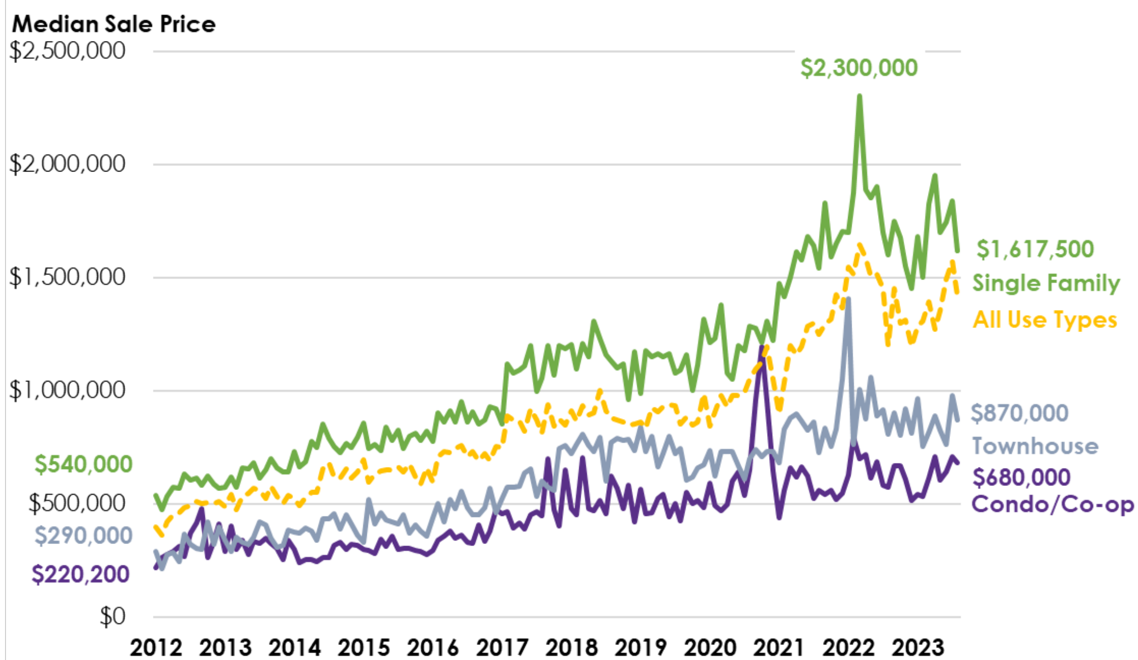
Exhibit 4. Median Multifamily Rents, Bellevue and King County, 2000 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

Exhibit 4 presents median sale prices by unit for Bellevue homes from 2012 to 2023. Single family sale prices have steadily increased since 2012 and peaked in March 2022, when the median sale price of single-family homes reached $2.3 million. Bellevue's townhouses and condominiums have seen similar but less severe price increases since 2012. Townhouse median sale prices peaked at $1.4 million in January 2022, while condominium median sale prices peaked at $1.2 million in October 2020.

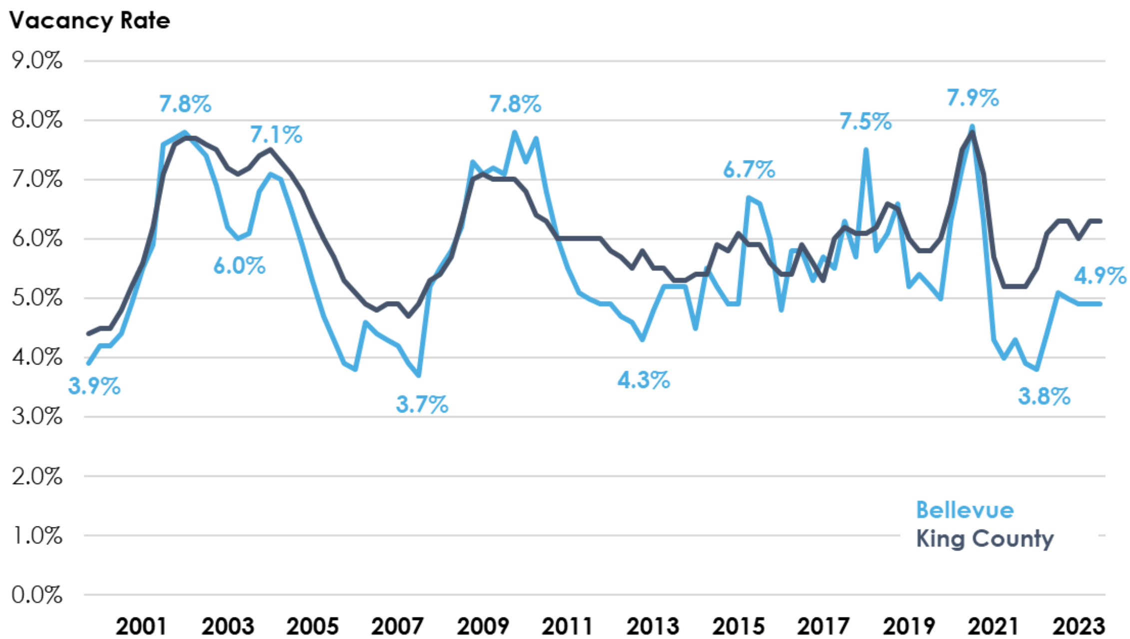
Exhibit 5. Median Sale Price by Use Type, Bellevue, 2012 – 2023



Sources: Redfin, 2023; Community Attributes Inc., 2023.

Multifamily vacancy rates in Bellevue have fluctuated between roughly 3.5% and 8% since 2000. Since 2014, Bellevue vacancy rates have seen a greater degree of quarter-to-quarter volatility. Currently, CoStar data show multifamily vacancy rates are near 5% in Bellevue (**Exhibit 5**).

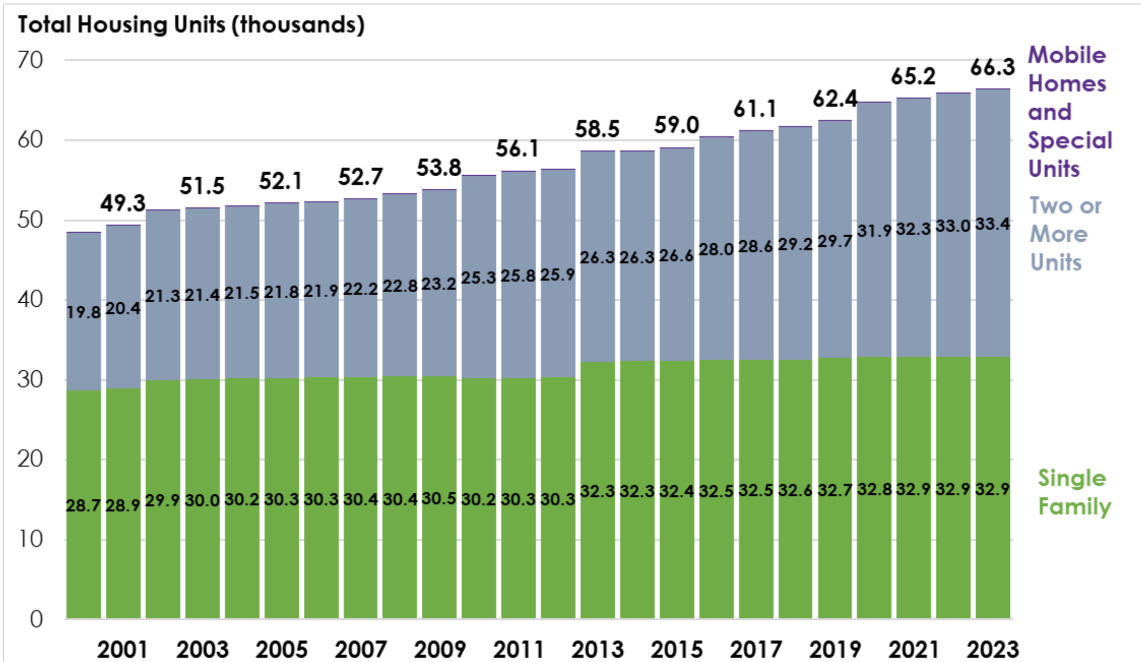
Exhibit 6. Multifamily Vacancy Rates, Bellevue and King County, 2000 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

In 2023, single-family residences represented roughly 50% of Bellevue's total housing stock. The share of single-family homes in Bellevue has decreased by about 10% since 2000, when nearly 60% of housing inventory was represented by single-family residential. Duplexes or other multifamily structures account for the remainder of Bellevue's housing inventory. In 2023, Bellevue's 66,300 housing units comprised 33,400 multifamily units, 32,900 single-family units, and less than 100 mobile homes or special units (**Exhibit 6**).

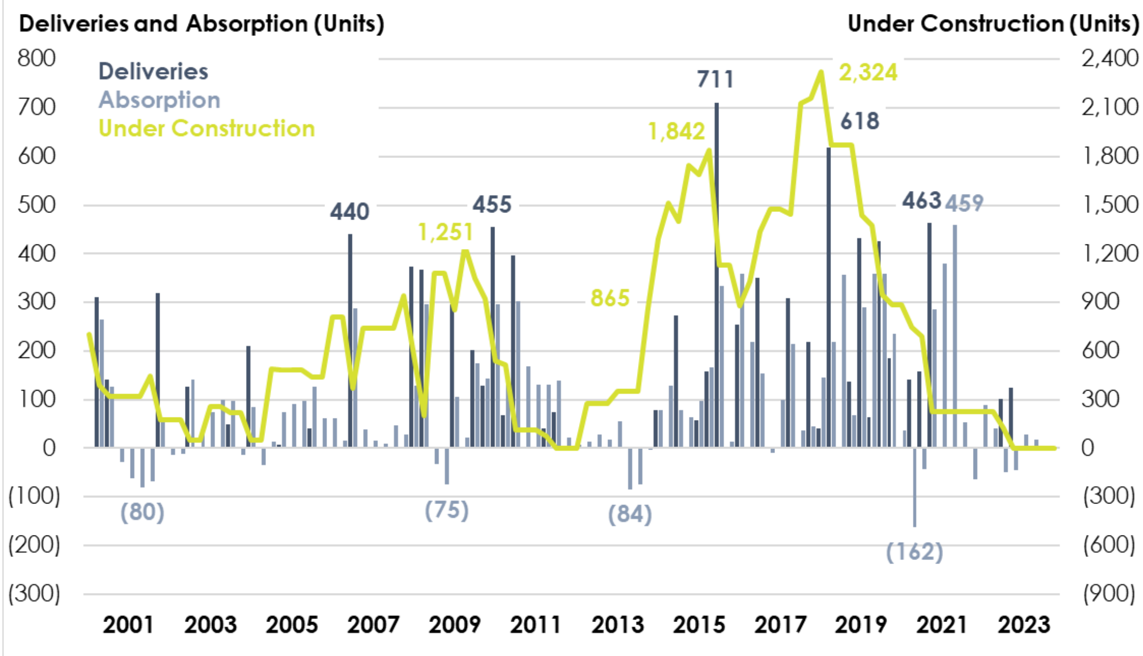
Exhibit 7. Inventory by Use Type (Units), Bellevue and King County, 2000 – 2023



Sources: OFM, 2023; Community Attributes Inc., 2023.

Units under construction in Bellevue have fluctuated between zero and 2,300 since 2000. Units under construction suggest a cyclical nature to the building cycle, with peaks seen in 2009, 2015, and 2018. Following under construction units, Bellevue has received steady but cyclical multifamily deliveries since 2000. Absorption has typically been positive, keeping up with unit deliveries and suggesting Bellevue has seen few units leave the market since 2000 (**Exhibit 7**).

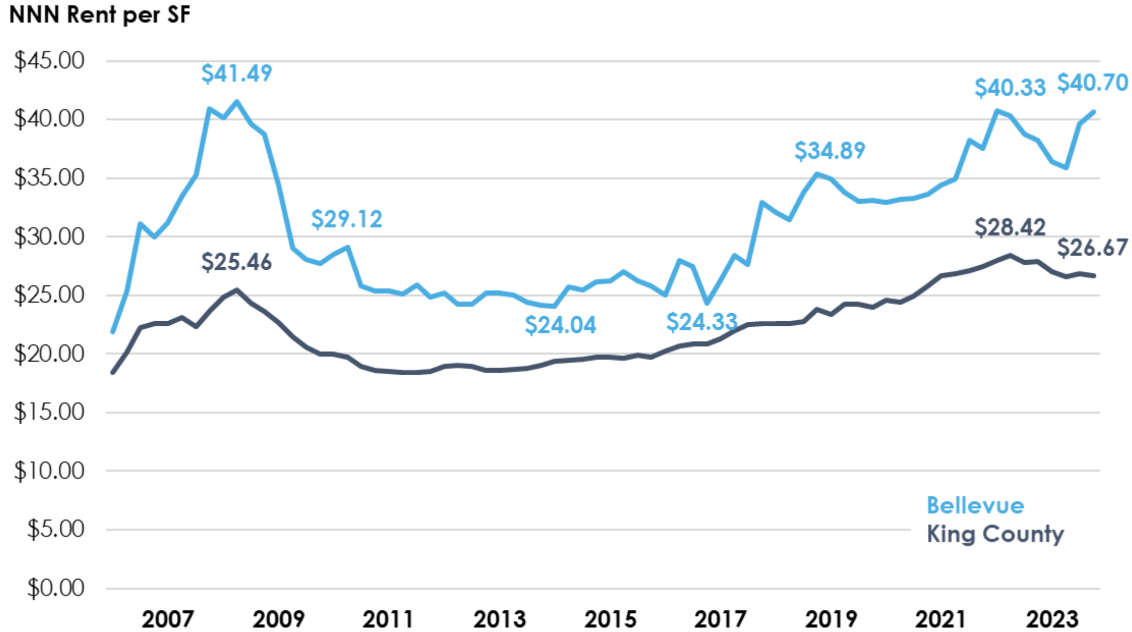
Exhibit 8. Multifamily Units Delivered, Absorbed, and Under Construction, Bellevue, 2000 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

Triple Net (NNN) retail rental rates in Bellevue peaked in 2008 at nearly $42 per square foot prior to falling to as low as $24 per square foot. In 2023, Bellevue's retail rental rates have returned to greater than $40 per square foot. Since 2006, retail rates in King County have seen less volatility and currently sit almost $15 less per square foot than the rates seen in Bellevue (**Exhibit 8**).

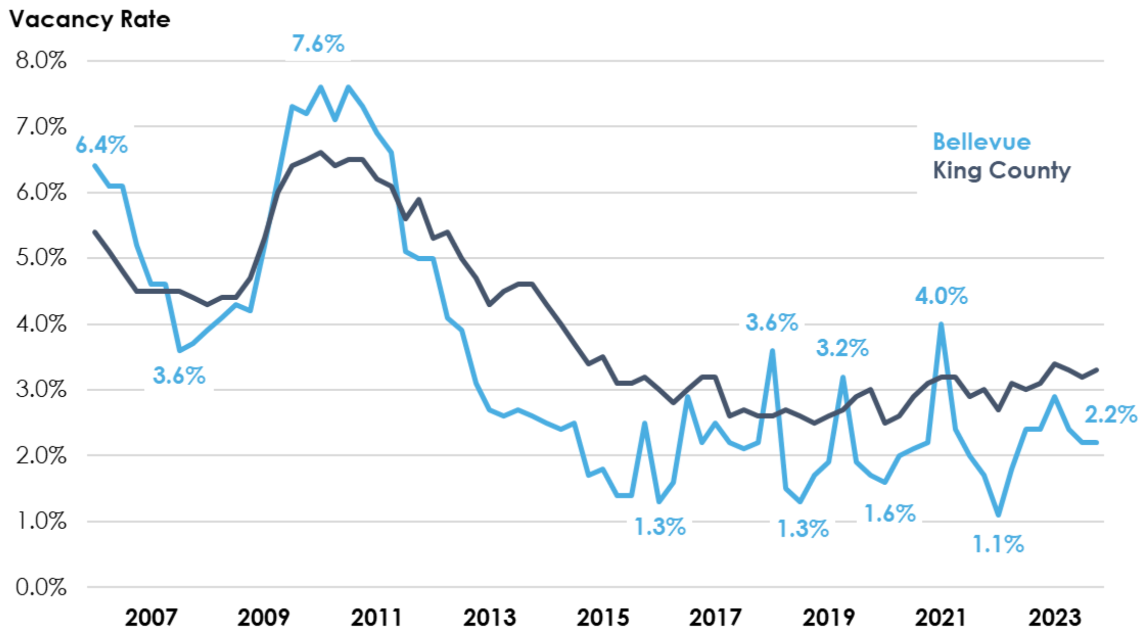
Exhibit 9. Retail Rental Rates, Bellevue and King County, 2006 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

While experiencing different degrees of quarter-to-quarter fluctuations, retail vacancy rates in Bellevue and King County have generally remained similar since 2006. In late 2023, Bellevue's retail vacancy rate was 2.2% (**Exhibit 9**).

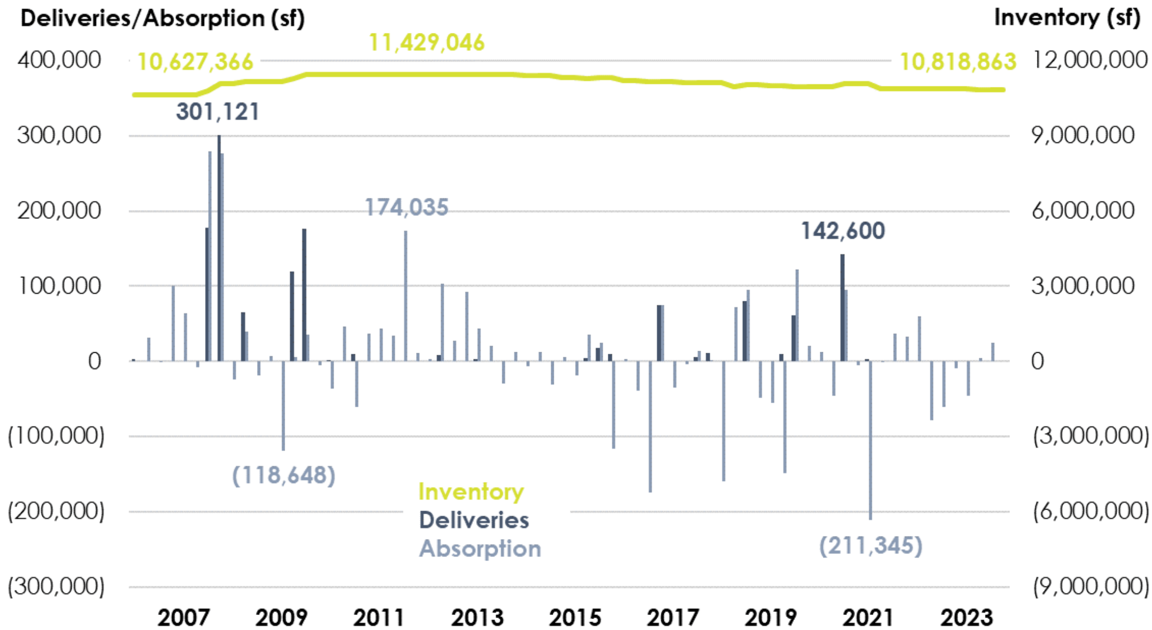
Exhibit 10. Retail Vacancy Rates, Bellevue and King County, 2006 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

Retail inventory has remained between 10.5 million and 11.5 million square feet since 2006. While Bellevue did experience consistent deliveries from 2016 to 2020, net absorption has primarily been negative since 2015. Bellevue's retail inventory has reflected this negative absorption, with inventory declining by about 500,000 square feet during this period (**Exhibit 10**).

