



MEMORANDUM

DATE: February 13, 2008

TO: Chair Robertson and Members of the Planning Commission

FROM: Paul Inghram, AICP, Comprehensive Planning Manager 452-4070
pinghram@bellevuewa.gov
Janet Lewine, Associate Planner 452-4884
jlewine@bellevuewa.gov

SUBJECT: Bel-Red Workforce/Affordable Housing Workshop

The purpose of this study session is to develop preliminary direction regarding affordable housing policies, objectives and strategies for the Bel-Red subarea. Housing affordability is an important element of the Bel-Red Steering Committee's recommendation and relevant policies are included in the draft Subarea Plan.

No action is requested at this time. For this study session, staff recommends a workshop-like process to review the draft housing policies and each of six key housing affordability issues. Different from the format of a traditional study session, staff suggests a workshop format where staff will facilitate the Commission discussion with the hope of making significant progress identifying principles and initial direction for each of these housing issues. Enclosed worksheets include potential "starter" principles that can be used during the study session. The Commission's direction on principles can convey your insight on key issues and help explain why the Commission has arrived at a particular position.

Tonight's initial direction is not intended to be the Commission's final recommendation. The Commission will have opportunities to revisit its housing direction in March, with additional refinement following further public input. It is anticipated that the staff and Commission will complete a public release draft of revised policy and Code amendments by late March, in time for the Commission's public hearing now slated for April.

A number of documents are included here to facilitate your review of the housing issues, including:

- Housing Issue Worksheets (Attachment 1)
- Draft Bel-Red Subarea Plan housing section (Attachment 2)
- Excerpt from ARCH report *Housing 101* (Attachment 3)
- Bel-Red Steering Committee recommendation housing statement (Attachment 4)
- Bel-Red Workforce/Affordable Housing issues report from the January 31, 2008 memo (Attachment 5)

At the last meeting, the Commission discussed wanting to make sure that housing was thought about in the context of neighborhood development. Staff agrees that this context is important to consider as the Commission looks at each housing issue, and we will attempt to frame the

material with this in mind. You may wish to bring your complete copy of the draft Bel-Red Subarea Plan for reference of the other policy sections, including those that address neighborhood character and amenities. You may also wish to bring the housing information sheets handed out at the February 6 meeting.

BACKGROUND

In September 2007 The Bel-Red Steering Committee transmitted to Council their preferred alternative for the Bel-Red Corridor Plan. The Steering Committee's housing vision called for the creation of 5,000 additional housing units in the Bel-Red Corridor, and for the area to "contain a variety of housing types to meet the needs of a diverse population of varied income levels."

In October 2007 Council provided direction for a two-phased workforce/affordable housing implementation approach, with Bel-Red being the focus of the first phase. The first phase will strive to implement the Bel-Red housing vision through an incentive zoning structure and a variety of other tools. While Bel-Red will be addressed in a citywide context, further citywide affordable housing strategies will be considered in Phase 2 of the work program.

Over the last three months, the Planning Commission has been engaged on implementation efforts for all sections of the Bel-Red Plan, including housing. The Planning Commission's current schedule is to provide initial conclusions on both the draft Subarea Plan and the implementing code amendments by March 2008, so that draft Plan and Code amendments will be available to the public roughly 30 days before a late April public hearing.

Housing background information presented to the Planning Commission to date includes review of:

- Bellevue's existing affordable housing policies and programs;
- Council direction on a two-phase workforce/affordable housing work program;
- ARCH affordable housing education ("Housing 101") and priority housing strategies;
- Other cities' regulatory incentive programs for affordable housing; and
- The draft Bel-Red Subarea Plan housing section and policies.

At the previous meeting, the Planning Commission heard from a panel of housing experts that responded to questions related to the key issues presented below and addressed the market realities of encouraging affordable housing. This provided the Commission with a key opportunity to understand housing affordability from a market perspective and helped to frame this further work.

Staff has heard from a number of affordable housing advocates in regards to the Bel-Red planning effort. Most recently, the public was invited to a public open house to encourage review of the Bel-Red draft subarea plan on January 31, 2008. The open house was attended by 80 or more people (plus staff), including property owners, prospective developers, residents of adjacent neighborhoods and members of the housing community. Several of the comments from the open house reiterated comments we've heard recently addressing and supportive of housing affordability.

At the last meeting, the Commission expressed interest in hearing from property owners and potential developers in the Bel-Red area. Staff contacted some of the known potential developers and invited them to the February 13 meeting to provide comments, during the Public Comment segment of your meeting.

KEY BEL-RED WORKFORCE/AFFORDABLE HOUSING ISSUES

The Bel-Red Steering Committee explicitly included a discussion and set of principles (Attachment 2) to promote workforce and affordable housing. Staff suggests that carrying the Committee principles forward into Plan and implementation will require the Commission to grapple with several key issues. Discussion of five issues was included in the January 31 meeting packet and is attached for your reference.

During the expert panel discussion, how to “jump start” housing in the area was raised as an additional issue to consider and a discussion of that issue is provided below.

An issue worksheet is provided for each of these six key housing issues that summarizes the issues and options to aid the Commission’s discussion and review. At the last Commission meeting, we heard the Commission’s interest in considering a broader range of additional tools (issue number 5 in the January 31 memo, Attachment 5); a table of affordability tools is provided as part of the issue worksheets.

How to “jump start” housing?

Should specific strategies be employed to “jump start” housing in the Bel-Red area that is currently mostly light industrial and commercial with few amenities?

