Seattle Housing Levy
Rental Production & Preservation Program

Technical Advisory Committee, October 16, 2015

The largest Levy program provides approximately $14.7 million annually in capital funds to support development of affordable rental housing. Key features:

- **Project types:** new construction, acquisition and rehabilitation of existing housing, improvements to existing affordable housing

- **Populations served:** Priorities for residents served:
    - Homeless individuals, families, youth and young adults, including chronically homeless individuals with disabling conditions
    - Seniors and people with disabilities
    - Low wage working people and their families

- **Affordability:** Housing is maintained as affordable for 50 years or more. Affordability levels:
    - At least 60% of funding supports housing serving households at or below 30% AMI
    - Up to 40% of funding supports housing serving households at or below 60% AMI
    - Up to 10% of funding supports housing serving households at or below 80% AMI

- **Location:** Housing is located throughout the city, to promote choice and opportunity and to support underinvested communities and prevent displacement. Locations have frequent transit service. Depending on the intended resident population, the location is evaluated for other features such as safe routes to school.

- **Services:** Depending on the intended resident population, on-site and referral services may be available, such as physical and behavioral health care, children's programming, nutrition, and job search assistance.

- **Compliance:** Physical inspections and annual compliance reporting ensure that the housing is well maintained, serves the intended resident population, and is financially viable.

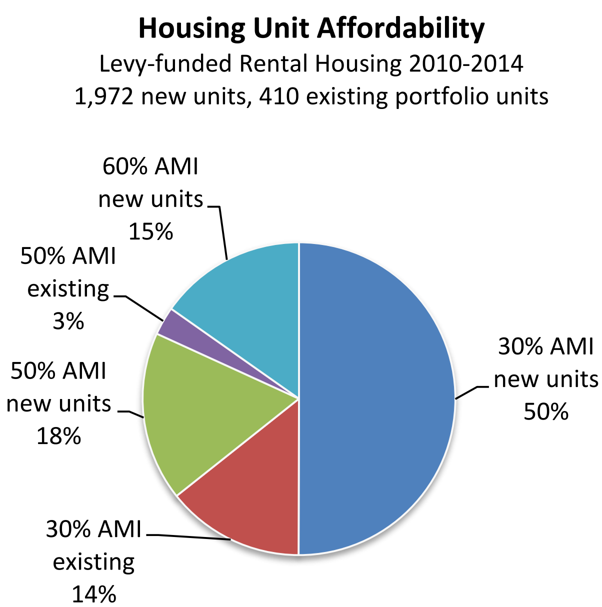
2009 Housing Levy Performance to date

- **Production:** In the first five years of the Levy the program produced 1,971 affordable apartments, and reinvested/improved four buildings with 410 units. This exceeds the 7-year goal of 1,670 units.

- **Affordability:** 60% of funding went to units that will serve households below 30% AMI, as required by the levy ordinance. This target is becoming more difficult to achieve, due to limited 9% tax credit equity and operating subsidies. Some of the 30% AMI funds were invested in essential improvements to existing housing serving homeless and other extremely low income households that already had operating subsidy.

The balance of funding was used for housing up to 60% AMI. No funding was used for housing up to 80% AMI. OH has not received requests for funding at 80% AMI in the past two levies due to the relatively small amount of funding available (currently $1.5 m/year) and because projects would need to forego tax credit equity which is capped at 60% AMI.

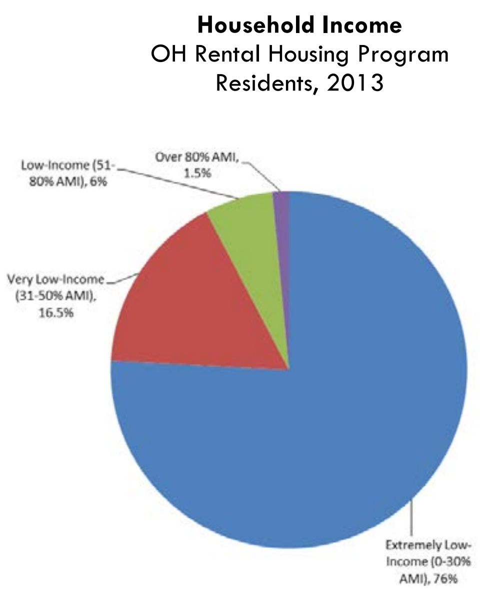
- **Location:** The current levy emphasizes transit oriented locations so low-income households would have access to new high-capacity transit coming on line. In some cases, OH and housing providers worked with Sound Transit to secure surplus sites near LINK light rail station areas.

