CITY OF BELLEVUE
AFFORDABLE HOUSING
TECHNICAL ADVISORY GROUP
MEETING MINUTES

November 17, 2016 — Bellevue City Hall
1:00 p.m. — Room 1E-120

MEMBERS PRESENT:	Kim Loveall Price, Hal Ferris, Tim Walter, David Hoffman, Michael Orbino, James McEachran, Dwight Schrag, Rich Wagner, Andrea Sato, Sean Martin, Sybil Glasby
MEMBERS ABSENT:	Jan Laskey, George Petrie, Eric Campbell, Katherine Jordan
STAFF PRESENT:	Mike Kattermann, Janet Lewine, Department of Planning and Community Development; Emily Leslie, Department of Parks and Community Services; Arthur Sullivan, ARCH; Kate MacFarlane, Morgan Shook, Chuck Depew, Melissa Lafayette, consultants
RECORDING SECRETARY:	Gerry Lindsay

1. CALL TO ORDER, APPROVAL OF AGENDA, APPROVAL OF MINUTES

The meeting was called to order at 1:09 p.m. by Senior Planner Mike Kattermann.

2. CITY REGULATIONS & INCENTIVES

Consultant Kate MacFarlane pointed out that the subgroup has been looking at two building prototypes, a podium and a midrise residential tower. The study began with an initial set of development discussions and moved on to calibrating the assumptions to match market conditions. The work has resulted in some pencil-out model results for market-rate units and for what happens when a density bonus is added, and when the multifamily tax exemption is added. Given the residual land values, it does not make sense to build tower projects at current rents. Podium projects penciled out with a positive residual land value, but quite low based on the assumptions. The subgroup discussed adjusting the assumptions to bring them into line with current market conditions.

Ms. MacFarlane said the model is very sensitive to different factors. FAR makes a big difference in terms of how much one can afford to pay for land. The return on costs assumption relative to rent per square foot also makes a difference. Construction cost is a large factor; parking stalls do not make too much of a difference, but they can help reduce costs.

The TAG was shown the assumptions-revised model results. It was noted that the residual land value for a podium project stood at $40,000 to $45,000 per unit, or between $130 and $150 per square foot of land. The revised model indicated that it still does not make sense to build midrise towers given current market conditions. The modeling suggests it would take a lot to get midrise projects to the place where developers will construct them. The downtown is not being looked at in terms of rents, rather the focus is on areas like Bel-Red. In order for a midrise tower to be feasible, construction costs and parking ratios would have to go down, and rents would have to go up. Incentives like the multifamily tax exemption can have a positive impact.

Mr. Shook said the approach taken has been predicated on performance housing, which uses the value of the land to subsidize the delivery. Ms. MacFarlane added that the numbers relative to parking were for structured parking, not underground parking.

Mr. Wagner asked if there was an understanding that achieving above-grade parking is very difficult to achieve with the city's design review process. Mr. Shook said that factor is known, and he added that that is the sort of thing that everyone will need to explicitly understand.

Ms. MacFarlane explained that once the model is calibrated to approximate current market conditions, it will be possible to look at what happens to residual land value once some of the affordability programs are added in, including a density bonus like what is available in Bel-Red and the multifamily tax exemption. Mr. Shook added that the density bonus program in most places is 1.0 FAR by right and up to an additional 3.0 by first delivering affordable housing units at a ratio of 4.6 square feet of market-rate units per square foot affordable at 80 percent area median income. Ms. MacFarlane added that in Bel-Red nodes only the first 1.25 bonus FAR is linked to affordability; the additional 1.75 FAR is linked to the provision of other amenities.

Mr. Ferris said the TAG could suggest going from 1.25 FAR to 1.5 FAR as a way of giving higher priority to affordability. Mr. Kattermann said the multi-forma analysis will help identify what that would do in terms of the market and at what level it would still make sense. Ms. MacFarlane agreed and pointed out that there are specific points where the parking changes to an underground scenario, at which point adding density will not necessarily add more value.

Ms. MacFarlane showed that for a market-rate unit, the residual land value is around $45,000. For affordable units at 80 percent area median income, it is necessary to provide additional market-rate units to offset the additional cost. The preliminary results show that as currently calibrated, the density bonus in Bel-Red does provide an economic incentive.

Ms. Shook commented that few developers would want to build to a 1.0 FAR; most would prefer something in the 3.0 range. From a policy perspective, there should be no disincentives to get larger.

Mr. Wagner noted that Bel-Red has served as a good test case. He said it is usually not FAR developers are running up against, rather it is the gross square footage per floor plate that has had the biggest impact. He added that the podium model means developers cannot really take advantage of any height that might be allowed.

Answering a question asked by Mr. Schrag about why affordable units cost more to build, Mr. Shook said it is really more about the opportunity costs. Construction costs are relatively fixed, but affordability involves renting units for less per month, reducing the value of the affordable unit to the building owner.