While the Bel-Red Steering Committee recommendation anticipates 5,000 new housing units in the Bel-Red area over the next twenty years, the area is currently a light industrial and commercial area with few neighborhood amenities and limited access. As infrastructure, amenities, and transit are provided, the area may eventually become an attractive place for housing. But experience has shown that early housing developments and early residents in a transitioning area like Bel-Red are hard to attract, and in many regards consider themselves as risky “pioneers.” Developing early housing successes is key to attracting later housing developers that are more risk-averse, and can eventually create a critical mass of neighborhood investment and energy.

From the panel of housing experts, we heard that successful housing requires parks, open space, transit service and other amenities that are important to a range of households, including families. We also heard that in some cases, affordable housing can play a role in “jump starting” the housing market, in that younger workers earlier and less lucrative in their careers, and others seeking out affordable housing options, may be more tolerant of moving into an area in transition.

BEL-RED HOUSING WORK PROGRAM

Staff is hoping that the Commission will be able to draw some initial direction about the questions covered in this Memo sometime in February, with an opportunity for Council feedback and additional Commission refinement in March. Toward this end, staff has developed the draft

housing work program below (re-printed from last week's packet), which includes past meetings. The focus here is on the housing component of Bel-Red, up to development of draft recommendations for the public hearing now slated for late April.

Phase 1 - Background (past meetings)

- Oct. 15, 2007 Council Study Session, direction on Two Phase Workforce / Affordable Housing Work Program, with first phase focus on Bel-Red Subarea.
- Oct. 24, 2007 Planning Commission update on Council direction, Two Phase Workforce / Affordable Housing Work Program.
- Dec. 6, 2007 ARCH presentation on Housing Strategy Program and Housing 101
- Jan. 9, 2008 Comparison of affordable housing incentive programs, distribution of draft Bel-Red Subarea Plan.

Phase 2 – Development and Community Outreach

- Jan. 31, 2008 Public Open House on draft Bel-Red Subarea Plan; public input on housing policies and strategy
- Feb. 6, 2008 Bel-Red Housing Expert Panel discussion
- Feb.13, 2008** **Housing Issues: engage on key housing issues; develop initial thoughts and direction.**
- March 17, 2008 City Council check-in on Bel-Red housing. Present status of work, and Commission's initial thoughts on policy direction, key housing issues
- March 26, 2008 Additional work to refine housing direction. Planning Commission direction on draft subarea plan and LUCAs, for incorporation into the public hearing draft documents.
- March 30, 2008 Public release of Planning Commission public hearing drafts on subarea plan and LUCAs. (30 days prior to April hearing date)

NEXT STEPS

Tonight the Planning Commission will be asked to review and discuss the key housing issues presented in this memorandum and to provide preliminary direction on housing strategies and refinement to housing policies.

In March, the Planning Commission will have an opportunity to refine the housing strategy recommendations and to review draft Land Use Code provisions including the incorporation of housing incentives into an overall Bel-Red incentive system. Staff anticipates releasing an

updated version of the subarea plan and draft Land Use Code amendments at the end of March, prior to a public hearing.

ATTACHMENTS

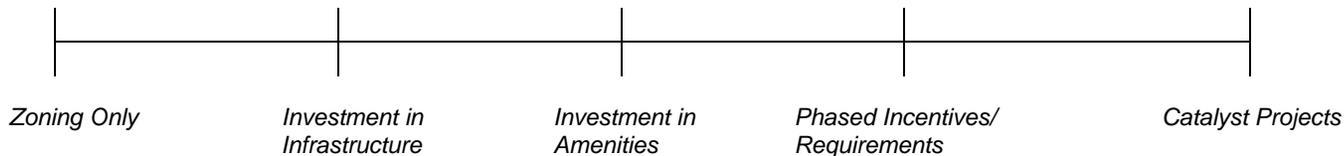
1. Housing Issue Worksheets
2. Draft Bel-Red Subarea Plan housing section
3. Excerpt from Housing 101
4. Bel-Red Steering Committee principles on housing
5. Bel-Red Workforce/Affordable Housing Issues Report (from January 31, 2008)

#1. "Jump Starting" the Housing Market

Questions:

How can the City get the housing market going in a transitioning area?

Example Options Continuum:



Considerations:

The Bel-Red area today includes almost no housing, and existing uses are predominantly commercial and light industrial. To achieve the Bel-Red vision for new housing will require pioneer housing development that proves the market success of housing in this area and begins to develop a "critical mass" that will attract other housing.

Strengths

- Close to Downtown Bellevue and Microsoft
- Planning process suggests 5,000 housing units
- Planned Transit improvements
- Other planned investments in infrastructure and amenities

Weaknesses

- Very little existing housing
- Legacy of light industrial
- Lack of amenities

Potential "Starter" Principles:

1. New urban residential neighborhoods will require a variety of public and private investments to support high quality, livable places.
2. Affordable housing could play a key role in bringing "pioneer" residents to this area. Young workers and families that might be attracted to a transitioning area generally need more affordable options, and may be more willing to live in a transitioning area.
3. "Jump starting" Bel-Red's transition to housing may involve strategies (requirements and/or incentives) to help ease the economics. For example, direct funding assistance for catalyst projects was used to help initiate downtown Bellevue housing.

#2. Housing Policy Targets

Question:

Should the Subarea Plan establish numerical workforce and/or affordable housing targets as goals for Bel-Red to achieve, under the rubric that “what gets measured is what gets done?”

Example Options of Target Numbers:

Income Level	10%	15%	20%	24%
50% of median				
80% of median	10%	15%	20%	17%
120% of median	10%	15%	40%	30%
Total	20%	30%	60%	71%

Note: These are examples of income levels and percentages that could be considered as broad goals. Other income levels and percentages could be considered.