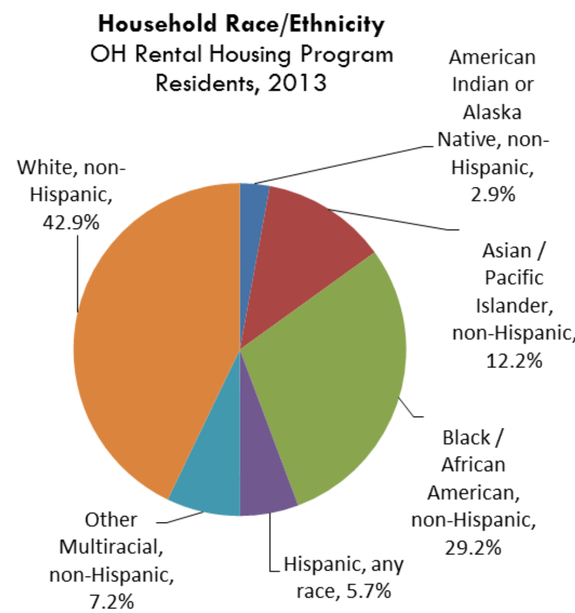


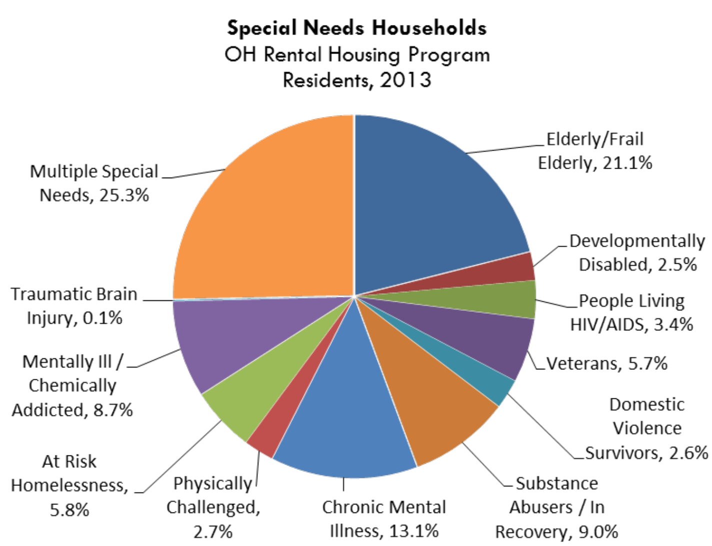
Who lives in Levy-funded housing?

OH now has over 12,000 affordable rental units is its portfolio, funded with Levy and other City-administered fund sources. Approximately half these units are regulated to serve households below 30% AMI, although nearly three-quarters of actual residents served have incomes below 30% AMI. Many of these residents use various forms of tenant-based rent assistance or vouchers to help pay the rent.

Demographic information is available for completed housing projects in operation for more than a year. Demographic data is from 2013, and captures all households occupying the unit over the calendar year.

