

CITY OF BELLEVUE
AFFORDABLE HOUSING
TECHNICAL ADVISORY GROUP
MEETING MINUTES

July 25, 2016
9:00 A.m.

Bellevue City Hall
Room 1E-120

MEMBERS PRESENT: Kim Loveall Price, Hal Ferris, Tim Walter, David Hoffman, Michael Orbino, James McEachran, Dwight Schrag, Rich Wagner, Jan Laskey, Andrea Sato, Katherine Jordan, Sharon Cunningham

MEMBERS ABSENT: Chris Jowell, George Petrie, Eric Campbell

STAFF PRESENT: Mike Kattermann, Dan Stroh, Janet Lewine, Terry Cullen, Planning and Community Development Department; Arthur Sullivan, ARCH; Chuck DePew, Melissa Lafayette, National Development Council; Morgan Shook, Kate MacFarlane, ECONorthwest; Mayor Stokes and Councilmember Vandana Slatter

RECORDING SECRETARY: Gerry Lindsay

1. MEETING PURPOSE

The meeting was called to order at 1:05 p.m. by Senior Planner Mike Kattermann. He briefly reviewed the agenda.

2. PROJECT UPDATE

Consultant Chuck DePew with the National Development Council introduced himself and explained that the non-profit organization focuses on homes, jobs and community, and noted that his expertise is in the area of affordable housing.

Morgan Shook, director of ECONorthwest, introduced himself. He explained that the organization focuses on finance, economics and policy and has been doing a lot of affordable housing work across the country.

Kate MacFarlane with ECONorthwest introduced herself.

Melissa Lafayette with the National Development Council introduced herself.

Mr. Kattermann explained that the consultants would be helping with the technical aspects of the study, including the evaluation tools and analyzing the options.

Mr. Kattermann explained that the June meeting was cancelled to accommodate the gathering of some additional information, and to focus on launching the community engagement effort. A community education forum was held on June 25 that featured six panelists; some 75 attended. The event was videotaped and has been posted to the project website. A series of stakeholder meetings have been launched and they will continue through the summer and into the fall. A survey has been developed and distributed, and it went live online earlier in the day. The survey is not statistically valid.

Mr. McEachran said the panel was very helpful. Mr. Walter added that there was a good broad representation from the school district talking about how difficult it is to find and retain teachers given the cost of housing.

Mr. Kattermann noted that immediately prior to the forum several service agencies were set up in the concourse to provide information and resources.

Senior Planner Janet Lewine said the public outreach efforts have involved both people looking for information and people with information to share.

3. TAG LINES

Mr. McEachran said his first interest in affordable housing came about when a member of his parish suggested adding \$2000 to the church's budget to help found St. Andrews Housing Group, which has become Imagine Housing. He noted that the Human Services Commission, which he chairs, recently completed six months' work reviewing funding applications and developing recommendations, including for housing.

Mr. Ferris with Spectrum Development Solutions said he knows both consultants quite well, served on Bellevue's Planning Commission for eight years, has over the years served on a number of committees focused on affordable housing, and as a member of St. Andrews Lutheran Church has been active with Imagine Housing.

Mr. Orbino said he is a managing broker with John L Scott and is vice president-elect of government affairs for Seattle/King County Realtors. He said he believes in healthy and sustainable communities that are vibrant and diverse. Those who cannot find affordable housing, they cannot save money toward a down payment and therefore cannot buy a house. It is important to look at what affordability means up and down the spectrum of for rent and for purchase.

Ms. Jordan said she represents the Lake Hills community and also works with Congregations for the Homeless, an organization that assists homeless men in regaining stability, including housing stability.

Mr. Hoffman said he works with the Master Builders Association of King and Snohomish Counties. His organization's members are very concerned about the price increases being seen on the land side and on the home side. The organization hosts an annual housing summit that

pulls together government leaders and experts from around the region to discuss different topics. The topic of the next summit in September will be affordable housing.