Considerations:

	Households by % of Median Income Category			
	0 – 50%	51 - 80%	81–120%	120+
2000 Census, Bellevue	16%	15%	19%	50%
2000 Census, King Co.	21%	17%	22%	40%
CPP Afford. Housing Targets	24%	17%		

Census data adjusted to fit income categories

- 2006 “American Community Survey” Census update estimates that 4% of all Bellevue families were in poverty (30% median income level and below). Regarding housing cost burden, and about 36% of owners with mortgages and 42% of renters in Bellevue incurred housing costs above the affordability threshold of spending 30% or more of household income on housing.
- 4th example option (above) is consistent with affordable housing targets in the Countywide Planning Policies (CPPs).
- Housing at 120% of median income addresses a housing need for “workforce” wage earners. Job growth in Bel-Red is expected to increase this demand for “workforce” housing.
- Target options represent a range of attainability, from less aggressive/more easily attained to very aggressive and very challenging.
- Any initial target numbers will require further analysis and refinement, with consideration of an array of implementation tools.

Potential “Starter” Principles:

1. Broad Bel-Red housing policy numerical targets are intended to clarify desired outcomes, help measure progress over time, and lead to identifying needed adjustments.
2. The policy target number is not intended to be the percent of affordable units achieved solely through developer contributions, but rather a goal for the subarea, achieved through a range of strategies. Potential public investments, non-profit and employer assistance, other incentives and developer contributions may all contribute to meeting the targets.

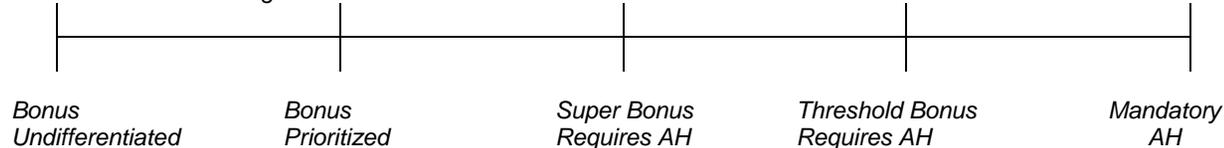
#3. Development Participation: Mandatory + Voluntary, or Voluntary Only?

Question:

Should the City establish a mandatory requirement for a portion of new housing to be affordable (perhaps off-set by density or height incentives), or should new development's contribution to affordable housing be accomplished solely through voluntary incentives?

Option Examples Continuum:

AH = Affordable Housing



Considerations:

- Housing would be among the elements in a land use incentive or “bonus” system. (Now is not suggested as the time to work through the mechanics of the bonus system, but rather the concepts.)
- The complete Bel-Red bonus system may include the following (in no particular order):
 - Affordable Housing
 - Parks, open space and trails
 - Stream restoration
 - Natural drainage
 - Public arts/arts district
 - LEED/green building
 - Public restrooms, child care, community space
- In concept, the bonus system for all amenities is developed or “calibrated” as follows:
 1. ID developer costs (for housing, this is gap between market rate affordable rent/sales and affordable target levels)
 2. ID value in height or density needed to meet developer costs above; i.e. to make developer whole
 3. ID whether additional bonus above step 2 is desired, either to increase the power of the incentive, or to set a higher priority for a given amenity vs. others
 4. Develop first cut bonus ratios (expressed as given amount of added development rights per unit of amenity)
 5. Evaluate/refine ratios in context of overall financial strategy/developer costs, residual land values and upzone “lift”

Potential “Starter” Principles:

1. Affordable housing incentives need to be evaluated as part of the broader Bel-Red incentives package, with consideration of building complete neighborhoods and a complete community.
2. All Bel-Red land use incentives and requirements need to be understood in the context of their effect on development feasibility; they should not result in development becoming economically infeasible.

Development Participation (contin.)

Legend:

1: Bonus Undifferentiated

To reach maximum height/density for a property, builder would choose from a “menu” of amenities, which are calibrated based on cost alone. No special priority for housing.

2: Bonus Prioritized

As in #1, but prioritizes affordable housing to provide greater lift, relative to its cost.

3: Super Bonus

Affordable housing provides a special lift; is the only way to reach a site’s maximum height and/or density.

4: Threshold Bonus

Any project that develops beyond the base density would be required to include a percent of affordable housing; i.e. development must provide some housing affordability to activate any other amenity bonus.

5: Mandatory

Any project must include a percent of affordable housing, even if the project does not develop beyond the base density; requirement's cost may be off-set by density/height bonuses.

#4. Role of Commercial Development

Questions:

If development contributions, either mandatory or voluntary, play a role in a Bel-Red housing strategy, do commercial developments have the opportunity to participate; or will the housing “linkage” be made only to residential developments?

Example Options Continuum:

AH = Affordable Housing



Considerations:

- There is a direct correlation between increased employment and housing costs; i.e., data shows that employment growth is typically accompanied by increasing housing costs.
- Commercial “linkage” programs, i.e., linking commercial development with housing, are unusual in WA state. Further legal research would be needed to clarify whether and in what manner commercial properties may be required to participate in affordable housing production.

Potential “Starter” Principles:

1. Employers may struggle to find or keep workers when housing supply or housing cost does not match need.
2. Workers that cannot find housing they can afford near their workplace move farther out and endure long commutes. This has negative consequences for workers’ families, employers, traffic and the environment.

Legend

1. Affordable housing applies to residential development only: self-explanatory

2. Voluntary incentives for commercial: Commercial development may achieve height/density increases by providing payment into an affordable housing fund, or otherwise enabling affordable housing production.

3. Commercial phasing tied to housing: intent is to maintain a balance of housing close to new jobs being created, so development of some housing must occur with timing in sync with development of commercial uses.

4. Mandatory linkage for commercial: As in #2, but affordable housing contribution is mandatory. Further legal research needed if Commission is interested in this option.