Mr. Walter suggested another way to look at it would be to monetize the average rent. If the average rent is $2500, affordability will be determined by a percent of the area median income. That could mean a reduction of $1100 in terms of pure revenue given that all operating costs will remain the same. That $1100 per month represents $13,200 annually. With a 5.4 percent cap rate, the opportunity cost for that money is some $240,000. That is what is given up for the area median income comparison. Mr. Shook agreed. He said the focus has been on residual land value in order to have a standard measure, but functionally things are the same. There is some capitalization of the opportunity costs over time and the consultant team is trying to figure out if things like scale and FAR are enough to overcome them.

Ms. MacFarlane reminded the group that affordable housing is a voluntary program and it thus needs to be worthwhile for the developers to want to opt in.

Mr. Depew said cities regularly try adding height as an incentive to increase affordability. The thinking is that if more development density can be added, the economic problem can be solved. The truth, however, is that the higher a building, the more expensive it is and the gap grows. Additional height is not a solution to the affordability issue. Rents have to be higher on the private side to warrant development.

Turning to proposed action A.2 Density Increases for Affordable Housing/Voluntary, Ms. MacFarlane called attention to the documentation and noted it outlines the current program and discusses ways expansions and adjustments might be made in order to produce more affordable housing.

Mr. Shook said the policy piece starts with the value of additional FAR. He said the conversation from a policy perspective is how to structure that value, with deeper levels of affordability expressed in terms of percent of area median income, or more coverage in terms of the number of units delivered. Ms. MacFarlane said other policy options include expanding the areas of the city where density bonuses are offered; currently the bonus is only offered in Bel-Red. Another option would be to dedicate a larger portion of the bonus FAR to affordable housing rather than to other amenities.

Ms. MacFarlane said some rough estimates were made relative to what the housing unit production in Bellevue has been over the last ten years to try to anticipate the number of units that might be provided should the current trends continue. Rough estimates were also made to determine how many units might be brought online if there were a modest expansion in the bonus FAR that is dedicated to affordable housing. The resulting numbers were in the range of 10 to 25 units per year.

Ms. Glasby noted from the documentation that 89 affordable units were developed within two multifamily developments and asked what the ratio was between the number of affordable units and the total market-rate units. Ms. MacFarlane said it works out to about seven percent of the total. Ms. Lewine pointed out that the 89 units were developed outside of the Spring District. Fees in-lieu were collected in the Spring District but at a lower rate because of their catalyst project status. No one outside of the Spring District has chosen to use the fee in-lieu option.

Mr. Ferris said the Bel-Red code for the areas outside the node have a maximum FAR of 2.0, with a base of 1.0. In those cases, FAR of up to 1.5 can be achieved just with affordability. It would seem that would serve as a good incentive. The city could also look at increasing the percentage of units that have to meet the affordability limits beyond seven percent. If through zoning affordable housing is encouraged at 80 percent, the bar developers must get over to get to 60 percent would be lowered, and that is where the partnerships and non-profits can jump in. Some analysis would be needed to verify that.

Mr. Shook said the city's code currently does allow for the layering of incentives.

Ms. MacFarlane observed that another option would be to lower the current affordability level from 80 percent. The danger is that the program is currently working and caution should be taken to not tip it in another direction. Mr. Ferris commented that in the nodes developers can go from the base FAR of 1.0 to 4.0, but affordability only increases 1.25. It should at the very least be 1.5, which is the same 50% available bonus as it is outside the node.

With regard to his estimate of units, Mr. Shook said it was pegged to an expectation of delivery in the future if current policy were made to work.

Mr. Wagner commented that the node is only a quarter mile according to the Comprehensive Plan. The assumption is made that someone will only walk a quarter of a mile. Mr. Ferris said a quarter mile is only a ten-minute walk, and that is certainly a walkable distance to get to a transit station. Expanding the walkability to half a mile would involve a substantially greater catchment area in which some of the incentives could apply. He suggested the definition of the node should be broadened.

Mr. Kattermann added that the research done as part of the light rail best practices study indicated that most people will walk ten minutes to a light rail station and five minutes to a bus station. Of course, much depends on the walk conditions relative to good sidewalks, lighting and grade.

Ms. MacFarlane said she saw consensus with regard to expanding the current Bel-Red node definition from a quarter mile to a half mile. Mr. Kattermann suggested the approach should be considered for more than just the Bel-Red area.

Mr. Ferris also suggested that when recalibrating and expanding the density program, consideration should be given to increasing the FAR and the affordable unit percentages. Ms. MacFarlane said the high-end estimate of 25 units per year is based on the assumption that the number of affordable units would be increased to 15 percent through various approaches.

Mr. Shook asked if fees in-lieu have to be offered as part of the density program for affordability. Mr. Sullivan said jurisdictions do not have to offer the option. Most cities on the Eastside allow applicants to propose a fee in-lieu that can then either be accepted or not by the jurisdiction.

Mr. Ferris said he was encouraged by the traction the Bel-Red area is getting and said the incentive there appears to be calibrated to where it is being used. It is always more palatable to offer incentives rather than requirements. Seattle had incentive zoning in specific areas but the approach was not being utilized, so they are in the process of moving to a mandatory system that requires performance in the form of affordable units or fees in-lieu. Under their new approach, all affected zones are given a lift in development capacity. The mandatory approach should at least be included in the discussion for Bellevue.

