

Ordinance No. 120663

Council Bill No. 113965

The City of Seattle - Legislative Department  
Council Bill/Ordinance sponsored by: [Signature]

AN ORDINANCE relating to low-income housing; establishing the Multifamily Rehabilitation Loan Program; authorizing the execution of contingent loan agreements with the owners or developers of certain low-income housing; authorizing City participation in a program of the Washington State Housing Finance Commission; authorizing the Director of the Office of Housing to make, originate and service loans, to accept deeds of trust and other security in connection therewith and to sell or assign those loans; increasing an expenditure allowance in the 2002 Adopted Budget of the Office of Housing; authorizing the establishment of certain funds and accounts; and ratifying and confirming prior acts, all by a three-fourth

**Committee Action:**

3-0 PS HW RN

CF No. \_\_\_\_\_

Date Introduced: <u>NOV 19 2001</u>		
Date 1st Referred: <u>NOV 19 2001</u>	To: (committee) <u>Housing, Human Services, Education &amp; Civil Rights Committee</u>	
Date Re - Referred:	To: (committee)	
Date Re - Referred:	To: (committee)	
Date of Final Passage: <u>12-3-01</u>	Full Council Vote: <u>8-0</u>	
Date Presented to Mayor: <u>12-4-01</u>	Date Approved: <u>12/11/01</u>	
Date Returned to City Clerk: <u>12/11/01</u>	Date Published: <u>10/26/01</u>	T.O. <input checked="" type="checkbox"/> F.T. <input type="checkbox"/>
Date Vetoed by Mayor:	Date Veto Published:	
Date Passed Over Veto:	Veto Sustained:	

12-3-01 Passed 80 (Excused)

This file is complete and ready for presentation to Full Council. Comm

*Law Department*

Law Dept. Review

OMP Review

City Clerk Review

The City of Seattle - Legislative Department

Council Bill/Ordinance sponsored by: [Signature]

Councilmember

Committee Action:

3-0 PS HW RN

12-3-01 Passed 80 (Excused: Wills)

This file is complete and ready for presentation to Full Council. Committee: \_\_\_\_\_ (initial/date)

Law Department

Law Dept. Review

OMP Review

City Clerk Review

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NOTICE: IF THE DOCUMENT IN THIS FRAME IS LESS CLEAR THAN THIS NOTICE IT IS DUE TO THE QUALITY OF THE DOCUMENT.

Establishing the Multifamily... the execution of contingent... pers of certain low-income... program of the Washington... rizing the Director of the... ee loans, to accept deeds of... with and to sell or assign... vance in the 2002 Adopted... the establishment of certain... rming prior acts, all by a

ing, Human... ces, Education &... Rights Committee

T.O.   
F.T.

ed:



ORDINANCE 120663

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allowance in the 2002 Adopted Budget of the Office of Housing; authorizing the  
establishment of certain funds and accounts; and ratifying and confirming prior  
acts, all by a three-fourths vote.

10 WHEREAS, RCW 35.21.685 authorizes cities to assist in the development of publicly or  
11 privately owned housing for persons of low income by providing loans or grants  
12 of general municipal funds to the owners of developers of the housing; and

13 WHEREAS, the City desires to assist property owners, including those recovering from  
14 recent earthquake damage, to provide new or rehabilitated low-income housing,  
in the Chinatown-International District and Pioneer Square neighborhoods; and

15 WHEREAS, RCW 43.180.050 and other statutes authorize the Washington State  
16 Housing Finance Commission and other qualified issuers (collectively, the  
17 "Commission") to issue bonds to finance loans to finance the rehabilitation of  
18 multifamily housing, and to apply the proceeds of those bonds to purchase loans  
from mortgage lenders including, under RCW 43.180.020, the City; NOW,  
THEREFORE,

19 BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

20 **Section 1. Establishment of Program.** There is hereby established a  
21 Multifamily Rehabilitation Loan Program (the "Program") for the purpose of assisting  
22 property owners and developers, including owners and developers of buildings recovering  
23 from recent earthquake damage, to provide new or rehabilitated housing for low-income  
24 persons in the Chinatown-International District and Pioneer Square neighborhoods, as  
25 shown on Exhibit 2 to this ordinance. The term "low-income persons" shall be as defined  
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in RCW 35.21.685. The owners or developers of housing that qualifies under the Program ("Borrowers") will be required to commit to rent restrictions as follows: 40% of the residential units created will have rents that are affordable to households with incomes at 60% of the area median family income, as adjusted for household size based upon the number of bedrooms in the unit. The remaining residential units will have rents affordable to households with incomes at the low-income limit set by the United States Department of Housing and Urban Development ("HUD") for the Seattle area for the Section 8 program, but no higher than 80% of area median family income, adjusted as stated above. The affordability requirement will remain in effect for a minimum of 15 years from the date of construction completion. The Program shall be carried out substantially in accordance with the "Seattle Multifamily Rehabilitation Loan Program Description" attached as Exhibit 1 and incorporated herein by this reference, but in case of any conflict between Exhibit 1 and the provisions of this ordinance, the language of the ordinance shall control.

**Section 2. Origination and Sale of Loans.** To carry out the Program, the Director of the Office of Housing (the "Director") is authorized to make and/or originate not to exceed Ten Million Dollars (\$10,000,000) of short-term loans and not to exceed Ten Million Dollars (\$10,000,000) in long-term loans (collectively, the "Loans") to the owners or developers of housing that qualifies under the Program and to sell and assign those Loans to the Commission or the Commission's designee. The Loans may have fixed or variable rates of interest, and may be structured as long-term or short-term obligations (including lines of credit) or any combination thereof. Short-term Loans shall



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1 not be of more than three years duration. The maximum total term of the Loan or Loans  
2 on any property, including both the short-term Loan and long-term Loan if applicable,  
3 shall be eighteen (18) years. The interest rate on any Loan shall not exceed ten percent  
4 (10%) per annum. Loans shall be made to Borrowers on a recourse basis. The Director  
5 may waive the requirement for Loans being made on a recourse basis if the applicant is a  
6 limited partnership or limited liability corporation and the director makes a determination  
7 that non-city sources of funding can be more effectively leveraged without a recourse  
8 Loan.  
9

10 The Loans in this Program may not be made from City funds except to the extent  
11 of any appropriations expressly for such purpose; however, nothing in this ordinance shall  
12 limit eligibility of any property for funding under other City programs. Loans may be  
13 funded from the proceeds of either tax-exempt or taxable obligations issued by the  
14 Commission. At the Director's discretion, after consultation with the members of the  
15 Housing, Human Services, Education and Civil Rights Committee of the City Council  
16 within 90 days of adoption of this ordinance, the Office of Housing may retain and carry  
17 out the servicing of those Loans or may sell and assign the Loans with servicing released.  
18 The Director may require and accept deeds of trust and other instruments to provide  
19 security for repayment of the Loans and to commit the housing to low-income use for a  
20 specified period. The Director is authorized to provide for costs of the Program  
21 (including without limitation fees paid to the Commission, any trustee or custodian and  
22 other transaction costs) from allowances in the Adopted Budgets of the Office of  
23 Housing, in an amount not to exceed Two Hundred Thousand Dollars (\$200,000) of  
24 general municipal funds and other money of the City legally available therefor, which  
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amount shall be recovered through loan origination, monitoring, servicing fees, or bond proceeds. All funds received by the City from Loan origination fees or otherwise as reimbursement for the costs of the Program and staff services authorized by this ordinance shall be deposited in the Low Income Housing Fund. Conditioned upon the receipt of such fees and other reimbursements, and only to the extent that they are received by the City and deposited in such Fund, the following increase in expenditure allowance in the 2002 Adopted Budget is hereby made and authorized:

Fund	Department	Line of Business	Amount
16400 Low Income Housing Fund	Office of Housing	Housing	\$200,000

The Director may also set aside and retain in an account within the Low Income Housing Fund, an amount not to exceed One Million Dollars (\$1,000,000) to serve as a reserve to fund loans under the contingent loan agreements authorized in Section 3 of this ordinance.

