Memo

To: King County Affordable Housing Committee Members

From: Housing Interjurisdictional Team Revenue Work Group

cc: Housing Interjurisdictional Team

Date: September 25, 2020

Re: Draft Shared Principles to Guide Future Affordable Housing Revenue Decisions

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Intent of the shared principles

The Affordable Housing Committee is committed to developing and sharing principles to guide individual member efforts to implement untapped and new revenue sources sufficient to support the federal, state, countywide, and local (county and city) funding needed to build or preserve 44,000 affordable units by 2024. The principles are meant to:

- Guide decision making related to pursuing and implementing local, state, and federal revenue sources;
- Address who should be responsible for raising the revenue and what types of revenue sources to prioritize.

What is the scale of the need

King County Department of Community and Human Services' cost model estimates it will cost $20 billion to construct/preserve, operate, and service 44,000 homes affordable at 0-50% Area Median Income (AMI) between 2019 and 2024 (adjusted for inflation). Approximately $18 billion of this total is composed of capital costs and $2 billion is composed of operating and services costs. (Additional analytical detail can be found in Exhibit 1.)

Existing public revenue sources for capital needs will generate approximately $3 billion over this six year time period, enough for about 7,000 affordable units. Meaning, approximately $15 billion in additional capital resources are needed by 2024 to meet the Committee's goal of building or preserving 44,000 affordable homes in King County.

Assuming federal, state, and local contributions grow proportionally, the local government share of the $18 billion capital cost to build or preserve 44,000 units would be roughly $5 billion, or 25% of the overall capital revenue needed.

Proposed shared principles

1. Government and other funders should aim to deploy existing and new revenue tools sufficient to meet the need to build or preserve 44,000 units affordable at or below 50% AMI.

2. Local governments should work to ensure that all levels of government are actively engaged in addressing the challenge and maximizing leverageable opportunities, including all of the following:
    a. The County and cities should maximize the impact of existing resources and explore securing and/or implementing new revenue tools that do not place a disproportionate burden on low-income households.
    b. The State should increase existing funding sources and authorize new, progressive sources that do not place a disproportionate burden on low-income households.
    c. The Federal government should increase the amount of funding available at the local level, including: stabilizing and increasing the Low Income Housing Tax Credit program, Housing Choice Voucher Program (Section 8), and direct housing infrastructure investments.
    d. The County and cities should implement strategies to support affordable housing development and increase housing choices at all income levels. Appropriate strategies include those that: incentivize the creation of affordable housing, reduce the cost to build and operate affordable housing, increase the supply of housing, and diversify housing options.

3. The business and philanthropic communities should play a significant and sustained role in filling the resource gap and piloting new strategies.

4. Government and other funders should partner with communities most disproportionately impacted by the housing crisis, including extremely low-income households and Black, Indigenous, and People of Color (BIPOC) communities to inform resource design and allocation decisions.

5. All actors should strive for transparency about: 1) how money is spent; 2) the outcomes of spending, including by race; and 3) the remaining housing and funding gap. It is essential to keep the public and officials educated on the status of need versus availability of affordable housing.

6. The region should implement a variety of revenue sources that help build overall resilience in revenue for affordable housing to mitigate the impact of fluctuations in the economy.

7. When revenue sources are identified and deployed, local jurisdictions and funders should coordinate to promote regional distribution of housing funding to achieve the priorities identified within these principles.

8. The County and cities need to implement all of the tools available as swiftly as possible. This means maximizing the authority already available while also seeking to ensure that new revenue tools are progressive.

9. Jurisdictions implementing new revenue tools should prioritize serving those most disproportionately impacted by the affordable housing crisis, because these needs are not met by the private market. This includes:

a. Capital investments and ongoing operating and services support for new and existing projects serving 0%-30% AMI households. This includes support for permanent supportive housing and workforce 0-30% AMI housing.
b. Projects that promote access to opportunity, anti-displacement, and wealth building opportunities for Black, Indigenous, and People of Color communities. Some of these projects, such as affordable homeownership, may serve households above 50% AMI. These costs would not be included in the revenue projections for the 44,000 unit need.