#5. Tools

Question:

What are the most effective and appropriate implementation tools to utilize in a Bel-Red workforce/affordable housing strategy?

TOOLS	POPULATION SERVED				Applicable to Bel-Red Implementation
	Low 50%	Moderate 80%	Workforce 120%	Market	
A. Land Use					
1. Lower minimum parking requirement for affordable housing	X	X	X		X
2. Areawide environmental assessment				X	X
3. "Housing emphasis areas" (height or density bonus for housing vs. commercial development)				X	X
4. Allow non-traditional forms of housing (e.g. 'SRO', loft, live-work)	X	X	X	X	X
5. Affordable housing height/density bonus (Covered in Issue #3)	X	X	X		X
6. Affordable housing requirement (Covered in Issue #3)		X			X
7. Other					
B. Direct/Other Assistance					
1. Short term property tax exemption		X	X	X	X
2. Permit Fee waivers (= direct subsidy to cover costs)	X	X			
3. Special allocation of housing trust fund	X	X			X
4. Make surplus land available for targeted types of housing	X	X			
5. Colocate housing with other uses (e.g. transit facility, libraries)	X	X	X		
7. Employer assisted housing programs		X	X		
8. Other					

Considerations:

- As a policy choice, the above tools could be further focused on specific target markets.

Potential "Starter" Principles:

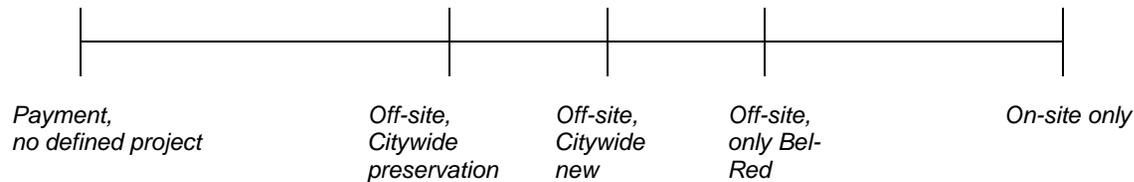
1. Affordable housing tools may be designed to work independently or in tandem with other tools. Used in tandem, they may reach lower affordability levels.
2. To reach low income (50% median) levels, the combination of tools needs to include some types of direct assistance.

#6. Alternatives to On-Site Housing Affordability

Questions:

Should development that contributes to affordable housing be allowed alternatives to providing the units on-site? Should alternatives be prioritized?

Example Options Continuum:



Considerations:

- The Bel-Red housing Vision says that the Subarea will contain a variety of housing types to meet the needs of a diverse population of varied income levels. The question is whether affordable housing units developed on-site help create more socially and economically integrated communities that are affordable to a wide range of families.
- Units developed on-site are built right along with market housing; avoids problems of finding off-site land, partners and funding.
- Some other cities' programs hold that off-site units can be allowed only when the developer can prove that construction of on-site affordable units is infeasible. Can also be limited to when a partnership project is identified.
- Allowing off-site affordable units makes the program more flexible. Provides an opportunity for market rate developers to partner with non-profits, which puts resources into projects where they can be used most effectively to leverage other funds and provide greater affordability.

Legend

Payment, no defined project: in-lieu payment allowed into a housing trust fund; no specific project identified

Off-site, City-wide preservation: affordable units may be preservation of existing affordable units, anywhere in Bellevue

Off-site, city-wide new: affordable new units may be off-site anywhere in Bellevue

Off-site, only in Bel-Red: affordable new units may be off-site, but must be elsewhere in Bel-Red

On-site only: affordable new units must be integrated into the project on-site

Attachment 2

Draft Bel-Red Subarea Plan – Housing Section

Housing

Goal: to encourage Bel-Red redevelopment to result in a diversity of housing types and prices, including a significant share of “workforce housing.”

Housing policy has many linkages to a truly sustainable future, with economic, social and environmental dimensions. Having a close-in supply of housing of types and prices that match available jobs can contribute both to Bel-Red’s economic competitiveness and its potential to meet the needs of families who want to live on the Eastside. Establishing housing near Bel-Red’s jobs and services will also reduce trip lengths and allow for a higher share of trips by transit, bicycling and walking, with environmental benefits in energy conservation and air quality. This Plan’s intent to create the potential for 5,000 new housing units in an area that today has almost no housing is a remarkable opportunity to make progress in all three of these dimensions.

The above housing outcomes entail very significant challenges. New urban residential neighborhoods will require an array of public and private investments in open space and other amenities needed to support high quality, livable places. Providing for affordable and workforce housing may be an even bigger challenge.

Housing affordability is a citywide issue, and should be considered in a comprehensive strategy of which Bel-Red is a part. This Plan creates the potential for thousands of new housing units, and provides opportunities not found in other parts of the city to create entirely new residential and mixed use neighborhoods in close proximity to jobs, services and transit. It is critical to consider an approach to housing affordability up-front, at the time this new development potential is being created, or the opportunity for a coherent strategy may be lost. This Plan establishes a multi-faceted strategy to address housing creation and housing affordability through a mix of land use designations, development regulations and incentives, direct public investments, and other public and private approaches.

Policies

(Staff Comment: The Bel-Red Steering Committee recommendation on housing left many unanswered questions which the Planning Commission is sorting through. Significant additions or changes to these draft housing policies may be needed as this Planning Commission discussion ensues.)

S-BR-F1___ Encourage a diversity of housing types, from high density, multi-story housing in transit nodes, to medium density housing outside nodes, to townhomes and other forms only rarely found elsewhere in Bellevue.

