SUMMARY and FISCAL NOTE

Department:	Contact Person/Phone:	Executive Contact/Phone:
Office of Planning & Community Development (OPCD), Office of Housing (OH), Seattle Department of Construction & Inspections (SDCI)	Laura Hewitt Walker/4-0429 Ketil Freeman /4-8178	Leslie Price/6-9136

1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to land use and zoning; adding a new Chapter 23.58C of the Seattle Municipal Code (SMC) to establish the framework for mandatory housing affordability for residential development; and amending Section 23.34.004, subsections 23.40.020.A, 23.76.006.B, and 23.76.032.B, Sections 23.90.002 and 23.90.015, and subsection 23.90.018.C of the SMC.

Summary and background of the Legislation:

Note on legislative history: *On July 18, 2017, the Council introduced, under a new bill number, a new version of the proposal previously introduced as Council Bill 118692. The new version includes amendments to Seattle Municipal Code (SMC) Section 23.34.004, which (1) clarify how the MHA-R program would applies to quasi-judicial rezones and (2) delegate authority to the SDCI Director to promulgate, by Director's Rule, interim percentage and fee-amounts for projects seeking quasi-judicial rezones. Because the amendments reference a new SMC Section a new bill was introduced to comply with the requirements of SMC Section 1.01.030.*

This Council Bill would create a new Chapter 23.58C of the Seattle Municipal Code, which provides a framework for requiring affordable housing for residential development (referred to as Mandatory Housing Affordability for Residential Development, or MHA-R). The requirements apply to development that creates one or more new dwelling unit, live-work unit, or congregate residence sleeping room in zones where development capacity is increased. In October of 2015 a similar framework Ordinance was established for commercial development in a new Chapter 23.58B of the land use code. MHA-R is implemented with adoption of associated legislative changes to development standards (e.g. height, FAR, floor plate size) that increase residential development capacity. The purpose of MHA-R is to help address the need for affordable housing as Seattle continues to grow.

This Council Bill by itself does not implement MHA-R in any zone or area. Instead it creates a regulatory framework proposed to be implemented in 2016 and 2017 with adoption of zoning changes providing the necessary development capacity increases. The associated up-zones are in accordance with the terms of the "Statement of Intent for Basic Framework for Mandatory Inclusionary Housing and Commercial Linkage Fee" (commonly referred to as the "Grand Bargain"), and is a key strategy outlined in the Mayor's Action Plan to Address Seattle's Affordability Crisis, released in July 2015.

2. CAPITAL IMPROVEMENT PROGRAM

____ This legislation creates, funds, or amends a CIP Project.

3. SUMMARY OF FINANCIAL IMPLICATIONS

__X__ This legislation does not have direct financial implications.

4. OTHER IMPLICATIONS

a) Does the legislation have indirect or long-term financial impacts to the City of Seattle that are not reflected in the above?

The framework legislation will have fiscal impacts, but not until actual implementation of MHA-R, which will happen as additional development capacity is provided through separate zoning legislation. The Office of Housing (OH) and the Seattle Department of Construction and Inspections (SDCI) both anticipate a need for additional staff to administer MHA (review of permit applications, expenditure of revenue, and long-term oversight of investments). Permit review of each development subject to Chapter 23.58C will involve a calculation of the number of units of affordable housing or in-lieu payments to be provided and a review of any requests for modification of such requirements and/or modification of development standards according to the provisions of the legislation.

Modifications to address limited cases of severe economic impact would require a discretionary review (Type II decision), which involves review of studies or other evidence brought forth by the applicant, and the potential for appeal by outside parties. SDCI would also need to undertake other administrative tasks, in coordination with OH, including reviewing housing agreements for execution and recording. These new requirements will increase the amount of staff time needed for permit reviews.

SDCI also anticipates impacts related to information technology and permit tracking. The need for tracking affordable housing and other public benefit features provided through incentive zoning, alley vacations, and development agreements has increased in recent years. This MHA-R legislation highlights the need for a record tracking system for all affordable housing units that are provided on-site, as well as in-lieu payments received. OH anticipates the need to supplement its data systems to provide for more substantial management and compliance functions. The scope and cost of such systems will depend in part on the final implementation of Accela.

All in-lieu payments for affordable housing from MHA-R by developers will be deposited directly to OH and used to support the development of rental and ownership affordable housing in the city of Seattle. OH anticipates additional impacts related to the initial administration of revenue contributed by residential developers under the payment option. Expenditure of revenue will entail soliciting and underwriting affordable housing proposals, preparation and review of legal documents, closing and disbursement of loans in coordination with other investors and lenders, monitoring of construction progress, and general oversight of projects to ensure consistency with funding policies and procedures such as payment of prevailing wages. Long-term impacts include ongoing monitoring to ensure affordable housing investments are

maintained for the required affordability term; activities include annual compliance reviews, physical inspections, tenant file reviews, and technical assistance to property owners. General administration of cash contributions made by developers electing the payment option will impact OH finance staff, who are responsible for administering the receipt, proper usage, and tracking of funds.

