

March 21, 2016

## **CITY COUNCIL STUDY SESSION ITEM**

### **SUBJECT**

Bellevue Affordable Housing Strategy. Council is asked to affirm the problem statement for the affordable housing strategy and authorize up to \$75,000 from the Housing Fund for consultant assistance on the project.

### **STAFF CONTACT**

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### **FISCAL IMPACT**

Staff is requesting Bellevue funding of \$75,000 for consultant support in developing Bellevue's Affordable Housing Strategy. If approved by Council, the funding would be allocated from the City's Housing Fund. There is sufficient appropriation authority within the 2015-2016 Housing Fund budget to accommodate this request.

### **POLICY ISSUES**

The purpose of this project is to improve affordable housing opportunities across the City, with a focus on action. This is consistent with City Council Priorities, Comprehensive Plan housing policy, and Economic Development Plan Strategies.

*Project: Develop a three- to five-year affordable housing strategy/action plan that meets the needs of the range of incomes of people living and working in Bellevue.*

Comprehensive Plan Policy HO-24:

*Develop and implement an effective strategy to ensure affordable housing opportunities are available in Downtown and throughout the city at a range of affordability levels. Monitor quantity, types, and affordability of housing achieved for potential unintended consequences and to determine if the need is being met.*

Economic Development Plan Strategy E.1:

*Develop a city-wide strategy to expand workforce housing options by exploring all manner of tools, including a multifamily tax exemption program, a revolving fund for transit-oriented development, zoning changes, and other options.*

Stakeholder input to the *Economic Development Plan* identifies lack of workforce housing for employees as a primary challenge for Bellevue. The plan notes:

*To support a thriving economy, there is a need for workers at all income levels; however, the limited range of housing options in Bellevue challenges the availability of a varied*

*workforce. Bellevue needs a city-wide approach to housing options for different income levels in different growth areas of the city.*

#### **DIRECTION NEEDED FROM COUNCIL**

<u>X</u>	Action
<u>X</u>	Discussion
<u>X</u>	Information

Tonight staff is providing Council with an update on work-to-date, including review of the *Housing Needs Assessment*. Council is being asked to affirm the problem statement and project goals that will inform the work program going forward. Staff is also requesting that Council authorize up to \$75,000 from the Housing Fund for consultant services to assist with the project. Staff anticipates needing consultant assistance with one or more of the following project tasks: assessing the initial list of actions, public engagement, developing the evaluation tool, evaluating the list of potential actions, developing performance metrics and preparing the final report on the overall strategy.

#### **BACKGROUND/ANALYSIS**

Among the Council's adopted two-year priorities is to "develop an affordable housing plan for the needs of our diverse population." In December 2015, Council provided direction on draft principles (Attachment A) and an approach to developing a strategy for increasing the amount of affordable housing in Bellevue. Since that time, staff have been progressing on several tasks: drafting a *Housing Needs Assessment* (Attachment B), developing a problem statement (below) to more specifically define the goals of the project, and incorporating Council direction to refine the scope and approach of the project. There are multiple purposes for this briefing:

- Update the Council about work to date
- Seek Council affirmation of the draft problem statement and project goal
- Recommend Council authorize up to \$75,000 from the Housing Trust Fund for consultant assistance on the project.

#### **Affordable Housing Need**

It is increasingly difficult for people living and working in Bellevue to find housing in Bellevue that is affordable. The *Housing Needs Assessment* (Attachment B) describes the current status of housing affordability in the City and the trends that are exacerbating the problem. The following key findings from the report highlight the critical need for affordable housing in Bellevue:

- Over 9,100 Bellevue households (17%), or about 22,000 people, have low and very low incomes (i.e. household incomes less than 50% of area median income). There are only 3,095 units in Bellevue affordable to people in these households.
- Production of subsidized affordable housing units has slowed. The annual rate of creating affordable units has been significantly less in the last decade than it was in the 1990s.
- Almost one third (31%) of all Bellevue households spend more than 30% of their income on housing (i.e. cost burdened).
- Sixteen percent of all renters and almost one third of senior renters spend more than 50% of their income on housing (i.e. severely cost burdened).

- Rents are continuing to climb and now average \$2,000 in parts of Bellevue, a historically high level relative to median income. Affordable rents for low and very low income households would be between about \$450 and \$1,000.
- High home prices in Bellevue are making it difficult to keep ownership costs at 30% of income. Median sales price for a single family home in Bellevue in January 2016 was \$777,500. This would require an annual household income of over \$160,000 to be affordable.

