CITY OF BELLEVUE
AFFORDABLE HOUSING
TECHNICAL ADVISORY GROUP
MEETING MINUTES

November 29, 2016 — Bellevue City Hall
1:00 p.m. — Room 1E-112

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

1. MEETING PURPOSE

Senior Planner Mike Kattermann called the meeting to order at 1:06 p.m. He briefly reviewed with the TAG the purpose of the meeting.

2. BOLD ACTIONS

Mr. Kattermann outlined the materials included in the packet and stressed that the affordable housing strategy report was a rough draft only that is still being refined. He informed the group that he and Planning Director Dan Stroh recently briefed Mayor Stokes and Councilmember Robinson with regard to the progress made to date on the project. The briefing included a heads up that the TAG is working on some bold actions. He also stressed that the running tally of potential affordable housing units was very preliminary and said the numbers for each potential action may go up or down as the details get refined.

Mr. Wagner said he appreciated the fact that the report highlights the big ticket items but questioned how all the things that could go into a long-term solution might be also be highlighted. Mr. Kattermann said none of them will be forgotten. He allowed that the report will likely stress the things identified by the TAG as bold actions, but all of the actions identified will be included in the report. Mr. Wagner said he would like the introduction to the report to clarify that there are a number of items that can contribute to the total beyond just the bold actions. Mr. Kattermann said he would make the point in the document. He said he has stressed to the

Council throughout the process that there is no silver bullet and that it will take multiple actions over a sustained amount of time to make a difference.

Mr. McEachran said he liked the term “collaborative boldness” as a way of indicating it will take individual actions to make an overall difference. The Council at its recent meeting was clear in indicating that Bellevue needs to set a pathway forward in leadership for the Eastside, and in indicating it is willing to put forward funds to accomplish the goals.

Mr. Wagner agreed and said it was good to hear the Council say they want to step into a leadership position. Many other jurisdictions are studying the same topic and in many cases are ahead of Bellevue, and it is encouraging that Bellevue wants to assert a leadership role.

Referring to A6 and B4, Mr. McEachran asked who will approach the listed owners, particularly the owners of dying faith community properties, to become partners in providing affordable housing. Mr. Kattermann said that is something that will need to be determined. He said he was aware that with regard to the faith community property, some non-profits have already been approached. He said he has also received some questions from the public. It may be tied to the partnership action, which does not have as high a profile because it is difficult to quantify.

Mr. Ferris commented that B4 as previously drafted and sent to the Council mentioned only faith-based and public properties. He asked if that has been modified to include properties already owned by non-profits. Mr. Kattermann said the non-profits were previously considered in the category of public ownership. What is different is considering potential rezones and upzones to add capacity. The school districts that have properties in Bellevue have also been approached and neither is interested in designating any of their properties as surplus.

Mr. Wagner commented that in other cities attempts have been made to link school districts with union funding for teacher housing. To date there have been no successes.

Mr. Ferris said in Bellevue there are many retail establishments that have a sea of parking associated with them. Some of them are suffering financially for various reasons, including the fact that auto-dependent shopping centers across the country are having problems as the cities they are in have evolved to higher densities. He suggested those sites should at least be considered for redevelopment with a housing component.

Answering a question asked by Ms. Jordan about the response of the school district regarding their lands, Mr. Kattermann explained that because the districts need more schools they are reluctant to make any of their lands available for any use other than a school at this time. Ms. Jordan said the school district appears to have no interest in revamping the old Ivanhoe school site, which is too small to accommodate a new school. The property would be a great location for affordable housing.

Mr. Wagner asked if the franchise utilities were included on the list. Mr. Kattermann said they were included in the initial look, but no properties were found that were available or that could be surplused.

Turning to the proposed action B2, credit enhancements and city bonding, Mr. Depew explained that under state law the city is allowed to go to the voters asking them to tax themselves for a certain amount of money to be used to provide affordable housing. Some communities have gone that route. Also available is the option of using the city's debt capacity as an alternative to going to the voters, and housing is an eligible use for such funds. Seattle recently reprogrammed $29 million from its CIP to advance housing projects, and the funds came from the city's bonding capacity.

The city could alternatively serve as guarantor for some other entity seeking funds for housing purposes. The other entity could be another government, a non-profit, or alternative lenders focused on affordable housing. The advantage of acting as guarantor is that the city may never have to act on its guarantee, and if it did, it would still cost the city less.