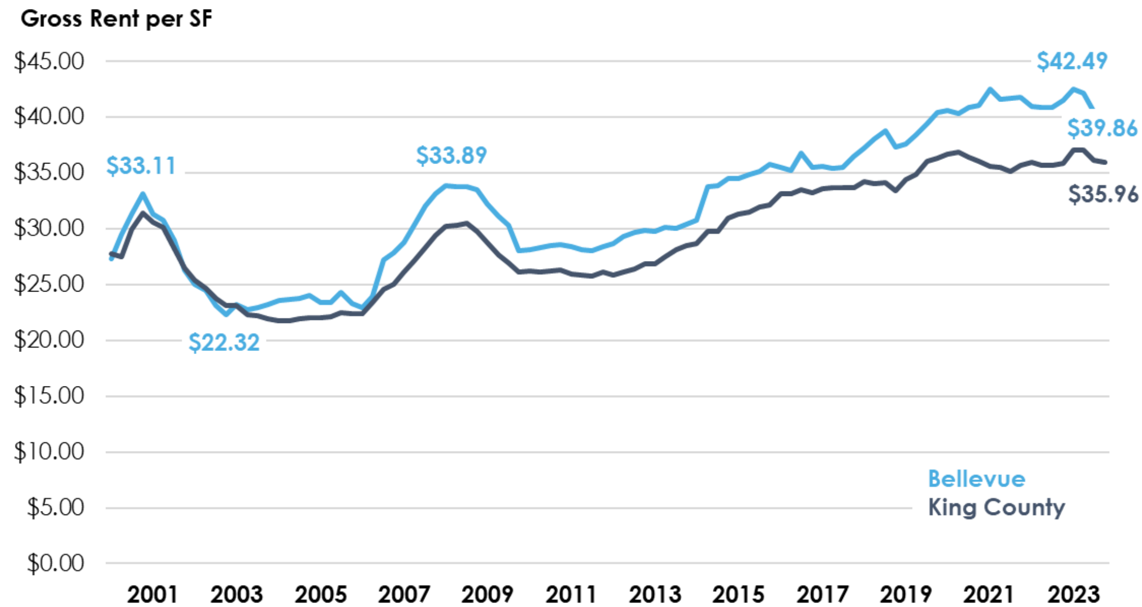
Exhibit 11. Retail Inventory, Deliveries, and Absorption, Bellevue, 2006 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

Bellevue and King County office rents closely mirrored one another from roughly 2000 to 2019, fluctuating between $20 per square foot to $40 per square foot. Since the onset of the COVID-19 pandemic, Bellevue's office rents have increased above county rental rates, peaking at $42.50 and remaining near $5 higher than the average county rate (**Exhibit 11**).

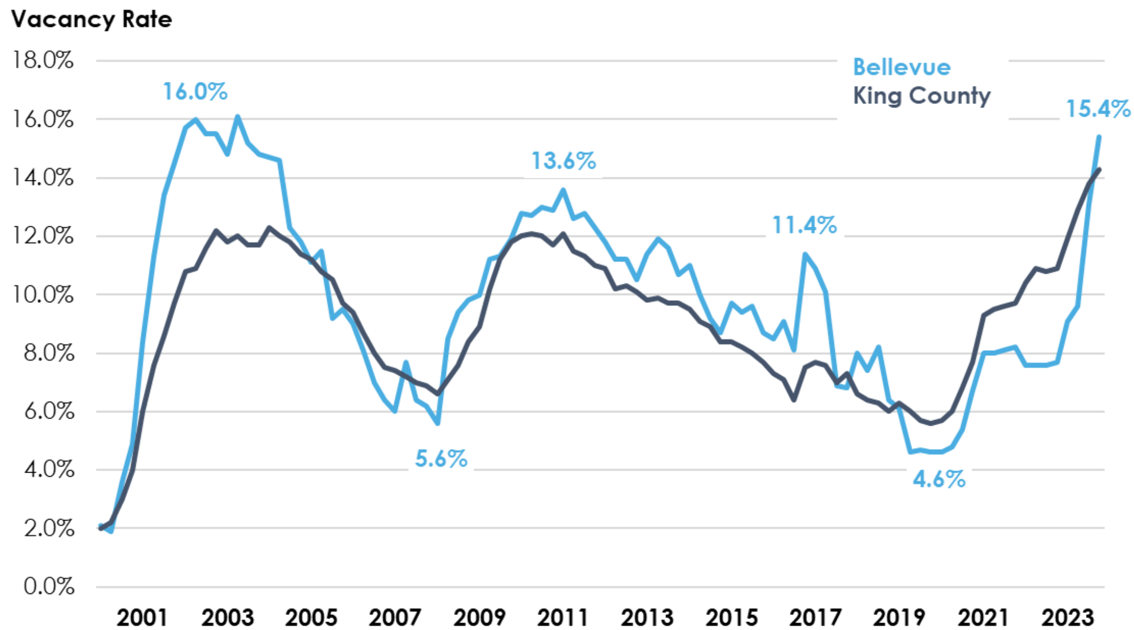
Exhibit 12. Office Rental Rates, Bellevue and King County, 2000 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

Apart from a few years in the early 2000s, Bellevue and King County office vacancy rates have remained similar since 2000. Office rents in both markets have increased by about 10% since 2019, with Bellevue's current office vacancy rate sitting greater than 15% (**Exhibit 12**). This is in part due to COVID-19 pandemic induced remote work trends which have led to increases in office vacancy rates across the entire Puget Sound region in recent years. Additionally, there have been some large deliveries of office space in Bellevue in 2023.

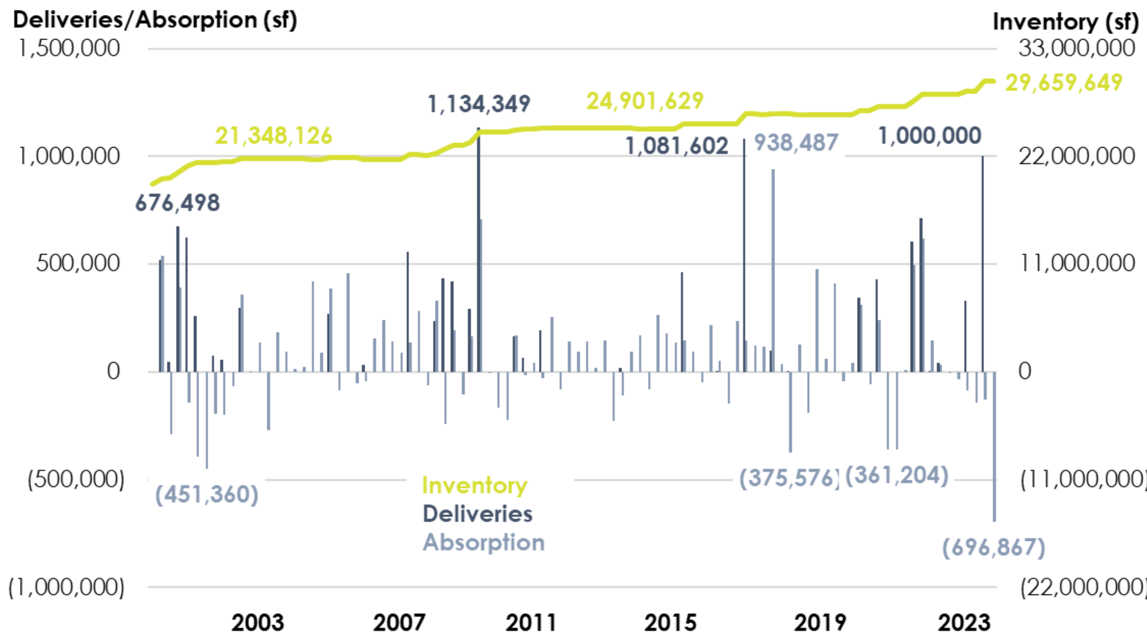
Exhibit 13. Office Vacancy Rates, Bellevue and King County, 2000 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

Bellevue's office inventory has steadily increased since 2000. Recent and large office deliveries of more than one million square feet were brought online in Bellevue in late 2016 and 2023. Current office inventory in Bellevue currently sits at nearly 30 million square feet. Absorption since 2000 has generally been steady, suggesting Bellevue's office market has historically been healthy (**Exhibit 13**).

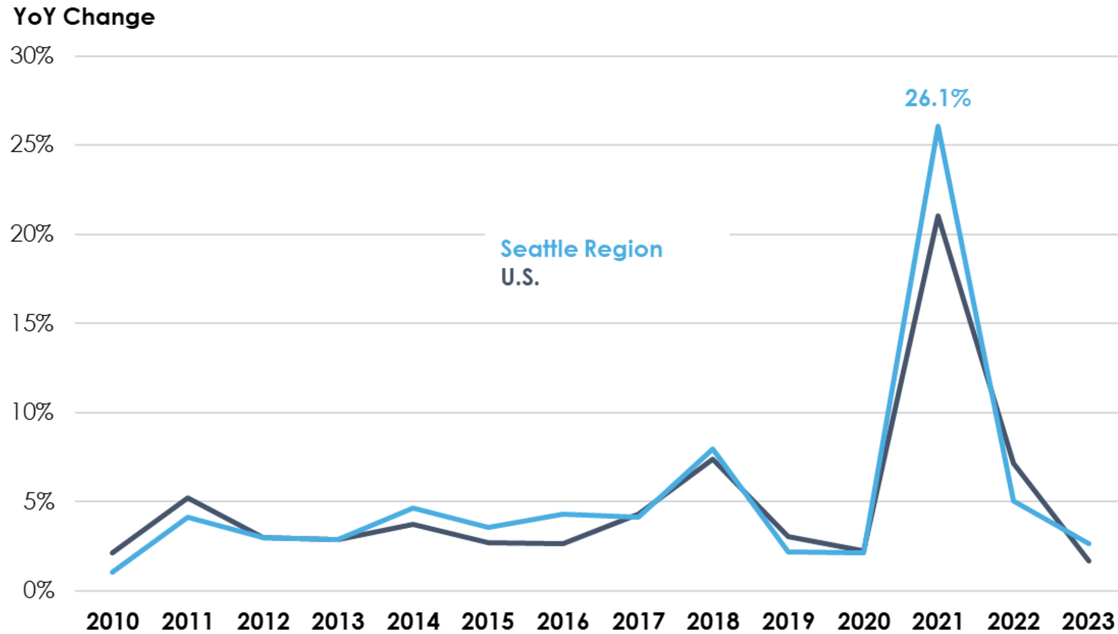
Exhibit 14. Office Inventory, Deliveries, Absorption, Bellevue, 2000 – 2023



Sources: CoStar, 2023; Community Attributes Inc., 2023.

Prior to 2021, construction prices had steadily increased by roughly 5% year-over-year. From 2020 to 2021, construction prices increased by 26.1% in the Seattle Region, slightly outpacing the nationwide growth rate. Since 2021, construction price growth has returned to pre-pandemic levels, but construction prices have remained well above pre-pandemic levels (**Exhibit 14**).

Exhibit 15. Year-over-year Change in Construction Cost Index, Seattle Region and U.S., 2010 – 2023



Sources: Mortenson, 2023; Community Attributes Inc., 2023.

Affordable Housing Funding Analysis

The City of Bellevue currently uses a variety of funding sources and programs to support affordable housing. These range from sales and use taxes to general fund revenues to grant or tax credit programs. Based on data provided by the City of Bellevue tracking affordable housing unit production and program use, Bellevue has seen more than 5,000 affordable units come online as a result of their programs. Since 2013, The City of Bellevue's housing fund has received more than $57 million in revenues to put towards affordable housing, which excludes funding invested in Bellevue from a range of other sources. Housing providers may also leverage a variety of additional sources to support affordable housing in Bellevue. Lastly, there are funding sources the City of Bellevue may leverage in the future for affordable housing.

Many affordable housing projects leverage multiple funding streams. Many programs, like the ARCH Housing Trust Fund, prioritize projects that can leverage multiple sources of funding. Plymouth Housing's Eastgate Permanent Supportive Housing is one example of a project receiving ARCH Housing Trust Fund resources as well as low-income housing tax credits (LIHTC).

Revenue Sources Generated or Allocated by the City of Bellevue

Housing & Related Services Sales Tax

The Housing and Related Services Sales Tax is a maximum 0.1% sales tax that any city may adopt if the county has not yet done so. The Washington State legislature updated this tax through House Bill 1590 in 2020 to allow councilmanic adoption. King County adopted the Housing & Related Services sales tax effective January 1, 2021. The City of Bellevue adopted this tax by Resolution 9826, effective January 1, 2021.[15]

Use of funds: A minimum of 60% of revenues collected must be allocated towards, the following purposes as defined by RCW 82.14.530 (2)(a):

- Developing or acquiring affordable housing
- Developing or acquiring facilities providing housing-related services
- Funding the operations and maintenance costs of newly constructed affordable housing or facilities where housing-related programs are provided.

The use of funds is also restricted for specific populations with incomes at or below 60% of county area median income (AMI). This includes, as defined by RCW 82.14.530 (2)(b):

- People with disabilities
- People with behavioral health disabilities
- People who are homeless or at risk of becoming homeless
- Unaccompanied homeless youth or young adults
- Veterans
- Senior citizens
- Domestic violence survivors

The remaining, up to 40%, of funds must be used for the operation and delivery of behavioral health treatment and housing-related programs, as defined by RCW 82.14.530 (2)(c). Additionally, only 10% of the

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15 Resolution 9826: https://bellevuewa.gov/city-government/departments/parks/community-services/human-services/behavioral-health-housing-related-services-housing-stability-program#:~:text=Through%20the%20Housing%20Stability%20(formerly,Bellevue%20to%20collect%20the%20tax.
MRSC: https://mrsc.org/explore-topics/planning/housing/affordable-housing-funding-sources

revenues collected may be used as an alternative to existing local funding for the allowed use of funds (RCW 82.14.530 (6)(b)).

City of Bellevue Revenues: Funding received from the Housing and Related Services tax is administered through the City of Bellevue's Behavioral Health and Housing Related Services Housing Stability Program.

The City of Bellevue's 2023-2024 budget identified $19.8 million to be used for the development of affordable housing.[16] To date, the City of Bellevue has raised more than $26 million[17] in tax revenue from HB-1590, including nearly $21 million[18] between 2021 and 2022.

Priorities for the Housing Stability Program (HSP) set by the City Council:

- "Provide housing for household earning below 30% of area median income (AMI);
- Address and prevent homelessness and housing instability; and
- Focus on underserved, vulnerable residents in Bellevue."[19]

Each year the HSP issues a request for proposals (RFP) to allocate available funding to projects that serve to advance program priorities. The program creates a process by which housing projects can apply for funding and encourages that projects partner with other providers and seek funding from other sources. The 2023 program has $10.4 million in funding and allows eligible projects to request up to $13,112.50 per unit per year for operations and maintenance. The City of Bellevue has partnered with A Regional Coalition for Housing (ARCH) to administer the process. Applications for 2023 funding were due to ARCH by September 15, 2023, and recommendations are expected to be reviewed by City Council in the first quarter of 2024.[20]

HB 1406 Affordable Housing Sales Tax Credit

Substitute House Bill 1406, called the Affordable and Supportive Housing – Local Sales and Use Tax bill, was enacted in July 2019 and

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16 City of Bellevue 2023-24 Adopted Budget 2023-29 Capital Investment Program, page 81.
17 City of Bellevue Housing Fund Revenue, 2013-2023.
18 City of Bellevue Housing Fund Revenue, 2013-2023.
19 https://bellevuewa.gov/city-government/departments/community-development/housing/housing-stability-program
20 https://bellevuewa.gov/city-government/departments/community-development/housing/housing-stability-program

allowed jurisdictions to adopt the measure by July 28, 2020[21]. This bill gave jurisdictions the authorization to implement a 0.0073% or 0.0146% local sales tax, which would be credited against the state's portion of the sales and use tax, to fund affordable or supportive housing.

Counties[22] and cities meeting selected criteria[23] adopting the tax credit will receive 0.0146% of taxable retail sales for 20 years. The City of Bellevue adopted a 0.0073% retail sales and use tax, credited against the state's portion of the sales and use tax through Ordinance 6486 effective November of 2019.[24] A maximum amount is calculated for each city and county based on the adopted rate multiplied by the fiscal year's taxable retail sales for the jurisdiction. If a jurisdiction exceeds that maximum, distributions cease until the next fiscal year and the jurisdiction must remit any excess distributions to the State.

Use of Funds: Revenues collected through HB 1406 may only be used for the following purposes, according to RCW 82.14.540[25]:

- "Acquiring, rehabilitating, or constructing affordable housing, which may include new units of affordable housing within an existing structure or facilities providing supportive housing services under RCW 71.24.385;
- Funding the operations and maintenance costs of new units of affordable or supportive housing; or
- For providing rental assistance to tenants."

The funds must be used to serve households with a median income of 60% or less of the county AMI. Additionally, the administrative costs may not exceed 10% of the annual distribution. Jurisdictions adopting this tax, may also use it to repay general obligation or revenue bonds issued for uses meeting the above requirements.

City of Bellevue Revenues: The current fund balance in the City of Bellevue is around $1 million, and more than $2.4 million in tax

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21 Substitute House Bill 1406 – Affordable and Supportive Housing – Local Sales and Use Tax. July, 2019.
[22] Counties receive 0.0146% minus the credits received by participating cities.
[23] Cities with a qualifying local tax prior to July 28, 2020 receive 0.0146% of local taxable retail sales. According to the Municipal Research and Services Center, a qualifying local taxes include an affordable housing sales tax as defined by RCW 82.14.530, an affordable housing levy (RCW 84.52.105), a levy lid lift restricted to affordable housing, or a mental health and chemical dependency sales tax (RCW 82.14.460.
[24] City of Bellevue, Ordinance

revenues have been collected since 2020, averaging more than $600,000 annually.[26]

Affordable Housing Contingency Capital Investment Program (CIP) Fund

The City of Bellevue allocates $2 million annually from its Capital Investment Program budget into its Affordable Housing Contingency Fund and sets aside the funds to be exclusively used for the preservation and development of affordable housing.[27]

Use of funds: Priorities for use of these revenues are based on City Council direction, with the purpose of providing funding beyond current levels to support affordable housing especially for households earning less than 60% of AMI.

City of Bellevue Revenues: Overall, the City of Bellevue has $23 million in programmed expenditures, of which $9 million has been appropriated to-date.[28]

BelRed In-Lieu Fees

Development projects in BelRed can exceed the base Floor Area Ratio (FAR) if they meet certain criteria depending on the project amenity. If developers choose not to meet the specified criteria, they can pay an in-lieu fee to achieve the desired excess FAR. The in-lieu fee charge for Tier 1 residential projects is $26.85 per-square-foot of bonus area, and $22.38 for nonresidential and Tier 2 developments per-square-foot of bonus building area.[29] This development requirement and funding source is separate from the MFTE program, although it can be employed in tandem in a market rate housing project.

Use of Funds: According to the City of Bellevue Land Use Code 20.25D.090(C)(5), collected in-lieu fees must be used to develop the amenity for which they were paid. In addition to affordable housing, other amenities developers may provide or pay in-lieu fees for include park dedication; trail dedications and easements; stream restoration; regional transfer of development rights; child care or non-profit space; public restrooms; public art; public access to outdoor plaza; LEED Gold

26 City of Bellevue Housing Fund Revenue. 2013-2023.
27 City of Bellevue 2023-24 Adopted Budget 2023-29 Capital Investment Program Plan. Page 348.
28 City of Bellevue 2023-24 Adopted Budget 2023-29 Capital Investment Program Plan. page 461-464. Page 476.
29 City of Bellevue Bel-Red FAR Amenity Standards; Fee-in-Lieu 2023 Adjusted Rate Per SF Bonus Area, 2023.

or Platinum certification; active recreation area; and natural drainage practices.

City of Bellevue Revenues: Between 2013 and 2023, the City of Bellevue raised approximately $11.7 million[30] in revenues through the collection of housing in-lieu fees. According to the City of Bellevue, a portion of these in lieu-fees were recently used to support a project focused on preservation of affordable units.

Multi-Family Tax Exemption (MFTE)

The City of Bellevue offers Multi-Family Tax Exemptions up to a maximum of 12 years, for developments that meet specific requirements.[31]

City of Bellevue Revenues: The MFTE program does not generate revenue for the City of Bellevue. Rather, the City of Bellevue supports multifamily and affordable housing development by granting a property tax exemption, or by foregoing potential property tax revenues to incentivize development.

A 2019 report by the Washington State Joint Legislative Audit and Review Committee (JLARC) estimated per unit beneficiary savings per unit. Data specific to Bellevue was unavailable. Statewide beneficiaries save nearly $2,100 per market rate unit, within developments with all market rate units, and nearly $10,700 per affordable unit. The report found that the value of benefits varied significantly depending on the location, primarily driven by the number of affordable units.[32]

ARCH Housing Trust Fund

A Regional Coalition for Housing (ARCH) invests funding received from member jurisdictions into the construction and preservation of affordable housing through the Housing Trust Fund. Funds are allocated annually through a competitive process. The City of Bellevue, like other Eastside cities, contributes annually to ARCH, including $100,000 in retail sales and use taxes. ARCH also administers the Bellevue Housing Stability Fund, which is funded by the City of Bellevue's Housing and Related Services Tax revenues.