The Director is authorized to make or originate Loans that meet prudent underwriting standards, as established by the Director. Such underwriting standards shall include provisions that Loans made under the Program, in combination with any senior debt on the property, have a loan-to-value ratio of 80% or less of the post-rehabilitation value. Underwriting standards will also require that applicants demonstrate that, in the judgment of the Director, they have satisfactory ability directly or through contracted services, to oversee the rehabilitation and to perform sound property management of any property receiving a Loan under the Program. Loans funded through the Program are



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1 limited to a maximum of \$90,000 per housing unit. The per unit loan limit may be  
2 adjusted annually in accordance with changes to the Consumer Price Index ("CPI"). The  
3 Director shall encourage applicants to leverage other non-city funding sources for the  
4 rehabilitation of their properties. Program Loans shall be awarded via a competitive,  
5 widely publicized, application process. In the event that applications for the Program  
6 exceed available Loan funds, the Director will give priority to properties that require  
7 significant rehabilitation to address building code and health and safety deficiencies, with  
8 further priority for such buildings that are occupied.  
9

10  
11 The Director is authorized to enter into an agreement with the Commission that  
12 provides for the City and Borrowers to participate in a multifamily housing finance  
13 program of the Commission and for the Commission's reservation of a sufficient amount  
14 of the private activity bond allocation under chapter 39.86 RCW as may be necessary to  
15 carry out the Program. That agreement may provide for, among other things, such  
16 Program requirements and Borrower covenants as may be necessary to maintain the  
17 exclusion from gross income of interest received on bonds issued by the Commission to  
18 purchase Loans made under the Program.  
19

20 The Director may contract with the Commission or the Commission's designee  
21 (including without limitation any custodian or trustee) and arrange for the establishment  
22 of or use of funds or accounts so established or provided for the purpose of carrying out  
23 the Program. The Director of Finance of the City is authorized to establish such accounts  
24 within the Low Income Housing Fund for the deposit and expenditure of money of the  
25 City budgeted for the Program. To carry out the Program, the Director of Finance is  
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further authorized to establish special accounts for the deposit and disbursement only of money other than money of the City.

The Director shall report to the City Council on the status of the Program no later than September 1 of each year.

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**Section 3. Contingent Loan Agreements.** The Director may enter into contingent loan agreements with Borrowers and the Commission or its designee and/or with Borrowers and/or other public or private sector lenders (collectively "Contingent Loan Agreements"), under which agreements the City will provide an irrevocable commitment to fund long-term or short-term contingent loans to those Borrowers in the future to provide for the payment of principal and interest the event that such owners fail to make timely reserve or debt service payments on the Loans that have been made by or sold or assigned to the Commission or to other lenders. The Contingent Loan Agreements shall provide that the City will make contingent loans that will be funded at such time or times, if any, as a Borrower is unable, because of lack of specific revenues, to make or replenish a required payment into a reserve or to pay the principal of and interest on a Loan made under the Program. Any contingent loan may be funded in a series of advances, and shall be repaid, with such interest rates and under such terms and conditions as the Director may prescribe. Such terms shall require the repayment of principal of such advance and interest thereon from the first available net revenues of a project in excess of the amounts needed to provide the interest and principal payments then due under bonds issued by the Commission or to provide for debt service owing to other public or private lenders under the Program.

The obligation of the City to fund the contingent loan payments and to perform and observe the other obligations on its part in connection with the contingent loans and the Program shall be absolute and unconditional, and shall not be subject to diminution by setoff, counterclaim, abatement or otherwise. The obligation of the City to advance funds to the Commission or its designee under the Contingent Loan Agreements at the times and in



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the manner described therein shall be absolute and unconditional, and shall not be subject to diminution by setoff, counterclaim, abatement or otherwise.

The obligations of the City under the contingent loan agreements shall terminate upon payment in full of the principal and interest on all outstanding bonds issued by the Commission to finance the Loans and/or the retirement of other loans made by public or private lenders under the Program backed with contingent loan obligations.

The total amount of money to be loaned by the City pursuant to Contingent Loan Agreements shall not exceed the amounts required to make payments of interest and principal on Loans with a total principal amount of Ten Million Dollars (\$10,000,000). The Director may require and accept deeds of trust and other instruments to provide security for repayment of such loans.

Nothing in Section 2 or 3 of this ordinance shall be deemed to create an indebtedness of the City as that term is used in Chapter 39.36 RCW.

**Section 4. General Authorization.** The Mayor, the Director and the Director of Finance of the City and each of the other appropriate officers of the City are each authorized and directed to do everything as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance.

**Section 5. Severability.** The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be



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1 invalid or unenforceable as to any person or circumstance, such offending provision shall,  
2 if feasible, be deemed to be modified to be within the limits of enforceability or validity.  
3 However, if the offending provision cannot be so modified, it shall be null and void with  
4 respect to the particular person or circumstance, and all other provisions of this ordinance  
5 in all other respects, and the offending provision with respect to all other persons and all  
6 other circumstances, shall remain valid and enforceable.  
7

8 **Section 6. Ratification of Prior Acts.** Any action taken consistent with  
9 the authority but prior to the effective date of this ordinance and consistent with its terms,  
10 is ratified, approved and confirmed.  
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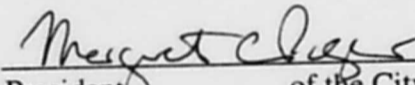


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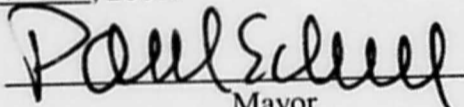
**Section 7. Section Headings.** The section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

**Section 8. Necessary Expenditures; Effective Date.** The appropriation in this ordinance is made to meet actual necessary expenditures of the City for which insufficient appropriation has been made due to causes which could not reasonably have been foreseen at the time of the making of the 2002 Budget; Now, Therefore, in accordance with RCW 35.32A.060, by reason of the facts above stated, this ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

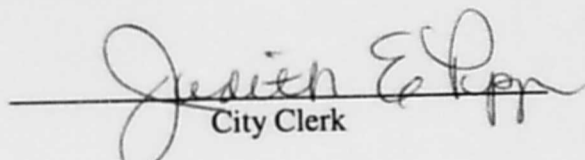
PASSED by a three-fourths (3/4) vote of all the members of the City Council the 3<sup>rd</sup> day of December, 2001, and signed by me in open session in authentication of its passage this 3<sup>rd</sup> day of December, 2001.

  
\_\_\_\_\_  
President of the City Council

Approved by me this 11<sup>th</sup> day of DECEMBER, 2001.

  
\_\_\_\_\_  
Mayor

Filed by me this 11<sup>th</sup> day of December, 2001.

  
\_\_\_\_\_  
City Clerk

(SEAL)

Exhibit 1: Seattle Multifamily Rehabilitation Loan Program Description



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Exhibit 2: Map of Pioneer Square and Chinatown-International District

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# City of Seattle

Paul Schell, Mayor

Executive Department - Office of Housing  
Cynthia A. Parker, Director

## MEMORANDUM

November 14, 2001

TO: The Honorable Margaret Pageler  
President, Seattle City Council

FROM: Cynthia A. Parker, Director

SUBJECT: Legislation Authorizing Multifamily Rehabilitation Loan Program

The attached ordinance makes findings and provides direction for the establishment of a new multifamily rehabilitation loan program that may be used to rehabilitate privately-owned buildings, now vacant or underutilized, to provide low and moderate income housing in the Chinatown-International District and Pioneer Square neighborhoods.

### Background

A large number of housing units in the Chinatown/International District and Pioneer Square neighborhoods of Seattle have been vacant since implementation of the Ozark Ordinance in the early 1970's. Many owners chose to vacate the residential portion of their buildings rather than to make the extensive upgrades required by the new codes. The added complexities of redeveloping buildings located within historic districts; the additional costs to rehabilitate old un-reinforced masonry buildings on small lots; and their location in unproven residential market areas, have made it difficult for owners to find a financially feasible way to redevelop their properties.

The February Nisqually earthquake inflicted damage upon many of the vacant and partially vacant buildings of Chinatown/ID and Pioneer Square. The earthquake damage has forced owners to make immediate repairs as well as focus their attention on the long-term plan for their properties. The City's pressing need for more affordable housing combined with the building owners' need to finance the rehabilitation of their properties, presents an opportunity for a creative partnership that will provide a solution to a 30-year-old problem.

