ATTACHMENT B - 09/06/2019
Affordable Middle-Income Housing Advisory Council
Draft **Recommendation Summaries**

The following includes ideas advanced thus far by members of the Advisory Council work groups. These capture a range of ideas and do not yet represent any agreement or consensus of the Advisory Council members or intention by the City. City staff and Advisory Council facilitators will use these as discussion tools in upcoming meetings to develop the group's final recommendations to the City.

For Advisory Council review on 9/9/19.

Advisory Council Review questions:
Does the recommendation summary capture the main substance of what you intended—ignoring wordsmithing and style/tone/format differences across the recommendations for now. Is the <u>substance</u> correct? Is there anything <u>missing</u>?

Contents

Cost and Regulatory Strategies

A.01: Implement Structural Changes to Permitting Processes across City Departments

Issue. The City should not implement new policies, codes, and procedures that unnecessarily or inadvertently add time or cost to housing development and should seek to reduce any unnecessary time and costs associated with current policies, codes, and procedures—particularly for rent-restricted or middle-income housing. The City should consider structural changes that would provide oversight to current permitting processes and internal safeguards to evaluate the affordability impacts of future proposed changes, including changes to codes and permitting processes.

Recommendation. There are several ways in which the City could reduce the time and cost associated with permitting processes across City departments, including but not limited to:

- Create a department-neutral ombudsman position to: 1) review ongoing code and permitting changes and evaluate their impact on housing cost, 2) address appeals in which an applicant is receiving different information from different permit reviewers within or across departments, and 3) oversee an interdepartmental continuous process improvement team to track permitting activity, address bottlenecks, and implement process improvements.
- Require that all new code and permitting change proposals provide a report—similar to a fiscal note—that measures the proposal's impact on housing cost and/or affordability and communicates the rationale for the proposal. Collaborate with market practitioners to assess the impacts of proposed changes.
- Improve permitting process predictability by creating more standardized practices and fee schedules and limiting changes in the permit reviewer throughout permitting processes.

Impact. TBD

Implementation. These strategies could be implemented through Executive action, although all bring budget considerations.

A.02: Improve SDCI Permit Processes

Issue. The current process for the review and approval of land use and building permits takes too long and this adds costs for the construction of housing for middle-income and other households.

Recommendation. SDCI staff should work with permit review staff, stakeholders, and applicants to review the current processes and recommend improvements. Changes explored should include the following:

- Increase permit review staff;

- Prioritize faster turnaround times for small corrections or those corrections that weren't found in earlier correction rounds;
- Prioritize faster turnarounds for reviews of whether an application is complete; and
- Explore additional recommendations that may come to light as part of the effort.

Impact. Permit process improvements should have the following impacts:

- Simpler, quicker processes;
- Greater predictability for outcomes;
- Cost efficiency and better coordination (within SDCI and amongst other departments);
- Improved customer service;
- Better transparency for permit applicants and neighbors; and
- A foundation for further and on-going improvement.

Improvements could be scalable in that they could address the middle-income serving housing that is the focus of AMIHAC as well as other types of housing.

Implementation. A permit process improvement effort, as contemplated here, would need the following actions to proceed:

- Identify a scope, schedule and budget;
- Identify funding;
- Identify SDCI staff for oversight and participation, as well as backfill for the permit review functions these staff would otherwise perform; and
- Conduct a consultant selection process, if needed.

[Forthcoming] A.03: Improve Utility-related Permit Processes

A.04: Raise Seattle Environmental Policy Act (SEPA) Thresholds

Issue. SEPA review adds permit review time, risks and costs to the permit process that can range up to several months or more of delay, and tens of thousands of dollars in legal and other fees. Raising thresholds would focus environmental review on projects most likely to result in environmental impacts and relieve the time and cost uncertainties for development below new thresholds.

Recommendation. City staff should explore raising SEPA thresholds to better define the size-level (such as greater than 100 housing units or 50,000 square feet of non-residential space) at which development proposals should be subject to a SEPA review. The City's codes have evolved since SEPA was adopted in 1971, there is less need to use SEPA authority to require mitigation measures, because other regulations effectively mitigate environmental impacts.

