



To: Councilmember Tammy Morales, Seattle City Council
From: Office of Economic Development
Re: SLI OED-011-A-001

EXECUTIVE SUMMARY

Seattle City Council requested a Statement of Legislative Intent ([OED-011-A-001](#)) from the Office of Economic Development (OED), Office of Housing (OH), and Office of Planning and Community Development (OPCD) to create a plan to coordinate strategies for investing in community projects.

Specifically, OED, OH, and OPCD should develop a plan to coordinate their approach to funding community projects, which could include a charter to clarify the goals, structure, and responsibilities of the different departments involved. The plan should also consider how to ensure that organizations applying for City funding can have a seamless experience, regardless of which department holds the appropriate funding for the project.

The three departments have collaborated to develop a joint response that captures shared goals, identifies immediate and near-term opportunities for coordination, and scopes an interdepartmental work plan to further advance this work.

BACKGROUND

Our departments are aligned around a shared goal—leverage city investments in mixed use affordable housing projects to maximize community benefit and create wealth building opportunities for small businesses and communities. Specifically, coordination of investments in affordable commercial, community, and cultural spaces to integrate projects into neighborhoods and further stabilize communities at risk of displacement.

Below is a summary of relevant community investments through our departments. These strategies are supported through a mix of city general funds, tax levies, federal funds, and leveraged private funds.

Investments (2022 \$\$)	Description	Timelines
Office of Housing https://www.seattle.gov/housing/housing-developers/rental-housing-program		
Housing Levy (\$28.7M) Payroll Expense Tax (\$79.9M)	Production and preservation of affordable rental housing. Future support for community-based developers in capacity building, acquisition, and pre-development.	Notice of Funding Availability (NOFA) - Annual competitive process; PET funding - Competitive process
OPCD: Equitable Development Initiative https://www.seattle.gov/opcd/ongoing-initiatives/equitable-development-initiative		
Capacity Building and Predevelopment; Acquisition and Capital Fund (\$19M)	Support for organizational capacity building, property acquisition, and capital expenses for community-led projects	Annual RFP



	working on anti-displacement strategies.	
OED: Affordable Commercial https://www.seattle.gov/office-of-economic-development/commercial-affordability		
Tenant Improvement Fund (\$1.9M CLFR)	Provides funding to build out or renovate commercial spaces to make it more affordable for small businesses. Paired with commercial space consultants and expedited permitting for small businesses.	2022 RFP
Business Community Ownership Fund (\$7.5M city + \$7.5M private)	Public-private partnership providing small businesses long-term control and ownership of commercial spaces. Focus on BIPOC and/or women-owned businesses in high-displacement risk neighborhoods.	Rolling

Staff considered some opportunities and key questions to focus response to this SLI, summarized below.

- **New/Expanded Funding for Affordable Housing:** The Payroll Expense Tax expands funding for affordable housing including capacity building, acquisition, and development. As more development occurs in the city, there is more opportunity to intentionally collaborate on ground floor strategies.
- **2023 Housing Levy:** Continue leveraging Levy dollars to develop mixed-use affordable housing. Consider new opportunities that may become available through the 2023 Housing Levy Renewal planning process. For example, a proposed new equity program could provide a mechanism to prioritize and support ground floor strategies in affordable housing developments located in high displacement risk neighborhoods.
- **Capital Subcabinet:** The Capital Subcabinet was formed to coordinate city infrastructure projects. Could this structure be further developed to provide an opportunity for alignment and early coordination on key projects and/or place-based investments?
- **Pipeline:** Projects come into our respective agency pipelines at different points in the development process. How do we develop an interagency pipeline? When does a project actually start?
- **Community accountability:** Equitable Development Initiative (EDI) Advisory Board is interested in this topic, and there is value bringing them into this conversation. The Business Ownership advisory group is another point of engagement, as well as a broader network of neighborhood business district organizations focusing on affordable commercial space and small businesses.