10. The state and federal government should design revenue authority to maintain maximum flexibility and align with these principles to ensure the region can nimbly meet the housing need and adapt as necessary.

What informed these principles

The principles were drafted by the Housing Interjurisdictional Team (HIJT) Revenue Work Group, composed of members representing the following entities:

- King County Department of Community and Human Services
- King County Office of Equity and Social Justice
- King County Councilmember Claudia Balducci
- City of Seattle Office of Housing
- A Regional Coalition for Housing
- South King Housing and Homelessness Partners
- Sound Cities Association staff
- City of Shoreline, Sound Cities Association member city *(through end of August)*

HIJT Revenue Work Group members met weekly throughout August and September to craft stakeholder outreach materials, report back on stakeholder outreach findings, and develop draft shared principles informed by the outreach and the technical expertise of Work Group members. Several entities were consulted in this preliminary phase:

1. North Urban Human Services Alliance
2. South King Housing and Homelessness Partners Executive Board
3. South King Planners and Developers Group
4. A Regional Coalition for Housing Board
5. City of Seattle, Office of Housing leadership
6. Open Doors for Multicultural Families
7. Coordinated Entry for All Policy Advisory Committee
8. Enterprise Community Partners
9. Housing Interjurisdictional Team Members
10. Puget Sound Sage
11. Alliance of Eastside Agencies
12. Racial Equity Coalition

Stakeholder feedback is summarized in Exhibit 2.

Questions for Committee discussion

The Affordable Housing Committee will have approximately 50 minutes to discuss the shared principles and provide direction to the Housing Interjurisdictional Team Revenue Work Group on necessary edits. The Work Group recommends the Affordable Housing Committee answer at a minimum the following questions:

1. Are these the right principles to guide regional decision making about revenue over the next few years?
2. How will we use the principles?
3. Does the Committee want to make a statement on specific revenue tools or is this level of specificity sufficient?

Next steps

If necessary, the Housing Interjurisdictional Team Revenue Work Group will revise the shared principles and perform additional research and outreach activities based on direction from the Committee at the September 30 meeting. A revised draft will be considered by the Affordable Housing Committee for adoption at the November 13 Committee meeting. Following adoption of the principles, the Committee will identify shared principle implementation goals for inclusion in the 2021 Affordable Housing Committee work plan.

Exhibits

Exhibit 1: Cost Modeling Findings and Assumptions
Exhibit 2: Summary of Recent Stakeholder Outreach

Exhibit 1: Cost Modeling Findings and Assumptions

Findings

Our modeling estimates it will cost $20 billion to construct/preserve, operate, and service 44,000 homes affordable at 0-50% Area Median Income (AMI) between 2019 and 2024 (adjusted for inflation). Approximately $18 billion of this total is composed of capital costs and $2 billion is composed of operating and services costs (through 2024 only).

The Additional *Public Capital Revenue Required to Build or Preserve 44,000 Units, 2019-2024* chart on the next page represents the average annual public capital investments in affordable in King County and the cost to meet that need.

Using past historic averages for stable revenue sources and 2021 budget projections for more volatile revenue sources, an average of $457 million is available from federal, state, and local sources annually. These public revenue sources for capital needs will generate approximately $3 billion over this six year time period, enough for about 7,000 affordable units. Meaning, approximately $15 billion in additional capital resources are needed by 2024 to meet the Committee's goal of building or preserving 44,000 affordable homes King County.

Historically, public capital funding for housing affordable at 0-50% AMI in King County has come from a variety of sources:

- 69% from the federal Low Income Housing Tax Credit (LIHTC) generated equity, HOME and CDBG funds
- 6% from the state, primarily through the state Housing Trust Fund
- 25% from local city and county sources

Assuming federal, state, and local contributions grow proportionally, the local government share of the $18 billion capital cost to build or preserve 44,000 units would be roughly $5 billion, or 25% of the overall capital revenue needed. See the chart for more details.

Despite the importance of federal intervention and despite state champions in Congress and locally, the federal government has not expanded the most critical programs of their investments in Low Income Housing Tax Credits and the Housing Choice Voucher Program (Section 8) in recent years. At this time, it is not clear whether or to what extent the federal government could change or increase its investments in affordable housing; therefore, the modeling assumes historic proportions in the absence of a better assumption.