Impact. Removing a SEPA review requirement would mean more housing development could be entitled with a building permit or a building permit with Design Review saving review time and costs. More predictable outcomes would result as building permits are not appealable to the City's Hearing Examiner, and Design Review appeals are limited in scope to design issues. Higher thresholds could also lead to more units being included in development proposals, which could lead to greater housing supply.

Implementation. Analyze permit data to assess appropriate new thresholds by zone and area of the city; Confirm existing codes provide intended environmental protections; and make recommendations for legislation to the Mayor.

A.05: Create Faster Design Review for Smaller Projects

Issue. Design review can add additional permit review time and costs that can impact the affordability of housing in smaller projects.

Recommendation. The City recently updated the Design Review process and raised size thresholds for when Design Review is required; but these changes may not do enough to address the affordability of small housing projects, such as those with fewer than 100 units. The City should explore ways to reduce the permit time and cost impacts associated with Design Review including: additional threshold changes, allowing more small projects to access Administrative and Streamlined review processes, and process streamlining (including neighborhood outreach, limits on the number of meetings and terms for Board members).

Impact. Reducing the time needed to complete Design Review should result in quicker permit review and approval within SDCI; and improve predictability for permit applicants with fewer appeals of Design Review decisions to the Hearing Examiner. Combined with a recommendation to raise SEPA thresholds, this effort could provide scalable benefits to smaller housing projects.

Implementation. Review permit data to assess the current outcomes of Design Review for smaller housing projects; Seek input from stakeholders and permit applicants about potential changes to Design Review; and Prepare recommendations for the Mayor, which may include legislation.

A.06: Amend Recent Bike Parking Changes

Issue. In April 2018, Council adopting Parking Reforms legislation. One outcome of this legislation was to quadruple the amount of bike parking required for new multifamily structures and implement new standards for the location and design of bike parking. In some cases, these changes may require projects to include underground parking, elevators, or standalone bike storage facilities that would not otherwise be required. This additional infrastructure can add significant cost to new housing.

Recommendation. City staff should conduct a review of development applications subject to these standards to understand potential unintended consequences of these changes. Possible modifications to be considered could include allowing ramps or runnels to get bikes out of a basement level if the building doesn't have elevator or modifying dimensional requirements for bike parking. Staff could also consider modifying the rules to ensure townhouses without garages are not required to have standalone bike parking structures.

Impact. The recommendations could reduce the cost of major infrastructure such as underground parking, elevators, and standalone structures.

Implementation. Depending on the specific recommendations, these changes might be implemented through changes to a Director's Rule still under development or they might require legislation.

A.07: Revise Lowrise 1 Density Limits

Issue. The Lowrise 1 zone currently has a density limit of one unit per 1,300 square feet of lot. Given floor area and other restrictions, development standards tend to result in unit sizes of 1,700 to 2,170 square feet. These units are substantially larger than most existing townhouses and are thus substantially more expensive.

Recommendation. The density limit in Lowrise 1 zones should be reduced to allow more moderately-sized units.

Impact. This change would allow for more affordable homeownership opportunities. For example, allowing four units on a 5,000 square foot lot would decrease that maximum size of a unit from 2,165 square feet to 1,625 square feet. Given that new townhouses have been selling for about $420 per square foot, this change would decrease the average price of those townhouses from $910,000 to $680,000.

Implementation. Legislation would be required.

A.08: Remove Barriers to Congregate Housing

Issue. Congregate housing is a type of housing with small individual units and common kitchens and lounge areas. This type of housing is generally lower cost than other types of housing due to the smaller individual areas. Congregate housing is only possible in very limited areas of Seattle for two reasons:

- Building Code accessibility requirements do not allow small units on floors with elevator access
- Congregate housing is not allowed in multifamily zones or NC1 or NC2 zones where most of the zoning that doesn't necessitate an elevator is located.

