

CITY COUNCIL STUDY SESSION

HB 1590 Work Plan Capital Funding and Housing Types

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DIRECTION NEEDED FROM COUNCIL

INFORMATION ONLY

Staff will be providing an informational update about affordable housing development types and their associated funding models, and seeking preliminary feedback to inform future recommendations.

RECOMMENDATION

N/A

BACKGROUND & ANALYSIS

The City Council enacted Resolution No. 9826 on October 12, 2020, which allows the City to collect monies under Revised Code of Washington (RCW) 82.14.530. The Legislature adopted House Bill 1590 during the 2020 legislative session to amend RCW 82.14.530, which allows for an increase of up to 0.1 percent sales and use tax to be imposed for housing and related services. During the 2021 legislative session, the Legislature adopted House Bill 1070, which modified RCW 82.14.530 by expanding the allowed uses of local tax revenue for housing and related services.

At least 60 percent of the funds must be allocated and/or spent for the following:

- Constructing or acquiring affordable housing, which includes emergency, transitional, and supportive housing, and new units of affordable housing within an existing structure, or acquiring land for these purposes;
- Constructing facilities providing housing-related services, or acquiring land for these purposes;
- Constructing or acquiring behavioral health-related facilities, or acquiring land for these purposes;
- Funding the operations and maintenance costs of new units of affordable housing;
- Funding the operation and maintenance costs of new facilities where housing-related programs are provided; or
- Funding the operation and maintenance costs of newly constructed evaluation and treatment centers.

In addition, RCW 82.14.530 mandates the above funding related to the affordable housing and facilities providing housing-related services in section 2(a)(i) of that RCW must serve only the following individuals whose income is at or below 60 percent of the area median income (AMI) of the county where the tax is imposed:

- Persons with behavioral health disabilities;
- Veterans;
- Senior citizens;
- Persons who are homeless or at risk of being homeless, including families with children;
- Unaccompanied homeless youth or young adults;
- Persons with disabilities; or
- Domestic violence survivors.

The remainder of the monies collected (no more than 40 percent) must be used for the operation, delivery, or evaluation of: (1) behavioral health treatment programs and services or (2) housing-related services. The AMI requirements and population requirements do not apply to the 40 percent spending parameters.

Previous Direction

On December 14, 2020, staff presented to Council on the approach and scope of the HB 1590 work plan, which includes the following elements: adoption of an interest statement, regional collaboration and stakeholder engagement, and proposed expenditure and funding process. Council gave direction to staff to initiate the HB 1590 work plan and advance the creation of the process for distributing 1590 funds in the future.

On February 1, 2021, staff presented the first element of the HB 1590 work plan to Council; an interest statement that weaves together existing policies and identified strategies and needs from adopted documents related to affordable housing and human services to guide projects, programs and services funded by HB 1590. Council agreed with the comprehensive approach and approved the interest statement as part of the HB 1590 work plan.

On March 8, 2021, staff presented to Council on initial stakeholder outreach related to the HB 1590 work plan. Key themes identified in these conversations included the need for culturally specific and responsive services, the importance of behavioral health services located on-site to support vulnerable populations, and flexible financial assistance as a critical mechanism to promoting housing stability. In addition, key themes around affordable housing include the need for housing with supportive services and the importance of a variety of housing models and types to support the populations outlined in RCW 82.14.530.

On May 3, 2021, staff presented to Council on additional stakeholder outreach related to capital funding to support affordable housing. Staff also sought direction from Council to initiate a Request for Proposals (RFP) process to fund behavioral health and housing-related services to support individuals and families in achieving and maintaining housing stability. The RFP sought applications for programs and services under the following priority areas of mental and behavioral health services, supportive services, and rental assistance. Council approved the RFP process as part of the work plan.

Affordable Housing Strategy

Bellevue's adopted 2017 Affordable Housing Strategy has specific actions to improve and increase the City's existing affordable housing stock, while specifically acknowledging the need for an increase supply of very low and low-income housing. With the enactment of Resolution No. 9826, funding

allowable under RCW 82.14.530 provides the City an additional revenue tool and strategy to meet this need and specifically the housing needs for vulnerable populations, such as persons with disabilities, domestic violence survivors, and persons experiencing homelessness or at risk of homelessness. With these population parameters, the City is provided the opportunity to advance the continuum of affordable housing strategies with a focus to enhance a variety of housing types and equitable opportunities for those at different income levels and service-needs. As identified in Bellevue's Affordable Housing Strategy, affordable housing is not a one-size-fit-all solution and funding collected under this tax allows the City to increase investments in affordable housing and related services, while remaining flexible to the changing and growing housing and service needs of the community.