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[31] https://bellevuewa.gov/sites/default/files/media/pdf_document/2021/MFTE_factsheet_Bellevue.pdf

[32] https://leg.wa.gov/jlarc/taxReports/2019/MFTE/f_ii/print.pdf

Use of funds: ARCH sets funding priorities and target populations for each round of funding. In 2023, the priorities include:

- Target population, specifically family, senior, homeless, and special needs.
- Leveraging private investments
- Transit-oriented development
- Shelter and supportive housing
- Preservation
- Geographic equity
- Racial equity
- Cost effective development approaches
- Timely delivery of housing
- Innovative and sustainable and environmentally friendly solutions

Applicants eligible for funding include non-profit or private for-profit organizations, public housing authorities, public development authorities, and local governments. Projects funded by the Housing Trust Fund must create housing for households at or below 50% of area median income. There are exceptions to the income limits for projects that leverage other funding sources that allow units serving households at or below 80% of area median income.

Funding may be used for acquisition and related costs; architecture, engineering and design; rehabilitation or construction costs; site development; utility service costs; and short-term direct tenant assistance focusing on homelessness prevention.[33]

City of Bellevue Revenues: Between 1992 and 2014, the City of Bellevue contributed 31% of ARCH funding and 31% of funding has been allocated to Bellevue.[34] In 2022, 34% of ARCH Funding came from the City of Bellevue. In January of 2023 ARCH recommended two projects in Bellevue receive funding, Bellevue Homes by Habitat for Humanity and Spring District 120th Avenue Transit Oriented Development by BRIDGE. Together these two projects provide 265

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[33] https://static1.squarespace.com/static/61687c3f7fbc096461d80234/t/64d13e17d13cc95addeecb02/1691434520286/1_2023+ARCH+Housing+Trust+Fund+Guidelines+Final.pdf
[34] https://bellevuewa.gov/sites/default/files/media/pdf_document/2021/AH%20Bellevue%20funded%20ARCH%20projects%202014-2021.pdf

affordable units and were recommended to receive $950,000 in funding.[35]

Between 2017 and 2021 ARCH provided funding to seven projects in Bellevue:

- 30 Bellevue by Imagine Housing: $356,084 (2017)
- Men's Home by CFH: $60,567 (2017)
- Men's Shelter by CFH: $228,920 (2020)
- Eastgate Apartments by Inland Group Polaris: $263,930 (2020)
- Eastgate PSH by Plymouth: $62,200 (2021)
- Bellevue Homes by Habitat for Humanity: $203,600 (2021)
- Spring District 120th St. Affordable Housing by BRIDGE: $118,700 (2021)[36]

Other Revenue Sources Used in the City of Bellevue

King County Transit-Oriented Development (TOD) Eastside Fund

RCW 67.28.180 authorizes King County the authority to bond against 37.5% of the County's post-2021 hotel and motel tax revenue, in order to develop affordable housing near public transit.[37] Called the Transit-Oriented Development Bond Allocation Plan[38], these funds are set aside exclusively for developments that will offer income-restricted units at or below 80% of the AMI, and will be located within one-half mile of a transit station. These funds may also be used to repay general obligations or revenue bonds to finance such developments, as well as revenue bonds to promote sustainable workplace opportunities near tourism impacted communities. The county may use the funds for "contracts, loans, or grants to non-profit organizations or public housing authorities."

Use of Funds: State law mandates that debt service for revenue bonds pledged against these revenues may not make up more than half of the 37.5%[39] of the post-2021 hotel and motel tax revenues allocated for affordable housing. Excluded from this restriction are General

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[35] ARCH Executive Committee Fall 2022 Housing Trust Fund (HTF) Recommendation.
[36] ARCH HTF Expenditures 2017-2022.
[37] King County Transit-Oriented Development Bond Allocation Plan. 2016.
[38] King County Transit-Oriented Development Bond Allocation Plan. 2016.
[39] King County Transit-Oriented Development Bond Allocation Plan, Page 1.

Obligation bonds that could pledge the County's full faith and credit, as well as pledge the post-2021 tax revenues.

Given that state law also requires that these lodging tax funds are to be used to provide contracts, loans or grants to non-profit organizations or public housing authorities, King County strongly advocates for partnerships between for- and non-profit housing developers to maximize affordable housing output.

The 2016 King County Transit-Oriented Development Bond Allocation Plan documents the priorities, strategies and allocation for this funding source. Principles guiding funding decisions include:

- Funding will be "fairly and equitable distributed" across the county.
- Prioritize investments in high-capacity transit areas.
- Investments should meet the county's principles for diversity, including racial, ethnic and economic diversity.
- Investments should be integrated with other initiatives and strategies.
- Investments should target goal to meet housing needs "as quickly as reasonably possible".
- Prioritize investments that serve populations with the greatest need including families, veterans, survivors of domestic violence, people with disabilities, persons at risk of homelessness and persons reentering the community after incarceration.
- Encourage projects that "leverage other funding sources".

Projects are awarded through an annual Request for Proposals (RFP) process.

City of Bellevue Revenues: King County's 2016 strategy outlines high-level priorities for investment of $87 million over five years. This strategy outlined six key project types:

- All-County Agency Proposed Projects: $32.3 Million
- I-90 Corridor (Issaquah to North Bend) Affordable Housing Projects: $10 Million
- Northgate Affordable Housing: $10 Million
- South King County Targeted RFP: $10 Million
- Bel-Red Targeted RFP: $10 Million
- Seattle South Downtown Projects: $14.7 Million

After the first five years, starting in 2021, the strategy indicates that any lodging tax not allocated to debt service will be used for annual funding awards. The amount estimated in 2016 for debt service after 2021 is estimated at $7 million per year.

King County manages the TOD funding through the Housing Finance Program (HFP). Annual reports document each project, the amount of funding and the source(s) of funding each year between 2016 and 2021. Projects in Bellevue receiving TOD funding between 2016 and 2021 include:

- King County Housing Authority/Highland Village: 76 units receiving a $3.5 million award (2016).
- Horizon Housing Alliance Polaris at Eastgate: 354 units receiving a $8 million award (2020).

In 2020 King County also released an RFP for Sound Transit Spring District Station Transit Oriented Development. Results of this RFP are not available in King County's documentation. In February of 2023, King County announced a total of $24.67 million in funding awards to eight projects through the Housing Finance Program, among these was BRIDGE Housing's Spring District project anticipated to provide 235 units located at Sound Transit's Spring District site[40].

Community Development Block Grants (CDBG)

The U.S. Department of Housing and Urban Development (HUD) distributes grant funding annual to states and local governments to address housing and community development needs. HUD uses a formula to distribute these funds to states and large urban cities and counties. This funding is not available to small cities and counties, nor non-profit organizations, and public housing authorities. The City of Bellevue receives CDBG funding annually.

Use of Funds: The City of Bellevue's Consolidated Housing and Community Development Plan serves as the City of Bellevue's application for CDBG funding and guides the use of CDBG funding received. This plan covers a five-year period and has annual action plans that are updated each year. HUD reviews and annual action plans before releasing allocated CDBG funds to each jurisdiction.

The Code of Federal Regulations Part 570 documents uses eligible for CDBG funding. These generally include community facilities and infrastructure; housing rehabilitation and infrastructure; economic development and small business assistance; planning; and public services. All funding must primarily support projects benefiting persons at or below 80% of AMI.

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[40]https://kingcounty.gov/en/legacy/elected/executive/constantine/news/release/2023/february/02-hfp-awards

The City of Bellevue's 2020-2024 Community Development Block Grant Consolidated Plan for Housing & Community Development[41] identifies annual goals and objectives including:

- Enhance Community and Economic Development
- Preserve and Improve Access to Affordable Housing
- Provide Shelter and Services for Homeless

These goals guide project selection, also documented in the plan. The City of Bellevue's plan documents seven projects, including population(s) served, allocated CDBG funding, other sources of funding, and a project description. The following projects are explicitly mentioned in the plan:

- KCHA Major Home Repair Program 2020
- KCHA Major Home Repair Admin 2020
- Sound Generations Minor Home Repair 2020
- Jewish Family Service Refugee & Immigrant Services 2020
- CDBG Administration 2020
- CDBG Planning 2020
- Ventures Microenterprise Assistance 2020

City of Bellevue Revenues: The amount of funding received each year depends on the congressional appropriation for HUD annually. HUD then uses a formula to distribute the appropriation between HUD's programs and grant recipients. The formula allocating funding across jurisdictions considers factors such as population, people in poverty, population growth, and more.[42]

Between 2003 and 2022, the City of Bellevue has received more than $15.9 million in CDBG funding, including Coronavirus Aid, Relief, and Economic Security Act (CARES) Act grants.[43] The 2022 Consolidated Annual Performance and Evaluation Report (CAPER) published by the City of Bellevue documents a total of nearly $1.2 million in CDBG funds

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[41] City of Bellevue 2020-2024 Community Development Block Grant Consolidated Plan for Housing & Community Development.
[42] https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-Formula-Appropriation-Process-Transcript.pdf
[43] https://www.hudexchange.info/grantees/allocations-awards/?params=%7B%22limit%22%3A20%2C%22COC%22%3Afalse%2C%22sort%22%3A%22%22%2C%22min%22%3A%22%22%2C%22years%22%3A%5B%5D%2C%22dir%22%3A%22%22%2C%22multiStateAwards%22%3A0%2C%22grantees%22%3A%5B%7B%22id%22%3A%22155%22%7D%5D%2C%22state%22%3A%22WA%22%2C%22orgid%22%3A%22%22%2C%22orgname%22%3A%22%22%2C%22programs%22%3A%5B2%5D%2C%22max%22%3A%22%22%7D##granteeSearch

available in 2022, including $807,700 in CDBG grant funding and nearly $355,100 in program income. The City of Bellevue also allocated more than $4.7 million in general fund revenues to support CDBG funded projects and programs.[44] The 2021 CAPER reports $1.3 million in available CDBG funds, including unspent funds from 2019 and 2020, and program income.

CDBG funds in 2022, as documented in the CAPER were used for a variety of programs and activities with the goal to preserve and improve access to affordable housing. None of these activities in 2022 created new affordable housing units. Specific projects and program activities include:

- Life safety repairs through the King County Housing Authority Major Home Repair program
- Minor home repairs through the Sound Generations Minor Home Repair program
- Congregations for the Homeless Behavioral Health Program
- Congregations for the Homeless Food Assistance Program
- Hopelink Rental Assistance Program
- YMCA of Greater Seattle Food Box Delivery Program
- YMCA of Greater Seattle Rental Assistance Program
- India Association of Western Washington Behavior Health Program
- India Association of Western Washington Rental Assistance Program

HOME Investment Partnerships Program

The Home Investment Partnerships Program (HOME) is similar to CDBG funding, but HOME grants can solely be used to preserve and develop affordable housing. Like CDBG, HOME is a program administered by HUD and is allocated to jurisdictions based on a formula. The City of Bellevue participates in the King County Consortium, a group of contiguous local governments that utilize the consortium to directly participate in the program that they would not individually qualify for. Some cities participating in the Consortium participate for both CDBG and HOME funds, while four jurisdictions including the City of Bellevue participate for HOME funds only.

Use of Funds: HOME funds are designed to be used for the construction, acquisition, and rehabilitation of for-rent and ownership affordable housing. The funds can also be used to provide rental

[44] https://bellevuewa.gov/sites/default/files/media/pdf_document/2023/HS-2022-CAPER-Bellevue-Final.pdf

assistance for low-income households. Participating jurisdictions are required to contribute a match of at least 25 cents per dollar of HOME funds.

The King County Consortium, which serves as the lead entity for both HOME and CDBG grants for participating cities, is overseen by the Joint Recommendations Committee (JRC).[45] The JRC is codified in King County Code, Title 24, Chapter 24.13.[46] The JRC provides guidance and funding recommendations for HOME investments. King County Consortium prepares a Consolidated Housing and Community Development Plan, just like the City of Bellevue, which guides CDBG and HOME investment strategies and priorities, and serves as the application for HUD grant funding. The goals of the plan include:

- Ensure equitable access to affordable housing in the region.
- "Make homelessness, rare, brief and one-time and eliminate racial disparities."
- Support healthy communities through improving the well-being and mobility of low- and moderate-income households with a focus on communities with historic disparities.

City of Bellevue Funding: Since 1992 the King County Consortium has received more than $92.9 million in HOME funding.[47] This funding has supported 2,180 rental units, 254 ownership units and 787 owner rehab units between 1992 and 2019 throughout King County. During this time, the average HOME costs per rental unit in King County was nearly $28,800, for ownership units the average cost per unit was $26,500 and for ownership rehab units it was $16,500.[48]

Since 2011, the King County Consortium has supported five projects in the City of Bellevue through HOME funding. Among these five projects, three were rental projects and two were homebuyer projects. These projects were allocated nearly $8.2 million in funding. Recipients of these funds include the Low Income Housing Institute, King County, and Red Vines 1. Projects completed on average took four years from the date of funding commitment to project completion. One project is

[45] https://kingcounty.gov/en/legacy/depts/community-human-services/housing/consortium
[46] https://apps.leg.wa.gov/rcw/default.aspx?cite=84.52.105
[47] https://www.hudexchange.info/programs/home/home-performance-snapshot-and-pj-rankings-reports/?&filter_scopetypeeach=&filter_dateyeareach=2019-09-30&filter_state=&filter_grantee=&current_page=6
[48] https://www.hudexchange.info/programs/home/home-performance-snapshot-and-pj-rankings-reports/?&filter_scopetypeeach=&filter_dateyeareach=2019-09-30&filter_state=&filter_grantee=&current_page=6

open having received funding in 2021, with expected completion in 2025. Overall, these five projects support 62 units, of which two are ownership units.[49]

Washington State Housing Trust Fund

Administered by Commerce, the Housing Trust Fund (HTF) provides municipalities with loans or grants to develop affordable housing projects. Grants and loans are allocated during annual competitive application cycles. In addition to funds appropriated by Washington State, HUD allocates at least $3 million[50] in national HTF funding to each state every year. Allocations are determined based on a formula. In 2023, Washington received nearly $8.4 million in national HTF funding, which are distributed by the state HTF.

The maximum award per development project is $5 million[51], which includes shelter projects and scatter-site rental developments. The maximum award per homeownership project is $1.5 million.[52] Applicants can receive no more than $5 million in HTF award funding per year, and $10 million per biennium for multifamily projects, while homeowners can receive no more than $1.5 million per year and $3 million per biennium.

Once awarded, recipients receive funding in the form of amortized loans, deferred loans, or recoverable grants. The typical term of an HTF award is 40 years.[53]

Use of funds: Recipients for HTF funding are limited to the following:[54]

- Local government
- Local housing authority

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[49] https://www.hudexchange.info/programs/home/home-activities-reports/?filter_DateYearEach=2023-08-31&filter_State=WA&program=HOME&group=Act

[50] https://www.hud.gov/press/press_releases_media_advisories/hud_no_23_089

[51] https://deptofcommerce.app.box.com/s/f89ytc0qtime7dl6wpqke5h2zl1jwzlm

[52] https://deptofcommerce.app.box.com/s/f89ytc0qtime7dl6wpqke5h2zl1jwzlm

[53] https://deptofcommerce.app.box.com/s/f89ytc0qtime7dl6wpqke5h2zl1jwzlm. Page 12.

[54] https://deptofcommerce.app.box.com/s/f89ytc0qtime7dl6wpqke5h2zl1jwzlm

- Behavioral health administrative services organization
- Non-profit community or neighborhood-based organization
- Federally recognized Indian tribes
- Regional or statewide non-profit housing assistance organization

Eligible activities to receive funding from HTF include the following:[55]

- "Construction, rehabilitation or acquisition of low and very-low income housing units
- Rent subsidies
- Matching funds for social services directly related to providing housing for special-need tenants in assisted projects
- Technical assistance, design and finance services and consultation, and administrative costs for eligible non-profit community or neighborhood-based organizations
- Administrative costs for housing assistance groups or organizations when such grant or loan will substantially increase the recipient's access to housing funds other than those available under this chapter
- Shelters and related services for the homeless, including emergency shelters and overnight youth shelters
- Mortgage subsidies, including temporary rental and mortgage payment subsidies to prevent homelessness
- Mortgage insurance guarantee or payments for eligible projects
- Down payment or closing cost assistance for eligible first-time home buyers
- Acquisition of housing units for the purpose of preservation as low-income of very low-income housing
- Projects making housing more accessible to families with members who have disabilities
- Remodeling and improvements as required to meet building code, licensing requirements, or legal operations to residential properties owned and operated by an entity eligible under RCS 43.185A.040, which were transferred as described in RCW 82.45.010(3)(t) by the parent of a child with developmental disabilities."

City of Bellevue Funding: In the 2021-2023 biennium, two projects received Washington HTF awards. These two projects include HSH Apartments and Illahee Affordable Housing. Illahee Affordable housing was also funded in part through Amazon's Housing Equity Fund, which provided low-interest loans and grants to the King County Housing

55 https://deptofcommerce.app.box.com/s/f89ytc0qtime7dl6wpqke5h2zl1jwzlm. Page 16.

Authority. HTF awards are funding 61 units. Total development costs for these two projects are estimated at $17.4 million, and the total award for the two projects was more than $3.9 million. One project received traditional HTF funding while the second received a direct appropriation, which did not require a competitive bidding process.[56] Commerce also awarded two gap funding awards in 2021 to projects in Bellevue totaling $1.7 million for Eastgate PSH and Eastgate Shelter.

Connecting Housing to Infrastructure Program (CHIP)

Initially funded in 2021 by the Washington State Legislature, and overseen by Commerce, the Connecting Housing to Infrastructure Program received an additional $55 million[57] for the 2023-25 funding. Through the CHIP grant program, cities, counties, or public utility districts can apply for funding that is intended to help cover upfront and infrastructure costs associated with developing affordable housing.

Uses of funds: Fund are allowed to be put towards the following:[58]

- Onsite water, sewer, and stormwater improvements
- Offsite water, sewer, and stormwater improvements in the right-of-way, connecting to the development
- Waived system development charges for the project.

In order to be awarded these funds, the city or county must have adopted a sales and use tax for affordable housing, the development must be comprised of at least 25% affordable units at 80% or less of AMI, and construction must commence with two years of receiving the CHIP grant funding[59].

City of Bellevue Funding: To date, nearly $41 million has been awarded to municipalities across Washington State. Two projects within the City of Bellevue have received funding, with funding totaling more than $3.6 million. Awarded funds supported the development of

[56] Washington State Department of Commerce Consolidated 2021-23 Biennial Awards and Units Summary
[57] https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/planning-for-housing/chip/
[58] https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/planning-for-housing/chip/
[59] https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/planning-for-housing/chip/

the Eastgate Permanent Supportive Housing and Polaris at Eastgate developments. These two developments created 455 affordable units.[60]

Low-Income Housing Tax Credits (LIHTC) and Bond Programs

Affordable housing developers can apply for Federal Low-Income Housing Tax Credits, to finance both the redevelopment and construction of affordable housing projects. This program is administered by the Washington State Housing Finance Commission (WSHFC). The annual number of credits is calculated by the Internal Revenue Service (IRS) on a per capital basis.[61]

Developers can access these credits through two programs, the 4% Bond/Tax Credit program and the 9% tax credit program. Projects must apply for the 9% tax credit through a competitive process. This credit funds new construction and rehabilitations without the supplementation of federal subsidies.[62] The 4% Bond/Tax Credit program subsidizes 30% of units at a LIHTC development by covering the cost of new construction using additional subsidies or the acquisition cost of existing buildings.[63] Projects meeting certain criteria may forgo the competitive process for the 4% program. While the federal government limits the number of credits available through its 9% LIHTC program, there is no federal cap on credits awarded through the 4% program if more than half of a project is financed by bonds issued by the WSHFC.

In 2023, WSHFC was given authority for more than $21.4 million in tax credits. The Plymouth Housing Group received a $2.1 million LIHTC in 2021 for the Eastgate PSH, supporting 92 low-income units, including 69 units for homeless populations.[64]

In 2023 WSHFC received applications for $561.1 million in tax-exempt bonds and allocated $249.3 million. In 2021, during the first-round of allocations Polaris at Eastgate by the Inland Group and Horizon

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[60] CHIP Awards Grantee. June 26, 2023. https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/planning-for-housing/chip/
[61] https://mrsc.org/explore-topics/planning/housing/affordable-housing-funding-sources#sales
[62] https://www.wshfc.org/mhcf/9percent/index.htm
[63] https://www.wshfc.org/mhcf/4percent/index.htm
[64] https://www.wshfc.org/mhcf/9percent/lists.htm

Housing Alliance were awarded $65 million in tax-exempt bonds, supporting 360 units.[65]

There are currently 18 projects in Bellevue that were financed in part using 9% tax credits, with 1,650 income-restricted units currently in service.[66]

Corporate Partnerships, Commitments and Donations

Two of King County's largest employers have pledged to contribute funding toward affordable housing. These funding sources provide additional options for local governments and non-profit organizations to fund affordable housing.

