MEMO

To: Members of the Planning, Land Use and Sustainability Committee of the Seattle City Council

From: Rick Jacobus and Joshua Abrams, Cornerstone Partnership

Date: September 12th, 2014

Re: Recommendations for implementation of an Affordable Housing Linkage Fee

The Seattle City Council engaged Cornerstone Partnership to make recommendations about improvements to Seattle's Incentive Zoning program. We interviewed key stakeholders in Seattle in order to identify the most significant goals for any revision to the Incentive Zoning Program. We collected detailed data on the performance of the current program, both related to the share of development projects that elect to build the bonus density and the production of affordable housing units either onsite or through the payment of the fee in lieu. In the end, we found that there were a number of refinements to the Incentive Zoning program that could strengthen it, We summarized these recommendations in our July, 2014 report "*Policy Options for Refining Seattle's Incentive Zoning Program*." However, even with these changes taken together, it appears unlikely that voluntary incentive zoning will produce dramatically more units in the future.

We recommended that the Council give consideration to the idea of replacing the Incentive Zoning Program with an Affordable Housing Linkage Fee program which would require payment of a fee for each square foot of new development in certain zones throughout the city. In our earlier report, we identified some general recommendations for the potential implementation of a Linkage Fee program. Among these was a recommendation that the City conduct a "Nexus Study" to evaluate the economic connection between the production of new real estate development and the need for affordable housing. That study has been completed and, based on those results, we are now able to make more specific recommendations regarding the implementation of a Linkage Fee program.

Specifically, we recommend below that any Linkage fee be applied to new commercial development including new office, hotel, retail, research and development facilities and all multi-family residential development in areas zoned LR1 and above. Because economic conditions vary throughout the city, we recommend setting three tiers of fees, with the highest reserved for Downtown South Lake Union and First Hill. Potential fee levels are discussed below. We

suggest adjusting the fee annually and phasing it in over time. Additionally, developers should continue to have the option to provide units instead of paying the fee. We estimate that an Affordable Housing Linkage fee could produce 5 to 10 times more resources for affordable housing than the current Incentive Zoning system.

I. Considering an Affordable Housing Linkage Fee

There are a number of reasons to switch from the current system to a linkage fee based program. The Incentive Zoning (IZ) program is severely limited because it is restricted to a small number of areas that have recently been up zoned, and only applies to developments where the economics support building to the higher allowable density. The David Rosen and Associates (DRA) feasibility study found that for most developments, it does not make sense to build taller buildings, regardless of affordable housing requirements, which means that the city will not generate new affordable housing as a result of these developments.

An increasing popular alternative for cities is an Affordable Housing Linkage Fee. Under a linkage fee program new residential, office or other commercial development is required to pay money into an affordable housing trust fund. The requirements applies regardless of building height or changes in zoning. It is still possible to give developers the option of providing units, but the default choice is to pay the fees.

While the number of cities that have linkage fees is growing, some cities like Boston, have had them for decades. The Association of Bay Area Governments recently completed a study of San Francisco and the four surrounding counties and found that 16 cities had residential linkage fees and 13 cities had commercial linkage fees.

The rational for this system is quite different from the current system. The current, incentive based system tries to find opportunities for both the developer and the city to benefit by offering developers the opportunity to build at a higher density and *in exchange* the project either provides affordable units or pays a fee in lieu of providing the units. The linkage fee based system is premised instead on mitigating the impacts that all new development causes. Specifically, new development, both residential and commercial, results in new jobs. Some of these jobs pay low-income wages and the market is not supplying the housing to meet the needs of these workers. The fee on new development allows the government to meet the affordable housing need that is generated by the new development.

Because the legal framework is different, a nexus study is required to establish the connection between new development and increased need for affordable housing. Specifically, the nexus study sets the maximum fee level that can be charged.

II. Specific Recommendations:

a. Relevant Geography: We recommend implementing an Affordable Housing Linkage fee that would be applicable to all new development in all commercial zones and in residential zones that are LR1 and above.

b. Relevant Uses: The fee should be applicable to multi-family residential and most commercial development types including Office, Hotel, Retail, Entertainment and Research and Development but should not be applied to single-family residential or industrial uses. As part of the final ordinance implementing the Linkage Fee, council should adopt a detailed list of land uses for which the fee would be applicable.