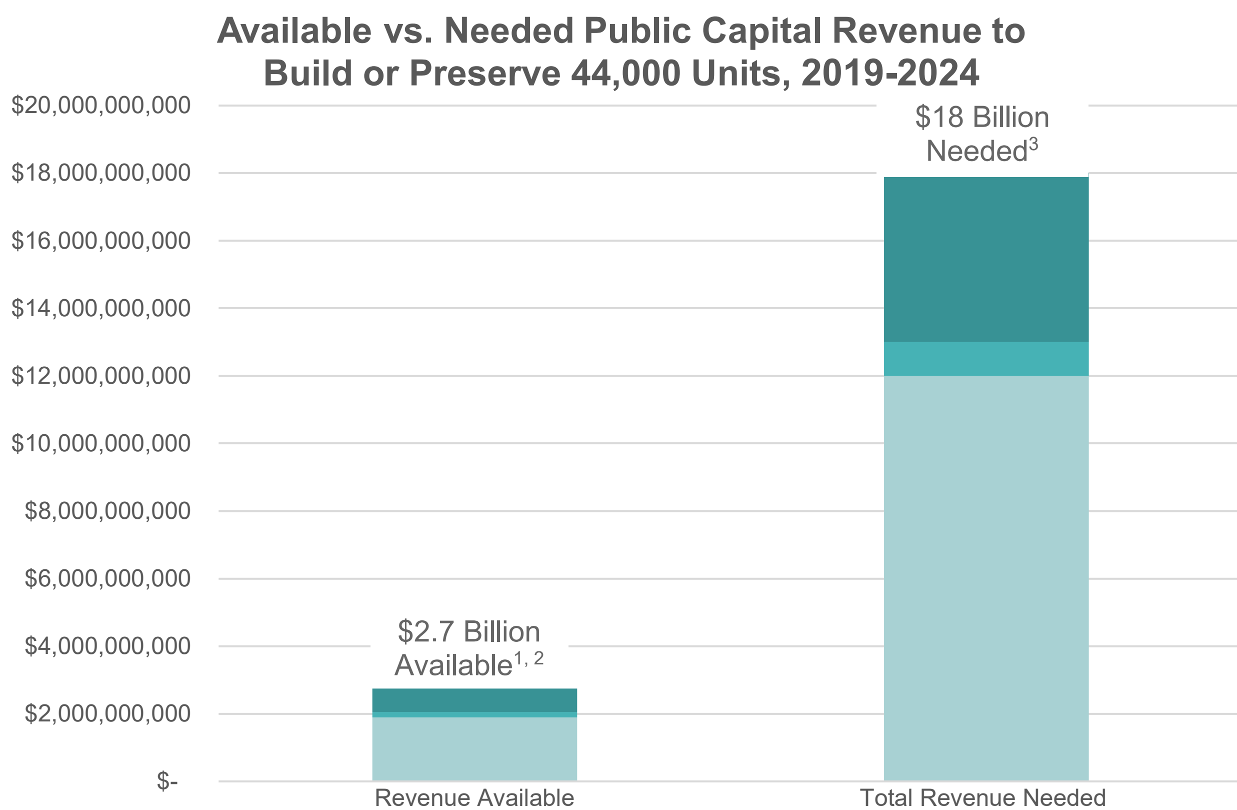
If existing local revenue authority was maximized and previously identified new taxes and fees[1] were implemented in 2021, an estimated additional $1.6 billion in revenue could be generated over the next four years, which leaves a remaining local revenue gap of $4 billion.

Implementing policies or practices that reduce the cost of affordable housing development, such as reducing sales tax on affordable housing, lowering permit and fees paid by developers, or offering

[1] Limited to tools where revenue projections were available: .1% Sales Tax, Countywide Property Tax Levy, Real Estate Excise Tax (REET), REET 4 or expanded REET, Jumpstart Payroll Tax, Seattle Capital Gains Tax. This represents a likely undercount of future revenue potential and represents a higher proportion of revenue increases in Seattle versus the balance of County.

publicly owned land for affordable housing at a discount can meaningfully reduce costs and the overall revenue needed. The impact of these changes has not yet been included in the modeling.