S-BR-F2___ Promote affordability in Bel-Red’s new housing stock, with a target that a minimum of ___% of new units be affordable to low and moderate income households, and another ___% be affordable as “workforce housing,” for households earning up to 120% of

median income. These targets will be addressed through a combination of development regulations and incentives, public investments, and other public and private strategies, such as employer-assisted housing.

S-BR-F3___ Monitor the affordability of new housing in Bel-Red and make adjustments to implementation strategies, including development regulations and incentives, as needed to meet the identified targets.

S-BR-F4___ Integrate the strategy for promoting housing affordability in the Bel-Red area with the City-wide approach of which Bel-Red is a part.

Housing Need in East King County



HOUSING AFFORDABILITY

Cities planning under the state's Growth Management Act (GMA) use two commonly defined levels of affordability:

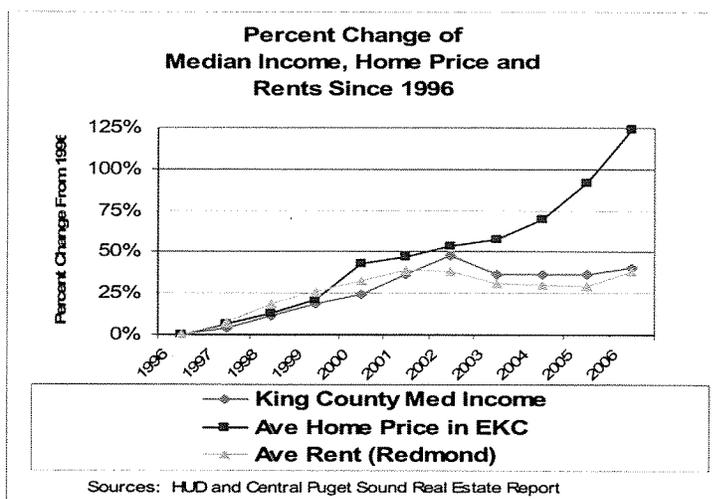
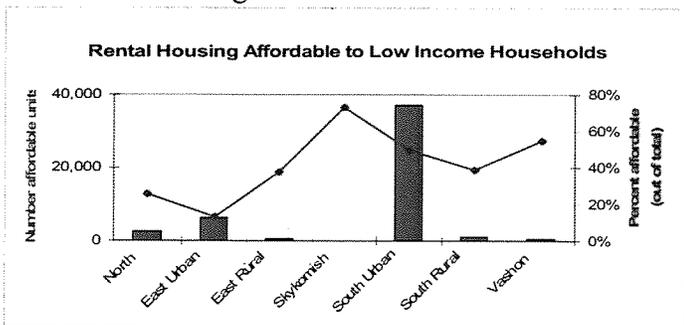
- **Low Income** (50% countywide HUD median income): \$27,265 (single person) to \$38,950 (4 person household)
- **Moderate Income** (80% countywide HUD median income): \$43,625 (single person) to \$62,320 (4 person household)

People in many jobs (such as bank tellers, nurses, medical assistants, retail clerks, teachers, office administrators, and police officers) earn low or moderate incomes (see Exhibit 1, Appendix). In fact, although East King County incomes trend higher than for the county as a whole, some 25% of Eastside households have low or moderate incomes.

The Eastside has a smaller proportion of rental units affordable to low income households than any other part of King County.

Home prices have increased significantly faster than incomes over the past five years. The 2007 Eastside median condominium price of \$347,550 is nearly \$100,000 over the "affordable" price for a median income family.

Housing is defined as affordable if its occupants spend **no more than 30% of their income** on housing. In East King County, nearly 24,000 households pay more than 30% of their income for housing and nearly 12,000 households pay more than half their income for housing.



DEMOGRAPHIC TRENDS

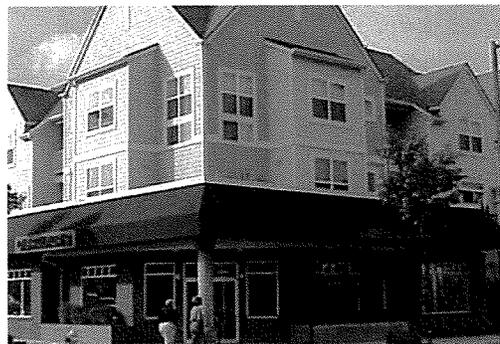
- **Household types.** One- and two-person households make up over 55% of East King County households.
- **Population Age.** In 2000, 12.5% of Eastside residents were 65 or older, with an increasing proportion of residents over age 75.
- **Population Diversity.** The percentage of non-white households on the Eastside increased from 10% to almost 19% of the population between 1990 and 2000.

Housing Supply

COUNTYWIDE PLANNING POLICIES

Under GMA, jurisdictions within King County collectively adopted the Countywide Planning Policies (CPP) to meet the requirements of the GMA. Two key housing policies are:

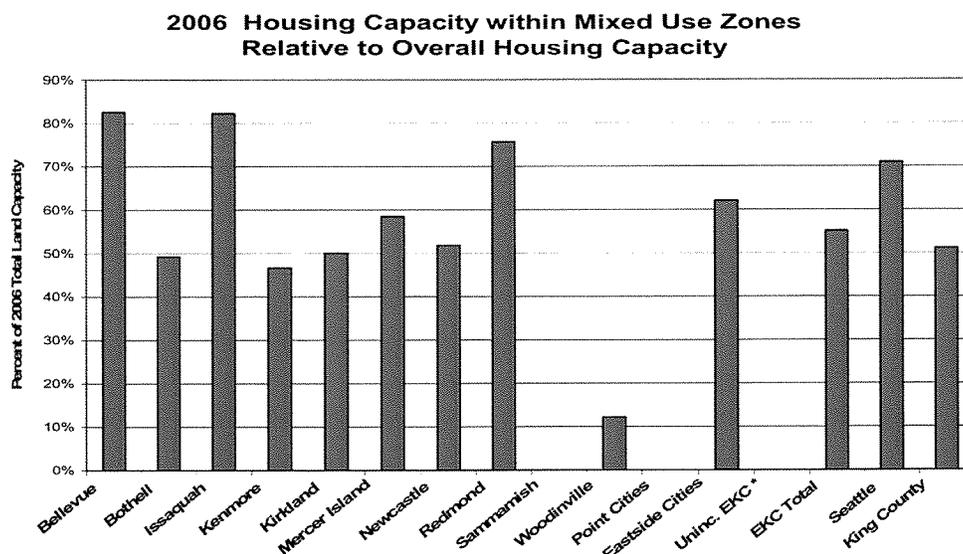
- All jurisdictions within the county agreed to share the responsibility to **accommodate the 20-year population projection and job forecast.**
- **All jurisdictions shall provide for a diversity of housing types** to meet a variety of needs and provide for housing opportunities for all economic segments of the population.



Housing demand from employment is greater than supply. The Eastside has historically been considered a bedroom community. Yet by 1990, demand from Eastside employment matched the supply of housing (a jobs-housing ratio of 1.0). By 2000, the jobs-housing ratio had risen to 1.25, meaning more demand than supply. Based on 2022 employment and housing targets for Eastside cities, the jobs-housing ratio is expected to continue to increase.

Meeting overall housing production goals. Eastside communities have been producing enough housing to meet their housing targets, and have enough land capacity to continue to meet their targets through 2022.

Majority of capacity is in Mixed Use Zones. As of 2006, over 50% of overall residential capacity, and 80% of multifamily capacity in East King County is in mixed use zones.



ATTACHMENT 4

Bel-Red Principles on Workforce/Affordable Housing

The preferred alternative envisions the creation of 5,000 additional housing units in the Bel-Red Corridor. Bellevue has not created this much new housing potential in decades. The committee recognized the importance of this, and also the importance of developing a thoughtful strategy for incorporating a wide range of housing types in this new supply. This issue of housing diversity was also important to many members of the public. The committee recognized the complexity of the issue, but felt the need to provide some perspective on how to realize its vision of creating a variety of housing types available to a wide range of households. Accordingly, the Steering Committee developed some preliminary principles on housing that are included as part of its recommendation. These principles are as follows:

- **Vision.** One element of the Bel-Red Steering Committee’s vision for Bel-Red is that the area “will contain a variety of housing types to meet the needs of a diverse population of varied income levels.” While Bel-Red will likely include some high end housing and a predominance of market rate prices, a deliberate strategy will be required to deliver on this vision of diversity in housing form and pricing.
- **Integration with larger City.** As Bellevue continues to experience the escalating housing prices of a very dynamic housing market, maintaining some housing options for low and moderate income workers and households on fixed incomes is a growing challenge for the City as a whole. The City also faces challenges in meeting the housing needs for a growing segment of our labor force who face can not afford the rising costs of housing in the Bellevue area. While no one area of the city will solve Bellevue’s affordable housing challenges, Bel-Red provides an opportunity to contribute to City-wide solutions. Housing affordability approaches here should be integrated with the City’s wider approach to the challenge of affordable housing.
- **Timing.** Bel-Red represents an extraordinary opportunity to develop new capacity for housing in Bellevue, with the potential of 5,000 housing units occurring in an area that today accommodates virtually no housing. The time to consider workforce/affordable housing strategies is up-front, as part of the zoning and land use strategy to create this new housing capacity.
- **Multi-pronged strategy.** Providing a range of housing choices requires a multi-faceted approach. Bel-Red implementation should consider a wide range of options for encouraging affordable housing, including incentives, tax policy, and regulatory measures.

Attachment 5

BEL-RED WORKFORCE/AFFORDABLE HOUSING ISSUES

From January 31, 2008, Planning Commission Memorandum

Key Bel-Red Workforce/Affordable Housing Issues

The Bel-Red Steering Committee explicitly included a discussion and set of principles (Attachment A) to promote workforce and affordable housing. Staff suggests that carrying the Committee principles forward into Plan and implementation will require the Commission to grapple with the following issues.

1. Targets?

Should the Subarea Plan establish numerical workforce and/or affordable housing targets as goals for Bel-Red to achieve, under the rubric that “what gets measured is what gets done?” If so, for what income levels should these targets be established—workforce, moderate income, low income? What target numbers should be set?

The draft Bel-Red Subarea Plan includes a potential policy that would establish targets for housing affordable to low and moderate income households (less than 80% median income); and targets for “workforce” housing (affordable to households earning up to 120% of median income). No specific numbers are identified in the draft Plan; if this policy is retained, then specific target numbers would need to be set for the public hearing draft.

Through ARCH and other efforts, the City of Bellevue supports many housing programs that help low and moderate income households. One of the hardest housing needs to address is housing that serves low and very low income households. Like other Eastside cities, Bellevue has fallen short in meeting Countywide Planning Policy (CPP) targets for low income units, which almost always require direct assistance, and available funding falls far short of housing need. Bellevue has made more progress in meeting CPP targets for moderate income units (affordable to households earning between 51 and 80% of median income). However, even moderate income housing targets have become more difficult to reach in recent years as a result of both market factors and an incentive program that has been underutilized.

