Seattle City Council
Memorandum

Date: July 21, 2008

To: Council President Richard Conlin
Councilmember Tim Burgess
Councilmember Jan Drago
Councilmember Jean Godden
Councilmember Bruce Harrell
Councilmember Nick Licata
Councilmember Richard J. McIver
Councilmember Tom Rasmussen

From: Councilmember Sally Clark

Subject: Stakeholder Meetings on Incentive Program for Workforce Housing

Background
At the end of 2007 the Executive presented Council with a proposed resolution laying out criteria for a city-wide incentive zoning program modeled on the Downtown Commercial Bonus Program and on the Downtown Residential Bonus Program recently adopted by Council in 2006. The proposal at that time detailed draft criteria for the Department of Planning and Development (DPD) and the Office of Housing (OH) to use when examining rezone proposals in neighborhoods like South Downtown, South Lake Union and Northgate (all areas undergoing major land use planning at this time). The proposal extends Council's and the Executive's recognition of incentive zoning as a means to harness public benefit (primarily affordable housing, but also open space and other neighborhood amenities) from increased development capacity.

In collaboration with the Executive I convened four meetings this spring and early summer with more than 20 stakeholders interested in the proposed program expansion. The purpose of the meetings was to solicit ideas for how incentive zoning should be operationalized and seek points of agreement. This was done through a series of conversations about program principles, possible regulatory costs and markers for success. Although expanding the commercial bonus is part of the overall proposal, discussion at the meetings focused on residential bonus issues.

This memorandum summarizes themes that emerged from these discussions. The discussions did not yield a perfect incentive zoning model for Council to consider. There was really no chance that would happen given the wide spread of interests around the table. The discussions did yield what I think are useful suggestions for program design and metrics for success.

Since the conclusion of the meetings Executive staff have begun to revise the original proposal to reflect the program operations suggestions and the economic modeling made possible by the group. That work, in the form of a draft ordinance, will likely come to PLUNC in early August for consideration.

If you have questions or ideas regarding the issues detailed, please feel free to talk with me or with Ketil.

Results of Stakeholder Discussions
All participants agreed that the availability of moderate-income housing is a concern for the city and merits city action. A majority felt that Seattle should pursue an incentive zoning program. While a majority also thought the program should serve income levels up to the maximum allowed under State law, some believed an incentive was needed to serve lower income levels. All participants contributed principles and program ideas should the Council vote to institute an incentive program city-wide.

Much discussion centered on the desirability of structuring a program that emphasizes performance (including affordable units within or nearby the project utilizing a bonus) rather than fee-in-lieu payments—many creative suggestions were offered in support of performance.

Themes
Generally, most participants agreed that an incentive program should emphasize *performance*, provide *flexibility* in how performance can be accomplished, be *simple* and *predictable*, yield *measurable results, and primarily benefit affordable housing.*

Performance (affordable housing units built on-site or nearby)

- **On-site Units**—Most participants agreed that the program should emphasize performance over payment in-lieu. In particular, the Housing Development Consortium supports performance over fee-in-lieu.
- **Payment In-lieu**—Most recognized that the transaction costs and delay in production timing associated with payment to the City diminish the value of the in-lieu payment and reduce the number of units that might ultimately be created. In concept, many non-profit developers agreed with this approach of avoiding payment to the City, because the income of the population likely to be targeted by an incentive zoning program is typically higher than the income of the population served by the non-profit development community.
- **Payment In-lieu Level Set to Encourage Performance**—Various participants spoke to the need to design the program options such that it's harder or "more costly" for developers to write the check in place of producing the units. Some participants, particularly high-rise developers, strongly prefer the simplicity of being able to write a check to the city covering their responsibility.
- **For-profit Participation**—Non-profit developers spoke to the need to involve for-profit developers more actively in developing below-market-rate housing. "We cannot directly subsidize our way out of the housing crunch," was a common sentiment among non-profit participants.
- **Economically Diverse Neighborhoods**—Some spoke to the goal of more economically diverse neighborhoods being healthier neighborhoods

Flexibility

- **Geographic Flexibility**—Most participants urged that there should be flexibility in how performance can be accomplished including locating workforce units in nearby buildings or even allowing developers to partner with other for-profit developers to allow performance to occur in projects in other parts of the city, within the same urban center or along high-capacity transit routes.
- **"Banking"**—This led to a discussion of "banking" workforce unit obligations whereby a for-profit developer could develop a workforce project alone or in partnership with another for-

profit or non-profit developer and use units in that project to satisfy current obligations or as a credit against required future units. The suggestion was made that the Office of Housing could act as a broker in this circumstance.

Simplicity and Predictability

- **Don't Make the Program Difficult**—Many participants noted that the requirements of current similar programs can be administratively burdensome, particularly from the standpoint of monitoring the ongoing affordability of units. "Make it easy" was the common request from the for-profit developers. "Make it easier to build the units than write the check" was the common request from non-profit and some of the for-profit developers.
- **Geographic and Re-zone Application**—The group explored the question of whether people believed incentive zoning would be applied only in certain parts of the city or if it would become more like a regular screen for any requested rezone that adds development capacity. The latter was supported by most participants, however, the question remains of what constitutes enough of a rezone to trigger incentive zoning requirements.