In January 2021, Amazon launched the **Amazon Housing Equity Fund**, an over $2 billion[67] commitment to develop and preserve more than 20,000 affordable homes throughout Washington, Virginia, and Tennessee. Amazon has outlined a multipronged approach to reaching their goal:

- "Using low-rate loans and capital grants to preserve and create thousands of affordable homes for the long term.
- Providing opportunities for emerging affordable housing developer companies led by people of color in real estate so they can grow professionally and have easier access to capital.
- Providing grants to support community-based organizations, mission-driven housing providers, traditional and nontraditional public agencies, and organizations led by people of color.
- Advocating for innovative and equity-based policy initiatives.
- Partnering with local governments and agencies on innovative ways to increase affordable housing options.
- Using quick strike funding for preservation of naturally occurring affordable housing buildings."[68]

The following information outlines where Amazon's funding has been placed to date within Bellevue:

- King County Housing Authority, $24 million for 1,084 affordable units.

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[65] https://www.wshfc.org/mhcf/4percent/2021BondAllocationList.pdf
[66] Active WSHFC Multifamily Rental Properties. https://www.wshfc.org/mhcf/9percent/other.htm
67 https://www.aboutamazon.com/news/job-creation-and-investment/amazons-commitment-to-bellevue-and-the-eastside
[68] https://www.amazonhousingequity.com/what-is-the-fund

- Sound Transit Spring District in partnership with BRIDGE Housing $3.75 million grant and $22.1 million loan for 233 affordable units.[69]

Amazon also funded a $250,000 grant[70] to the Bellevue School District to develop a plan to help teachers afford housing.

In July 2019 Microsoft made a $500 million commitment towards affordable housing development and related solutions throughout the Puget Sound Region, called the **Microsoft Affordable Housing Initiative**. This includes separate investments of $225 million[71] at below market-rate returns, and $250 million[72] at market-rate returns, to construct and preserve affordable and middle-income housing in Lake Washington, Bellevue, Kirkland, Redmond, Issaquah, Renton, and Sammamish. An additional $25 million[73] was promised in the form of philanthropic grants to address homelessness in the region.

Microsoft promised an additional $200 million[74] appropriation to Washington's Housing Trust fund, as well as supporting condominium liability reforms, extending the MFTE program, and new incentives for local municipalities to put more efficient land use policies into action.

As of January 2022, Microsoft announced they were allocating an additional $50 million to the Expanded Land Acquisition Program with the Washington State Housing Finance Commission. Of the $750 million Microsoft has pledged to date, Microsoft has overseen and facilitated the disbursement of $583 million towards a bevy of initiatives, funds and developments, including the development and preservation of around 730 units[75] in Bellevue. In addition to the allocation of funds by Microsoft to facilitate the construction of the Eastgate Men's Shelter, Microsoft funds have supported numerous programs and initiatives aimed at developing affordable units in Bellevue, including King County Housing Authority, Plymouth

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[69] https://www.amazonhousingequity.com/what-is-the-fund/our-projects
70 https://www.aboutamazon.com/news/job-creation-and-investment/amazons-commitment-to-bellevue-and-the-eastside
71 https://blogs.microsoft.com/on-the-issues/2019/01/16/ensuring-a-healthy-community-the-need-for-affordable-housing/
72 https://blogs.microsoft.com/on-the-issues/2019/01/16/ensuring-a-healthy-community-the-need-for-affordable-housing/
73 https://blogs.microsoft.com/on-the-issues/2019/01/16/ensuring-a-healthy-community-the-need-for-affordable-housing/
74 https://blogs.microsoft.com/on-the-issues/2019/01/16/ensuring-a-healthy-community-the-need-for-affordable-housing/
75 https://blogs.microsoft.com/on-the-issues/2022/01/20/affordable-housing-initiative-washington-state-2022/

Housing, Stream – Urban Housing Ventures I, and Washington State Housing Finance Commission Expanded Land Acquisition Program.[76]

Other Revenue Sources Available

Additional revenues sources which the City of Bellevue does not currently leverage include the following. Additional details are documented in Appendix C.

- **Affordable Housing Property Tax Levy**. Authorized by RCW 84.52.105, cities and counties in Washington may levy an additional property tax levy to support affordable housing. This levy may not exceed $0.50 per $1,000 of assessed value for up to ten years. This levy requires approval by a majority of voters within the taxing district.
- **Real Estate Excise Taxes**. In May of 2021 the Washington State Legislature adopted updates to RCW 82.46.035 to allow a portion of the second 0.25% of the real estate excise tax, also known as REET 2 to support affordable housing. Cities may use $100,000 or 25% of available funds up to $1 million dollars to support affordable housing through January 1, 2026.
- **Consolidated Homeless Grant (CHG)**. Commerce provides funds and resources to local governments and non-profits throughout Washington to combat homelessness, through the CHG program.[77] This program is funded by the state general fund in addition to document recording fees. The CHG is comprised of four different grant programs: CHG Standard, Permanent Supportive Housing for Chronically Homeless Families, Eviction Prevention, and Housing and Essential Needs.[78]
- **Community Revitalization Financing (CRF)**. In 2020, the Washington state legislature updated RCW 39.89 to allow the use of tax increment financing to construct or preserve permanently affordable housing. CRF allows cities and counties to establish tax increment areas, where a portion of the regular property tax levy is used to fund the costs of public improvements.[79]
- **Land Acquisition Program (LAP).** Offered by the WSHFC, developers can apply for a LAP loan to assist in the purchasing

[76] https://news.microsoft.com/affordable-housing/
[77] https://www.commerce.wa.gov/serving-communities/homelessness/consolidated-homeless-grant/
[78] https://deptofcommerce.app.box.com/s/4d1ilui45uqljmhlseufez4flxqv1q6b
[79] Washington State Department of Commerce Guidance to Address Racially Disparate Impacts, April 2023. Page 110.

and preservation of land for the later development of affordable housing.[80] This program offers non-profit, housing authorities and tribal developers the ability to leverage favorable interest rates to purchase the land, allowing them adequate time to secure financing for the construction of the project.

- **HUD Continuum of Care (COC) Program.** HUD's Continuum of Care (CoC) Program provides funding to non-profit providers, as well as state and local governments, to assist in the rehousing of adults and families with children who are experiencing or at risk of homelessness.[81] HUD awards funding grants to each state, which are then allocated to local governments, jurisdictions, and housing authorities.

A range of additional programs are available to local governments, low-income households and housing seekers, and housing developers in Washington State. These programs are documented in Appendix C.

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[80] https://www.wshfc.org/mhcf/lap/index.htm
[81] https://www.commerce.wa.gov/serving-communities/homelessness/continuum-of-care/

Appendix A: Other Washington State Affordable Housing Laws of 2023

Type	Law	Description/Requirements
New tools for affordable housing	SB 1236	Amends RCW 35.92 and expands the authorization for utility charge delays or waivers on the behalf of a non-profit organization, public development authority, housing authority or local agency that provides emergency shelter, transitional housing, permanent supportive housing or affordable housing. The bill requires connection charges waived under this chapter to be funded using general funds, grant dollars, or other identified revenue stream.
	HB 1695	Amends RCW 39.33.015, and clarifies the definitions of affordable housing that qualify as a "public benefit" to authorize governments and public agencies to sell publicly-owned surplus property at discounted prices for affordable housing development. "Public benefit" means rental housing where the rent and utilities are no more than 30% of a household's income, or permanently affordable housing where housing costs are 38% of a household's income.
	SB 5045	Authorized a pilot program in King County to expand the existing property tax exemption for accessory dwelling units for as long as the unit is occupied by a non-family member under 60% AMI or a senior.
REET exemption for affordable housing	ESHB 1643	Amends RCW 82.45.010, exempts real property sold to public entities or non-profits for affordable housing from the Real Estate Excise Tax (REET). The entity must use the property exclusively for low-income housing for at least the next 10 years. A covenant on the property must be recorded to that effect.
"Tiny home communities" added to RCW 36.70A.540	SHB 2001	Amended RCW 36.70A.540 to add "tiny home communities" to the list of housing incentive programs that local governments fully planning under the GMA may use in their development regulations and other means to

Type	Law	Description/Requirements
		expand opportunities for low-income housing units.
"Permanently affordable housing" added to CRF Act	HB 2061	Amended RCW 39.89.020 to add "permanently affordable housing" to the definition of "public improvements" under the Community Revitalization Financing Act (CRF Act). The CRF Act was created in 2001, authorizing cities, towns, counties, and port districts to create a tax increment area and finance public improvements within the area by using increased revenues from local property taxes generated within the area. The legislation clarified that public improvements under the CRF Act may include permanently affordable housing.
Sales and use taxes for affordable housing	E2SSB 5755	Revised Title 82 RCW, authorized a limited deferral of sales and use taxes to encourage amends redevelopment of underdeveloped land for affordable housing in targeted urban areas. Qualifying cities must have a population of at least 135,000 and not more than 250,000 (this includes Spokane, Tacoma, and Vancouver). To use the deferral program, a city must adopt a resolution and follow a public process. Underdeveloped property is land used as a surface vehicle parking lot that is open to the public without charge. An owner of such property may seek a sales and use tax deferral for an investment project that provides affordable housing.

Source: Washington State Department of Commerce, Washington State Housing Laws of 2019 through 2023.

APPENDIX B: MPP HOUSING POLICIES

CPPs act as guides for land use and growth management decisions made at the county and city level. Specific to affordable housing, CPPs help counties and cities to plan for a fair share of affordable housing and must include specific requirements dictated by the GMA. CPPs aim to provide guidelines for coordination between the county and its inlying jurisdictions and to reinforce the need for affordable housing stressed by the GMA. CPPs require that city-level policies remain consistent with broader, countywide planning policies.

For King, Kitsap, Pierce, and Snohomish counties CPPs local policies must also align with multicounty planning policies (MPPs) in Vision 2050.

Multicounty Planning Policies (MPP): PSRC Vision 2050

Vision 2050 includes a housing vision and housing goal and urges regional jurisdictions to implement affordable housing incentives such as inclusionary and incentive zoning.[82] VISION 2050 housing goal is: "The region preserves, improves and expands its housing stock to provide a range of affordable, accessible, healthy and safe housing choices to every resident. The region continues to promote fair and equal access to housing for all people."

The following are housing policies from VISION 2050. All policies below are direct quotes.

MPP-H-1 Plan for housing supply, forms, and densities to meet the region's current and projected needs consistent with the Regional Growth Strategy and to make significant progress towards jobs/ housing balance.

MPP-H-2 Provide a range of housing types and choices to meet the housing needs of all income levels and demographic groups within the region.

MPP-H-3 Achieve and sustain – through preservation, rehabilitation, and new development – a sufficient supply of housing to meet the needs of low-income, moderate-income, middle-income, and special needs

[82] "Establishing Housing Targets for your Community: County-level considerations for housing planning", Washington State Department of Commerce, July 2023.

individuals and households that is equitably and rationally distributed throughout the region.

MPP-H-4 Address the need for housing affordable to low- and very low-income households, recognizing that these critical needs will require significant public intervention through funding, collaboration, and jurisdictional action.

MPP-H-5 Promote homeownership opportunities for low-income, moderate-income, and middle-income families and individuals while recognizing historic inequities in access to homeownership opportunities for communities of color.

MPP-H-6 Develop and provide a range of housing choices for workers at all income levels throughout the region that is accessible to job centers and attainable to workers at anticipated wages.

MPP-H-7 Expand the supply and range of housing at densities to maximize the benefits of transit investments, including affordable units, in growth centers and station areas throughout the region. VISION 2050 Multicounty Planning Policies.

MPP-H-8 Promote the development and preservation of long-term affordable housing options in walking distance to transit by implementing zoning, regulations, and incentives.

MPP-H-9 Expand housing capacity for moderate density housing to bridge the gap between single-family and more intensive multifamily development and provide opportunities for more affordable ownership and rental housing that allows more people to live in neighborhoods across the region.

MPP-H-10 Encourage jurisdictions to review and streamline development standards and regulations to advance their public benefit, provide flexibility, and minimize additional costs to housing.

MPP-H-11 Encourage interjurisdictional cooperative efforts and public-private partnerships to advance the provision of affordable and special needs housing.

MPP-H-12 Identify potential physical, economic, and cultural displacement of low-income households and marginalized populations that may result from planning, public investments, private redevelopment, and market pressure. Use a range of strategies to mitigate displacement impacts to the extent feasible.

In addition to Vision 2050 policies, there are a range of strategies and policies laid out in the Regional Affordable Housing Task Force's (RAHTF) Five-Year Action Plan that are pertinent to affordable housing. Generally, the strategies and policies closely align with the policies laid out in the policies captured in the King County CPP. The RAHTF does provide unique strategies focusing on urging jurisdictions to be more hands on with affordable housing development through site identification and land acquisition.

Appendix C. Other Revenue Sources

A few additional revenue sources not currently used in the City of Bellevue include the following taxes, grants, loans and other funding sources. These sources of revenues as well as other funding sources available to local governments, low-income households and housing seekers, and housing developers are documented in this appendix.

Affordable Housing Property Tax Levy

Since 1993, cities and counties in Washington may levy an additional regular property tax levy to support affordable housing, as documented in RCW 84.52.105. This levy may not exceed $0.50 per $1,000 of assessed value for up to ten years. Jurisdictions wishing to impose this levy must be authorized by a majority of voters in the taxing district. They may not impose the tax until the legislative authority of the jurisdiction has declared an emergency related to affordable housing. Jurisdictions must additionally adopt a housing finance plan for affordable housing that complies with state and federal laws.

If both a county and city within the county impose an affordable housing levy, the levy for the last jurisdiction to adopt must be reduced so that the combined rates do not exceed the statutorily allowed $0.50 per $1,000 of assessed value. This property tax levy is exempt from the statutory $5.90 per $1,000 in assessed valuation aggregate limit on property tax.

Use of Funds: Funds generated by this levy may be used to:

- "Finance affordable housing for very low-income households, and affordable homeownership,
- Owner-occupied home repair, and
- Foreclosure prevention programs for low-income households."

The RCW defines very low-income households as those with income at or below 50% of county median income and low-income households as those at or below 80% of AMI.

Senate Bill 6212, passed in March of 2020, expanded the original law to allow funds generated through the property tax levy to be used for more than affordable housing for very low-income households, as documented above.

Examples: Both the City of Seattle and the City of Vancouver have passed affordable housing levies. The City of Seattle has passed the Seattle Housing levy five times since 1986 and according to the City of Seattle the funding has exceeded its goals each time.

- **Seattle Housing Levy:** A seven-year levy last passed in 2016. Voters will have the opportunity to renew the levy in November of 2023. The proposed tax rate for the 2023 Housing Levy is $0.45 per $1,000 in assessed valuation.[83]
    - The 2016 levy raised $290 million.
    - Between 2017 and 2022, the Housing levy has added 2,741 rental units (127% of goal), reinvested in 530 rental units (151% of goal), supported 481 rental units with operations and maintenance funds (94% of goal), assisted 3,854 individuals in families in with homelessness prevention and housing stability services programs (86% of goal), assisted 370 households with homeownership (132% of goal), and supported acquisition and preservation of 1,827 units.[84]
    - The 2023 Housing Levy has the following goals between 2024 and 2030: produce and preserve 3,516 affordable apartments, support operations for 510 new units, stabilize workers supporting 646 existing homes, create 277 homeownership opportunities, stabilize 90 low-income homeowners, and stabilize and prevent 4,500 household from experiencing homelessness.[85]
- **City of Vancouver Affordable Housing Fund (AHF):** The residents of Vancouver approved a $42 million property tax levy in 2016. This is a $0.36 per $1,000 in assessed value property tax.[86] Vancouver voters renewed this levy for $100 million between 2023 and 2033.[87]
    - Between 2017 and 2023, the AHF has produced or preserved 1,092 housing units of which 1,017 are affordable units, assisted 1,860 households and supported 450 shelter beds.[88]

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[83] https://housing.seattle.gov/seattle-housing-levy-signed/#sthash.1cndSDNi.4V37tyqy.dpbs
[84]https://www.seattle.gov/documents/Departments/Housing/Reports/2022_OHLevyReport_Final.pdf
[85] https://housing.seattle.gov/seattle-housing-levy-signed/#sthash.1cndSDNi.4V37tyqy.dpbs
[86] https://localhousingsolutions.org/housing-policy-case-studies/vancouvers-tax-levy-for-affordable-housing/
[87] https://www.cityofvancouver.us/economic-prosperity-and-housing/affordable-housing-fund/
[88] https://city-of-vancouver-wa-geo-hub-cityofvancouver.hub.arcgis.com/documents/CityOfVancouver::affordable-housing-fund-investment/explore

Real Estate Excise Taxes

In May of 2021 the Washington State Legislature adopted updates to RCW 82.46.035 to allow a portion of the second 0.25% of the real estate excise tax, also known as REET 2, for the use of affordable housing. Cities may use $100,000 or 25% of available funds up to $1 million dollars to support affordable housing through January 1, 2026. Revenues must be deposited in a separate account after December 31, 2023, and the capital projects planned must be documented in the adopted budget. Additionally, counties or cities using these funds for affordable housing must document in their capital facilities plans that it has sufficient funds to support capital investments for "streets, roads, highways, sidewalks, street and road lighting, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems."[89]

The City of Bellevue has adopted the maximum allowable REET rate of 0.5%, including 0.25% for REET 1 and 0.25% for REET 2. However, the City of Bellevue is not currently using funds for affordable housing, as allowed by the Washington State Legislature. Using these funds for affordable housing is a trade-off for cities that may struggle to identify funding for other capital projects, for which REET is commonly used.

House Bill 1628, which was referred out of committee to rules review as of April 17, would amend state law applicable to real estate excise tax. Proposed changes to the statewide REET include increasing the state rate for transactions over some limits, and allowing state REET funds to be used for selected affordable housing accounts. The bill, as currently written, would allow cities and counties to add an additional 0.25% REET, allow counties to adopt the 0.25% if cities have not adopted it by a certain date, and remove the January 1, 2026, date to allow a portion of REET 2 to support affordable housing.[90]

Use of funds: The portion of REET 2 funds allowed to support affordable housing may be used for the "planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of facilities for those experiencing homelessness and affordable housing projects."[91]

Proposed changes in HB 1628 would allow 50% of funding to be used for capital costs including construction, acquisition and infrastructure for affordable housing and facilities providing housing-related programs.