ANALYSIS

The housing affordability crisis is well documented in our region, and BIPOC and immigrant communities are at highest risk of displacement. Commercial rent in Seattle is becoming increasingly unsustainable. Small businesses, as well as nonprofits and cultural organizations, are facing skyrocketing operational costs and are being pushed out of their neighborhoods due to economic inequities. Many of these businesses are owned by immigrants and people of color. Mixed use projects provide opportunities to leverage affordable housing investments with affordable commercial and equitable development



investments to further anchor our communities. More diverse funding sources, including Payroll Expense Tax, open opportunities to support projects that meet multiple community needs.

Coordination of timing of agency investments in a project's development is critical to its ability to maximize community and public benefits. The City has had some success in recent years leveraging affordable housing investments to support projects meeting multiple community priorities in high displacement risk neighborhoods. These have been the result of internal staff relationships, community advocacy and deep partnerships with community-based organizations, and clear support from department leadership. For example, the Liberty Bank Building in the Central Area was the first Black-owned bank in the Pacific Northwest, founded as a community response to redlining and disinvestment in the Central Area. The development of the Liberty Bank Building was led by a partnership of community organizations. OH, OPCD, and OED collaborated internally to support a community partnership agreement on the goals and ownership of the building. OED's Tenant Improvement Fund pilot invested in affordable commercial space for Black-owned businesses and leveraged EDI CDBG funding to close the gap on a restaurant buildout. OH funded the residential portion of the building.

Coordinating investments across agencies, even when there is alignment on shared outcomes, can encounter several financial, policy, and institutional challenges and barriers. Understanding these challenges can help us address what we can through policy and practice, while working on larger challenges around the color of money and Gift of Public Funds that may require legislative actions.

Financial Challenges

City funding often has defined objectives based on funding sources, which can limit spending flexibility. Historically, OH funding is not allowed to support any non-residential uses (including the ground floor commercial shell) because its funding sources, i.e., the Seattle Housing Levy, are restricted for affordable housing production and preservation. In practice, this can mean ground floors in these projects are cold shells and often more expensive to build out for small businesses and/or nonprofit tenants. Having some flexibility to deliver a warmer shell for community-centered uses could further leverage housing investments to meet broader community development goals. Ensuring that the ground floor of affordable housing buildings provides additional community benefits requires advance thought and coordination with partner agencies and the project developer.

Some challenges result from the affordable housing finance and development process and factors beyond the City's control. Traditional bank lenders and other public funders involved in affordable housing can determine timeline and the amount of risk a developer is willing to take. The way in which money is dispersed can also be a challenge. For example, Washington state's Gift of Public Funds clause in the state constitution prohibits local government from bestowing a gift or lending money, property, or credit to a private party, which limits the flexibility of city funding. EDI and OED experience this challenge when investing in affordable commercial spaces or cultural/community spaces that meet the City's policy objectives to invest in anti-displacement strategies. Both departments document public benefits to justify the investment, per guidance from Law, and work closely with the community project sponsors and/or small BIPOC businesses to meet these requirements.

Commercial tenant improvement projects in affordable housing developments often have higher costs to build out the commercial spaces, in large part due to the building's low-income housing financing



structure. Affordable housing financing for projects like Liberty Bank Building limit the amount of eligible costs that can be allocated to the ground floor space. As a result, developers using affordable housing financing exclude certain HVAC (heating, ventilation, air conditioning), MEP (mechanical, electrical, plumbing), and other items typically included in the shell of a ground floor space. Then, commercial tenants in these buildings need to invest higher than average amounts to build out their tenant improvements.

POLICY AND INSTITUTIONAL CHALLENGES

The ground floor can be an afterthought for developers due to the complexity of financing an affordable housing building and the relatively small space the ground floor occupies. However, considering ground floor design early in the development process can provide efficiencies that can lower development costs of the commercial spaces and/or facilitate opportunities for community benefits. But limited funding sources to build out the ground floor and limited incentives offered by the City to prioritize the ground floor persist as challenges. As a result, the ground floor is often the riskiest component for a project and for a developer. Since OH does not contribute any money to non-residential uses, the agency often does not steer developers on how to develop the ground floor.

