CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Adam Weinstein, Director of Planning and Building
Dawn Nelson, Planning Manager

Date: May 13, 2021

Subject: STUDY SESSION ON PUBLIC DEVELOPMENT AUTHORITIES (PDAs) AND NEW TOOLS TO CREATE WORKFORCE HOUSING IN KIRKLAND

RECOMMENDATION:

It is recommended that the City Council receive a briefing on Public Development Authorities (PDAs), including the function and intended projects of the Community Roots Housing PDA, and provide guidance to staff on potentially inviting the Community Roots Housing PDA into Kirkland to create workforce housing.

BACKGROUND DISCUSSION:

For many years, a key project in the City Work Program has been the creation of affordable housing. In 2018 the City Council adopted the Housing Strategy Plan, which identifies strategies to ensure that Kirkland has a diverse range of housing types to accommodate all economic segments of the community. A fundamental theme of the Housing Strategy Plan is that adding housing capacity is not sufficient in and of itself and that programs promoting the development of new housing must be undertaken intentionally by the City to address existing local needs, as well as housing needs 5 to 20 years into the future. In addition, the Housing Strategy Plan highlights that housing programs must help meet the needs of the local workforce and other members of the community (students, persons with disabilities, persons experiencing homelessness). Housing gaps identified in the Housing Strategy Plan include housing for moderate-income community members who may not be eligible for regulated or subsidized affordable housing that is income-restricted.

Due to a burgeoning economy and escalating housing prices that have outpaced wage growth for most community members, there is a severe shortage of housing for all but the wealthiest households. Many City programs, policies, and regulations exist that foster the production of housing for households making less than 80 percent of the Area Median Income (AMI), including inclusionary zoning for multi-family and mixed-use developments (with a standard requirement that 10 percent of units be set aside as affordable units) and a Multifamily Tax Exemption Program for projects that include 10 to 20 percent of their overall units as affordable housing. The City is also a founding member of A Regional Coalition for Housing (ARCH), which administers an annual Housing Trust Fund award process (comprising contributions from member cities and Community Development Block Grant funds) that helps fund affordable housing projects.

Fewer programs exist on the local and regional scale to promote the creation of "workforce housing," which isn't formally defined, but is generally considered to comprise housing that is affordable to households making between 60 percent and 120 percent of AMI. For instance, the City's Missing Middle Housing regulations are likely to yield cottages, duplexes, triplexes, and Accessory Dwelling Units (ADUs) that are more affordable than conventional single-family housing units, but that are priced at levels beyond those of households making up to 120 percent AMI. Workforce housing targets middle-income workers with professions such as teachers, health care workers, police officers, firefighters, and retail clerks. These types of professions are critical to the health, safety and quality of life of residents of the City. Taking into account the significant need for workforce housing in Kirkland (and challenges to developing workforce housing in the marketplace), and the policy support for such housing in the Housing Strategy Plan, the creation of workforce housing is a public purpose.

Organizations throughout the region are focused on expanding the supply of housing for community members of all income levels, including the workforce. In 2019, Microsoft launched a $750 million affordable housing commitment, "focusing on advancing affordable housing solutions in the Puget Sound region through targeted investments of loans and grants." A cornerstone of Microsoft's program is promoting better affordable housing policy throughout the region while addressing the many challenges surrounding securing financing for affordable housing projects (see Attachment 1, Microsoft's commitment to addressing affordable housing in the Puget Sound Region).

Community Roots Housing is a Public Development Authority established by the City of Seattle in the 1970s. The PDA initially provided low-interest loans for home repairs and supported home-sharing for seniors, before expanding to acquire, renovate, and build affordable housing. Community Roots Housing PDA is responsible for many significant affordable projects in Seattle, including the 12th Avenue Arts Project, the Liberty Bank Building (opened in partnership with the Africatown Community Land Trust, the Black Community Impact Alliance, and Byrd Barr Place), and the Station House in Capitol Hill, many of which integrate arts, cultural, and other community spaces and amenities.

