

CITY OF BELLEVUE
AFFORDABLE HOUSING
TECHNICAL ADVISORY GROUP
MEETING MINUTES

February 1, 2017
1:00 p.m.

Bellevue City Hall
Room 1E-120

MEMBERS PRESENT: Kim Loveall Price, Hal Ferris (by phone), Tim Walter, David Hoffman, James McEachran, Dwight Schrag, Rich Wagner, Jan Laskey, Eric Campbell, Andrea Sato, Sean Martin, Sibyl Glasby

MEMBERS ABSENT: Michael Orbino, George Petrie, Katherine Jordan

STAFF PRESENT: Mike Kattermann, Janet Lewine, Terry Cullen, Emily Kish, Gwen Rousseau, Planning and Community Development Department; Emily Leslie, Kayla Valy, Parks and Community Services Department; Arthur Sullivan, ARCH; Chuck Depew, Morgan Shook, consultants

RECORDING SECRETARY: Gerry Lindsay

CALL TO ORDER

The meeting was called to order at 1:06 p.m. by Senior Planner Mike Kattermann.

DISCUSSION

A. A-5 Detached ADU

Mr. Kattermann noted that one task the consultant team has been engaged in is researching affordable housing best practices. He said what they have found is there are not many tools out there that have not been discussed by the TAG.

With regard to backyard cottages or detached accessory dwelling units, Mr. Kattermann said the analysis was focused on what Bellevue could do differently from what it is already doing that might encourage additional units. Currently Bellevue permits attached accessory dwelling units. There are some neighborhoods in the city that are vehemently opposed to allowing detached units, but there are other neighborhoods that would welcome the opportunity. As envisioned, a set of standards would be developed and included in the code, then the city would work with individual neighborhoods in applying the tool. The tool would address two of the demographic groups the City Council identified as priorities, namely seniors and special needs persons. In the grand scheme, the tool is not likely to yield a lot of units.

Associate planner Janet Lewine pointed out that the tool is one of the few strategies on the table that would include single family neighborhoods. The tool could come into play with a currently unknown future technology that would make small units easy to build on site, such as modular units.

Mr. Kattermann said the analysis of other jurisdictions in the area, all of which are members of ARCH, shows which jurisdictions allow accessory dwelling units, how they allow them, what standards are used in terms of parking, and the minimum and maximum sizes. In terms of affordability, it is assumed the units fall into the 80 to 120 percent of area median income range.

Mr. Campbell said where there is a desire to keep parking for accessory dwelling units off the street, one option would be to allow the units to be constructed over a garage without counting the garage toward the total square footage.

Mr. Schrag noted that utility hookup fees alone can be quite drag on the costs. Mr. Kattermann agreed and said that was noted in the materials, particularly in regard to detached units which are often on separate meters.

Mr. Hoffman suggested impact fees fit into the same conversation. Mr. Depew said accessory dwelling units would be allowed to waive the impact fees if they are affordable below 80 percent.

Mr. Sullivan commented that some cities do not consider accessory dwelling units to be separate units in doing their calculations, thus they do not have separate hookups.

B. A-6, B-4 Flexible Reuse of Larger Sites

Mr. Kattermann said generally speaking A-6 and B-4 involve maximum potential, particularly in light of potential upzoning of the sites. The potential affordable unit count chart as it relates to the option errs on the side of being conservative and assumes not all of the sites will be rezoned and that not all of the sites will redevelop.

Ms. Kish noted that the addition of non-profit development resulted in a fair increase in the number of potential affordable units. The larger capture includes all parcels from the previous analysis and adds in faith-based, non-profit and public properties. Some properties were removed from the analysis based on their current uses, the existence of critical areas, and use as public buildings. Park lands were not included, though other city properties that could potentially be redeveloped were included on the list. The known Sound Transit properties from the previous analysis were included, but the King County properties were mostly eliminated based on conversations with their staff. King County Housing Authority owns several single family homes in Bellevue, but they were eliminated from the analysis given that they would yield only a one-for-one trade. The single family homes associated with faith-based organizations were removed from the analysis as well.

