

SUMMARY and FISCAL NOTE*

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** Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to Mandatory Housing Affordability (MHA); rezoning certain land throughout the City, implementing MHA requirements, and modifying existing development standards to improve livability; amending Chapter 23.32 of the Seattle Municipal Code (SMC) at pages 2, 3, 4, 5, 6, 7, 8, 9, 12, 13, 14, 15, 16, 17, 18, 19, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 48, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 70, 71, 72, 73, 74, 75, 76, 77, 78, 80, 81, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 143, 144, 145, 146, 147, 149, 150, 151, 152, 155, 156, 157, 158, 159, 160, 161, 163, 164, 165, 166, 167, 168, 170, 172, 173, 174, 175, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 195, 197, 198, 200, 203, 205, 206, 208, 215, 216, 217, 218, and 219 of the Official Land Use Map; amending Sections 23.30.010, 23.34.008, 23.34.010, 23.34.011, 23.34.012, 23.34.024, 23.44.002, 23.44.006, 23.44.008, 23.44.010, 23.44.012, 23.44.014, 23.44.016, 23.44.022, 23.44.024, 23.44.034, 23.44.041, 23.44.042, 23.45.502, 23.45.508, 23.45.509, 23.45.510, 23.45.512, 23.45.514, 23.45.516, 23.45.517, 23.45.518, 23.45.520, 23.45.522, 23.45.529, 23.45.536, 23.45.545, 23.47A.002, 23.47A.005, 23.47A.008, 23.47A.009, 23.47A.012, 23.47A.013, 23.47A.014, 23.47A.017, 23.48.002, 23.48.021, 23.48.025, 23.48.040, 23.48.055, 23.48.300, 23.48.320, 23.48.325, 23.48.400, 23.48.420, 23.48.421, 23.48.620, 23.48.623, 23.48.627, 23.48.635, 23.48.640, 23.48.645, 23.48.646, 23.48.650, 23.50.020, 23.50.026, 23.50.028, 23.50.053, 23.50.055, 23.53.006, 23.53.025, 23.54.015, 23.54.040, 23.58A.002, 23.58A.014, 23.58B.040, 23.58B.050, 23.58C.040, 23.58C.050, 23.58D.002, 23.58D.006, 23.71.030, 23.73.009, 23.73.010, 23.73.014, 23.73.024, 23.74.010, 23.76.060, 23.84A.002, 23.84A.048, 23.86.002, 23.86.007, 23.86.012, 23.86.014, 23.86.015, 23.86.016, 23.86.019, 23.91.002, and 25.11.060 of the SMC; adding Sections 23.34.006, 23.44.009, 23.44.011, 23.44.017, 23.44.018, 23.44.019, 23.44.020, 23.45.530, 23.48.050, 23.48.340, 23.48.345, 23.48.445, 23.48.900, 23.48.905, 23.48.920, 23.48.940, and 23.48.945 to the SMC; repealing Sections 23.34.026, 23.43.006, 23.43.008, 23.43.010, 23.43.012, 23.43.040, 23.48.425, 23.48.621, 23.48.721, 23.58A.025, 23.58A.026, 23.58A.028, and 23.71.040 of the SMC; recodifying Section 23.44.018 of the SMC as Section 23.44.021; and amending the titles of Chapter 23.45 and Subchapter IV of Chapter 23.58A of the SMC.

- a. **Summary and background of the Legislation:** This proposed legislation will increase commercial and residential development capacity and implement Mandatory Housing

Affordability (MHA) requirements in urban villages and commercial and multifamily zones citywide, excluding certain areas where MHA has already been implemented (Downtown, South Lake Union, University District, 23rd Avenue Corridor, and Uptown) and certain exempt areas such as historic districts or shoreline properties. Under MHA, developers will be required to contribute to affordable housing as part of most commercial and residential development. This contribution will be met by including affordable housing within new development or paying into a fund that will support development of affordable housing. The legislation also provides for additional development capacity in the form of an increase in height or floor area. The result will be increased capacity for new market-rate housing and commercial space and the creation of new rent- and income-restricted housing as Seattle grows, both of which support the City's growth management and housing policies.

The legislation includes provisions implementing a variety of new development standards intended to increase livability such as upper-level setbacks, family-sized unit requirements, new tree requirements for Residential Small Lot zones, and changes to Green Factor.

In November 2015, the City Council passed Ordinance 124895 establishing the framework for the commercial component of MHA, which was codified in a new Chapter 23.58B. Chapter 23.58B was amended by Ordinance 125133, passed by City Council in December 2016. In August 2016, the City Council passed Ordinance 125108 establishing the framework for the residential component of MHA, which was codified in a new Chapter 23.58C. Together, these pieces of legislation set up the basic parameters and procedural requirements that apply to commercial and residential development where MHA applies, but did not actually implement the requirements in any area of Seattle. This proposed legislation would implement MHA requirements already outlined in Chapter 23.58B and 23.58C in the areas described above.

