SEATTLE CITY COUNCIL | DISTRICT 1
COUNCILMEMBER LISA HERBOLD

MEMORANDUM

To: Councilmembers
From: Lisa Herbold
Re: $29 Million Housing Bond Proposal
Date: November 14, 2016

The $29 million housing bond proposal made by Councilmembers Bagshaw, Herbold, Johnson, O'Brien and Sawant is a measured approach that adds bond financing for housing which, if leveraged with other resources, could support additional affordable housing efforts. Housing production would be funded by newly using the City's existing bonding capacity for housing and paying off the principal and interest over a 30-year term. The $29 million would be available, in addition to $54 million included in the 2017 Proposed Budget for affordable housing. With the Council's authorization of the use of bond authority, the City can issue bonds as needed. When the City issues bonds to finance capital needs we gain the ability to deliver projects faster and enjoy their benefits sooner.

Impact on the North Precinct Project and Transportation Needs
Under the proposal, the Executive will still have $350,000, 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. The level of GSF reduction to SDOT necessary for this project is above the minimum threshold established in the Move Seattle Levy for 2017 and 2018. Moreover, the GSF reduction to SDOT is matched dollar for dollar with Real Estate Excise Tax funding; there is no change to total transportation funding in 2017 or 2018. This housing proposal recognizes our need to prioritize housing in the budget process, but it does not pit Seattle's housing needs against other citywide priorities, such as transportation or public safety.

Possible Sources of funding to pay the debt service on the bond starting in 2019
The budget proposal uses $1.4 million in 2017 and $1.9 million in 2018 of REET funding to pay the debt service for the housing bond, meaning in 2019 and thereafter a source of funding to pay the debt must be identified. The options are as follows:

1. Prioritize the use of GSF for the balance of the bond term.
2. Reestablish the growth fund in 2019 by dedicating property taxes derived from new construction to affordable housing to pay the debt service on the loan.
3. Revenue from the proposed elimination of an investment tax loophole that will add $2M per year to the General Fund could be directed to pay the debt.
4. New REET III funds.

Options For Use of Council Housing Bond Financing
The Council's Housing Bond proposal requests the Office of Housing to work with the Council to evaluate the following options for funding, either utilizing the Council authorization for $29 million in bond funding for a one time bond measure or smaller, as needed, bond measures as follows:

1. *Council's Home & Hope Budget Proposal*. Enterprise Community Partners is convening public and non-profit land owners and developers to accelerate the creation of housing. This bond issuance proposal could provide financing to bring these developments to reality. Using non-traditional building types on public properties, like manufactured steel modules being used in Seattle by Compass Housing Alliance and designed by OneBuild, a Seattle-based modular-

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housing supplier; or Blokables we could provide financing for a housing option that doesn't take the same long period of time to permit and build as a traditional housing project (which typically takes about three years). Read here for more.

2. *Funds could be used as permanent take-out financing for projects (land or building acquisition).* The two scenarios prepared by OH provide information on potential unit production and costs. (Attachments A & B) The projects would have to tap only four-percent tax credits and no other subsidy, thus maintaining leverage for Levy projects and not putting production goals at risk.

3. *Funds could be used as permanent financing for specific acquisition/preservation project(s) that require no/minimal rehab in buildings where tenants are income eligible.* The projects would have to tap only four-percent tax credits and no other subsidy source, thus maintaining leverage for Levy projects and not putting production goals at risk.
    a. Housing experts have estimated that there are 40,000 units held by private owners in Seattle that are currently operated at rates that are affordable for working families and individuals in Seattle, and at the rate they are being lost, half of those units will disappear in the next few years unless they can be placed in public or non-profit ownership.
    b. There are approximately, 1,000 unreinforced masonry buildings in lower-income and quickly gentrifying neighborhoods that require expensive structural work to make them earthquake resilient. Without funds, owners may instead redevelop these properties. City investment could preserve this housing as affordable over the long term as well as making it safe, implementing two HALA recommendations – the first to fund unreinforced masonry seismic retrofitting work and the second to use public funds in privately-owned buildings to extract long term affordability commitments.

4. *Funds for a multi-family tenant ownership project.* Homeownership funding in the 2016 levy is limited ($1.35m a year) so additional financing could provide additional support.

5. *Preservation of homeownership, while creating long term affordability.* Cities across the country are working towards buying "non-performing loans" from Fannie and Freddie Mac. These are loans held by individuals facing foreclosure. In Seattle we know that there are approximately 270 non-performing loans. Community partners have been discussing a pilot with Fannie and Freddie Mac to save some of those loans and, in doing so, preserve long term homeownership opportunities for people who may not otherwise have it. See link here for more.

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