Mr. Wagner suggested that however the $40 to $45 per square foot residual land value was determined, the range is about right. He pointed out, however, that allowing additional FAR as an incentive will not always achieve the desired result because a lot of FAR cannot be used in podium structures, especially in an area that has a 75 percent maximum impervious surface limit, which all of Bel-Red has. FAR is certainly part of the solution, but often only a small part. Working with the maximum of 9000 square feet on the top floors of a tower structure, and with the wedding cake shape below, it is possible to achieve an FAR of about 1.2. It is more affordable in some models to not include affordable units at all and to not utilize the FAR incentive.

Mr. Shook noted that as previously discussed, performance housing can only be addressed either on the cost side or the revenue side. FAR is clearly targeted at the operating side of the equation in that it enhances revenues. The multifamily tax exemption program also serves as a subsidy on the operations side. Affordable units are not counted toward the maximum FAR, and the city offers waivers for impact fees for units aimed at the lower incomes. He asked what else is needed to make projects less costly to build or to improve the operating side.

Mr. Wagner encouraged the group to look at the code section relative to the maximum gross square footage per floor. Under 40 feet of building height, up to 75 percent of the site can be covered. For buildings taller than 80 feet, the floors between 40 and 80 feet of height must be smaller, and they must be smaller yet above 80 feet. Podium buildings are 80 feet tall maximum and can have the larger floor plates for the entire building. The vision is to avoid big blocky buildings.

Mr. Sullivan agreed that there are things besides FAR that impact the envelope of a building, and those things can get in the way of the bonus offered in the form of FAR. In the 90s when the city was offering bonuses for affordability, some of the setback and coverage requirements were relaxed to make sure the bonuses offered for affordability could be accommodated. Mr. Wagner said the gross square foot per floor caps are reached before a project is limited by the FAR caps. He said he understands the aesthetic need for non-blocky buildings, but added that it is very difficult to get through design review with what is called a donut solution in which buildings face outwardly on all sides and have a plaza in the middle. Design review calls for views into the plaza. Taking two units wide times five stories tall in three places accounts for the affordable.

Mr. Schrag suggested the comments being made were from the perspective of the developers. He said it would be a good idea to seek out developers who do affordable units all the time and ask them what they would say needs to be done in Bellevue to accomplish affordable units.

Mr. Ferris noted that the parking requirements are reduced relative to distance to the node, and reduced for studio apartments that are affordable at 50 percent of area median income. In transit-served areas, the parking demand is at best 0.75 and is heading down. It is a shame to have a code that requires more parking than what is needed and which will become obsolete in a few years. Assuming all architectural requirements can be met, it is possible to build with wood up to 85 feet. That can accommodate levels of parking above grade and is commonly used in Portland and other places. Ground floor public uses are generally included. Outside the nodes in Bel-Red, the maximum height is 70 feet, so the allowable height would need to be changed to accommodate the five over three structure approach.

Addressing the topic of the multifamily tax exemption, Mr. Shook said it is an approach that allows cities to exempt the residential portion of new multifamily construction projects with more than four units. The exemption runs for a period of 12 years. Projects must deliver at least 20 percent of their units at no greater than 100 percent of area median income under state law. Bellevue's current program calls for ten percent at 50 percent area median income, and ten percent at 70 percent of area median income in Bel-Red, and ten percent at 60 percent area median income and ten percent 70 percent in the downtown, Eastgate, Crossroads and Wilburton. An additional Bellevue requirement is that 15 percent of the total number of units in the multifamily tax exemption project must have two or more bedrooms.

Ms. MacFarlane said the Bellevue MFTE program was adopted in June 2015 and has not been used to date. When plugged into the preliminary model to consider the tradeoffs between the cost of forgoing market-rate rents in the affordable units and the benefit of not having to pay property taxes on those units, it became clear why developers are not using the program. As currently calibrated, the program is not providing an economic incentive. Mr. Shook clarified that the model looked at the program alone rather than in tandem with other approaches. The program is an excellent tool that everyone wants to try to get right, but how all the pieces fit together is something that has yet to be figured out.

Ms. MacFarlane said the calculations show that up to 100 units per year could be achieved if developers were to take advantage of the multifamily tax exemption program at the same rate Seattle developers use the program. Between 2011 and 2015, about 78 percent of the multifamily units in Seattle were in projects that were part of the multifamily tax exemption program.

Mr. Walter said the challenge lies in the fact that the program runs for 12 years. If 100 units are developed annually, in 12 years 100 units will be lost annually. It will be even more difficult in 12 years to replace the units that will be lost. Multifamily tax exemption units are essentially temporary.

Mr. Ferris said the multifamily tax exemption program is sanctioned by the state, and the exemption cannot be extended for longer than 12 years. Mr. Sullivan pointed out that some cities have longer-term requirements associated with the program. Mr. Ferris said it is one thing for a city to say it will allow the program if the units are kept affordable for 20 years and quite another to make the projects pencil out under that scenario. The bonus incentive in Bellevue runs for 50 years and when combined with the multifamily tax exemption affordability can be extended and the lower economic value blow up front can be softened.

