

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

October 20, 2014
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Balducci, Deputy Mayor Wallace and Councilmembers Chelminiak, Lee, Robinson, and Stokes

ABSENT: Councilmember Robertson

1. Executive Session

Deputy Mayor Wallace called the meeting to order at 6:01 p.m., and declared recess to Executive Session for approximately 35 minutes to discuss one item of potential litigation and one item of pending litigation.

The meeting resumed at 6:46 p.m., with Mayor Balducci presiding.

2. Study Session

- (a) Discussion and information regarding the Human Services Commission's recommended use of 2015-2016 Human Services Fund and 2015 Community Development Block Grant (CDBG) Funding

City Manager Brad Miyake introduced the presentation regarding the Human Services Commission's recommended use of the 2015-2016 Human Services Fund and 2015 Community Development Block Grant (CDBG) Funding. He noted that staff would be back in two weeks for action on CDBG funding.

Terry Smith, Assistant Director of Parks and Community Services, noted that several Human Services Commission members were present in the audience.

Joseph Adriano, Human Services Grant Coordinator, said federal CDBG funding dropped significantly from 2010 to 2012 and has remained relatively flat over the past couple of years. With regard to the Human Services Fund, the City received requests totaling \$4.4 million for 2015-2016 funds. He noted that the City's Human Services Fund increases annually based on inflation and population growth.

Mr. Adriano recalled that the Human Services Needs Assessment was presented to the Council in January 2014. Affordable housing continues to be a significant need. An increasing percentage of the population is foreign-born. In 2012, 7.5 percent of Bellevue families had incomes below the federal poverty level compared to 3.8 percent in 2000. Mental health and substance abuse is a growing issue. Mr. Adriano said the Kindering Center reports a steady growth in the number of children up to three years old with special needs. There is an increasing demand for tutors in public schools beyond the 400 participants in the Volunteers in Bellevue's Education System (VIBES).

Emily Leslie, Human Services Manager, said the Human Services Commission recommends a total funding package of \$3.9 million for 2015, with \$3.1 million from the Human Services Fund and \$878,000 in estimated 2015 CDBG funds. Attachment B, beginning on page 31 of the meeting packet, lists the CDBG recommendations divided into three categories: capital projects, administration/planning, and public services. Attachment A, beginning on page 7, itemizes the Human Services Fund recommendations. Attachment C, page 33, is the CDBG Allocation Contingency Plan to be used if the allocation is higher or lower than projected.

Ms. Leslie said that Attachment D, page 35, lists the application review criteria used by the Human Services Commission in reviewing the 90 applications for funding from nonprofit agencies.

Olga Perelman, Chair of the Human Services Commission, thanked the Council for its commitment to human services funding. She described the review process, which was based largely on the results of the Human Services Needs Assessment. The Commission is recommending award levels above the projected 2015 inflation increase of 3.36 percent for 22 previously funded programs in the areas of housing and related services, child care programs, and other support services (e.g., meal and chore services for older adults, youth counseling and mental health/drug dependency programs).

There were 20 new funding requests and the Commission recommends two for funding: King County Bar Foundation Pro-Bono Services and the International Community Health Services dental program.

Mayor Balducci thanked the Commission for its hard work in developing recommendations for the Council.

Councilmember Chelminiak thanked the Commission and service providers for their roles in this process. He noted that the City is providing utilities for the winter shelter as an additional contribution. He expressed support for the funding recommendations.

Councilmember Robinson thanked the Human Services Commission for its work on behalf of Bellevue and the Eastside. She noted that a request from the Eastside Friends of Seniors was not funded. She suggested that the group consider applying to the North Bellevue Senior Advisory Board for potential funding.

Councilmember Lee thanked the Human Services Commissioners for their hard work over the years in making difficult choices. He noted the statistic that 33 percent of residents are foreign-born and questioned the implications in terms of service needs.

Ms. Perelman said the results of the Human Services Needs Assessment were studied in great detail by the Commission. She noted two applications suggesting that services would be for specific populations which are not in Bellevue, and those requests were not funded. However, the request related to dental services for low-income individuals, particularly Asian-Pacific immigrants, is recommended for funding because it serves Bellevue residents.

Councilmember Stokes expressed support for the Commission's work and balancing of needs, and for the enhanced focus on housing, employment skills, and services for youth and older adults. He said the City has a tradition of working with the Bellevue School District and the providers of youth-related programs.

