

City of Seattle

Edward B. Murray, Mayor

**Date:** July 11, 2016

**To:** Mayor Murray

**From:** Emily Alvarado, OH, Lindsay Masters, OH, Michelle Chen, OPCD, Katy Tassery, CBO, Hillary Hamilton, FAS, Steve Lee, OPI

**Additional**

**Attendees:** Mike Fong, MO, Chris Gregorich, MO, Robert Feldstein, OPI, Ben Noble, CBO, Sam Assefa, OPCD, Steve Walker, OH, Fred Podesta, FAS

**Subject: Implementing HALA Recommendations on City Surplus & Excess Property**

**Background:**

The Housing Affordability and Livability Agenda (HALA) Advisory Committee recommended that the City prioritize the use of publicly owned property for affordable housing, because it could have one of the highest impacts on housing affordability. Specifically, HALA supported a comprehensive and creative approach that includes the following strategies:

* prioritize City-owned property for affordable housing development;
* dedicate unrestricted proceeds from the sale of property to affordable housing;
* build an inventory of public property owned by the City and other jurisdictions;
* sell or lease public property below market rate for affordable housing; and
* explore co-location of affordable housing with other public facilities.

Likewise, the Mayor’s action plan “*Housing Seattle: Roadmap to Affordable and Livable City*” commits to maximizing vacant and underutilized publicly owned property for affordable housing. Specifically, the Mayor’s plan called for two actions:

1. build affordable housing on developable public land in key locations near transit and job centers; and
2. use the proceeds from public land sales to fund affordable housing.

**Discussion:**

Post HALA, there is an expectation from the Mayor, Council and public that the City lead the implementation of these recommendations, and adapt current policies on disposition of City properties as necessary to maximize the effective use of these properties for the production of affordable housing for low income people. In response, we recommend the following three immediate actions to implement the HALA recommendation on City excess and surplus property to advance housing affordability:

1. **Improve Property Disposition Process to Provide Early, Consistent Evaluation for Affordable Housing Opportunities**

A more formal structure can help facilitate the identification of sites that have potential for affordable housing development. Presently, FAS provides all departments with notice and opportunity to review property that FAS itself or other City departments have formally deemed it no longer needs. These internal processes should be strengthened to ensure that the Office of Housing can provide consistent guidance to the Mayor’s Office on opportunities for affordable housing on any City excess or surplus.

Going forward, FAS or any other City department contemplating disposition should provide the Office of Housing with an early opportunity to assess property for affordable housing development and concurrently task OPCD with identifying areas for partnership between housing and other City goals. OH will provide an assessment of excess property and identify opportunities where affordable housing would be feasible and supported. Affordability could be subsidized by City funding, land write-down, or a combination of the two.

OH’s assessment includes an analysis of site location, size, topography and shape, site constraints, access, zoning, suitability as a residential site, restrictions on use, and capacity to achieve other policy objectives. The assessment is informed by OH understanding of what affordable housing developers look for across a range of product types, including permanent supportive housing, workforce housing, and housing with family-size units. It also includes an analysis based on predicted zoning changes as a result of implementation of the Mandatory Housing Affordability (MHA) program. A key element of OH’s guidance on disposition decisions is an understanding of the extent to which OH can provide further investment for the affordable housing development from its limited sources of funding. The assessment will be shared with CBO, FAS and the Mayor’s Office to provide early guidance on disposition decisions.

OH has already begun actively reviewing and providing formal recommendations to CBO and FAS as it receives property notices from FAS. In addition, CBO has engaged OH in reviewing a number of properties in later stages of disposition to ensure that no affordable housing opportunities are missed going forward.

1. **Include in OH Assessment a Recommendation to Impose Affordability Requirements in Market-Rate Developments built on City Surplus Land**

Adopting a policy that sets minimum affordability expectations for residential development on public property that has been sold or transferred to the private market is a national best practice. This approach is consistent with policies from other jurisdictions, including San Francisco’s Surplus City Property Ordinance and Washington D.C.’s Disposition of Land for Affordable Housing Amendment Act of 2014.

OH’s assessment of excess and surplus property will indicate when market-rate residential, mixed use or commercial development may be feasible on the property even if it has been determined unsuitable for City funded affordable housing due to size, cost, zoning, physical constraints, or location. In cases where property is unrestricted or partially restricted—where the future use of the property proceeds is not already dictated by the fund source used to acquire the property—the OH’s assessment will recommend that that the property include requirements for affordable housing. As an example, OH could reccomend that the property sold to developers proposing market rate residential or mixed use development must provide 15% affordable units, in addition to any requirements that accompany MHA or are otherwise incentivized through the MFTE program. Affordability levels would be set consistent with the MHA program (i.e., 40% AMI for rental units under 400 SF, 60% AMI for rental units over 400 SF, and 80% AMI for ownership units).

1. **Establish a Policy to Dedicate Proceeds from ‘Simple’ Property for Affordable Housing Development**

When land is not suitable for housing development, the unrestricted proceeds from certain sales should be dedicated to finance affordable housing development. In some cases, public property is not conducive to housing because of its size, location, site constraints or other factors; using these unsuitable properties for affordable or even market-rate housing development may be inefficient, expensive, precluded by zoning, or otherwise undesirable. Instead, the City can support strategic affordable housing investments by establishing a policy that promotes affordable housing as a clear priority in the use of property proceeds.

Currently, the proceeds from surplus property are designated property by property in the disposition legislation; a more comprehensive approach may yield more predictable results. If proceeds are not explicitly directed to a certain fund in legislation, SMC 5.80.030 (c) currently directs any proceeds to be deposited in the Cumulative Reserve Subfund - Unrestricted (CRS-U).

To respond to the HALA recommendation, the City should adopt the following prioritized list of proceed destinations. This change would advance the HALA recommendation by dedicating the proceeds from the sale of “simple” properties, with values $1 million or less, to the Office of Housing for affordable housing purposes.

The full proposed order of proceed designation is as follows:

1. Restricted funds – back to enterprise fund or for legislated purpose
2. Repayment of external debt associated with property
3. Repayment of interfund loan associated with property
4. Administrative costs associated with real estate transaction
5. If property classification is “simple” (the value is $1 million or less), the remainder of proceeds should be directed to the Housing Fund (16600) by default.
6. If the property classification is “complex” (the value is greater than $1 million), the proceeds should be directed to needs identified by the Executive (which may include Housing).

To implement this policy change, the City should expedite sale of several simple properties with proceeds dedicated to affordable housing. A sale of several simple properties would provide a tangible resource for affordable housing and demonstrate the potential impact of the policy change.

**Conclusion:**

If these recommendations are approved by the HALA cabinet, then we will brief the Mayor at the next HALA Mayor’s monthly briefing. If the Mayor approves then staff would undertake the following next steps:

* Internally formalize process improvements discussed in #1;
* Develop proposed parameters and perform a feasibility assessment of the policy discussed in #2;
* Prepare an ordinance authorizing sale of several simple properties as discussed in #3; and
* Provide a briefing to members of the Affordable Housing, Neighborhoods and Finance Committee on this set of strategies.