

# Potential Changes to OH Funding Policies

November 2018

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## ALL RENTAL AND HOMEOWNERSHIP DEVELOPMENT

### 1. Community Relations Plan

**Reference the new community outreach requirements for Early Design Review in OH's policy, and encourage an outreach strategy that meets both OH and Design Review requirements in an efficient way that does not create confusion in the community.**

When applying for funding, project sponsors submit a Community Relations Plan that describes notification of nearby neighbors and community organizations prior to submitting the application, and planned activities for maintaining communications through pre-development, construction, and operation of the housing. Recent changes to Early Design Review now require expanded community outreach during the permitting phase, which overlaps with OH's requirements. Referencing early design review would highlight the need to plan communications with the surrounding community to achieve both objectives.

#### **Background:**

City legislation adopted in October 2017 created new requirements for community outreach for projects going through Administrative Design Review. Applicants must prepare a community outreach plan and document compliance with the plan before an early design guidance meeting can be scheduled with the Seattle Department of Construction and Inspections (SDCI). The purpose of the plan is to identify the outreach methods the developer will use to establish a dialogue with nearby communities early in the design process in order to share information about the project, better understand the local context, and hear community interests and concerns. In addition, when a project is located in an Equity Area the applicant must work with the Department of Neighborhoods (DON) to customize their plan to the needs of historically underrepresented communities.

OH staff has been working with SDCI and DON staff to determine how housing developments that are applying for OH funding should meet the new requirements. SDCI now recommends that applicants wait until OH funding has been awarded before initiating the Early Design Review community outreach, so that neighbors are not confused by a project that may be changed or delayed.

Information about community outreach for design review is available at the [DON website](#) and in the [SDCI Director's Rule](#).

## **2. Marketing of Affordable Housing**

**To ensure fair access, the essential components of affirmative marketing affordable units would be clarified, including outreach through community-based organizations.**

Affirmative marketing has long been required for all OH-funded housing that does not have a population set-aside or tenant referral requirement. To clarify expectations for both housing providers and community members interested in accessing affordable housing opportunities, it would be helpful to provide more detail about marketing practices in for OH-funded rental and homeownership housing.

The funding policy could identify key components of affirmative marketing, in particular working with community-based organizations to reach applicants who are least likely to apply. In addition to the policy, OH will produce a guideline outlining effective strategies and identifying community-based organizations. Both the policy and guideline would be flexible because marketing must be tailored to the housing type, location and level of affordability.

### **Background:**

The purpose of affirmative marketing is to promote fair access and equal opportunity, so that individuals of similar economic levels have a range of housing choices regardless of their race, color, religion, sex, national origin, familial status, disability, or other protected class status. As part of lease-up and ongoing marketing of vacancies, affordable housing providers identify demographic groups “least likely to apply” and make special outreach efforts.

OH is currently working on a guideline for affirmative marketing, including research about other states and a survey of local housing providers to identify questions and effective practices. The draft guideline will be available for comment early next year. This work builds on new affirmative marketing requirements adopted earlier this year for housing developments participating in OH incentive programs. OH surveyed community organizations interested in helping to promote affordable housing opportunities as part of that effort.

In developing the affirmative marketing guideline, OH will focus on effective ways to conduct outreach using local community contacts, particularly organizations with strong connections to local residents and workers in communities facing a high risk of displacement. In some areas, this may include prior community members who are already displaced.

### **3. Community Preference in Leasing and Sales**

**Allow housing developments to prioritize certain applicants to help mitigate past and present displacement, particularly in communities of color, consistent with requirements to affirmatively further fair housing.**

OH is working with community-based organizations, housing providers, and the Seattle Office for Civil Rights (SOCR) to explore community preference for OH-funded housing. The purpose would be to prioritize local residents – and prior local residents and local workers as well in some areas – in lease-up or sale of affordable housing.

Neighborhoods experiencing rapid growth and displacement have requested that the City develop a preference policy. A 2017 City Council resolution directed OH to work with SOCR to evaluate options. A major part of this work is identifying approaches that affirmatively further fair housing and do not disadvantage groups protected by fair housing laws.