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89 https://app.leg.wa.gov/RCW/default.aspx?cite=82.46.035
90 https://lawfilesext.leg.wa.gov/biennium/2023-24/Pdf/Bills/House%20Bills/1628-S2.pdf?q=20231013174739
91 https://app.leg.wa.gov/RCW/default.aspx?cite=82.46.035

The remaining 50% may be used for the operations, maintenance and services tied directly to affordable housing. Cities and counties would be allowed to enter into interlocal agreements to accomplish the goals.[92]

Consolidated Homeless Grant (CHG)

Commerce provides funds and resources to local governments and non-profits throughout Washington to combat homelessness, through the CHG program.[93] This program is funded by the state general fund in addition to document recording fees. The CHG is comprised of four different grant programs: CHG Standard, Permanent Supportive Housing for Chronically Homeless Families, Eviction Prevention, and Housing and Essential Needs.[94]

Use of funds: CHG grants are awarded to local governments and non-profits. Each of the four grant programs provides funding for different activities, however all of the programs must provide services to individuals at or below 80% of AMI. Programs and services eligible for CHG funding include: [95]

- Drop-in and continuous stay emergency shelter
- Transitional housing
- Homelessness prevention
- Rapid re-housing
- Permanent supportive housing
- Street outreach

According to the 2022 Homeless Housing Project Expenditure Report the Department of Commerce awarded nearly $4.7 million in CHG funding, excluding Housing and Essential Needs (HEN). These grants supported more than 2,200 project beds. Available reports do not indicate the location of grantees beyond county. Catholic Community Services of Western Washington (CCSWW) provides services to homeless and low-income people utilizing funds available through the

[92] https://lawfilesext.leg.wa.gov/biennium/2023-24/Pdf/Bills/House%20Bills/1628-S2.pdf?q=20231013174739
[93] https://www.commerce.wa.gov/serving-communities/homelessness/consolidated-homeless-grant/
[94] https://deptofcommerce.app.box.com/s/4d1ilui45uqljmhlseufez4flxqv1q6b
[95] Guidelines for the Consolidated Homeless Grant. Washington State Department of Commerce. Page 7. July 1, 2023. https://deptofcommerce.app.box.com/s/4d1ilui45uqljmhlseufez4flxqv1q6b

HEN program. In 2022, the program’s total operating and service expenditure budget was approximately $24.7 million in King County.[96]

Community Revitalization Financing (CRF)

In 2020, the Washington state legislature updated RCW 39.89 to allow the use of tax increment financing to construct or preserve permanently affordable housing. CRF allows cities and counties to establish tax increment areas, where a portion of the regular property tax levy is used to fund the costs of public improvements.[97] The purpose of this funding mechanism is to fund public improvements that will encourage private development within the increment area. The adopting ordinance must specify the public improvements. As of 2020, the tax increment may be used to fund housing restricted to low-income households. Affordability restrictions for rental housing must be in place for 40 years and 25 years for ownership housing units.[98]

Land Acquisition Program (LAP)

Offered by the WSHFC, developers can apply for a LAP loan to assist in the purchasing and preservation of land for the later development of affordable housing.[99] This program offers non-profit, housing authorities and tribal developers the ability to leverage favorable interest rates to purchase the land, allowing them adequate time to secure financing for the construction of the project. Through traditional LAP loans, developers must restrict availability of housing units developed to residents earning at or below 80% of AMI for at least 35 years. Loans secured through LAP are not intended to cover the full amount of site acquisition costs and are recommended to be used in tandem with other funding sources.

A partnership was created between the WSHFC and Microsoft in 2020 called the Expanded Land Acquisition Program (ELAP). ELAP specifically targets land investments in Redmond, Bellevue, Kirkland, Issaquah, Renton, and Sammamish. Loans granted through the ELAP differ from the traditional LAP in that units are available to residents earning up to 120% of AMI. Additionally, this program is open to all

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[96] 2022 Homeless Housing Project Expenditure Report/”Golden”. https://www.commerce.wa.gov/serving-communities/homelessness/state-strategic-plan-annual-report-and-audits/

[97] Washington State Department of Commerce Guidance to Address Racially Disparate Impacts, April 2023. Page 110.

[98] RCW 39.89.020.

[99] https://www.wshfc.org/mhcf/lap/index.htm

developers, including for profit developers, local governments, housing authorities, non-profit organizations, and tribes.[100]

HUD Continuum of Care (COC) Program

HUD's Continuum of Care (CoC) Program provides funding to non-profit providers, as well as state and local governments, to assist in the rehousing of adults and families with children who are experiencing or at risk of homelessness.[101] HUD awards funding grants to each state, which are then allocated to local governments, jurisdictions, and housing authorities. In King County, COC grants are managed and allocated by the King County Regional Homelessness Authority (KCHRA), which was created in 2021 and submits applications to HUD for McKinney Continuum of Care Homeless Assistance Grant Funds.[102]

The KCHRA submitted to HUD a prioritized application total of approximately $63.6 million, to finance various COC projects throughout King County in 2023.[103] Meanwhile, in 2022 King County received nearly $57.9 million in HUD COC funding.[104] This funding has directly supported 59 projects, shelters, homeless services and initiatives, including many managed by the King County Housing Authority. Since 2018, approximately $190.4 million in COC funding has been awarded to providers in King County.[105]

Other Funding Sources Available to Homeowners, Developers, and Local Governments

Other programs available in Washington State that support affordable housing include:

Programs for Local Governments and Non-profits:

- Commerce offers technical assistance and low interest loans to local and regional governments, ports, tribes, non-profit agencies, and private businesses through the Brownfield Revolving Loan Fund (BRLF). Eligible entities may receive loans

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[100] https://www.wshfc.org/mhcf/lap/elap.htm
[101] https://www.commerce.wa.gov/serving-communities/homelessness/continuum-of-care/
[102] https://kcrha.org/resources/continuum-of-care/
[103] https://kcrha.org/wp-content/uploads/2023/09/WA-500-FY2023-Priority-Listing-and-Rank-Order_Final.pdf
[104] https://www.hud.gov/sites/dfiles/CPD/documents/CoC/2022/WA_Press_Report.pdf
[105] https://www.hud.gov/program_offices/comm_planning/coc/awards

to help clean up contaminated properties for redevelopment activities, including affordable housing development.[106]

- HUD provides federal grant funding through its Emergency Solutions Grants (ESG) program, which helps to provide street outreach, fund emergency shelters, and offer rental assistance and related services to adults and families with children experiencing or at risk of homelessness.[107]
- As codified in RCW 39.33.015, any state agency or jurisdiction can transfer, lease, or give away land they own to be used for affordable housing public benefit, which is rental or permanently affordable housing for low-income and very low-income households. [108]
- Counties, cities, or towns that charge development impact fees may waive up to 100% of these fees, as written in RCW 82.02.060 for permanently restricted affordable housing rental or sale units for households earning at or less than 80% of AMI.[109]
- Additional incentive programs that a city or county who plans under the GMA may leverage include height and bulk bonuses, parking reductions, and expedited permitting, according to RCW 36.70A.540.[110] Additionally, jurisdictions can expand on the programs previously listed by including fee waivers or exemptions and density bonuses within the UGA.
- The USDA helps facilitate the construction of homes for low-income borrowers through its 523 Mutual Self-Help Housing program, where the Rural Community Assistance Corporation (RCAC) or other non-profits supervise the construction which is carried out by a self-help grantee group, who carries out at least 65% of the construction work, or sweat equity, and also manages the construction loans, provides homeownership training, offers building plans, helps to qualify the borrower for their mortgage and markets the program in the service area.[111]

Programs for Low-Income Households and Housing Seekers:

- Washington State Department of Commerce Washington State Foreclosure Fairness Program provides foreclosure assistance

[106] https://www.commerce.wa.gov/serving-communities/brownfields-revolving-loan-fund/
[107] https://www.commerce.wa.gov/serving-communities/homelessness/emergency-solutions-grant/
[108] https://app.leg.wa.gov/RCW/default.aspx?cite=39.33.015
[109] https://app.leg.wa.gov/RCW/default.aspx?cite=82.02.060
[110] https://app.leg.wa.gov/RCW/default.aspx?cite=36.70A.540
[111] https://www.rd.usda.gov/programs-services/single-family-housing-programs/mutual-self-help-housing-technical-assistance-grants

including housing counseling, legal aid, and foreclosure mediation.[112]

- Washington State Department of Commerce Mobile/Manufactured Home Relocation Assistance Program reimburses between $7,500 and $12,000 for relocation, and also provides reimbursement for demolition, removal, and down payments for a new mobile/manufactured home.[113]
- The Washington State Housing and Finance Commission (WSHFC) offers very low-, low- and moderate-income residents of manufacturing homes the ability to purchase and manage the communities in which they reside, through the Manufactured Home Community Investment Program.[114]
- WSHFC offers two home-buying programs to prospective low- and moderate-income households, who can apply for mortgages through either the Home Advantage or House Key Opportunity programs, in addition to offering 11 down payment assistance programs where the WSHFC connects buyers to a network of participating lenders who handle the loan process from origination to closing.[115]
- The U.S. Department of Housing and Urban Development manages the Section 8 Public Housing program, which is administered by publicly chartered housing authorities throughout Washington. The program allows households earning less than 30% of the AMI to apply for housing vouchers which can be accepted at a range of housing types including single-family houses and high-rise apartments for elderly families.[116]
- HUD offers federal funding through its Section 811 Project Rental Assistance (PRA) program, which integrates Section 811 units intended for extremely low-income, non-elderly disabled households into existing, new, or rehabilitated multifamily developments. [117]
- HUD provides federal funding to assist communities by providing utility, deposit, and ongoing rental assistance through its Tenant-Based Rental Assistance (TBRA) program.

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[112] https://www.commerce.wa.gov/%20building-infrastructure/housing/foreclosure-fairness/
[113] https://www.commerce.wa.gov/building-infrastructure/housing/mobile-home-relocation-assistance/
[114] https://wshfc.org/mhcf/manufactured.htm
[115] https://www.wshfc.org/buyers/key.htm
[116] Washington State Department of Commerce Guidance for Updating your Housing Element, August 2023. Page 152.
[117] https://www.commerce.wa.gov/serving-communities/homelessness/hud-section-811-rental-assistance/

Households earning 50% or less of AMI are eligible for this program.[118]

- HUD allocates grant funding to low- and moderate-income persons in any Indian tribe, band, group, or nation (including Alaska Indiana, Aleut, and Eskimos) through its Indian Community Development Block Grant (ICDBG) Program, which helps these populations find housing and economic opportunities.
- The USDA offers loans and grants to fund housing repairs through its Section 504 Home Repair program, offering a maximum of $40,000 in loans and $10,000 in grants, the latter of which are reserved for residents who are 62 or older, or a combination of the two for a maximum of $50,000 in grant funding and loans.[119]
- Administered by the United States Department of the Treasury, the New Markets Tax Credit Program (NMTC) facilitates the investment of capital into low-income communities by offering individuals and corporations the ability to receive a tax credit against their federal income tax in exchange for investing equity into Community Development Entities (CDEs), which can total 39% of the original investment amount and is claimed over a period of seven years.[120]
- Low-income persons, households, non-profits, development authorities, housing authorities, or other local agencies can apply for fee waivers for water or sewer connections to delay tap-in charges, connection, or hookup fees for water, sanitary or storm sewer, electricity, gas, or other utilities, as defined in RCW 35.92.380.[121]
- Very low- and low-income households can apply for property tax deferments of up to 50% of special assessments, real property taxes, or both, provided their monthly combined income did not exceed fifty-seven thousand dollars in the preceding calendar year.[122]
- Retired persons or property owners who are at least 60 years or older can defer property tax payments and/or special

[118] https://www.commerce.wa.gov/serving-communities/%20homelessness/tenant-based-rental-assistance-tbra/
[119] https://www.rd.usda.gov/programs-services/single-family-housing-programs/single-family-housing-repair-loans-grants
[120] https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit
[121] https://app.leg.wa.gov/RCW/default.aspx?cite=35.92.380
[122] https://app.leg.wa.gov/RCW/default.aspx?cite=84.37.030

assessments of up to 80% of the owner's total equity in the home, provided their income does not exceed 75% of AMI.[123]

- Seniors, retired persons, veterans, and individuals with other qualifications can apply for tax deferments, as well as partial or full exemptions, provided they meet certain criteria as outlined in RCW 84.36.381.[124]

Programs for Housing Developers:

- The Washington Department of Archeology and Historic Preservation (DAHP) facilitates the offering of federal tax credits to developers who intend to redevelop properties listed in the national register of historic places, where they can receive up to a 20% federal income tax credit dependent on the qualified amount of private investment spent to rehabilitate buildings on the National Register.[125]
- WSHFC offers low-interest loans and tax-exempt or tax-credit bonds through the Sustainable Energy Trust, to homeowners, property developers, and non-profit entities, to affordably develop and/or update existing energy-efficient buildings, or larger developments where costs exceed $1 million.[126]

[123] https://app.leg.wa.gov/RCW/default.aspx?cite=84.38.030
[124] https://app.leg.wa.gov/RCW/default.aspx?cite=84.36.381
[125] https://dahp.wa.gov/grants-and-funding/federal-historic-tax-credit
[126] https://www.wshfc.org/energy/index.htm

City of Bellevue Housing Economic Policy Analysis: Phase 1 Policy Implications Report

FINAL DRAFT

December 8, 2023

INTRODUCTION

Background and Purpose

The City of Bellevue, King County's second-largest city, is experiencing a housing shortage in line with the remainder of the Puget Sound Region and throughout the country. Accompanying the housing shortage are increasingly more expensive housing costs associated with the region, which is creating an additional burden on Bellevue's lower-income households. Additionally, as local policies urge affordable housing development and allocate projected population growth to urban areas, Bellevue's affordable housing needs will continue to rise for the next 25 years.

This two-part study aims to conduct an analysis of housing policy and programs relevant to affordable housing and determine the impact of both voluntary and mandatory affordable housing programs on housing development. Phase I of the study includes:

- An **existing conditions report** that discusses statewide, regional, and local affordable housing policies and programs, analyzes Bellevue's existing real estate market conditions, and provides an assessment of available affordable housing funding and funding sources used by Bellevue. This is provided as a separate deliverable to the City of Bellevue.
- A **policy implications report** (included below) that identifies best practices and successful tools that have been used to stimulate the production of affordable housing units in Washington based on case studies and secondary research and assesses the policy implications of implementing both voluntary and mandatory affordable housing requirements in Bellevue.

Phase II of the study will develop a scenario analysis tool that will test parameters of programs recommended in Phase I through a financial feasibility tool. Outputs will summarize financial feasibility and development typologies under three policy scenarios. Each scenario will include the program parameters, including FAR incentives or bonuses, as well as affordable housing requirements and income limits. Findings on the development feasibility impacts of each scenario as well as scenario parameters will be documented in a final report.

Methods

This policy implications report begins with an overview of three voluntary and mandatory affordable housing programs (incentive zoning, mandatory inclusionary zoning with fee in-lieu, and commercial fee in-lieu) with a focus on the legal basis, eligibility, and parameters of each program. Case studies were built off a literature review of housing policies in cities in Washington and across the nation and interviews with staff from five cities (Kirkland, WA; Seattle, WA; Boulder, CO; San José, CA; and South San Francisco, CA) who developed, implemented, and/or monitor these programs. Interviews provided insights into best practices and considerations for a city that might undertake a similar housing policy or program. Program data collected by each city is synthesized and visualized, when available.

High-level secondary research was also conducted for this report to identify if jurisdictions nationally have adopted incentive or inclusionary zoning code that includes threshold or velocity triggers or code that is responsive to market conditions. This research included reviewing existing literature on affordable housing programs, reviewing land use code for example jurisdictions who have implemented incentive or inclusionary zoning programs, and reaching out to the Washington State Department of Commerce to request any available information on this.

Lastly, a funding gap analysis was conducted using the methodology from the Washington State Department of Commerce *Guidance for Updating Your Housing Element* and data from City of Bellevue, ARCH, and the Department of Commerce. Alternate methodologies for the funding gap analysis are also discussed such as using the subsidized cost, rather than the full cost of production.

Organization of the Report

The following report is organized as follows:

- **Overview of Statewide Housing Policies**. Summary of three voluntary and mandatory affordable housing programs (incentive zoning, mandatory inclusionary zoning with fee in-lieu, and commercial fee in-lieu) with a focus on the legal basis, eligibility, and parameters of each program.
- **Case Studies**. Includes literature review, interview findings, and data on affordable housing policies and programs in

Kirkland and Seattle in Washington, Boulder in Colorado, and South San Francisco and San José in California.
- **Catalyst Provisions**. Presents findings from high-level research to identify if jurisdictions nationally have adopted incentive or inclusionary zoning code that includes threshold or velocity triggers or code that is responsive to market conditions.
- **Funding Gap Analysis**. Identifies an order of magnitude funding gap to meet identified needs for affordable housing units.
- **Recommendations**. Includes recommendations on policy options for further study in Phase 2.

Overview of Statewide Housing Policies

This study focuses on three affordable housing programs: density bonus or incentive zoning (voluntary), inclusionary zoning with fee in-lieu (mandatory), and commercial fee in-lieu. The legal basis for implementing these programs in jurisdictions in Washington state and the elements for designing each program are described briefly in this section of the report. This section also summarizes findings from a non-exhaustive literature review on the effectiveness and impacts of voluntary and mandatory programs.

Incentive Zoning (Voluntary)

Incentive zoning is a land-use regulation strategy that allows property owners to receive certain benefits or exemptions from zoning restrictions in exchange for meeting certain public goals or objectives. It provides an economic incentive for property owners to undertake certain activities that benefit the community.[1]

Legal Basis

Cities and counties in Washington can enact incentive zoning programs to stimulate and facilitate affordable housing development, as outlined in RCW 36.70A.540 (1)(a).[2] Incentive zoning provides a menu of incentives and public benefits, which the local code must delineate explicitly.

One such tool that can be offered to developers is a **density bonus**. Density bonus programs are voluntary, and developers choose to "opt into" a density bonus. Density bonuses are a zoning tool that permits developers to build more housing units, taller buildings, or more floor

[1] Wex Legal Encyclopedia, Cornell Law School, March 2023.
[2] RCW 36.70A.540.

space than normally allowed in exchange for providing a defined public benefit, such as including affordable units in the development. An affordable housing density bonus program can also be designed to allow developers to contribute to a housing fund in lieu of building the affordable units on site:

"in lieu of low-income housing units if the jurisdiction determines that the payment achieves a result equal to or better than providing the affordable housing on-site, as long as the payment does not exceed the approximate cost of developing the same number and quality of housing units that would otherwise be developed (RCW 36.70A.540(2)(h))."

Eligibility and Parameters

New or amended density bonus programs must establish affordable housing income levels no higher than 50% of the area median income (AMI) for rental units, and 80% of AMI for ownership housing[3]. Local jurisdictions may hold a public hearing to establish higher or lower income levels based on housing market conditions, but those levels cannot exceed 80% of AMI for rental units and 100% of AMI for ownership dwellings. Affordable units must remain affordable for at least 50 years.

The following elements go into the design of a density bonus program:

- **Geographic scope.** These will depend on local housing conditions, affordable housing needs and the housing market.
- **Program targets/goals.** These include the level of affordability and tenure (rental and/or ownership) that the program will target.
- **Bonuses to be granted** (for example, density, height, or floor area ratios). The value of bonuses should be proportionate to the cost to the developer of providing the bonus. Also, bonus densities should match what the private market demands, or the program needs to be directed to areas with capacity development and interest.
- **As-of-right vs discretionary bonus.** As-of-right bonuses spell out the precise elements of each bonus feature and its corresponding density gain. A discretionary process, such as a conditional use process, determines the bonus on a case-by-case basis.
- **Off-site alternatives,** such as a fee in-lieu option.

[3] Housing Innovations Program: Density Bonuses, Puget Sound Regional Council.

Mandatory Inclusionary Zoning with Fee In-lieu

Inclusionary zoning stipulates that new residential development in certain zones includes some proportion or number of affordable housing units or meets some type of alternative compliance. Inclusionary zoning taps into economic gains from rising real estate values to create affordable housing for lower income households. This approach can create more affordable housing in neighborhoods with access to transportation and quality jobs.[4]

Legal Basis

In Washington state, counties and cities that plan under the Growth Management Act (GMA) can enforce a mandatory Inclusionary Zoning program as stipulated by state law,[5] which would require the inclusion of affordable units in every new residential development. These programs offer developers the option to pay a fee in-lieu of developing affordable units, or the option to build affordable units offsite. Inclusionary zoning may or may not offer incentives such as density bonuses, expedited approval, and fee waivers to help offset the cost of developing affordable housing.

Eligibility and Parameters

Mandatory inclusionary zoning regulations should include the following:

- **Minimum number of affordable units to be provided,** expressed as a percentage of a development's total number of dwelling units, or an alternative such as payment of an in-lieu fee or development of a minimum number of affordable units at a different location.
- **Targeted income range of households to be served** by the affordable units: usually expressed as a percentage of the Area Median Income (AMI). As stipulated by state law, the income level for rental housing may not exceed eighty percent of the county area median family income. The income level for owner occupancy housing may not exceed one hundred percent of the county area median family income.
- **Time period** within which the designated units must be maintained as affordable. In Washington, all units developed

[4] Housing Innovations Program: Inclusionary Zoning, Puget Sound Regional Council.
[5] RCW 36.70A.540 and WAC 365-196-870.

through a mandatory inclusionary zoning program must remain affordable for at least 50 years.[6]

- **Geographic scope,** usually limited to designated areas that are planning for more growth, such as downtowns, mixed-use development areas, and neighborhoods with walking access to high-capacity transit.

In addition, municipalities can determine requirements and exemptions around participation in an inclusionary zoning program. Some mandatory programs require all residential developments to provide affordable units or pay the in-lieu fee; other programs may include exemptions for smaller multi-family residential projects or residential projects that provide a different public benefit.