Ms. Cunnington is with the Rental Housing Association, an organization of landlords and property owners. She said most of the members own less than ten units, but some own several hundred units.

Mr. Walter with the King County Housing Authority said he oversees the development, acquisition and asset management program. Real estate acquired by the Authority become assets of the community and over the last 20 years the strategy used to address affordable housing has been to acquire privately owned housing and controlling the rent increases. The Authority has acquired more than 1500 housing units in Bellevue.

Ms. Laskey said she is the relationship manager for Bank of America, though she is not representing Bank of America. She been in the housing business for over 30 years and has worked with both small non-profits and large for-profits.

Mr. Wagner with Baylis Architects said the firm has been involved with housing issues for 40 years. He said he joined the group in order to make a difference, and said he would offer his technical expertise with regard to what must be done in order to meet code and construction techniques, things that do little more than cost everyone money.

Ms. Loveall Price with Downtown Action to Save Housing said the organization has set a goal of building at least 250 units by 2020. She said it is becoming far more difficult to advance projects due to high land costs and other issues. Energy is being focused into what can be done with existing properties, increasing density, and other things. The organization has been advancing the conversation on a social impact fund to raise capital.

Mr. Schrag said he is a downtown resident who has been interested in affordable housing for many years, beginning with his own children not being able to afford a house. He said young people are somewhat terrorized in finding a place to live given high real estate costs and rents. Even those with good jobs who should be able to afford housing in Bellevue are finding they cannot find anything they can afford. There are published documents from around the nation that outline affordable housing best practices and it would be good to read them over.

Mr. Kattermann said one of the tasks assigned to the consultants is reviewing best practices from around the country.

4. PRIORITIZE POTENTIAL ACTION LIST

Mr. Ferris noted that one of the items deals with exploring the formation of a housing authority in Bellevue. He asked Mr. Waters what the King County Housing Authority could do in Bellevue that it is not already doing, and what Bellevue could do to form a closer partnership with the organization that would result in the production of affordable housing units. There has been a focus on preserving existing units, but those units should not count toward the goal of 2500 units. Additionally, where people are being pushed out of affordable units to accommodate

the development of bigger developments that may or may not be affordable, the lost units should be added to the overall goal.

Mr. Walter said the King County Housing Authority has and continues to play a very important role. It was the Authority that proposed the notion of creating 2200 new units of housing. The Authority is currently working with King County on a program that would extend up to \$200 million in loan guarantees. As a housing authority, the organization can issue tax-exempt debt for purposes of building affordable housing. Access to tax-exempt debt lowers the cost of capital, which allows the Authority to leverage up the amount it can borrow. The county's credit enhancement allows the Authority to use the county's credit rating, allowing for the issuance of AA or AAA debt on either public or private placement scale. Those are tools that non-profits and private developers do not have access to. The \$200 million would not yield 2200 units in and of itself, but it would probably provide the debt for about 50 percent of the cost of 2200 units. Part of the priority is looking for housing for modest income households on the Eastside. He agreed that the preservation of units should count toward the total because any units created to take the place of units lost would be counted as new. It is always less expensive to preserve properties.

Mr. DePew asked if the housing authority is looking at a particular affordability range for the 2200 units. Mr. Walter said under state law the mandate is to make sure that at least 50 percent of the units are available to households at or below 80 percent of the area median income. The Authority actually strives to keep all rents at that level.

Mr. Wagner said he has done some work focused on getting people out of affordable housing by giving the social and economic skills needed. He added, however, that he would not necessarily count vacated units in the overall count. Getting people out of affordable housing and into their own homes can be a very cost-effective bargain.

Mr. Walter said the unique challenge in Bellevue is that while someone can be brought to the point of being job ready, they will still not be able to afford a house.

Ms. Lewine commented that if an apartment building that has no long-term affordability restrictions is acquired by a non-profit for the purposes of creating affordable units, those units are counted as new units. Naturally occurring low-income housing, such as Highland Village, has not traditionally been counted. ARCH conducts an annual review of all new multifamily housing that comes online to see what the market is providing by way of affordable units. Of course, even where new units are offered as affordable units, there is no guarantee that they will continue to be offered at lower rents over the long term.