OH anticipates discussing options with the community early next year. Most likely OH would issue a guideline that allowed projects to implement a community preference consistent with key criteria to demonstrate alignment with fair housing laws. For example, the guideline may allow a community preference only in racially integrated areas and only for a portion of the affordable housing units in a development. In addition, interested community organizations may propose project-specific preference policies.

#### **Background:**

Over the past year, OH has been engaged in research and community conversations about community preference. We have been seeking input from community members about how a preference policy could further their anti-displacement and equitable development initiatives. This topic was discussed at a day-long workshop *on Community-Driven Outcomes in Affordable Housing* in February. In addition, OH presented research on national examples to City Council in Spring of this year, which will be posted with the Housing Funding Policies Update materials.

While many high cost cities around the country are interested in community preference, only a few cities have enacted anti-displacement preferences. Since the 1980s New York City has provided a preference for local residents in 50% of units in affordable housing. In the past few years San Francisco implemented a citywide community preference and Portland, Oregon established a preference in one neighborhood where significant displacement has already occurred. These approaches have been challenged by HUD or in federal court when applied to some specific cases. These examples show that a carefully designed policy is essential, and a case-by-case analysis of racial equity impact will be required.

#### **4. Bedroom Definition used for Determining Unit Size**

**Consider adopting a bedroom definition that would count only bedrooms that provide fully enclosed rooms with outside ventilation when setting rent and income restrictions.**

OH is reviewing our definition of bedroom which recognizes certain “Open Bedrooms” for the purpose of determining the unit size and associated rent and income limits. Since this definition was adopted for the Multifamily Tax Exemption Program (MFTE) Program in 2015, Open One Bedroom (1BR) units have been increasingly designated 1BR in the MFTE Program. For OH’s funding programs, bedrooms have historically been fully enclosed. OH is now seeing Open BRs in rental and ownership funding applications, as well as in Incentive Zoning (Housing Bonus) and Mandatory Housing Affordability performance units.

Based on available Open 1BR data in the MFTE Program, OH has reached a preliminary conclusion that this unit type typically functions more like a studio and generally serves single-person households. Therefore, the higher 1BR rent paid by the resident is not justified for OH funding and incentive programs. There is also a concern that, to reduce unit size and produce more units on a site, developers may produce more Open 1BR, Open 2BR, and Open 3BR units in lieu of larger units with standard bedrooms.

OH will continue to review available market data and affordable housing literature regarding Open BRs, with a goal of a common definition for all OH programs. A new definition could require a fully enclosed room with an opening to the outdoors for ventilation. Projects could still include units with Open BRs or dens, which may be desirable for residents, but rent and income restrictions would be determined counting only bedrooms that meet the definition. Any OH policy change would not impact previously approved housing developments.

##### **Background:**

Open Bedroom units have become increasingly common in the market. The common feature is a partial wall separating living and sleeping space, providing light and ventilation into an interior bedroom with no window. In response to MFTE applications with Open 1BRs, a bedroom definition was included in the MFTE reauthorization legislation adopted in 2015 and codified in [SMC 5.73](#). This definition outlines minimum requirements for determination of a partitioned space as a bedroom. Since then, Open BR units have become prevalent in MFTE projects and appear to be designed to meet OH’s bedroom definition, and thus to the higher rent and income limits. Because bedroom is not defined in Seattle’s Building and Land Use Codes, OH has begun to rely on the MFTE definition for funding and incentive programs as well.

## DEVELOPMENT ON PUBLIC OWNED SITES

### 5. Community Partnerships

**Encourage partnerships with local nonprofit organizations that are culturally relevant and historically rooted, particularly when developing affordable housing in areas that are at high risk of displacement.**

Publicly owned sites provide a unique opportunity to address community priorities, especially the equitable development needs and priorities of low-income communities that have experienced displacement or face a high risk of displacement. All affordable development on publicly owned sites should include community engagement to identify priorities for housing and other commercial and community spaces on the site. OH policies should highlight this engagement and should clarify the potential for developing partnerships in high displacement risk areas, so that these developments can be responsive to local context and considerations.