Having an affordable commercial program and committed funding, such as the Business Community Ownership Fund, is opening new opportunities with nonprofit and private housing developers. This includes conversations earlier in the process with developers and potential tenants to consider design efficiencies, ability for mission aligned developers to prioritize businesses that meet community needs, and opportunities to support commercial space ownership for long-term affordability. It also provides another tool for community advocates to support community serving and/or legacy businesses. Affordable commercial capital investments are paired with commercial space consultants, expedited permitting, legal assistance, and access to capital to further remove barriers for small businesses.

EDI investments support property acquisition that often include an affordable housing component which requires other funding sources. Thus, there are opportunities to further align EDI acquisition funds earlier in the development process with OH and affordable housing developers for projects that will include a significant affordable housing component. Establishing partnerships with affordable housing developers for these complex projects and/or supporting smaller community-based organizations through the development process can be challenging. It's not current practice to fund housing acquisitions for one-time developers, as many of the community-based project sponsors would be. OH is launching a new capacity building program for community-based organizations developing affordable housing with PET funds that will provide some support for small CBO developers. This program will prioritize organizations that are working directly with vulnerable and low-income communities who have been most negatively impacted by discriminatory housing practices. It will also prioritize projects that advance equitable development goals and address displacement, including those proposed or supported by local, community-based, non-profit organizations that are culturally relevant and historically rooted, particularly when the project site is in an area that is at high risk for displacement.

The following case studies illuminate successes and challenges of interagency coordination.

Jackson Heights



Jackson Heights, a 95-unit affordable housing building located at 23rd Ave and S. Jackson St in the Central District, is an example of how early coordination and intentionality can result in mixed-use affordable housing projects that support community development goals. OH and Community House, the project developer, expressed interest prioritizing Black-owned businesses on the ground floor of this commercial node that was undergoing massive redevelopment. This helped establish an expectation for the commercial spaces and opened conversations between the developer and smaller Black-owned businesses. Catfish Corner, a legacy restaurant, and A 4 Apple Learning Center, a daycare with 25 years in the community, were identified as potential tenants through conversations with businesses and the community. Both received Tenant Improvement (TI) Fund pilot investments from OED to fill funding gaps so they could move into this location. The TI Fund investment assisted Catfish Corner and A 4 Apple build out the ground floor space without overburdening the small businesses with capital improvements to the property. In future projects, more design efficiencies could be realized with earlier coordination on the commercial spaces (HVAC, restaurant hood, etc) to reduce costs. Catfish Corner also received support from King County's Communities of Opportunity affordable commercial pilot, highlighting the importance of direct business assistance paired with the capital investment.

An Lac

An Lac, a 82-unit affordable housing building located on S. Jackson St and 16th Ave in Little Saigon, was unable to capitalize on the ground floor opportunity. Neighborhood groups asked for a community-oriented small business or organization on the ground floor. However, the physical layout and design of the final ground floor was not optimized for small businesses and the building opened with a vacant commercial space. Community members have been frustrated with the lack of design foresight for small businesses given the project's location in the heart of a commercial corridor. Earlier conversations with the developer about the ground floor plan and design could have ultimately been more conducive to tenants.

NEXT STEPS

This is intended to be a shared, integrated body of work over the next year. Below lays out near term approaches that are reflective of shared goals and ideal, community centered outcomes. Currently, our informal approach consists of sharing information on department funding initiatives and project investments. We will take the opportunity to deepen and formalize how we work together in the near term (16 months).

Projects Intake/Application Process Integration:

- Develop shared definitions of efficiency and project success.
- Redesign OH, OPCD and OED application processes to Include questions about ground floor and commercial spaces.
- Coordinate and identify opportunities early for recommendations on approach for funding a project.