Measurable Results

- **Monitoring**—All agreed that any new incentive program, regardless of set-aside percentages (affordable housing and civic amenities), in-lieu payment amounts, or bonused area (additional height) achieved as an incentive, should be regularly updated to ensure that the program is effective. This includes reviewing regulatory costs to ensure that the program continues to provide a true incentive and reviewing production of affordable units to ensure that the program goal of middle-income housing production is being accomplished.

Public Benefits

- **Primarily Affordable Housing**—The group expressed general agreement that the bonus for mid-rise projects (wood frame generally) should benefit affordable housing 100%. However, a high-rise project bonus could benefit other desired amenities also. The Mayor proposed at least 60% for affordable housing; the group discussed raising that to 75%.
- **Other Civic Benefits**—Some members of the group supported the option of applying funding generated by the bonus to amenities such as parks, open space, farm and forest protection, historic preservation and other neighborhood facilities. Some pointed out that the current residential bonus program dedicates 100% of funds to housing.

Analysis and Next Steps

This group as a whole did not arrive at a consensus position regarding how many affordable units should be set aside by a developer utilizing incentive zoning in exchange for the added development capacity, nor did the group as a whole settle upon a dollar amount to be charged if a developer wishes to write a check to satisfy responsibility.

The Mayor's original proposal extended the Downtown residential bonus requirements adopted by Council in 2006 to rezone areas throughout the city:

- 11% of the bonused space must be affordable;
- Affordable defined as up to 80% of median income for rental housing; 100% of median income for owner housing;
- Fee-in-lieu payment set at an amount not to exceed $18.94 of bonus square feet.

We purposefully did not discuss percentages and dollar amounts until the final meeting so we could focus on principles and program operations ideas. A sub-group of project developers working on mid-rise as well as high-rise projects affiliated with the Urban Land Institute proposed 15 percent as an alternative achievable affordable housing set aside. The Council's consultant, Greg Easton of Property Counselors, used the same data and determined that the number could be feasible even higher.

Despite the many program intricacies that come with incentive zoning, it is likely that the public debate will focus on the percentage of the building area to be held aside at lower-than-market rent, the maximum level allowed for those units and the dollar value assigned when calculating a fee-in-lieu payment. As noted above, we have hired Greg Easton to assist the PLUNC as we move through consideration of the revised incentive zoning proposal. We have already had two informational sessions in PLUNC and plan to resume discussion at the July 23 meeting.

Stakeholder Process

Generally, stakeholders were drawn from three groups:

1. For-profit housing developers
2. Non-profit housing developers
3. Open space and smart growth advocates

A complete list of participants is attached as an appendix. It's a distinguished list of people who gave freely of their time and advice. Representation among for-profit housing developers spanned the range from developers of downtown high-rise projects to developers of smaller scale wood frame projects outside of urban centers. In the room from the City was staff from the Department of Planning and Development, the Office of Housing, the Mayor's Office, the Office of Policy and Management, and the Legislative Department.

The meetings occurred in March, April and May of this year. The first meeting was with for-profit housing developers. The second meeting was with non-profit housing developers, open space advocates and smart growth advocates. The third and fourth meetings were with all groups combined. Between the third and the fourth meetings both for-profit and non-profit developers provided capital cost and income information that Greg Easton used to model how set-aside percentages and in-lieu payments in an incentive program might affect project returns. This was done for both prototypical high-rise and mid-rise projects. The results of this snapshot modeling were presented to the stakeholder group at the final meeting.

cc: Tim Ceis, Deputy Mayor
Adrienne Quinn, Director, OH
Diane Sugimura, Director, DPD
Nathan Torgelson, Community Development Team Lead, OPM
Rick Hooper, OH

Appendix – Stakeholders Participating in Workforce Housing Incentive Meetings

Stephen Reilly – Cascade Land Conservancy

Jeff Pavey – Cascade Land Conservancy

Steven Wood – Century Pacific

Jack McCullough – Downtown Seattle Association

Sara Nikolic – Futurewise

Melody McCutcheon – Greater Seattle Chamber of Commerce

Denny Onslow – Harbor Properties

Martha Barkman – Harbor Properties

Sheldon Cooper – Homestead Community Land Trust

Anna Markee – Housing Development Consortium

Carla Okigwe – Housing Development Consortium

Sara Lewontin – Housing Resources Group

Ken Katahira – Inter*Im Community Development

James C. Mueller – JC Mueller, L.L.C.

Jim Potter – Kauri

Hal Ferris – Lorig and Associates (Now with Seneca Real Estate Group)

Paul Lambros – Plymouth Housing Group

Howard Greenwich – SAGE

Steve Wood – The Seattle Times Company

Jill Mackie – The Seattle Times Company

John Marasco – Security Properties

Dale Sperling – Unico

Greg Smith – Urban Visions

Ada Healey – Vulcan

Brandon Morgan – Vulcan

Lyn Tangen – Vulcan

Kevin Wallace – Wallace Properties