Affordable Housing Financing

In addition to state revenue tools such as funds collected under this tax, other City funds that are allocated towards affordable housing could be utilized, such as capital from the general fund allocated to ARCH, land donations, fee-in-lieu funds, affordable housing sales tax and waiver of permit fees earmarked towards affordable housing. City funds used towards the creation and preservation of affordable housing falls under two broad categories of capital funding and operations and maintenance funding. Capital funding includes:

- Subsidized/below-market financing in the form of loans or secured grants, with regulatory restrictions that ensure long-term affordability.
- Public subsidy makes up the "gap" between cost to build and other private funds that can be leveraged.

Operations and maintenance funding could allow for:

- Subsidizing the difference between operating expenses and project income (rents).
- Allowing for more robust on-site management, and/or for rents to be lowered to very low levels.

Other Permanent Funding Sources

In addition to funding sources from the City, there are other sources of funding that could be utilized towards affordable housing creation and preservation, either on their own or leveraged with other sources including city funds. These sources include:

- Federal Low-Income Housing Tax Credits: The Low-Income Housing Tax Credit (LIHTC) subsidizes the acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate-income tenants. The LIHTC was enacted as part of the 1986 Tax Reform Act and has been modified numerous times. Since the mid-1990s, the LIHTC program has supported the construction or rehabilitation of about 110,000 affordable rental units each year.
- Tax Exempt Bonds: There are two types of bonds that can be used to facilitate affordable housing: affordable multifamily rental housing bonds and 501(C)(3) bonds for nonprofit developers. There is a limitation on the total amount of tax-exempt multifamily rental housing bonds. Tax-exempt bond holders are exempt from federal taxation and generally from local taxation if the obligations are issued within the state of residence.
- State Housing Trust Fund: The Housing Trust Fund program makes funds available for affordable housing projects through a competitive application process. Applications are

generally accepted once a year, but timing and frequency can vary depending on the size and nature of appropriations to the program by the Legislature.

- King County: Other funding sources include transit-oriented development bond funding, the Veterans, Seniors & Human Services Levy, and document recording fees.

Public Subsidy and Development Costs

Because of the variety of funding types that may be utilized to provide affordable housing, especially federal tax credits, public subsidy and development costs may range widely across projects. Public subsidies per unit may range widely from \$50,000 per unit up to \$350,000 per unit, which covers the entire cost of a unit of affordable housing. Development costs will also vary extensively for different housing projects, as cost drivers such as land prices and amenity and community spaces vary from project to project. Labor and material costs have been driven up significantly in recent years and will continue to play a large role in financing models.

Housing Model Types

One of the permissible uses of monies collected under RCW 82.14.530 is for affordable housing projects for certain populations and AMI requirements. There are established models of affordable housing where these funds could be utilized that best serve eligible populations. The below examples of affordable housing models will continue to be reviewed under the parameters of RCW 82.14.530 and will be incorporated into the final recommendation for Council.

1. Affordable Family Housing, with special set-asides

This model of housing serves a mix of general and special populations, with specific set-asides for individuals with disabilities, people experiencing homelessness, families at risk of homelessness, and veterans, in a wide variety of settings. The size of these projects may range from 40-280 units, and serve a mix of incomes ranges, typically at the 30 percent AMI, 50 percent AMI, or 60 percent AMI. The projects also typically include case management services and connections to other resources in order to provide services for the whole community in this model, with an emphasis on services for families. These projects may include funding from voucher subsidies to buy rents down for lower-income households.

2. Senior Housing

This type of housing provides affordable housing to seniors and may include set-asides for seniors with disabilities. Service models within the projects vary from independent living to assisted living to permanent supportive housing. The typical project ranges in size from 20 to 75 units, and typically serve an income range of 30-60 percent AMI. Senior housing could be new construction or preservation and acquisition and rehabilitation of existing property.

3. Transitional Housing

This type of housing is typically developed in smaller settings with about 5-20 units/beds and serves homeless youth/young adults, single adults and families, and domestic violence survivors at an income range of 0-30 percent AMI. Households living in transitional housing generally receive supportive services with a goal of having them move to permanent housing.