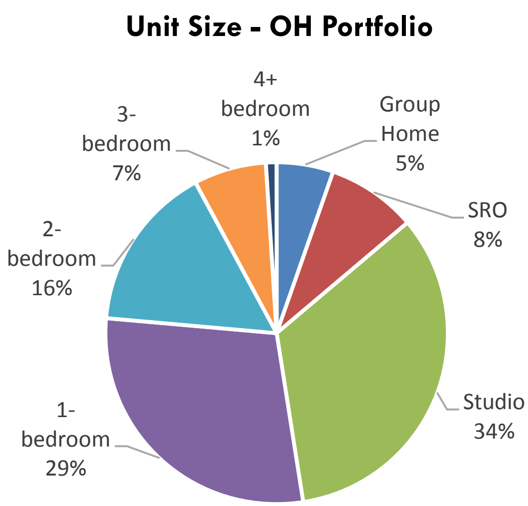


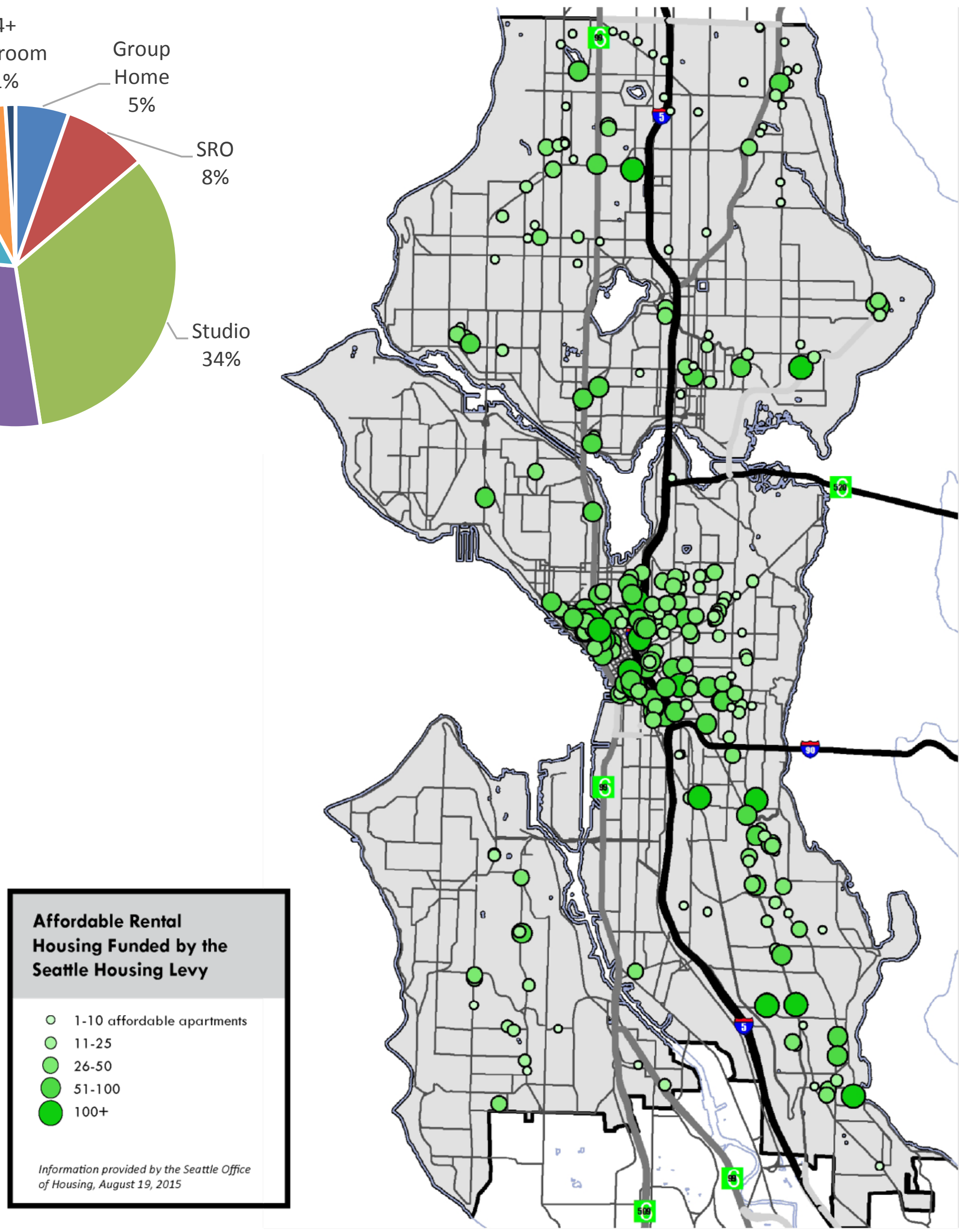




Characteristics of Housing in OH's Portfolio

OH's portfolio now includes 294 projects either in operations or under development with 11, 687 income and rent restricted units. This represents 62 different owners, although the 8 largest owners each have more than 500 units, which collectively represent over 62% of the total OH portfolio.