Commercial Fee In-Lieu or Commercial Linkage Fees

Commercial linkage fees are a form of impact fee assessed on new commercial developments or major employers based on the need for workforce housing generated by new and expanding businesses. Revenues generated by the fee are then used to help fund the development of affordable housing within accessible commuting distance to the employment center.[7]

Legal Basis

Commercial fees-in lieu, also called commercial linkage fees, can be charged by jurisdictions planning under GMA as stipulated by state law[8] to fund affordable housing development indirectly and directly in instances where significant residential and/or commercial growth is anticipated. These fees can be assessed primarily on mixed-use nonresidential developments, including retail centers, industrial and manufacturing facilities, and other commercial projects, to offset the anticipated job growth from the commercial development. Communities can charge developers a fee for each square foot of new market-rate construction and use the funds to pay for affordable housing. These programs are structured to require fees rather than units onsite.

Eligibility and Parameters

Jurisdictions that implement and charge commercial linkage fees need to establish the maximum fee level based on findings from a nexus study. A nexus study is recommended to fully gauge the impact that the

[6] RCW 36.70A.540

[7] Housing Innovations Program: Commercial Linkage Fees, Puget Sound Regional Council.

[8] RCW 36.70A.540 and WAC 365-196-870.

new commercial development will have on the local housing market.[9] Jurisdictions also need to determine how the fees will be used, who will administer the fees, timing, and basis for adjustment to the fees, and any alternatives offered for paying the fees (performance option). Jurisdictions may also consider phasing in the fee over time since a sudden increase in costs may be difficult to absorb for developers depending on the market. Phasing a new fee in stages over two or three years will allow time for land prices to adjust appropriately without unduly impacting projects that are in the development pipeline[10].

Considerations for Mandatory or Voluntary Programs

Research has shown that **mandatory programs are far more prevalent in the United States compared to voluntary inclusionary zoning programs**. Studies found that mandatory programs represent anywhere between 65% and 83% of all local inclusionary zoning programs[11].

When comparing mandatory versus voluntary programs, some studies[12][13] found that **mandatory programs tend to generate a greater number of affordable units compared to voluntary programs**. One recent study found that mandatory inclusionary zoning programs were 1.5 times more likely to produce at least one affordable unit than voluntary programs[14]. However, several researchers have concluded that voluntary programs can also produce affordable housing

[9] "Commercial Linkage Fees", PSRC, August 2020.
[10] "Linkage Fee Programs", Grounded Solutions Network, 2019.
[11] "Inclusionary Housing in the United States: Prevalence, Practices, and Production in Local Jurisdictions as of 2019", Ruoniu Wang, Ph.D., Sowmya Balachandran, Grounded Solutions Network, 2021; "Separating Fact from Fiction to Design Effective Inclusionary Housing Programs", Lisa A. Sturtevant, Ph.D, Center for Housing Policy, National Housing Conference, May 2016.
[12] "Los Angeles' Housing Crisis and Local Planning Responses: An Evaluation of Inclusionary Zoning and the Transit-Oriented Communities Plan as Policy Solutions in Los Angeles.", Zhu, Linna, Evgeny Burinskiy, Jorge De la Roca, Richard K. Green, and Marlon G. Boarnet Cityscape 23 (1): 133-160, 2021.
[13] "Can Inclusionary Zoning Be an Effective and Efficient Housing Policy? Evidence from Los Angeles and Orange Counties.", Mukhija, Vinit, Lara Regus, Sara Slovin, and Ashok Das, Journal of Urban Affairs 32 (2): 229–52, 2020.
[14] "Examining the Effects of Policy Design on Affordable Unit Production Under Inclusionary Zoning Policies", Ruoniu Wang and Xinyu Fu, Journal of the American Planning Association, 2022.

when there are appropriate incentives or offsets that make the voluntary option attractive and can offset the cost to developers[15].

Although mandatory inclusionary zoning programs appear to be more successful, **the effectiveness of all programs is often dependent on location and policy type**. Several conclusions may be drawn from the available research about how to design effective programs[16]:

- Inclusionary housing programs tend to work best in **markets with strong market-rate housing production**.
- Inclusionary housing programs **should include well-designed incentives** based on local housing market conditions that offset the cost to developers and **need to be reviewed over time** to ensure they remain meaningful and effective.
- Inclusionary housing programs **should have clear requirements and consistent administration to ensure predictability**.
- **Flexible compliance alternatives** (on-site or off-site production, cash or land in lieu, exemptions for smaller developments) help improve program feasibility by offering developers various ways to meet affordability obligations.

Evidence from literature on the private-market effects of inclusionary zoning are mixed and many researchers acknowledge the lack of rigorous evidence. Also, most studies focus on just a few cities and states, limiting the broader applicability of their findings.

Whether voluntary or mandatory, studies using a multi-variate analysis approach, which aim to control for local characteristics, typically have found no statistically significant relationship between IZ programs and increased market-rate housing costs or decreased housing production. While these studies work to control for local characteristics that could skew results, they are not considered perfect, and researchers recognize the inherent uncertainties in statistical analysis.[17]

On the other hand, descriptive studies have been more likely to show evidence of negative impacts to the local housing market upon implementation of an inclusionary zoning program. For example, a

[15] "Separating Fact from Fiction to Design Effective Inclusionary Housing Programs", Lisa A. Sturtevant, Ph.D, Center for Housing Policy, National Housing Conference, May 2016.
[16] Ibid.
[17] "Separating Fact from Fiction to Design Effective Inclusionary Housing Programs", Lisa A. Sturtevant, National Housing Conference, May 2016.

study in 2004 found that IZ programs in select California cities had higher housing prices and lower housing production than California cities without IZ programs. However, these studies are met by criticism of limited data and non-rigorous analysis design.[18]

BEST PRACTICES CASE STUDIES

The following section reviews affordable housing programs across five jurisdictions. The programs discussed include Inclusionary Zoning programs found in Kirkland and Seattle, Washington; Commercial Linkage Fee programs in Boulder, Colorado and San José, California; and Incentive Zoning programs in South San Francisco, California and Seattle, Washington. Throughout the review, city staff were interviewed to discuss each program and gain insights into best practices, program successes, and program challenges faced by each jurisdiction.

Case Study Findings and Recommendations for Bellevue

The primary implications of the case studies are attributable qualitative analysis. **Quantitative comparisons between programs would be difficult because of variations in the design and implementation of each program that may affect outcomes**. Therefore, this analysis focuses on the qualitative assessments provided by city staff in the five case study cities: Kirkland and Seattle in Washington; Boulder, Colorado; and San José and South San Francisco, California.

Many interviewed cities have set their affordable housing criteria to what they believe to be the 'bare minimum' standards to ensure participation. This sentiment was more prominent for affordable housing programs affecting residential projects, including programs that offer bonuses in return for affordable units, or programs where a blanket upzone was performed in applicable areas. For Kirkland, the 'bare minimum' for rental units currently represents 10% to 15% of units at 50% of AMI depending on building height. Meanwhile, Seattle has set their rental unit requirements between 2.1% to 11% of units made affordable to households earning less than 40% to 60% depending on the size of the unit.

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[18] "Inclusionary Zoning: What Does Research Tell Us about the Effectiveness of Local Action?", Urban Institute, January 2019.

Some interviewees noted that setting 'bare minimum' requirements was in response to concerns during program design that requirements may be prohibitive of all development. However, none of the case study cities that heard this concern from developers reported that their programs resulted in a decrease in development. In fact, some are considering increasing the affordability requirements or levels. In addition, cities like Kirkland are **piloting more aggressive affordable housing requirements** through other planning processes, like subarea planning.

In addition, cities reported designing program requirements to guide usage and uptake. For example, South San Francisco's density bonus program includes a cash in-lieu component. The city sets this at a prohibitively high rate to push developers to commit to building affordable housing units.

Most jurisdictions noted the importance of engaging developers throughout the process of drafting and implementing affordable housing programs. By engaging developers early on and soliciting their input, jurisdictions noted developer objections were generally minimal upon implementation of a program. Additionally, no jurisdiction reported negative impacts on development activity as a result of their programs, whether applicable to residential or non-residential projects. Instead, **jurisdictions cited general market downturns as having a greater effect on housing or commercial space production**.

A couple of the interviewed cities (Seattle and Kirkland) for the case studies **reported a low utilization rate for their voluntary programs**, so they phased this out in favor of a mandatory program. In addition, some cities noted that **developers do not usually go beyond the required elements of a particular housing policy**.[19]

As a part of this, stakeholders noted **regular evaluation and review of their programs** is critical to ensure a program is serving the purpose it was created to serve, and that updates can be made if the program is found to be underachieving in providing the desired public benefit. The desired public benefit is set by each individual city and will differ depending on a city's philosophy, housing goals, land use characteristics, and other factors. For example, a larger city may find that collecting in-lieu fees will help build more affordable units in the long run, while smaller jurisdictions which have less opportunities and funding to build 100% affordable developments, will see a greater

[19] This excludes affordable housing developers and non-profits that are utilizing additional funding sources for housing development.

benefit by promoting affordable units to be included in a market-rate development. By identifying concrete goals, jurisdictions are able to shape their programs towards the outcomes they desire.

Information regarding affordable housing programs is plentiful, with many cities publishing nexus studies, applications, and other useful materials on their city websites. With this available information, **jurisdictions can learn from their peers or neighbors** on how to best set fees or requirements, communicate with developers, or communicate internally to ensure new programs are adopted efficiently and successfully. As a part of this, **internal communication among city departments** administering, tracking, or generally impacted by a new program is crucial to ensure workflows and operations are not interrupted as new affordable housing programs are adopted. In addition, **data tracking is an important element of designing a new affordable housing program** and will allow the city to evaluate the program in future as well as inform other cities wishing to undertake affordable housing programming.

Some cities allow or encourage developers to **combine multiple housing incentives and programs**. For example, allowing inclusionary zoning to be used alongside other affordable housing programs, such as MFTE, can help create additional incentives to developers to help offset the costs of affordable housing development. However, multiple programs may make **data collection and quantifying programs performance difficult**. For example, Boulder’s Affordable Housing Fund includes revenues from two funding sources. When the city tracks output for the Affordable Housing Fund, it is unable to attribute units back to the original affordable housing program.

Recommendations for Phase II Analysis

Based on findings from the case studies and research conducted for this report, the following policy options are recommended for further study in Phase II:

- Incentive zoning (voluntary) program
- Mandatory inclusionary zoning applicable to residential projects and with a provision for a fee in lieu, and a commercial fee in lieu program
- A variation of the mandatory program above to be further designed.

Inclusionary Zoning: Kirkland, WA and Seattle, WA

Program Overview

Exhibit 1 presents a general overview of Kirkland's Inclusionary Zoning and Seattle's Mandatory Housing Affordability – Residential (MHA-R) program. Both programs are mandatory and require developers of residential projects to include affordable units or pay an in-lieu fee. Kirkland's program is set up to incentivize developers to provide units rather than pay a fee. Historically, the payment option (fee in-lieu) of Seattle's MHA-R program has been more utilized than the performance option. In 2022, 260 projects chose the payment option, while 14 projects chose the performance option.[20] This can be attributes to the fact that, historically, paying the fees under the MHA-R program resulted in a benefit to the feasibility of the project compared to building the affordable units.

Seattle's program includes four districts that each entail different requirements for MHA. Kirkland's program was implemented with the same requirements citywide, until a Station Area Plan was adopted for the future NE 85th Street Light Rail in 2023. This Plan includes new and higher affordability percentage requirements in the station area, which will take effect in 2026.

More information about the Kirkland and Seattle programs is available in **Appendix I.**

[20] 2022 Mandatory Housing Affordability and Incentive Zoning Report, Seattle Office of Housing, March 2023.

Exhibit 1. Inclusionary Zoning Program Overviews

	Kirkland, WA	Seattle, WA
Policy		
Program Name	Inclusionary Zoning	Mandatory Housing Affordability - Residential
Incentive Offering	Yes, upon request.	None.*
Incentives Offered	Height bonuses, development capacity bonuses, and unit bonuses.	N/A
Maximum Offering	25% of underlying maximum density.	N/A
Variation by Location	Station Area Plan (SAP) with additional requirements will be implemented in 2026.	Yes, by zone.
Type of Housing	Rental and Ownership	Rental and Ownership
Degree of Affordability	50% - 80% AMI	40% - 80% AMI
Affordability Percentage Requirements	10% (15% in future SAP)	2.1% - 11.0%
Duration of Affordability	Rental: Life of Project; Ownership: 50 years.	75 years
Payment/Performance	Both	Both
Fee Rates	Variable**	$7.27 - $27.42 (per sf)
Program Review Period	Every 2-years.	Every 5-years.
Performance		
Program Adoption	2010	2017
Program Updates	2023 adoption of SAP	2019
Affordable Units In Service	231	89
Fees Collected	N/A	$246.1 million
Data as of:	2023	2022

Sources: City of Kirkland, 2023; City of Seattle, 2023; Community Attributes Inc., 2023.
** MHA applies to upzoned areas that provide additional capacity for development within each designated zone. This was a one-time upzone and no additional or ongoing incentives are offered.*
*** The fee is based on the difference between the cost of construction for a prototype affordable housing unit on the subject property, including land costs and development fees, and the revenue generated by an affordable housing unit.*

Best Practices for Implementation

For Kirkland, **information gathering, and outreach was a critical component of the citywide and station area plan**, particularly as the city was considering increasing the minimum required percentage of affordable units in the station area. Kirkland staff stressed the importance of spending the necessary time to ensure that City Council, Planning Commission, and stakeholders have ample information to defend the staff recommendation on increasing the affordability requirements and show the balance between delivering affordable units and not hindering development.

Kirkland and Seattle staff **recommend working closely with the development community** when considering the minimum threshold of affordable units and the levels of affordability, as well as providing a better level of understanding for city staff for which types of incentives are actually helpful and appealing to developers. In Kirkland, a few developers were very hands on and shared financial information with the city and its contractors who developed pro forma modeling to test and inform program requirements. This became even more important in adopting the station area plan, during which Planning Commission and City Council indicated that they wouldn't make a decision if they felt that developers had not been a part of the planning process. Seattle staff noted that developer engagement and input was crucial during the program's adoption phase.

Kirkland staff also noted that their **program is working exactly as it was designed to. Developers rarely go above the requirements for affordable housing. Therefore, it was critical that they designed a program that would deliver the number of affordable housing units the city wants**. The city decided to set affordability requirements at 50% AMI because outreach and analysis suggested that aiming for deeper levels of affordability was not practical or feasible for the development community. Kirkland is pursuing other subsidies and partnerships to develop housing affordable below 50% AMI. Similar to Kirkland, Seattle staff noted that the MHA-R program is on track and working as intended having collected $246 million in fees through the payment option and seeing 246 affordable units being committed through the performance option since the program was adopted.

In terms of setting fees, Seattle and Kirkland staff noted the **importance of utilizing nexus studies and referring to how other jurisdictions have gone about setting their fees**. For example, Seattle staff noted that San Diego predicates their fee rates on the calculated sale price of units (including for rental units), which inherently includes downturns in the market, and noted how there are many opportunities to learn from other jurisdictions.

Success Factors and Challenges

City of Kirkland staff note that the **decision for program triggers was important to ensure that developers would not avoid development types to avoid participation.** Kirkland chose four units per acre because, at the time of implementation, they saw a need and market push for medium density housing projects on the horizon and wanted to capture those developments in the program. In addition, the city wanted the surrounding community to be comfortable with the increased density while implementing a robust program.

A major influence in the inclusionary zoning program in Kirkland is the **ability for developers to count affordable units towards both the MFTE and inclusionary zoning programs.** Most developers in Kirkland use the 8-year MFTE program, which has the same threshold as the inclusionary zoning requirements. In rental developments, developers get the benefit of increased development capacity as well as access to MFTE incentives. Staff note that the combining effect of MFTE and inclusionary zoning incentives earned from the same affordable units has increased the uptake of affordable housing above the individual incentives. Staff believe that developers are supportive of the programs because “the city is going beyond making the developer whole.”

Although Kirkland’s new inclusionary zoning requirements in the station area plan will not go into effect until 2026, staff are already excited to see how developers will approach the additional 5% requirement. Staff anticipates that it will provide insight into the feasibility of developing affordable housing, and which metrics – percentage of required affordable units, AMI levels, target audience – are the most salient for developers.

Seattle staff noted that **regular review is helpful in ensuring a program is working as intended**. Seattle is happy with how the MHA-R program works, but also noted that the program is not perfect. By building in regular program evaluations, the City allows for regular tweaks to the program to ensure it can maximize the public benefit it can produce. In addition to regular review, Seattle’s Office of Housing produces annual reports tracking the production and fee collection generated by the MHA-R program. Along these lines, Seattle staff advised caution in allowing certain affordable housing programs to overlap, such as incentive (voluntary) and inclusionary (mandatory) programs, as this muddles the reporting for the public benefits provided by each program. Without the ability to clearly quantify the benefit created by each program, a city is unable to properly assess the performance of each program and therefore ensure they are working as intended.

While developer engagement is important, Seattle staff wishes there was greater inclusion of renter input when the MHA-R program was adopted. With renters making up a majority of the city, staff expressed a desire for greater inclusion or renters when housing programs are being put together, particularly for the performance portions.

A challenge to the program noted by Seattle staff was that in some areas of the city affordable rent limits were the same or

higher than what developers were charging for market rate units. To overcome this, the staff desire a way to set rent or AMI limits by area, rather than using the countywide AMI level for all areas.

Commercial Linkage Impact Fee Program: Boulder, CO and San José, CA

Program Overview

Exhibit 1 presents a brief program overview of the commercial linkage fee programs implemented in Boulder, Colorado and San José, California. Each program was adopted within the last ten years and applies to non-residential development throughout the city. More in-depth information about each program is provided **Appendix I**.

Exhibit 2. Commercial Linkage Fee Program Overviews

	Boulder, CO	San José, CA
Policy		
Program Name	Commercial Linkage Fee	Commercial Linkage Fee
Applicability	Non-residential development.	Non-residential projects, and commercial space greater than 5,000 sf in mixed-use developments.
Exemptions	None, but some discretion staff discretion in application.	Retail; Office Space <= 50,000 sf; Industrial Space <= 100,000 sf.*
Variation by Location	Citywide	Citywide
Payment/Performance	Payment	Payment
Fee Rates	$10.45 - $31.36 (per sf)**	$3.49 - $17.44 (per sf)***
Fee Adjustment Schedule	Annually	Annually
Use of Revenue	Affordable Housing Fund	Affordable Housing Fund
Performance		
Program Adoption	2016	2020
Phase-in Period	3-4 Years	Immediate
Program Updates	NA	2022
Fees Collected	$12,000,000	$920,300
Fee Collection Years	2016 - 2023 YTD	2022 - 2023 YTD

Sources: City of Boulder, 2023; City of San José, 2023; Community Attributes Inc., 2023.
** These are general exemptions, but exemptions differ by subarea.*
*** Fees differ by use type.*
****Fees differ by use type and subarea.*

Best Practices for Implementation

Boulder staff stressed the **importance of engaging with the development community**, as well as local economic development organizations like the Chamber in developing the program. Feedback from developers can help inform fee rates and schedules, and outreach can provide an opportunity for the city to build support for the program among developers.

Boulder and San José staff noted that **internal coordination is crucial for successful implantation**. Ensuring that the departments that will be administering, tracking, or generally impacted by the fee program, such as a city's permitting, housing, and planning departments are well educated on the program – and even help develop appropriate elements of the program – will help the implementation of the program go more smoothly. Staff suggested that coordination between city departments regarding the program is important from the first drafting of the ordinance that would allow the program to be adopted, ensuring department buy-off and a thorough understanding of the program. Given the increased administrative burden put on cities upon adoption of such programs, San José staff cited the importance of their technology department for helping create sound tracking systems to stay organized with applications and retain data for future tracking.

San José staff also urged jurisdictions considering commercial linkage fees to "not reinvent the wheel". They **recommend that jurisdictions review and re-use language from other city's ordinances and programs and to utilize the vast amount of information available regarding commercial linkage fee programs**. As a part of this, they suggested using other jurisdiction's application forms as a template to keep the form clear and concise. By using existing information, San José staff felt this would help alleviate, in part, the large effort that adopting a commercial linkage fee program puts on a city. Boulder staff **recommend working with a consultant** who "really knows and understands" the local market to help inform the fee structure and development types that trigger it. This is helpful to ensure a fee structure that is informed by local economic and market conditions.