Recommendation. The City should consider allowing congregate housing in Neighborhood Commercial (NC2) and Lowrise 3 (LR3) zones in urban centers and villages. These zones tend to be in areas with amenities like transit, parks, and shops and have height limits that might make congregate housing practical. Additionally, the City could consider changes to administrative rules that limit built-in furniture like custom desks or Murphy beds.

Impact. These changes would help to increase the supply of lower-cost units in those locations that have the amenities to support this type of higher density housing.

Implementation. Allowing congregate housing in more areas would require legislation. Changes to allow murphy beds and other built in furniture would require changes to a Director's Rule.

A.09: Allow Detached Accessory Dwelling Unit (DADU) Subdivisions.

Issue. DADUs offer a valuable housing option for households that want moderately sized housing with some yard space. While some property owners have set up complex condo agreements to share ownership of principle and accessory dwelling units, DADUs cannot be owned outright separately from the principle dwelling units which limits ownership opportunities.

Recommendation. The City should allow DADUs to be sold separately from the principle dwelling unit by allowing unit lot subdivision of these properties. Unit lot subdivision would allow a household to own a DADU outright while ensure that both the DADU and the principle dwelling unit would continue to meet development standards in combination.

Impact. The change would allow more lower cost home ownership opportunities while preserving the existing look and feel of the property. It could also increase the number of DADUs that are built overall. For example, Los Angeles saw a 20-fold increase in the number of ADU permits when it's ADU regulations were comprehensively overhauled.

Implementation. Legislation would be necessary for this change.

A.10: Delay Mandatory Housing Affordability (MHA) Payment Timing

Issue. Many single-family and townhouse builders have felt the MHA requirements have been particularly difficult for them because it difficult to use the additional development capacity and the performance option is difficult for small projects. The requirement to pay MHA fees prior to receiving a building permit can be particularly challenging as some banks have said they won't include MHA fees in the value of their loans. Consequently, developer may need to find additional equity to fund the payments.

Recommendation. Shifting the payment requirement to a latter point in the process would reduce costs for small projects. The City could consider requiring payment prior to Certificate of Occupancy or could consider allowing gradual payment over time by the purchaser of the home.

Impact. This change would reduce the amount of equity that is needed to finance projects and the interest that is changed for that equity. Modeling by EcoNW found that shifting MHA payment from building permit to certificate of occupancy would reduce the cost of a townhouse by about $X,000 or X%.

Implementation. Legislation would be required.

A.11: Reduce Retail Requirements

Issue. The City requires ground floor retail space as part of new construction in many areas. These requirements add significant cost to housing production as retail rents rarely pay for the cost of construction and must be subsidized through higher rents in the residential compenent of the project. Additionally, they reduce the amount of housing and ground floor amenities that can be provided.

Recommendation. The City should consider reducing existing requirements for ground floor retail space, particularly where the retail market is not strong. Options could include:

- Removing restrictions that prevent any residential on the ground floor in certain areas, such as NC1 zones or commercial zones with a height limit of 85 feet or greater

- Hiring a consultant to identify areas where existing ground floor commercial requirements may not be viable. No economic analysis was conducted in previous expansions of the requirement.
- Increasing the percentage of the street-level façade that may contain residential uses in areas where the ground floor retail requirement exists. This would provide more flexibility, particularly for ground floor residential amenity area.
- Remove retail requirements except in select, targeted areas, such as Pedestrian zones or Class 1 streets.

Impact. These changes would reduce the cost of housing by ensuring that the residential units don't need to subsidize retail spaces. Modeling by EcoNW estimated that the retail requirement increases total development costs by about $X,000 per unit or x% of total costs for an average multifamily apartment development. This is a conservative estimate as it assumes full occupancy at average retail rents. Costs could be significantly more in low market areas.

Implementation. Legislation would be necessary to implement these changes.

A.12: Increase Zoning Capacity

Issue. Limited zoning capacity in Seattle limits the amount of housing that can be built, which increases the cost of housing and reduces the types of housing options that are available.