Mr. Depew said various states and cities around the country have issued mortgage bonds. Once the government issues debt, it can recycle the proceeds for home mortgages in conventional ways. In some cases involving quasi-municipal agencies, such as a public development authority, the city's guarantee of funds allows them to access the funds at a lower cost. Bellevue is a triple-A rated government institution and can borrow over a 30-year basis at about 3.5 percent, which is a lower rate than a non-profit would be able to access.

Mr. Ferris asked if the amount of debt guaranteed by the city would count against the city's debt capacity. Mr. Walter allowed that it would. Mr. Depew agreed but pointed out that it would only be for the obligations made, not the cumulative amount.

Mr. Walter said King County has a credit enhancement program in place in the amount of $200 million. If they were to have a commitment for $100 million of the $200 million, they would have to count $100 million toward its total debt capacity, even though the county would have no money out of pocket. The utility of the program is limited because of the way it is structured, which was set up specifically to buy down affordability.

Mr. Ferris suggested one thing that should be looked at is how the city could act to complement what the county program offers. One of the challenges for non-profits is that they must provide tax credit guarantees and other loan guarantees. If they could have the city standing behind them with a loan guarantee, they would be able to do more work that then could take advantage of the King County guarantee. Mr. Walter said the real hidden value of loan guarantees is a conduit to capital markets non-profits cannot otherwise access. The tool is not uncommonly used in the private commercial world via letters of credit from triple-A rated lenders who guarantee to make a payment should the borrower need it.

Mr. Sullivan commented that FHA has a tool that does essentially the same thing. Mr. Walter said the problem is that in order to do an FHA deal, even with an affordability overlay, it is necessary to be at a 1:17 coverage ratio. Absent some other gap financing, it is impossible to get there.

Mr. Ferris said he does a lot of FHA loans with 40-year fixed-rate mortgages backed by the federal government. FHA does not require a completion guarantee, though there is a lot of bureaucracy involved. For someone doing a tax credit deal, even with an FHA loan to back the mortgage, it will still be necessary for them to get tax credit guarantees from the tax credit investor. There could be other guarantees required as well that typically serve as constraints to non-profits that have limited credit resources to draw on. To the extent the city could provide some of those guarantees, the non-profits would be given more leverage.

Mr. Depew said the three options open to the city for stepping up with cash are a levy, using its debt capacity, or serving as guarantor. If the Council determines it wants to step up financially, the next move will be to delve into the micro details about how the various efforts might work.

Mr. Ferris said a levy could provide the equity gap that is needed, whereas the city borrowing capacity tool allows for borrowing at a lower rate. The county program does not allow for closing the gap, and the FHA loan still requires a 1:17 debt service coverage. Mr. Depew said a guarantee marginally affects the financial gap in projects. The city using its own borrowing capacity is effectively the same tool as a levy, the aim of which is to generate cash.

Ms. Glasby said she has used the credit enhancement tool in the past. It is a good tool that buys down the cost of debt, and it helps organizations with their balance sheets. In order to finance a $50 million or $100 million project, it will take some credit enhancement. However, even with rates reduced and debt lowered with better terms, there is still a need for capital or equity up front. Mr. Depew said one option is a guarantee that helps to fill the gap, and the other is the city using its borrowing capacity on its own.

Mr. Sullivan pointed out that with a levy, the funds generated annually have no obligation beyond the year they are collected. With a bond, however, there is an obligation to repay it. So either the property is going to repay the bond, or the levy is going to pay it. Accordingly, bonding should be talked about as a way to provide low-interest money to projects that in turn will need to repay the funds. Mr. Walter said the distinction is that gap financing to make a deal viable involves no net operating cash flow to pay it back. If repaid from the project itself, it might allow access to capital to acquire the property, or might allow for borrowing up a bit for the same amount of debt service.

Mr. Sullivan said Denver has started a loan program where they are loaning money to groups they are bonding and the properties will go to repay the costs of the bonding. Mr. Depew said where the city does bonding, it can choose whether or not it wants the money repaid, and it can choose to simply provide dollars free to a project using its general fund revenues to subsidize the debt. Mr. Sullivan said the question for the TAG is whether or not there is value in bonds for which projects must repay them as the source.

Mr. Walter said one of the challenges associated with the city going out and borrowing $200 million to make available as loans to be repaid is that while the money is sitting there it encountered negative arbitrage, thus the cost to the city is greater than just the cost of the interest. With credit enhancements, the same triple-A rating is involved in getting the capital, but the funds flow in as needed.

