



**Legislative Department
Seattle City Council
Memorandum**

Date: September 18, 2013

To: Mike O'Brien, Chair
Sally Clark, Vice Chair
Tim Burgess, Member
Nick Licata, Alternate
Energy and Environment Committee

From: Ketil Freeman, Council Central Staff

Subject: Council Bill (C.B.) 117908 - Downtown Bonus Program In-Lieu Fee Increases

Introduction

In May the Council passed [Ordinance 124172](#), which changed zone designations in the South Lake Union Urban Center and extended the City's Affordable Housing Incentive Program to most of South Lake Union. The Council previously extended the downtown Affordable Housing Incentive Program to a one and a half block area of the South Lake Union Urban Center as part of an ordinance that facilitated development of the Amazon campus.¹

Through Ordinance 124172, the Council increased the fee for South Lake Union that a developer may pay in-lieu of providing affordable housing or childcare when a development includes bonus commercial or residential floor area above base densities or heights.

Specifically, the Council 1) increased the fee associated with bonus commercial floor area to make inflationary adjustments that had not been made since a major program revision² and 2) increased the fee associated with bonus residential floor area to make inflationary adjustments that had not been made since program inception and added a 20% premium to try to induce provision of affordable housing as opposed to in-lieu fee payment.³ Increases to fees for commercial development are phased in over a one and a half year period.

Constituents expressed the concern that raising in-lieu fees for the South Lake Union Urban Center might have disparate impacts on similarly situated projects in the greater downtown real estate market because projects in the Downtown Urban Center, which is immediately south of the South Lake Union Urban Center, would pay lower fees. Because those fees are codified in sections of the Municipal Code that were not before the Council when considering Ordinance 124172, the Council could not make commensurate changes to downtown fees. Those changes are proposed to be made through Council Bill (C.B.) 117908.

This memorandum summarizes the content of C.B. 117908, provides some context for how proposed fees have been derived, and sets out next steps.

¹ [Ordinance 122611](#). December, 2007.

² Seattle Municipal Code (S.M.C.) [23.58A.024.D](#).

³ S.M.C. [23.58A.014.C](#).

What Would C.B. 117908 Do?

C.B. 117908 would make adjustments to in-lieu fees that apply in the Downtown Urban Center. Increased fees for bonus commercial floor area would be phased in as shown in the table below:

Phase	Bonus Commercial Floor Area (Fee / Gross Square Foot (g.s.f))
Current	\$18.75 (Housing) + \$3.25 (Childcare) = \$22.00
Jan. 1, 2014 – June 30, 2014	\$22.88 (Housing) + \$3.97 (Childcare) = \$26.85
July 1, 2014 - June 30, 2015	\$24.95 (Housing) + \$4.32 (Childcare) = \$29.27

Fees for bonus residential floor area would be increased, without phasing, from the current average maximum of \$15.15 per g.s.f. to \$21.68 per g.s.f.

Increased fees reflect inflationary adjustments based on the year of bonus program major revision or inception. The in-lieu fee for bonus commercial floor area downtown was significantly revised in 2001.⁴ The in-lieu fee for bonus residential floor area was first established in 2006.⁵ In addition to inflationary adjustments, the in-lieu fee for residential floor area includes a 20% premium to encourage development of units, either on-site or off-site, instead of in-lieu fee payment. Finally, C.B. 117908 would establish automatic inflationary adjustments to the in-lieu fees that would begin in July of 2015 and July of 2014 for commercial development and residential development, respectively. Those fees can currently be adjusted for inflation by executive branch rulemaking. However, inflationary adjustments to fees have not been made by rule since they were codified.

In 2001 the City commissioned studies that demonstrated a nexus between new office and hotel development and increased demand for affordable housing and childcare. Similarly, in 2005 the City commissioned a study that demonstrated a nexus between new residential development and increased demand for affordable housing. The affordable housing nexus studies quantified, on a dollar-per-square-foot-basis, the gap between affordable and market rate housing. This represents the subsidy needed to make market rate housing affordable to low-income households generated by new development. Adjusted for inflation, the fees proposed in C.B. 117908 are less than the gap costs identified in those nexus studies.

Next Steps

Changes to the Land use Code require a public hearing with 30-days notice. The Energy and Environment Committee will hold a public hearing on C.B. 117908 in November and make a recommendation to Council in late November or early December.

⁴ [Ord. 120443](#). July 2001.

⁵ [Ord. 122054](#). March 2006.