While the recently completed DRA nexus study included office, hotel and Multi-family residential prototypes, we recommend completing an additional nexus analysis that includes retail, and other commercial uses prior to finalizing an ordinance implementing a Linkage Fee that would apply to those uses. However, the current nexus results make us confident that DRA would find that these additional commercial uses contribute to the need for affordable housing at levels far above the proposed linkage fees.

c. Responding to differing neighborhood market conditions: Because the market conditions are so different between differing neighborhoods within Seattle, no single Linkage Fee would make sense in all parts of the City. Instead, we recommend designating three distinct market areas with relatively higher fees in the highest cost central parts of the city including Downtown, South Lake Union, and First Hill more moderate fees in the medium cost, generally inner ring, neighborhoods and significantly reduced fees in, generally outlying, neighborhoods where market rents and prices are lowest. Council should carefully consider the specific market conditions in each area before adopting a specific map but should rely primarily on the relative rent levels in each area.

d. Setting the fee levels: The nexus study completed by David Rosen and Associates (DRA) provided 'maximum supportable nexus fee' levels for a range of prototype projects. The maximum fees ranged from $20 to as high as $78 per net square foot[1]. While the nexus study did not provide any analysis of the economic feasibility of these maximum fee levels, DRA's earlier economic feasibility study for the incentive zoning program suggests that setting the Linkage fee at the maximum level would over burden many potential projects. Based on DRA's feasibility analysis, we have provided two options for the schedule of linkage fees. Option #1 would set fees at a level that was roughly

[1] It may be easier to administer a Linkage Fee program where fees were calculated on a Gross Square Footage (GSF) basis but because both DRA's feasibility study and nexus study were based on Net Square Feet (NSF), we have limited our recommendations to that measure. The fees proposed in this memo could easily be converted to slightly lower numbers that when applied on a GSF basis would yield the same total cost.

equivalent to the likely cost of providing 5% affordable housing units onsite (for some prototypes 5% onsite would cost more while for others it would cost less). This is the higher end of the range of values that would be generally feasible for most of the prototypes that DRA studied.

Option 2 sets the fees at a level that is roughly comparable to the likely cost of 3% onsite performance and only slightly above the current fee in lieu levels for projects that build under the Incentive Zoning program. Option 2 would mean that most projects using the bonus density would pay an amount that was closer to what they would pay under the current program. This approach nonetheless raises more funding for affordable housing because the Linkage Fee would apply to many more projects.

It is important to keep in mind that DRA only studied a small subset of all likely development types, Even at the higher Option 1 levels, all projects that DRA concluded would be financially feasible with no fee or performance requirement would still be economically feasible after paying the proposed fee. (See below for more detail.)

Proposed Linkage Fees (Per Net SqFt)

Option #1: Fees comparable to 5% onsite performance

	Residential	Office	Retail	Hotel
Lower Cost Neighborhoods	$7.00 or 5% of Units	$7.00	$7.00	$7.00
Medium Cost Neighborhoods	$12.00 or 5% of Units	$12.00	$12.00	$12.00
High Cost Neighborhoods	$22.00 or 5% of Units	$22.00	$22.00	$22.00

Option #2: Fees comparable to 3% onsite performance

	Residential	Office	Retail	Hotel
Lower Cost Neighborhoods	$5.00 or 3% of Units	$5.00	$5.00	$5.00
Medium Cost Neighborhoods	$10.00 or 3% of Units	$10.00	$10.00	$10.00
High Cost Neighborhoods	$16.00 or 3% of Units	$16.00	$16.00	$16.00

We recommend that the Linkage fee be set at the same level for multifamily residential and most commercial uses in order to preserve a level playing field across development types but many cities have chosen to adopt differing fee levels for different land use types.

e. Adjusting the fee schedule annually: Each year the council should adjust the Linkage Fee schedule to reflect changing market conditions. We recommend annually indexing the fee schedule based on the annual change in the Seattle

