

**Housing Levy Technical Advisory Committee  
October 14, 2008  
Meeting Summary**

**Attendees:** Stephen Antupit, Martha Barkman, Barry Blanton, Andrea Caupain, Tara Connor, Betsy Hunter, Hyeok Kim, Sandy Lowe, Sara Nikolic, Tim Overland, Suzanne Petersen, Paul Purcell, Charles Spaeth, Dinah Thoreson, Christine VanDerwerf, Stephen Walker, Chuck Weinstock

**Guests:** Councilmember Richard McIver, Myisha Chambers, Nathan Torgelson, Paul Fischburg, Sara Levin, Hal Ferris

**Office of Housing:** Adrienne Quinn, Rick Hooper, Bill Rumpf, Maureen Kostyack, Julie Moore, Jess Chow, Cindy Erickson, Debbie Thiele

**1. Welcome and Introductions**

Adrienne Quinn opened the meeting with a brief review today's agenda. While previous meetings have focused on long-running levy programs with few proposed changes, this meeting will introduce some possible changes to levy programs as well as new program ideas.

**2. Rental Production, Part 2**

Maureen Kostyack began by addressing a question raised by the committee at its first meeting - how does the Levy fit in with other City housing programs? Maureen distributed a page excerpted from the City's Consolidated Housing and Community Development Plan, which showed rental and ownership housing programs arranged according to the income group served. In general, for rental housing, moderate-income households are assisted with developer incentive programs, and lower-income households through funding programs and fees-in-lieu paid by commercial developers using land use incentives. For ownership housing, moderate-income households can be assisted with incentive programs, and households at 60% and 80% of median income with below-market home buyer loan programs; housing repair and weatherization programs help very low-income homeowners.

Maureen then reviewed the Rental Production white paper, which explained how Levy-funded housing development - particularly development serving low- and moderate-wage people - is linked to the City's community development goals. The 2002 Levy includes a small, flexible fund focused on communities where housing development is lagging or where affordable housing is being lost. About \$750,000 annually is available for rental housing up to 80% AMI.

OH proposes that the new Levy also include flexibility to fund rental housing up to 80% AMI near high capacity transit stations. This focus will help ensure that renter households with a range of incomes will be able to live close to jobs, services and transit. It also provides the community and environmental benefits of increased transit ridership. Since light rail and bus rapid transit will be coming on line during the term of the new levy, the need for housing resources in these locations is urgent. Maureen provided a handout showing the proposed transit routes.

Members commented that the focus on transit-oriented development (TOD) is timely and makes sense. In Capitol Hill, for example, Sound Transit is engaged in community discussions about transit stations, and it's important to know what tools will be available. Allowing some units at 80% AMI is good, since private development does not go down that far. In Southeast Seattle, station areas are developing without dedicated resources for affordable housing, so this proposal is seen as very good news. It was also noted that zoning for increased density is essential, and is not in place in some station areas.

The question was asked, if these funds are available, could the City consider requiring affordable housing in some locations, or would the funds just be distributed through OH's usual funding round? Adrienne pointed out that having this funding provides an opportunity to be more strategic about locations for investment, and to link Levy funding to incentive zoning. As with the current Levy, funding would also be available to private developers if they were interested in committing to requirements for long-term affordability.

Members discussed how the neighborhoods currently designated Housing Investment Areas would fare under this new policy. In response to a question, Adrienne said that as new transit lines are established - such as a possible street car from the International District to the Central Area and Capitol Hill - the Levy Administrative and Financial Plan would be amended to include new station areas.

It was clarified that while TOD locations would be the only sites for housing up to 80% AMI, other worker housing at 60% AMI could be located throughout the city. As currently, locations served by transit would be preferred.

### **3. Acquisition Opportunity Revolving Loan Fund**

Equity Loan Fund. Rick Hooper described how OH has sought ideas for new financing models, especially for housing affordable to low- and moderate-wage workers, where fund sources are more limited. We've held several focus groups with people involved in both nonprofit and for-profit housing to explore options. One idea that has emerged is an "Equity Loan Fund." Rick then introduced Hal Ferris to explain the concept.

Hal described how current uncertainty in the housing market has dramatically changed equity requirements. Banks may require as much as 40% equity, rather than a more typical 20%, and equity investors are demanding much higher returns. In this environment, the City could offer a short-term, low-interest loan product that would function like equity. City funds would be repaid prior to any equity distribution or subordinate debt, when the building is leased up. In exchange for the lower interest rate, the City would require affordable housing units within the project. Hal walked through a hypothetical project to illustrate the potential to create affordable housing. The projections showed that the program would have even greater impact if it were linked to reduced parking.