#### **Background:**

Affordable housing development on publicly owned sites has long been an important housing strategy for the City, other levels of government, and housing providers and advocates. This strategy has become a higher priority due to the recognition that these sites often provide key locations near transit and other services and may offer cost savings. In recent years OH has funded affordable housing on sites made available by City departments, King County, Sound Transit, Seattle Housing Authority, and state and federal agencies. Beginning in 2017, OH policies have allowed a Request for Proposal (RFP) process that both selects the developer and award OH development funds.

One of the purposes of this OH funding policy is to align housing funding on publicly owned sites with other broad City policies and community needs. Past projects have been effective in forging new partnerships and delivering multiple public benefits. Recent projects have fostered partnerships to provide arts space, child care and early learning facilities, recreational facilities, commercial spaces for legacy/small businesses, and other community-driven uses at the site.

In 2018, City Council amended policies and procedures that govern reuse and disposal of City-owned properties, prioritizing affordable housing on sites suitable for housing development. The Council resolution highlighted the importance of community partnerships with culturally competent and historically rooted nonprofit organizations for projects in high displacement risk neighborhoods.

## **6. Homeownership Development Funding Amount**

**Consider increasing the per unit subsidy amount for development of permanently affordable homeownership to increase the number of affordable homes that can be created on publicly owned sites.**

OH is increasingly focusing on making publicly owned sites available for affordable ownership development. Even with low- or no-cost land, however, feasibility of such development is challenging; it is sometimes necessary to build a mix of affordable and market-rate homes on the property, with the market rate sales proceeds covering site and building development costs not supportable by the affordable units. Therefore, a higher per unit investment could result in a higher number of permanently affordable units at these high priority locations. OH will model a range of investment options to determine whether an subsidy increase could appreciably increase production, and what the impact of a higher funding amount might be on overall Homeownership Program goals.

### **Background:**

The price of ownership housing in Seattle has skyrocketed in recent years, leaving few homes in the market within reach of first-time buyers, even when OH is able to provide deferred purchase assistance loan. Therefore, OH's homeownership assistance programs have increasingly focused on development of permanently affordable homes. OH will invest up to \$70,000 for homes with one or two bedrooms, and up to \$90,000 for homes with three bedrooms or more. Sale of the housing is restricted to low-income buyers at an affordable price, at first sale and upon resale, for a minimum of 50 years. Permanently affordable homeownership is an important part of OH's strategy to advance racial equity, support stability and community connections, and provide wealth building opportunities.

Publicly owned sites, which can be made available at a discounted price, provide a critical resource for development of permanently affordable home ownership. OH was able to make one publicly owned site available in 2017 and has released a Request for Interest for two additional sites in 2018. Additional sites are expected to be available in the next few years.

## **ACQUISITION AND PRESERVATION PROGRAM**

### **7. Funding Authorization to Continue Program Lending**

**Allow Acquisition and Preservation (A&P) Program loans to total \$30 million outstanding at any time, so that repaid funds can be used for additional affordable housing developments.**

The A&P provides short-term loans for acquisition of buildings and development sites for future affordable ownership or rental housing. These loans are an important part of OH's broader preservation and anti-displacement strategy. The 2016 Housing Levy authorized up to \$30 million in A&P Program loans, and this cap has already been reached. If the policy is revised, funding would be available for additional loans within the \$30 million limit due to loan repayments.

A&P Program loans would be targeted to high priority development and preservation opportunities. Loans could enable OH to secure publicly owned sites, and adjacent parcels if appropriate, for future rental or homeownership development. OH would also prioritize site acquisitions that preserve buildings occupied by lower income residents at risk of displacement, particularly where significant non-City sources of permanent financing will be available. Via a partnership with the Seattle Housing Authority, A&P loans can be used to acquire and preserve older, federally subsidized buildings and prevent displacement of extremely low-income residents. SHA would secure permanent financing to repay the A&P loan and renovate the occupied rental housing over time.