Mr. Ferris commented that properties renting at 60 percent of area median income and below only generate so much operating income that can be used to service the debt. The borrower can borrow against the operating income, and can borrow a little more with some of the credit enhancement tools, but they will still face an equity gap. Projects can benefit from credit enhancement in the form of lowered borrowing rates, but there would still be a need for either the city to sell bonds to be offered as grants and repaid out of the general fund, or to have a levy on the ballot where the voters agree to pay more in property taxes in order to support affordable housing. The gap simply cannot be solved just with credit enhancements.

Mr. Sullivan agreed. He pointed out that if through credit enhancement the borrowing rate is lowered, a project can get by with putting in less cash up front. The question is the degree to which there is value in going through all the machinations. Bellevue attempted the approach 20 years ago and spent a lot of money on consultants to work out the details, but in the end interest rates dropped and the housing authority said never mind.

Mr. Ferris noted that the market is in a compressed interest rate scenario currently and there is not a huge difference between what someone can borrow money at and the lower rate that can be achieved through credit enhancements. That will not, however, always be the case. Once the market returns to the more traditional spread where there is 150 basis points between municipal borrowing rates and private borrowing rates, credit enhancement can provide some very real leverage. The pieces need to be in place in advance of when they will be needed.

Mr. Wagner said he has never worked on projects that did not have multiple sources of funding. He said he worked on one specific project that had 11 different funding sources. One of the things funders look for, including what the city would look for, is how to mitigate their risk. That is a path the TAG should go down. The TAG should not ask the Council what it wants to do, rather the TAG should sell the approach to the Council.

Mr. Walter pointed out that the more complicated projects get in terms of funding, the less likely they are to get done. The value of the credit enhancement is that it is relatively easy to do and does not cost the city a penny while opening the door for projects to access capital.

Mr. Depew said no one pulls together 11 fund sources as a way of mitigating risk. The problem is that every fund source only wants to be a small part of the project so they can save funding for other projects. The question is whether or not the city wants to have a fund source of its own that it controls to drive projects. Credit enhancement reduces the cost of funds, but there are only certain projects that it will work for. A project to preserve an existing apartment building could probably use some of its existing cash flow to pay back some of the money. For projects on land already owned by the city, there would be no need for a land payment, lowering the overall costs and allowing for the funds to be used either to drive affordability or as a repayment source. There will be some projects where the funds will simply not get repaid. Each of those project types involves the use of cash. The question is whether or not the city wants to have a pool of cash it can use to drive projects. If the answer is yes, the next question is where to get the cash, and the answer to that question will be to either go to the voters or for the city to use its bonding authority. By having a lump sum of money on hand, the city can drive housing affordability.

Mr. Walter suggested that beyond just the cash portion is the ability of the city to make things possible that otherwise would not be possible. A private owner is not going to sit on an existing apartment building that has good redevelopment possibilities. Where there is a credit enhancement available, the financing piece can essentially be taken off the table and the property can be quickly acquired and then preserved.

Ms. Glasby said if the city were to have a source of funds to be used as a subordinate loan in partnership with credit enhancement, the number of funding sources needed could be reduced. That would help to close the gap, though it would not close it entirely. Mr. Sullivan said that is essentially what Denver is trying to do by offering second-position loans to help close gaps. Ms. Glasby said on bigger workforce projects, there is going to be some cash, but it cannot be hard debt because it is subordinate to debt. There would need to be a way to capture that with a potential future payment and pay it back when there is a refinance.

Mr. Depew added that in a sense that is quasi-equity. In almost every housing fund, the money is provided as supported debt with the hope of getting repaid, even though a lot of the resources will never be repaid. He said he would not want to advise the city to issue bonds with an expectation of being paid back by a project as a way of meeting the debt requirement. Mr. Walter pointed out that from a timing standpoint, even if there is an intention to pay back the funds, someone has to carry the debt service until the repayments kick in, and that could be through levy dollars or the general fund. Mr. Sullivan said that has been the philosophy of ARCH. The pooled funds it has available are general fund dollars from six different cities, and there is no bond issue and no long-term obligation. No one city alone has the funds to do the big projects, but collectively they can.

Mr. Ferris commented that financial subsidies in the form of housing levy money, bond money and credit enhancement have generally been used to produce units for the 50 percent of area median income and under segment. He pointed out that only 30 percent of the housing levy dollars in Seattle are being used for the production of new housing. A large chunk of it is going for operations and maintenance of existing levy funded projects, low-income projects that do not generate enough cash to cover those elements. In looking at a levy option, careful consideration should be given to factoring in more than just production, which makes the per-unit number larger.