Continuing, Ms. Kish said the analysis assumed that all redevelopment would be for affordable housing, and that the entire development would build out with residential units affordable at 80 percent of area median income. The existing development potential was calculated based on the number of units allowed by the current zoning, with critical area square footage removed. The existing additional development capacity was calculated by determining the number of dwelling units that could be developed over and above what is already developed under the current zoning. The future development potential was determined based on upzoning properties. In some cases the existing development of sites is more than what the zoning allows due to incentives and the like, so for those properties there was a negative additional development capacity; accordingly, those properties were removed from the analysis. For office and commercial areas, the analysis sought a comparable FAR.

Ms. Rousseau noted that where improvements are greater than or roughly equal to the value of the land, redevelopment is far less likely. The analysis removed the sites that fell into that category, with the exception of two where an upzone could make the land more valuable and possibly lead to redevelopment.

Ms. Kish said the next criteria for removing properties from the analysis was adjacency to single family development. Where one side of a parcel touched single family development, they were removed from the analysis. Mr. Kattermann said the assumption was that sites that touch single family would likely generate resistance to an upzone.

Mr. Walter pointed out that the TAG was charged with thinking big, but the approach taken for the analysis removes accessory dwelling units where they would not be wanted by neighborhoods and properties that touch single family developments. If there is a real desire to have more units 20 to 30 years down the road, it will be necessary to create an environment that is more flexible to having integrated communities. Mr. Kattermann stated that with regard to accessory dwelling units, the actions taken relative to the analysis were in line with direction given by the Council. With regard to removing sites that touch single family development, however, the TAG should decide how far to push things.

Mr. Hoffman suggested that if the analysis had not been done, the TAG likely would have asked for it. It will certainly help to inform the Council's discussion after the TAG makes its recommendations.

Mr. Sullivan noted that some of the units in the analysis are buried in single family neighborhoods, while others are on the edge of single family neighborhoods. He suggested the report should distinguish between those. Mr. Hoffman agreed that would be helpful. Mr. Campbell added that specific examples would help to clarify what impacts, if any, there might be. Ms. Kish noted that for the first cut, the focus has been formula based as opposed to a more visual approach. Broadening the scope in the next phase makes sense.

Ms. Sato said it was her understanding the assumptions include complete replacement of uses, such as a church that will no longer be in operation, as opposed to co-locating housing with existing uses. Ms. Kish confirmed that but agreed that in many cases co-location would be more likely, which would reduce the housing development potential. Ms. Sato said a related question

in need of an answer is whether or not there are elements of the zoning code that would make co-location more difficult to implement. Ms. Kish said one of the key partners relative to co-location opportunities will be public organizations, including Sound Transit. The degree to which financial feasibility plays into development will also be important. The Neighborhood Business (NB) zone in Bellevue allows for residential, and there may be opportunities there to incorporate housing with commercial uses.

Mr. McEachran commented that dying faith communities often seek ways to gain additional revenues. Imagine Housing has seen some successes in working with faith communities. One of the next steps could be to work directly with the faith communities to show them the ways in which they can use their properties to address the need for affordable housing. Mr. Kattermann agreed that how to present particular strategies will need to be discussed. Even from a conservative perspective, the numbers as they relate to faith-based and publicly owned properties are significant. It is clear there is some interest on the part of the faith communities given that several contacts have already been initiated.

Ms. Glasby asked if the city will also be looking at tools that will make co-location and reusing larger sites happen more effectively. Mr. Kattermann said the Comprehensive Plan amendment and rezone processes will have to be followed. The question will be whether or not the city should initiate the changes. In terms of design review, the city could look at what it might do or not do.

Mr. Schrag said he sees properties that come up for sale all the time. The notion of establishing a land bank is intriguing because it would allow for acquiring properties as they become available. Ms. Kish agreed. She said there are several faith-based properties and even a parks property that are side-by-side. Land banking could offer the opportunity to expand over time, and could allow for public views to change, possibly leading to larger zoning increases.

Mr. Kattermann said the city could also engage in preemptive rezones that would be triggered by future actions. By putting it out there that a particular property has the potential for affordable housing, the surrounding community could be provided with some assurances that the site will not be sold off for market-rate housing at a higher density.

