



City of Seattle
Office of Housing

TO: Councilmember Nick Licata, Chair, Housing, Human Service, Health, & Culture Committee
Councilmember Sally Bagshaw
Councilmember Bruce Harrell
Councilmember Tom Rasmussen

FROM: Rick Hooper, Director

DATE: September 7, 2012

SUBJECT: Seattle Housing Policies Ordinance

The proposed legislation amends housing policies in the 2012 – 2013 Housing Levy Administrative and Financial Plan (Levy A & F Plan) and the 2009 – 2011 Consolidated Plan for Housing and Community Development (Consolidated Plan). The amendments are needed to conform to the Council-adopted 2012 budget, implement the Yesler Terrace Cooperative Agreement, and make timely changes to the Rental Housing Program and Homebuyer Program lending guidelines.

We briefed you on the proposed Levy A & F Plan changes at the Committee's August 8th meeting. Since that briefing, the scope of the ordinance was expanded to include a change in the Consolidated Plan that is needed to fund replacement housing at Yesler Terrace. We had planned to bring this policy change to you as part of the 2013 Consolidated Plan Update, but have included it in this legislation because the Council's Budget Committee will be reviewing the Consolidated Plan this year. The proposed amendments are summarized below.

Consolidated Plan Amendment

The Consolidated Plan is required by HUD for jurisdictions that receive federal housing and community development funds. The Housing Policies section of the City's Consolidated Plan includes a development siting policy. This policy is intended to prevent geographic concentration of housing that serves extremely low-income residents. In general, the policy prohibits funding if the number of housing units serving households below 30 percent of median income exceeds 20% of the total housing in the Census block group. The policy does not apply to Downtown, Uptown and South Lake Union urban centers, and there is flexibility to account for other planned development and natural barriers within the area.

The proposed amendment would exempt replacement housing at Yesler Terrace from the siting policy. The planned redevelopment of Yesler Terrace is consistent with the intent of the policy – transforming an area that is exclusively extremely low income to a mixed-income community. The siting policy exemption is needed because replacement housing construction is planned for the early phases of redevelopment, when the area is still primarily public housing, to provide opportunities for residents to relocate within the area. The Yesler Terrace Cooperative Agreement requires the replacement housing to be dispersed throughout the redevelopment area, preventing future concentration.

The proposed amendment also makes two technical corrections to the siting policy. First, it corrects the formula for calculating the percentage of extremely low-income (ELI) housing units. To illustrate: An area currently contains 500 housing units of which 50 (10%) serve ELI households. A proposed development would add 60 ELI units, bringing the total to 110 ELI units. The current language would allow a maximum of 100 ELI units (500 x 20%). Under the corrected formula, the proposed new units would be added to the total housing units (500 + 60 = 560) before calculating the maximum number of ELI units (560 x 20%), and 112 ELI units would be allowed.

A second technical correction relates to housing data. The current language implies that OH produces a report containing a subsidized housing inventory, which is not the case. Instead OH produces, upon request, an analysis of the capacity for ELI housing at a particular location. Housing developers request this information before making a purchase offer on a potential development site, in order to confirm that the site would be eligible for funding.

Housing Levy A & F Plan Amendments

The Levy A & F Plan amendments were discussed at the Committee's August 8th meeting. The policy descriptions are repeated here for your convenience.

1. *Fund Transfer.* The Council-adopted 2012 Budget transferred \$165,000 from the Housing Levy administrative category to the Rental Preservation & Production Program. The A&F Plan amendment revises the Levy Funding Plan to conform to that budget decision.
2. *Rental Housing Program - Good Standing.* Recent A&F Plan amendments clarified that OH will consider an agency's performance on previously funded projects when awarding funding for new projects. The proposed amendment furthers that policy direction. It establishes a procedure for an agency to resolve any contract compliance issues, and for OH to determine whether the agency is in good standing, prior to each year's funding round. OH will make compliance findings based only on major or chronic non-compliance with the terms of the loan agreement or other loan documents or subsidy contracts, not minor deficiencies that the agency is correcting. An agency that receives a finding will have an opportunity to contest the finding. The agency must correct the

deficiency within a specified timeframe, or take actions to remedy the finding according to a plan acceptable to OH, to be eligible to apply for funding for a new project.

3. *Yesler Terrace Redevelopment.* The Yesler Terrace Cooperative Agreement authorizes funding for replacement housing and other low-income housing in Phases I and II of the Yesler Terrace redevelopment. Several A&F Plan changes are needed for OH to fund these projects consistent with the Cooperative Agreement.
 - *Waiver for Relocated and Returning Residents.* The Cooperative Agreement requires replacement housing to be offered to Yesler Terrace residents who must relocate due to redevelopment; otherwise the housing must serve households with income at or below 30% of median. Over 85% of current Yesler Terrace residents have incomes at or below 30% of median income. The A&F Plan change would allow relocated Yesler Terrace residents with income that exceeds 30% of median income (but below 80% of median) to move into replacement housing. The policy also allows OH to count levy and other funds used for replacement housing as benefitting households below 30% of median income.
 - *Replacement Housing Rent Policy.* Replacement housing at Yesler Terrace will have federal operating subsidy (public housing or Section 8) that will enable residents to pay only 30% of their adjusted income for rent. HUD regulations mandate that tenant-paid rent must rise as the household's income grows, which can be inconsistent with Levy policies when the tenant's income exceeds the income limit for the unit. Levy policies also require building owners to charge higher rents for over-income tenants, but not until the tenant's income exceeds 140% of the limit for the unit. The A&F Plan change will allow SHA to comply with HUD's requirements and charge higher rents for some over-income tenants.
 - *Application Process.* The City's Yesler Terrace funding commitments were made in support of SHA's application for federal Choice Neighborhood funding. The City funding is authorized up to a maximum amount, and SHA must submit a standard application to OH for underwriting. Due to the timing of these funding awards and the requirements of the Choice Neighborhood grant, OH is proposing to review the Yesler Terrace applications separate from the typical Notice of Fund Availability (NOFA) process. The amendment would allow this separate review process while still applying all other funding guidelines.
4. *Homebuyer Assistance* – Based on recent program experience, nonprofit homeownership organizations have requested and OH recommends the following changes to lending guidelines for certain specialized lending programs:

- *Loan limits for resale-restricted homes.* OH provides homebuyer assistance in the form of subordinate mortgage loans to households, or as loans to nonprofit entities to create affordable homeownership opportunities. Current policies allow up to \$45,000 per mortgage loan. Higher loan amounts are allowed for homes with resale restrictions, such as land trusts (an additional \$5,000) and for lower income borrowers up to 60% AMI (an additional \$10,000). Based on program experience, OH recommends a higher loan amount for resale-restricted homes (an additional \$10,000, up to a maximum of \$55,000) for loans made to homebuyers or nonprofits. The additional subsidy will make it more feasible for nonprofit organizations to meet Levy criteria for long-term affordability with the initial and subsequent homebuyers.
- *Borrower contributions for sweat equity programs.* City policy requires buyers to provide a minimum amount of their own funds toward the home purchase. The policy provides an exception for homebuyers below 60% of AMI who are participating in a sweat equity program, such as Habitat for Humanity; these buyers may count their volunteer time in lieu of the cash contribution. The amendment would allow all sweat equity program participants (up to 80% of AMI) to count volunteer hours in lieu of the minimum cash down payment, which would match Habitat for Humanity program guidelines.

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