Construction Cost Index (at ENR.com). In addition, as relative rent levels change within the city, some of the lower cost areas may become higher cost and visa versa. Council should update the map annually based on a review of market rent data from Dupre+Scott.

f. Phasing the fee in over time: Because the Affordable Housing Linkage Fee will represent a new cost for many development projects that are outside the Incentive Zoning areas, it is important to allow time for the development community to incorporate the fee into their budgets. In particular, we would expect to see developers negotiate lower land prices in response to a widespread and generally applicable Linkage Fee but this process may take several years to complete. A schedule that phased the fees in in increments of 1/3 over 3 years would make the fee very predictable.

g. Preserving the density bonus: Switching to an Impact Fee will mean that projects will contribute to the affordable housing need whether or not they build the bonus density currently offered under the Incentive Zoning program. We recommend continuing to allow developers to access the bonus density by amending the IZ ordinances so that payment of the Affordable Housing Linkage Fee would satisfy the affordable housing requirements under that program. Because a Linkage Fee that was gradually phased in might be significantly lower than the current fee in lieu, we recommend that this amendment to the IZ policy state that, until the new linkage fee is fully phased in, developers would need to pay the greater of the current in lieu fee or the Housing Linkage fee.

h. Preserving the Performance Option: As with Incentive Zoning, the program can be designed to encourage either units or fees or a combination. An onsite (or offsite) performance option might appeal to certain developers who want to be closely and more publically associated with the provision of the affordable housing that their project generates.

The current Incentive Zoning program includes a somewhat complex calculation that bases the required number of affordable housing units on the bonus floor area. The result of this calculation is that the program requires projects that build to the maximum density to provide roughly 5% of units at affordable rents or prices. DRA evaluated the 'gap cost' which is the loss of potential income that developers experience as a result of providing the required number of units at affordable rents or prices. In most cases the 'gap cost' at 5% was higher than what developers would have paid under the fee in lieu option. For feasible projects the fee in lieu was equivalent to something between 2 and 4% of units onsite. This difference has meant that nearly every project with an option has paid the fee.

While the economics are different for each project, setting a performance option that is roughly economically equivalent to the adopted Linkage Fee level should result in some projects where the fee is beneficial and others where performance is preferable and ultimately lead to a higher utilization of the performance option.

We have identified two potential fee levels above. Option #1 corresponds roughly to a 5% onsite performance option while Option #2 corresponds to a 3% performance option.

We recommend that, while the performance option should be available in all parts of the city (a change from the current IZ rules), for administrative reasons, it should only be available to projects that would include at least 3 affordable units.

III. How does this proposal address key local goals?

At the outset of our work in Seattle, we interviewed local stakeholders and reviewed existing program documents to identify a short list of key goals for the Incentive Zoning program. After careful consideration of the available alternatives, we feel that the Affordable Housing Linkage Fee program described here provides a better vehicle for achieving these goals.

a. Produce more affordable housing units.

Many local stakeholders expressed frustration with the limited impact of Incentive Zoning given the overall strength of Seattle's real estate market. The current program is limited in two fundamental ways. First, it only applies in a small number of areas that have recently been upzoned. Much of Seattle's development occurs outside of these areas. And secondly, it only applies to projects that choose to build to the higher allowable density and the economics for many projects don't support denser development.

Together these limitations mean that only a fairly small portion of Seattle's real estate production is being asked to contribute to mitigating a social problem that all new development is helping to exacerbate. While even an expanded program will still only be one small part of Seattle's overall affordable housing investment, a more widespread program could be more equitable while also producing much more affordable housing.

While it is nearly impossible to project future development with any reasonable accuracy, Cornerstone looked at historical development data provided by the King County Assessor's office the City's comprehensive plan growth targets projections of the likely utilization of the current IZ program in order to produce a very rough order of magnitude comparison between the resources produced by the existing Incentive Zoning program with what would likely be produced by the proposed Affordable Housing Linkage Fee. The result is that we estimate that the Linkage Fee at the higher levels (Option #1) would produce funding for affordable housing at between 5 and 10 times the rate of the current Incentive Zoning Program.

b. Ensure that affordable housing requirements are economically feasible

While higher linkage fees will generate more resources for affordable housing, it is essential that the fees not be set so high that they become a widespread barrier to development in Seattle. While some will oppose any fee at any level, the feasibility study produced earlier this summer by DRA provides a rational basis for evaluating the general impact that these proposed fees will have on potential development projects.