Ms. Kish reviewed the unit numbers on the tables. She pointed out that non-profits have done well in most cases by overdeveloping their properties, reducing the existing development potential. There is large capacity associated with publicly owned sites, but many of the faith-based sites do not have a huge residential potential. She clarified that the first table did not include parcels with an improvement-to-land value ratio of two or more, and the second table also removed parcels located adjacent to single family development. In the second table, the overall number of parcels was greatly reduced, though there was still quite a bit of capacity, primarily on the publicly owned and faith-based parcels. Some of the public properties looked at are located near open spaces that would not impact single family development. There are also some faith-based properties that are zoned commercial and surrounded by commercial development.

Mr. Depew pointed out that state law requires receiving fair market value when selling publicly owned parcels, but that does not necessarily equate with the highest and best use. For the most part, however, the city can transfer the asset out of the utility to another agency by legislative action. Mr. Sullivan noted that several years ago the city of Bellevue transferred some utilities properties to the general fund. A cash transfer from the general fund to the utility fund was required. The site was eventually developed and it turned out to be a great deal. It would be good to know if there could be any flexibility when it comes to transferring properties in that way. Mr. Depew said much depends on where the money comes from to buy the sites. Sometimes there are other sources used for site acquisition that must be reimbursed, but at the heart of it there is usually only a policy issue that cities tend to want to follow, which means there could be some latitude.

Mr. Campbell thanked staff for the excellent analysis and pointed out that the question it all comes back to is how to create action. A citywide Comprehensive Plan amendment sponsored by the city that allows faith-based and other organizations to opt in would be one way of making it happen, and would be a powerful and much more streamlined approach.

Mr. McEachran highlighted the need for robust community engagement that takes into account the opinions of what should happen next door. The argument in favor of faith-based properties is that they are already used for what can be termed community based purposes. The city should seek to create a pathway of community engagement up front regarding those properties so the public can be thinking about those sites.

Mr. Wagner said he would like to see the narrative about sites that are adjacent to single family developments. Many of the large church properties in the city are in single family neighborhoods under a conditional use permit, and it could be that the affordable housing use could simply be addressed by modifying the terms of the conditional use permit rather than having to engage in a full public process. Some of the sites are quite large, and the immediate neighbors may not object to seeing them redevelop, though the neighborhood may; that is one issue that will need to be addressed.

Mr. Walter said the numbers in the tables look good and suggested they could be easy for the Council to hang its hat on. He pointed out, however, that actually achieving the numbers would require all the dominoes to line up. While it could happen, the likelihood is low. It should be clear that the numbers will not easily be achieved. Ms. Kish agreed it will need to be stressed that the strategy is heavily dependent on other strategies and even revisions to other strategies.

Ms. Laskey allowed that while organizations and institutions may have the intent to contribute, whether or not they are willing to give up the financial potential cannot be known unless the city pushes forward for more than just statements of general support. Ms. Kish said there is a clear opportunity for the city to be more involved in the discussions when properties become available, prioritizing them for affordable housing purposes. That is particularly true of parcels owned by the city.

Mr. Depew suggested there should at the very least be a filter focused on affordable housing where public properties are concerned. Every use has priorities, and if there is city policy already

in place that prioritizes uses, affordable housing should be on it. Mr. Sullivan said the city has in the Comprehensive Plan a policy to look at prioritizing affordable housing. A number of years ago the Council directed staff to develop a list and to prioritize every property.

Ms. Laskey said taking a more affirmative approach in regard to the city acting to move certain sites toward approval would give the give some real teeth to the program.

Mr. Schrag suggested taking the top opportunities from each of the categories and presenting them to the Council as examples of what could be moved on in the short term, the midterm and the long term. That way the Council could have in hand a set of projects that fit with reality, with the top priorities already highlighted.