Alaska Building, 618 Second Avenue, 8th Floor, Seattle, WA 98104  
Tel: (206) 684-0721, TDD: (206) 684-0274, Fax: (206) 233-7117, M/S 15-08-01

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The Honorable Margaret Hageler  
October 10, 2001  
Page 2

**Program Summary**

The Office of Housing is proposing to use tax exempt bond funds to underwrite below market rate loans for property owners willing to create low-income housing as part of a building rehabilitation project. OH plans to negotiate a \$10 Million line of credit from a private capital source to originate the rehab loans, which will then be converted to long-term financing with proceeds of tax-exempt bonds. The Washington State Housing Finance Commission has indicated its willingness to serve as bond issuer and has obtained tentative approval for private activity bond authority for this purpose. The loan funds will be used to upgrade these historic buildings and create new affordable housing units, thus improving the aesthetics, safety and economic viability of these vital neighborhoods.

A detailed program description is attached to the proposed ordinance.

**Proposed Action**

The attached ordinance enables the establishment of the proposed Multifamily Rehabilitation Loan Program, and authorizes the Housing Director to take appropriate action necessary to implement the program as described in the text of the ordinance.

For additional information, please call Bill Rumpf at 615-1577 or Eric Pravitz at 684-0362.

**Attachments**

cc: Trang Tu  
Traci Ratzliff

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## Seattle Multifamily Rehabilitation Loan Program Description

November 15, 2001

**PROGRAM PURPOSE:** The Chinatown/International District and Pioneer Square neighborhoods of Seattle are home to the City's largest concentration of late 19<sup>th</sup> and early 20<sup>th</sup> Century masonry buildings. Many of these buildings have residential units, which have traditionally served single people in need of affordable housing. Although some of these buildings have been rehabilitated and upgraded to satisfy modern seismic, fire and safety codes, often with public low-income housing funds, many are now vacant with the exception of ground floor retail still in active use. The vacant buildings, as well as some occupied buildings, have continued to deteriorate over time, a problem that was exacerbated by the Nisqually earthquake of February 28<sup>th</sup>, 2001. Due to their age, type of construction, and the soil condition of the area, all of these buildings sustained some degree of damage from the earthquake.

To assist property owners recovering from the earthquake damage to provide new or rehabilitated low-income housing, and to provide the means for them to do the substantial rehabilitation necessary to bring the vacant upper floors back into active residential use, the Office of Housing is proposing to establish a low cost loan program. To fund the rehabilitation of mixed-use and multifamily buildings in two of the most historically significant neighborhoods of Seattle, OH is seeking to use the proceeds of a tax-exempt bond to create a low cost rehab loan program. Our intent is to create the economic incentive to stimulate a reinvestment in these buildings that will preserve the historic heart of our city while providing much needed new affordable housing and preserving existing affordable housing.

**MARKET:** The Chinatown/ID and Pioneer Square areas are unique in their current housing mix among Seattle neighborhoods. Chinatown/ID has the largest concentration of low income housing in the city. A 1997 survey completed by a local non-profit housing provider indicated that of the 1,998 residential units in the neighborhood at that time, 94% were set aside for low-income residents. Office of Housing tracking indicates that there are currently 2,291 rental residential housing units in the Chinatown/ID neighborhood. Of this total 1,300 units are receiving some sort of subsidy, and an additional 629 units are market rate SRO or efficiency apartments, much of which is in substandard condition, serving low income residents. That leaves approximately 362 standard market rate apartment units, or approximately 15% of the neighborhood total. An additional project under construction, the Mosaic at 7<sup>th</sup> and Lane Street, will provide 88 market rate units when it is completed next summer.

City of Seattle, Office of Housing  
618 Second Ave, 8<sup>th</sup> Floor, Seattle, Washington 98104

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EXHIBIT 1

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Pioneer Square has traditionally been home to the largest concentration of shelter beds serving the homeless population in Seattle. Office of Housing tracking indicates a total of 706 rental residential units in Pioneer Square. 500 of those units, or 71% of the total, are subsidized for low income residents. The remaining 206 market rate rental units are primarily in smaller buildings ranging in size from 3 to 48 units. Most of these rental units are in older buildings that have been rehabilitated in the past 10 years.

Market conditions indicate a healthy demand for housing in the Chinatown/ID and Pioneer Square neighborhoods. The evolving strength of the real estate market in Chinatown/ID, as evidenced by the new construction occurring there, has improved the financial feasibility and owner interest in undertaking major rehabilitation of their properties. A market study prepared for the Seattle Office of Housing by Shorett Kidder Mathews and Segner in May 2001 indicates continued demand for new residential units in the downtown core neighborhoods. Over the past five years downtown rental vacancy has fluctuated between 2.2% and 6.4%, while average rents over the same period have increased an average of 9.6% per year. At a time when a record number of new units were coming on line, average rents continued to increase. In the most recent 12-month period ending in March average rents in the downtown market area increased by 21.3%. This is largely due to the preponderance of new rental housing catering to the higher end of the market. The majority of new units constructed are in the Belltown neighborhood, but the completion of several million square feet of office and commercial development in the south downtown area will fuel housing demand in Chinatown/ID and Pioneer Square neighborhoods as well.

Though the demand curve for downtown housing may be leveling off from its heated pace of the past few years, the demand for affordable housing, defined as that which is serving the population at or below 80% of area median income, has remained strong. Of existing units in older buildings in the target market area, per square foot rent rates have remained firm at between \$1.00 to \$1.30 as compared to the \$1.60 to \$1.90 per SF rents in newer properties. Occupancy in the older, more affordable buildings in the market area has remained high, generally 95% or better. The buildings we are targeting for the rehab loan program are modest in size, and will have unit counts between 16 and 70. We hope for more extensive participation in the rehab loan program, but anticipate no more than one or two projects coming on line per year. Newly rehabbed units, 40 to 80 per year, should be easily absorbed into the market based on the current and historic demand trend for affordable housing in Seattle.

**TRANSPORTATION AND PARKING:** The buildings under consideration for this loan program are all existing zero lot line structures. There is no parking requirement for residential structures in the International District or Pioneer Square per the City zoning code. However some buildings may be able to include parking in reconfigured basements. The 1997 survey indicated that only 15% of Chinatown/ID residents owned and stored their cars in the neighborhood. The three new construction projects all include on-site parking at a ratio of at least one space per dwelling unit. While a portion of residents are likely to own a car, Pioneer Square and Chinatown/International District are well suited for residents to walk or use public transit for most of their mobility needs. Due to the income restrictions on eligible tenants for projects developed using this loan program, the rate of car ownership is likely to be lower than for market-rate units. Both neighborhoods are close to jobs, shopping, and entertainment, which





makes them attractive for those seeking an urban living experience. Traffic congestion and commute delays in areas outside of the city center are one of the primary reasons there has been a resurgence in popularity for denser urban living.

These two neighborhoods share what is developing as a major transportation hub around Union and King Street Stations. The area is served by more than 10 bus routes, ST commuter rail, the waterfront trolley, Amtrak, and perhaps future light rail. Flex car, the car sharing program, has recently been introduced to the ID as well. The type of housing developed using our proposed rehab loan would be affordable, or workforce housing, that caters to the needs of the service workers, laborers, and entry level office workers who are employed downtown, yet have trouble finding affordable housing nearby.

**INCOME AND AFFORDABILITY REQUIREMENTS:** There will be affordability requirements included in a City regulatory agreement for each borrower utilizing the proposed rehab loan program. The requirement is that a minimum of 40% of the residential units be affordable to, and reserved for, households with incomes no more than 60% of area median family income. The remaining 60% of the units must be affordable to, and reserved for, households with incomes no more than 80% of area median family income. The owners will be required to maintain the unit affordability for at least 15 years. We believe that the level of affordability requirement and the corresponding term meets our goals for the program while preserving a reasonable return to the borrowers in relation to the risk they are assuming in redeveloping their property.

**REHAB COSTS:** Rehabilitation costs will vary depending on a building's physical condition, size and configuration. On a per square foot basis we estimate the construction hard cost (material and labor) to be between \$90 and \$120. Per unit development costs will typically be higher for these projects than comparable new construction projects due to the site constraints, seismic retrofitting, and other conditions common to both Chinatown/International District and Pioneer Square neighborhoods. Our initial estimates of the development cost, exclusive of the existing land and building value, ranges from between \$70,000 and \$85,000 per unit.