Portfolio Performance and Capital Needs

As part of the ongoing compliance monitoring that OH performs, buildings in the portfolio are subject to regular physical inspections that occur on a 1 to 3 year cycle. These physical inspections follow the inspection standards of the HUD Uniform Physical Conditions Standards, City of Seattle Housing and Building Maintenance Code, and the HUD Housing Quality Standards. Generally the buildings in the OH portfolio are well maintained and continue to pass physical inspections.

Our owners are encouraged to take advantage of funding for energy and water conservation improvements available through OH's HomeWise program, Seattle City Light and Seattle Public Utility. Working closely with each other, HomeWise staff work and OH asset management staff direct funds towards projects with the greatest need in the OH portfolio. Typical improvements include insulation, air sealing, lighting, windows, boiler replacements, ductless heat pumps and ventilation. In an environment of rising utility costs, income and rent restricted units limit the owner's ability to pass along these costs to the tenants so conservation measures can have a significant positive impact on the operating cost of a building.

When more extensive repairs are needed, owners can apply for funding through Rental Housing NOFA. OH will fund up to half the rehabilitation cost, and the owner must contribute their own resources as well as secure other funding. In past five years OH funded rehabilitation of four buildings -- the Josephinum Apartments, Lyon Building, Julie Apartments, and Santos Place – that serve homeless residents. In addition, the Leschi senior housing project included both rehab and new construction. All but part of Leschi were acquisition/rehabilitation projects with capital needs. Each building primarily serves extremely low-income residents, and therefore had limited financial options to address the major repairs. Extending the useful life of these buildings and improving the living environment for the residents played a major role in the development of the scope of rehabilitation work for these projects. Capital improvements included major building components such as building envelope, heating systems, and elevator replacement. The public benefit of additional investment by OH is quantified by extending or deepening the existing affordability.

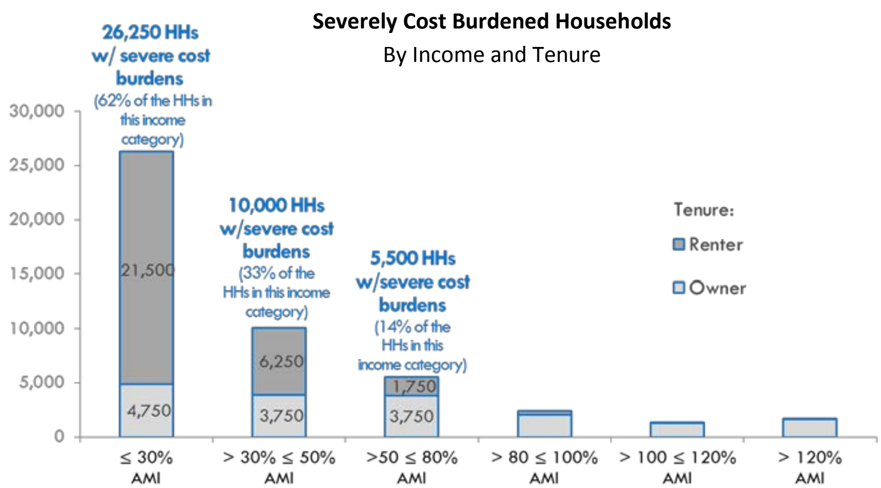
Even though buildings continue to pass physical inspections, the portfolio is aging and continued investment will be needed to address the capital needs of some buildings. Currently there are 98 buildings in the OH portfolio containing over 4,000 units that were built before 1950. Acquisition/rehabilitation projects are an important vehicle by which to preserve affordable housing but depending on the policy parameters and resources available at the time of development, coupled with the population served during operations, not all of these projects have aged as well as others.

Quantifying the capital needs of the OH portfolio is difficult but it has been aided greatly by the work of the MacArthur Window of Opportunity Grant. Mainly through the development of Capital Needs Assessments (C.N.A.), this grant provided the foundation and tools to many of our owners who are now mapping out the useful life of building components and the impact on replacement reserve balances. The requirements for the development of a C.N.A. have been incorporated into annual reporting requirements, OH loan terms, and NOFA application requirements for acquisition/rehabilitation projects. The intent of a C.N.A. is to focus the attention of our owners on their own portfolios and balance that against any future developments.