2. CAPITAL IMPROVEMENT PROGRAM

- a. Does this legislation create, fund, or amend a CIP Project? Yes No

3. SUMMARY OF FINANCIAL IMPLICATIONS

- a. Does this legislation amend the Adopted Budget? Yes No
- b. Does the legislation have other financial impacts to the City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?

The overall financial implications of MHA were included in the fiscal notes accompanying the legislation for the MHA-C and MHA-R frameworks (Ordinances 124895, 125108, and 125233). As mentioned in those fiscal notes, implementing the MHA frameworks will likely result in increased workload and potential staffing impacts for SDCI, OH and IT. Below is a description of the incremental impact of this legislation:

Permit Review

This legislation could increase the amount of development occurring citywide by allowing development to be slightly larger and by increasing the amount of land that can accommodate multifamily or higher density single-family development. Overall, this proposal would increase development capacity in the study area by about 36% for residential development and 23% for commercial development. Analysis in the EIS suggests that, at the high end, this increase in capacity could increase expected growth in the study area over 20 years from 42,000 to 62,000 housing units and from 52,000 to 56,000 jobs.

Additionally, it will result in additional permit review for both SDCI and OH due to implementation of MHA requirements and the addition of new design standards. About 65% of the City's future residential development and about 45% the City's future commercial development is expected to be in areas affected by this legislation. Permits for development adding residential units or more than 4,000 square feet of commercial uses will have to meet MHA requirements. Additionally, this legislation is proposing to add or modify the following development standards which may add to review times:

- the creation of SM-RB zones
- upper-level setbacks in LR2, LR3, MR, and C/NC zones 75 feet in height or greater
- family-size unit requirements in LR1 zones
- new requirements for large buildings in Commercial zones
- side facade treatment requirements for projects in MF zones that don't go through design review
- new and modified setbacks for zones that abut zones that are much lower intensity
- new tree requirements in RSL zones
- updated Green Factor requirements
- updated green building requirements in zones that currently have incentive zoning
- minor changes to sidewalk requirements
- allowances for ramps to access solid waste containers in buildings with no parking

In 2017, SDCI received one planner supervisor to assist with MHA implementation. During the past year, this supervisor has developed interim and permanent procedures for MHA, trained staff on new code provisions and created templates for developers to use to help standardize how this information will be documented on plans. These actions will help achieve greater efficiency and accountability in the review of these regulations. Once all the program infrastructure is developed, it is anticipated that the internal supervisory review that was recommended by the city auditor will be performed by the supervisor, or shared across a small group of team supervisors.

SDCI did an analysis of total review hours required for MHA documentation. SDCI's staffing analysis indicates that 1.4 FTE of supervisory time would be required to perform the supervisory oversight on all projects triggering MHA. Because SDCI received an extra supervisory position in 2017, there is not a need right now to request additional supervisory capacity, but SDCI will monitor the impacts across the next few years which

would include any potential shifts in the economy that may reduce the overall volume of permitting.

The staffing analysis also indicates that 3.1 FTE of additional planner staff time would be required to perform the reviews for all MHA related code changes. SDCI will receive one planner in 2018 to help accomplish this work. MHA implementation has begun in Downtown, South Lake Union, and the University District. Because the citywide changes will not go into effect until the end of 2018, SDCI will continue to monitor the level of effort required and may adjust future estimates of work impact. The affected work unit has some existing positions that were received using contingent budget authority, which are set to expire at the end of 2018. If SDCI continues to anticipate a need for more planner staff, they may request conversion of one or more of these CBA positions into permanent planner positions.

Affordable Housing Funding and Compliance Monitoring

Under MHA, developers will have the option of providing affordable housing units in their building (performance option) or paying into a fund that the City will use to fund affordable housing (payment option). Citywide, it is anticipated that while commercial projects will mostly use the payment option, residential projects will result in a mix of payment and performance.

Overall, this legislation is expected to result in \$380M in revenue from the payment option and 1,325 units from the performance option over 20 years. It is estimated that revenue from the payment option would allow for the construction of 4,300 affordable units at an administrative cost of 10% and a development cost of \$80,000 per unit. This will result in a significant increase in the amount time needed for grant-making to spend revenue raised through the payment option and for tracking and monitoring of affordable housing created through the performance and payment options. It is expected that additional staff time will be paid for by a portion of revenue from the payment option and annual compliance fees associated with the performance option.