Mr. Kattermann called attention to the potential affordable housing unit count chart on the last page of the packet. He noted that the chart was an updated version of what was made available in late November 2016. The members were shown that the A-6 B-4 line in Category 2 showed a range of between 270 and 400 units based on the analysis. The new line added to the chart showing between 500 and 1400 units was based on the additional potential capacity with upzones of properties owned by the public, faith-based and non-profit organizations and was in addition to the A-6 B-4 line. The new line figures were determined by taking the range in the analysis, the 2591 to 6000, and dividing it in half on the assumption that perhaps half of the units could be achieved over the next ten years; the numbers were then split between the under 50 percent of area median income and the over 50 percent of area median income.

Mr. Walter commented that there are opportunities to make the numbers happen, but there is also what it will actually take to make them happen. The rents generated from units at 30 to 35 percent of area median income is just about what is needed to cover operating costs. If one has a 15 percent of area median income spread, it can be leveraged for debt. If only 80 to 85 percent of it can be leveraged, it will restrict how much can be borrowed towards building, leaving a balance gap that will require public sources. It is feasible to find land to make projects happen, but the kind of dollars it will take are more difficult to find. Mr. Sullivan said the exercise he is currently engaged in seeks to do that over time using gross versus net. Mr. Kattermann agreed that upzoning alone will not be enough; other things will have to come into play in the form of additional resources.

Mr. Walter said the reality is that projects below 60 percent of area median income will require layering in tax credits. Mr. Kattermann said that is where the intersection of strategies comes into play. The challenge will be in determining how best to package it for the Council. Where previously there was no way to get to the target because the capacity was lacking, it is clear there is a path for creating the capacity, but that will only be part of the equation. Mr. Walter said it may be only a nuance, but it might be worth changing the categories to below 60 percent of area median income and between 60 and 80 percent of area median income.

Mr. Campbell urged caution in making sure market-rate housing is not precluded in the development of the three different parcels. Market-rate units could in fact be the mechanism needed to generate dollars to build the affordable units. Mr. Kattermann agreed the assumption

made was that the units would all be affordable. Mr. Campbell said statements saying the units will only be affordable should be avoided, and market-rate units should not be precluded.

Ms. Laskey suggested when packaged it should be clearly stated that while the reuse of larger sites will create the opportunity for affordable housing units, other elements, such as tax credits and subsidies, will be needed in order to make it all happen.

Mr. Depew added that if market-rate units are included in the mix as a way of subsidizing the low-income units, the result may be 3000 units, but not all of them will be affordable.

Mr. Schrag suggested that all of the assumptions used in creating the final summary should be spelled out clearly for the benefit of everyone. Mr. Kattermann said they will be documented.

Mr. Walter said one benefit of encouraging production that includes market-rate units to help underwrite the affordable units is that in the absence of creating the additional market-rate units, when there is a limited supply of existing units, the people who want to live in the area and who have higher wages are going to have the wherewithal to rent the remaining units. The fewer remaining units there are, the more pressure there is on the rents. Additionally, as overall rents continue to rise, so do the actual dollar amounts that relate to the affordability percentages. At some point there should be strategies identified that will help temper the increases to avoid losing ground.

With regard to packaging and the intersection of different strategies, Mr. Kattermann said one subgroup of the TAG has worked on what was originally termed messaging but which should be reframed as packaging. Packaging will be difficult given the large number of moving parts involved in the strategies and their interrelationships. He suggested a new subgroup with six members at the most should be formed to begin the process of talking through how to accomplish the packaging task. Following the TAG meeting in November, staff worked on how to convey to the Council the bold actions, the focus and the intersections. Several iterations of the list of actions were created before it was realized there is no right way to do it. In the end, it was not taken to the Council, though a summary of the potential counts was shared with the Council along with a couple of example actions by category. The targets of 2500 units at 50 percent of area median income and below, and 2000 units above that threshold, was for the first time shared with the Council. Some questions were asked and concerns voiced about how realistic the targets are, but they were informed that there is still additional analysis to do.

Mr. Kattermann asked those interested in serving on the subgroup to contact him. He said the group would need to meet and do its work over the next couple of weeks.

BREAK

C. A-10, A-11, A-13, A-14: Streamline Permit Requirements and Process

Mr. Kattermann allowed that of all the list of actions, permit requirements and process was the one area that has not been analyzed fully. A subgroup meeting held in late January had a good discussion.