Microsoft and the Community Roots Housing PDA are partnering on implementing a new financing model for workforce housing that involves Community Roots Housing issuing tax-exempt bonds to: 1) acquire existing housing projects that can be converted to or preserved as workforce housing; and/or 2) construct new workforce housing units. Microsoft and Community Roots Housing are interested in employing this model in Kirkland. This model would require the City to "invite" the Community Roots PDA to operate in Kirkland, authorize an interlocal agreement with the City of Seattle, and formally establish that workforce housing is a public purpose that qualifies for tax exempt financing.

The remainder of this memo provides a brief overview of PDAs, the financing model referenced above, and the proposal for the Community Roots Housing PDA to operate in Kirkland. More detail will be provided at the study session on June 1.

PUBLIC DEVELOPMENT AUTHORITIES:

Pursuant to RCW 35.21.730-.759 (and other provisions of State law), cities, towns, and counties may form PDAs to assist in administering federal grants or local programs, enhance governmental efficiency and service, and improve the general living conditions within the community. PDAs are special-purpose quasi-municipal corporations that are established by local governments for a variety of reasons, including to manage the development and operation of a single project which may be outside the core service provision of the local government. The project that is the focus of the PDA may be entrepreneurial in nature and intersect with the private sector in ways that could strain public resources and personnel. A PDA may, for instance, limit a local government's liability for any debts or obligations taken on by the PDA or for operating a specific piece of real estate. However, RCW 35.21.745 requires a local government that creates a PDA to control and oversee the PDA's operations and funds in order to ensure that the PDA is reasonably accomplishing its purpose and to correct any deficiencies. Besides Community Roots Housing, there are several examples in the region of PDAs, including:

- *Bellevue PDA (Meydenbauer Center).* Established in 1989 to provide economic stimulation to the community through the construction and operation of the Meydenbauer Convention Center. It is governed by a board of directors appointed by the City Manager. The authority is legally separate from the city but is included as a discrete component unit in the city's financial reporting. It derives its revenue from the city's lease and operation payments and from user fees paid by customers.
- *Cultural Development Authority of King County (4Culture).* Established in 2003 to serve as the cultural services agency for King County and to strengthen the region's shared heritage through supporting local arts and cultural opportunities. It is governed by a 15-member citizen board nominated by the County Executive and confirmed by the County Council. 4Culture offers grants and support to public art and heritage preservation projects. It is funded primarily by lodging taxes and the county's "1 percent for the Arts" ordinance.
- *Pike Place Market PDA*. Established in 1973 to preserve, rehabilitate, and protect Pike Place Market; incubate and support small and marginal businesses; and provide services for low-income persons.

See Attachment 2, Overview of Public Development Authorities, for more information on PDAs.

As noted above, Community Roots Housing PDA was created by the City of Seattle. The Board of Directors oversees all organizational activities of the PDA, including property management, real estate development, and ongoing operations. The Board comprises 15 community members, all of which are confirmed by the Seattle City Council: 12 Board appointees and three members nominated by the Mayor of Seattle. In 2017, the Seattle City Council approved Community Roots Housing to operate in designated jurisdictions outside of Seattle, if invited by such jurisdictions, and pre-approved a form of interlocal agreement for such purpose. In 2018, King County approved an ordinance permitting Community Roots Housing to exercise its chartered authority in unincorporated King County and executed an interlocal agreement with the City of Seattle. In order to operate within the City of Kirkland, the Kirkland City Council would need to invite the Community Roots PDA to operate within Kirkland via an adopted resolution or ordinance. The resolution or ordinance would authorize the City Manager to enter into an interlocal agreement with the City of Seattle to permit Community Roots Housing to operate in Kirkland. An example ordinance authorizing Community Roots Housing – formerly Capitol Hill Housing – to operate in unincorporated King County is included as Attachment 3, Ordinance 18781. Kirkland's interlocal agreement would not need to precisely match the agreement attached to this example ordinance.

<u>FINANCING MODEL</u>:

As noted above, Microsoft and the Community Roots Housing PDA are partnering on implementing a new financing model involving the issuance of tax-exempt governmental bonds to expand the supply of workforce housing, encompassing housing that is affordable to households with incomes between 60 percent and 120 percent of AMI. The model will be discussed in more detail at the study session, but is predicated on the recognition that there is a gap in both the private capital markets and traditional affordable housing resources for capital targeted to developing workforce housing.