Mr. Sullivan said there is only so much nine-percent credit money out there driving the very low-income projects, but there are other needs in the community. The area of enhancements and bonds is something that might well be used to target the middle ground category when combined with other funds. Mr. Ferris said the funds could be used to help buy down the four-percent tax credits for projects in the 50 to 60 percent of area median income range. In moving the issue forward, a small group of experts should get together to talk about how the various elements can be combined.

Mr. Shook said the big idea that should not be lost sight of is the notion that the city should be a driver of housing finance for affordability. A model should be established that will provide a variety of different financial solutions that will work in all the market segments of affordability, all organized around using the city’s financial capacity. Mr. Walter concurred but stressed the idea of keeping it simple. There are two different buckets: one is needed to address gap issues, which is what it costs to make a deal viable, and the other is what the project itself can leverage. Forgoing the 50 percent of area median income units in favor of 80 percent of area median income units, or allowing projects to be just over half 80 percent of area median income and to mix in market-rate units, will increase the cash flow generated, which increases the amount of debt that can be leveraged. Things like inclusionary requirements and increasing density are backdoor ways of addressing the gap issue. Mr. Shook said that is the way he would frame the use of city funds.

Mr. Kattermann said the approach is beyond what the city is currently doing and as such could be classified as a bold action.

Mr. Ferris said he understood the group was talking about two options: selling bonds or having a levy. Mr. Kattermann said the third option would be investing in bonds. Mr. Depew said the third option would involve looking at investing city cash flow in low-yield bonds, essentially choosing to invest in other assets. The approach is far less dynamic than the other two.

With regard to the notion of social investing, Mr. Walter said in a scenario in which the city has $30 million invested in very low-risk things, they will see generated a low return, maybe one-percent. The city would want their funds to be somewhat liquid, thus it would not want to put it into a project because it would be difficult to get the money back if it were needed. If the city had a credit enhancement program, should the funds be needed, the city could use the credit enhancement to obtain a line of credit as a source of funds. Any action for which it will be necessary to convince the Council to undertake it can be considered bold.

Mr. Ferris urged the staff and consultant team to do their best to boil down the ideas into something that is clean and simple so it can be presented to the Council. It should be clear that a housing levy of A will produce B units, and a credit enhancement of X will produce Y units. The point should also be made that in order to meet the goal of producing 2500 units, it will likely take all of the available tools.

Mr. Kattermann said the underlying assumption in the document is a $30 million housing levy and a 3:1 leverage ratio. Mr. Walter said the assumption should be more along the lines of a 2:1 leverage ratio, because about a third of the total will be needed to address gap financing. Mr. Kattermann asked if, leverage issue aside, the amount of the levy is in the ballpark or if a larger amount should be considered.

Mr. Ferris reiterated the need to set aside funds for maintenance and support. Mr. Shook said he had actually included that. While their leverage has been decreasing, the long-term average for the program in Seattle stands at 3:1 according to the HALA report.

Mr. Ferris said the leverage ratio has been going down due in large part to the fact that there has been almost no money in the state housing trust fund. Mr. Sullivan agreed that the State fund has been shrinking, but the percentage going to Seattle has not changed all that much. The leveraging question is, however, huge. Seattle's leveraging is clearly going down, but if Bellevue starts playing the same game, the leveraging will be made even harder because the sources being used currently for leveraging are not growing.

Mr. Walter said one of the challenges with the leverage is that the cost of real estate development has jumped 40 percent over the last five years. Wages during that time have only risen by five percent. With rents tied to a percentage of the area median income, where the area median income does not increase, the rents will not increase. In short, that means the gap will grow even larger if the trend continues.

Ms. Glasby asked if the city of Bellevue has excess property tax capacity under which levy funds could be raised without going to the voters in 2017. The Council could choose to go that route and then follow up with a voted levy in 2018 or 2019. Mr. Kattermann said there is some councilmanic capacity but stressed that he did not know how much. Mr. Shook added that even with the additional capacity, the city would need to figure out how to pay for any additional debt.

Mr. Walter said if $0.10 per thousand will yield $30 million, $0.30 per thousand would bring the total to almost $100 million. The $100 million today would leverage another $300 million which could bring online between 1000 and 1400 units.

Mr. Depew said the $30 million amount was drawn from what a nominal levy would yield and without regard to what it would produce. Mr. Shook said the presentation to the Council should outline what the yield could be if the five activities were instituted, and could also indicate that it would take $100 million to do it. Mr. Kattermann added that clear examples should be included.

