



## Unreinforced Masonry Policy Committee Meeting

### Meeting Summary

City of Seattle, Department of Planning and Development

Seattle Municipal Tower, Room 4050, 700 5<sup>th</sup> Avenue, Seattle, WA 98104

Thursday, April 26, 2012 – 8:30 a.m. to 10:00 a.m.

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#### Attendance

##### *Committee Members*

- Lynda Carey, Bellwether Housing
- Art Frankel, USGS
- Bob Freitag, University of Washington
- Mark Huppert, Preservation Green Lab
- Terry Lundeen, Coughlin Porter Lundeen
- Paul Mar, SCID Preservation and Development Authority
- Sean Martin, Rental Housing Association
- Rachel Minnery, Environmental Works
- Steve Moddemeyer, Collins Woerman
- Ryan Smith, Martin Smith, Inc.
- Craig Weaver, USGS
- Eugenia Woo, Historic Seattle

##### *Staff*

- Landon Bosisio, EnviroIssues
- Rebecca Herzfeld, City Council Staff
- Sandy Howard, DPD
- Erika Lund, Office of Emergency Management
- Steve Pfeiffer, DPD
- Jon Siu, DPD
- Diane Sugimura, DPD
- Ken Takehashi, Office of Economic Development
- Angie Thomson, Facilitator, EnviroIssues
- Maureen Traxler, DPD

##### *Public*

- Charles Davis
- Alan Findlay
- Michale Robinson
- Christine Scharrer
- Ross Wildman

#### Welcome and Introductions

Angie Thomson, EnviroIssues, welcomed meeting participants and reviewed the meeting's agenda. The goal of the meeting was to brainstorm potential financing options for implementing a URM retrofit policy and to develop a plan to move the finance discussion forward. Angie gave a brief overview of the previous URM policy committee meeting. The committee discussed what buildings should be considered "in" and "out" of the policy. Ultimately, the committee determined that single-family and multi-family residential buildings with less than three units should be excluded from the policy. The committee also discussed how the policy could include different timelines for implementing retrofits based on risk factors of a specific building or area. Angie noted the table of risk categories, background

information for funding options, and the minutes from the last meeting in each committee member's packet of materials.

Jon Siu, DPD, briefly recapped the committee's purpose and objectives. Since the last committee meeting, DPD met with City Councilmember Richard Conlin, who asked if the committee will consider other technical standards than "Bolts Plus." If so, the topic would need to go back to the technical committee, requiring additional time for consideration. Jon asked the policy committee to move forward with policy recommendations based on "Bolts Plus" as the technical standard, and identify any recommendations that may need to be modified if the technical standard is changed at a later date.

Sandy Howard, DPD, pointed the group's attention to information from two surveys in each committee member's packet of materials, one from the City and one from Reid Middleton. Information on URM buildings has been grouped into three categories: buildings that have been retrofitted to some degree (14%), buildings with no external evidence of retrofit (39%), and buildings that DPD has no information on (48%). The surveys provide information on the number of stories and occupants for non-retrofitted URM buildings inside and outside of downtown Seattle, including the International District and Pioneer Square neighborhoods.

### **Financing Approaches for URM Retrofits**

Sandy gave a presentation on the different financing approaches for the URM retrofit policy. California started a statewide URM retrofit program in the 1980s. Cities were required to produce their own funding for implementing retrofits, resulting in a variety of different funding approaches. Several jurisdictions used city block grants while others used their general fund to help property owners pay for retrofits. Others provided breaks on their permitting fees or issued low-interest bonds. The city of Berkeley employed a property tax program, and several cities opted to use tax increment financing (TIF). Other options included utilizing tax breaks for a district group of buildings under the state's Mello-Roos Community Facilities District, federal funding for historic buildings, the Mark's Historic Bond Act, and the use of special assessment districts by groups of property owners. As these approaches apply to the City's URM policy, Sandy noted that block grants are limited in availability and are extremely competitive because they can be used for an assortment of planning and development programs. TIFs would be difficult to implement in Washington due to the state's regulatory structure.

