



**Legislative Department
Seattle City Council
Memorandum**

Date: October 12, 2014

To: Mike O'Brien, Chair
Tim Burgess, Vice Chair
Nick Licata, Member
Planning Land Use and Sustainability (PLUS) Committee

From: Ketil Freeman, Council Central Staff

Subject: Resolution 31551 – Intent to Implement a Linkage Fee Program

Background

In May 2013, the Council adopted [Resolution 31444](#) as a companion piece of legislation to the South Lake Union rezone ordinance. Among other things, Resolution 31444 establishes a work program for reviewing and updating the City's affordable housing incentive program. Under that program developers can access extra commercial or residential floor area in exchange for either providing units affordable to households earning up to 80% of the Area Median Income (AMI), which is \$52,480 annually for a two-person household, or making a payment in-lieu of providing affordable units. Program requirements vary by zone.

Pursuant to Resolution 31444, the Council retained Cornerstone Partnership, Otak Inc., and David Rosen & Associates (DRA) to serve as consultants in review of the program. Cornerstone served as the lead policy consultant. Otak conducted a nationwide survey related to best practices for meeting workforce housing needs. And, DRA prepared an economic analysis of the affordable housing incentive program, which was informed by input on assumptions from for-profit and non-profit developers.

In June Otak published [Seattle Workforce Housing - Programs and Policies Related to Meeting Workforce Housing Needs in Seattle: A Survey and Analysis of Best Practices in Comparative Jurisdictions](#). In July DRA published a draft [Seattle Affordable Housing Incentive Program Economic Analysis](#). Based on those reports, in July Cornerstone published [Policy Options for Refining Seattle's Incentive Zoning Program](#). The July Cornerstone report recommends two options for program changes: 1) refining the incentive zoning program and increasing in-lieu fees and 2) transitioning to an affordable housing linkage fee program.

Unlike the incentive zoning program whereby a developer can choose to take advantage of bonus residential or commercial floor area above a base height or density in exchange for providing housing affordable to moderate income households or make an in-lieu payment, under a linkage fee program a developer would be charged a fee to mitigate the impact on the demand for affordable housing attributable to new commercial and residential development. Alternatively, a developer could provide some affordable units in a project or offsite to mitigate the impact. Revenue from the linkage fee would be used to develop housing affordable to moderate and lower income households.

Based on the July recommendation from Cornerstone, the Council commissioned DRA to prepare a nexus analysis. In September DRA published a draft [Seattle Affordable Housing Nexus Study](#). The nexus analysis 1) establishes a causal relationship between new commercial and residential development and

demand for low and moderate income housing and 2) quantifies a maximum supportable linkage fee to mitigate the impact of that increased demand. Based on that analysis, in September Cornerstone published a [memorandum](#) with recommendations for implementing an affordable housing linkage fee program.

This memorandum describes the content of Resolution 31551, sponsored by PLUS Committee Chair O'Brien, which establishes the Council's intent to implement a linkage fee program.

Resolution 31551

Resolution 31551 would:

1. Establish the Council's intent to implement an Affordable Housing Linkage Fee Program (Program) to mitigate the demand for low and moderate income housing caused by new commercial and residential development;
2. Provide guidance, described in more detail in the table below, to the Department of Planning and Development and the Office of Housing related to Program development and implementation; and
3. Set out a schedule for reviewing proposed implementing legislation.

Guidance on Linkage Fee Program Implementation	
1. Where should the Program operate?	Generally, the Program should operate in most commercial and multifamily residential zones and Downtown. It is anticipated that most future employment and residential growth will occur in these areas. Consequently, the greatest impact on the demand for low and moderate income housing attributable to new development will likely originate in these areas. (See attached map.)
2. What should be the likely fee?	<p>The Resolution recommends a floor for fees for commercial and residential development as follows:</p> <ul style="list-style-type: none"> ▪ Higher Cost Areas - \$16 / net square foot (NSF), ▪ Medium Cost Areas - \$10 / NSF, and ▪ Lower Cost Areas - \$5 / NSF. <p>The fee would vary based on the extent of impact. For residential development, the extent of impact is determined in part by the disposable income available to new households to purchase goods and services. Thus, fees would be highest in high cost areas, such as Downtown and South Lake Union where new households are likely to be higher income. Fees would be lower outside of those areas.</p> <p>Proposed fees are not set at the maximum supportable by the nexus study. Rather, fees represent a policy decision to not fully mitigate the impact of the demand for housing affordable to low and moderate income households attributable to new development. The desire to maintain development feasibility and recognize different market conditions are also reflected in the proposed fees.</p>
3. Should a developer be allowed to build affordable units instead of paying	The Resolution recommends that residential and commercial developers should be allowed to build units either on-site or off-site as a way to meet Program requirements. The number of affordable units under this option would be equivalent to established fees. Proposed fees are roughly equivalent to making

Guidance on Linkage Fee Program Implementation																	
the fee?	three percent of units in a new building affordable for moderate and lower income households.																
4. How should revenue from the program be spent?	Expenditure of fee revenue would be governed by the findings of the nexus study. Generally, the nexus study shows that of the new lower income households attributable to new development, approximately 20-25% would earn between 60-80% of AMI, which is \$42,360 - \$56,480 annually for a two-person household. The remaining lower income households would earn less than 60% of AMI.																
5. How should the Program be phased in?	<p>The Resolution recommends that fees should be phased-in in thirds over a three year period. The first period would begin October 1, 2015 and end on September 30, 2016. Assuming that fees are \$16 / NSF, \$10 / NSF, and \$5 / NSF for higher, medium and low cost areas, respectively, then the schedule for phasing in fees would be as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Higher</th> <th style="text-align: center;">Medium</th> <th style="text-align: center;">Lower</th> </tr> </thead> <tbody> <tr> <td>October 1, 2015 - September 30, 2016</td> <td style="text-align: right;">\$ 5.33</td> <td style="text-align: right;">\$ 3.33</td> <td style="text-align: right;">\$ 1.67</td> </tr> <tr> <td>October 1, 2016 - September 30, 2017</td> <td style="text-align: right;">\$ 10.67</td> <td style="text-align: right;">\$ 6.67</td> <td style="text-align: right;">\$ 3.33</td> </tr> <tr> <td>Beginning October 1, 2017</td> <td style="text-align: right;">\$ 16.00</td> <td style="text-align: right;">\$ 10.00</td> <td style="text-align: right;">\$ 5.00</td> </tr> </tbody> </table> <p>During the phase-in, the current incentive zoning program would continue to operate. However, the higher applicable fee would apply. The phase-in is intended to allow developers and property owners sufficient time to adjust expectations while still mitigating a portion of the impact.</p>		Higher	Medium	Lower	October 1, 2015 - September 30, 2016	\$ 5.33	\$ 3.33	\$ 1.67	October 1, 2016 - September 30, 2017	\$ 10.67	\$ 6.67	\$ 3.33	Beginning October 1, 2017	\$ 16.00	\$ 10.00	\$ 5.00
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Map of Potential Program Areas and Fees