#### **Background:**

The A&P Program is not a separately funded program, rather it makes short-term loans using other Housing Levy program funds that are not yet needed for project construction or operations. Since the funds will be needed for other projects, the program is designed to make loans early in the seven-year levy term. This program was modeled on a successful program in the 2009 Housing Levy. The \$30 million cap on A&P Program lending was intended to limit the number of acquisition loans to projects that would seek OH permanent financing, knowing that OH rental and homeownership funding would be limited. Availability of permanent financing will remain a practical constraint on A&P Program lending, particularly in the later years of the Housing Levy.

## RENTAL HOUSING

### 8. Project Locations for Housing with 30% AMI Units

**To improve the ability to affirmatively further fair housing, identify additional factors to take into consideration when determining whether a location is suitable for funding more housing affordable at 30% AMI.**

The intent of the development siting policy is to encourage investment throughout the city and avoid segregating extremely low-income residents -- disproportionately people with disabilities and people of color – in certain areas. OH would like to clarify the circumstances when development sites that would not be suitable under the general policy still should be considered for funding. We are looking for input about factors that should be taken under consideration on a case by case basis to affirmatively further fair housing. Examples could include:

- The housing would be located close to significant services needed by the residents
- Other nearby 30% AMI housing is restricted, such as senior-only buildings, and therefore not available to the residents of the proposed development
- Significant market rate housing development is expected to occur soon, for example due to nearby transit investment
- A different geographic area—such as ½ mile around the site – should be examined rather the Census block group given the street configuration, development pattern, and other neighborhood characteristics

#### **Background:**

For developments proposing additional units affordable at 30% AMI, this policy requires an assessment of whether a substantial amount of housing at this income level is already located in the immediate area of the proposed site. OH calculates whether, as a result of the proposed project, the amount of 30% AMI housing in the Census block group will exceed 20% of the total housing. The calculation includes market rate housing under construction and any future 30% AMI housing already funded by OH. The policy allows for adjustment to the area if significant features (highway, hillside) divide the Census block group. Central city neighborhoods west of I-5 are exempt from the policy, as are mandatory replacement housing units.

The purpose of the policy is to affirmatively further fair housing. Current policy allows an exception for a fair housing accommodation but does not provide criteria for making an exception. When applying the revised policy, OH would also assess impact on racial equity on a case by case basis.

## **9. Operating and Maintenance Funding in Mixed Income Buildings**

**Allow tenant-paid rents up to the 30% AMI rent level when O&M-supported units are in mixed-income buildings without other operating subsidies.**

Housing affordable to extremely low-income residents with incomes at or below 30% AMI is a priority for OH capital funding. This housing can be provided in a mixed income affordable building, but since rental income at 30% AMI is insufficient to cover operating expenses, such projects can support only a limited number of these units.

Providing Operating and Maintenance (O&M) Program funding to support building operating costs could increase the number of 30% AMI units in mixed income buildings and allow lower rents for some residents if needed. Under this scenario, O&M policies should be flexible to allow tenant-paid rents up to the 30% AMI rent limit, in the same way that maximum rents are set in units affordable at 50% or 60% AMI. Current O&M policies restrict tenant-paid rent to 30% of resident income, which would still be required for buildings that receive other operating subsidies and services funding.

### **Background:**

The Housing Levy commits more than half its capital funding to housing that serves homeless and other extremely low-income residents with incomes below 30% AMI. For many years, projects receiving this capital funding also received annual project-based operating subsidies – typically Section 8 from the Seattle Housing Authority or Levy O&M Program funding -- combined with other operating and services sources.

O&M provides a shallow subsidy (beginning at \$2,500/unit/year) that is frequently combined with federal McKinney funds or King County homeless or behavioral health sources in permanent supportive housing for homeless or special needs residents. Due to these subsidies, residents with extremely low incomes (such as SSI income at 15% AMI) can pay very low rent based on 30% of their income. This successful model will be replicated when operating and services funding can be secured, but these sources are increasingly limited.