Recommendation. The City should consider strategies to increase the amount of development capacity across Seattle. Future action could include:

- Implement rezones around light rail and high frequency transit stops;
- Allow more townhouses, duplex, triplexes, and cottages in more locations;
- Increase height limits where floor area allowances cannot be met within existing height restrictions due to other limitations or where they result in bulky buildings that may not be consistent with desired design outcomes;
- Allow more units within existing height and floor area allowances to encourage smaller, more affordable units;
- Consider rezones for the numerous sites identified in the March 2018 Mandatory Housing Affordability companion resolution;
- Create density bonuses for projects that met a public purpose such as affordable or family-friendly housing.

Impact. These changes could substantially increase the supply and diversity of new housing options. More housing could help to reduce housing costs generally and allow people to find more options that work for them. These changes could also support other goals by creating more inclusive communities, encouraging housing near jobs, transit, and amenities to reduce commuting and climate impacts, and creating more opportunities for people to stay in the communities they love even as their needs change.

Implementation. Legislation would be required to make these changes.

A.13: Encourage Innovative Construction Approaches

Issue. Many companies are piloting new approaches to construction that have the potential to bring down construction costs. These include off-site construction approaches, such as modular or panelized construction, as well as new building materials like Cross Laminated Timber (CLT).

Recommendation. The City should identify opportunities to support innovative construction projects. Options could include:

- Modifying zoning standards that require complicated building shapes which are difficult to achieve through modular or panelized construction such those in the DMR zones of Belltown.
- Expand the existing Priority Green permit expediting program to expedite innovative construction projects. Modular projects might be particularly appropriate since much of the review is done by the State rather than by the City.
- Allowing additional height to accommodate the higher floor-to-floor height of modular construction. Modular construction generally requires higher floor-to-floor heights than tradition construction since the ceiling of one unit and floor of the unit above are separate structures.
- Designating specific reviewers and inspectors to innovative construction projects to build expertise in this area

Impact. The recommendations could help pilot new approaches to construction which could bring down housing costs in the future. As pilot projects are generally more expensive than normal projects, the recommendations could help projects get over the initial costs of piloting these technologies.

Implementation. Changes to zoning standards, including the height allowance, would require legislation. Other changes could be accomplished through changes to existing business practices.

A.14: Expand Labor Force and Training Opportunities

Issue. One of the many factors contributing to the increasing cost of construction is the limited availability of trained workers in many aspects of the construction industry. Labor force development and training could support housing production while also providing good paying jobs to more people.

Recommendation. The City should explore opportunities to expand the labor force and increase training opportunities for existing workers. Options to explore could include:

- Partnering with local colleges to expand programs related to the construction industry;
- Expand existing programs like Pathways to Careers and the Youth Employment Initiatives to link people with careers in construction;
- Develop a new initiative to provide underemployed adults with accelerated training, apprenticeship, and employment opportunities, similar to the TechHire program in the technology sector;
- Encourage more apprenticeship programs as part of City-funded construction; and
- Promote training in innovative construction approaches such as off-site construction or cross laminated timber.

Impact. These recommendations would reduce construction delays and cost escalations while also providing pathways to employment for more people.

Implementation. These recommendations would require new funding.

Finance and Investment Strategies

B.01: Create a Transit-Oriented, Land Control Entity

Issue. We need to reduce housing costs and facilitate area-wide planning around rapid transit hubs where land is expensive, but also where housing of all types is most needed.

Recommendation. Our region's $60 billion investment in light rail and bus rapid transit presents a unique opportunity for equitable place-making, through proactive, coordinated acquisition of public and private lands around future station areas coupled with progressive land use policies, creative financing strategies, and new housing delivery methods.

This proposal calls for the creation of a multi-county governmental entity, with an expert board and staff, which will consolidate and align regional housing strategies with expanding transit infrastructure. The entity would acquire and hold land around transit hubs and would lease or transfer it for development in exchange for public benefits.