Mr. Sullivan explained that in modeling and designing Bellevue's program, how much the rents were being asked to be reduced annually were weighed against how much property tax exemption was being offered. In the end for every dollar of rent reduction earned a $1.30 in tax savings. Rents have changed but the theory behind the program remains. Mr. Shook said the approach he took was essentially the same. Where value is offered, it should be commensurate with the public benefit ask; a slight tilt in the direction of the developer is needed to make sure the program will be used.

Mr. Depew asked if increasing the area median income target would result in seeing the multifamily tax exemption being used more. Mr. Shook said it is too early to reach that conclusion. The multifamily tax exemption is one of the instances in Washington State where governments can effectively deliver subsidies to market-rate projects cleanly.

Mr. Ferris said he has used the multifamily tax exemption program in Seattle, Tacoma and Eugene since it first became available 20 years ago. The higher rents go, the less favorable the program becomes, especially where the median income does not go up at the same pace as rents. The program is unlikely to be used to address the 50 percent to 70 percent of area median income goal. Seattle is at 65 percent for studios, 75 percent for one-bedrooms, and 85 percent for two-bedrooms. The program is being used in Seattle, though less so as rents have gone up. Seattle recently instituted the 45 percent of area median income for very small units, but developers are not building them anymore, and they certainly are not using the multifamily tax exemption because what is given up in rent is not fully compensated by the tax program. He said he would rather err on the side that encourages production. Seattle calibrates their program by first seeking input from the development community every three years about what will work. Bellevue should do the same.

Mr. Shook said there are varying views on the issue of what the right subscription rate is. Some argue that every project should include affordable units, while others say the units should be targeted only for the most vulnerable. What Councils always wrestle with are the fiscal impacts of the multifamily tax exemption tool. Washington has a property tax system that gives little discretion to local jurisdictions to issue de facto property tax exemptions. In other states, taxes collected are predicated on the tax rate and assessed property values, and where there is less assessed value, the tax revenues are lower. In Washington, there are limits set on the levying of property taxes, thus they can grow only one percent annually plus the value of new construction. The multifamily tax exemption results in a fairly small tax hit for cities by essentially delaying the new construction amount. The argument has been made, however, that the multifamily tax exemption program has helped create projects that would not otherwise have happened, and the net result has been an increase in taxes via sales tax and increased local spending coming from the residents of those new units. The opposite argument has also been made, that costs rise faster than revenues and cities face a net negative. He said his opinion was that cities experience either no hit or a slight positive increase as a result of the multifamily tax exemption program.

Mr. Depew noted that the multifamily tax exemption program exempts property taxes for a period of 12 years. During those years, jurisdictions give up some money to further their housing agenda, but once the exemptions expire the tax rolls increase again. If the units are to be retained for the long term, the subsidy will need to be extended, something that would need to be done at the state level. It is the public that gives up some opportunity costs in exchange for a public benefit; it is not the private sector that gives up anything.

Ms. Glasby noted that Redmond's mandatory housing affordability requires ten percent of units to be affordable. The requirement for some affordability would seem to make the multifamily tax exemption program more encouraging. Ms. Lewine said that is the logic in Bel-Red where the expectation is to get to seven percent through the FAR incentive. The hope is that the multifamily tax exemption will layer with the FAR incentive and achieve a higher percent of affordable units. It is, however, an incentive rather than a requirement.

Mr. Shook pointed out that in Seattle where there is mandatory housing affordability, the same units cannot be counted for the density bonus and the multifamily tax exemption program. The policy in Bellevue currently is that the same units can be counted for both programs.

Mr. Wagner asked if there are variations on the exit plan that allow for adjusting to a different percentage after the 12 years is up to keep units affordable. Mr. Shook said there is state legislation that is looking at using a variation of the multifamily tax exemption program as an operating subsidy for preservation. Mr. Sullivan clarified that the state MFTE law does not say the affordability period has to equal the exemption period. The question is whether or not it will work that way where a one-time density bonus is given in exchange for what hopefully will be long-term affordability. Kirkland has a mandatory affordable housing requirement that is based on the value of both the density increases that went with the rezone and the multifamily tax exemption for the property. The combined value of the two together is calculated to determine the affordability. The redevelopment of Park Place that is under way will have ten percent of the units affordable at 50 percent of area median income. The project received a rezone and is taking advantage of the multifamily tax exemption. The affordable units will remain affordable at 50 percent of area median income for the life of the building.

Mr. Wagner stressed that under the 12-year program, the affordability solution will only last half a generation, and it will be necessary to come back to the table to determine another solution. Mr. Ferris said the original theory was that a 12-year-old building does not command the same rents as a new building; the thinking was there would be some level of natural affordability once the program expires for a development. The argument could be made, however, that where buildings are located in areas well-served by transit, the rents, while possibly lower than in new buildings, will still creep up above the affordability limits.

Mr. Sullivan suggested the issue is actually more complicated. The program was originally designed to be a de facto way to do tax increment financing. It was not until five years ago that there was an explicit affordability requirement linked to offering the multifamily tax exemption program; the program was initially designed to increase housing development overall. What has clouded the whole conversation is the legislation being more explicit about the public benefit of affordability and the need to encourage it.