The challenge of limited operating and services funding was anticipated at the time of Housing Levy renewal. Therefore, levy planning anticipated that mixed income buildings would include some 30% AMI units. These units would charge rents up to the 30% AMI maximum (not based on resident income). Rents at this level are significantly below market rent and would benefit formerly homeless households and others with very low wages. It was anticipated that rental income from other units at 50% and 60% AMI would help cover operating costs, therefore the number of 30% AMI units in the building would be limited.

## HOME REPAIR

### 10. Home Repair Loan Terms

**Consider offering all home repair loans at 0% interest, to increase affordability and reduce potential barriers for low-income homeowners in need of critical health and safety repairs.**

OH's Home Repair Program provides loans at 0% interest for owners at or below 50% AMI, or at 3% interest for owners at or below 80% AMI. Loans can be amortizing or deferred based on the homeowner's ability to make an additional monthly payment.

There is a concern that these loan terms may be confusing to homeowners and may discourage some from seeking assistance. Even those who might qualify for a 0% deferred loan may choose not to apply because of concern about unaffordable payments. Other home repair programs, such as King County, offer 0% deferred loans to all borrowers, both to benefit homeowners and reduce administrative costs.

OH will explore several options: 0% interest deferred loans for all borrowers; 0% interest loans that are either amortizing or deferred based on ability to pay; and keeping the current array of loan terms. The analysis will evaluate the impact on future loan repayments and lending.

#### **Background:**

Home repair loans are a key strategy for providing stability, improving living conditions, and preventing displacement of low-income homeowners. The Home Repair Program makes loans of up to \$24,000 for critical repairs such as roofs, heating systems, side sewers, and unsafe porches and steps. OH staff approve the scope of work, assist owners with contracting, and oversee the project. Owners may apply for subsequent loans for a total amount up to \$45,000.

Home repair loans are financed using repayment of prior loans. In 2010 loan terms were changed to provide borrowers at or below 50% AMI with a 0% interest rate. Since then about 80% of borrowers have had incomes at or below 50% AMI; about half of those loans were amortizing and half were deferred with payment due in 10 years (and an option to extend another 10 years). The remaining borrowers had incomes at 50-80% AMI and received loans at 3% interest; almost all those loans were amortizing.

The program makes about 30 loans per years and has capacity to increase lending. OH added a community engagement specialist in 2018 and is making other efforts to expand outreach and marketing. OH also offers home repair grants up to \$10,000 using Housing Levy funds when a homeowner is unable to qualify for a loan, such as those with a reverse mortgage.

## **11. Loans to Add or Improve Habitable Space**

**Design a pilot program to provide loans to low-income homeowners to add or improve habitable space within the existing home to meet the household's needs.**

Low-income homeowners often lack financial resources to make home improvements that would provide additional living space, for example for an older parent or adult child. In addition to providing more adequate living space, such improvements could allow the household members to pool income to better afford housing and other expenses. Some low-income homeowners may wish to rent out a portion of their home, such as a basement bedroom, to generate additional income. Modest improvements, such as creating a legal egress in a basement or bringing an existing unregistered accessory dwelling unit (ADU) to code, could make this possible.

OH loans to add or improve habitable space inside the existing building envelope could be part of a broader strategy of homeowner stabilization and anti-displacement. A pilot loan program would help test demand for these types of improvements and what type of support low-income homeowners would need to make them possible.

OH will prepare recommendations for a one-year pilot loan program, including household eligibility, eligible use of funds, loan terms, initial program size, and source of program funding. If an ADU is created with OH funding, rent and income restrictions would apply so that the unit will benefit a low-income renter.

### **Background:**

The proposal for the pilot originated in conversations with elected officials and community members about ways to help people use their existing homes to prevent displacement and to preserve affordable housing in the community. The City Council budget adopted in November 2018 directed OH to prepare recommendations for pilot loan program and authorized funding for outreach to potential borrowers.