There are several factors to consider in assessing future capital needs of the OH portfolio and the potential recapitalization costs, including, age of building, construction type, and population served. A recent analysis of seven (7) C.N.A.s representing seventy-seven (77) buildings containing over 5,000 units indicates a combined capital need of approximately $45 million over the next 10 years. There should be caution used when drawing any conclusions or extrapolating this over the entire portfolio. A C.N.A. makes a conservative assessment based on the industry standard for useful life of a building component, which may be quite different from the actual useful life. Additionally, proper attention to maintenance can have a significant impact on extending the useful life of building components. To augment our analysis, the Asset Management unit has been engaged in a series of conversations with our owners about the capital needs of their portfolios and how they might potentially meet these needs.

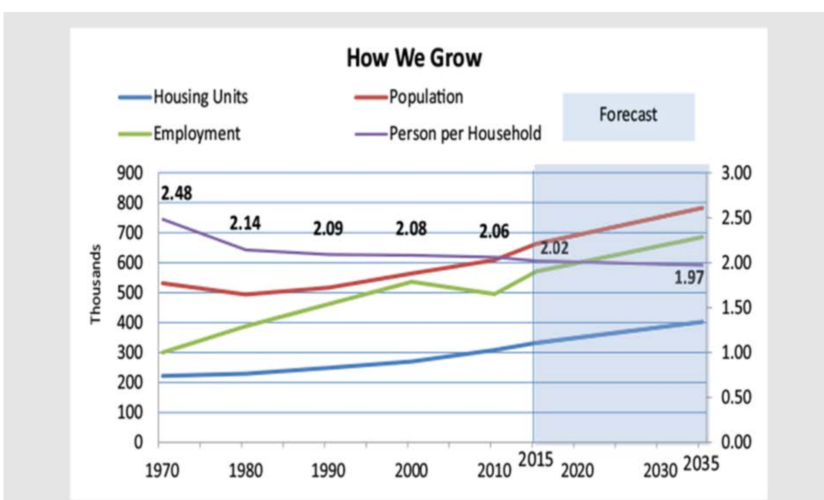
Affordability Trends

Rising rents in recent years are affecting many Seattle residents, with housing costs consuming a greater share of the household budget, leaving less for other essentials. An estimated 15-20% of all Seattle households are severely cost burdened, paying more than half their income for housing. Extremely low-income renters are most impacted – an estimated 21,500 renter households below 30% AMI pay more than half their income for housing. Cost burden disproportionately affects people of color; about 34% of Black or African-American renter households are severely cost burdened.



US Department of Housing and Urban Development, based on 2006-2010 American Community Survey

In the next year Seattle will adopt a new Comprehensive Plan that will guide the city's growth over the next 20 years. The city's population is projected to grow to 725,000, up from 608,660 in 2010. To accommodate this population growth, Seattle will need to plan for 70,000 new housing units. The Comprehensive Plan calls for producing and preserving affordable housing through funding, incentives and other policies.

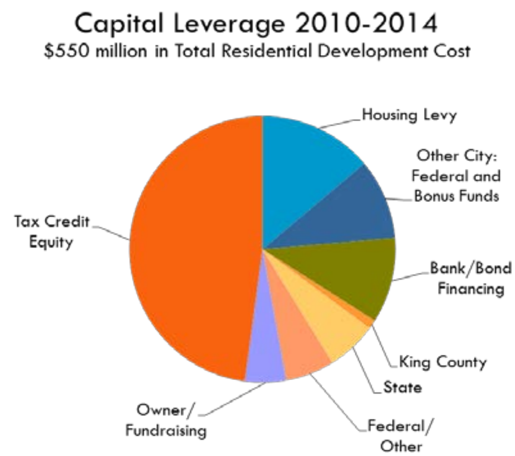


Funding Landscape for the 2016 Housing Levy

Capital Funding

OH is planning for a larger Housing Levy in 2016, as the HALA advisory committee and Mayor Murray have called for doubling the Levy. Doubling City resources will enable project sponsors to leverage additional investment, for example through private lending and 4% Low Income Housing Tax Credits. Other critical leverage sources will not increase, however -- particularly equity through the 9% Tax Credit. As compared to the average over the past five years, we anticipate the mix and proportion of capital fund sources will change:

- Tax credit equity, currently 47%, will likely decrease
- State and King County sources, currently 7%, could remain stable or grow
- Bank/bond financing, currently 10%, must grow, with more projects carrying debt
- City sources, currently 25%, will likely increase

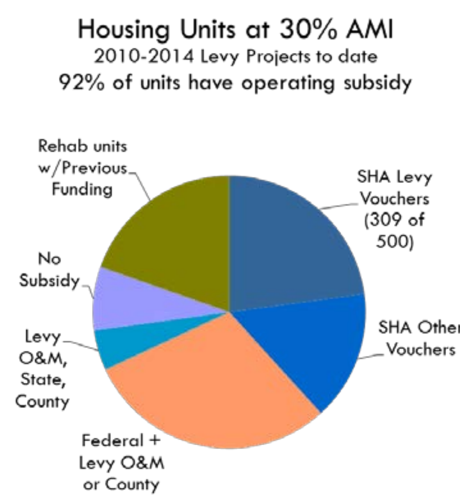


Operating Funding

In the current housing levy, 60% of capital funding must support housing that serves extremely low-income residents, below 30% AMI. In practice this housing often serves homeless residents with disabilities whose incomes are substantially lower. In projects funded over the past five years, 92% of units regulated to serve households below 30% AMI have an operating subsidy. The most significant are 500 Section 8 vouchers committed to the Levy, additional vouchers in SHA and other projects, and Levy O&M funds to support 290 units. The O&M is intended to be paired with Federal McKinney homelessness funding and other sources. The operating subsidy allows the tenants to pay 30% of their income for rent, as well as providing financial stability for the building.

The operating funding environment for the 2016 Housing Levy is anticipated to be significantly different:

- SHA Section 8 vouchers are uncertain
- Federal McKinney funds are difficult to attach to capital projects
- County and State are funding renewals of existing operating fund contracts, not new buildings
- City sources will need to increase
- More reliance on mixed-income affordable buildings



Principles for Levy Renewal

The Rental Housing Program is a catalytic funding source that attracts and leverages other investments and creates opportunities for collaboration. It is also an essential resource to make Seattle an equitable city -- it helps maintain and increase racial, ethnic and economic diversity in neighborhoods, and prevent displacement of low-income residents as housing costs rise. Planning for new Levy should build on this legacy of success by:

- Maintaining competitive and flexible funding policies. Serve a range of eligible populations at locations throughout the city, and support new construction, acquisition/rehab, and portfolio preservation projects.
- Funding housing affordable at 30%, 50% and 60% AMI.
- Funding new production of permanent supportive housing for chronically homeless adults with disabling conditions, as feasible, given reliance on 9% tax credits, Section 8, McKinney bonus funding and other leverage sources.
- Maintaining the Levy's commitment to serve extremely low-income and other vulnerable residents, but create more flexibility to achieve this priority.
- Providing short-term bridge financing (up to 2 years) in advance of a permanent award when necessary to enable sponsors to seize upon competitive market opportunities that do not align with the NOFA cycle.

Discussion Questions

The following questions are intended to help OH develop a feasible production goal for the program.

- Given uncertainties about leverage funding, how can the Levy best serve extremely low income people?
    - Obtain Section 8 vouchers from SHA as feasible, and expand the Levy O&M program, to provide project-based operating subsidies. These units would serve homeless and other extremely low income people who would pay rent based on their income.
    - Produce units at 30/40% AMI without project-based operating subsidy in mixed-income affordable housing projects. These units would serve residents, such a people working for low wages, who would be able to cover the full rent payment.
    - More explicitly connect extremely low income people with a tenant-based rent subsidy to Levy-funded housing at 50/60% AMI.
    - Prioritize extremely low-income housing in OH's portfolio for investment in building rehabilitation and efficiency upgrades.
    - Other strategies?
- Given the need for affordable housing for low-wage workers, what is a reasonable and feasible mix of affordability in a "workforce" project financed with tax credits and bonds?
- What is the proper balance of resources between new production and the need for reinvestment in the OH portfolio?
- Should funding be limited to rental housing serving households below 60% AMI, or maintain flexibility to use a small portion of funding up to 80% AMI?
- Are the Principles on track?