Through both land control and advocacy, it would advance land use policies that support complete communities with reduced dependence on car ownership. It could reduce the development costs by providing technical assistance and/or staffing to local jurisdictions or engaging in predevelopment activities. Through private sector partnerships, the entity would develop creative financing strategies, propel the implementation of new housing delivery technologies and promote a robust, local trades workforce.

The new governmental entity would ensure the strategic distribution of all housing types and quantities within walkable, livable neighborhoods with easy access to robust transit infrastructure.

Impact. See above

Implementation. Support the work of Sound Communities, which is currently engaged in evaluating the scope of authority this entity will require and is coordinating with State legislators on developing legislation.

B.02: Create Social Impact Vehicle to Scale Private Sector Investment in Lower-Return Subordinate Debt

Issue. The Seattle region needs more permanently rent- and income-restricted affordable housing that affordable to and reserved for working people, earning less than 80% of the area median income, who are currently being displaced by the market economics. Because public funding is limited, new sources are capital to achieve this goal are necessary.

Recommendation. Create an Impact Investment Affordable Housing Fund (to be named) that will provide low-interest subordinate debt financing to housing developments with the following characteristics:

- Financed with affordable housing tax-exempt bonds issued by the Washington State Housing Finance Commission and equity raised under the "4%" Low Income Housing Tax Credit (LIHTC) program;
- Certain project size (expected to be at least 200 units) to be able to deliver significant new housing while achieving efficiency of scale;
- Located in a federally designated "DDA" (Difficult to Develop Area) or "QCT" (Qualified Census Tract) so as to achieve a 130% basis boost when calculating the LIHTC subsidy;
- In an urbanized area that would offer residents strong access to job centers, community resources or public transportation connecting them to those benefits;
- Experiencing a gap in private financing sources due to the higher land cost or construction cost related to building in the denser form required in these areas; and,
- Not receiving any public sources of gap financing.

The basic terms of the Fund project financing are expected to be:

- Annual interest of 2.5 – 3.0%.
- Approximate 16-year term, with the loan maturity extending 12 months beyond the first trust debt maturity, aligning with the LIHTC partnership period.
- Non-recourse debt with a non-foreclosable Deed of Trust on the property, subordinate to senior lender deed of trust and subject to LIHTC and bond regulatory controls.
- Principle and interest payable as a percentage of available cash flow from the project.
- Subject to repayment on refinance or sale of the property.

Impact. Raise a minimum of $150M over 5 years, producing at least 3,500 units with the first proof of concept pilot project investment in Winter 2019-2020 and formal launch of fundraising for fund in Spring 2020.

Implementation. The Washington State Housing Finance Commission is a key partner. The Fund's subordinate loans will be administered by the Commission in conjunction with its management of the State's tax-exempt housing bond capacity, tapping the loan administration and compliance infrastructure already in place.

There are a few capacity gaps that need to be filled in order to manage the fund as envisioned:

- Identifying or creating a hosting entity capable of administering, sustaining, and growing the fund over the long term.
- Building up a fundraising machine capable of supporting the breadth of asks needed.
- Developing a funnel for private socially-motivated capital into affordable housing for our region. To the extent that the fund-raising machine can be successful, there are a number of other investment products that could be effective in preserving or growing the affordable housing stock for the region.
- Securing ongoing accounting and reporting infrastructure for the Fund.

The feasibility study underway has included a broad review of many housing impact funds around the country, and we have learned that:

- There is no comparable example of an impact investment fund appropriate to emulate.
- The critical characteristics of our envisioned fund do not align with the business models that drive other impact investment funds and their sponsors. Consequently, there does not seem to be a viable economic model under which to outsource this operation wholesale to another single entity.

- Partnerships and outsourcing options do exist for elements of the fund management work scope, however that still leaves the critical need for a continuing entity to oversee this composite solution.