And as housing prices have risen, a new housing need has emerged as more “workforce” or middle-income wage earners have found themselves increasingly priced out of the housing market. Job growth in Bellevue is expected to increase this demand for workforce housing. Bellevue’s stock of affordable and workforce housing has been further diminished by housing demolitions, redevelopment of older properties, rising housing costs and rents and condominium conversions. Providing an adequate supply of moderate and workforce housing helps families, workers, and employers in our community. Expanding Bellevue’s housing programs to address a growing need for workforce housing is consistent with Bellevue’s Comprehensive Plan Housing Goal: “To aggressively pursue opportunities to preserve and develop housing throughout the City and the Eastside to meet the needs of all economic segments of the community.”

Should the Bel-Red Subarea Plan establish specific housing targets at various income levels, the intent would be to achieve the targets through a variety of tools. Development contributions, if enacted in the form of mandatory and/or incentive land use provisions, would be among a number of potential tools. The question of what tools should be used is discussed elsewhere in this Memo.

Establishing the specific target numbers appropriate for Bel-Red will be challenging. Staff's thought is that this may be an iterative process that starts with an initial number or range, and then tests how that potential target may impact financial feasibility, production and affordability, eventually arriving at a more refined target number to recommend.

2. Mandatory + voluntary, or voluntary only?

Should the City establish a mandatory requirement for a portion of new housing to be affordable (perhaps off-set by density or height incentives), or should new development's contribution to affordable housing be accomplished solely through voluntary incentives?

Incentive zoning allows additional height or floor area ratio (FAR) linked to discretionary comprehensive plan amendments and rezones. Many local jurisdictions offer development or financial incentives for affordable housing. Some of these programs are voluntary, some mandatory, and some layer a voluntary incentive above the mandatory. Bellevue has experience with both mandatory and voluntary. Between 1991 and 1996 Bellevue had an inclusionary affordable housing program that required all new multifamily development (greater than 10 units) to make 10% of the units affordable to households earning 80% or less of median income. In 1996 the mandatory provisions were rescinded, and this program was replaced by the City's current voluntary incentives for affordable housing.

In Bel-Red, an incentive zoning structure is assumed to be a major building block for the implementation strategy, consistent with the Steering Committee's recommendations. The approach being considered is that a base FAR would be permitted outright, with higher FAR or height achieved only through participation in an amenity incentive system. In addition to affordable housing, a number of other amenities are under consideration, including stream restoration, "green" infrastructure, parks and open space, and others. Careful analysis is needed to prioritize the proposed amenities that might be part of the land use incentive system. The incentive system will also need to be calibrated and considered in light of the development requirements, development fees and taxes properties will be required to bear. If the overall cost of development under the incentive system is not market feasible, then no development will occur, and none of the desired public benefits will be gained.

An issue is that cities offering only voluntary incentives, including Bellevue, have had few affordable units created under these programs. According to an Urban Land Institute (ULI) publication, *Inclusionary Zoning for Affordable Housing*, inclusionary zoning practices across the country have had mixed results. In general, mandatory programs have been more effective at creating new affordable units than voluntary programs. Successful voluntary programs require considerable incentives and often a public subsidy for the affordable units.

Fairness, community support, and support from builders are all important in establishing a successful affordable housing program. The 1996 ordinance that rescinded Bellevue's previous mandatory program stated "...the City Council has determined that the requirements of Section 20.20.128 (Affordable Housing) have placed unacceptable burdens on builders of housing who would have to meet the requirements of this section;" (Ord. No. 4855-C).

One consideration in Bel-Red is that the Subarea Plan and zoning changes envisioned in the Bel-Red Subarea are intended to create the potential for 5,000 new housing units, with a very

significant increase in the value of land. Attachment B to this report “Affordable Housing Regulatory Incentives: ‘Four-Tier’ Approaches” provides descriptions, city examples and results of voluntary, voluntary with rezone, mandatory with rezone, and mandatory programs. These “tiers” are intended to frame different approaches cities have taken to mandatory and voluntary programs, in some cases making strong distinctions for mandatory programs in situations like Bel-Red, where an “upzone” is underway.

3. Role of Commercial Development?

If development contributions, either mandatory or wholly voluntary, play a role in a Bel-Red housing strategy, do commercial developments have the requirement or opportunity to participate; or will the housing “linkage” be made only to residential developments?

Residential developments in many parts of the country are linked with mandatory or voluntary affordable housing requirements and/or incentives. Commercial development linkages to affordable housing requirements and/or incentives are less common. In Seattle, for example, affordable housing incentives in downtown commercial buildings were added only in 2006.

California and other states refer to housing requirements on commercial development as a commercial linkage fee. California cities must do a “nexus” study for a commercial linkage fee, documenting the relationship between commercial development and the increased need for affordable housing. These studies tend to justify commercial linkage fees given the high cost of housing relative to incomes of specific employee cross sections.

Washington State does not authorize impact fees for affordable housing, so fees of this type are not utilized. At this time, staff would need to do further legal research to identify whether and in what manner commercial properties may be required or incentivized to participate in affordable housing production.

4. Alternatives to construction on-site?

The majority of housing created through mandatory and/or voluntary developer contributions to affordable housing is built along with, and indistinguishable from, market rate units. This creates socially and economically integrated communities affordable to a wider range of families.

Some programs offer developers one or more alternatives to constructing affordable units within the market-rate project. Most common is paying fees in-lieu of construction. However, some jurisdictions allow the option of payment only where the developer can prove that construction of affordable units is infeasible. In many programs, developers are permitted to construct affordable units off-site or partner with a non-profit who builds the units. Less commonly, land dedications are allowable.

A study of California’s 30 year experience with inclusionary housing programs¹ recommends jurisdictions allow for flexibility. Allowing affordable housing units to be provided off-site, or by payment to an affordable housing fund, contributes to this flexibility. Allowing units off-site can also provide an opportunity for market rate housing developers to partner with non-profits, which puts resources into projects where they can be used most effectively to leverage other funds and provide greater affordability. Allowing fee in-lieu can also potentially put resources into more effective projects that provide greater affordability.