The "Middle-income Tax-exempt Mezzanine Financing Model" is a different approach to capitalizing new construction or existing buildings. It does not rely on the multiple layers of public funding that are traditionally required in the subsidized affordable housing portion of the market. Nor does it replicate the private market-rate capital stack, which relies on traditional debt and private equity. Instead, it is a 100 percent financed approach that leverages tax-exempt bond financing.

In this model, Community Roots Housing would issue tax-exempt debt (government purpose bonds) for 100 percent of the workforce housing project costs. There would be no Kirkland participation or commitments in the bonds issued by Community Roots Housing.

The debt is structured in two branches: (1) a traditional senior tax-exempt note (approximately 65 percent to 75 percent loan-to-value) and (2) a subordinate mezzanine tax-exempt note (25 percent to 35 percent loan-to-value). Functionally, this structure is exchanging traditional "equity" with the tax-exempt discount "mezz" note. The traditional senior tax-exempt note pays principal and interest and the tax-exempt mezz note pays a modest cash coupon. Community Roots Housing would not have to contribute any equity upfront but is responsible for owning, maintaining, managing and stewarding the workforce housing over the long-term (10-15+ years). Accrued project equity is allocated between Community Roots Housing and mezz note investor up to a predetermined annual building appreciation with the remainder going to Community Roots Housing.

This lower cost capital structure would enable Community Roots Housing to keep rents affordable to workforce/middle-income households and deeper levels of affordability within that range can also be achieved by layering property tax exemptions through the Multifamily Tax Exemption program (see Attachment 4, Middle-income Tax Exempt Mezzanine Financing Model Narrative Overview).

In Kirkland, Microsoft and Community Roots Housing are interested in using this financing model at least initially to acquire existing housing projects that can be converted to or preserved as rental workforce housing. Properties targeted for initial acquisition are likely to include existing buildings that are less than 10-15 years old with at least 100 units that are in close proximity to transit and daily amenities. In the future, it could also be used to capitalize new workforce housing development with similar scale and location parameters.

SUMARY AND NEXT STEPS :

The potential financing model employed by Microsoft and the Community Roots Housing PDA, described above, offers a possibility to expand the supply of workforce housing in Kirkland and implement a critical strategy within the Housing Strategy Plan: "Provide other non-monetary support for affordable housing," which includes encouraging innovative partnerships between public and private institutions. Overall, staff has identified few risks associated with the Community Roots Housing PDA operating in Kirkland. Risks associated with PDAs, in general, include that some PDAs do not effectively monitor their operations and that the governing boards sometimes do not effectively monitor the activities of their PDAs. In addition, some PDAs may have financial difficulties that make it hard to accomplish their stated mission. These problems are not significantly different in nature from those that may be experienced by for-profit housing developers operating in Kirkland, which have less governmental oversight. Some benefits of the PDA model include: no public dollars that fund low-income or special needs housing are required; no monetary subsidies or other significant resources required from the City; no liability to the City; the ability to attract well-established housing providers to operate in Kirkland; and, most importantly, an increased supply of workforce housing.

At the study session, City staff will be joined by representatives of Microsoft, Community Roots Housing, and their consultant team. Council members are encouraged to ask questions about the content of this memo and study session presentation, identify additional information needs, and provide staff with guidance on next steps.

Microsoft

Microsoft's commitment to addressing affordable housing in the Puget Sound region

The Need

The Seattle region is continuing to experience a growing housing affordability crisis, where demand for low- and middle-income housing continues to outstrip supply. It's a long-term challenge, made worse by the COVID-19 pandemic, and one that disproportionately impacts communities of color.

> "This is more than a home, it's a community. And there needs to be room for all of us."
> —Jane Broom
> Senior Director, Microsoft Philanthropies

Our Approach

In 2019, Microsoft launched an affordable housing commitment that currently stands at $750 million, focused on advancing affordable housing solutions in the Puget Sound region through targeted investment of loans and grants. We continue to engage with jurisdictions, housing developers and finance agencies to determine the best opportunities for accelerating the construction of more affordable housing in the region.