Turning to potential action A1, density increases with required affordability, Mr. Shook noted that the city's current incentive program includes a by-right development level and allows access to additional development by agreeing to deliver affordable housing. The approach is in contrast to inclusionary housing programs that require affordable units in every multifamily development. Bellevue's inclusionary program was in place from 1991 to 1996 and it required projects with ten or more units to include ten percent of the units as affordable at 80 percent area median income. The program also provided a bonus market-rate unit for each affordable unit up to 15 percent more. During the time the program was in place, 136 affordable rental units were delivered, along with 188 affordable condominiums. State law allows for inclusionary programs where they are associated with an upzone. The city could refine its existing programs to require affordable units to be included in every project that receives an upzone. In some cities where there are inclusionary programs in place, the programs have come under fire on the claim that the cost of providing the affordable units exceeds the value of the incentive offered by a rezone. The literature is not clear with regard to the actual impacts.

ARCH was involved in setting up the Washington regulations regarding inclusionary housing. The cities of Redmond, Issaquah, Kirkland and Sammamish have similar inclusionary programs and their set-asides are in the ten percent range, and the percentage of area median income affordability for the units ranges between 50 and 80. Many of the programs offer more than just an FAR cost offset.

Ms. MacFarlane said one option for Bellevue would be to convert the Bel-Red incentive system, which is currently voluntary, into a mandatory requirement. Essentially the incentive FAR would be converted into an upzone and affordability would be required along with it. The approach would not, however, create very many additional units above the current system, which the developers of the four projects constructed to date have chosen to use even though it is optional.

Ms. MacFarlane said another potential option would be to go back to something similar to the inclusionary program Bellevue previously had in place, which applied to all projects having more than ten units regardless of the zoning. It would be complicated to determine how that would work because legally it would require upzoning all of the areas in order to add the affordability requirement. Mr. Sullivan said the approach would be legally accessible. In Redmond and Kirkland, the rezone is the bonus units.

Mr. Kattermann asked the TAG members to keep in mind that Bellevue is currently working to upzone the downtown, Eastgate, Wilburton and the East Main area. It is possible that as part of the Bel-Red lookback, some additional upzoning may occur there as well. Mr. Sullivan said by far the most common scenario is the approach used in Bel-Red.

Mr. Orbino asked if the city expects the trend to continue. Mr. Shook said the issues are around program structure: mandatory versus voluntary, and the need to maintain programs and tweak them to maintain a balance between the incentives offered and the value of the affordable units to the community. Ms. MacFarlane added that based on the assumptions for development costs and revenues in Bel-Red, it makes sense to take the incentive in exchange for providing affordable units. The cost of providing the units is a little bit less than the value of extra incentive bonus, which means the Bel-Red incentive is properly calibrated.

Mr. Walter suggested that where the program is calibrated correctly, it likely will be utilized. One question to answer is whether or not the program will sell better as optional or something the government is requiring. From the Bel-Red example, it appears that the optional program will result in the same number of affordable units that a mandatory program would yield, but with less friction. It would be better to spend political capital where it will get more bang for the buck.

Mr. Wagner agreed. He said if the need for affordable housing is a Bel-Red problem, it can be addressed very specifically. The fact is the need for affordable housing is a citywide problem and needs a much broader solution. It would not be fair to pick on certain zones just because they are currently being studied. He said his research relative to the Bel-Red area concluded that podium buildings will get to an FAR of about 2.0. Trying to raise the FAR in Bel-Red will raise the hackles of the downtown interests who have argued in favor of keeping density in the downtown. Mr. Kattermann explained that actions being taken to increase the zoning capacity of certain areas needs to be viewed in the context of the city's overall growth plan. Each area where upzones are being considered is an area identified in the Comprehensive Plan for future growth. Those are the areas where additional growth will occur, and those are the areas where it would make the most sense to put in place programs to achieve affordable units.

Mr. Wagner asked whether it would be better for the city to have five units in one place and ten in another in various projects, or concentrated in a single area utilizing fees in-lieu. Mr. Depew said there has been arguments on both side of the fence. In general, the key thing is to get the units. The challenge with fee in-lieu programs is that almost no city has the political courage to require fees high enough to build the replacement units; the result is the replacement units must leverage funds to get out of the ground. As a result of how the fund sources work, affordable units end up getting concentrated.