Outcome: Maximized utility of applicable funding source, shared responsibility in project success, and a streamlined experience for the project developer, regardless of the funding source.

Build a Shared Pipeline



In the near-term, senior staff and directors will meet on a regular cadence (e.g. quarterly) to discuss our pipelines and identify project opportunities to coordinate investments earlier in the development process. For example, acquisition opportunities for affordable housing and community projects, or commercial space strategies for affordable housing projects in commercial corridors. A learning from the projects discussed above is the importance of having conversations about potential ground floor uses more upstream, even before a project formally enters OH pipeline.

Mapping and Data

The staff team worked with OPCD GIS staff to create an example map (attached) that shows how the City could better use data to support program evaluation and policy development. The attached map shows recent OH, EDI and OED projects combined with the Racial and Social Equity Composite Index. The map shows how capital investments from the departments are largely targeted towards areas of highest disadvantage. OED's Business Community Ownership Fund will similarly target areas of highest disadvantage to support small businesses from being displaced or help displaced businesses return.


The depth of detail and analysis is limited by the availability of dedicated staff time. Staff capacity to support interdepartmental data analysis would create a more detailed analysis. For example, identifying Census tracts that are likely to receive multiple investments could allow for development of targeted program and policy integration in those areas. Data could help conclude if City investment has an effect on lessening the disadvantage level of the Census tract. This deeper analysis can assist upstream planning and could address some of the challenges interagency coordination and intentionality.

Outcome: Maximized utility of applicable funding source, shared responsibility in project success, and a streamlined experience for the project developer, regardless of the agency funding source.

Workshop Policy and Financial Barriers:

Below are key work plan items to address collaboratively to advance our departments' shared goals. These are more complicated issues that require deeper research and analysis with relevant stakeholders to determine action steps. Some barriers will require legislative action at the state, for example gift of public funds.

- How money goes out the door and limited flexibility
- Color of money and gift of public funds issues
- Incentives to prioritize ground floor and/or consider potential uses earlier in the process