Members expressed a lot of interest in the proposal and asked many clarifying questions. It was seen as a good fund source for housing at 60% to 80% of median income, and most attractive in lower cost markets where projects aren't otherwise feasible.

It was noted that developers may not view the equity loan as providing sufficient value to bother with the hassle of a City program. Hal noted that this was true, and that some developers are choosing not to use the City's multifamily tax exemption, although it would benefit them financially.

In response to a question, Adrienne explained that the City would enter a regulatory agreement with the developer to ensure affordability and proper maintenance of the building. In the past, private developers have not been interested in Levy programs because of the emphasis on very low-income and homeless units, and because most buildings are 100% affordable. In contrast, this program could fund affordable units in an otherwise market-rate building.

Many members thought there would be enough interested developers, including nonprofit developers, to use the program. Adrienne asked committee members involved in for-profit development whether they would use it. Several members said yes, depending on the specific project. The high cost of parking was discussed at length, with the point being made that building rents must subsidize parking. Nathan Torgelson agreed to find out about upcoming legislation that would change parking requirements.

A number of suggestions were made:

- Set a term of affordability, such as 50 years, rather than making the affordability perpetual
- Consider flexibility in the interest rate and term
- Consider underwriting each project and negotiating terms
- Since only limited funds would be available, consider bidding it out to get the best projects in priority locations
- Consider marketing to neighborhoods needing investment

Acquisition Loan Fund. After the break, Adrienne briefly described OH's proposal for an Acquisition Loan Fund. The purpose would be to acquire key sites - land or buildings - and then issue an RFP for a developer. OH would contract with an administrative entity in order to be able to respond quickly to market opportunities. This quick response would enable Levy funds to be used at key TOD sites or to preserve affordable rental or condo projects facing foreclosure, for example.

Several members expressed concern about the time it would take for affordable housing to be produced, and what the scenario would be if the entity purchasing the property wasn't able to make the project work. There was also concern that the administrative entity might compete with nonprofits trying to purchase the same site, especially if the fund was seen as the path to securing permanent financing from the City.

Other members thought the fund would be beneficial if the purpose was clear. For example, the fund could be critical to securing sites in transit station areas, or as a carrot to entice absentee landlords in the International District to sell. The fund could be used to purchase distressed buildings, but would likely need to be combined with other funding since not all residents would be low-income.

#### **4. Housing Preservation Fund**

Bill Rumpf reviewed the Housing Preservation white paper that described the status of OH's portfolio of funded projects. There is a cohort of projects reaching the 20-year mark. In the unrestricted private market, these projects would typically be refinanced or sold in order to generate funds to upgrade building systems. As a result, rents would rise. This common financing approach is generally not available to nonprofit housing operating under rent restrictions of 50 years or more.

OH contracted with the Housing Development Center in Portland to review capital needs assessments for a large portion of projects, and found some buildings with repair needs in excess of reserves. Typically these are older projects developed at a time when subsidy programs did not fund reserves. Bill noted that OH's asset management function has evolved as the portfolio has aged, giving increased attention to building condition and adequate reserves. Nonprofit asset management is also more robust, and nonprofits are motivated to improve building performance to support their organization.

OH is recommending that the new Levy include a fund to pay part of the cost of necessary building upgrades and repairs. Levy funds would fill the gap after all other options were employed.

Committee members recognized the need for funding preservation of some existing buildings, especially projects funded under old underwriting standards. They also acknowledged the responsibility and cost-effectiveness of preserving existing assets. SHA's Seattle Senior Bond projects, for example, are in a position where they can't raise rents and need capital upgrades.

There was a strong reaction, however, about the proposal to set aside Levy funds for this purpose. Dedicated funding could give the misimpression that building owners don't have to worry about raising funds, and that instead preserving buildings is an ongoing Levy responsibility. Committee members also expressed concern about public reaction, that Levy funding could be portrayed as a poor investment.

Members suggested that OH continue to work one-on-one with owners to address funding gaps. When City funding is essential, it should be clear that OH's analysis is rigorous and that the building is worth saving. OH should continue to get additional public benefit in exchange for its investment, such as lower operating costs, better performing buildings, and lengthened term of affordability. Since the portfolio contains many beautiful buildings, the community preservation benefit is also a selling point.

The meeting adjourned at 6:00 p.m.