Examples of investments to date, include:

Washington State Housing Finance Commission: $250 million line of credit to the Washington State Housing Finance Commission (WSHFC) (could create up to 3,000 more affordable housing units over the next decade).

Evergreen Impact Housing Fund: $75 million investment for low-income housing on the Eastside (will create approximately 1,500 estimated units).

King County Housing Authority: $60 million loan at below-market rates to finance acquisition of five middle-income residential apartment complexes in Kirkland, Bellevue, and Federal Way (preserved 1,029 units).

Innovative Financing

Microsoft's approach goes beyond simply writing a check. A common barrier to creating affordable housing is the ability to quickly secure financing for the period between project construction and completion. A similar challenge relates to extending borrowing capacity for partners who are working to preserve and grow our region's supply of affordable housing. Microsoft is piloting creative financing programs that accomplish both goals, providing partners with much-needed capital to move their projects forward.

Smart Policy

Addressing the affordable housing crisis will take more than just money – our community must also adopt critical housing policy measures to truly make a difference. We applaud leaders from the cities in our region who are enacting housing reforms such as reducing parking requirements, expanding affordability, and increasing density near transit.

Community Support

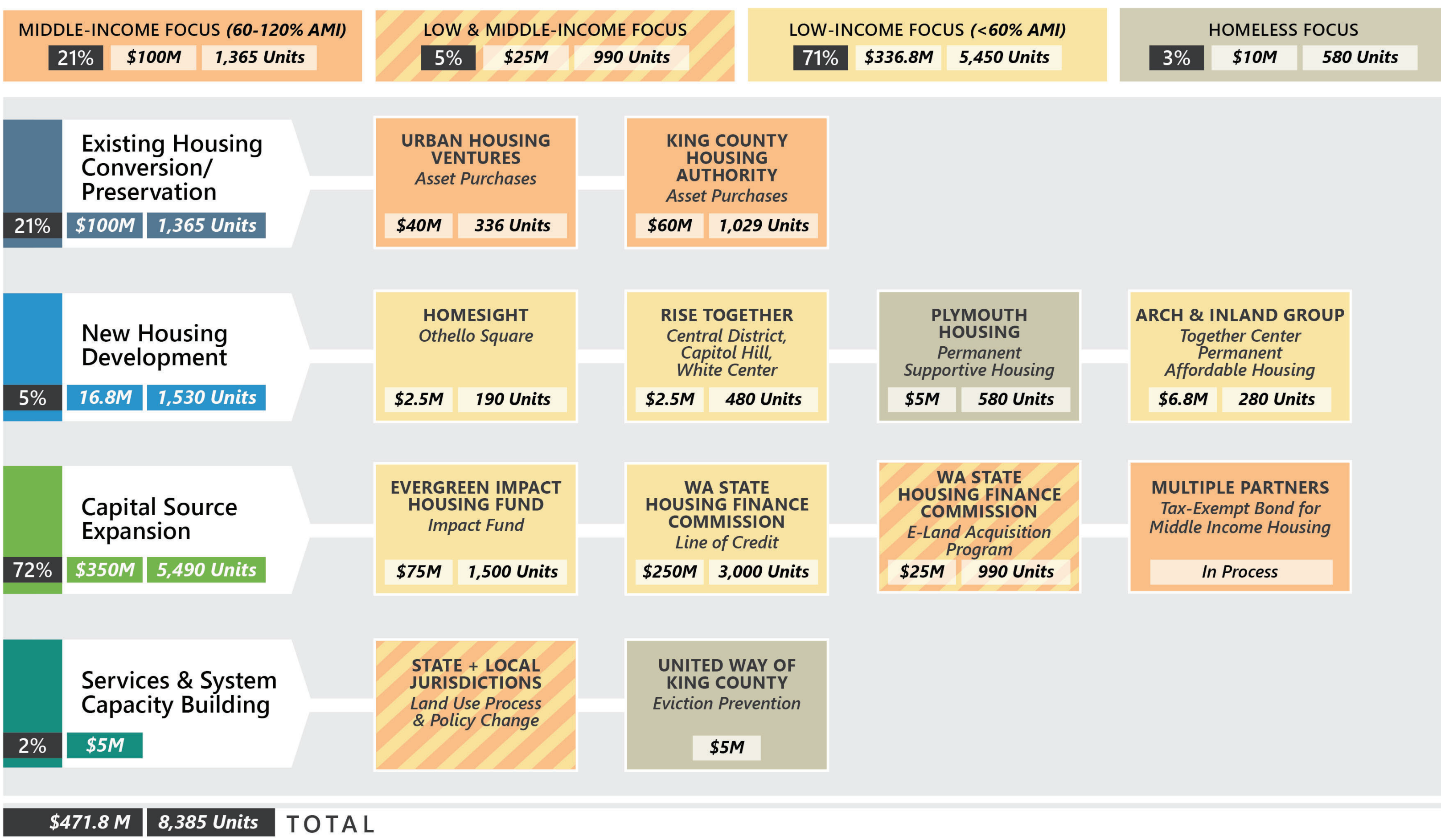
We all need to work together as a community to make progress. We believe that every individual and every business, large and small, has a responsibility to contribute however they can. That's because ultimately, a healthy business needs to be part of a healthy community, and a healthy community must have housing that is within the economic reach of everyone.