**LEVERAGING:** Most of the target buildings are mixed-use with ground floor commercial/retail space. Our proposed rehab loan is primarily restricted to work done on the residential portion of the buildings. It is anticipated that property owners will seek out additional financing for rehab work on the non-residential portion of their buildings, which may include private debt, conventional financing, or utilization of another loan program geared toward commercial rehab. Most property owners have already pursued FEMA or SBA loans for repairs to commercial space damaged by the earthquake. The Seattle Office of Economic Development is developing a HUD 108-loan program aimed at the renovation of non-residential spaces in these mixed-use buildings. OH is working closely with OED to ensure coordination of our respective loan programs to achieve the best financing mix for the potential borrowers. Many owners could also be eligible for the property tax exemption program, which covers new developments that include affordable housing in the Chinatown/International District neighborhood. Since all of the target properties are located in designated historic districts it is expected that property owners will seek historic rehabilitation tax credits applicable to the rehab





work performed under our proposed loan program. Many of the target properties have little or no debt, so there is also substantial owner equity to bolster the security of a City loan.

**FINANCING:** OH proposes utilizing proceeds from a tax-exempt bond to make available below market rate loans for the creation of low-income housing. To carry out the Program, the Director of the Office of Housing is authorized to make and/or originate Ten Million Dollars (\$10,000,000) of short-term loans and Ten Million Dollars (\$10,000,000) in long-term loans to the owners or developers of housing that qualifies under the Program. The Loans may have fixed or variable rates of interest, and may be structured as long-term or short-term obligations (including lines of credit) or any combination thereof. Loans shall be made to Borrowers on a recourse basis. The Director may waive the requirement for Loans being made on a recourse basis if the applicant is a limited partnership or limited liability corporation and the director makes a determination that non-city sources of funding can be more effectively leveraged without a recourse Loan. Loans may be funded from the proceeds of either tax-exempt or taxable obligations issued by the Commission. The Director may require and accept deeds of trust and other instruments to provide security for repayment of the Loans and to commit the housing to low-income use for a specified period.

The bond will be issued by either the Seattle Housing Authority or Washington State Housing Finance Commission, not the City. The City will provide credit enhancement, in the form of a contingent loan agreement with each borrower who obtains a loan funded with the bond proceeds. The amount of short and long-term loans that would be credit enhanced by a City contingent loan commitment would not at any given time have an outstanding balance of more than \$10 million in principal. The City would ask the Seattle Housing Authority or Washington State Housing Finance Commission to issue up to \$10 million in tax-exempt bonds. The bonds will be placed with one or more financial institutions. The City will enter into a contingent loan agreement with the borrower and bond trustee obligating the City to advance funds to continue payments of principal and interest in the event the borrower default on their scheduled loan payments and/or the balloon payment due at maturity of the loan. The City will use its security in the property, a deed of trust, to seek recovery through foreclosure if a workout cannot be successfully implemented with the borrower.

**PRECEDENTS:** The City of Seattle has previous experience operating a multifamily rehabilitation loan program for private owners. During the 1980's, Seattle was a large user of the HUD Section 312 program, which is similar programmatically to the proposed program design. The City used capital provided by HUD to make 3% interest rate loans to private owners to renovate multi-unit rental properties. The rate of defaults or problems has been extremely low. Of this portfolio, 140 loans remain outstanding, 139 of which have stayed current, and one, which was delinquent, has been assumed by another borrower and brought current.

This program would be the first time that the City of Seattle has done credit enhancement on privately owned, for profit, multifamily projects. The City has provided credit enhancement in the form of loan guarantees on a project-by-project basis for affordable housing developed by public development authorities (PDA) in Pike Place Market and in the International District. Other jurisdictions, including King County, Snohomish County, and the City of Tacoma have provided credit enhancement as a financial leveraging strategy.

City of Seattle, Office of Housing  
618 Second Ave, 8<sup>th</sup> Floor, Seattle, Washington 98104



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**RISK MITIGATION:** The Office of Housing would structure the loan program to minimize any risks to the City's general fund. Using sound underwriting requirements is a key element to avoid debt problems. Proposed underwriting standards are attached in *Appendix A*. The rehab loans and any senior debt will be limited to 80% of the "as rehabilitated" appraised value of the property estimated prior to renovation. Loans will be sized so that projected net cash flow will be at least 125% of the scheduled debt payments. At the initial underwriting stage and on an on-going basis, borrowers will be obligated to meet a number of requirements intended to assure good business practices, including experienced property management, replacement reserves, property and liability insurance, and compliance reporting.

OH will develop servicing policies to address problems, including financial restructuring, changing management agents, and, if necessary, foreclosure on the loan. The loan pool would be structured with a loan loss reserve from OH resources.

**TIMELINE:** The earthquake has forced many of the Chinatown/ID and Pioneer Square building owners to make repairs to stabilize the damage incurred. There is strong interest on the part of building owners to work with the City to rehabilitate their properties and bring them into more active use. Several property owners have engaged architects to prepare scopes of work. *Appendix B* is a list of buildings in the Chinatown/International District and Pioneer Square neighborhoods that seem to meet the criteria, and have been targeted for outreach for participation in the proposed rehab loan program.

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## Appendix A

### Underwriting Standards

**Product Description:** Utilizing tax-exempt bond proceeds as long term financing, OH will make below market loans available. In order to provide incentives for property owners to rehabilitate their buildings to include low-income housing OH proposes lending the funds at a below-market rate.

**Interest Rate:** To be based on the Tax Exempt Bond rate

**Loan to Value (LTV):** 80% after rehab appraised value

**Debt Coverage Ratio (DCR):** 1.25

**Loan Amounts:** Limited to no more than \$90,000 per housing unit.

**Term:** 25-year amortization, 15 to 18 year maturity

**Security:** Secured by property (1<sup>st</sup> or 2<sup>nd</sup> lien position)

**Minimum Qualifications:**

1. Vacant and/or earthquake damaged mixed-use and multifamily buildings located in the International District and Pioneer Square neighborhoods.
2. Occupancy would be restricted to households with incomes at or below 80% of median income.
3. Maintain income requirements and rent limits for fifteen years.

**Eligible use of loan funds will be reasonable costs associated with rehabilitation as approved by OH, including but not limited to:**




1. consultants such as architects and engineers
2. permits and inspections
3. seismic repairs and retrofitting
4. code violation repairs
5. roof repair or replacement; heating and plumbing system upgrades
6. insulation, window replacement and other energy improvements
7. exterior painting or repairs
8. unit reconfiguration
9. hazardous abatement such as UST's, lead-based paint, and asbestos
10. interior finishes









## Appendix B

### Chinatown/International District Earthquake Damaged and Vacant Buildings

<p><b>Eclipse Building</b> 670 S. Weller St. Built: 1908 Owner: Howard Dong Land: 7,200 sf Bldg: 27,100 sf Residential: 2 floors w/80 vacant SRO units. Commercial: Active ground floor retail. Comments: Building suffered significant damage from the earthquake and is only partially accessible.</p>	
<p><b>Publix Hotel</b> 505 5<sup>th</sup> Ave. S. Built: 1928 Owner: Tomio Moriguchi, Uwajimaya inc. Land: 7,200 sf Bldg: 40,780 sf Residential: 5 floors w/220 occupied SRO units. Commercial: Vacant ground floor retail space. Comments: The building occupies a very prominent location across from the new Union Station development. The existing residential units are in need of significant rehab to remain serviceable.</p>	
<p><b>Republic Hotel</b> 416 7<sup>th</sup> Ave. S. Built: 1920 Owner: Ted Choi, Lun Yuen Investment Co. Land: 7,680 sf Bldg: 29,816 sf Residential: 3 floors w/70 occupied SRO units. Commercial: Active ground floor retail. Comments: The building suffered minor earthquake damage. The existing residential units are in need of significant rehab to remain serviceable.</p>	

