

April 24, 2017

## CITY COUNCIL STUDY SESSION ITEM

### **SUBJECT**

Affordable Housing Strategy final report and recommendation

### **STAFF CONTACTS**

Dan Stroh, Acting Director, 452-5255

Michael Kattermann, Senior Planner, 452-2042

Janet Lewine, Associate Planner, 452-4884

*Department of Planning and Community Development*

### **POLICY ISSUES**

The purpose of the 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 Goal: 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**

**ACTION**

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**DIRECTION**

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**INFORMATION ONLY**

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The Affordable Housing Strategy (*Strategy*) is presented in the attached report and recommendation (Attachment A) for the City Council's consideration and direction. Council is being asked to provide direction to staff on additional information or changes to the *Strategy* overall and on two actions in particular. The additional direction is needed in preparation for Council action adopting the *Strategy*, tentatively scheduled for May 15.

Like the Economic Development Strategy, the Affordable Housing Strategy includes an array of activities that would unfold over the next two years. Council's anticipated adoption next month will not immediately put in place the new affordable housing tools, but would be followed by a series of subsequent implementing actions.

### **BACKGROUND/ANALYSIS**

One of the Council's adopted two-year priorities is to "develop an affordable housing plan for the needs of our diverse population." This *Strategy* is intended to accomplish the Council's priority and it represents a culmination of more than one year of research, analysis, review and input from the technical advisory group (TAG), stakeholders, and the public.

Since last fall, staff have been working with a consultant team, the TAG, and the broader community on evaluating the efficacy of a list of potential actions approved for evaluation by the Council in September 2016. The purpose of the evaluation was to provide sufficient information to assess the relative effectiveness based on the following outputs for each action or group of actions:

- an estimate of affordable units produced or preserved;
- income level and identified need that could be served by those units;
- anticipated time frame for units to be available and for what length of time;
- rough order-of-magnitude cost to the city; and
- whether costs would be borne by public or private sector or both.

The final report includes a letter from the TAG, an introduction about the context of the project, and five sections that describe:

1. Affordable Housing Strategy – the recommended strategies and actions and an implementation program
2. Housing need in Bellevue – based on the Updated Housing Needs Assessment (March 2016)
3. Existing Housing Programs – summary of Bellevue's current efforts on affordable housing
4. Developing the Affordable Housing Strategy – summary of process, public engagement and themes of feedback received
5. Monitoring – a program for regular tracking and review of implementation to allow for adjustments to the strategy over time

There is also a separate *Affordable Housing Strategy Appendix* (available in Council Document Library) containing foundational background for the *Strategy*, including additional information and documents previously presented to the Council on housing need, existing programs, effective practices of other jurisdictions, and public feedback.

The *Strategy* consists of five interrelated strategies and a set of actions for each that are designed to address key aspects of this complex issue:

- A. Help people stay in their affordable housing
- B. Create a variety of housing choices
- C. Create more affordable housing
- D. Unlock housing supply by making it easier to build
- E. Prioritize state, county, and local funding for affordable housing.

Not all actions directly preserve or produce affordable housing; however, they still serve an important function in the overall strategy by helping people remain in their homes and by increasing the overall supply of housing to relieve pressure on the existing market. The TAG letter encourages the Council to

take “bold” actions that have the potential to make the greatest impact on the critical need for affordable housing in Bellevue. In that vein the TAG “established an ambitious goal” (Council Guiding Principle #4) for the next 10 years to produce 2,500 more units affordable to people earning less than 50 percent of area median income and another 2,000 units affordable to people earning between 50 percent and 80 percent of area median income. This benchmark was set by the TAG, recognizing the greater need for the lower income housing and for purposes of measuring the impact of the actions being considered. Although the recommended *Strategy* makes significant progress, it does not achieve the full TAG goal for the lower income housing due to practical constraints on the amount of city and other funding that could be made available.

The purpose of this briefing is to solicit Council direction on the recommended set of strategies and actions with specific direction being requested on two particular actions: Local Funding (E-1) and Inclusionary Zoning (C-4). Each of these has implications for other actions and requires direction from the Council in order to finalize the *Strategy* for Council action.