Looking Ahead

We continue to listen to, learn from and work with our public and private partners on the front lines of our region's housing crisis. Together, we are working to turn the vision of affordable housing into reality across the Puget Sound region.

Attachment 1b

MICROSOFT AFFORDABLE HOUSING INITIATIVE (May 2021)



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Overview of Public Development Authorities

Public development authorities ("PDAs") are one governance model available to Washington cities and counties wishing to create a separate legal entity to undertake public projects and goals. PDAs are public corporations, also known as quasi municipal corporations, formed by a city or county under the authority of RCW 35.21.730, *et seq*. PDAs may be formed to undertake a specific project, or to provide certain specified public services. The mission of PDAs vary widely from promoting general economic development to narrower purposes such as the management of particular enterprises such as museums, historic districts, emergency communications, tourism promotion, historic preservation and affordable housing. PDAs are located throughout Washington State, and include the Pike Place Market Preservation and Development Authority (to operate the Pike Place Market), the Seattle Southside Regional Tourism Authority (to provide tourism promotion services), the Museum Development Authority of Seattle (to operate the Seattle Art Museum), Kitsap 911 Public Authority (to provide 911 dispatch services), Bellevue Public Development Authority (to operate the Meydenbauer Convention Center), the Northeast Public Development Authority (economic development in certain areas of Spokane), and the Cultural Development Authority of King County (4Culture), among others.

PDAs provide potential for more entrepreneurial decision making, opportunities for private citizen involvement, focused goals and management, alternative contracting methods and, in some cases, additional funding. The PDA statute limits the liability of the forming city or county. At the same time, PDAs are subject to oversight of their forming city or county, and PDAs are subject to many of the same legal constraints as cities and counties.

While traditionally PDAs have been formed by a single city or county to take on a local project, PDAs may also be formed to undertake regional public projects and goals. By combining the authority under the PDA statutes (RCW 35.21.730 *et seq*.) and the Interlocal Cooperation Act (chapter 39.34 RCW), local governments have used PDAs as an alternative governance model to take on regional projects jointly.

Purpose and Authority. PDAs may be created to (1) administer and execute federal grants or programs, (2) receive and administer private funds, goods or services for any lawful purpose, and (3) perform *any lawful public purpose or public function*. RCW 35.21.730(5). The purpose and scope of the PDA is specified in the PDA's charter and formation documents.

PDAs have statutory authority to (1) own and sell real and personal property, (2) contract with a city, town, or county to conduct community renewal activities under chapter 35.81 RCW, (3) contract with individuals, associations, and corporations, and the State of Washington and the United States, (4) sue and be sued, (5) loan and borrow funds and issue bonds and other instruments evidencing indebtedness, (6) transfer any funds, real or personal property, property interests, or services, (7) do anything a natural person may do, and (8) perform all manner and type of community services. PDAs may not operate beyond the jurisdictional boundaries of their forming entity, unless otherwise agreed to by the extra-territorial jurisdiction, as discussed below.