Craig Weaver, USGS, asked if any of the jurisdictions did any community targeting to encourage retrofits in specific kinds of buildings. Sandy answered that jurisdictions did prioritize the type of building in the retrofit funding, but not a specific geographic area. Steve Moddemeyer, Collins Woerman, asked what made the California cities implement these measures. Sandy responded that California passed a state law requiring retrofit programs in 1986. Bob Freitag, University of Washington, said that tax increment financing makes the most sense since the city could put money into the program and receive more in taxes later. He suggested the committee recommend changing the legislation on TIF. Ken Takahashi, Office of Economic Development, responded that for jurisdictions to use TIF, a state law regarding the use of state revenue would need to be changed. The city could create their own funding district, but it

would not be as useful without access to state funding. Ken added that a number of efforts to modify the TIF law have thus far been unsuccessful.

### **Funding Challenges for Retrofits**

Angie asked the group to list potential challenges for property owners with regard to funding retrofits. Mark Huppert, Preservation Green Lab, stated that owners often have little access to capital, and a retrofit program should be timed and implemented to align with a real estate cycle.

Paul Mar, SCID Preservation and Development Authority, said one of the challenges property owners in the International District are facing is that if you retrofit a building, it triggers other code updates that owners cannot afford, from elevators to fire sprinklers. Bob stated that some banks offer low interest loans and loan guarantees after disasters. Lynda Carey, Bellwether Housing, pointed out that owners who secure a low-interest loan are often given only 30-60 days response time, which may not be enough time for a permit to be reviewed and approved. She suggested prioritizing URM retrofit permits and providing flexibility to property owners on the permit's timing.

Mark stated that private funders are often reluctant to lend to URM property owners due to the property's probable maximum loss (PML). Steve said retrofitting a building doesn't necessarily make it earthquake-proof, noting that property protection and life safety are two separate categories. Terry Lundeen, Coughlin Porter Lundeen, agreed and added that in New Zealand, property owners are facing similar challenges. While URM retrofits increase life safety for building occupants, they do not increase property value. In New Zealand owners perceive the need for retrofits as a government issue since it serves only to improve public safety. Craig added that the Christchurch earthquake had a great impact on historic buildings. Craig noted that some communities feel that if a community values a certain building, its retrofit should be the government's responsibility, not the owner's.

Art Frankel, USGS, asked if there are any breaks on property insurance if a retrofit does not increase a building's value. Ryan Smith, Martin Smith, Inc., answered that occasionally insurance companies will give breaks, but the insurance business is not always consistent. He added that one incentive for property owners could be coordinating the timing and sequencing of retrofit permits so they can be timed to when units are vacant. Ryan explained that his company is forced to rollover its permits as leasing for each of its spaces expire.

Steve stated that there is an obvious discrepancy with the policy. Prior to an earthquake event, the owner pays the cost of a building's retrofit. After an earthquake event, the public pays the price of rebuilding *[Note: Based on subsequent discussion with City Staff, it should be noted that there are limited public funds available specifically for rebuilding after an event]*. If the public were to make a modest investment upfront, the payoff could be substantial in the long run. Steve asked if Seattle would experience a series of aftershocks in the case of an earthquake. Craig responded that if the earthquake event resulted from the Seattle fault, then yes, Seattle would undergo a similar set of aftershock events as seen after the Christchurch earthquake. Steve answered that these aftershock events could make some buildings and even neighborhoods unsuitable for living.

Eugenia Woo, Historic Seattle, stated that one funding challenge is that many owners simply do not have the technical expertise to know where to start with a building retrofit or who to contact for a permit. Erika Lund, Office of Emergency Management, commented that the policy might not be financially feasible if the City uses a technical standard that does not create a demonstrable increase to property value. Insurance companies need to consider the value of lost life in addition to property value.

Mark said that after talking to several property owners, one of the biggest issues regarding the policy revolves around when the retrofit requirements are implemented. Since the retrofit does not increase property value, this policy is perceived as a ticking time bomb to existing property owners. The policy would be seen as more tolerable if the next buyer of the property is responsible for the retrofit within 8-10 years as a condition of purchase. Mark asked if there is a way to use Seattle's extensive non-profit community to buy properties, finance low-interest loans, and encourage buildings to go beyond the "Bolts Plus" requirements. He added that non-profits often have additional funding options not available to private developers. Terry asked if DPD found any examples of non-profit financing. Sandy answered that West Hollywood modified its rent control ordinance allowing owners to pass through costs to tenants on an accelerated schedule, but did not address non-profits directly.