Furthermore, there remains an opportunity to reduce the public revenue needed by increasing the amount of debt a project takes on from private lenders and community development financial institutions and increasing philanthropic support for affordable housing.



	Revenue Available	Total Revenue Needed
Local (25%)	$689,000,000	$5,000,000,000
State (6%)	$158,000,000	$1,000,000,000
Federal (69%)	$1,896,000,000	$12,000,000,000
Total Capital Needed		**$18 billion**

[1] Amounts are based on available information, which includes a mix of 2021 budget projections, 2019 actuals, and historic means/medians.
[2] Only includes revenue that was collected and available to fund affordable housing in 2020. Excludes Seattle's Jumpstart payroll tax and the proposed HB 1590 .1% sales tax.
[3] Revenue needed assumes proportional growth of local, state, and federal resources sufficient to fund the capital cost to build or preserve 44,000 units of housing affordable to households earning at or below 50% AMI.

Assumptions

Need and goal based on Regional Affordable Housing Task Force findings and recommendation

- Using the goal of building or preserving 44,000 units of affordable housing to serve people earning less than 50% AMI between 2019 and 2024.
- Of the 44,000 units, 58% of the need was at 0-30% AMI and 42% at 30-50% AMI. These percentages were used to understand the near term need at those two income bands.

- The model projects 2019 and 2020 housing unit production goals based on current revenue available and the average cost per unit and anticipates future revenue sufficient to meet increased need between 2021 and 2024.

Average cost per unit of $356,000 is based on typical King County's Housing Finance project

- Average cost per unit is based on an analysis of applications received in King County's 2019 Housing Capital Funding Round. This amount is adjusted for inflation. Large, atypical projects are excluded due to their higher than average per unit cost. The per unit cost of preserving affordable units, including the purchase and necessary rehabilitation costs, averages about the same as new construction and is therefore not differentiated in the model.

Model considers both capital and services, operating, and maintenance costs

- An average annual per unit services, operating and maintenance needs expense of $21,000 is applied to the 0-30% AMI units. A lower amount of $7,000 is applied to the units not requiring supportive services at 30-50% AMI. These amounts are adjusted for inflation.
- The model does not factor in the operating and services costs beyond 2024.

Current revenue based on available information

- The local share of revenue needed is for capital needs only. Information about revenue available for operating and services is excluded due to incomplete data.
- Consistent with Regional Affordable Housing Task Force findings, the model includes public resources only. Philanthropic gifts and debt from private lenders and community development financial institutions are likely to play a role in meeting the need but were not included in the model.
- Current revenue includes the following source funds: 9% Low Income Housing Tax Credits (LIHTC), 4% LIHTC, State Housing Trust Fund (HTF), A Regional Coalition for Housing HTF, Seattle Housing Levy, Seattle Incentive Zoning/ Bonus Payments, Seattle Mandatory Housing Affordability Payment, Seattle Proceeds from Sale of City-Owned Property, Seattle Real Estate Excise Tax II, Federal HOME and CDBG, HB 1406, Lodging/ Stadium, Airbnb, Mental Illness and Drug Dependency, Veterans, Seniors, and Human Services Levy, Document Recording Fee, and Regional Affordable Housing Program.
- Reported amounts are based on available information. A mix of 2021 budget projections, 2019 actuals, or historic averages were used. This was done to account for possible fluctuations in 2021 due to slower growth in sales-tax related revenue.
- Current revenue only includes revenue collected and available to fund affordable housing in 2020. Seattle's Jumpstart payroll tax and the proposed HB 1590 .1% sales tax are excluded.
- The need identified and current revenue modeling analyzes for at or below 50% AMI range but the revenue tools often serve households earning more than 50% AMI, namely Low Income Housing Tax Credits that often serve households earning between 50% and 60% AMI.