Mr. Sullivan pointed out that not all cities have an automatic fee in-lieu in place. Redmond allows developers to ask about offering a fee in-lieu, but it is up to the city to determine whether or not the offer should be accepted. Kirkland has a lot of smaller projects that end up with fractional units, so they calculate an in-lieu fee for them, but do not accept fees in-lieu beyond that unless they agree to do so. Interviews conducted with builders seem to indicate that they accept the approach of having a clear path and a less clear path that can be negotiated.

Mr. Ferris suggested the reason the program in Bel-Red is working is because the true built environment FAR is close to 0.25. The base FAR adopted is 1.0, which is essentially a two-story building taking up half a site. To get to an FAR of 5.0, it is necessary to provide certain amenities, including affordable units at 80 percent of area median income, in exchange for significant increase in development capacity. The inclusionary tool, like the multifamily tax exemption, can deliver workforce housing units without public subsidy. The program works in areas where there is a low base FAR. Where the program does not work as well is the downtown where the FAR is already very high. One of the big controversies behind the grand bargain in Seattle was that fees were already being paid by downtown developers for things in the downtown; they received a modest increase to their development capacity and they pushed back hard against a requirement for mandatory affordability and ultimately negotiated a fee that was substantially below the performance. Downtown developers are now happy to write out a check because what they received in additional development capacity is much greater. Having essentially taken out the downtown delivering any affordable units, except those that are heavily subsidized, the burden has been pushed into the neighborhoods where the fee in-lieu is double what it is in the downtown. The same issue will face Bellevue as well given that is costs more to deliver units in high-rise buildings in the downtown. Additionally, if the desirable outcome is an economically integrated community, with kids of all economic means are going to the same schools and playgrounds, carving out certain neighborhoods will not work well. Smaller projects with 25 or 30 units required to have two affordable units for 50 years may opt to pay a fee in-lieu instead because of the challenges involved.

Mr. Walter commented that buildings in the downtown may not be the best place for families, but they are the perfect place to allow 300-square-foot eco flats affordable to bank tellers, baristas and hotel housekeepers.

Mr. Ferris noted that CBRE put together a report of projects on the books. The report indicates that in Bellevue, for projects 100 units or larger, there are just less than 5000 units planned for development in the next three years. The report does not say how many of those projects have signed up for any of the Bellevue programs. If of the 5000 units only 55 will be affordable, the tools are clearly not working and a new approach is needed.

Mr. Depew commented that even in places where the incentive is sufficient, a lot of people are locking in mandatory just to take the subjectivity out of it.

Mr. Walter stressed the need to supply the Council with some context to help encourage them to make good decisions. Projecting rents out over the next five years, and projecting where incomes are likely to go over that same time period, it will be clear that affordable units will be lost. Waiting to do anything will only make it more difficult to achieve the desired number of units and the gap will only grow larger.

Mr. Orbino pointed out that only two projects in Bel-Red have opted into the incentive program and asked if any other developers have indicated their intent to do the same. Mr. Kattermann said four total projects have been done in Bel-Red in the time the incentive program has been in place. Clearly the sample size is not large. The four projects confirm the original market study and the fact that the numbers still work. It will, however, be necessary to recalibrate the numbers over time. The program was put into place because it was known development would be taking place in that area, and the city wanted to create the opportunity and enough of an incentive for the market to create some affordable units along with market-rate units.

Mr. Sullivan pointed out that no developer is going to build to the base FAR of 1.0. The only way to go beyond the base is to provide affordable units. As development occurs there, it will take advantage of the incentive program. If the areas of the city that are looking to redevelop will be a magnitude similar to Bel-Red, the same incentive program will work for them. If not, the question of voluntary versus mandatory will become much more subtle.

Mr. Walter said he likes the mandatory requirement in the downtown because the development of affordable units will not happen otherwise. The demographics for those who would benefit from living in the downtown include those who are willing to live in studio apartments. What is needed is a way to make it easy to get those units. Mr. Kattermann said FAR is used in the downtown and in Bel-Red, but dwelling units per acre is used in all other areas. One approach would be to switch to using FAR everywhere.

Ms. Glasby said one way to address the issue of who is going to live downtown would be to follow the example of Kirkland where the mix of unit sizes is mirrored in affordable units. If there is a market for a two-bedroom apartment in the downtown, there is obviously a market for an affordable two-bedroom apartment in the downtown. Mr. Walter said the argument works for creating inclusive communities, but from an economic standpoint it does not work. Mr. Sullivan added that it is harder to do a mix of unit sizes in the downtown because of costs. In the downtown, trying to be fair relative to economics will translate into either having fewer of the units be affordable, or the affordability level will need to be higher. One option would be to allow for smaller units in the downtown as a way to help make up some of the gap between the market and affordable.