Local Funding (E-1): Staff is seeking direction on what level of funding Council would like staff to analyze based on the scenarios below. Staff will bring back further information on financial implications and potential sources based on council’s direction tonight (e.g., property tax levy, business and occupation tax, potential County affordable housing tax). Council could also identify alternative or multiple funding levels for analysis and discussion.

Several of the actions (A-1, A-4, A-5, C-1, C-2, C-5) require some level of additional city funding to be implemented. In particular, the level of funding will affect the amount of affordable housing that could be produced for people earning less than 50 percent of area median income (\$45,150 for a family of four). For example, action C-1 involves increasing the development capacity of faith-based properties and existing non-profit housing sites. Although the zoning will allow for additional housing to be built on these sites, development will not occur without funding to build it. Contributions from Bellevue will be used to leverage as much funding as possible from multiple other sources in order to cover the full cost. However, because there are limits to the amount of outside funds that can be leveraged, the city’s contribution on a per unit basis would need to increase dramatically when that limit is reached.

The following table from the report describes the historic level of city funding and three additional scenarios for Council consideration. General funds, loan repayments, and fees-in-lieu that the city has contributed to affordable housing have averaged about \$2 million per biennium (\$1 million annually) over past years and produced an average of 40 affordable housing units per year. This represents a continuation of the current level of effort. Scenario 1 builds on the historic funding level by including the additional \$1 million per biennium (\$500,000 per year) that the Council set aside in the CIP for the next seven years (for comparison purposes the table assumes funding for 10 years). That additional level of funding is estimated to produce about 14 more housing units per year over the historic funding level.

## Affordable Housing Strategy Estimated Cost and Funding Scenarios

	Historic Funding Continuation of historic levels 400 units/10 years		Scenario 1 Historic Funding + \$0.5 M CIP for 10 years 540 units/10 years		Scenario 2 Maximize leverage of outside funds 1,000 units/10 years		Scenario 3 Scenario 2 plus additional city funding 1,550 units/10 years	
	Biennial Cost <sup>1,2</sup>	10-Year Cost <sup>1,2</sup>	Biennial Cost <sup>1,2</sup>	10-Year Cost <sup>1,2</sup>	Biennial Cost <sup>1,2</sup>	10-Year Cost <sup>1,2</sup>	Biennial Cost <sup>1,2,4</sup>	10-Year Cost <sup>1,2,4</sup>
<b>City funds</b>	<b>\$2 M<sup>3</sup></b>	<b>\$10 M</b>	<b>\$3 M</b>	<b>\$15 M</b>	<b>\$9 M</b>	<b>\$45 M</b>	<b>\$32.75 M</b>	<b>\$163.75 M</b>
Leveraged funds	\$16 M	\$80 M	\$21.3 M	\$106.5 M	\$36 M	\$180 M	\$36 M	\$180 M
Total cost	\$18 M	\$90 M	\$24.3 M	\$121.5 M	\$45 M	\$225 M	\$68.75 M	\$343.75 M

1. All figures are in current dollars and do not factor in inflation.

2. Assumes affordable units primarily serving households at up to 60% AMI and an average estimate of leveraged funding availability based on city and ARCH history of affordable housing investment. On a per project basis, leveraged funding capacity is expected to decrease as the number of created units increases (see Appendix 6).

3. Since the inception of ARCH, Bellevue's annual contribution to affordable housing has averaged between \$900,000 and \$1,000,000. Of that amount, the City budget has typically included \$412,000 (\$312,000, General Fund; \$100,000, General Sales Tax Revenue) from the operating fund. The remainder is not within the city's control and the amount fluctuates annually depending on funds collected from loan repayments, CDBG funds, and payments for fee-in-lieu of providing affordable housing.

4. Assumes 1,450 units serving households at up to 60% AMI and local city funding at an average of \$225,000/unit; and 100 units serving households at up to 80% AMI and city funding at an average of \$175,000/unit.

Source: City of Bellevue, ARCH.

Scenario 2 represents an increase of city funding to a total of about \$9 million per biennium (about \$4.5 million per year) to produce up to 100 housing units per year affordable to people earning less than 50/60 percent of area median income. This scenario assumes the upper limit for leveraging other sources of funding.