Mr. Schrag said the city has available to it a number of good levers that can be pulled. Some will work for only 12 years, but others will work for the longer term. It is better to capitalize on the currently available levers to address the short term, and then to look at other options that will gain units over time.

Mr. Hoffman said there has been a conversation with King County regarding the 12-year multifamily tax exemption time limit and the possibility of extending it and linking it to the transfer of development rights (TDR). The focus has been on using the value of the multifamily tax exemption as the purchase value of the right to take the units to market.

Mr. Wagner said the idea is intriguing. He noted that there are developers out there who have been collecting TDRs for years and have millions of square feet looking for a home.

BREAK

Mr. Kattermann brought to the table the definition of micro-units. He explained that in addressing the issue, it has become clear that there are different ways to define what a micro-unit is. The city currently allows very small units when FAR is used to calculate density. He asked the TAG to assist with creating a clear definition for what a micro-unit is, and to discuss how to approach micro-units in terms of providing affordable units.

Mr. Wagner said the big discussion in Seattle over micro-units has been over whether or not they have kitchens and bathrooms. He said his belief has always been that a living unit should have at a bathroom and a least a kitchenette. The choice for many is between living in something they can afford and living in their car. Given that extreme, one can be fairly tolerant as to what constitutes a living unit. One problem developers run into is that all bathrooms must be barrier free, which means they must be at least a third larger than the bathrooms most people grew up with in their homes. Additionally, under the International Building Code, the minimum unit size is 180 square feet, counting only the living spaces. When closets and the bathroom are added in, the total comes to somewhere around 280 square feet. Given those restrictions, the limit on micro-units should be 300 square feet.

Mr. McEachran said as his university daughter moved from the freshman dormitory to the next levels of dormitory, he said he reached the conclusion that he could live in the units very comfortably, even though they were not very large. As between living in a dorm room-style unit and a car, he said he would choose the small unit.

Ms. MacFarlane said she was hearing that micro-units should be defined as being self-contained with a bathroom and some form of cooking space.

Ms. Water commented that so-called tiny houses are becoming very appealing to a lot of people. They are drawn to housing that incorporates a very efficient use of space. He said his daughter and her husband have an apartment in Portland that is only 330 square feet. It includes a balcony of some 80 square feet that is ADA compliant. They love their small unit as it was exactly what they were looking for.

Mr. Schrag pointed out that a lot of seniors live in fairly small places that include a bathroom, a microwave and a sink, and a community area down the hall. The units are generally affordable and offer a good option for seniors.

Ms. Loveall Price said it was her understanding that the pushback around micro-units has been in regard to an increased density of people with place to park their cars. She suggested that unit size is a personal decision, but parking has external impacts. Mr. Shook allowed that that has been part of the conversation. Housing needs to be thought of as a continuum, and more options can be created by considering what constitutes a housing unit. The conversation must, however, cover whether or not certain life/safety/livability standards need to be adhered to in bringing micro-units online. In Seattle, the consensus has been to draw a line to avoid going too low.

Mr. Sullivan agreed that what constitutes a unit is a key issue. Originally micro-units did not include kitchens as a way of getting around the building codes and land use codes. He said he was hearing the TAG say micro-units should be fully contained. Still to be addressed is what areas the units should be allowed in. In Seattle there are neighborhoods like Capitol Hill that have a mix of single family and multifamily; the same is not seen much in Bellevue. To date, the micro-unit product type has occurred in East King County in multifamily zones. In those areas, the issue is more of a building code issue than a land use code issue. The single family rental issue occurring in the neighborhood near Bellevue College was essentially a morphing of single family homes into a product type that was closer to what constitutes a shared-kitchen micro-unit, which is a land use issue. He suggested the TAG should define the type of product it envisions as a micro-unit, and in what neighborhoods the product should be allowed. That conversation will inform the kind of issues that will need to be addressed.

Mr. Kattermann pointed out that the potential action has already been clarified as focusing on zoning and building code provisions to accommodate single-room occupancy units or mini-suites, otherwise known as micro-units, in multifamily zones. That defines where the units should be allowed. Parking is an issue the Council raised regarding micro-units in terms of what the right ratio should be and what the external impacts might be.

Mr. Hoffman stated that no one in his organization would classify what has been going on in the Spiritwood neighborhood as micro housing without making an ultra-liberal interpretation of the definition.

Mr. Martin agreed. He stated that while the Spiritwood example is clearly not micro-housing, it is clear there is a market for that unit type. He said he would not require having a kitchen in every unit.

Mr. Depew suggested micro-units should be treated as a land use issue. One reason the issue is still undecided is that within the housing continuum many have been dealing with SRO conversions for a long time, none of which was ever thought of as meaningful housing. Micro-units do not really fit into any box, other than affordability. However, even from an affordability standpoint things are not crystal clear, because on a per-square-foot basis, micro-housing is as lucrative as any housing type that is built when compared on a rent-per-square-foot basis.