Mr. Wagner commented that while Bel-Red is seen as being primarily an urban area, there is still the impervious surface limit of 75 percent. He suggested that rather than just looking at FAR as an incentive, reducing the impervious surface limit for including affordable units might be a workable solution. Mr. Shook said that is one thing that will be focused on in the coming months.

Mr. Wagner said he favored the idea of distributing affordable units with market units through the neighborhoods. However, should any of the affordable residents need human services, the easier way to provide them is from a central location. Any distribution in the neighborhoods achieved through the use of the multifamily tax exemption program will be lost every 12 years, whereas pushing for fees in-lieu that can be invested through housing developers will result in more permanently affordable units. Ms. MacFarlane pointed out that units created as part of a mandatory requirement are retained as affordable for 50 years.

Mr. Ferris said unfortunately affordability associated with the multifamily tax exemption and even incentive zoning is primarily focused on the 70 to 80 percent of area median income. Where fees in-lieu are paid instead of producing units, the fees primarily are used to target the 50 percent of area median income and below range, and the result is a lack of units in the middle range of affordability.

BREAK

3. OUTLINE OF DRAFT REPORT TO COUNCIL

Mr. Kattermann encouraged the TAG members to read over the materials regarding investing in infrastructure that supports affordable housing development, and down payment assistance. He pointed out that neither approach would actually produce many units.

With regard to the affordable housing strategy preliminary draft report, Mr. Kattermann asked the TAG members to look it over. He said he needed to have the draft finalized in time to include it in the Council's December 12 briefing. He said it would be particularly good to capture the statements the TAG feels are important relative to the strategies.

Mr. Ferris called attention to the table on page 9 focused on the unit estimates associated with preservation and asked if the totals are based on existing or new resources. Mr. Kattermann said the mayor and other Councilmembers have been clear about the need to see dollars included. There are dollar figures for the Major Home Repair Program, but not for the other items yet. Part of the overall strategy is to allow people to stay in their homes.

Mr. Ferris pointed out that Seattle counts units preserved as units produced. Mr. Kattermann said Bellevue currently takes that approach.

With regard to item C.6, Mr. Walter said the 500 to 1000 units compared to the 300 units associated with C.3/D.9 did not feel like an apples-to-apples comparison. The C.6 units are real units that will be lost and that could be made permanently affordable for a long period of time, whereas the C.3/D.9 units would not necessarily all be lost as affordable units.

Mr. Ferris suggested that for tallying purpose the Highland Village units offer a good example. The units were affordable and were in line to be lost. They were purchased with public resources and preserved and as such they should be counted in the tally as affordable even though the stock was not increased. Similarly, units that are owner-occupied that are not preserved could be sold and lost to market rate. Mr. Walter said if he were a Councilmember and the opportunity arose to get 500 to 700 units through preservation utilizing gap financing from a non-profit or the housing authority leveraged through a levy, versus getting half that many units just through home repair and weatherization, he would choose the former over the latter.

Mr. Depew suggested creating a simpler intro for the preservation activities and realigning the numbers more with direct to individual activities in order of their boldness or impact.

Mr. Walter suggested home repair and weatherization units should not be counted unless the program includes an explicit requirement to remain affordable for some number of years.

Mr. Martin said Seattle has a similar home repair and weatherization program in place. In their program, where repairs are made to a rental unit, that unit is then required to be offered with an affordable rent. Mr. Kattermann said Bellevue's program is available only for owner-occupied homes, but the proposal would be to expand the program to include rental units with a similar provision.

Mr. Sullivan suggested the chart could be crafted to show how many units each tool affects, and with an additional column to show units resulting from combining tools. Columns could also be added to indicate unit affordability percentages of area median income, and any ask associated with each tool.

Mr. Walter questioned whether or not the 300 units shown as being preserved as a result of the home repair and weatherization program would in fact be lost without the program. Mr. Depew suggested the units should be counted, but not against the 2500-unit goal given that they are not net-new units. Mr. Walter proposed specifically indicating the focus, such as gap financing and cost reduction, for each activity.

Ms. Glasby suggested the rental housing preservation strategies should be moved to be first, and home ownership should be listed second. There should also be more clarity with regard to home ownership. With regard to rental housing, the King County Housing Authority and non-profits wanting to acquire existing units and preserve them should specifically be shown.