Scenario 3 represents an increase of city funding to a total of about \$32.75 million per biennium (about \$16.875 million annually) to produce 155 housing units per year affordable mostly to people earning less than 50/60 percent of area median income. The level of city funding is significantly higher to compensate for the lack of leveraged funds available for the additional 55 housing units per year above what is estimated in Scenario 2 above. The city's funding contribution ranges between \$25,000 and \$45,000 per unit under the leverage scenarios. For the 55 affordable homes per year that are beyond the ability to leverage outside funds, the city's contribution jumps to about \$225,000 per unit. However, when combined with the total number of affordable housing (leveraged and unleveraged) being produced in Scenario 3, the average Bellevue contribution is about \$106,000 per unit.

The Council's direction on a City funding goal for affordable housing would be incorporated into the next budget update process.

### Policy Considerations:

- What level of productivity for affordable housing is a reasonable goal for the City?
- Given the goal, are there additional funding scenarios that should be analyzed for purposes of identifying funding sources and budget implications?
- How should the additional \$500,000 CIP allocation to affordable housing be directed?
- How should King County initiatives and possible additional local funds be factored into Bellevue's funding discussion?

Inclusionary Zoning (C-4): Staff is seeking policy direction from Council on whether to pursue mandatory and/or voluntary inclusionary programs and in which areas of the city. In either option, the action involves increasing the residential capacity in identified growth areas (e.g. Downtown, Eastgate, East Main, and Wilburton) in exchange for the inclusion of affordable housing. The analysis estimates this action could produce about 300 to 700 housing units over 10 years (30-70 per year) in these areas and in the BelRed area, which already has a voluntary incentive system. These five areas are projected to accommodate most of Bellevue's future residential growth and therefore they represent the greatest potential for producing the market-provided housing affordable to people earning up to 80 percent of the area median income (\$72,240 for a family of four). Downtown has the largest amount of residential growth potential of any area in the city. The policy considerations for inclusionary zoning involve several factors listed and discussed below:

- Legal basis of inclusionary programs
- Competitive disadvantage
- Potential productivity

The establishment of inclusionary (i.e., mandatory, a voluntary incentive, or a combination of both) zoning programs for affordable housing is authorized for cities planning under the Growth Management Act in Washington state law and administrative procedures, RCW 36.70A.540 and WAC 365-196-870(2), respectively. Although this statutory authority does not answer all potential constitutional challenges to any particular inclusionary zoning program, it is clear that such a program must be tied to a change in zoning or other regulation that provides a benefit to the development (e.g., an "upzone" where the city decides to increase residential capacity).

In terms of competitiveness in the regional housing market, Bellevue would be one of several cities in the region with an inclusionary zoning program (mandatory and/or voluntary). A review of seven other Eastside ARCH cities (Issaquah, Kenmore, Kirkland, Mercer Island, Newcastle, Redmond, and Sammamish) indicates that all but Mercer Island have a mandatory program for one or more areas. All but Redmond also employ voluntary incentives. In addition, Seattle is currently implementing a mandatory program in several high growth areas of the city.

The potential productivity of each approach was analyzed for the five identified growth areas where it could be applied: BelRed, Downtown, Eastgate, East Main, and Wilburton. The existing voluntary incentive program in BelRed is considered successful in that, since the system was enacted, almost all new development has participated in the program. The primary factor in that success is that the first level of increase in development capacity is financially compelling for the developer and it can only be achieved by including affordable housing in the project or paying a fee.

East Main is also proposed to have a significant increase in development capacity over relatively low existing capacity that could employ a voluntary incentive program similar to the BelRed system. Depending on the eventual rezone of the Wilburton commercial study area, it may also be suitable for employing a system similar to BelRed.

The conditions in Downtown and Eastgate are potentially different. These areas have a relatively high base density and/or a smaller amount of potential increased development capacity. A voluntary incentive program based on an increase in development capacity may not be compelling enough for the program to be used by a high percentage of new development. In these areas, the incentives are creating other public benefits or the increase in capacity may not be enough to offset the cost of constructing the additional development.