Mr. Walter asked if there is any appetite on the part of the Council to try some of the various options, including micro-units. He said he could envision a 100- or 150-unit building in the downtown with 300-square-foot fully contained units and zero parking. The product would attract people who do not own a car.

Mr. Hoffman agreed. He said micro-units are by their very nature transitional. The market segment that is looking for that type of housing includes people who are looking for something that will accommodate them for a season of their lives before they move on to a different job or a different city.

Ms. Glasby said she is involved in building senior housing where the square footage ranges from 325 square feet to 400 square feet. She said she would not, however, call the units micro-units.

Mr. Walter pointed out that most rental housing is transitional, which is evident by the 40 percent to 60 percent turnover rate. Rental housing accommodates baristas, restaurant workers, administrative workers and others whose incomes are on the lower end. Ms. Loveall-Price agreed and noted that micro-units fit those who do not want to be cost burdened, particularly in urban areas where the residents do not need to own a car. Many could afford market-rate rents if they could reduce their other costs. Mr. Hoffman pointed out that one of the factors in favor of micro-housing is that they do charge market rents.

Mr. Orbino said land values, construction costs and other factors dictate the charging of market rates for the units. It may not be less expensive for a single person to occupy a micro-unit than for three persons to share a house. Mr. Walter noted that most people do not want to share their living space with others.

Mr. Hoffman suggested it would be useful to get some data from the Kirkland project. Mr. Sullivan said that project was brought online as a pilot without a code change.

Mr. Sullivan said the Pacific Inn project, for which the city provided financing 20 years ago, came fairly close to the micro-unit definition. The studio units are all under 300 square feet and the project has very little parking. The builder favored converting old hotels to SROs in suburban areas. Another question to ask is whether or not the five-bedroom, shared kitchen, student-type housing product should be allowed by the code. The model is common in college towns.

Mr. Walter commented that how things are referred to can bring up certain connotations. Units with 80 square feet per person are much more efficient from a sustainability and footprint-on-the-environment standpoint than one person per 400 square feet. Called an eco-unit, they might be viewed favorably.

Mr. Hoffman suggested the conversation should include various requirements. For some zones, it might be appropriate to require a kitchen in each unit, while in other zones a shared kitchen might be appropriate. In some zones, lower parking ratios, or not parking at all, may be appropriate.

3. DIRECT & INDIRECT PUBLIC SUPPORT

With regard to the notion of establishing an affordable housing property tax levy, Mr. Shook said such a levy would require a simple majority on the part of voters. State law allows for enacting up to $0.50 per $1000 of assessed value. However, Bellevue is statutorily limited to an aggregate levy rate of $3.10, which has not been reached, leaving capacity for other levies. A $0.10 levy would raise about $30 million over seven years. Housing levy funds are typically used as a source of leverage to bring additional resources to bear on qualified production and preservation projects. At a leveraged rate of three-to-one, and with a per-unit cost similar to Seattle and Portland, $30 million over seven years could produce between 100 and 500 affordable units.

Mr. Shook said Seattle recently decided to use part of its bonding capacity and reprogramming the funds to housing. The approach is permitted under state law provided the funds are targeted at housing affordable at 80 percent of area median income or below. Bellevue has sufficient debt capacity, both voted and councilmanic, to allow the Council to make choices to support affordable housing in that way.

Ms. Glasby noted her full support for a housing levy. She said capital is the biggest challenge in creating affordable housing and a levy could have the biggest positive impact in Bellevue.

Mr. Wagner asked what the demand is in Bellevue for rents at 30 percent of area median income. Ms. Lewine said that is the biggest unmet demand. Some of the 80 percent of area median income demand is being met by the market in the form of older housing. Mr. Kattermann said nine percent of the population falls into that income level, but only three percent of the housing stock is affordable to that demographic. Mr. Walter said King County Housing Authority has thousands of people on the Eastside on the rent-assistance wait list. If the capital costs could be covered, the rents could cover at least the basic operations. Rents alone at 30 percent of area median income are not sufficient to cover everything.

Ms. Lewine pointed out that half of Bellevue's workforce is earning 60 percent of the area median income or less.

Mr. Sullivan said Bellevue has over the years spent its money on a range of housing types and affordability, including for seniors over 55. The majority has been for families. The city has specific goals for serving the homeless and those with special needs. Mr. Depew said the team had made no attempt to show a basic operating pro forma of housing. Whether units are affordable or not, they still cost a comparable amount of money. On the operating side, there are also costs associated with managing the units, including insurance, maintenance and property management, that are consistent with market-rate units. Constrained rents are simply not sufficient to pay the expenses of operating the units, so there has to be some form of subsidy to offset the costs. In the affordable housing world, there are more funds available for capital subsidies than for operating subsidies.

Ms. Glasby said her organization has more than 2600 persons on its wait list on the Eastside. There is a clear need for affordability at all levels below 60 percent of area median income. The most desperate need is for affordability at and below 30 percent of area median income

Ms. Sato said it would be difficult to prioritize one type of housing or affordability over another. While it would be good to address all levels of affordability, there is a clear need to address the 30 percent of area median income and below category. Creating flexibility around workforce housing at 50 percent to 60 percent of the area median income can potentially allow for looking at projects where the higher area median income percentage can subsidize operations. Seattle looked carefully at what it could achieve through a levy, but the difficult reality is that the subsidy sources are not there in match step. There is also a great deal of uncertainty around what is going to happen with the Section 8 program, which is so vital to addressing the 30 percent of area median income category.