Mr. Shook said the subgroup focused on a few key issues, namely the entitlement process, the permitting process, and whether efforts toward timeliness and consistency should be part of a broad set of actions that target all housing or only for projects having certain affordability elements associated with them. The discussion included the fact that projects often have time limits related to the expenditure of funds, and the notion that sweetening the pot could urge affordable housing projects forward. The group was not clear about the specific things that could be done, but there was agreement to explore an approach through which certain elements of plan approval could be obtained more quickly and early on.

Mr. Kattermann said the group was agreed that applicants need a clear understanding of what the city is looking for and when it will need the items in order to process in a timely fashion. There also was agreement with the need for the applicants to clearly express their expectations to the city regarding when they need certain decisions made. The latter is particularly important for the non-profits that have certain funding cycles and deadlines to be met. Better communication is needed on both sides of the application process.

With regard to making the process more streamlined, Mr. Shook said the group pointed out that the Development Services Department is currently funded through permit fees. To make incremental gains will either entail increasing the permit fees or asking the Council to obligate funding from an affordable housing perspective to provide more staff to address the work load faster. With respect to projects that have an affordable housing component or that are fully affordable, the city should at the very least create specialized teams that have a depth of understanding to handle certain projects because of their complexities. Where methods of jumping the queue are identified, the city would need to determine how to pay for the service.

Mr. Hoffman pointed out that city has a team dedicated to reviewing school projects. There has been a desire to cross train everyone to be able to review any project that comes in the door, but the problem with that approach is that where someone is not available to review a project, it could jump from desk to desk, leading to a lack of continuity.

Mr. Depew asked if the school district provides additional resources to the Development Services Department to accommodate the team tasked with permitting their projects. He said it is not uncommon for cities to allow project sponsors to provide additional resources to allow for a higher level of staffing for their projects. Mr. Kattermann said he was not aware that the approach is used by Bellevue.

Mr. Hoffman said any process, such as having a dedicated affordable housing team that would lead to streamlining the permitting process, would be of great benefit to getting affordable units online sooner and for less cost.

Mr. Walter said it appears that the fees charged by the city pay for more than just time and services rendered. The better approach might be to have a different fee structure for affordable housing. He said the King County Housing Authority recently finished a rehab project in Bellevue for a tax credit assisted property. The investor tax credit equity was needed to offset the rehab work. An electrical permit was obtained, but when the inspector visited the site he ordered

that a permit was needed for each of the 14 buildings, rather than a single permit for all of the buildings, even though the work to be done was exactly the same in each building. The result was a permit fee that was 14 times higher than it needed to be. The extra work by the permitting department took an additional six weeks. Overall it took nine months to get everything together to get the project started. Tax credit projects are timed to tax years and they must be done and placed in service in a timely manner because that vests when an investor will get the tax credits. The resulting shortened timeline meant having to have the crews working weekends, all at an extra cost.

Mr. Ferris commented that school projects are specialized product that benefit from having the continuity of a dedicated team. A multifamily housing project that includes some or all of the units as affordable is not different from any other multifamily housing project. What is different about affordable housing projects is the deadlines attached to them. In terms of packaging, projects with some element of affordable should be allowed to follow a different process in which everyone meets to discuss the timeframes relative to funding requirements and then formulates a schedule aimed at meeting the deadlines.

Mr. Wagner said the city used to have in place a process by which staff could be assigned to serve as an advocate for getting all the necessary permits processed. He said while the approach might have caused some turmoil behind the curtains, things got done. A similar approach for the whole genre of affordable housing would be a good thing. Mr. Depew suggested the advocate should not be someone associated with the permit system.

Mr. Schrag commented that permit departments in cities across the United States all have a roadblock of some kind. In Federal Way, the roadblock used to be electrical permits. He said he found that by putting a deposit down up front, the permits got issued sooner and it cost him less overall.