Boulder staff also recommend **building in a regular reevaluation process to review and modify the fee amount**, on top of annual changes to keep abreast of market and construction trends. When the Boulder program was implemented, it was one of the highest commercial linkage fees in the nation; some elected and city officials now support examining the feasibility and support for an increase that surpasses the annual adjustments.

Success Factors and Challenges

The Boulder Municipal Code and interviewed Housing and Human Services staff note that a Commercial Linkage Impact Fee program is a

particularly useful tool when a city is seeing a shrinking supply of land available for new housing and commercial development.

Staff attribute **some of the success of the linkage fee to the unexpected growth in large format redevelopment** as a part of an increase in life sciences in Boulder. Since the linkage fee was implemented, Boulder has seen several older and low-density light industrial and manufacturing structures redevelop into high-density advanced manufacturing or research and development facilities in industries like life sciences even as the city has seen a decrease in the amount of office space being developed and preserved.

The linkage fee is a discretionary aspect of the permitting review process; a program feature that staff notes has created confusion and a lack of consistency for certain projects. Staff provided the example of an addition to a private school that included additional classroom and communal space in Boulder. Permitting staff opted to only apply the linkage fee to classroom space, which was a small share of the new addition. **Staff recommend consistency and clarity in developing a new program in applying it appropriately** and with clear triggers for which development types must pay the linkage fee. Developers can also receive a credit for demolished floor area that offsets the linkage fee they pay on redevelopment. Therefore, the linkage fee required for greenfield development may be more prohibitive than redevelopment.

Boulder staff report that there were **concerns at the time of implementation that the impact fee would lead to a decrease in commercial development; however, the current sentiment is that those concerns did not come to fruition**. In fact, staff note that pandemic-related impacts to the broader construction and development industries have been a bigger impediment to the program, the extent of which is not currently clear. San José staff shared similar sentiments, noting that development has been depressed by general market conditions rather than the fees charged. Staff also mentioned that the timing of when the fee was due - when the development permit was pulled, was found to cause greater issues to developers than the fee itself.

The variability in how the linkage fee program can be applied to certain development types has prevented the city from including the program in its online permit fee calculator. City of Boulder staff believe that this prevents developers from having full clarity and understanding of project costs, which can add to feasibility and development challenges.

The City of San José **suggested not tying fee rate updates to a construction index.** Currently, San José's commercial linkage fee rates are tied to the Engineering News Record (ENR) Construction Cost Index and staff noted the annual increases seen near the pandemic have caused significant, and in some cases unsustainable, hikes in their fee rates.

Remaining flexible with when payments are received, but incentivizing early payments will help ensure payments are paid in a timely manner. To address this, the City of San José offers a 20% discount in fees when developers pay the fee in full prior to the building permit issuance.

San José staff also noted that **breaking the city into subareas and setting sustainable fees for each subarea** has been important for their program's viability. The city commissioned a feasibility study to help set the fees for each subarea and use type.

Incentive Zoning: South San Francisco, CA and Seattle, WA

Program Overview

The State of California enacted the Density Bonus Law in 1979 to allow a developer to increase density on a property above the maximum set under a jurisdiction's General Plan land use plan. Cities in California are tasked with implementation of this program within their boundaries; therefore, the City of South San Francisco's incentive zoning program is synonymous with the state's Density Bonus Law. In exchange for the increased density, a certain number of the new affordable dwelling units must be reserved at below market rate (BMR) rents. Qualifying applicants can also receive site-specific modifications to required development standards. Greater benefits are available for projects that reach higher percentages of affordability (with unlimited density available for certain transit-adjacent, 100-percent BMR projects).[21]

The City of Seattle's Incentive Zoning program is a voluntary program through which developers may opt to provide public benefits in return for a density bonus. However, Seattle has phased the program out of much of the city in favor of their mandatory MHA-R program, except for certain areas in the city's Downtown and South Lake Union zones.

[21] Density Bonus Law, Southern California Association of Governments.

Best Practices for Implementation

Although the Density Bonus Law is mandatory, there are a few elements of the law which the City of South Francisco has discretion to implement, and which can be relevant for other jurisdictions considering implementing an incentive zoning program. These are described in the next section.

Since Seattle's Incentive Zoning program has been phased out in most areas of the city, Seattle staff did not have much to say about the program. However, staff did note that programs such as their Incentive Zoning and MHA-R programs should not overlap, as this does not allow the city to quantify the public benefit of each program, and therefore makes it difficult to determine if each program is working as intended when the two programs are used in tandem by a development.

Success Factors and Challenges

Eligibility and performance elements of the Density Bonus Law are not discretionary for California cities. However, cities do have discretion in how they administer and weigh development standards for applicants. South San Francisco staff note that **some developers trigger the Density Bonus Law to gain site specific design standard departures for aspects of the project that do not conform with the city's zoning code**. In some cases, developers do not opt to build the units offered to them through the density bonus, instead using the program to acquire a variance or conditional use permit for certain types of development.

As such, **a city that is wishing to spur housing development and reduce barriers to building, particularly on unusual parcels or geographies, could use a similar development standard provision in a density bonus ordinance to allow flexibility in permitted uses or other aspects of that city's development regulations**. In these cases, city staff note that the affordable units are still built, regardless of the bonus market rate units.

The Density Bonus Law does have a provision that allows developers to pay a fee instead of building the affordable units required by the law. **South San Francisco wants the affordable units built rather than the fee; therefore, the city set the fee at a very high rate of approximately $330,000 per unit.** This further incentivizes developers to opt to build affordable units. The City of Seattle has seen a different outcome, with the payment option being more enticing to developers compared to the performance option. The payment option requires developers to pay a fee ranging from $7.27 to $27.42 per square foot depending on the zone and market area.[22]

Seattle staff noted a **desire for affordable rent and sale price limits to be determined by each subarea within the city.** Under the current system, affordable rent and sale price limits can exceed the market rate prices charged by developers in certain neighborhoods throughout Seattle.

Additionally, City of Seattle staff noted the **low utilization of their voluntary programs** including incentive zoning, green building, and parking reduction programs. Generally, staff gave the notion that developers do not wish to exceed the requirements mandated by the underlying zone of their proposed project.

Catalyst Provisions Research

A literature review and outreach to the Washington State Department of Commerce do not indicate any velocity triggers or catalyst provisions in place for municipal housing policies. However, there are some similar cases in which cities have attempted to implement higher affordability requirements.

The cities of Kirkland and Seattle have built in review processes to their Inclusionary Zoning and Mandatory Housing Affordability programs, respectively. Other interviewed cities recommended adopting periodic and regular reviews of program requirements, including fees, the share of affordable units, or levels of affordability, as programs prove to be successful. A mandatory review process may help a jurisdiction to iterate and accelerate productive housing programs.

The City of Sammamish is an example of phased or tiered housing policies contingent upon the pace of development within a subarea. While this is not a velocity trigger or catalyst provision, it is a way in which a city can craft housing policy that can change as redevelopment occurs. In its Town Center code, Sammamish adopted a tiered approach to additional bonus residential units. Section 21.07.050D outlines provisions to obtain additional residential density or commercial development capacity within the Town Center. Projects may obtain additional density by complying with affordable housing provisions, incorporating certain site amenities, and/or through the City's transfer of development rights (TDR) program. The bonus housing unit pool from the city's affordable housing provisions must be exhausted first, on

[22] City of Seattle Municipal Code: Chapter 23.58C.040.

a first come, first served basis. Upon exhaustion of these available units, projects may still access bonus units through site amenities and/or the TDR program. Because the total number of housing units that can be built in Town Center is capped, bonus density for early projects can only be obtained through the provision of affordable units; as development occurs and the pool of available affordable units is exhausted, bonus units can only be achieved through subsequent tiers of incentives. While this is not the same approach as a velocity trigger, it does offer one example of a jurisdiction that has tied its incentive tiers to the construction, over time, of housing units.

This is the not the only example of a city adopting higher affordable housing standards in subareas. As noted in the case study analysis, Kirkland recently adopted higher requirements in the future light rail station area, which will take effect in 2026. In addition, the Department of Commerce provided two examples of localized policies for areas with a more aggressive housing market. Montgomery County, Maryland mandates a higher inclusionary zoning requirement for its downtown urban areas than less urban areas in the county.[23] Jersey City, New Jersey has a similar program with varied set-asides required for affordable housing based on different criteria based on Local Housing Solutions' inclusionary housing guidance.[24]

Funding Gap Analysis

RCW 36.70A.070(2)(d)(ii) requires that local jurisdictions document "gaps in local funding" in their list of programs and actions needed to achieve housing availability. One optional method to quantify the funding gap is described by the Washington State Department of Commerce in *Guidance for Updating Your Housing Element*. This method consists of four steps and requires the following data:

- **Annual housing units needed by affordability level**, at minimum including units affordable at less than 50% area median income (AMI) and in high-cost areas units affordable at less than 80% of AMI.
- **Average annual units produced**, which includes any units developed with the support of local, state, federal, or community funding sources.
- **Cost per unit**, which may be informed by data available through the Department of Commerce on the cost of units

[23] Moderately Priced Dwelling Units (MPDUs) Program – General, Montgomery County, MD Department of Housing and Community Affairs.
[24] Inclusionary Zoning, Housing Policy Library, Local Housing Solutions.

developed with Low Income Housing Tax Credits (LIHTC) or other data to describe the cost per unit for affordable housing.

King County's Growth Management Planning Council Motion 23-1 recommended updates to the Countywide Planning Policies including jurisdictional housing needs which "are derived from the Washington State Department of Commerce and were adjusted to align with the adopted housing growth targets for the planning period to ensure jurisdictions are planning for growth that is consistent with the goals of the Development Patterns Chapter."

In total, the CPPs allocate net new housing units of 35,000 for the City of Bellevue by 2044. Of this need, 77% of housing units are at the 50% and below AMI affordability level and 85% of units are at the 80% and below AMI affordability level.

Exhibit 3. Bellevue Net New Units Allocation by 2044

Area Median Income	Net New Units Allocation	% of Total
30% and below	18,195	52%
31%-50%	8,780	25%
51%-80%	2,671	8%
81%-100%	703	2%
101%-120%	798	2%
121% and above	3,853	11%
Total	**35,000**	**100%**

Sources: King County, GMPC Motion 23-1, 2023; Community Attributes Inc., 2023.

Exhibit 4 shows the annual average net new housing unit need for 80% AMI and lower for the 25-year planning period between 2019 and 2044. In total, for units affordable to 80% or below AMI, the annual average net new need is 1,186 housing units.

Exhibit 4. Annual Average Net New Units, City of Bellevue, 2019-2044

Annual Average Net New Units	
30% and below	728
31%-50%	352
51%-80%	107
Total	**1,186**

Sources: King County, GMPC Motion 23-1, 2023; Community Attributes Inc., 2023.

Exhibit 5 illustrates average annual production in Bellevue over the past 5 years (2019-2023) of units affordable to households earning 80%

AMI or below according to the City of Bellevue's affordable housing inventory data (excluding emergency housing)[25]. In total average annual production for all units 80% AMI or below is 279 units.

Exhibit 5. Average Annual Production, City of Bellevue, 2019-2023

	Annual Avg Production
30% and below	6
31%-50%	20
51%-80%	254
Total	**279**

Sources: City of Bellevue, 2023; Community Attributes Inc., 2023.
Note: Units grouped as Section 8 or Public Housing within the City of Bellevue's detailed inventory are captured within the 31-50% category.

Based on the Department of Commerce guidance, the average annual gap in affordable housing production is estimated as the difference between average annual net new unit need and average annual units produced. **Exhibit 6** shows the average annual gap by income level, assuming trends in production match the past five years. The City of Bellevue has produced more units on average than the net need within the 51-80% of AMI category. However, units at 51-80% are not substitutable for units at lower income levels. Therefore, the total average annual gap is 1,054, excluding the over-production within the 51-80% category.

Exhibit 6. Average Annual Housing Unit Gap, City of Bellevue

	Affordable Housing Gap
30% and below	722
31%-50%	332
51%-80%	(147)
Total	**1,054**

Sources: King County, GMPC Motion 23-1, 2023; City of Bellevue, 2023; Community Attributes Inc., 2023.

The funding gap, following the guidance from the Department of Commerce, is calculated by multiplying the gap in affordable housing production by the cost per unit for affordable housing. Data from the Washington State Housing Finance Commission in the *Guidance for Updating Your Housing Element* indicates that the average cost per

[25] The guidance from the Washington State Department of Commerce indicates that the methodology is not appropriate for estimating the funding gap for emergency housing types.

unit in King County is $340,579. Data provided by ARCH for five projects planned or completed between 2023 and 2025 on the Eastside indicates that the average cost per unit for ARCH projects is nearly $582,800, higher than the King County average cost. **Exhibit 7** shows the average annual funding gap by AMI level, totaling $614 million for units serving income levels at or below 50% of AMI, using the cost data provided by ARCH. If the cost assumption is decreased to the King County figure available from the Department of Commerce, the funding gap is estimated at $358.8 million annually.

Exhibit 7. Estimated Average Annual Affordable Housing Funding Gap, City of Bellevue

	Funding Gap
30% and below	$420,519,996
31%-50%	$193,453,185
51%-80%	$0
Total	**$613,973,181**

Sources: King County, GMPC Motion 23-1, 2023; City of Bellevue, 2023; Washington State Department of Commerce, 2023; Community Attributes Inc., 2023.

This funding gap assumes that all units needed to serve households at or below 50% of AMI will be funded fully by local, state, federal or other community funding sources. Additionally, feedback from ARCH staff have indicated that the King County average cost from the Department of Commerce may be an underestimate of the cost to produce affordable units in the City of Bellevue.

Among the 1,654 affordable housing units that came into service between 2017 and 2023, 192 units were developed with a development incentive, while the rest were subsidized units. All 192 units fall within the 51-80% AMI affordability level. Given that the city has produced on average over the past few years more units than the annual average need at the 51-80% AMI level, estimating the funding gap for subsidized units would not change the results of the analysis.

An alternative way to estimate the funding gap is using a subsidized cost, rather than the full cost of production. The City of Seattle's 2016 *Seattle Residential Affordable Housing Impact and Mitigation Study* found that the per unit subsidy requirements range between $190,400 and $241,100 for units affordable to households at 60% of AMI, with the range dependent on the range of development costs. For units affordable to household at 80% of AMI, the per unit subsidy requirement ranges between $155,800 and $206,500. A City of Santa Rosa *Residential Impact Fee Nexus and Feasibility Study* found that the average affordability gap for units serving households at 50% of AMI is $210,400.

Assuming a subsidy requirement of approximately $214,000, based on the affordability gap requirements completed by the City of Seattle and the City of Santa Rosa, the total annual funding gap is estimated at $225.4 million.

Data available on costs for affordable housing indicate that the funding gap varies substantially depending on cost assumptions. However, analyses indicate a range of funding needed annually between $225 million to nearly $615 million per year.

Based on the funding analysis in the *Existing Conditions Report* the public revenue sources for affordable housing in Bellevue have totaled more than $87.9 million between 2017 and 2023, or an annual average of nearly $12.6 million. This equates to identifiable funding sources of $60,137 per unit of affordable housing between 2017 and 2023[26]. Assuming the same requirements for funding sources identified in the *Existing Conditions Report*, total funding requirements for the affordable housing gap is $63.4 million in funding per year.

[26] Total affordable units developed between 2017 and 2023 totals 1,654. Of these 190 are emergency housing and 1,335 are units serving households at 51-80% of AMI. Additionally, 810 units are identified as using City of Bellevue or ARCH funding and 704 with other funding sources. The remaining 140 use development incentive programs. Among the 704 units with other funding sources, 652 are King County Housing Authority or Mary's Place units.

Appendix I: Case Studies

City of Seattle, Washington: MHA-R and Incentive Zoning Program

MHA-R Program Overview

Seattle's Mandatory Housing Affordability Residential (MHA-R) program is a developer contribution program that requires residential developments in the city to provide affordable units or pay a fee in lieu. The program was adopted in 2016 and has been implemented incrementally alongside area-wide zoning changes. The program aims to achieve the goal of providing affordable housing in Seattle through means authorized by RCW 36.70A.540.[27] The MHA-R program was last updated in 2019, during which time the program was expanded to include most neighborhoods zoned for multifamily housing.[28]

Properties within Seattle are subject to MHA-R requirements after the City Council approves a rezone, either initiated by the city or applicant, that increases the density through a height or FAR bonus or establishes a different zoning designation. For areas that have been rezoned, MHA requirements are found in the standards for the zone, or the Property Use and Development Agreements associated with applicant-initiated rezones. Most rezoned areas have an MHA suffix to determine the payment or performance requirements, but there are zones within the city that are subject to MHA requirements but do not have an associated MHA suffix.[29]

Geographically, MHA zones are separated into four zone designations:

- Downtown, SM-SLU, SM-U 85, and SM-NG zones
- Zones with (M) suffix
- Zones with an (M1) suffix
- Zones with an (M2) suffix

Each zone with an (M), (M1), or (M2) suffix falls in a high, medium, or low market area that dictates the MHA requirements a proposed development must meet.[30] Within the designated areas, MHA-R requirements apply to developments that include units created through

[27] City of Seattle Municipal Code: Chapter 23.58C.
[28] 2022 Mandatory Housing Affordability and Incentive Zoning Report, Seattle Office of Housing, March 2023.
[29] https://www.seattle.gov/sdci/codes/codes-we-enforce-(a-z)/mandatory-housing-affordability-(mha)-program
[30] https://www.seattle.gov/sdci/codes/codes-we-enforce-(a-z)/mandatory-housing-affordability-(mha)-program

new construction, additions to existing structures that adds to the total number of units, alterations within an existing structure that increase the total number of units, or change in use that results in the increase in the total number of units. Fully affordable developments are exempt from the MHA-R program.[31]

Seattle's MHA-R program allows developers to choose between a payment and performance option. The performance option allows the developer to incorporate affordable units into the proposed development, while the payment option allows the developer to make a payment to the City as a part of the permitting process.[32]

The MHA-R program's requirements are numerous. Depending on the zone and market area, performance requirements range from 2.1% to 11% of units made affordable to households earning no more than 40% of AMI for rental units of 400 square feet or less in size, 60% of AMI for rental units greater than 400 square feet in size, and 80% of AMI for ownership units.[33] Both affordable rental and ownership units generated through the performance option must remain affordable for 75 years. The payment option requires developers to pay a fee ranging from $7.27 to $27.42 per square foot depending on the zone and market area.[34] The payment calculation amounts are tied to the Consumer Price Index and are updated on March 1 of each year. Greater detail regarding performance requirements can be found in City of Seattle Municipal Code Chapters 23.58C.040 and 23.58C.050.

The MHA-R code allows for the modification of payment and performance amounts through an applicant request and subsequent approval by the city. The reasons for modifications vary but include the inability to use certain capacity and severe economic impact.[35] MHA-R performance units may not be used to satisfy affordable unit requirements for other programs, such as the city's MFTE program.[36]

MHA-R units must be comparable to other units in the development in terms of the following:[37]

[31] City of Seattle Municipal Code: Chapter 23.58C.025.
[32] https://www.seattle.gov/sdci/codes/codes-we-enforce-(a-z)/mandatory-housing-affordability-(mha)-program
[33] City of Seattle Municipal Code: Chapter 23.58C.050.
[34] City of Seattle Municipal Code: Chapter 23.58C.040.
[35] City of Seattle Municipal Code: Chapter 23.58C.035.
[36] City of Seattle Municipal Code: Chapter 23.58C.050.
[37] City of Seattle Municipal Code: Chapter 23.58C.050.

- Status as a dwelling units, live-work units, or congregate residence sleeping room
- Number and size of beds/baths
- Net unit area
- Access to amenities
- Functionality
- Terms of the lease.

Ordinance 125108, which established the framework for the Mandatory Housing Affordability – Residential (MHA-R) Program, stated that the City will conduct a post-implementation review of the MHA-R program five years from the effective date of the ordinance, which was conducted in later 2021. Per City staff, this 5-year timeline appears to be a consistent goal for program evaluation. In addition to regular program evaluation, Seattle's Office of Housing produces an annual report showing the production of units and fees collected as a result of the MHA program.

Production

As of December 2022, there were 89 affordable units in service that were created by the MHA program. A total of 176 additional units have been committed for projects currently under construction. In total, Seattle's MHA program, which includes a commercial element, has collected $246.1 million in fees. Of these fees, 87% are associated with the MHA-R program. In 2022, 95% of the projects participating in MHA made affordable housing contributions[38].