#### Downtown:

The Planning Commission has been considering an amenity incentive system as part of the update to the Downtown development code. The Commission's direction to staff on March 22 was to amend the code to include a 1.0 FAR exemption for affordable housing, and that the exemption be used in conjunction with the multifamily tax exemption program. This FAR exemption for affordable housing is related to the amenity incentive system, but not part of the bonusable list of amenities (e.g., public open space) as proposed. For purposes of estimating productivity of the 1.0 FAR exemption, two different ratios of affordability were analyzed: 2:1 (0.67 FAR market for 0.33 FAR affordable) and 3:1 (0.75 FAR market for 0.25 FAR affordable).

Growth projections for Downtown Bellevue show between 350 to 400 units of housing produced per year; about half of the city's average annual housing production. Assuming a participation rate of 25 percent for Downtown residential development, a voluntary system based on a growth rate of 350 units per year over 10 years could produce about 48 units (or 4.75 units per year) at a 2:1 ratio or about 35 units (or 3.5 units per year) at a 3:1 ratio. Consultants are conducting additional analysis on whether to adjust the 25 percent participation assumption and whether including the 1.0 FAR exemption for affordable housing would graduate the development to a more expensive construction type (i.e., high-rise development). Using the same 1.0 FAR exemption increase and the Downtown growth rate average of 350 units per year for 10 years, a mandatory system could produce about 190 units (19 units per year) at a 2:1 ratio or about 140 units (14 units per year) at a 3:1 ratio. If more overall units were built Downtown (e.g., 400 units annually), then the number of affordable units would also go up as well. It is important to note that the percent of affordable units in a specific building will vary based on this approach and is estimated to be in the five to seven percent range depending on the variance in allowed FARs for different Downtown districts.

#### BelRed and Wilburton:

After Downtown, the next two areas with the greatest potential for producing affordable housing through an inclusionary zoning system are BelRed and Wilburton. As noted previously, BelRed has an existing voluntary incentive system that has been used by most of the new development, generating about 90 affordable apartments and over \$900,000 in fees for affordable housing. This production represents an average of eight percent affordable housing produced in new development. Wilburton is still in the planning stages so assumptions were modeled on BelRed in terms of the amount of potential housing capacity and estimated productivity under mandatory and voluntary programs. Based on those assumptions for the Wilburton commercial area a mandatory program could produce about 250 affordable housing units over 10 years (25 per year) and a voluntary program could produce about 200 affordable housing units over 10 years (20 per year). These estimates will need to be reviewed and recalculated based on figures in the final Wilburton plan.

#### Eastgate and East Main:

Although East Main and Eastgate have the lowest growth potential of the five areas, both are proposed to include significant increases in residential development compared to current land use and zoning and represent additional opportunities for market-provided affordable housing. As noted above, based on the proposed upzones (i.e. increase in development capacity) in these areas, East Main may be suitable for a voluntary incentive program similar to BelRed that could produce an estimated 20 affordable housing units over the next 10 years compared to an estimate of about 30 affordable housing units with a mandatory program requiring 10 percent of the new housing units to be affordable. A voluntary incentive program in Eastgate may not be as productive because the upzone is not as much of an

increase relative to the existing zoning. Assuming only a 20 percent participation rate, and given the relatively low amount of growth projected over the next 10 years, a voluntary program is estimated to produce about 10 affordable housing units compared to about 40 affordable housing units over 10 years with a mandatory program.

Policy Considerations:

- *What level of productivity for affordable housing is a reasonable goal for the City?*
- *Is there a preference for a voluntary program where the incentive system has a high probability of being used and achieving a similar level of productivity as a mandatory program?*
- *Where a voluntary program is less likely to achieve a similar level of productivity as a mandatory program, should a mandatory program be considered?*

**ALTERNATIVES**

1. Provide direction to staff in finalizing the Affordable Housing Strategy for Council approval, particularly regarding:
  - a. alternative funding scenarios; and
  - b. inclusionary zoning (i.e., mandatory and/or voluntary programs); or
2. Provide alternative direction to staff on next steps.

**RECOMMENDATION**

Alternative 1

**ATTACHMENTS**

- A. Affordable Housing Strategy

**AVAILABLE IN COUNCIL DOCUMENT LIBRARY**

Affordable Housing Strategy Appendix