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<p><b>Mar Building</b>  507 Maynard Ave. S.  Built: 1927  Owner: Sik Yeun Ng &amp; Sau Chun Kwan Ng  Land: 7,200 sf  Bldg: 34,092 sf  Residential: 3 floors that previously housed 72 SRO units.  Commercial: Vacant ground floor retail.  Comments: A gut rehab of the building was started and never completed. The building sustained moderate earthquake damage.</p>	
<p><b>New American Hotel</b>  420 7<sup>th</sup> Ave. S.  Owner: Bing Kung Bo Leung Inc.  Land: 7,680 sf  Residential: 3 floors w/54 occupied SRO units.  Commercial: Active ground floor retail.  Comments: The building sustained significant earthquake damage, requiring several housing units to be vacated.</p>	
<p><b>Hip Sing Building</b>  418 8<sup>th</sup> Ave. S.  Built: 1910  Owner: Hip Sing Association  Land: 3,360 sf  Bldg: 13,664 sf  Residential: 2 floors w/25 vacant units.  Commercial: Active ground floor retail.  Comments: The building sustained significant earthquake damage resulting in sidewalk closure.</p>	
<p><b>Louisa Hotel</b>  673 S. King St.  Built: 1909  Owner: Jack Woo, Transpacific Corp.  Land: 14,400 sf  Bldg: 52,920  Residential: 2 floors w/149 vacant SRO units.  Commercial: Active ground floor retail.  Comments: The building received minor earthquake damage.</p>	

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**Alps Hotel**  
 621 S. King St.  
 Owner: Jordan Wong  
 Land: 7,200 sf  
 Residential: 4 floors w/117 occupied SRO units.  
 Commercial: Active ground floor retail.  
 Comments: The building suffered only minor earthquake damage, however it is past due for a major rehab effort in order to ensure the continued use of the residential units.



**Milwaukee Hotel**  
 664 S. King St.  
 Built: 1911  
 Owner: Jordan Wong  
 Land: 14,400 sf  
 Bldg: 76,200 sf  
 Residential: 4 floors w/150 vacant SRO units.  
 Commercial: Active ground floor retail.  
 Comments: The building suffered substantial damage during the earthquake. The Milwaukee Hotel is the largest vacant building in the district.



**Atlas Apartments**  
 420 Maynard Ave. S.  
 Built: 1920  
 Owner: Barry Mar, Mar Wong Trust  
 Land: 11,640 sf  
 Bldg: 49,920 sf  
 Residential: 3 floors w/46 occupied units.  
 Commercial: Active ground floor retail.  
 Comments: The building suffered minor earthquake damage. A rehab was completed in 1983, but additional work is required to ensure that it continues to provide affordable housing.



**Kong Yick Building**  
 508 7<sup>th</sup> Ave. S.  
 Built: 1910  
 Owner: Kong Yick Investment Co.  
 Land: 14,400 sf  
 Bldg: 72,840 sf  
 Residential: 2 floors w/28 vacant SRO units.  
 Commercial: Active ground floor retail.  
 Comments: The building did not suffer any significant earthquake damage.

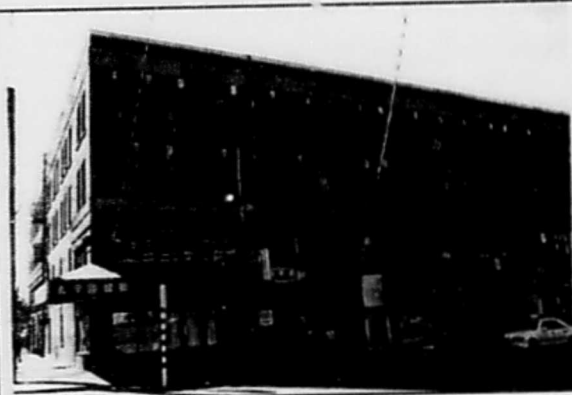


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**Freeman Building**  
723 S. King St.  
Built: 1910  
Owner: Kong Yick Investment Co.  
Land: 14,400 sf  
Bldg: 39,520 sf  
Residential: 2 floors w/60 vacant SRO units.  
Commercial: Active ground floor retail.  
Comments: The building did not suffer any significant earthquake damage.

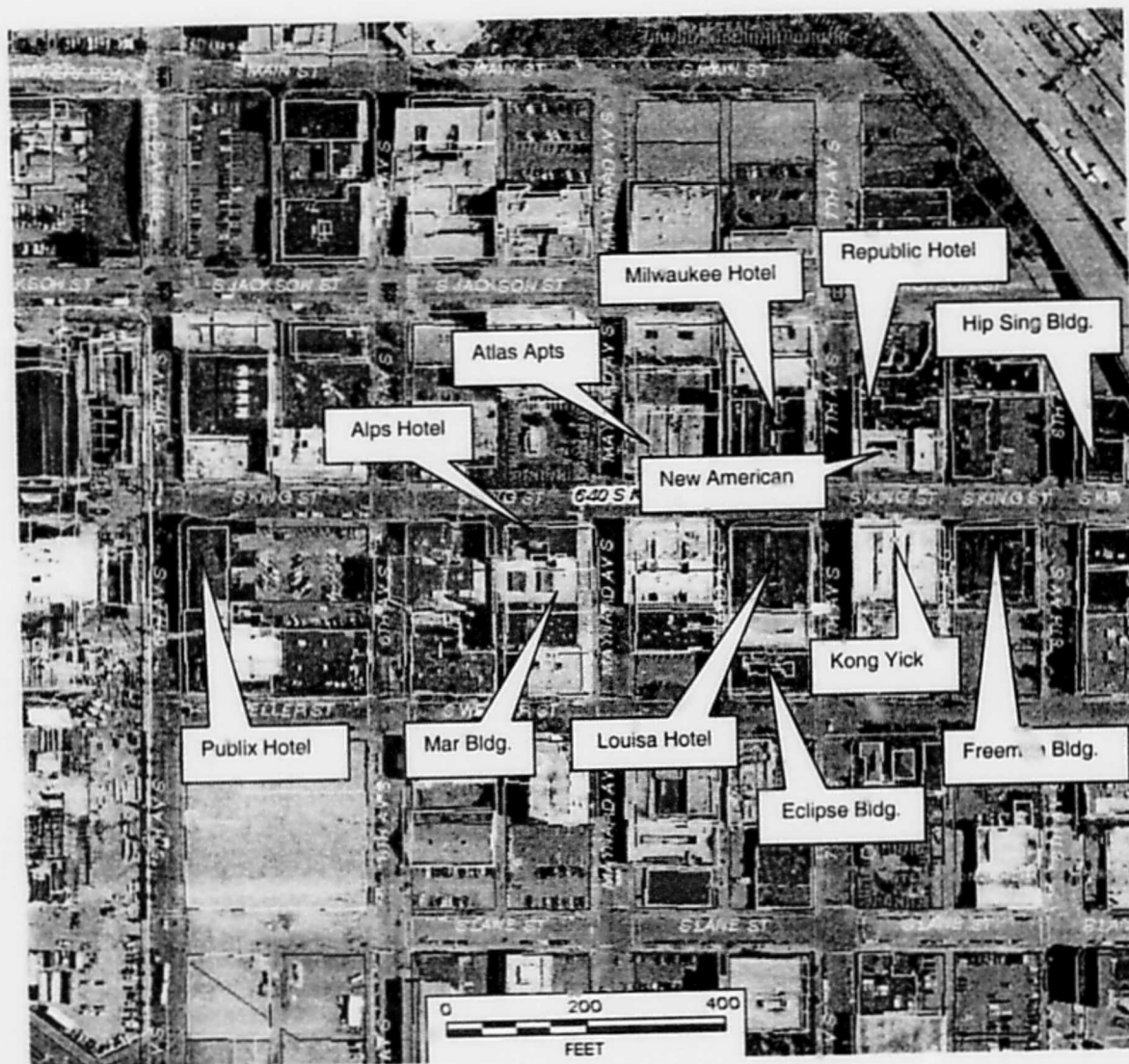


Vacant Units:	536
Occupied Units:	507
Total Units:	1,043

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Chinatown/International District  
Building Location Map






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City of Seattle, Office of Housing  
618 Second Ave, 8<sup>th</sup> Floor, Seattle, Washington 98104



## Pioneer Square Earthquake Damaged and Vacant Buildings

<p><b>M.F. Backus Warehouse</b> 542 First Ave. S. Built: Owner: Washington Shoe Investment Co. Land: 13,500sf Bldg: Residential: Commercial: Ground floor retail vacated due to earthquake damage. Comments: Building suffered significant damage from the earthquake and is currently not safe for entry.</p>	
<p><b>City Loan Bldg.</b> 206 First Ave. S. Built: Owner: City Loan Associates, LP Land: 3,330 sf Bldg: Residential: 4 floors Commercial: Ground floor retail space vacated due to earthquake damage. Comments: The building suffered significant earthquake damage, and is currently unsafe for entry. The residential tenants have been displaced.</p>	
<p><b>Buttnick Bldg.</b> 202 First Ave. Built: Owner: Jacob G. Buttnick Land: 6,660 sf Bldg: Residential: 2 floors Commercial: Active ground floor retail. Comments:</p>	

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**OK Hotel**  
 212 Alaskan Way S.  
 Built: 1914  
 Owner: Goodman Financial Group  
 Land: 8,114 sf  
 Bldg: 40,490 sf  
 Residential: 4 floors w/55 vacant SRO units.  
 Commercial: Ground floor retail vacated due to earthquake damage.  
 Comments: The building sustained extensive damage from the earthquake, and is currently not safe for entry.