¹ Affordable by Choice Trends in California Inclusionary Housing Programs: 30 Years of Innovation. California Coalition for Rural Housing, 2007.

But there are important considerations to be weighed. For Bel-Red, allowing off-site units or payment of a fee in-lieu might not result in achieving the vision that the subarea will contain a variety of housing types to meet the needs of a diverse population of varied income levels. Without affordable housing within newer development areas it will also be harder to achieve the City's affordable housing goal of developing and preserving affordable housing opportunities throughout the City and the Eastside.

Some of these issues can be addressed by establishing parameters on alternative compliance. Fee in-lieu could be targeted to a Bel-Red affordable housing fund. Similarly, units not provided within the project could be required to be provided within the subarea.

5. Tools

What are the most effective and appropriate implementation tools to utilize in a Bel-Red affordable housing strategy?

Jeffrey Lubell, executive director of the Center for Housing Policy, warns that incentive zoning is no magic bullet². In most cases local governments will want to adopt and integrate multiple strategies and tools to effectively increase the availability of housing for working families. "If there is any one thing you really need to do, it is to develop a comprehensive strategy."

In the spring of 2007 ARCH held three workshops where Council members, ARCH executive board members, commission members, senior planning staff, and invited stakeholders came together to look at existing conditions and identify potential housing strategies that could augment and expand upon existing affordable housing efforts. Six priority strategies were identified at these workshops. Of these, strategies that may be appropriate for Bel-Red include: Financial tools including the short-term MF property tax exemption for affordable housing; Employer assisted housing program; and Housing emphasis zones or other strategies to ensure that housing is developed in mixed use areas.

Short term property tax exemption RCW 84.14 (Policy HO-33)

Description: The state authorizes a short-term exemption of property taxes on the residential improvement value of multifamily housing in mixed-use areas. Cities that choose to adopt this program are allowed a broad range of flexibility to specify program requirements and identify eligible mixed use areas. New legislation is more explicit about linking affordability to the exemption, and allows partial exemptions. The State allows a 12 year property tax exemption on improvement value of multifamily residential when 20% of rental units provide a mix of units at 100% and 150% median income (150% for condos). The State minimum requirements can be exceeded in programs adopted by individual cities. For example, Seattle's proposed program would offer the 12 year property tax exemption when 30% of rental units are affordable at 100% of median income (120% for condos).

A short term tax exemption program could provide significant economic incentive, especially when partnered with development incentives such as increased height. The fiscal impact of a short term property tax program requires additional analysis, given that property tax increases are one income stream that will be needed to fund Bel-Red infrastructure. Land value is not exempted, so the impact is not so much of losing existing tax revenue, but rather a deferral of new revenue from improvement values. An analysis done by other communities indicate that properties receiving an exemption still generate other forms of public revenues (permit fees, construction sales tax, sales tax from new residents, etc).

² Housing Affordability. ICMA, October 2007.

This strategy may be more challenging in areas like Bel-Red that have significant infrastructure needs as well as housing needs. Consideration of this program in Bel-Red will need to take into account the comprehensive strategy for funding a wide range of needed infrastructure and amenities in the area.

Employer assisted housing program

Description: Employer-assisted housing programs aid workers to purchase or rent affordable housing. Programs include financial counseling, down-payment assistance, loans that lower monthly mortgage payments, rent subsidies and contributions to housing production. To date, employer-assisted housing programs have proven most successful for large institutional employers, such as universities and hospitals, that locate in high cost urban areas.

The most common form of assistance is mortgage or down payment assistance. ARCH House Key Plus currently offers \$30,000 down payment assistance loans. This program could potentially be expanded or a similar program offered with employer contributions. To help incentivize employers to use this type of program, housing planners and advocates support proposed State legislation that encourages employers to provide a rental or ownership housing benefit to their employees by reducing their B & O tax for a portion of that benefit, up to a certain amount.

The Urban Land Institute (ULI) whitepaper “Bridging the Affordability Gap: Expanding Housing Options for Seattle’s Working Families” explores the role of employer-assisted housing (EAH) as one affordability tool, and provides recommendations tailored to this region.

These recommendations include:

- Educate employers about costs and benefits of EAH programs.
- Develop natural alliances to promote EAH programs.
- Design cost-effective EAH programs with access to businesses of all sizes.
- Target Programs effectively.
- Forge EAH administration partnerships, such as for counseling and administration on behalf of the employer.

Bellevue has contributed \$150,000 from its housing fund to the ARCH House Key Plus downpayment assistance program. Depending on willingness of employers, this program could be expanded or other programs developed to include employer contributions to help fill an increasing “housing gap” between what moderate and median income employees can afford, and the cost of a Bellevue starter home or condominium. Also, the city could look for opportunities to partner with employers in the Bel-Red corridor in developing affordable / workforce housing.

Housing emphasis zones in mixed use areas

Description: Many communities target housing growth in mixed use areas like Bel-Red. Over 50% of overall housing capacity, and over 80% of all multifamily housing capacity among cities in East King County is within mixed use zones. In mixed use zones there can be uncertainty about what uses will ultimately develop, and whether housing can “compete” financially with other allowed commercial uses. This strategy could involve one or more components, such as:

- Monitoring of development in mixed use zones to assess if development patterns are achieving community goals, including housing production;
- More explicit regulatory strategies to achieve housing in mixed use zones such as allowing higher densities for developments that include housing; or requiring

development in designated 'housing emphasis zones' to include a certain proportion of housing units.

- Bellevue could also potentially focus its use of Housing Trust Fund contributions in a mixed use area like Bel-Red.