Mr. Walter said with tools like the multifamily tax exemption and housing bonds affordability can be achieved for the short term, but it is hard to think of them as being long term because in 20 years when the restrictions are removed, the units will undoubtedly be converted to market rate, resulting in a loss of housing. What are needed are opportunities to create permanent affordability.

Mr. Ferris called attention to the penultimate paragraph on the first page of Attachment 4 and the reference to the fact that the average cost of new units is between \$275,000 and \$300,000 and

more. He said the per-unit cost for highrise construction in Bellevue's downtown is considerably higher. Units in midrise buildings having four or five stories over a podium might come in at that range, and three-story structures with surface parking could yield a far lower per-unit cost. In Bellevue, the bulk of the zoning capacity lies in the higher density districts where it is expensive to build, and the tools will need to be adjusted to match what the city has capacity to build. He noted that the document also claims that a unit targeted at 80 percent of the area median income can finance about \$130,000 in debt, but suggested the reality is that it is about double that. Where more debt can be afforded, less subsidy is needed. He also questioned what is deemed a unit, noting that the document indicates Bellevue College will be building a thousand on-campus units, but in reality those will be beds not apartments. He questioned whether an apartment should be counted as a unit given that it is usually a single bedroom with a microwave and a sink that shares a kitchen with six other bedrooms.

Mr. Ferris pointed out that the multifamily tax exemption program lasts for 12 years. To retain affordability beyond that point, it will be necessary to combine the tax exemption with a mandatory affordability requirement for upzoned properties. Another approach would be to simply extend the tax exemption period.

Ms. Laskey said she has clients who are working to build units more efficiently. The density issue is really a double-edged sword because it costs more to create the affordable units, thus yielding less of them. Lower density in broader areas can actually yield more units that fit the affordability model better. Land zoned for higher density costs more to purchase and the construction type costs more, making it necessary to have bigger subsidies in order to come up with the same number of units built on less expensive land with less expensive building techniques.

Mr. Wagner pointed out that regardless of how big the living space and the bedrooms, there must also be a kitchen and a bathroom, both of which must conform to ADA, triggering a 20 percent bump in square footage. Additionally, moving beyond five over two construction increases construction costs by 15 to 20 percent. In Renton, post-war housing authority buildings with ten units each are being replaced by buildings having 50 units each on the same footprint.

Mr. Orbino said the best rent control is the 30-year mortgage. It allows for locking in long-term payments that are affordable given historically low interest rates. That long-term affordability allows for rental rates that are not constrained by the pressures of for-profit development to continue raising their rents. A property that could rent on the market for \$2500 per month may be rented for only \$1600 because the property owner likes the family in the house. The property owner should receive some kind of tax advantage that would essentially incentivize individual owners to keep rents down. Mr. Kattermann called attention to item C.9 on page 4 of the matrix and said the language could be tweaked somewhat to address that issue. He pointed out, however, that the item as drafted does not get at the ownership issue.

Ms. Cunnington also referred to item C.9 in the matrix and pointed out that buildings with four or fewer units are essentially considered to be non-commercial. She said over the last year there has been a considerable increase in taxes and utilities. Homeowners who purchased at \$150,000 properties that are now valued at \$750,000 could afford to rent the units at a very reasonable and

affordable rate. However, the increase in taxes and utilities has triggered rent increases. Such property owners do not typically have a lot of experience in renting, they are simply looking for some extra income and they may not understand a lot about how they price their units. She said her organization has a number of members who accept Section 8 vouchers, but there are not many of them in the Eastside area.

Mr. Wagner said one of the first things that should be done is to modify some of the condominium laws the state adopted about eight years ago. Bellevue should use its political weight to fight for that. The law is both onerous and unnecessary. Mr. Kattermann said that action is included in the matrix under legislative actions.