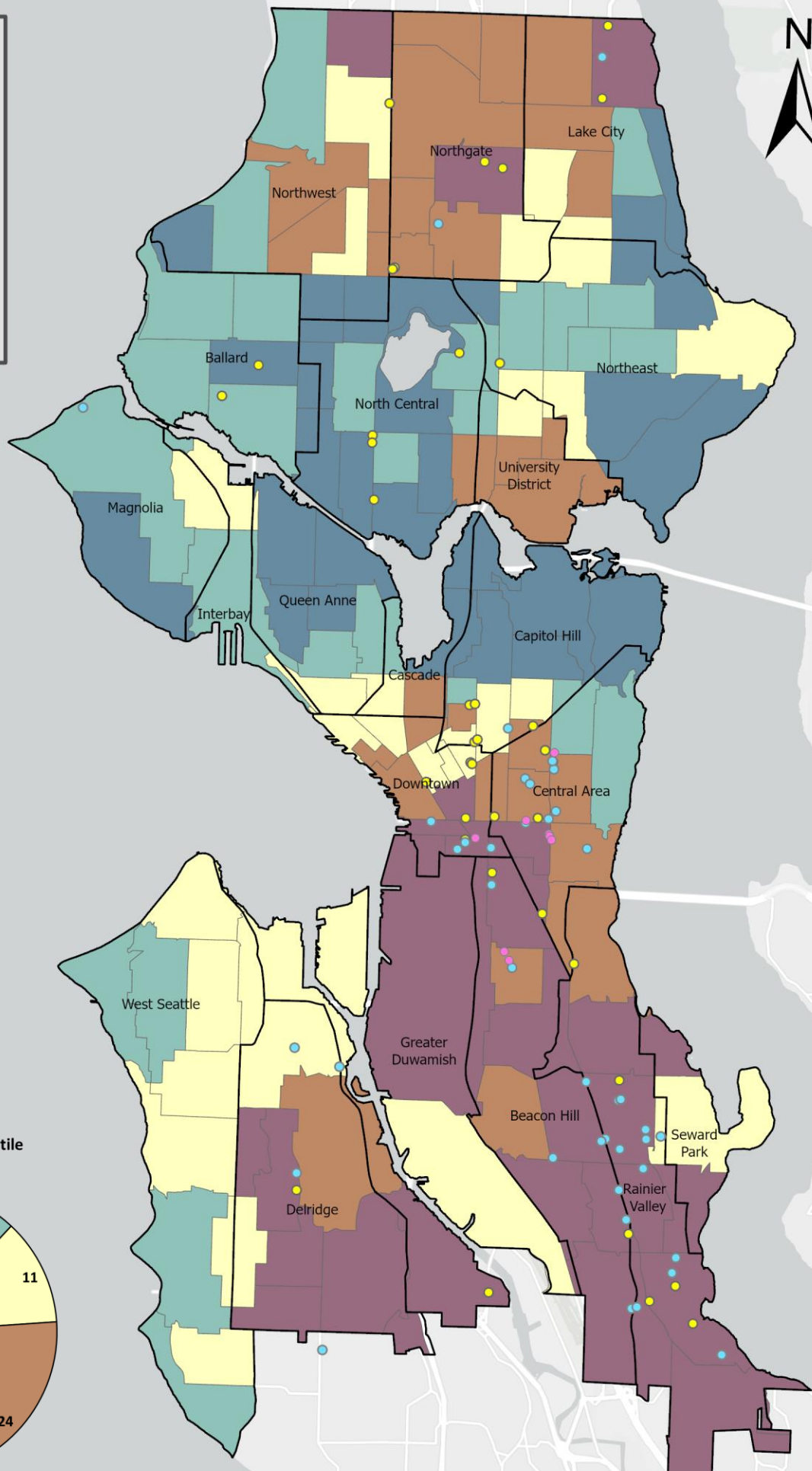
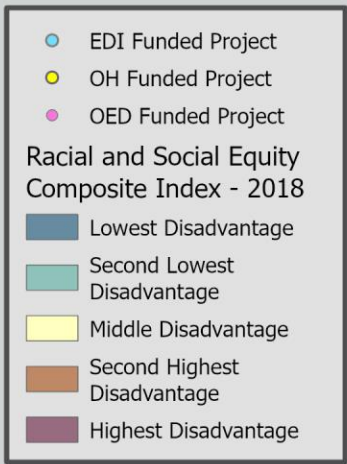
 The Capital Subcabinet was formed several years ago to facilitate increased coordination amongst capital departments and to incorporate the long-range planning function earlier and more effectively into capital investment planning. The most recent iteration of the Subcabinet includes a new initiative, Equitable Communities Framework (ECF), that is focused on building resilient and equitable communities through community engagement and development. The ECF supports a model for economic stability, job growth, adequate access to quality food, education, and health care systems that is informed by community and social context, as well as neighborhood and physical environment. OPCD, OH, and OED see this as a potential body to organize some action steps around this work. The newly formed Subcabinet IDT could spin off a working group that can potentially provide deeper coordination with other departments and manage pipeline data with dedicated staff capacity.



The staff team is also interested in coordinating and developing a dynamic mapping tool created with data provided from OH, OED, OPCD, HSD, and other departments as a tool to iterate critical pipeline data mentioned above and to demonstrate and track citywide, neighborhood and place-based investments that support equitable outcomes. This would support a longer-term City of Seattle investment strategy.

Outcome: Maximized utility of applicable funding source, shared responsibility in project success, and a seamless experience for developers, regardless of which department holds the appropriate funding for the project.

Exhibit A: OH-EDI-OED Projects Mapped to RSJ Index



Total Projects per RSE Quantile