Mr. Walter said the extra six weeks needed for the project he previously spoke of very nearly dragged the project into the next calendar year, which would have cost the project an additional \$40,000. Mr. Campbell said Imagine Housing has had similar issues in which not delivering in the right calendar year could have cost hundreds of thousands of dollars. Ms. Loveall Price said she recently encountered a project delay that cost more than \$30,000 by not getting the credits placed in service quick enough.

Mr. Depew commented that it would be very helpful for the city to take the lead relative to Comprehensive Plan amendments and other processes to make sure the properties have entitlements. The process of moving permits through the system is another aspect. Bellevue is not unique in its approach to having permit fees funding the permitting processes. There is a natural tendency to govern the work because as the work slows people get laid off.

Mr. Kattermann said the subgroup members were about equally split between process and development standards.

Mr. Campbell pointed out that there are many municipalities around the nation that know how to permit projects very quickly. Las Vegas is able to take very complex buildings and have them

reviewed in less than 30 days. Mr. Hoffman agreed and said he has had some very frustrating conversations with city staff who have said it is not possible to get projects approved in 120 days. The fact is there are cities in King County that are able to do so, even on very complex projects. There should be serious discussions about improving processes and hitting the timelines that are mandated by the state.

Mr. Walter noted that there are many things cities can do to provide support beyond providing dollars. In the development of affordable housing, managing costs is critical. Infrastructure such as street improvements and sidewalks are expensive and maybe at a certain level of affordability the city could elect to not require the development to take care of those items.

Mr. Kattermann allowed that there are policy implications and political challenges associated with allowing certain types of projects to jump the queue. He said it is questionable as to whether or not there is consensus on the Council to allow for that approach. It is far more likely there will be support for streamlining the process overall where possible and possibly having a dedicated review staff for projects with a set amount of affordability. That would be a strong statement that affordable housing is important and that the city is dedicated to doing what it can to make more of it happen.

Mr. Kattermann explained that the bulleted items shown on the second page of the memo are issues that came up in the subgroup. Mr. Shook noted that a number of building code issues had been discussed, as were parking issues. The group also talked about fee waivers. There was acknowledgment of fact that the city already waives transportation impact fees for affordable units, and conversation about whether the utilities could waive their hookup fees as well for affordable projects.

Mr. Ferris said he participated in an all-day charrette discussion in Seattle on January 24 with building code officials. Lee Krantz was present representing Bellevue's Development Services Department. The focus was on elements of the building code and ways to reduce the cost of construction. He said Type 5 construction with five levels over three levels of concrete does not help anyone given that the building code limits the construction type to 70 feet. It is not possible to achieve eight stories in 70 feet. There was no support shown for increasing the allowed building height beyond 70 feet for Type V construction. Currently the code allows six levels of wood frame over a slab on grade, but when the same construction is put on a podium, Seattle and Bellevue both limit the number of stories to five. The group felt it would be relatively easy to get to where the cities would allow six levels of wood frame construction over a one- or two-level podium. Where the zoning allows height up to 85 feet, it would be possible to stay with wood frame and save the costs of the concrete level. Bellevue could elect to increase the building height up to 85 feet to accommodate the approach and tie the increase to some level of mandatory affordable housing performance.

Mr. Kattermann noted that Mr. Krantz attended the subgroup meeting and referenced the discussion in Seattle. He said the additional height is under consideration.

Mr. Walter commented that each jurisdiction seems to have their own ideas about how things should be done. He suggested that as a pilot program the city should allow actions allowed by other jurisdictions, provided they have an affordable housing component.

D. C-9 – Support for Smaller Scale Multifamily

Mr. Kattermann explained that the analysis work on the action had not been completed. He said the number on the unit count matrix for the C-9 action came from taking the close to 900 duplex, triplex or fourplex units in the city and assuming that a quarter to a half of the units would take advantage of extending the multifamily tax exemption to existing properties in order to maintain affordability.

Mr. Ferris commented that to do so would take action by the state legislature. Mr. Kattermann said that was correct and added that legislation has been proposed that would extend the exemption to existing units.

Mr. Ferris asked if some of the numbers on the unit count matrix are dependent on combining various approaches. Mr. Kattermann said work is still ongoing to determine how to show the interactions. The table as drafted is intended to avoid double counting and that is still being reviewed.

