March 5, 2015

The Honorable Ed Murray
Office of the Mayor
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Re: Effective Solutions for Affordable Housing

We, the undersigned, are the **Coalition for Housing Solutions** – a diverse group of Seattle-area builders, land use attorneys, architects, housing advocates, membership-based organizations and urban advocates. We represent thousands in the business, real estate and construction industry across Puget Sound. Our coalition formed in the wake of the Seattle City Council passing Resolution 31551, which declared the City's intent to fund affordable housing through a tax on new housing and development, the so-called "linkage fee."

Seattle needs a comprehensive housing strategy focused on increasing affordability, not one that overly relies on one tool or sector to provide the solution. Public, private and non-profit sectors, along with residents and workers, must all come together to promote a range of solutions that will address affordability. We recognize that our robust job sector, natural amenities and inclusive culture will continue to attract a diverse population that can strengthen our City. Our coalition has much to offer in bringing forth ideas and technical expertise to find practical and sustainable solutions that will provide a variety of housing types for our growing population. The future of Seattle as a diverse, sustainable community with economic vitality and social vibrancy is dependent upon getting this right.

We appreciate this opportunity to address the Housing Affordability and Livability Advisory Committee (HALA), as well as the Mayor and City Council, by describing our serious concerns with the linkage fee and offering viable, effective solutions for delivering affordable housing to Seattle.

Linkage Fees

Linkage Fees are not authorized under Washington State Law. But even setting aside the legality of implementing such a proposal, it is clear that this seemingly well intentioned solution is ill conceived and would not achieve the goal of positively contributing to Seattle's affordable housing needs. A new tax will increase the cost to produce multi-family housing and commercial space in Seattle. The law of supply and demand dictates that a linkage fee would lead to a short-term decline in the construction of new buildings and the family-wage construction jobs, environmental and economic benefits they produce. This would occur at a time of unprecedented growth (i.e., demand) in the region. Over time, a linkage fee would increase apartment, office and retail rents until sufficient revenue can be produced to offset the new tax. Both the short-term and long-term effect of a “linkage fee” would be a less affordable Seattle. Fundamentally, you cannot decrease the *price* of housing by increasing its *cost*.

Rapid job growth in the Puget Sound region is driving demand for housing and commercial space in Seattle. That job growth fuels not only the wages for many Seattle households, but also the sales, business and occupation (B&O) and property tax revenues upon which the City of Seattle, King County, Sound Transit and the State of Washington depend. Our analysis indicates that during construction, a typical high-rise office project in Downtown Seattle generates roughly $3 million in direct, indirect and induced one-time tax revenue for the City of Seattle. During operation, that same building generates more than $6.5 million in annual tax revenue for the City of Seattle. If new fees reduce future job growth in Seattle, growth in general tax revenue will similarly decline.

Linkage fees are not authorized by Washington State law. RCW 82.02.020 prohibits the City from imposing a tax or fee on development unless that tax or fee is both voluntary and needed to mitigate a direct impact of a specific development. A mandatory linkage fee that applies to most development is neither.

Fortunately, there are a number of tools at the City’s disposal that are both effective *and legal.* Instead of being based on an illegal and ineffective strategy, Seattle’s affordable housing strategy should be based on comprehensive, effective and legal tactics that serve to increase housing affordability while at the same time maintaining economic prosperity and enabling our community to continue to fulfill our regional compact for sustainable, urban center, transit-oriented development.

Solutions for Affordability

In the attached appendix is a summary of the solutions we believe can help address Seattle’s multi-family affordable housing challenges**. Our coalition has commissioned an economic analysis to quantify the effectiveness of the proposed solutions, and we expect this analysis to be complete within two weeks. We look forward to sharing these studies with HALA for your consideration.**

We encourage HALA and the City of Seattle to apply similar rigor to both defining the need at various income levels and any proposed solutions you may be considering. Adopting a patchwork of housing policies without accompanying measureable objectives on the estimated number of units produced or the estimated impact on affordability has contributed to the situation we have today. Establishing clear goals for specific policies and programs will allow the City of Seattle to more effectively address affordability by augmenting successful programs, making adjustments where improvements are needed, and abandoning programs that are not working.

It is our hope that you find our suggestions and our forthcoming economic analysis helpful to your process. We would welcome further dialogue with HALA as you continue and conclude your work.

Sincerely,

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Councilmember Nick Licata
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Councilmember Tom Rasmussen
Councilmember Kshama Sawant
Robert Feldstein, Mayor's Office
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Attachment – Proposed Solutions

Renew and increase the size of the Seattle Housing Levy: The Housing Levy is Seattle's most productive and stable source of affordable housing funding and is the envy of peer cities across the nation. The Housing Levy should be renewed and increased to reflect the City of Seattle's commitment to affordable housing. Approximately half of the revenue generated by the Housing Levy comes from multi-family and commercial properties. The cost impact to renters of a Housing Levy is a small fraction compared to the pass-through costs of the proposed linkage tax.

Develop a program to preserve existing affordable housing: 76% of all rental units in Seattle are affordable to households making 80% of AMI, and 78% of those units are privately owned and not income restricted. Much of Seattle's workforce housing stock is provided by the market via "naturally occurring" older housing.

Preservation of existing affordable housing stock must be more of a priority for the City of Seattle. If the City were to acquire these units (which are privately owned and not income restricted), the City could then impose income restrictions to ensure that the units remain affordable in perpetuity.