Seattle Foundation and its partners are committed to finding the best, viable solution. We continue to investigate all options to structuring this Fund, which still includes conducting a market assessment, to ensure capital investments can be received and managed in the short- and long-term via:

- Investment of philanthropic funds that have been donated to a pooled fund at the Seattle Foundation which are designated for the support of affordable housing. Philanthropists make tax-deductible charitable donations to the pooled fund. The pooled funds are invested by Seattle Foundation in the Affordable Housing Fund, and distributions from the Fund investment will flow back to the pooled fund for future reinvestment.
- Impact investments by corporations, institutions, foundations or individuals into the Fund, with distributions and principal flowing back to the investor.

B.03: Engage Employers to Support Middle-Income Housing

Issue. Middle income workers are increasing losing ground in the region's unaffordable housing market. This in turn has led to difficulty with recruitment and retention of quality workers in both private and public sectors, and results in employee dissatisfaction with long commutes and other quality of life issues.

Recommendation. Employer-assisted housing can be a powerful tool for housing affordability in both high cost and depressed real estate markets. From institutions of higher learning, local school districts, community colleges, and regional hospitals, employers across the country have engaged in meaningful ways to help increase affordability for their middle-income workers:

1. Provide land, equity and other subsidies to directly produce rental and for-sale housing (often in partnership with private or non-profit developers)

2. Provide rental assistance (for example first and last months' rent + security deposit) and/or homeowner down payment assistance as part of employee benefits.

3. Pool resources in local or regional housing funds to support middle-income worker housing

Impact. Many employer-assisted housing programs have been tried and tested in communities across the country. While these efforts are localized in nature, in general they have (1) created important tools for employers to recruit/retain workers, (2) helped revitalize depressed neighborhoods and communities, (3) expanded affordability in high cost markets, (4) built stronger communities where people live and work; and (5) contributed to environmental and health benefits by reducing traffic and long commutes.

Implementation. The Mayor's Office and King County officials should convene a business round table of the region's largest employers to adopt strategies to scale employer assisted housing in the Puget Sound region. Housing Trust Silicon Valley is a great model to follow. https://housingtrustsv.org/

B.04: Expand the Nonprofit Affordable Housing Tax Exemption for Permanently Affordable Homeownership

Issue. RCW 84.36.560 provides a tax exemption for real and personal property owned or used by a nonprofit entity in providing rental housing where at least 75% of the units are serving households at or below 50% AMI. A partial exemption is allowed, proportional to the overall percentage of units serving households at or below 50% AMI. Homeownership projects are not eligible under the current RCW, even if serving low-income households. Affordable homeownership projects serving households up to 120% AMI can qualify for the Multi-Family Tax Exemption (MFTE). However, because MFTE sunsets after 12 years, it is challenging to utilize it as a tool that can support permanent affordability.

Recommendation. The city should advocate making permanently affordable homeownership units serving households at or below 80% AMI eligible for the state's non-profit affordable housing tax exemption. Such a change for homeownership projects could support the Mayor's goal of nearly doubling the number of permanently affordable homeownership units in the City.

Impact. [Placeholder]

Implementation. There are a few additional considerations when extending the property tax exemption to affordable homeownership projects.

- For context, there is a property tax exemption program for existing low-income homeowners. That program serves households at or below 65% AMI (as of 2020) and provides only a partial exemption.
- It will be necessary to ensure that the home continues to be sold to an income-qualified household. Only projects using a proven mechanism to ensure ongoing affordability and re-sales to income-qualified households, such as ground lease held by a community land trust, should be eligible.
- Annual income recertification is not feasible for homeownership; therefore the property tax exemption may benefit a household who is no longer low-income.

B.05: Scale Development of Cooperative Ownership

Issue. As noted in the recent Housing Choices report, the private market is providing few new homeownership opportunities overall and even fewer for middle-income households. Denser ownership products can be more affordable, and townhomes are one denser ownership product being created by the market. However, townhouses start at about $500,000 in some neighborhoods. They also tend to be vertical with three stories and be at least 1000 square feet, characteristics which are not a good fit for all households. Condominiums can also be a more affordable product. However, developers, general contractors and architects have shied away from condominium projects due to the Washington State Condo Liability Law risks.