In addition, OH expects a significant upfront workload for program development related to on-site and off-site performance projects. A portion of this work will be performed by a new Community Development Specialist, approved in the fourth quarter supplemental ordinance amending the 2017 Adopted Budget. This position will be paid for with a combination of Incentive Zoning and MHA payments.

Information Technology

Implementation of this legislation will require updating of zoning maps as well as minor changes to tracking tools such as Accela to account for new zone names. Additionally, while the Accela permit tracking system, which is currently under development, is already being designed to incorporate tracking of MHA requirements, the increase in permits with MHA requirements expected due to this legislation could result in additional time necessary to transfer data into Accela once it is developed. It is expected that this work will be accomplished within existing staff resources.

- c. Is there financial cost or other impacts of *not* implementing the legislation?**
If the legislation is not adopted, significantly less affordable housing will be generated and the City will be unlikely to be able to meet its goals for affordable housing production.

3.d. Appropriations

_____ **This legislation adds, changes, or deletes appropriations.**

3.e. Revenues/Reimbursements

_____ **This legislation adds, changes, or deletes revenues or reimbursements.**

A projected revenue amount of \$5 million is assumed in the Office of Housing’s budget and 6-year financial plan because of the Citywide MHA legislation.

Is this change one-time or ongoing?

The legislation would require new development in the affected area to contribute to affordable housing by providing affordable housing units on site or providing payment to OH’s low-income housing fund in lieu of performance. The extent to which the City would receive revenue in any given year will be subject to the amount and scale of development that occurs and the degree to which developer choose to use the payment option rather than the performance option. Payments would be made at the time a building permit is issued for a project.

Revenue/Reimbursement Notes:

The program is estimated to result in \$380M in payments over 20 years. Given the length of the permitting process and the slowing construction market, it is very possible that the City will not receive much funding in 2019. However, if some projects anticipate the changes and submit permit applications prior to adoption of legislation, it is also possible that we could see more than expected.

3.f. Positions

_____ **This legislation adds, changes, or deletes positions.**

4. OTHER IMPLICATIONS

- a. Does this legislation affect any departments besides the originating department?**
Fiscal impacts, described herein, are primarily on the Office of Housing (OH), Seattle Department of Construction and Inspections (SDCI), and Seattle Information Technology (IT). Other departments that may be impacted during the implementation phase include the Office of Planning & Community Development (OPCD) and the Department of Neighborhoods (DON).
- b. Is a public hearing required for this legislation?**
Yes. Multiple public hearing is expected to be held in the first half of 2018.

c. Does this legislation require landlords or sellers of real property to provide information regarding the property to a buyer or tenant?

No.

d. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

Publication is required in the Daily Journal of Commerce.

e. Does this legislation affect a piece of property?

The legislation will apply to residential, live-work, and commercial development in most existing multifamily and commercial zones as well properties in existing single-family zones in urban centers and villages.

f. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities?

MHA is a critical step in furthering City goals for racial and social justice since it is an important piece of the City's plan to address housing affordability. Communities of color are disproportionately burdened by increasing housing costs.

Analysis of displacement suggests MHA will reduce displacement as the legislation will result in additional affordable and market-rate housing and is not likely to increase the likelihood that new properties will redevelop. Rather, the legislation will tend to encourage development that would otherwise occur to be incrementally larger.

The Office of Housing (OH) has a 30-year track record of leveraging payment dollars with other sources to build affordable housing in neighborhoods throughout Seattle, using a lens of equity. OH will invest MHA funds strategically in long-term affordable housing developments across the city. When determining the location of affordable housing funded with MHA cash contributions, the City will consider the following factors:

- 1) Affirmatively furthering fair housing choice;
- 2) Locating within an urban center or urban village;
- 3) Locating in proximity to frequent bus service or current or planned light rail or street car stops;
- 4) Furthering City policies to promote economic opportunity and community development and addressing the needs of communities vulnerable to displacement; and
- 5) Locating near developments that generate cash contributions.

Consistent with the locational criteria for expenditure of MHA payment dollars, OH's existing Housing Funding Policies' location criteria for affordable housing investments emphasizes housing choice, access to opportunity and community development investments, and preventing displacement. OH will encourage affordable housing locations that afford low-income residents the greatest access to jobs, quality education, parks and open space, and services. Access to transit is a priority, since transportation costs are second only to housing costs for a majority of low-income households, many of whom do not own a car. Over half of

the households served by providers of City-funded low-income housing are households of color. MHA enables the City to strategically locate affordable housing in neighborhoods to serve lower income households where investments clearly support the City's RSJI principles.

- g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)?**

The goal of MHA citywide is to produce 6,000 net new units of affordable housing over 10 years, when fully implemented. This action is expected to produce 3,000 of the units necessary to meet this goal.

- h. Other Issues:** None.

List attachments/exhibits below: None.