Mr. Ferris pointed out that in other areas of the country where rents are going up, there has been an increase in the production of condominiums. Many are selling at rates that are considered to be affordable. That is not happening locally because of the costs of the blanket insurance policies and the like. Mr. Kattermann agreed that more affordable condominiums could be an excellent stepping stone for first-time home buyers.

Mr. Ferris suggested the matrix should include incentives for combining for-profits and non-profits in a single development. That could bring into play properties of a larger scale. Most subsidized funding in Washington is available only to non-profits and ways need to be found to encourage joint development.

Mr. Kattermann called attention to the potential action list and noted that 27 of the items received at least one dot in the exercise undertaken at the previous meeting of the TAG. He said the list has been provided to the Council but without the dots. He asked the members to review the list and to indicate their top choices to be included in the categories of 1) low cost/high productivity; 2) high cost/high productivity; 3) low cost/low productivity; and 4) high cost/low productivity.

BREAK

Mayor Stokes said the Council is excited by the TAG process and is looking forward to seeing the recommendations. He said it is clear Bellevue and the region must do something about housing affordability and addressing homelessness.

Councilmember Slatter thanked the TAG members for their hard work and said it is very much appreciated.

Mr. Kattermann noted that several items from Section A of the potential action items list scored well in Categories 1 and 3.

Mr. Kattermann asked for comment regarding the items put into Category 4. Mr. Ferris said he put A.4 (e.g. micro units) and A.5 (small scale in single family, e.g. accessory dwelling units) in Category 4 because he has found that accessory dwelling units and cottages may represent additional housing but are not affordable. They also generate a great deal of controversy in communities and do not result in all that many units overall.

Mr. Kattermann asked for comment on why item A.4 had been included in Category 1. Mr. Hoffman said the units are providing housing to folks who would otherwise be out looking for other types of housing. Increasing housing type choices can help to address the market demand for affordability.

Mr. Schrag said micro units are being developed in other parts of the country and they are meeting with success. Because they are so modular, a large number of them can be put into a small space.

Ms. Cunnington pointed out that during the dot exercise, E.1 (additional dedicated revenue sources) received six dots. She also noted the item had been put into Categories 1, 2 and 4. She said she had put it in Category 2 because it carries with it a high cost to the city in terms of tax credits but also could be very productive. Ms. Jordan agreed it would have a high cost to the taxpayers.

Mr. Orbino suggested E.1 would carry a high cost to those in need of affordable housing because anything that costs the property owner will be passed on in the form of higher rents.

Mr. Walter said rather than high cost or low cost, the items should be viewed in terms of absolute dollars. He said E.1 would represent a new source of funds, something that does not currently exist, so it would not take anything away from an existing resource. Because it would be spread across the board, the impact would be relatively small. As such, it should be categorized as low cost/high productivity.

Ms. Laskey commented that regardless of how efficient things are at the productivity end, there will have to be subsidies involved. What is being put in currently is not enough. Without putting something on the table aimed at leveraging the low-cost alternatives, nothing helpful will come out of the TAG's work. Mr. Kattermann said the TAG at an upcoming meeting will be asked to zero in on the sweet spot in terms of the combination of items.

Mr. Schrag said he locked in on the word "dedicated" in E.1. In looking at the long term, having a dedicated revenue source will allow for planning ahead. Mr. Kattermann agreed and noted what is being done is good but it is not meeting the need. There is no silver bullet; it will take a variety of elements to make up the overall strategy.

Mr. Ferris allowed that units affordable to those making 50 percent or less of the area median income are going to need a subsidy, and what the city is putting in will not be enough. It will not be possible to make a dent in the need without addressing legislative options and partnerships. Bellevue prides itself as having low property taxes, but it may be time to pay the piper. Seattle has repeatedly voted in favor of a housing tax levy and the voters in Bellevue may be willing to do the same.

Mr. DePew said it was not surprising to see a variety of thoughts about what might be low-cost/high impact and what might be high-cost/low impact solutions. He said his view of which items got placed where was that a larger emphasis was placed on productivity, specifically the

strategies that will create more units. He said he would tout E.1 as a low-cost strategy because it does not cost much to change law. Some of the things on the list are really a prioritization of city resources as opposed to creating new resources.