Recommendation. Cooperative ownership, which is widely used in other parts of the country, can increase the supply of homes affordable price point to middle-income families.

Steps the City could take to support cooperative development include:

- Promote use of publicly owned land for limited equity cooperative projects, as a patient landowner would be useful.
- Allow FAR to exceed height limit for greater building efficiency and to allow community space.
- Acknowledge cooperative ownership/stacked flats in the Zoning Code. Under current zoning, the Low-Rise Zones show only the term "apartments".
- Support workforce pilot projects such as infill cooperatives in Low-Rise Zones.

Impact. Seattle has some residential cooperative buildings, but they are not a widely available product type. The cooperative model provides many benefits, including:

- Beginning with low rise zones, can be developed at greater density to provide more units
- Can provide smaller, one-story units which are a better fit for some households
- Does not have the same issue with the Condominium Liability Laws.
- Can be inherently more affordable over the long term due to several unique characteristics.
- Can be adapted to market or limited equity models.

Implementation. The City has already taken several steps to support cooperatives. Language was added to the most recent MFTE legislation to clarify that multi-family cooperative housing is considered owner-occupied housing. To qualify for MFTE, 20% of units in an owner-occupied building must be affordable to income-qualified households. Income limits are 100% AMI for studio and 1-bedrooms and 120% AMI for two-bedrooms and larger. In addition, OH provided a $4.9 award to Othello Square, the City's first limited equity cooperative, providing for an opportunity to demonstrate overall feasibility of the project type and build City expertise.

B.06: Pursue a Preservation Tax Exemption (MFTE for Existing Buildings)

Issue. Currently, no incentive exists to create or maintain affordability in existing, privately owned multifamily buildings.

Recommendation. A preservation property tax exemption could be an effective tool for motivating private landlords to preserve and create even greater affordability in existing housing, while also ensuring that the housing is available to those who need it most. The City could capitalize on the success of the existing Multi-Family Tax Exemption program and pursue State legislation to provide a targeted property tax exemption to existing property owners who agree to income and rent restrictions for a minimum period of time. Local jurisdictions could tailor the tool to target properties at greatest risk of rent increases (e.g. those in close proximity to job and transit hubs) or applied in conjunction with an acquisition/renovation project.

Impact. Further analysis would be needed to estimate the number of rent and income restricted units this new program could create.

Implementation. State legislative action is needed to authorize the program. The City led advocacy efforts to pass a preservation property tax exemption legislation in 2016 and 2017 but was unsuccessful.

B.07: Allow Major Rehab Projects to Have Full Exemption in MFTE Program

Issue. Currently, the amount of tax exemption of a major rehab project is limited to the incremental cost of the rehab and not on the entire residential improvements. However, an owner has to provide the identical affordability requirement that a new construction MFTE building would. This makes no sense.

Recommendation. The state MFTE law defines a major rehab has being vacant 12 months or more (RCW 84.14.010(14). An older but updated building is therefore no different than a new construction building in that it can offer set aside units immediately upon reopening. As long as the same set aside is provided by the owner, the property should have the exemption on the entire residential improvement value, and not just the value-add portion.

Impact. This change could broaden the MFTE program to a new segment of the market for which MFTE is currently infeasible.

Implementation. The State Legislature should amend RCW 84.14.020(3) to say "(3) In the case of rehabilitation of existing buildings, the exemption does not include include the value of residential improvements constructed prior to the submission of the application required under this chapter. The incentive provided by this chapter is in addition to any other incentives, tax credits, grants, or other incentives provided by law."

B.08: Extend Tax Exemption and Affordability Period for Existing MFTE Projects

Issue. As MFTE tax exemptions expire after 12 years, MFTE projects return to market rate. New MFTE projects must be recruited to replace those expirations in order to keep the workforce housing stock steady. If existing MFTE projects had the option to renew their exemption for another 12 years, it could greatly expand the rolls of MFTE housing stock.

Recommendation. There have been earlier attempts to create an option for existing MFTE projects to extend exemption term, most recently in 2019 in the Senate as substitute bill SSB 5363: http://lawfilesext.leg.wa.gov/biennium/2019-20/Pdf/Bills/Senate%20Bills/5363-S.pdf#page=1.