As the list of key findings above illustrates, the challenge of housing affordability has many facets. An increasing share of young households and senior households are having a hard time staying in the community that has been their home. Many people who work in Bellevue in lower wage jobs (e.g. food prep workers, bank tellers, retail salespersons) cannot afford to live near their work. A family of four with a single-wage earner working in the service, sales and office, or production and transportation sectors will have an income roughly at or below 50% of area median income. Jobs in these sectors comprise nearly half (44%) of Bellevue's employment. The people that work in Bellevue and commute from areas with less costly housing choices (though not necessarily affordable) typically spend a higher percentage of their household budget on transportation, endure increasingly long commutes and add to regional and local congestion.

The impacts of the problem also extend to business according to Bellevue's *2015 Survey of Businesses* (see Attachment C for a summary of housing findings of recent business and human services surveys). Respondents to the survey across all geographies and employment sectors consistently rated Bellevue low on affordable housing options for employees. Businesses identified lack of workforce housing as a primary challenge for Bellevue. Forty-one percent (41%) of all respondents state that they have had difficulty finding trained and/or qualified staff over the past 12 months. Retail and tourism indicate having the most difficult time. Half of retail businesses and 60 percent of tourism businesses report having difficulty finding trained and qualified staffing.

Bellevue has been taking actions for many years to address affordable housing. Recent actions by the City Council include adoption of the multifamily tax exemption to promote private sector development of affordable housing, financial and policy support for the regional equitable development initiative (REDI) revolving loan fund for affordable transit-oriented development, and the planned inclusion of affordable housing at transit-oriented nodes in BelRed. Previous actions have included land use incentives for providing affordable housing (e.g. BelRed floor-area-ratio amenity system), making surplus land available for affordable housing (e.g. Brandenwood senior housing) and consistent funding of affordable housing through A Regional Coalition for Housing (ARCH).

Despite these efforts, the amount of affordable housing in Bellevue and the rest of the region has not kept pace with the need. There are a number of reasons for this, mostly outside of the City's control. The Puget Sound region overall is a desirable place to live and Bellevue in particular is often ranked as one of the most livable cities in the country. The job loss from the Great Recession had been recovered as of 2013 and the region is once again experiencing a trend of increasing job growth. Planned employment growth in Bellevue will create thousands of new jobs and additional demand for housing causing additional upward pressure on housing costs. Another factor beyond local control is that state and federal funding of housing programs has

been flat or decreasing while housing costs have risen and that has contributed to a dwindling number of new units being created for low and very low income households.

### Problem Statement/Project Goal

Based on the Council direction and information from the *Housing Needs Assessment* the following problem statement is offered for Council consideration. The statement is intended to describe the problem being addressed and to clearly articulate the purpose of the project.

*The cost of renting or owning housing has been increasing at a faster rate than income for many households in the region, especially in Bellevue. As a result, housing is not affordable to a significant portion of the population. It is critically important to provide a safe, healthy and affordable place to live for people of all income levels in order to sustain Bellevue's livability and economic vitality. This project will identify what it will take to have a healthy housing market that:*

- *Provides affordability across a range of incomes mirroring our population and workforce*
- *Provides a variety of affordable housing choices that meet the needs of our community including:*
  - *Young persons in college or just entering the job market*
  - *First time home buyers or new employees who are ready to purchase a home*
  - *Our aging population, especially those on fixed/limited income, who wish to remain in the community*
  - *Families with children that need rental and ownership options in opportunity areas*
- *Preserves the integrity of single family areas while considering, through the neighborhood planning process, housing that can accommodate a wider spectrum of needs and foster ongoing investments by individual homeowners.*

The Council's project principles and the problem statement above will guide the development and evaluation of potential actions for adoption by Council as Bellevue's Affordable Housing Strategy. The result will be a clear set of actions to create a significant number of new affordable housing units over the next ten years. The strategy will be monitored and adjusted periodically based on a set of performance measures and established review timelines. It should be noted that newer tools will take time to demonstrate results.

**In order to have a benchmark to measure against, staff is suggesting Council set a goal of creating 2,500 new units of affordable housing over the ten-year timeframe of the strategy.** The intent is to *establish ambitious goals* per the Council's guiding principles. In order to achieve this goal it will be necessary for the project to *consider a full suite of tools*, as stated in another of the guiding principles.