Mr. McEachran highlighted his fondness for A.6 (reuse of larger sites). He said there are numerous churches in the King County area that are dead and waiting for resurrection. A number of affordable housing initiatives have been focused on such sites. The affordable housing strategy should serve as leverage for eliciting a robust response to those in congregations that are doing absolutely nothing. Mr. Kattermann said Sybil Glasby with Imagine Housing, who served as a panelist at the forum, has since been approached by several churches. Ms. Loveall Price said she has been approached by two churches as well.

Mr. Wagner said a church donated the land for and built the veterans project in Renton. At the end of the project, via the condominium tool, Luther's Table, a restaurant, was created.

Mr. Ferris allowed that the topics are complicated and it is a difficult thing to boil them down to just a few. Mr. Kattermann agreed and noted that the exercise will assist staff and the consultants in identifying what the analysis will need to include and what will need to go into the evaluation tool.

Mr. Schrag pointed out that if just a couple of the Bel-Red properties that are being held for the development of auto sales could be redirected to housing, given the location along the light rail line, the outcome could be very positive. Mr. Kattermann said the city is working very closely with Sound Transit on development around the stations. A memorandum of understanding has been signed under which the city is looking at the creation of some affordable housing at both of the BelRed stations. Ms. Lewine added that the surplus parcels on the south end of the maintenance facility site will be released for redevelopment, and the type of redevelopment expressed in the memorandum of understanding will include affordable housing. The type of redevelopment will be addressed by the developer of the maintenance facility through a master development plan. With regard to the 130th station, Sound Transit will initially develop a surface park and ride lot. The memorandum of understanding states that Sound Transit will turn the property over to the city for the construction of a mixed use development that will incorporate housing and structured parking.

Mr. Schrag noted that between the 120th and 130th station areas there will only be about 47 affordable housing units created, according to the preliminary plans. Mr. Kattermann said he would verify that number. He said both of those sites represent significant opportunities for affordable housing. Work is under way in the Eastgate corridor that includes increased zoning, and a piece of that will address housing affordability. The area adjacent to the East Main station where the Red Lion and Hilton hotels are will also be upzoned and affordable housing is being considered as a part of that. The old auto row along 116th Avenue NE is prime for redevelopment and mixed use that incorporates housing, including incentives for affordable housing, will likely be considered.

Mr. Ferris noted that the incentives that were put in place in the Bel-Red corridor are quite powerful and are resulting in some affordable units. In Seattle and other areas where incentives

have been offered, the predominant option utilized by developers has been paying fees in-lieu that are subsequently used to produce low-income housing, a process that does result in some money is lost in all those transactions. Mandatory requirements to provide affordable housing in exchange for an upzone work best where midrise woodframe construction is involved.

Ms. Cunnington asked if incentives or special zoning is being offered in the Spring District for student housing with respect to the Tsinghua University and University of Washington partnership. Mr. Kattermann said he was not aware of any. There are incentives in place in BelRed for affordable housing, but not specifically for student housing.

Mr. Ferris explained that dormitory-type student housing typically falls into the category of congregate housing, which requires a slightly different zoning. The units usually accommodate two students and include a bathroom, but there is a common dining hall which is unlike an apartment complex. The university is new so proving demand for the development of student housing would be difficult. The zoning regulations should not, however, preclude the use.

Mr. DePew said that from a policy standpoint the question is whether or not student housing should be counted as part of the target. Most jurisdictions do not because it is a specialized form of housing. Mr. Ferris said the absence of housing associated with Bellevue College has triggered a trend in which landlords buy houses, chop them up into multiple bedrooms, and rent them out essentially as student housing. The action is essentially displacing what used to be reasonably priced housing. Getting the college and university to provide housing for their students takes the pressure off the neighborhoods.