While PDAs have broad statutory authority to perform any public purpose or public function, such authority is not unlimited. PDAs cannot undertake a public function that the forming city or county could not lawfully perform. *See Memorandum Opinion of the Attorney General of Washington to Robert V. Graham, State Auditor*, March 10, 1989. PDAs are limited to perform only public purposes or public functions that the creating (or contracting) municipality may undertake directly. The PDAs charter may further limit the authority of the PDA.

Formation; Limitation on Liability. A city or county may form a PDA by passing an ordinance or resolution approving the PDA's charter. The charter is the backbone of the PDA, and includes key information about the PDA, such as the PDA's name, scope of the project or purpose, the term of the PDA, the size and composition of its governing board, provisions for the appointment and removal of board members, and the process and consequences of dissolution. In addition, charters often contain special features unique to the purpose of the PDA with respect to reporting to the forming city or county and other matters that establish a structure for oversight (for example, dispute resolution, method of dissolution, and citizen or public involvement). The charter may also address certain administrative matters, such as the process for approving bylaws to govern board operations and administration, conflicts of interest, and compliance with open public meetings, public records, and other laws applicable to public entities.

A key benefit of a PDA as an optional governance model is the statutory limitation on liability of the creating city or county. RCW 35.21.730(5) provides "[t]he [creating] ordinance or resolution shall limit the liability of such [PDA] … to the assets and properties of such [PDA] … in order to prevent recourse to such cities, towns, or counties or their assets or credit." This limitation on liability must be included in the formation resolution or ordinance, and will be stated on bonds and other obligations of the PDA. The PDA charter may also limit the liability of the forming and, in the case of a regional undertaking, the participating municipalities. The debts and other obligations of the PDA will only be the responsibility of the forming city or county or other municipal participants if such entities agree to such liability by contract. The limited liability is statutory, and if agreed to in the charter or other contract, contractual. These statutory and contractual provisions provide a layer of protection to the forming city or county and other jurisdictions from potential liability in contract or tort, subject to potential disregard of the PDA's separate existence in certain exceptional circumstances. The forming county or city could minimize this possibility by ensuring (1) openness and clarity in all dealings regarding the separate existence of the PDA, (2) observance of corporate formalities, and (3) reasonable capitalization of the PDA based on foreseeable risks of debt and liability.

Governance. PDAs are separate legal entities from their formation city or county, governed by a board of directors nominated and appointed as provided in the charter. Washington law does not require PDAs to have a certain board composition or membership, and as a result, the board may be organized as appropriate to fit the PDA's stated purpose. A PDA board may be comprised of representatives of key stakeholders (for instance, members of the hotel industry for a PDA focused on tourism, or representatives of participating police and fire departments for PDAs providing 911 dispatch services), or individuals with specific expertise relevant to the undertaking (financing, construction, legal, economic development or housing). The PDA's charter will typically specify the size, composition, nomination and appointment process, term, officers and other characteristics of the board.

Oversight of the PDA. While PDAs are separate legal entities, the creating city or county is required to maintain a level of oversight and control of the PDA's operations. RCW 35.21.745(1) provides that a city or county that creates a PDA "shall provide for its organization and operations and shall control and oversee its operation and funds in order to correct any deficiency and to assure that the purposes of each program undertaken are reasonably accomplished."

Washington law does not require a certain process for ongoing monitoring. The method for overseeing the operations of the PDA is generally provided for in the charter or formation ordinance or resolution. For example, charters often limit the scope of authority of the PDA and contain provisions for reporting on financial, budgetary and other operational matters. These organizational documents can provide oversight and constraints on the operations of the PDA tailored to meet the needs of the parties involved and the purpose of the PDA.