### **Financing Options**

Mark presented the idea of tax abatement for property owners, which he believes would represent a significant incentive. A sun-setting tax abatement, for example, would decline in value for owners as time goes on. Mark said the best part of a tax abatement strategy is the leverage it creates. The City receives two to one leverage for every tax dollar "spent." This approach could also be framed as a jobs measure, since retrofits will inevitably require construction work.

Steve brought up the idea of new market tax credits. This approach would only work in a zip code with traditionally low property values. Ken Takehashi added that new market tax credits are awarded annually. The credits would be a good fit for a larger project (over \$5 million) and can leverage permanent equity in the range of 18-20%. The project would need to be within a qualifying census tract. Property owners could partner together for such an approach, but Ken stipulated that it can be difficult to coordinate a collection of deals.

Bob asked if a Local Improvement District (LID) could work for property owners. If life safety is a public issue, one could argue that any improvement to the building is a benefit to the public. Mark stated that an LID would be applicable to protecting the right-of-way, bracing a building's parapets, and façade improvements. It would be difficult, however, to direct LID funding for improvements to a building's interior.

Michale Robinson, A.I.D. Development Group, said it should be important to marry the URM initiative with the impending energy code updates. Mark agreed and added that commercial districts and older neighborhoods could definitely benefit from a pooled approach. Terry commented that he has heard of several jurisdictions in New Zealand who have been forced to bulldoze their historic districts. He reported a unique approach being used in New Zealand where upzoning is used to rebuild historic districts after the earthquake while giving property owners tradable Transfer Development Rights

(TDRs). Owners of existing buildings are encouraged to rebuild their historic structures, but get credit for the difference in development between their current building and what future (higher) zoning might have been if all buildings were leveled. Bob expressed concern that TDRs would push people to categorize their building as damaged, especially in areas of the country that practice rent control.

Lynda proposed either waiving or installing a maximum allowance of permitting fees for all URM building owners, not just non-profits. The City could then “sunset” this provision in their budget over five years. Bob suggested a case worker approach by providing additional staff resources to help property owners through the retrofit process. The program could create a website with successful case studies on URM retrofitting for property owners to learn about different ideas and concepts that could be applied to their building. Mark added that a single point of contact between the city and property owners would also be extremely helpful.

Ryan stated that from an owner’s perspective, the insurance cost of historic buildings is a significant part of a building’s operating costs. Reductions in insurance costs could be applied toward retrofits. The creation of a statewide insurance pool for buildings that require retrofits could help subsidize any insurance reductions. Although the “Bolts Plus” upgrades help protect life safety, they do not help ensure property protection, which is the main concern for insurance companies.

Eugenia asked if community development block grant funding could be available for retrofits. Mark added that block grants could be paired with historic building tax credits and the 10% federal rehabilitation tax credit. Another option, used by a number of California jurisdictions, could be the use of a bond fund to finance their retrofit program. A bond fund would be particularly useful for public institution buildings. Craig stated that Oregon is undertaking a similar initiative across the state. Steve summarized that since there is no one-size-fits-all solution, the committee needs to create a package of all available funding approaches.

### **Wrap Up and Next Steps**

Angie asked the group what additional steps need to be taken to complete the finance conversation. The group could form a sub-committee or perhaps meet again to further discuss funding options. Steve expressed his support for the sub-committee proposal. Mark agreed, saying the sub-committee could distill the information gathered so far and report back to the policy committee for approval. The committee decided that DPD will put together a finance sub-committee comprised of policy committee members, relevant city staff, and insurance and financing experts.

Mark asked if there will be time within the policy committee’s timeline to engage external stakeholders, such as the Urban Land Institute and Forterra. Lynda commented that the policymaking process must be transparent. She expressed concern that there has already been negative reaction from property owners to the URM policy as a result of the April 16<sup>th</sup> Daily Journal of Commerce article. The URM policy would not appear before City Council until the first or second quarter of 2013 and may not even be passed. Ross Wildman, Masonry Institute of Washington, said he feels stakeholder engagement is

extremely important. If property owners feel involved in the process, they are much more likely to go along with the policy.

Action Items for DPD:

- Form a finance sub-committee to further discuss funding options for URM retrofits.
- Provide a map outlining what is considered downtown for the non-retrofitted URM building survey.
- Produce an external stakeholder engagement plan to involve property owners in the policymaking process moving forward.

Angie thanked all committee members and meeting attendees for their time and contributions. The next URM policy committee meeting will take place on May 24<sup>th</sup> from 8:30am – 10:00am, in SMT 4050.