**Cadillac Hotel**  
 325 Second Ave. S.  
 Owner: Goodman Financial Group  
 Land: 6,480 sf  
 Residential: 2 floors w/55 vacant SRO units.  
 Commercial: Ground floor retail was vacated due to extensive earthquake damage.  
 Comments: The building sustained significant earthquake damage, and is currently not safe for entry.



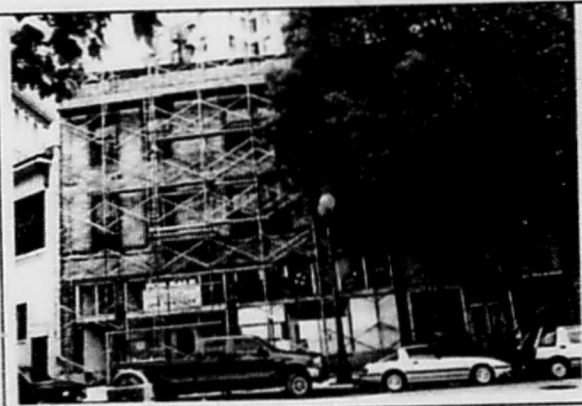
**J & M Hotel**  
 201 First Ave.  
 Built: 1900  
 Owner: Jack Buttnick  
 Land: 6,660 sf  
 Bldg: 24,930 sf  
 Residential: 2 floors w/55 vacant SRO units.  
 Commercial: Active ground floor commercial.  
 Comments: The building sustained damage during the earthquake, however the ground floor restaurant/bar has resumed operation.



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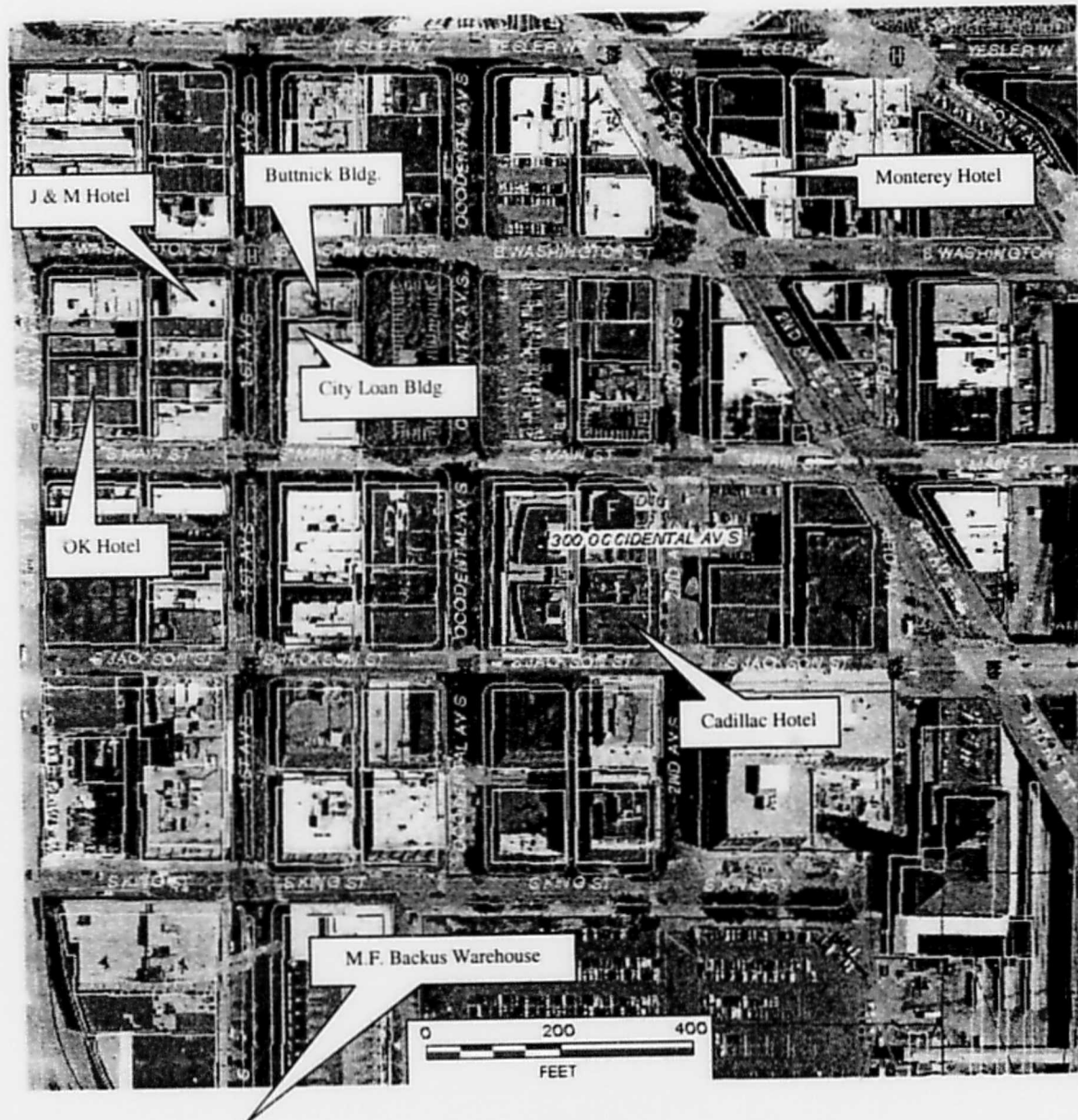
**Monterey Hotel**  
412 Second Ave. S.  
Built: 1900  
Owner: Howard Dong  
Land: 5,348 sf  
Bldg: 21,600 sf  
Residential: 2 floors w/55 vacant SRO units.  
Commercial: Ground floor retail vacated due to earthquake damage.  
Comments: The building received significant earthquake damage. The owner is actively marketing the building for sale.



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Pioneer Square  
Building Location Map



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# Pioneer Square Proposed Rehab Program Area

Prepared by:  
Strategic Planning Office

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fitness or merchantability, accompany this product.