Future revenue for capital projected to grow proportionally

- Future revenue for capital needs assumes federal, state, and local shares grow proportionally.
- Does not account for future revenue sources that would meet the need above 50% AMI.
- The $1.6 billion future revenue potential is limited to tools where revenue projections were available: .1% Sales Tax, Countywide Property Tax Levy, Real Estate Excise Tax (REET), REET 4 or expanded REET, Jumpstart Payroll Tax, Seattle Capital Gains Tax. This represents a likely undercount of future revenue potential and represents a higher proportion of revenue increases in Seattle versus the balance of County.

Cost drivers derived from information available in development proformas

- The model is dynamic and can be adjusted for three cost factors reported by developers in their 2019 funding proposals: 1) sales tax; 2) permits and fees; and 3) land costs. There are several cost drivers not explored due to lack of available data, such as overall housing supply-based strategies that impact the cost of land acquisition, reduced parking requirements for affordable housing projects, and expedited permit review for affordable housing proposals.

Exhibit 2: Summary of Recent Stakeholder Outreach

This summary represents stakeholder feedback received during conversations with stakeholders in August and September 2020. It does not necessarily represent consensus opinions or adopted positions of consultant groups/organizations. Entities consulted include:

1. North Urban Human Services Alliance
2. South King Housing and Homelessness Partners Executive Board
3. South King Planners and Developers Group
4. A Regional Coalition for Housing Board
5. City of Seattle, Office of Housing leadership
6. Open Doors for Multicultural Families
7. Coordinated Entry for All Policy Advisory Committee
8. Enterprise Community Partners
9. Housing Interjurisdictional Team Members
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Principle 1: Deploy existing and new revenue tools to meet the need

- 44,000 units of housing affordable at 0 to 50% AMI are the stated target, but local funds are targeted at 0 to 30% AMI. Because local funds follow larger funding sources in mixed income projects there is value to keeping local funds more flexible and consistent with the 0 to 50% AMI.

Principle 2: Action at all levels of government

- Cities need to address their role (addressing parking; zoning to allow ADUs, triplex, duplex etc.; overly restrictive building code requirements).
- The cost for affordable housing development should be lowered, i.e. through forgiving permit fees.
- There is a desire and need to continue raising revenue for affordable housing even in a recession, but concerns remain about the timing of increasing taxes due to economic impacts of the pandemic.
- The AHC should recommend new funding sources at the state level. The need is beyond King County (PSRC catchment area is the smallest unit to look at). There is local level fatigue for raising revenue.
- Progressive underpinnings to land use rules and land identification are equally important to generating new revenue.

Principle 3: Business and philanthropic communities have a role to play

- Continue leveraging business and philanthropic contributions; King County Housing Authority used Microsoft's monetary contribution for affordable housing to preserve existing affordable housing units, which took that land out of the speculative market.
- There needs to be greater coordination and engagement with philanthropic funders.
- We need to reach more deeply into the business community for additional funding, along the lines of what Microsoft has done.
- The County is encouraged to look for any and all opportunities to partner with nonprofits that own land for affordable housing development.

Principle 4: Consult with most disproportionally-impacted communities

- There is a need for a cultural shift that values housing for all.
- Practice community stewardship of the land; shift towards having land-owning communities driven by strong values, led by the people they serve, practice democratic decision making, and have a contract or agreement that specifies the purpose and governance of maintaining the land.

Principle 5: Transparency
- There has to be a way to evaluate what the public is getting so that the public has faith we will use these funds wisely.

Principle 6: Diversity of revenue
- Build diversity of revenue sources that help to build overall resilience in revenue for affordable housing.

Principle 7: Regional distribution of funding
- Revenue for affordable housing should reflect needs and priorities of different communities. For example: communities elsewhere in the county aren't able to support the large mega buildings that have historically been prioritized when allocating affordable housing revenue.
- Due to the current situation more people are working from home so they can move to places where property taxes and homes are cheaper, so that transition from certain cities need to be taken into consideration.