DRA's feasibility study was exclusively focused on the feasibility of various alternatives within the incentive zoning program. They have not independently evaluated the financial feasibility of the proposed Linkage Fees. Nonetheless, because the proposed fees are generally less than the 'gap cost' alternatives that DRA did evaluate, we have a clear benchmark for considering the feasibility of the proposed fees.

Table 1 summarizes DRA's feasibility findings and attempts to extend them to the proposed fees. For each of 24 prototypes, DRA constructed a detailed proforma in order to evaluate the likely return on investment available to developers under several different assumptions about their 'costs' related to meeting the affordable housing requirements in the IZ program. For residential projects they considered a return of 6% or greater to be 'feasible' and they considered a return of 10% of greater 'feasible' for commercial projects. They evaluated the feasibility of each prototype both with and without bonus density imagining that the project made no contribution for affordable housing. Then for projects using the bonus density, they evaluated the cost of three alternatives: 1) payment of the current fee in lieu, 2) provision of onsite units under the current performance option (roughly 5% of total units) and 3) onsite performance at 10% of total units. For each prototype they calculated the dollar cost of each option and the resulting return on investment.

Comparing the proposed Linkage Fee to the current IZ requirements can be confusing because the IZ fees are currently calculated on a 'per *bonus* foot' basis (Developers pay between $15 and $25 per bonus foot that they build above the base density) while the proposed Linkage Fee would be calculated on the total Net Square Feet. While it is confusing to talk about, the math to convert from one to the other is quite simple. In order to facilitate comparison with the proposed Linkage Fees we have converted the costs estimated by DRA into a per net square foot basis. For example, DRA estimated that a high rise rental project downtown would pay an in lieu fee of $3.2 million and would face a gap cost of $7.4 million if they were to provide units onsite. For this prototype they imagined a project of 311,000 net square feet. Therefore, we calculated that the In Lieu Fee equates to $10 per net square foot while onsite performance costs $24 per net square foot.

Table 1 summarizes these findings for all the prototypes that DRA studied[2]. The cells are shaded green for scenarios that DRA concluded were feasible and red for those that they found to be infeasible. We also present the proposed Linkage

[2] *David Rosen and Associates, Seattle Incentive Housing Program Economic Analysis, July 2014. Table 10: Lower Cap Rate Baseline Version.*

Fees under Option #1 and Option #2 and we have shaded these green wherever the proposed fee is below the cost of an alternative that DRA concluded was feasible. Finally the table presents the maximum Nexus level from DRA's recent nexus study for comparison.

In DRA's analysis both homeownership and office development prototypes would not generally be feasible under current market conditions even if they were allowed to access the bonus density without any costs related to affordable housing. At some point in the future, these project types are likely to be profitable again but DRA's return on investment analysis does not help evaluate whether the proposed linkage fees will be supportable by those projects once they are again feasible.

In order to provide another point of reference for considering the appropriateness of the proposed fee levels, Table 2 presents the same information on a total cost per project basis. In addition Table 2 shows the estimated linkage fee (at both levels) as a percentage of the total development costs that DRA estimated for each prototype.

Table 1: Comparison of Proposed Linkage Fee Options to IZ costs and Maximum Nexus