This goal is established by applying the thirty-six percent (36%) of King County households that are very low, low and moderate income (i.e. household incomes below 80% of area median income) to the number of new households (15,800) Bellevue is planning for through 2035 according to the *Comprehensive Plan*. The resulting figure annualized over the 23-year period

(2012-2035) of the growth amounts to about 250 units per year, or 2,500 units over ten years. King County is used as the benchmark in this case recognizing that affordable housing is a regional issue and each jurisdiction is working within this regional context. In addition, focusing solely on Bellevue's existing households would not take into account the people that work in Bellevue but live elsewhere because of the cost of housing. It is important to note that this goal is a benchmark and not a mandate or legal obligation the City is imposing on itself and it should not be used in any punitive way should the goal not be met. The City is limited in its ability to influence the housing market and in the tools available to achieve the affordable housing goal.

#### Technical Advisory Group (TAG)

At the Council briefing in December one of the steps identified was for the Council to appoint a group with expertise in different facets of housing development (for profit, non-profit, finance, real estate, planning/design, land development, etc.) to provide input about which tools for creating more affordable housing are likely to be most effective, and how best to tailor them for the local housing market. Staff recommends that the TAG be charged with reviewing and supplementing the initial list of potential actions, testing and refining an evaluation tool that will assess potential effectiveness of these actions and providing Council with a refined list describing effectiveness, advantages and disadvantages, level of support and possible combinations and performance metrics. As proposed, the TAG will not be charged with creating an action plan. This group will provide invaluable advice and insights on potential tools. Their work, along with the concurrent stakeholder and community engagement program, will help inform the overall Affordable Housing Strategy assembled by staff and Council.

Staff will be seeking Council confirmation of the TAG appointees in two weeks. This group will provide important expertise in a number of areas: real estate, finance, for profit housing development, non-profit housing development, non-profit and professional associations, legal, community and faith-based organizations.

#### Public Engagement

Public engagement is a key component of the housing strategy plan. Unlike a CAC, the TAG's role does not include representing the interests of all the various stakeholders. Staff anticipates a high level of interest that necessitates a comprehensive outreach program to engage stakeholders and the general public throughout the project. The outreach will involve two main phases: First, education and information about the need for affordable housing in Bellevue and why it is critical to sustaining the livability and economic vitality of the City; Second, feedback on the range of potential actions to help inform the work of the TAG and ultimately provide input to the Council prior to adopting the Affordable Housing Strategy. Outreach will build on community feedback regarding affordable housing from the *2015 Survey of Businesses* and the *2015-2016 Human Services Needs Update* summarized in Attachment C. An overview of the timing and techniques that are planned for the public engagement program, including a preliminary list of stakeholders are included in Attachment D.

#### Updating the ARCH Housing Trust Fund Goals

Initiating the housing strategy now puts it on a parallel track with efforts by ARCH members to evaluate the results of the ARCH Trust Fund and potentially update city public funding (parity) goals. This work grew out of direction provided by member councils a number of years ago to

evaluate ways to augment the Housing Trust Fund. The parity goals and member contributions have remained the same for 15 years. With rising housing costs this has resulted in a trend downward in the amount of housing assisted annually. In developing a strategy for moving forward, the goal is to balance being responsive to increasing needs and housing costs, and maintaining reasonable leverage of local funds with other public and private funds.

In December, the proposal was to first seek legislative authority during the upcoming session that would enable cities to use new funding tools (e.g. new REET for affordable housing). However, none of the new funding tools were approved in this session of the legislature. ARCH will continue discussions with its Executive Board and member city councils to develop a proposal for adjusting the funding goals. The revised goals will be available for Council consideration prior to discussion of the 2017-2018 budget.

#### Timeline -- Major Milestones

Attachment E is an updated, more detailed timeline for developing the Affordable Housing Strategy within the upcoming calendar year. This includes substantial engagement with a range of stakeholders and interested parties, with periodic check-ins and ultimate adoption by the Council.

#### **ALTERNATIVES**

1. Affirm the draft problem statement and project goal and authorize up to \$75,000 from the Housing Fund for consultant assistance.
2. Provide alternative direction to staff.

#### **RECOMMENDATION**

Option 1: Affirm the draft problem statement and project goal and authorize up to \$75,000 from the Housing Fund for consultant assistance.

#### **ATTACHMENTS**

- A. Revised Council Guiding Principles
- B. Draft *Housing Needs Assessment*
- C. Summary of Business and Human Services Surveys
- D. Public Engagement Plan
- E. Project Timeline