Principle 8: Pursue progressive revenue whenever possible
- There is a strong preference for progressive taxation, including a progressive income tax.
- Progressive revenue sources and funding are critical to support affordable housing development, including tools such as property taxes, income tax, and a capital gains tax.
- Prioritize excise taxes that capture increase in property value; perhaps realized at point of sale.
- There is a preference for developer fees over regressive taxation, but openness to both progressive and regressive revenue sources since the need is so great.
- If possible, prioritize funding from other sources before pursuing additional taxes.
- For regressive taxation, revenue should be used to benefit those most in need, and those benefits should outweigh the harm placed on low-income communities.
- Our approach is to always advocate for progressive revenue, be clear that regressive sources are regressive, and grudgingly use regressive taxes like sales, property, sugary beverage, etc. if that's what's all that is available to be used. When it comes to housing the lowest income households the progressivity of the effect is greater than the regressivity of the source.
- Progressive revenue sources are preferred over regressive revenue sources. Although unlikely to significantly impact revenue collection, condo conversion fees, vacancy taxes, fees on flipping homes, and short-term rental fees are supported.
- It is critically important to find progressive funding sources, but the need is so great we don't have the luxury to wait

Principle 9: Priority uses for 0-30% AMI, serving most disproportionally impacted, and capital and operating needs
- The greatest need is affordable housing serving 0-30% AMI. Seattle's JumpStart program will heavily support housing for that AMI range. It is also important to consider concentration of incomes in a building and/or neighborhood. We have found that buildings with a range of incomes (30-80% AMI) can enhance the financial and social health of the building.

- The County's continued focus and the majority of funds being spent on permanent supportive housing does not provide needed workforce housing in South King County (SKC). In light of increasing displacement there is a critical need for low-income workforce housing in SKC.
- Funds should be able to be used for affordable homeownership. Homeownership helps address racial inequities and provides opportunity for intergenerational wealth building.
- Serving vulnerable populations, such as veterans, seniors, and the homeless, often requires more money. The capital, operations, services, and referral mechanisms for these buildings all must be funded. Our projects with greatest success have been those who are able to find funding sources that serve all aspects quickly and on time, but these funding sources can be scarce and difficult to bring together.
- In order to house people who cannot afford a rent that can pay for basic building operations, it's crucial to also have ongoing subsidy. Today, that primarily comes from the Section 8 program and City of Seattle's rental assistance program. Without corresponding operating subsidy, capital for housing affordable < 30% AMI or so tends not to be able to be deployed well.
- Working with a lens of racial equity and anti-displacement to serve BIPOC communities means affordable housing that responds to community demands such as family-sized housing, and culturally focused ground floor uses. However, these features can raise project costs and come up against funding limits.
- All affordable housing developments should be co-developed with the community. Black, Indigenous, and People of Color communities should have an ownership role in developments to support housing where families of all backgrounds can live together and enjoy robust shared common areas like gardens, community centers, health clinics, and businesses.

Principle 10: Maximum flexibility

- New revenue sources should be flexible in order to meet the needs of specific communities/ areas.
- Flexibility in populations and AMIs served is crucial, as an affordable housing project typically uses multiple public funding sources, each with their own restrictions. Funding with more flexibility and fewer restrictions can be used to fund many different types of projects.
- Flexibility of funds is important. The equitable development initiative only funds acquisition and predevelopment and organizations who have no strong track record of managing funds face barriers to obtaining funds.

Not addressed in the principles

- Transit-oriented development is a priority for Seattle and has led to some of our greatest successes. Working with Sound Transit and other agencies to develop dense mixed-use affordable housing near high-capacity transit addresses issues of racial and transportation equity, displacement, access to opportunity, and climate change.
- Profits from developments should be reinvested in Native communities as a form of rent for their land.
- Housing should be "friendly" to people with disabilities.
- State and local government should use their regulatory authority to drive down land prices by imposing regulations or taxes on the transfer of property or condo conversions. Buyers will not pay as much for land due to the imposed fees. Affordable housing developers will not be subject to the fees.
- There is a need for a countywide Equitable Development Initiative (EDI) framework with dedicated funding that encourages a shift in how cities invest in economic development. Every funded housing project should be an EDI project.
- Funds shouldn't be limited to only housing costs. Funds should support other parts that make communities whole such as childcare, grocery stores, small businesses, and pharmacies.