Ms. Perelman said the Commission takes a holistic approach in looking at children, families, employment, health, and housing issues.

Deputy Mayor Wallace expressed support for the recommendations. He thanked the Commission for its work and said he appreciates the criteria and measurement of outcomes applied to the process. He noted that the Human Services Needs Assessment is updated every two years and is available on the City's web site.

Mr. Wallace thanked all of the volunteers who support the organizations receiving financial assistance from the City, noting that these are services the government cannot provide on its own.

Mayor Balducci noted that City employees contribute to many Bellevue nonprofit organizations as well. She expressed support for the recommendation to fund the two new programs for legal and dental services. She noted Council support for the recommended funding package.

(b) Multifamily Tax Exemption Update

Mr. Miyake recalled a brief presentation to the Council in June regarding the multifamily tax exemption. The Council raised a number of questions at that time which will be addressed tonight. Staff is seeking Council direction regarding the future adoption of the multifamily tax exemption.

Dan Stroh, Planning Director, said affordable housing is both a human services and economic development issue. He noted that responses to the Council's previous questions are provided in the meeting packet.

Mr. Stroh said staff is seeking Council direction to prepare a draft ordinance for additional Council consideration and action. He said the multifamily tax exemption is one potential tool in the broader housing strategy.

Arthur Sullivan, Program Manager for ARCH (A Regional Coalition for Housing), highlighted the key provisions of the enabling State legislation (RCW 84.14). The multifamily property tax exemption can be either eight or 12 years. To qualify for the 12-year exemption, the public benefit must include a 20-percent affordable housing component within the development. The exemption is only on the improvement value of residential units in multifamily developments in designated areas; taxes are still paid on the land and non-residential uses. The exemption is available only in City-established residential target areas (RTAs).

Mr. Sullivan said the law gives cities flexibility in establishing program incentives and requirements including in the areas of the length of the exemption (8 years versus 12 years), affordability level, percent of affordable units, ability to layer the MFTA with other incentives, potential variation in requirements by targeted area, phased affordability levels for initial projects, and capping the program at a certain number of tax-exempt units.

Mr. Sullivan said Attachment C in the meeting packet responds to the Council's previous questions. The questions focused on the potential impacts to residential and commercial development, how the multifamily property tax exemption will address affordable housing needs, how the tax exemption program will complement other housing programs, and potential impacts to public revenues (e.g., other taxing districts, other property owners, and overall revenue to the City).

Mayor Balducci observed that she will need additional information regarding the impacts to public revenues reflected in the tables provided in the packet.

Councilmember Stokes said he wants to understand the feasibility of the approach and the overall costs and benefits. He said it is important to determine whether this is an effective way to allocate tax dollars versus other potential strategies. He questioned the cost of administering a MFTE program.

Mr. Sullivan said the costs and benefits of the MFTE have been analyzed for other cities. Staff will provide that information in the future with an analysis of the implications for Bellevue.

Responding to Mayor Balducci, Mr. Sullivan described Table C7.2 [Page 53 of meeting packet]. The table presents a sample project and the corresponding land, non-residential improvement, and residential improvement property tax revenues. The residential improvement property tax revenue is the portion that would not be collected under the MFTE. Mr. Sullivan noted additional information in the table depicting the impact to individual taxing districts (e.g., City, County, School District, and others).

Ms. Balducci questioned the benefit of allowing the property tax exemption versus collecting the taxes and using the money for affordable housing projects. Mr. Sullivan referred the Council to the Exhibit entitled, "Developer Benefit and Cost Analysis," which attempts to capture the value created for the developer over the eight- or 12-year period as well as how much the developer is being asked to reduce its revenue for affordability.

Mr. Sullivan noted that the revenues lost by the MFTE are not all City revenues; some go to other districts. He said there are limited public resources available that can be leveraged directly for housing needs. The MFTE program provides another financing tool to create housing affordability.

Mayor Balducci summarized her understanding, which is that the MFTE program leverages revenue paid to other taxing districts (as well as the City) and generates a resource that does not exist today. Mr. Sullivan confirmed that understanding.

Councilmember Robinson observed that another benefit is to mix affordable housing units with market-rate units rather than segregating the two types of housing. She questioned whether options exist for extending the affordability/tax exemption beyond 12 years. Mr. Sullivan said that will be one consideration in establishing the City's program principles.