		No Program Costs	Fee In Lieu/NSF	Current Production Cost/NSF	10% Production/ NSF	Linkage Fee - Option 1: Higher	Linkage Fee - Option 2: lower	DRA Maximum Nexus
DOWNTOWN PROTOTYPES								
1A	Rental	-	10	24	46	22	16	43.91
2A	Ownership	-	11	17	31	22	16	50.25
3A	Commercial	-	17	26	-	22	16	75.81
SOUTH LAKE UNION PROTOTYPES								
4A	Rental	-	14	26	50	22	16	41.97
5A	Ownership	-	15	18	34	22	16	43.85
6A	Commercial	-	12	18		22	16	76.03
LOWRISE TO MIDRISE								
Residential Rental								
7A -L	Low Scenario	-	11	13	18	7	5	38
7A-M	Middle Scenario	-	11	16	23	12	10	43
7A-H	High Scenario	-	11	20	28	12	10	
Residential Ownership								
8A-l	Low Scenario	-	11	1	1	7	5	
8A-M	Middle Scenario	-	11	4	6	12	10	
8A-H	High Scenario	-	11	8	12	12	10	
4 STORIES TO 6 STORIES								
Residential Rental								
9A-L	Low Scenario	-	6	10	22	7	5	36
9A-M	Middle Scenario	-	6	12	27	12	10	42
9A-H	High Scenario	-	9	21	5	12	10	
Residential Ownership								
10A-L	Low Scenario	-	6	1	3	7	5	25
10A-M	Middle Scenario	-	6	4	8	12	10	32
10A-H	High Scenario	-	6	7	13	12	10	
6 STORIES TO 7 STORIES								
Residential Rental								
11A-L	Low Scenario	-	4	7	14	7	5	33
11A-M	Middle Scenario	-	4	9	18	12	10	38
11A-H	High Scenario	-	4	11	22	12	10	
Residential Ownership								
12A-L	Low Scenario	-	4	1	2	7	5	20
12A-M	Middle Scenario	-	4	2	7	12	10	25
12A-H	High Scenario	-	4	4	14	12	10	

Color Key: Feasible | Infeasible

Table 2: Comparison to total project dollar cost of proposed Linkage Fees and current IZ alternatives

		Option 1 Fee total	Option 2 Fee total	Current Fee In Lieu	Current (5%) Perfomance Gap Cost	Option 1 Fee % of Dev Cost	Option 2 Fee % of Dev Cost
DOWNTOWN PROTOTYPES							
1A	Rental	6,842,000	4,976,000	$ 3,212,976	$ 7,359,612	4.2%	3.1%
2A	Ownership	6,292,000	4,576,000	$ 3,082,896	$ 4,922,964	3.5%	2.6%
3A	Commercial	5,534,760	4,025,280	$ 4,284,900	$ 6,480,000	4.8%	3.5%
SOUTH LAKE UNION PROTOTYPES							
4A	Rental	4,532,000	3,296,000	$ 2,955,308	$ 5,317,198	4.3%	3.1%
5A	Ownership	4,114,000	2,992,000	$ 2,753,613	$ 3,453,938	3.7%	2.7%
6A	Commercial	5,291,000	3,848,000	$ 2,830,150	$ 4,280,000	5.3%	3.8%
LOWRISE TO MIDRISE							
Residential Rental							
7A -L	Low Scenario	322,000	230,000	$ 490,860	$ 597,780	2.0%	1.4%
7A-M	Middle Scenario	552,000	460,000	$ 490,860	$ 743,580	3.1%	2.6%
7A-H	High Scenario	552,000	460,000	$ 490,860	$ 905,580	2.7%	2.3%
Residential Ownership							
8A-l	Low Scenario	322,000	230,000	$ 490,860	$ 24,948	1.8%	1.3%
8A-M	Middle Scenario	552,000	460,000	$ 490,860	$ 188,892	2.7%	2.3%
8A-H	High Scenario	552,000	460,000	$ 490,860	$ 369,360	2.4%	2.0%
4 STORIES TO 6 STORIES							
Residential Rental							
9A-L	Low Scenario	497,000	355,000	$ 454,500	$ 693,900	1.9%	1.4%
9A-M	Middle Scenario	852,000	710,000	$ 454,500	$ 858,300	2.9%	2.4%
9A-H	High Scenario	588,000	490,000	$ 454,500	$ 1,045,500	2.6%	2.1%
Residential Ownership							
10A-L	Low Scenario	497,000	355,000	$ 454,500	$ 90,600	1.7%	1.2%
10A-M	Middle Scenario	852,000	710,000	$ 454,500	$ 267,900	2.6%	2.2%
10A-H	High Scenario	852,000	710,000	$ 454,500	$ 464,700	2.3%	1.9%
6 STORIES TO 7 STORIES							
Residential Rental							
11A-L	Low Scenario	630,000	450,000	$ 378,750	$ 647,500	1.7%	1.2%
11A-M	Middle Scenario	1,080,000	900,000	$ 378,750	$ 797,000	2.6%	2.2%
11A-H	High Scenario	1,080,000	900,000	$ 378,750	$ 967,750	2.3%	1.9%
Residential Ownership							
12A-L	Low Scenario	630,000	450,000	$ 378,750	$ 45,750	1.7%	1.2%
12A-M	Middle Scenario	1,080,000	900,000	$ 378,750	$ 183,500	2.6%	2.2%
12A-H	High Scenario	1,080,000	900,000	$ 378,750	$ 343,500	2.3%	1.9%