Mr. Kattermann pointed out that A.1, which essentially involves an inclusionary housing approach, had been placed in all four categories. He allowed that the approach could be a difficult one for the Council to implement. The city had inclusionary provisions between 1991 and 1996 and they resulted in a fair number of units. Other jurisdictions have used the approach as well, including Kirkland and Redmond, though the tool is primarily used outside of the Pacific Northwest.

Mr. Wagner said he did not rate the option very high because in nearly all the evaluations the city is now doing, affordable housing is required. In BelRed developers are given a base FAR of 1.0, but they can go up much higher if they provide affordable housing. The approach would work equally well in Eastgate and up and down the I-405 corridor. Inclusionary housing provisions are a good way to integrate neighborhoods financially, and they are not much different from the approach used in BelRed. Mr. Kattermann said currently the incentive systems offered by the city vary by area. A uniform citywide approach may be worth considering. Mr. Wagner said private sector BelRed developers are actively working with affordable housing advocates to get projects developed beyond the base FAR.

Ms. Sato said she struggled with the issue of classifying A.1 as low-cost versus high-cost. She said there certainly is a cost associated with the approach. However, if inclusionary housing is required, there is no question relative to low-productivity or high-productivity.

Mr. Wagner commented that some jurisdictions have pushed affordability into their neighborhoods. There are people out there who really do not want to live next to a subsidized housing unit. In Renton, the result has been people moving to Newcastle, which has been a real loss for the city. To not have a place to be wealthy seems a bit inconsistent with the goals.

Mr. Ferris suggested the need for an education piece. People who are making 50 percent of area median income include Bellevue School District teachers. Some hear affordable housing and think that is a bad thing, but those who are in need of it are just like everyone else and have jobs ranging from ice cream shops to hospitals.

Mr. Wagner noted that D.4 having to do with partnering with employers showed up in various places. He said he has been talking with some agencies about partnering with unions. The WEA certainly should be a partner in the creation of affordable housing.

5. EVALUATION CRITERIA

Mr. Ferris said he was not sure if the proposed criteria were the ways to value the output. The income levels served by the affordable units is addressed in the matrix. The timeframe anticipated for the units to be available is probably not something that can be controlled. Who will bear the cost, public or private, will ultimately be up to the Council.

Mr. Kattermann said the five outputs represent a simplistic approach to comparing the efficacy of the actions in the overall strategy relative to cost and benefit. If an action is identified as something that will produce a hundred units per year, the Council would need to determine if that level of productivity is worthwhile given what it would cost. If the affordable units produced are aimed only at 80 percent and above, then the identified need will not be addressed. It will likely require a mix of approaches. The modeling and evaluation tools the consultant will help develop will yield a basis for comparison. The Council is looking for specific actions that can be taken in the next two or three years that will make a difference in the amount of affordable housing available in Bellevue.

Mr. Schrag said the various moving parts and pieces, some of which are short-term and some of which are long-term, will likely require some type of authoritative body, such as a Bellevue housing authority. Without having a core of people working on the pieces in lockstep with the King County Housing Authority and other entities, the work may flounder.

Mr. Ferris said Seattle assigned a project manager and charged him with making sure all of the recommendations went into the sausage machine without getting lost. It effort took time just as it will in Bellevue. Mr. Kattermann said that will need to be part of the discussion with the Council.

Mr. Walter said the powers of a housing authority are not to change policy. The primary goal of a housing authority is to administer the federal assistance that comes through management of the Section 8 program and so forth. Housing authorities partner with local jurisdictions, but a separate housing authority in Bellevue would not bring with it any additional governance and would in fact draw away some resources.

Mr. Schrag said it would not necessarily be a housing authority. The work could be assigned to a task force. Mr. Kattermann said the point is well taken that there would need to be something put in place to make sure there is follow through on the actions. It will require more than just the Council adopting a strategy.