Ms. MacFarlane said the most recent Seattle levy requires 60 percent of funds for new construction be targeted at families below 30 percent of area median income.

Mr. Sullivan said East King County has objectives but not hard and fast numbers because of the desire to leverage funds. Seattle gets certain resources the Eastside would like to use because their projects have to have things like the nine percent tax credit. He urged the group to recommend not to recommend hard and fast numbers but rather to focus on a more open approach.

Mr. McEachran pointed out that Imagine Housing is working to provide up to 61 affordable housing units for seniors in Kirkland that will be affordable at 30 percent, 40 percent and 60 percent of area median income. The approach to focus on a mix of affordability is laudable. There is a clear need to be bold in moving forward.

Mr. Walter said a levy of $0.10 per thousand of assessed value would work out to about $4 million per year. He said for King County Housing Authority $4 million available for debt service would allow for borrowing some $80 million. He explained that the rents charged by the King County Housing Authority only covers about 65 percent of all costs, so it takes an additional 35 percent in gap money. If the $80 million were targeted only at the gap, property totaling close to $240 million could be obtained. Layering in tax credits and other options to get the cost to $275,000 to $300,000 per unit, $240 million would represent a thousand units of what could be permanently affordable housing.

Mr. Schrag agreed that marrying taxpayer dollars with land owned by churches or the public, which might be available at a decent price, could result in a clear win in the form of housing that would be affordable for the long term.

Mr. Depew noted that the multi-forma analysis showed a positive utilizing the podium-style of development at about $70 to $90 per square foot for the land. If the land could be obtained for less, or for nothing, the cushion could go toward increasing the number of units and/or affordability.

Mr. Hoffman said the question of whether or not the city should have a housing levy is predicated on how serious the City Council takes the need for affordable housing. If they take it seriously, they should definitely consider a levy. At the very least a levy should be considered and fully discussed with the community. He said his organization supported the Seattle housing levy.

Mr. Martin said his organization supported the housing levy in Seattle even though it did not help out the membership. The levy resulted in a rent increase for tenants, but there is a clear need and the dollars being raised will go to meet the need. There are some ways the housing levy dollars could be spent more effectively without creating a long-term expensive burden that will need to be funded.

Ms. Glasby said she would be happy to provide any kind of information regarding the economic and employment benefits of affordable housing for the region.

Mr. Wagner suggested the question of where affordable housing will be provided will need to be answered in order to mitigate the political impact. The question of where must to a large extent be addressed by indicating where the most affordable land is and where affordable housing projects will provide economic benefits for specific neighborhoods. Mr. Kattermann pointed out that currently there are affordable housing units located all over the city, which is something most neighborhoods do not understand. Much of the affordable housing is not even recognized as being such.

Ms. Loveall-Price agreed with the need for more resources. Most deals that get modeled simply do not pencil out. She suggested, however, that should the city go forward with a housing levy, it likely would fail in the current climate, and the upshot would be hate and discontent on the part of those who are not educated with regard to affordable housing, most of whom would think projects would get built in their backyards. There is a clear need, but pushing something that could be fraught with peril could trigger the loss of other opportunities, like bonding against revenues from the city and use of existing land.

Mr. Walter disagreed. He suggested there has never been a time when the need for affordable housing has been clearer. If a levy were to fail, the next step would be to determine why and try again. If put out there, there should be clarity around exactly what the levy would yield.

Mr. Kattermann agreed that whether or not a housing levy would pass is something the Council would need to carefully weigh.

Mr. Depew said no attempt was being made to throw out ideas just to throw out ideas. The goal of the TAG effort is to figure out how over the next ten years Bellevue can create 2500 new affordable units over a continuum. It is known from a number of actions that some of the units will require tinkering with the code, some may be achieved by better utilizing public land as a source, and even so there will probably still be a gap that will need to be addressed through additional resources. Over the course of the last year, more and more cities across the country have gone out with their own housing bond measures. It will not, however, work if there is no clear identification of the problems that need to be solved.

Mr. Kattermann noted that in both the community survey that is conducted annually, and the business survey that is conducted every two years, affordable housing rated very high. It is an issue that clearly is on the radar. It is also clear, however, that how the package is put together and presented will be very important.

Mr. Wagner pointed out that the Council has already taken four specific positions, but it is unlikely that most Bellevue residents know that. The policies are in place, but there has as yet been no buy-in. Ms. Loveall-Price agreed and said that points out the need to be very strategic in how to get to yes. If the city is going to be bold, it will need to get out in front of the issue.

Mr. Sullivan said ARCH is having a similar conversation with its membership cities. The starting question was focused on how much, and that was followed by the how question. The resulting discussions relative to how was not limited to a property tax levy. Given the tax structure jurisdictions must adhere to, the levy is seen as a valuable tool for other needs as well. There are other tools and sources of revenue available to cities. All options should be retained as part of the conversation going forward.