4. Permanent Supportive Housing

Permanent Supportive Housing (PSH) typically consists of 50-100 units with an income range of primarily 0-30 percent AMI, with some units at 50 percent AMI. It is considered a best practice for individuals in need of additional supportive services and at this income level in order to achieve housing stability. This housing model includes wraparound services, 24/7 staffing, and may include on-site behavioral health services in order to meet the high-level needs so individuals can retain housing.

PSH typically serves individuals experiencing homelessness with multiple barriers in housing first model and creates “graduation” housing. Funding for this type of project occurs at the federal, state, and local level to create the housing and also for ongoing support operations/services. Some providers can also use Medicaid funding. These types of projects typically require a combination of funding sources to make the project feasible, yet quite often a funding gap still exists despite the various sources of funding available. In addition, the LIHTC described above is fairly competitive at the 9 percent tax credit rate which is needed to make the project feasible.

5. Group Homes for Individuals with Disabilities

This model of housing is typically developed in a large single-family home setting with 3-6 beds at income levels of 0-30 percent AMI; and serves individuals with intellectual and developmental disabilities. The housing includes a live-in care provider and associated services are typically supported by Developmental Disabilities Administration, which varies based on licensing and the needs of the population.

6. Public Housing

Public housing is government-owned affordable housing. The public housing model serves extremely low-income individuals, individuals at risk of homelessness, and individuals paying more than 50 percent of income toward rent. Properties are typically smaller, serving around 10-50 units, and there are over 16,000 households on regional public housing waitlists. Public housing projects have historically been constructed with federal public housing capital funds, but now other funds may be used and paired with public housing operating funds.

7. Mixed Income Housing

This model of housing serves households at a variety of income levels, including both affordable and market-rate housing. This funding could be used to support the affordable housing units within a project. By bringing together shared amenities, programming, and facilities, this type can produce vibrant community connections. However, there are significant challenges to producing this housing type from this funding source, including layering together multiple funding streams with competing restrictions, additional design and legal structures, and less developers with experience building affordable and market-rate housing in a single project.

Next Steps

As staff continue to develop the work plan, the following topics will be reviewed with Council:

Expenditure of Funds Model

- This model will help inform recommendations around total unit production expectations and program goals.

Land Acquisition Strategy

- One of the expanded uses of this funding source includes the acquisition of land for affordable housing, behavioral health-related facilities, or facilities providing housing-related services. Staff is currently working with a consultant to provide additional information on these issues and their potential and will share preliminary work at the next Council study session. The current scope of work includes:
 - An overview of state and local mechanisms for land acquisition for affordable housing to serve eligible populations. Identifying a spectrum of potential purchase and ownership entities (e.g., non-profits, housing cooperatives, public-private partnerships, long-term public ownership).
 - Research the various financing mechanisms that could be mixed and matched from other sources to acquire land and their ability to leverage this funding.
- Develop a succinct comparative of the pros and cons of early land acquisition options that fit within Bellevue's landscape and the parameters of the funding, including their ability to deliver across short- and longer-term time horizons.

Preliminary Program Recommendations

- Preliminary program recommendations will be informed by the expenditure of funds model, stakeholder engagement, community need, and compliance under the parameters of the tax.

At the upcoming July study session, staff will present on the topics listed above as part of the discussion and recommendations of the long-term implementation plan. In addition, staff anticipate providing additional information on the variables to prioritize housing model types and an analysis of the interplay between capital and services funding rounds.

POLICY & FISCAL IMPACTS

Policy Impact

The City has multiple adopted policies, identified needs, and strategies that are related to the use of this revenue. At a previous study session, staff presented a document that brings together these policies, needs, and strategies that guide the projects, programs, and services that may be implemented under these funds. This consolidated document may be found in the Council Library. Within this work plan, no new policies are being requested or created related to the HB 1590 Work Plan.

Fiscal Impact

Bellevue's taxable sales are forecasted to generate \$8.5 million per year for 2021, of which approximately 20 percent, or \$1.8 million, is allocated for operation, delivery, or evaluation of behavioral health treatment programs and services or housing-related services. Staff will return to Council at a later date to seek authorization to allocate this funding.

OPTIONS

N/A

ATTACHMENTS & AVAILABLE DOCUMENTS

N/A

AVAILABLE IN COUNCIL LIBRARY

HB 1590 Interest Statement

Consolidated Policies and Needs for the HB 1590 Interest Statement