Particular examples may make it easier to interpret the results in these tables.

At the lower end of the spectrum Prototype 9A represents a 100 unit 6 story residential rental project in an area that would allow 4 stories of base density. DRA evaluated this prototype in high, medium and lower cost market areas. They found that the project would face a performance requirement of 5 units which represents 5% of the total units in the hypothetical project. In the low cost market areas, DRA estimated that this level of onsite performance would cost $693,900

or $10 per net square foot. DRA estimated that this project would earn a return of 26% if it could be built with no cost related to affordable housing and that after paying the gap cost related to onsite performance the return would drop to 15% - well above the 6% threshold that DRA identified for feasibility.

Instead, if this 6 story project were to pay the proposed linkage fee of $7 per foot at the Option #1 (5%) level the cost would be $497,000 - slightly less than the cost of onsite performance. This fee represents 1.9% of the total development costs that DRA estimated for this prototype. At the lower Option #2 (3%) level the fee would represent 1.4% of total development cost.

At the higher end, for DRA's South Lake Union rental prototype (4A) a $22 fee would total $4.5 million while a $16 fee would come to $3.3 million. This would represent 4.8 or 3.5% respectively of the total development costs that DRA estimated for this project prototype. DRA's analysis estimated that this prototype at would generate an 11% return on investment even after incurring the $5.3 million gap cost associated with the current (5%) performance requirement and a 12% return under the current fee in lieu option.

In every situation where a DRA found a prototype to be feasible with no program costs, the prototype is still feasible at either of the proposed Linkage Fee levels. DRA only studied a small number of prototypes and surely there will be some projects somewhere that would be feasible with no fee but cross the threshold into infeasibility with the addition of these fees. It is likely that there would be fewer of these cases at the lower fee level but, at any level it is possible that a new fee could impact feasibility in the short term. Over the somewhat longer term, we would expect that these fees would lead developers to negotiate lower prices for land (or prevent land prices from rising as quickly as they otherwise would).

c. Create/sustain mixed-income communities. We heard from many stakeholders that avoiding concentration of poverty and creating truly mixed income neighborhoods was a key goal for the Incentive Zoning program. Many held up the ideal of affordable units integrated into each new market rate project. What we found was that, for the most part, Seattle's Incentive Zoning program was not generating many affordable units within market rate buildings but that it was nonetheless effective in contributing to mixed-income neighborhoods. The IZ program has primarily relied on fee in lieu payments rather than onsite production but the Office of Housing has successfully implemented Council's direction to invest the resulting funds in affordable housing projects in the same geographic areas. An affordable housing linkage fee program implemented with the same care could achieve the same level of economic integration. In addition, an onsite performance option can be preserved and tuned to more closely correspond to the economic cost of the Linkage Fee which should result in a higher share of projects selecting performance. .

d. Target resources to households with the greatest needs. One of the benefits of Seattle's reliance on in lieu fees has been that the City has been able

to leverage the IZ revenue with state and federal affordable housing funding to serve significantly lower income households than the IZ program would have served through onsite performance. We found that there were more significant housing needs at this lower income level and this strategy was effective in targeting resources where they could make the most difference. Nonetheless we heard from many stakeholders that there were significant affordable housing needs among the households in the 60-80% of Area Median Income (AMI) range that the IZ program was designed to serve. We recommended increasing the share of fee revenue dedicated to 'workforce housing' needs (particularly for homeownership opportunities for these households) but continuing to allow the Office of Housing the flexibility to leverage the fees to serve the highest need populations. Switching to an Affordable Housing Linkage fee would generate more resources to enable the City to better meet both needs.