Mr. Walter said the reality is Bellevue has some 20,000 residents who vote. Most of the large buildings in the city are owned by outside interests, though they pay the bulk of the tax revenues. It is probably possible that more than half of Bellevue's voters would vote for a housing levy if they knew that about 70 percent of the revenue would be generated by those who do not live in the area.

Mr. Kattermann noted that much has been said by the TAG and other groups about taking bold steps. He suggested a housing levy would be one such bold step. He asked what other bold steps could be suggested.

Mr. Walter said mandatory affordability would be one. The approach is the only other way to get permanent affordability. There will either be non-profit or public ownership involved, or there will be mandatory affordability. Trying to incentivize affordability is difficult and clearly does not always work.

Ms. Glasby suggested using a combination of mandatory affordability and incentives to do more. She stressed that there is no better time than the present to do a housing levy, because housing prices are high on the minds of nearly everyone.

Mr. Hoffman agreed and said that was the reason the Seattle housing levy was approved by such an astonishing percentage. Housing unaffordability is headline news nearly every day in the area.

Mr. Kattermann said he did not know what the Council would say in regard to a housing levy. The fact that the Council put forward two levies recently, one for transportation and one for fire, could be interpreted as meaning the Council is at least willing to consider the approach.

Mr. Depew said much will depend on the degree to which the citizens believe the city has a role to play in the provision of affordable housing. The populace is clear in thinking the city has a role in transportation. If the public does not see housing as something the city already does, they may not be inclined to support a housing levy.

Mr. Walter suggested that to a large extent affordable housing is a marketing issue. The city is trying to attract high-wage workers to the local tech industry, all of whom will want amenities in the form of gyms, entertainment and restaurants that in turn require lower-wage employees who will also need housing they can afford.

Ms. Sato agreed. She pointed out that the teachers in Bellevue's schools cannot afford housing in Bellevue. Marketing the city will be more successful if there is a range of housing affordability available.

Mr. Schrag suggested the Council needs to be considered as part of the bold plan. Some on the Council are not going to want to fight for taxation, so they will need to be convinced. A unanimous Council holding out a solid plan will help convince the voters to come along. He suggested that a housing levy will be necessary in order to leverage properties and the financing that will be needed. It will be far less expensive to build new housing units sooner rather than later.

Mr. Walter said he recently attended a roundtable discussion where the Bellevue Collection Tower 4 was presented. The rents the development will command were absolutely shocking; the penthouse will rent for $24,000 per month plus dues. He said he asked where the clerk who works in store, and where the custodian who maintains the facility, will live. No answer was given, other than to say that 850 new units are being opened just to the south of Bellevue Square that will rent for $2400 per month. There is a clear need to educate that group of people.

Mr. Kattermann asked the TAG members to continue thinking about bold steps in anticipation of continuing the conversation on November 29.

Regarding potential action D-5, Ms. Lewine raised the possible action of partnering with other agencies to provide affordable housing in transit-oriented developments at light rail and other transportation stations. She suggested the agencies that would encourage transit-oriented development partnerships are probably not housing agencies. There are existing means by which to accomplish the goal. The city has a Memorandum of Understanding with Sound Transit for the two Bel-Red stations. The Regional Equitable Development Initiative (REDI) is a financing tool designed to promote equitable development within transit communities. The King County hotel/motel tax revenues present an opportunity for transit-oriented development, and the passage of ST-3 represents another opportunity to fund affordable housing. The TAG members were encouraged to consider the opportunities of these partnerships for transit-oriented development that includes affordable housing- and to suggest others.

Mr. Kattermann allowed that the proposed action to partner with other agencies is fairly broad. He noted that the city is already working with Sound Transit and asked the group to highlight any other agencies or entities the city should seek to partner with. He allowed that the list could include non-profits.

Mr. Depew pointed out that King County Metro is a separate entity from Sound Transit. It has its own park and ride system, including the Eastgate park and ride.

Ms. Glasby suggested including the school district and Bellevue College.

Mr. Walter commented that one alternative to developing housing near transit would be to make sure transit serves the areas where there already housing that is more affordable.

Mr. Orbino suggested that in addition to working with other agencies, the city should be aware of other organizations and how what they do could impact the city's mission. He noted that he serves on a land conservancy advisory board for King County that is looking at a ten-year plan to acquire 5500 parcels totaling 66,000 acres, much of which is in municipalities. The idea is to keep the land permanently as open space. By working together, the various groups can avoid undermining each other.

Mr. Walter commented that organizations that are seeking to acquire land for preservation purposes may be open to land swapping opportunities where it would benefit them, and the same could benefit the goal of providing affordable housing.

Answering a question asked by Ms. Loveall-Price about the veterans and human services levy, Human Services Manager Emily Leslie said the issue needs to be factored in. The levy is up for renewal in 2017 and there has been a lot of discussion about substantially expanding it and including many other things, including affordable housing.

NEXT STEPS

Mr. Kattermann said some additional potential actions would be discussed at the meeting on November 29.

ADJOURN

The meeting was adjourned at 4:03 p.m.