Legislative Department

Seattle City Council

Memorandum

Date: November 14, 2016

To: Dr. Ben Noble, Director, City Budget Office

From: Councilmembers Bagshaw, Herbold, Johnson, O'Brien, and Sawant

Subject: $29 million Housing Bond proposal

Thank you for your November 9 memo regarding our $29 million Housing Bond proposal. We appreciate the opportunity to respond to your concerns.

Concern 1 – Proposal doesn't recognize the City's Housing Affordability and Livability (HALA) Agenda

We welcome the good progress towards implementation of the recommendations of the HALA Agenda. The proposal to (a) use the City's bonding authority to increase housing options and (b) the proposal to re-instate the Housing Growth Fund both originate from the HALA Advisory Group recommendations. As related to the use of bond authority, the recommendations state:

> *"Potential loan products include: • Subordinate permanent loans that provide some level of ongoing debt service with full/partial repayment at refinancing of first mortgage • Senior permanent loans that provide some level of ongoing debt service with full/partial repayment at refinancing of first mortgage • Subordinate short- to medium-term loans that reduce a developer's up front equity investment • Short-term acquisition loans to be repaid with permanent financing"*

Concern 2 – We have recently doubled the Housing Levy

The recent doubling of the Housing Levy is to be celebrated, but the need remains for more resources for more affordable housing. The current Housing Levy relies on additional federal investments. Because of the recent presidential election, we may need to reconsider our reliance upon those additional investments.

Concern 3 - Borrowing funds for housing development is not fiscally responsible

Cities all over the country are finding ways to add local resources for housing development. Portland, Oregon; Santa Clara County, California; and Alameda County, California have all recently enacted $267 million, $950 million; and $580 million in general obligation bonds respectively.

And closer to home, although the King County Lodging Tax revenue will not be available until 2021 for payments on the $85 million issuance of King County Affordable Housing Bonds, King County estimates that the savings from building today outweighs the cost of the interest rate paid for the bonds as land near station areas increase in cost.

Concern 4 – An approximate $2 million annual allocation of REET funds or other annual General Fund contribution to pay off the proposed Housing Bonds is not a good use of public resources

In April 2016, the Mayor announced a funding plan for the then proposed $160 million North Precinct. The Mayor's funding plan included $102 million of Long-Term General Obligation (LTGO) bonds that would be paid for by dedicating approximately $6.8 million per year of Real Estate Excise Tax (REET) to pay for 30 years of debt service. An annual debt service including principal and interest during the 30-year total repayment period proposed for the North Precinct project was proposed to be $205 million for $105 million in debt. This housing bond proposal is modeled after the funding plan developed for the North Precinct and it is a good use of our public resources.

Concern 5 – The use of debt increases the cost of each housing unit produced.

Over time, the costs of interest, land, and construction (labor/materials) will continue to increase and the ability to compete for land supply will likely only become more challenging. It is better to build as soon as possible. Building housing as soon as possible also makes that housing available for people to live in it up front and people can continue living there as the bonds are being paid off.

Concern 6 – Without a dedicated source of funding for repayment, the use of debt is not a sustainable source of funding

The City issues LTGO bonds every year that will be paid for using dedicated General Subfund (GSF) dollars. For instance, the City's most recently adopted LTGO Bond Ordinance includes LTGO bond funding for Parking Pay Stations ($9 million), Alaskan Way Corridor ($5 million), and the Pike Place Market PC 1-N ($6 million) projects. This decision to fund these three projects will require the City to dedicate about $1.3 million of GSF for each of the next 20 years.

By dedicating new property tax revenue from new construction to pay the debt service on the proposed Housing Bond, the proposed LTGO bonds for affordable housing could be paid for with a very small slice of GSF dollars (either directly from the GSF or from the same amount of GSF that is allocated to a future Growth Fund).

The Council has created an estimated $2 million in new annual revenue in this year's budget deliberations by eliminating an investment tax loophole.

Concern 7 – Using REET for housing could hurt our efforts in the State Legislature to pass a new housing-specific REET 3.

A REET III should be proposed as a needed long term funding strategy. Our current proposed use of REET should be considered as a short term strategy. To address the limit on raising City's property tax revenues to 1% plus value of new construction, cities are mobilizing to lift the 1% cap. Advocates believe this may be more feasible than getting authority for a new REET III.

Concern 8 – This proposal reduces funding for the facility enhancements needed to accommodate increased police staffing in North Seattle.

This modest proposal has a minimal impact on funding allocated to the North Area Interim & Long-Term Facilities for the following reasons. As proposed, the Executive will have $350,000 in 2017 to facilitate planning for the North Area Interim & Long-Term Facilities CIP project in 2017. The Executive will have $11.6 million in 2018 for the North Area Interim & Long-Term Facilities CIP project.

Conclusion

With the Council's authorization in the 2017-2018 Budget deliberation on the use of bond authority, the City can issue bonds as needed. We will work with the Office of Housing to evaluate and propose options for funding, either proposing utilization of the Council authorization for $29 million in bond funding for a one time project, as needed, or several smaller ones. The options to consider are available under a separate cover; we welcome others that the Executive might want to include.

We recognize that discussions are underway to develop a voter approved strategy for dedicated funding to build much more affordable housing and housing for people who are homeless, as well as increase funding for mental health treatment and drug addiction facilities. We support continued work on these measures as well and will work with the City Budget Office, the Office of Housing, and the Human Service Department in recommending allocations of the $29 million housing bond that can complement these efforts.