E. Cat 4 – Legislative Action

Mr. Kattermann handed out a list of different possible legislative actions, some of which have been introduced in the past and some of which are currently before the legislature. He sought from the TAG feedback on which ones could be significant enough to advocate for at the state level.

Mr. Walter said the REET numbers appeared somewhat low to him. As drafted, the numbers indicate real estate transactions totaling \$400 million would generate \$1 million, but that would only be about two buildings in the downtown or a little over 400 homes. In any event, it is commercial that is driving the business that is driving the housing shortage that is driving the affordability issue, so the commercial transactions should be targeted. Mr. Kattermann said the numbers were likely based on what could be brought in through an increase in the REET.

Mr. Depew noted Bellevue has a history of REET collections. What is suggested is allowing the funds to be used for affordable housing.

Mr. Sullivan said it was calculated during the recession that an increase of ten cents would generate \$10 million annually in East King County. Bellevue would represent about a third of that. The property tax levy and the REET are the two approaches ARCH concluded will move the needle the most.

Mr. Campbell suggested that issues affecting all of society should be paid for by all of society, not just a select few with bigger transactions. Increasing the REET or enacting a housing levy will result in raising the cost of housing overall. The real focus should be on increasing the

supply of housing. A housing levy will not increase the supply. Bellevue is a center for economic growth and properties actually do not turn over all that often. The residents of Bellevue benefit from having a large employment base, and the businesses want affordable housing for the workers that they need.

Mr. Campbell said a housing levy is the best way to have society as a whole shoulder the responsibility of sharing the cost. The REET approach will only tap those who have transactions, which is a smaller subset of society.

Mr. Kattermann allowed that either approach could be a hard sell, but they both offer a way to move the needle.

Mr. Schrag suggested that if the levy and the REET increase would benefit both businesses and individuals, both should be done. He asked which approach would support the land bank concept. Mr. Sullivan said both could depending on how the funds are allocated.

Mr. Walter said it all goes to the messaging. The person who sells a million dollar home but does not want to pay \$2500 in additional excise tax is the same person who wants to stop by the local coffee place where there are baristas making \$12 per hour. The person wants the ancillary services, and all those businesses need workers. If the workers cannot afford housing, they will not be there for the businesses that need workers, and thus the businesses will not be there. The REET represents a minimal amount and in turn benefits them directly.

Mr. Depew noted that the TAG has been charged with identifying who will be paying for the different actions. He suggested the group should agree that the REET is a narrow funder rather than a broader funder. At the end of the day, anything that involves legislative changes at the state level cannot be unilaterally affected by Bellevue. He added that it might be easier to broaden the scope for which REET revenues can be used than it would be to seek an increase in the REET.

With regard to condominiums, Mr. Hoffman said he did not know where he would stand relative to a fee for the conversion of rental housing to condominium ownership. He said his is very interested, however, in revising the state Condominium Act warranty provisions to encourage development. Mr. Campbell said a change in the law could result in the creation of more units; units are not currently being built because the land is too expensive to support apartments, but does not pencil out for condominiums either.

Mr. Sullivan pointed out that there have been periods of time when condominiums were marketable and were being built, and during those times rental housing was prevented from being built because the land value with a condominium was significantly higher than rentals. Mr. Campbell agreed that at some level there could be a substitution issue going on.

Mr. Wagner commented that the condominium legislation might not be an affordable housing issue directly, but it certainly contributes to the production of more units, which increases the overall supply of housing, some of which will be affordable.

Mr. Shook said there is a clear demand in the market place and a variety of administrative legal issues that to overcome that reflect back on the Land Use Code. The highest demands for ownership products are in single family neighborhoods where there is not much capacity for additional units. The substitution issue and its effects are hard to determine accurately. If there was more specific Bellevue-level funding, much more could be done and the impact would be greater. Such funding will require a tax. The question is what is the most equitable, fair and efficient way to enact a tax.

Mr. Depew asked if the issue regarding the hotel tax on short-term rentals is aimed at limiting the use of units for short-term rentals as opposed to creating a revenue stream for affordable housing. Mr. Kattermann noted that some hotel/motel tax revenues are already available for affordable housing. Mr. Sullivan agreed, noting that the stadium tax, which is a hotel/motel tax, is set to be shifted over to housing.