Incentive Zoning Program Overview

The City of Seattle's Incentive Zoning program is a voluntary program that allows developers to choose to provide public amenities or pay a fee in return for extra floor area or a height bonus. To receive the incentive, developers are able to provide one of the following: [39]

- Affordable housing
- Childcare
- Open spaces
- Transferable Development Potential and Rights (TDP/TDR)
- Regional Development Credits (RDC).

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[38] 2022 Mandatory Housing Affordability and Incentive Zoning Report, Seattle Office of Housing, March 2023.
[39] https://www.seattle.gov/sdci/codes/codes-we-enforce-(a-z)/incentive-zoning-program

Seattle's incentive zoning requirements have been phased out in all but a few Downtown and South Lake Union zones. Incentive zoning requirements are dependent on the underlying zone of a property. Performance option income level requirements align with the requirements set by the MHA-R program.[40]

Production

In 2022, Seattle's Incentive Zoning program saw 33 affordable units placed in service, with 126 additional units under construction. The program also collected $17 million in fees in 2022.[41]

City of San José, California: Commercial Linkage Fee Program

Program Overview

The City of San José adopted their Commercial Linkage Fee (CLF) program in 2020. The commercial linkage fee is a one-time impact fee that applies to new, non-residential projects. The funds generated by the CLF program are used to facilitate the development of affordable housing for "extremely low, very low, low, and moderate income" households.[42] The original ordinance identified the following goals for the program:

- addressing the increased need for affordable housing,
- create a funding mechanism to increase the supply of affordable housing in San José without reference to a specific development or property,
- improve public welfare in the City of San José and help implement the city's housing goals from their General Plan.

San José amended the program in 2022 to make the fee schedule more accommodating for developers and their financing timelines. Fees are set for four geographic subareas that cover the entirety of San José and are updated on July 1 of each year. Fee rate increases are tied to the

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[40] 2022 Mandatory Housing Affordability and Incentive Zoning Report, Seattle Office of Housing, March 2023.
[41] 2022 Mandatory Housing Affordability and Incentive Zoning Report, Seattle Office of Housing, March 2023.
[42] https://www.sanjoseca.gov/home/showpublisheddocument/87526/637922796081970000

Engineering News Record (ENR) Construction Cost Index in January of each year.[43]

San José's commercial linkage fee applies to all new office, hotel, industrial/research and development, warehouse, and residential care development. For office and industrial/research and development use types, the fees differ for projects larger than or equal to 100,000 square feet (sf) and less than 100,000 square feet. A 20% reduction is the one-time fee is offered by the city if the fee is paid in full prior to building permit issuance.[44]

The fee rates by subarea are presented below.[45]

Downtown and Nearby subarea

- **Office (>= 100,000 sf)**: $17.44 per square foot.
- **Office (< 100,000 sf)**: $0 for all square footage <= 50,000 and $3.49 per sf for all remaining square footage.
- **Retail**: No fee.
- **Hotel**: $5.81 per sf excluding common area space.
- **Industrial/Research and Development (>= 100,000 sf)**: $3.49 per square foot.
- **Industrial/Research and Development (< 100,000 sf)**: No fee.
- **Warehouse**: $5.81 per square foot.
- **Residential Care**: $6.98 per square foot excluding common area space.

North San José and Nearby; West San José Urban Villages

- **Office (>= 100,000 sf)**: $5.81 per square foot.
- **Office (< 100,000 sf)**: $0 for all square footage <= 50,000 and $3.49 per sf for all remaining square footage.
- **Retail**: No fee.
- **Hotel**: $5.81 per sf excluding common area space.
- **Industrial/Research and Development (>= 100,000 sf)**: $3.49 per square foot.
- **Industrial/Research and Development (< 100,000 sf)**: No fee.
- **Warehouse**: $5.81 per square foot.

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[43] https://www.sanjoseca.gov/your-government/departments-offices/housing/developers/commercial-linkage-fee
[44] *Ibid.*
[45] *Ibid.*

- **Residential Care**: $6.98 per square foot excluding common area space.

Edenvale and Monterey Corridor

- **Office (>= 100,000 sf)**: $5.81 per square foot.
- **Office (< 100,000 sf)**: $0 for all square footage <= 50,000 and $3.49 per sf for all remaining square footage.
- **Retail**: No fee.
- **Hotel**: $5.81 per sf excluding common area space.
- **Industrial/Research and Development**: No fee.
- **Warehouse**: $5.81 per square foot.
- **Residential Care**: $6.98 per square foot excluding common area space.

South and East San José Growth Areas

- **Office (>= 100,000 sf)**: $5.81 per square foot.
- **Office (< 100,000 sf)**: $0 for all square footage <= 50,000 and $3.49 per sf for all remaining square footage.
- **Retail**: No fee.
- **Hotel**: $5.81 per sf excluding common area space.
- **Industrial/Research and Development**: No fee.
- **Warehouse**: $5.81 per square foot.
- **Residential Care**: $6.98 per square foot excluding common area space.

Developers may apply for affordable housing credits, which allows for a reduction in the square footage subject to the commercial linkage fee. These credits require the developer to provide affordable housing units on- or off-site of the commercial development. The required number of units and affordability levels associated with each credit are determined given the subarea within which the proposed development will be built.[46]

Production

Data specific to the San José commercial linkage fee program is limited as the funds are placed in a housing fund designated for generating 100% affordable developments. However, a city official was able to share that since the 2022 update, the commercial linkage fee program

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[46] https://www.sanjoseca.gov/home/showpublisheddocument/87790/637931393782870000

has collected $920,300 and shared that there are tens of millions of dollars the city will collect in the development pipeline.

Boulder, Colorado: Commercial Linkage Impact Fee Program

Program Overview

The City of Boulder, Colorado set a citywide goal that 15% of all housing units need to be permanently affordable for low-, moderate-, and middle-income households by 2035.[47] As of January 2023, there are over 3,960 affordable homes in Boulder, more than halfway to meeting its goal.

The Inclusionary Housing Program, adopted in 2000, updated in 2009 and 2018, and codified in Chapter 13 of the Boulder Municipal Code, is the primary mechanism by which affordable housing is developed in Boulder and critical to meeting its housing affordability goals.[48] Chapter 13 sets forth, "because remaining land appropriate for residential development within the city is limited, it is essential that a reasonable proportion of such land be developed into housing units affordable to very low-, low-, moderate and middle-income residents and working people." The 2018 update mandated that 25% of new housing development in the city must be affordable to support the 2035 goal of 15% permanently affordable housing stock. Approximately 5% of new housing development must now be affordable to middle-income housing and 20% affordable for low- and moderate-incoming housing. Definitions of affordability follow the Department of Housing and Urban Development's (HUD) classification of Area Median Income (AMI) and are:

- Middle-income households range from 81% to 120% of AMI.
- Moderate-income households range from 61% to 80% of AMI.
- Low-income households range from 0% to 60% of AMI.

Options for meeting the 25% requirement include providing the permanently affordable units on-site, dedicating off-site newly constructed or existing units as permanently affordable, dedicating vacant land for affordable unit development or making a cash contribution to the Affordable Housing Fund in lieu providing

[47] This goal is included in the Boulder Valley Comprehensive Plan, most recently updated in 2020. The Plan's jurisdiction includes the City of Boulder, Boulder County, and parts of the remaining Boulder Valley.
[48] Boulder Municipal Code, Chapter 13.

affordable units.[49] The Commercial Linkage Impact Fee Program is one affordable housing revenue source that contributes directly to the Affordable Housing Fund for non-residential development within Boulder.

The Commercial Linkage Impact Fee and Inclusionary Housing programs are the primary contributors to the Affordable Housing Fund. The Commercial Linkage Impact Fee Program was approved by City Council in 2015 and implemented beginning in 2016. At the time of implementation, Boulder's fee was one of the highest in the nation, on par with similar programs in cities like Palo Alto, California.[50] After a several year ramp up period, the full implementation of the program coincided with the development challenges and delays incurred as a result of the COVID-19 pandemic.

The fee is adjusted annually based on the construction cost index, which staff say results in a modest annual increase. Non-residential developments are charged impact fees based on square footage by type of use. The 2023 affordable housing impact fee rates per square foot of non-residential floor area by non-residential use type are:

- Retail/Restaurant: $20.91 out of $23.41 total
- Office: $31.36 out of $33.52 total
- Hospital: $20.91 out of $22.88 total
- Institutional: $10.45 out of $11.25 total
- Warehousing: $10.45 out of $11.03 total
- Light Industrial: $18.29 out of $19.66 total[51]

Production

The City of Boulder tracks a variety of metrics related to the Affordable Housing Fund in an interactive, online dashboard. **Exhibit 1** outlines the annual production, type of housing developed through the Affordable Housing Fund, and the levels of affordability of housing units. Approximately 3,820 affordable housing have been produced since 2000 through the Affordable Housing Fund. The majority of those are multi-family rental units available to households below 60% AMI.

The City of Boulder provided annual revenue from the Commercial Linkage Fee and Cash-in-Lieu programs that is paid into the Affordable

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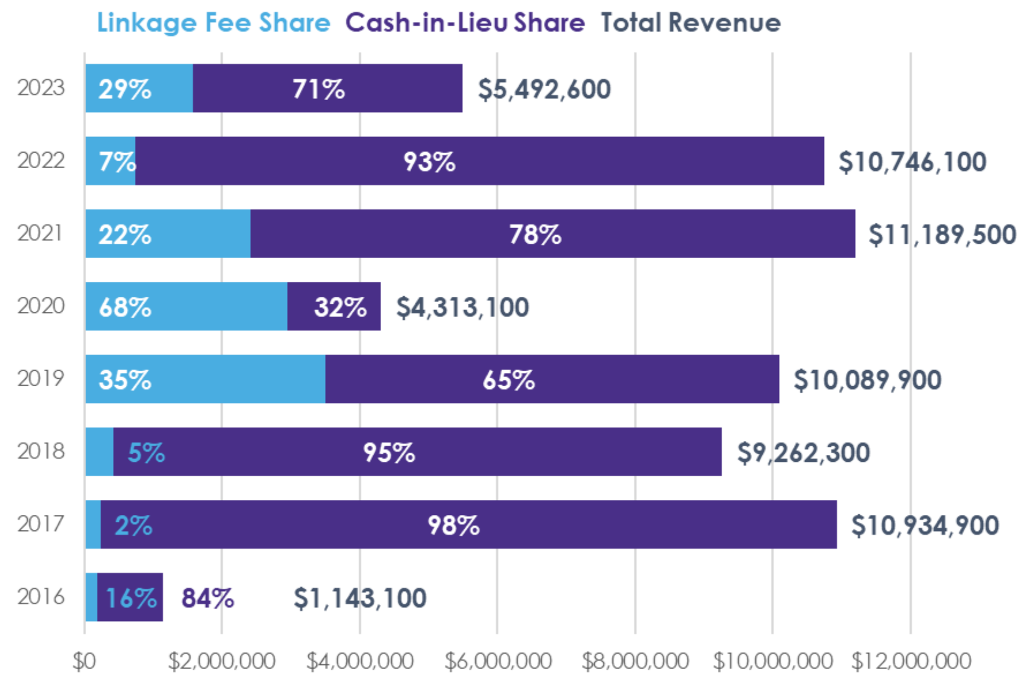
[49] Expanding Affordable Housing Options, City of Boulder.
[50] Staff reported that there have been recent discussions about increasing the fee.
[51] City of Boulder Planning and Development Services 2023 Schedule of Fees: https://bouldercolorado.gov/media/10039/download?inline.

Housing Fund since 2016, as shown in **Exhibit 9**. In most years since 2016, the majority of funds came from the cash-in-lieu program; however, the commercial linkage fee has generated $12,038,200 for the Fund.

Exhibit 8. Annual Revenue and Share of Affordable Housing Trust Fund, City of Boulder, 2016 to 2023



Source: City of Boulder, 2023; CAI, 2023.
Note: Data for 2023 includes January to October.

City of South San Francisco, California: Incentive Zoning (Density Bonus Program)

Program Overview

The State of California enacted the Density Bonus Law in 1979 to allow a developer to increase density on a property above the maximum set under a jurisdiction's General Plan land use plan. In exchange for the increased density, a certain number of the new affordable dwelling units must be reserved at below market rate (BMR) rents. Qualifying applicants can also receive reductions in required development standards. Greater benefits are available for projects that reach higher percentages of affordability (with unlimited density available for certain transit-adjacent, 100-percent BMR projects).[52]

As a state law, incentive zoning through the density bonus program is a mandatory program in cities in California. The City of South San Francisco implements the state Density Bonus Law through Title 20, Division V, Chapter 20.390 of its Municipal Code.[53] The state law requires any housing development that proposes five or more units and incorporates at least one of the requirements below for a period of 55 years is eligible for a density bonus:

- 5% units restricted to "Very Low Income" (Less than 50% AMI).
- 10% units restricted to "Low Income" rental units or 10% "Moderate Income" for sale units (50% to 80% AMI).
- 100% affordable units with a maximum of 20% moderate units.
- 10% "Very Low Income" units restricted for transitional foster youth, disabled veterans, or homeless.
- 20% "Low Income" units for student housing at accredited colleges.
- A senior housing development (no affordable units are required).
- An age-restricted mobile home park (no affordable units required).
- The project donates at least one acre of land to the jurisdiction for very low-income units, the land has the appropriate permits and approvals, and has access to needed public facilities.
- Projects which include a childcare facility.

Production

All eligible residential development is mandated to meet the Density Bonus Law requirements; as such, the City of South San Francisco does not track affordable units developed in the city.

City of Kirkland, Washington: Inclusionary Zoning

Program Overview

Kirkland adopted their mandatory inclusionary zoning program in 2010, which requires new multifamily and mixed-use developments to include affordable housing units. Per Kirkland's code, the limited stock of land within the city zoned and available for residential development, alongside the demonstrated need for affordable housing dictated that the city provide development incentives in exchange for public benefits. Kirkland achieves these public benefits by allowing residential

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[52] Density Bonus Law, Southern California Association of Governments.
[53] South San Francisco Municipal Code 20.390.

development, and therefore affordable housing units in commercial zones, high density residential zones, medium density zones, office zones, and transit-oriented zones.[54]

In addition, the city more recently developed new inclusionary zoning requirements in the NE 85th Street Ligh Rail Station Area Plan, finalized in July 2023. The subarea adopted a 15% inclusionary requirement, with the first 10% remaining at the citywide level of 50% AMI and the remaining 5% able to go to an affordability level of 80% AMI, regardless of tenure. Requirements in the station subarea will be phased in in 2026.

Kirkland's citywide inclusionary zoning program requirements differ depending on the zone within which a development is being built. For example, requirements differ for developments in commercial, high density residential, medium density, and office and Neighborhood Mixed Use (NMU), Civic Mixed Use (CVU), and Urban Flex (UF) zones.

The requirements for commercial, high density residential, medium density, and office zones are as follows:

- **Renter-occupied dwellings:** 10% of units affordable to households whose household annual income does not exceed 50% of area median income (AMI).
- **Owner-occupied dwelling units:** 10% of units affordable to household earning no more than 80% to 100% of AMI depending on the zoning district.

For NMU, CVU, and UF zones, the requirements look as follows:

- **Renter-occupied dwellings:**
  - **Maximum allowed zone height less than 65 feet:** 10% of units at 50% AMI
  - **Maximum allowed zone height of 65 feet or higher:** 15% of units at 50% AMI
- **Owner-occupied dwellings:**
  - **Maximum allowed zone height less than 65 feet:** 10% of units at 80% AMI
  - **Maximum allowed zone height of 65 feet or higher:** 15% of units at 80% AMI

[54] City of Kirkland Municipal Code, Chapter 112.10.

For any zone where these minimum requirements do not apply, developers may utilize the inclusionary zoning program voluntarily.[55]

Kirkland also offers alternative affordability levels upon proposal. Contingent on the underlying zone, Kirkland will potentially allow lesser bonus units serving households from 60% to 80% of AMI in renter-occupied housing and 70% to 100% AMI for owner-occupied housing.[56] Additionally, developments can apply for alternative compliance through the form of off-site affordable units, or a payment in-lieu of providing affordable units. Each alternative compliance option carries additional stipulations, as stated in City of Kirkland Municipal Code Chapter 112.30.1 – Chapter 112.30.4.

Per Kirkland Municipal Code Chapter 112.20.2, developments incorporating affordable housing through Kirkland's inclusionary zoning program are eligible for certain incentives depending on the underlying zoning district. The incentives include height bonuses, development capacity bonuses, and bonus units.[57] Developments that include a greater number of affordable units than those required can request an exemption from traffic impact fees and park impact fees as well.[58]

Prior to issuing any permits, Kirkland ensures the unit mix and location of affordable units are deemed appropriate. Requirements for affordable units include:[59]

- Affordable units must be intermingled with all other dwelling units.
- Affordable units should consist of a range of bedroom counts comparable to market rate units in the overall development.
- Affordable units should be similar in size to other units of the development with the same number of bedrooms.
- Affordable units should be available for occupancy at the same time as other units in the development.
- The exterior design of affordable units must be comparable to all other units in the development.

[55] City of Kirkland Municipal Code, Chapter 112.15.
[56] City of Kirkland Municipal Code, Chapter 112.20.3.
[57] Note: Maximum unit bonuses are capped at 25 percent of the number of units allowed given the underlying zone of the subject property.
[58] City of Kirkland Municipal Code, Chapter 112.30.
[59] City of Kirkland Municipal Code Chapter 112.35.

- The interior finish and quality of construction of affordable units should be comparable to entry level rental or ownership housing in Kirkland.
- For owner-occupied units, the type of ownership should be consistent across all unit types (affordable and market-rate).

Affordable owner-occupied housing units generated through Kirkland's Inclusionary Zoning program must be affordable for at least 50 years from the date of initial owner occupancy, while affordable renter-occupied units must be affordable for the life of the project.[60]

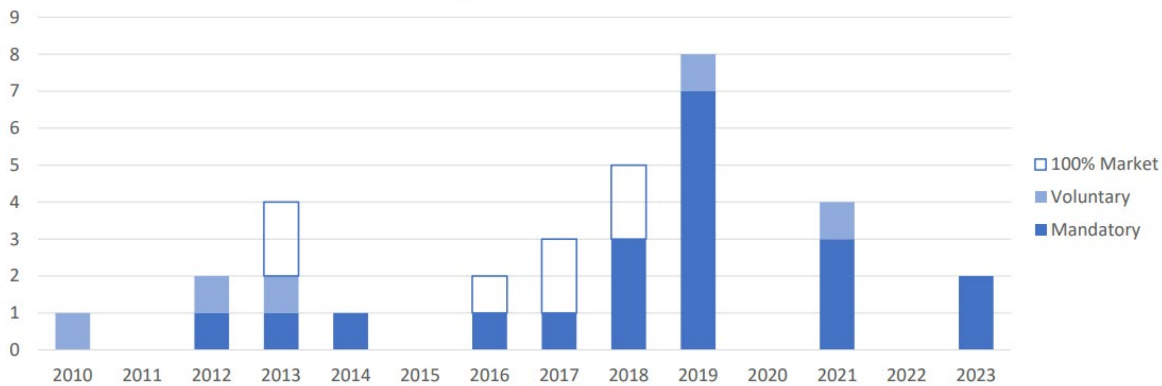
Kirkland's Inclusionary Zoning program code requires that at least every two years the Planning and Building Department submits a report that tracks the usage of Inclusionary Zoning regulations to the Planning Commission and City Council.[61]

Production

Since 2010, Kirkland's inclusionary zoning program has helped create 231 affordable units. **Exhibit 1** presents multifamily development projects recorded or permitted since Kirkland adopted their mandatory inclusionary zoning program in 2010. Projects denoted 100% market represent multifamily projects that fell outside of the defined zones for inclusionary zoning and were not required to provide affordable units. Developments built within the mandatory program increased consistently from 2016 to 2019. While 2021, 2022, and 2023 saw a decrease in new multifamily projects compared to pre-pandemic levels, this is likely driven by the increased construction costs and heightened interest rates rather than the City's Inclusionary Zoning program.

[60] City of Kirkland Municipal Code Chapter 112.35.
[61] City of Kirkland Municipal Code Chapter 112.40.

Exhibit 9. Multifamily Development Projects by Year Recorded/Permitted, Kirkland, 2010 – 2023



Sources: City of Kirkland, 2023.
Note: Voluntary developments represent multifamily projects in zones falling outside of mandatory inclusionary zoning requirements that opted into providing affordable units.