Mr. Walter proposed organizing the list of activities from biggest fish to smallest fish. Mr. Kattermann agreed and said that is where the description of the overall strategy comes in. Regardless of how the activities are categorized, the actions that will have the greatest impact should be highlighted.

Answering a question asked by Mr. Wagner, Mr. Kattermann allowed that while some of the bold ideas proposed are not bold in the greater scheme of things, they are bold in that they have not been tried in Bellevue. Mr. Depew noted that the actions being called bold could also be termed impactful.

Ms. Loveall Price stressed the need for the report to lay out in practical terms exactly what is being proposed. One way to do that would be to show clearly what it would take to build affordable units on a given vacant lot. Mr. Depew said the way to do that would be to break it down even more. Along with a total for what it will cost to build a structure with a given number of units, it should be noted the degree to which private debt, bonus incentives, FAR and other actions will work together, along with the remaining gap for which city funds will be needed. Ms. MacFarlane said the model that is being worked on is not something that will be presented to the Council, rather it is for looking at market-rate construction in order to determine how the different programs should be calibrated.

Mr. Kattermann reiterated that there is no silver bullet when it comes to affordable housing. What it will take is a multi-pronged approach over many years. Ms. Loveall Price agreed but stressed the need to put real projects and real people to the numbers.

Mr. Wagner stressed the need to have the concept of the gap clearly outlined in the strategy.

Mr. Ferris said his work with the Housing Affordability and Livability Agenda committee included looking at unit numbers at the different income levels. He noted that the gap is different for each income level. The committee came up with a total number of units and then looked at the various action items and modified them in terms of the value they created. Units affordable at 60 to 80 percent of area median income can be created without a huge amount of subsidy, but that is not the case for 60 percent of area median income and under. As the numbers were quantified, it became clear that the mayor's call for 20,000 units was not achievable.

Mr. Ferris suggested the introduction section of the report should clearly state the number of affordable units produced by using the available tools in Bellevue, and it should be clear how that number differs from the demand. It should also be noted that construction costs have gone up 40 percent over the last five years, during which time the median income has increased by only five percent. There has been good effort put into using the tools that worked in the past, but those tools are clearly no longer working. He added that costs to the city should be made clear. For instance, the multifamily tax exemption represents very little loss to the city directly; the exemption applies only to improvements, not the underlying land for which the property tax continues to be collected. Additionally, Bellevue receives only 17 cents of every dollar paid in property taxes, so while projects receive a dollar in exemptions, the city gives up only 17 cents. The program has only been in place for 18 months, but people knew it was coming and no one has applied for it yet, even though there are 5000 units in the pipeline. Calibrated correctly, the result could be quite a lot of units with very little cost to the city.

Mr. Wagner commented that the two big bold strategies will yield some 1200 to 2800 units. He asked what the third strategy involving city regulations and incentives might yield. Ms. MacFarlane said the initial calculations show at the high end about 700 units affordable at 50 to 80 percent of area median income. Mr. Kattermann allowed that where things come up short is in the 60 to 80 percent category. Incentives alone will not get the city to where it wants to be.

Mr. Walter pointed out that the 500 to 1000 units achieved through preservation will not happen without public support. The Highland Village preservation project came about through the use of a low-interest line of credit. The revenue generated by the property is sufficient to cover the interest, and steps are being taken to get the other parts covered.

Mr. Ferris suggested the section of the report that talks about rezoning of public, non-profit and faith-based sites should not be in the direct and indirect public support section. It should be in a reduced cost category instead. The direct and indirect section should house only things like the multifamily tax exemption, bonding, credit enhancement and the levy. Mr. Kattermann allowed that several of the actions could fit into more than one category depending on how they are applied.

Mr. Walter suggested that the report given by staff to the Council should be clear with regard to which items the TAG believes the Council should pay close attention to. He said the Council should be told that in order to be impactful it will need to: have an affordable housing levy; be more creative in using the city's financial strength and wherewithal to leverage additional investment; be much more flexible in combining and coming up with city regulations; drastically increase density; and leverage public lands and charitable other lands. Mr. Kattermann said in making the report he would make clear the role and importance of the TAG. The Council is clearly looking to the TAG to provide guidance and a level of expertise in vetting the various options.

4. OTHER COUNCIL MATERIALS AND TAG STATEMENTS

The TAG members were asked to review the materials and provide input on them to staff.

5. NEXT STEPS

6. ADJOURN

The meeting was adjourned at 4:12 p.m.