Deputy Mayor Wallace said the analysis (Table C7.2) assumes the development project goes forward without the MFTE, which might not be the case. He said certain projects in Seattle would not have gone forward without this incentive, and the City benefits from the additional sales tax generated by the retail space in these developments, as well as the land and non-residential property taxes.

Mr. Wallace observed that publicly financed affordable housing is more costly than what can be provided through the private sector, so the MFTE is a more efficient way to reach that objective. He said this is the only private-sector housing incentive authorized by the State to date.

Responding to Councilmember Lee, Mr. Sullivan said the MFTE has been around for a number of years. Mr. Lee observed that it is an appropriate tool. However, there are complexities that need to be evaluated further. He questioned what other tools might be effective in encouraging affordable housing.

Continuing with the presentation, Mr. Sullivan described a table presented as Attachment B in the meeting packet entitled "Prototypes Illustrating Program Options." The table demonstrates options for elements and specific features of a City's MFTE program. One example is the definition of where the MFTE could be applied (e.g., within a certain distance of transit facilities, within a specific zoning district, etc.).

Mr. Sullivan noted Attachment D, Affordability Options, which illustrates different affordability levels and the relative economic impact to developers.

Mr. Sullivan requested the Council's input on the proposed principles for a MFTE program. The first is that a tax exemption program should result in a clear public benefit with regard to the number of units and percentage of affordability.

The next two principles address the scale of the program (e.g., whether it should be voluntary, total number of units, limiting program to specific time period, setting the total number of projects, varying the program by neighborhood, etc.).

Mayor Balducci observed that the Council will agree that the incentive should be voluntary. She suggested providing the tax exemption in varying neighborhoods, particularly at the site of the Newport Hills Shopping Center.

Councilmember Chelminiak observed that the MFTE might be well suited to the Eastgate/Bellevue College area.

Deputy Mayor Wallace said an important decision is whether to adopt the eight-year exemption, which stimulates housing, or the 12-year exemption, which stimulates affordable housing. He supports a focus on the latter because there is not a need to merely stimulate housing. He suggested considering a 12-year exemption plan with a 20-percent affordable housing component.

Mr. Wallace expressed an interest in seeing how Seattle has set limits on the number and/or location of tax exempt units. Rather than limit the program to a specific time period, he suggested setting a check-in date (e.g., three years or five years) for evaluating how the program is working. He said Seattle has been using the MFTE program for a number of years and has revised it a number of times through trial and error. He suggested that Bellevue could learn from Seattle's experience.

Councilmember Stokes concurred with Deputy Mayor Wallace about the 12-year exemption program.

Councilmember Robinson asked for information on Mercer Island's MFTE program.

Councilmember Lee agreed with Mr. Wallace's comment that Bellevue needs to generate affordable housing, not simply housing in general. He wants to clearly understand the objectives of the City's program, if the Council chooses to move forward.

Mr. Sullivan said the MFTE program has been targeted potentially for the Downtown, Bel-Red corridor, Eastgate, and Newport Hills. The Council appears to support a 12-year exemption. He asked the Council to provide direction on general affordability requirements, including the potential for different affordability thresholds for different types of units (e.g., studio, one-bedroom, etc.). Mr. Sullivan questioned the Council's interest in considering "micro units." He said Seattle found it was not getting any public benefit from these units.

Responding to Mayor Balducci, Deputy Mayor Wallace said the Council needs to consider whether a developer will want to take advantage of the MFTE. It must be sized in a way that is not too large and essentially giving money away, but it should not be so restrictive that it is not used. He said Seattle, after trial and error, ended up staggering the rent levels per unit. Before

that, everyone was building studio apartments because that was where the incentive was most attractive.

Mr. Wallace said a studio unit needs approximately \$1,000 per month to make sense financially. Similarly, a one-bedroom unit needs \$1,500 per month and a two-bedroom unit needs \$2,000 per month in rent. He said the HUD (Housing and Urban Development) rent limits for a two-bedroom unit are far below \$2,000 per month, but they are not much lower for studio units. He said the level of affordability can be set to reach a specific objective (e.g., to stimulate two-bedroom units).

Deputy Mayor Wallace observed that the multifamily property tax exemption is a way to produce affordable housing through private sector means, which is more efficient than approaching through public financing.

Mayor Balducci asked staff to develop some scenarios for Council consideration during the next discussion.

Councilmember Robinson would like to understand the potential for extending the tax exemption beyond 12 years.

At 8:01 p.m., Mayor Balducci declared recess to the Regular Session.

Charmaine Arredondo
Deputy City Clerk

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