General administration related to affordable housing provided through the performance option, including reviewing project plans for comparable unit distribution, reviewing affirmative marketing plans, and drafting and executing required agreements will impact OH staff. OH will also incur costs for long-term monitoring of affordable housing provided by developers on-site through the performance option.

Administrative fees to cover costs of administration and monitoring costs are included in the MHA-R framework. For administration of the payment option-related activities described above, consistent with incentive zoning, OH will utilize 10% of MHA cash contributions for program administration, specifically review of affordable housing proposals and preparation of related loan documents. OH expects that amount will be sufficient to cover MHA staffing and related costs. The costs of administration of performance option-related activities will be paid for by a $150 annual fee per affordable rental unit provided on-site, charged to the rental property owner. This amount will cover the monitoring costs. Homeowners in affordable ownership units will pay $50 per month, as well as applicable transaction fees to cover the costs of ongoing stewardship services performed by OH and any sub-contracted agency.

b) Is there financial cost or other impacts of not implementing the legislation?
If the legislation is not adopted affordable housing dedicated for households earning 60% of area median income (AMI) or less will not be provided concurrent with residential growth in Seattle.

c) Does this legislation affect any departments besides the originating department?
Fiscal impacts, described herein, are primarily on the Office of Housing (OH) and Seattle Department of Construction and Inspections (SDCI). Other departments that may be impacted are the Office of Civil Rights (OCR) and, during the implementation phase, the Office of Planning & Community Development (OPCD), the Department of Neighborhoods (DON) and the Law Department (LAW).

d) Is a public hearing required for this legislation?
Yes. A public hearing is expected to be held on June 21, 2016.

e) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?
Publication is required in the Daily Journal of Commerce.

f) Does this legislation affect a piece of property?
The legislation will eventually apply to residential and live-work development in select Downtown, Seattle Mixed, commercial, multifamily, and industrial zones throughout the city, as well as areas within urban villages that are currently zoned single-family but may be rezoned as part of the process of implementing MHA outside of downtown.

g) Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities?

MHA is a critical step to furthering City goals for racial and social justice. MHA-R will go in effect as residential development capacity is increased in multifamily and commercial zones across the city. The affordable housing that will be created will serve households with incomes no higher than 60% AMI.

The Office of Housing (OH) has a 30-year track record of leveraging payment dollars with other sources to build affordable housing in neighborhoods throughout Seattle, using a lens of equity. OH will invest MHA funds strategically in long-term affordable housing developments across the city. When determining the location of affordable housing funded with MHA cash contributions, the City will be considering the following factors:

1. Affirmatively furthering fair housing choice;
2. Locating within an urban center or urban village;
3. Locating in proximity to frequent bus service or current or planned light rail or street car stops; and
4. Furthering City policies to promote economic opportunity and community development and addressing the needs of communities vulnerable to displacement.

In addition to the locational criteria for expenditure of MHA payment dollars, OH's Housing Funding Policies' location criteria for affordable housing investments emphasizes housing choice, access to opportunity and community development investments, and preventing displacement. OH will encourage affordable housing locations that afford low-income residents the greatest access to jobs, quality education, parks and open space, and services. Affordable housing development will continue to support community development investments that improve quality of life in low-income communities and help mitigate displacement of low-income residents in locations where revitalization is driving up housing prices. Access to transit is a priority, since transportation costs are second only to housing costs for a majority of low-income households, many of whom do not own a car. Over half of the households served by providers of City-funded low-income housing are households of color. MHA enables the City to strategically locate affordable housing in neighborhoods to serve lower income households where displacement risk is high and where other community development efforts and investments clearly support the City's RSJI principles.

Inclusion of affordable housing within new market rate development in Seattle's fast-growing neighborhoods is another important way to increase access to opportunity for low-income households.

h) If this legislation includes a new initiative or a major programmatic expansion: What are the long-term and measurable goals of the program? Please describe how this legislation would help achieve the program's desired goals.

The 10 year goal of MHA-R and MHA-Commercial (MHA-C) when fully implemented is to produce at least 6,000 net new units of affordable housing set aside for households at or below 60% AMI. It is projected that MHA-R and MHA-C will help triple the production of affordable

housing in City of Seattle. Based on preliminary assumptions of future legislation adopting increases in development capacity, the program modeling developed by the City suggests that MHA-R will generate about 3,700 of these units. Approximately 1,500 units of affordable housing are expected to be included as part of otherwise market-rate developments through developers' use of the performance option. Approximately $176M of payment-in-lieu revenue will generate about 2,200 new units serving households at or below 60% AMI (assuming $80,000 per unit). These estimates will change as underlying assumptions are updated (e.g. capitalization rate, average market rents, per unit costs, proposed development capacity increases). The MHA-C program is anticipated to produce $196M of payment-in-lieu revenue which can be used to generate about 2,400 new units serving households at or below 60% AMI (assuming $80,000 per unit). OH is developing a tracking process for measuring progress toward this goal.

i) Other Issues: None.

List attachments below: None.