Rehab Program Area  
Urban Village Boundary

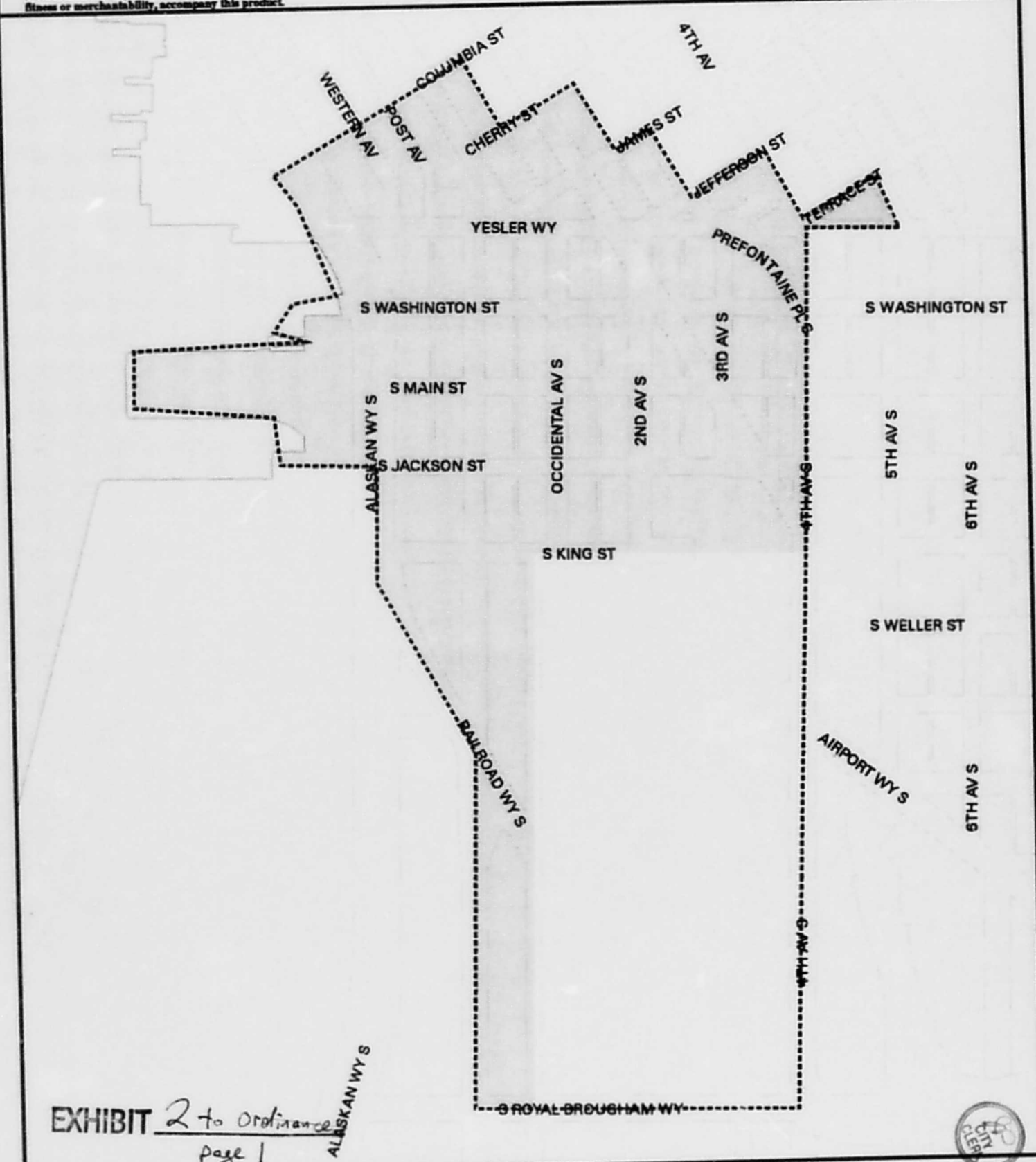
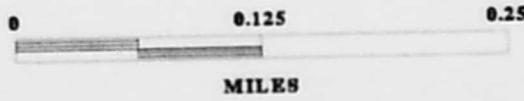


EXHIBIT 2 to Ordinance  
Page 1

Creation Date 07/29/98  
File: /p/eng/objects/taxabatement/011.amd



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# International Distri Proposed Rehab Program Area



Prepared by:  
Strategic Planning Office

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No warranties of any sort, including accuracy,  
status or merchantability, accompany this product.



Rehab Program Area



Urban Village Boundary

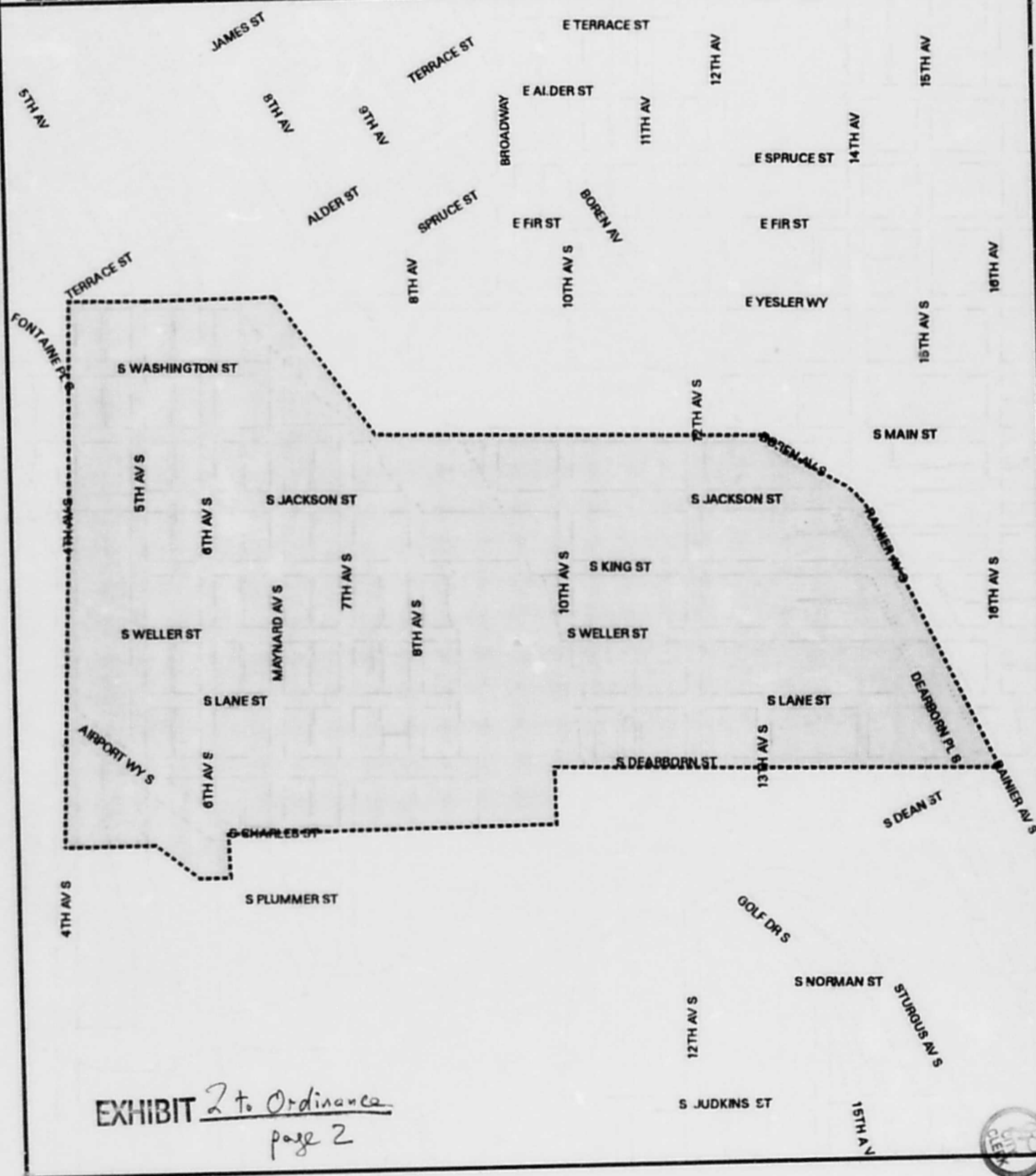
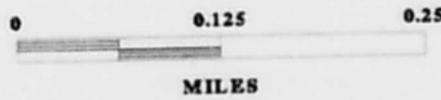


EXHIBIT 2 to Ordinance  
page 2

Creation Date: 07/29/98  
File: /p/angle/projects/azabatement/0811.amd

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Fiscal Note

<b>Department:</b> Office of Housing	<b>Contact Person/Phone:</b> Eric Pravitz 684-0362	<b>CBO Analyst/Phone:</b> Janet Credo 684-8687
---	--	--

**Legislation Title:**

AN ORDINANCE relating to low-income housing; establishing the Multifamily Rehabilitation Loan Program; authorizing the execution of contingent loan agreements with the owners or developers of certain low-income housing; authorizing City participation in a program of the Washington State Housing Finance Commission; authorizing the Director of the Office of Housing to make, originate and service loans, to accept deeds of trust and other security in connection therewith and to sell or assign those loans; increasing an expenditure allowance in the 2002 Adopted Budget of the Office of Housing; authorizing the establishment of certain funds and accounts; and ratifying and confirming prior acts, all by a three-fourths vote.