Also, changes should be made to the MFTE program to allow older buildings to qualify for the program in exchange for income restrictions. For the same level of investment, the City of Seattle could preserve many more affordable units than through new construction. Many cities place a much higher emphasis on preservation than Seattle.[1]

Utilization of publicly-owned land: The City of Seattle and other public agencies own significant parcels of vacant or underutilized land capable of supporting infill housing. There are a variety of models and partnership arrangements that the City could utilize to develop affordable housing on publicly-owned land.

Create funding capacity for land acquisition for affordable housing production: High land costs can make affordable housing projects cost-prohibitive in some areas of Seattle. The City of Seattle has missed opportunities in recent years to secure property in strategic areas that could be disposed at some future date for the provision of on-site affordable housing. Land acquisition needs to be prioritized and funded as a key component to Seattle's affordable housing strategy. PSRC is currently in the process of creating the "REDI Fund" to better enable acquisition of land and buildings adjacent to high capacity transit service, and the City of Seattle should support and participate in this effort.

Upzone areas around transit investments: The taxpayers of the City of Seattle, King County and Sound Transit's service area have invested billions in transit infrastructure to better connect residential communities with job centers, reducing transportation costs and impacts while increasing access to jobs. To fully unlock the benefits from these investments, the City of Seattle should upzone station areas and other areas with frequent transit service. This is an opportunity for considerable unit production and increasing Seattle's affordability by reducing transportation costs for more residents.

Also, over the past ten years, the City has invested significant time and resources into analyzing the impacts of rezones in transit-rich areas such as the Ballard, Capitol Hill and Northgate but has yet to

[1] The City of New York's "Housing New York – A Five Borough, Ten-Year Plan" assumes that 60% of their affordable housing strategy will be achieved through preservation.

implement the new zoning in several areas. Simply following through on such investments would provide an immediate boost.

Refine the Multi-Family Tax Exemption program: The City's MFTE program, along with the Housing Levy, has been one of Seattle's most effective affordable housing programs. In the last three years alone, this program has produced over 2,000 rent-restricted, inclusionary housing units across the city, and enabled construction of over 10,000 units. More unit production can be achieved by expanding the geographic scope of MFTE. Creating the opportunity to reapply for the MFTE can extend the income restrictions on qualifying units beyond the initial 12 year span.

Refine the incentive zoning code: The Incentive Zoning program is Seattle's current experiment with funding affordable housing through developer fees. Unlike the proposed linkage fees, the incentive zoning program charges a per-square foot fee on a project's "bonus" area in exchange for the authorization to build above base zoning height. 2014 studies indicate that 62% of eligible projects chose *not* to build above base zoning height – avoiding the incentive zoning fee and both producing fewer units and contributing less to affordable housing as a result. There are refinements that could be made to the existing incentive zoning program that could increase participation in the program, increase unit production and generate more revenue for affordable housing. These refinements include expanding the geographic scope of the incentive zoning program along with corresponding upzones; increasing flexibility on where income-eligible units are located within the building and within the neighborhood; examining whether more revenue could be generated by lowering the fee rate (thus incentivizing more participation in the program, which would in turn generate more housing production).

Re-establish a "Growth Fund": The City of Seattle once dedicated a portion of General Fund revenue toward housing. Today, virtually none of the City's General Fund is spent on housing. We would propose that, given the City's stated priority of affordable housing, the City Council dedicate a specific percentage of all new revenues produced by development (through new property taxes and other revenue), be dedicated to affordable housing. This is similar to the "1% for the Arts" program that many governments have established for capital projects and expenditures. While the "1% for the Arts" program is triggered by an expenditure, the Growth Fund would instead be triggered by new revenue – specifically revenue from new development – a portion of which would be set aside for affordable housing. We are in the process of calculating the amount of revenue that could have been generated over the last several years if even a modest % had been dedicated to affordable housing.

Create a sales tax exemption program: The production of housing affordable to a specified household income level could be further incentivized by exempting such production from sales tax. This would require state authorization.

Advocate for an increase in the state Housing Trust Fund: The Housing Trust Fund provides housing for low- and moderate-income households. The Housing Trust Fund is allocated through the state's capital budget process and is funded by selling bonds.

Create housing "enterprise zones:" The City could establish targets and criteria for a program to develop housing "enterprise zones" where housing production – both market and subsidized – would be prioritized.

Expand opportunities for ADUs and microhousing: While the City of Seattle has recently adopted new regulations impacting the viability of microhousing, in particular, there is substantial demand for more flexible housing types in Seattle. This is one the ways the market has adapted to providing more affordable housing in Seattle's densest urban neighborhoods in spite of high land costs.

Create more low-rise zoned capacity: This is another opportunity for considerable near-term unit production. This solution is a prime candidate for targeting production of family-sized housing.

Building, land use code and process reforms: A number of code and process reforms could be implemented to reduce the cost of providing housing in Seattle. For example, the length, complexity and uncertainty of the design review and alley vacation processes add to the cost of development, which in turn is reflected in the prices or rents residents pay. SEPA provides a set of tools that enable local agencies to expedite permitting of buildings that are consistent with adopted land use regulations. Projects for which the MFTE will be used should be SEPA exempt, which will further reduce timing, costs and uncertainty and allow for delivery of units at lower prices. We acknowledge that the City has made efforts in this area, but more can be done. We have a contingent within our coalition that would be happy to work with HALA to identify reasonable land use, process and building code reforms.