Mr. Shook said the world of hotel/motel taxes is far more complicated than one might think. There are different applications for structures with 60 or more units, less than 60 units, and short-term rentals. Mr. Sullivan pointed out that the last time mention was made about the hotel/motel tax, there was no desire on the part of the Council to even discuss it.

Mr. Kattermann allowed that some are concerned about short-term rentals taking units out of the rental market, but no one yet has a good handle on how many units might be involved. The action is not necessarily trying to address them, but does represent a way to generate a little bit more revenue. Mr. Depew stated that most cities are going after the Airbnb model to assess the hotel/motel tax against them, and rightfully so.

Mr. Schrag asked if any of the items on the list can be classified as bold actions in need of being done in order to provide the city with an extra lever. If not, it might be wise to avoid getting tangled up in them.

Mr. Hoffman expressed concern about an Airbnb tax, which is what it would be called. The overall number of units used for short-term rentals is likely not that large, and where they do exist they may not actually be removing a rental unit from the stock.

Mr. Kattermann said the two actions most likely to make the biggest difference are the REET and the expansion of the state housing trust fund. Opening the condominium warranty provisions is important in that it would bring more units online. With regard to additional incentives, the idea of a sales tax exemption on the construction of affordable units was raised by Councilmember Wallace, something that could make a significant difference on individual projects.

Mr. Campbell said the school districts have been seeking to do that for years. Mr. Ferris agreed that if approved for one purpose, everyone will jump on board wanting the same. The approach is not a solution that will solve the affordable housing issue.

Mr. Depew pointed out that some of the listed actions will deliver resources to Bellevue. He asked if increasing the state housing trust fund would really bring in that much more money to

Bellevue and the Eastside given the competition for those funds. Mr. Sullivan said the cities will be unlikely to willingly shoulder the full burden. Increasing funding at the county and state levels could ultimately benefit the city.

Mr. Walter pointed out that the county and state governments have been focused on seeing their dollars go to the very marginalized populations. If the Council is thinking that extending the housing trust fund will result in another \$10 million flowing into Bellevue for 50 to 80 percent of area median income projects, they may be disappointed. The funds probably will be earmarked for the lower percentages. If the state is going to be pushed, the push should include flexibility for local jurisdictions. The fact is, 30 percent units require subsidies, and few of the strategies that have been talked about would allow for and create 30 percent units.

Mr. Kattermann said it is clear that additional tools are needed at the local level to fund affordable housing. The action list should include advocating for legislative solutions but should not solely rely on them.

With regard to the REET, Mr. Shook noted that in 2008 the city brought in \$6.5 million, and in 2015 the amount was \$19.2 million. Using the 2015 numbers, an additional 0.25 percent would bring in up to another \$9 million per year.

Mr. Campbell asked Mr. Ferris what tools are used in other states on the bonding side to create more capacity for developers to do new projects. Mr. Ferris said tax increment financing is a big tool used in almost every other state, most often for affordable housing. The multifamily tax exemption is another important tool. Both San Francisco and Boston are creating funds that employers, cities and the public are contributing to for the creation of affordable housing. Massachusetts requires all cities to include affordable housing and they use discretionary funding from the state that is not tied to one particular thing; that approach might be difficult to pull off in Washington State for a variety of reasons.

Mr. Wagner said he wanted to see Bellevue's bonding capacity kept in play. There are many jurisdictions that fund affordable housing solely by using their bonding capacity. The bonds pass and isolates the Council from making the difficult decisions.

Mr. Depew said voter-approved debt in the form of levies is also used to fund affordable housing. Some cities have also used their own revenue streams and issued their own debt. Cities in Washington do have state law behind them which allows them to create versions of tax increment financing that involve the use of tax resources.

Mr. Shook commented that several have over the past few years taken various runs at the tax increment financing hurdles in Washington State. None of the attempts have made it out of conference.

ADJOURN

The meeting was adjourned at 4:02 p.m.