**Summary of the Legislation:**

This ordinance provides City approvals, authorizations and appropriations necessary for the establishment of a Multifamily Rehabilitation Loan Program. The Program loan fund, capitalized with proceeds from a line of credit and tax exempt bond, is for the purpose of providing construction and long term financing for rehabilitation work that results in the creation or renovation of low-income housing units.

**Background (Include justification for the legislation and funding history, if applicable):**

The Chinatown/International District and Pioneer Square neighborhoods of Seattle have historically been home to a large concentration of the City's low-income housing. New fire safety ordinances passed in the wake of two deadly apartment fires in the early 1970's accelerated the loss through closure and abandonment of hundreds of units of privately owned low-income housing. Over the past thirty years many of these buildings have remained partially or completely vacant. The February 2001 Nisqually earthquake inflicted varying amounts of damage to most all of the vacant and partially vacant buildings in these two neighborhoods. The earthquake damage has forced owners to make immediate repairs as well as focus their attention on the long-term plan for their properties.

To address the need to rehabilitate aging historic buildings and provide more low-income housing, the Office of Housing is proposing the creation of the Multifamily Rehabilitation Loan Program. OH is proposing to use tax-exempt bond proceeds to make available below market rate loans for property owners willing to create low-income housing as part

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of a building rehabilitation project. The loan funds will be used to upgrade these historic buildings and create affordable housing, thus improving the aesthetics, safety and economic viability of these vital neighborhoods. Borrowers will be required to provide a minimum of 40% of the units created or preserved at rents affordable to those at 60% of area median family income. The remainder of the units must be affordable to those at or below 80% of area median family income.

The Office of Housing will make loans that meet prudent underwriting standards. Additionally, applicants must demonstrate that they have satisfactory ability directly or through contracted services, to oversee the rehabilitation and to perform sound property management of any property receiving a loan under the Program. OH will also encourage applicants to leverage other non-city funding sources for the rehabilitation of their properties.

Section 2 of the proposed ordinance stipulates that to carry out the Program, the Director of the Office of Housing is authorized to make and/or originate Ten Million Dollars (\$10,000,000) in loans to the owners or developers of housing that qualifies under the Program.

Loans may be funded from the proceeds of either tax-exempt or taxable obligations issued by the WSHFC. The City will provide credit enhancement, in the form of a contingent loan agreement on the bonds.

Section 3 of the proposed ordinance stipulates that the Director may enter into contingent loan agreements with Borrowers and the Commission. OH will accept deeds of trust and other instruments to provide security for repayment of such loans. The obligations of the City under the contingent loan agreements will terminate upon payment in full of the principal and interest on all outstanding bonds issued to finance the Loans. The Director is authorized to provide for costs of the Program from allowances in the adopted budgets of the Office of Housing. These program costs are expected to be recovered through loan origination, monitoring, servicing fees and/or bond proceeds. The Director may also set aside a loan loss reserve financed from existing OH budgeted funds to cover obligations from contingent loan agreements authorized in Section 3 of this ordinance.

Nothing in this ordinance shall be deemed to create an indebtedness of the City as that term is used in Chapter 39.36 RCW.

**Public Private Partnership Review Status:**

Is the project referenced in the legislation subject to P4 review? If yes, identify P4 review to date.

N/A

**Is the legislation subject to public hearing requirements?** If yes, what public hearings have been held to date?

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No

**Fiscal Sustainability Issues (related to grant awards):**

**Estimated Expenditure Impacts:**

FUND (List # and/or Account)	2000	2001	2002
Low Income Housing Fund			\$200,000
<b>TOTAL</b>			<b>\$200,000</b>

One-time \$200,000

On-going \$ \_\_\_\_\_

**Note:** The Ordinance provides the authority to make loan(s), if required under the contingent loan agreement, to enable borrowers to meet debt service on up to \$10 Million in principal and up to 10% interest over 18 years. The City's obligation under the contingent loan agreement(s) does not require an increase in expenditure authority. The contingent loan agreements require loan disbursements by the City only if the borrower(s) fail to make scheduled debt service payments. If a City loan disbursement is needed, OH will need to do a base reallocation of then existing budget authority, which could impact program budgets for the year when such disbursement is needed.

**Estimated Revenue Impacts:**

FUND (List # and/or Account)	2000	2001	2002
Loan origination, monitoring, and servicing fees and/or bond proceeds			\$200,000
<b>TOTAL</b>			<b>\$200,000</b>

One-time \$200,000

On-going \$ \_\_\_\_\_

**Estimated FTE Impacts:**

FUND	2000	2001	2002
N/A			0
<b>TOTAL</b>			<b>0</b>

# Full Time \_\_\_\_\_ # Part Time \_\_\_\_\_ # TES \_\_\_\_\_

**Do positions sunset in the future? If yes, identify sunset date?**

N/A

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**Other Issues (including long-term implications of the legislation):**

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STEINBRUECK

CB 113965

NOV 19 2001

From: Traci Ratzliff  
To: Margaret Carter  
Date: 11/14/01 11:30AM  
Subject: Fwd: Rehab Loan Program Ordinance for introduction and referral calendar

today..I'll get you the folder this afternoon..CM steinbrueck is the sponsor..

TR

Housing, Human  
Services, Education &  
Civil Rights Committee

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see Todd's*

STATE OF WASHINGTON - KING COUNTY

--SS.

139418  
City of Seattle, Clerk's Office

No. TITLE ONLY ORDINANCE

**Affidavit of Publication**

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12<sup>th</sup> day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CTOT:120666,665,663,662

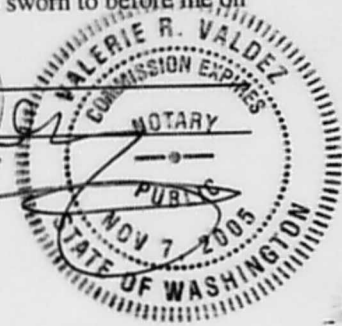
was published on

12/20/2001

  
Subscribed and sworn to before me on

12/20/2001

Notary public for the State of Washington,  
residing in Seattle



Affidavit of Publication

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State of Washington, King County

**City of Seattle**

**TITLE-ONLY PUBLICATION**

The full text of the following ordinances, passed by the City Council on December 3, 2001, and published here by title only, will be mailed upon request, or can be accessed electronically at <http://clerk.ci.seattle.wa.us>. For further information, contact the Seattle City Clerk at 684-8344.

**ORDINANCE NO. 120660**

AN ORDINANCE appropriating money to pay certain audited claims and ordering the payment thereof.

**ORDINANCE NO. 120665**

AN ORDINANCE relating to the City's Consolidated Plan for Housing and Community Development; amending the 2001 Action Plan component of the Consolidated Plan to revise certain allocations of funds; and ratifying and confirming prior acts.

**ORDINANCE NO. 120663**

AN ORDINANCE relating to low-income housing; establishing the Multifamily Rehabilitation Loan Program; authorizing the execution of contingent loan agreements with the owners or developers of certain low-income housing; authorizing City participation in a program of the Washington State Housing Finance Commission; authorizing the Director of the Office of Housing to make, originate and service loans, to accept deeds of trust and other security in connection therewith and to sell or assign those loans; increasing an expenditure allowance in the 2002 Adopted Budget of the Office of Housing; authorizing the establishment of certain funds and accounts; and ratifying and confirming prior acts, all by a three-fourths vote.

**ORDINANCE NO. 120662**

AN ORDINANCE relating to the Human Services Department, authorizing an agreement with the Washington State Department of Social and Health Services, Aging and Adult Services Administration for financial assistance to support a program to provide support services to individuals providing unpaid in-home care to older and disabled individuals, creating a position, increasing an expenditure allowance in the 2001 budget of the Human Services Department by a reimbursable appropriation, all by a three-fourths vote of the City Council.

Publication ordered by JUDITH PIPPIN, City Clerk.

Date of official publication in Daily Journal of Commerce, Seattle, December 20, 2001. 12/20(139418C1)

NOTICE: IF THE DOCUMENT IN THIS FRAME IS LESS CLEAR THAN THIS NOTICE IT IS DUE TO THE QUALITY OF THE DOCUMENT.