Ms. Sato agreed that the focus will need to be on the mechanism for implementation of the various potential actions. Someone will need to oversee making sure the land use and zoning changes are moved through the proper channels and are ultimately implemented. However, changing land use and zoning will not yield enough without new capital sources. Mr. Kattermann agreed it would not make sense to take a recommendation to the Council for which actions to take if there are no resources included the carry them out. It will not just be one person or one group doing everything; it will take a number of organizations, both non-profits and for-profits, to make it all happen.

Mr. Wagner said the issue of resources is absolutely key. Bellevue's current contribution to affordable housing is a disgrace. The political momentum is finally in place to agree Bellevue does not need to have the lowest taxes in the state, to push the city's bonding capacity a bit further, and to actually make a commitment to achieving affordable housing. Additionally, the citizens likely would support the approach.

Mr. Ferris noted that the King County Housing Authority is one of the highest-ranked housing authorities in the country. Rather than setting up a local authority, Bellevue should seek a stronger connection with the King County Housing Authority to increase the production or preservation of affordable housing in the city. Mr. Walter allowed that few realize how much the King County Housing Authority is already doing in Bellevue, from the number of Section 8 vouchers administered in the city, to the number of subsidized units created in the city, to the number of non-assisted units. The King County Housing Authority is actually the largest single landlord in Bellevue and controls close to 1700 units. All of the units acquired and operated are public assets that will continue to be affordable over time. Generally speaking, it is more expensive to build than to purchase existing units given all the requirements built into the system. The single biggest tool for financing affordable housing is debt, particularly given the low interest rates, but equity or gap financing is typically targeted at the very low income category.

Mr. Kattermann agreed that preservation is a very important element, but he stressed that new units will also need to be brought on board. To that end, the city will need to determine what funding can be made available to help leverage what the housing authority is doing and what the city is already doing through ARCH and what is being done by the non-profits.

Mr. Orbino said Bellevue has more housing stock in the 50 to 80 percent range than other Eastside cities. It cannot be said that Bellevue is wealthy and is not concerned with affordability given the high percentages of kids in the Bellevue School District who qualify for the free and reduced lunch program. The city's level of economic diversity is something to be proud of.

Mr. Walter pointed out that five years ago, the average rent in Bellevue was affordable at the 65 percent of area median income level. That has since risen to more than 80 percent. There needs to be a focus on bringing new units online, but the increase in rents has actually triggered the loss of some 3000 units in terms of affordability. Any strategy going forward should keep that in mind.

Mr. DePew said preservation versus new units is a crosscutting issue. He said he is not aware of any program in the country that counts the preservation of units as new units, and very few prioritize dollars for preservation projects. Most tend to think units that are already affordable will continue to be affordable and they miss the fact that in ten years many of those units will convert. Preservation as a program type involves a very different financial model. The degree to which preservation should be prioritized will need to be identified. Mr. Kattermann allowed that the discussions held with the Council so far have highlighted both approaches being important.

ARCH program manager Arthur Sullivan said the city has a long history of putting resources toward preservation and using ARCH as the vehicle to accomplish the task. Preservation has been one focus for ARCH since its inception 20 years ago. Even during the years when Bellevue cut back on its funding to ARCH, it continued its focus on preservation.

Ms. Lewine pointed out that the King County Housing Authority and other non-profits in the area have an excellent reputation for taking preserved properties and managing them well to the benefit of the neighborhoods.

Ms. Laskey asked if there is a current target number of units that are currently affordable that should be preserved to avoid losing them. Mr. Kattermann said he did not have a number. He added that one challenge lies in figuring out what might go away. A couple of the proposed actions have to do with identifying the potential preservation properties and looking at how to preserve them.

Mr. Walter commented that 15 years ago if someone could have said the market would be where it is currently, the best action would have been to go out and lock in a bunch of properties at market rates. Mr. Hoffman suggested that 15 years from now people will be saying the same thing. Mr. Kattermann said the task at hand is to take steps to assure that in fact people will not be saying the same thing in 15 years.

6. NEXT STEPS

Mr. Kattermann said the tentative schedule calls for going back before the Council with a revised action list on September 6. He said the next TAG meeting would be in September.

The meeting was adjourned at 3:59 p.m.