Impact. We believe passing such legislation could in theory as much as double the existing workforce housing stock created by MFTE in next 12 years, assuming all MFTE projects renew their exemptions. The administrative burden on OH would depend on whether a project would need to "re-apply" for the exemption renewal or whether the exemption could simply continue under the same terms and conditions as the initial tax exemption, with just a notification to the Assessor to extend the exemption for an additional 12 years.

Implementation. Lobby State Legislature to take up SB 5363 again and pass in both chambers.

B.09: Seek Opportunities to Streamline MFTE Application Process

Issue. [Placeholder]

Recommendation. The City should pursue opportunities to streamline application requirements while balancing the need to ensure that units are being rented to income-qualified households. The City should continue to provide high-quality compliance trainings and technical assistance to property management staff and consider additional offerings such as webinars. Other improvements could include updating the tenant application package, providing additional resources for property managers and development of strategies to fill vacant units.

Impact. Such changes could help qualified renters access MFTE units faster and reduce costs associated with vacancies.

Implementation. [Placeholder]

B.10: Facilitate High-Rise Participation in MFTE Program

Issue. Currently, there are little to no high-rise communities participating in the MFTE program resulting in a missed opportunity to provide work force housing in the downtown core. As part of the existing MFTE project approval review by OH, MFTE units are required to be evenly distributed with market rate units throughout a building. While this is generally workable for mid-rise construction where market rate rent levels are somewhat homogenous between floors, this is problematic in high-rise developments where market rents vary greatly due to view-related rent premiums. This "opportunity cost" due to the lost view premiums makes the MFTE program unfeasible in high-rise developments.

Recommendation. Much of forthcoming new supply of market rate units is concentrated in new high-rise developments in both the urban core and the University District due to recent zoning changes. MFTE should be incentivized in these core locations as much as possible. Published administrative guidance to allow for MFTE units to be mostly concentrated in the lower floors of the building would incentivize more developers to opt into the MFTE program. This would provide substantially more workforce housing in in the new high-rise developments being planned without having to suggest a separate set of income levels for the urban core. We suggest the following administrative rules for high-rise MFTE product:

- Applicable to any multifamily building greater than 90' in height (as defined by zoning code):
- MFTE homes by unit type must average within 10% of the size of the same unit type average of non-penthouse market rate homes (accounts for fact the lower portion of building is often a different mix than upper).
- No more than 50% of the homes on any given floor may be designated as an MFTE home.
- MFTE homes do not otherwise need to be evenly distributed.

Impact. There should be no new process impact with the administration of these rules, as review of unit distribution is already part of OH's approval process. These rules would make that evaluation more objective and less subjective for both OH staff and the MFTE applicant.

Implementation. Director of OH should issue a Director's Rule to clarify required distribution of units for high rise MFTE projects as outlined in the recommendation above.

B.11: Attract institutional capital to the middle-income housing market

Issue. Institutional investors, including pension funds, require a market rate return on their investments and have participated as a provider of capital to middle income initiatives in other locales, but only minimally in Seattle, through the MFTE program. The goal is to apply lessons learned from other jurisdictions to the Seattle initiative.

Recommendation. Affordable housing investment strategies in other locales that have provided acceptable returns to pension fund investors almost always involve some combination of government sponsored programs, i.e. government land sales (below market rate), financing and /or mortgage assistance to homebuyers, or tax credits to developers/investors. The Mayor and City Council have made significant progress on land sales, and tax credits with MFTE. We recommend exploring with the finance community, both governmental and non-governmental, the use of mortgage assistance to homebuyers as well as financing risk mitigation strategies through government backstops.

Impact. Clearer understanding of what it will take to attract capital at scale from investors requiring a market rate return, which if implemented, could lead to additional financing sources for middle income housing development.

Implementation. Put a small working group together to further explore the how, who, when of market rate financing that attracts capital at scale.