IV. Additional Recommendations:

In addition to the recommendations outlined above, our July *Policy Options* report outlined a number of additional recommendations based on issues or concerns raised related to the implementation of incentive zoning that we thought would be just as relevant to a new Linkage Program:

Setting Appropriate Income Targets

Continue current income targeting - Continue the current practice of setting the income limit for performance projects somewhat higher for ownership units (currently 100% of Area Median Income vs. 80% for rental)

Continue to use most fee revenue to serve higher need populations - Seattle has successfully invested in highly leveraged nonprofit sponsored projects serving very low and extremely low income households. The majority of revenue should continue to be used for this purpose.

Set a portion of fee revenue for 'workforce' housing - Roughly 1/3 of future fee revenue should be set aside to fund new programs designed to serve households earning between 60 and 80% of Area Median Income, with an emphasis on family sized units.

Continue to allow OH flexibility in investing fees – The Office of Housing needs flexibility to respond to opportunities, but would benefit if Council provided additional guidance regarding the goals for the use of these fees (rather than specific mandates).

Require studio and 1-br units to be more affordable – Because the rents of small, deed restricted units are sometimes comparable to market priced units Seattle should lower the income targeting for onsite or offsite performance units. Specifically, the following affordability levels are suggested:

	Rental	Ownership
Studio	50% of AMi	60% of AMI
1 bedroom	60% of AMI	80% of AMI
Larger than 1 bedroom	80% of AMI	100% of AMI

Investing Fee Revenue

Continue to limit the neighborhoods where fee revenue can be spent - This policy is succeeding in achieving economic integration in a way that is cost effective.

Producing Homeownership Units

Develop a more formal program for affordable homeownership - A more formal program that set aside a predictable share of fee income to fund permanently affordable homeownership units would offer a cost effective way to provide larger units affordable at the 60-80% of AMI level, and would help stabilize neighborhoods in need.

Ensure proactive stewardship of homeownership units - Contract with a third party nonprofit for active stewardship of all homeownership units produced onsite through the Program.

Off Site Production

Strengthen and clarify requirements for off site production - Ensure consistent rules and criteria for approval across all neighborhoods.

Establish an 'additional benefit' standard – Only allow offsite production if it means the city receives a greater number of affordable units or deeper affordability (or both).

Create rules to ensure off site units are built – Require offsite units be completed prior to issuing a Certificate of Occupancy unless a bond guaranteeing timely completion is posted.

Create detailed guidelines for preservation projects - Develop a set of rules that allow developers to meet their affordable housing requirements through the preservation/rehabilitation of existing housing units if significantly greater public benefits are provided.

Monitor the use of the off-site option – Require annual reports that document off-site production and the associated higher benefits.

Leveraging Other Subsidy Sources

Continue to limit 'double dipping' – Continue the limiting the use of public subsidy for onsite or offsite units, with the possible exception of MFTE and Federal 4% tax credits.

Clarify the standard for approval of exceptions - Develop standards that allow public funding to be used when it results in proportionally greater public benefit.

Preserving Affordability

Extend affordability periods - Set the minimum term of affordability for both rental and ownership units to 99 years.

Renew covenants at resale - Require that new covenants be recorded with a new 99-year term each time a restricted property is sold.

Require replacement of demolished IZ units - Require a one-to-one replacement of affordable units when deed restricted units are demolished.

Monitoring and Refining the Program Over Time

Standardize the code - Consolidate all the relevant provisions in a single section of code

Produce communications materials - Hire a consulting firm to develop updated communications materials in order to make program requirements more transparent for developers and other stakeholders.

Expand annual reporting requirements - Provide more specific requirements for annual reporting on the impact of the Incentive zoning program.

Plan and budget for periodic reviews - Every five years, conduct a more comprehensive review of the successes and challenges of the IZ program.