While it is clear that Washington law requires the creating city or county to control and oversee the operations of the PDA, the purpose of such oversight and control is to be in a position to “correct any deficiency and to assure that the purposes of each program undertaken are reasonably accomplished.” A city or county is not required, for instance, to oversee the day-to-day operations or confirm each board activity, but maintain a level of involvement to ensure the PDA is fulfilling its authorized purpose and otherwise complying with applicable requirements. Because PDAs are separate legal entities and the liabilities of the PDA are limited to those assets and resources of the PDA, cities and counties should exercise caution when exerting too much control over the PDA potentially blurring the lines of separation between the forming city or county and the PDA.

Service Area. Forming cities and counties also oversee PDA operations by controlling where the PDA may operate. By statute, a PDA’s authority is limited to the jurisdictional boundaries of its forming entity, unless otherwise agreed to by the forming entity and the extra-territorial jurisdiction. RCW 35.21.740. Permission to operate extra-territorially may take a variety of forms, such as an interlocal agreement, service contract or other type of documentation, depending on the function and services provided by the PDA. While such agreement may limit the PDA’s activities to a certain project or specify the terms under which the PDA may operate extra-territorially, it may not extend the purpose or authority of the PDA beyond the scope of its original charter.

Financial and Other Resources of the PDA. Despite the broad authority to undertake any public project or purpose, PDAs have limited options to generate revenue. PDAs do not have the power of eminent domain nor the power to levy taxes or special assessments. RCW 35.21.745. PDAs may collect project or other operating revenues, receive grants, receive public or private funds, and accept real or personal property. PDAs may receive payments in exchange for services. PDAs may also borrow money and issue bonds, including tax-exempt obligations if certain requirements are satisfied, and may pledge project revenues, grants, or available sources to the repayment of such obligations. As noted above, all debts and other liabilities incurred by the PDA must be satisfied exclusively from the PDA, except as otherwise agreed by contract. PDA creditors do not have any right of action against or recourse to any other public entity, or such entity’s assets, on account of the PDA’s debts, obligations, liabilities or acts or omissions, unless such entity agrees to such recourse by contract.

Legal Requirements Applicable to PDAs. As public entities, PDAs, and their officers, employees and board members, “are subject to general laws regulating local governments, multimember governing bodies, and local governmental officials, including, but not limited to, the requirement to be audited by the state auditor and various accounting requirements provided under chapter 43.09 RCW, the open public record requirements of chapter 42.56 RCW, the prohibition on using its facilities for campaign purposes under RCW 42.17A.555, the open public meetings law of chapter 42.30 RCW, the code of ethics for municipal officers under chapter 42.23 RCW, and the local government whistleblower law under chapter 42.41 RCW.” RCW 35.21.759. PDAs and their public funds are also subject to the constitutional limitations on the lending of credit and gifting of public funds. PDAs undertaking economic development activities or projects that include significant private sector involvement are encouraged to give special attention to these limitations when planning PDA operations.

Regional Projects and Services. As discussed above, PDAs may be formed by a city or county to operate within the boundaries of the creating jurisdiction and, with permission, extra-territorially. For some regional projects and goals, however, the public entities involved seek more of a multi-jurisdictional structure, with each party having a role in decision making and representation at the governance level. The PDA statutes (RCW 35.21.730 *et seq*.) do not alone provide for the formation of a multi-jurisdictional PDA, as the statutes state that a PDA may be formed by a single city or county. Cities and counties wanting to work together have formed PDAs with multi-jurisdictional representation by combining the PDA statutes with the authority granted to local governments in the Interlocal Cooperation Act (chapter 39.34 RCW). Under this governance structure, the PDA would continue to be formed by one city or county, however, the PDA's charter would be paired with an interlocal agreement among the parties to establish the roles and responsibilities, representation on the board of directors, contractual limitations on liability, and other matters applicable to each jurisdiction involved. Examples of PDAs with multi-jurisdictional representation include South Sound 911, a communications and regional dispatch center located in Pierce County, and the South Correctional Entity Facility Public Development Authority, formed to issue bonds to finance a multijurisdictional misdemeanant correctional facility located in south King County.

Conclusion. PDAs provide a governance model that allows Washington cities and counties to create a separate legal entity to undertake public projects and goals. There are a number of statutory and other legal requirements to be observed. Many cities and counties have formed PDAs to implement a wide range of community projects, including joint undertakings. These many examples provide models for, and lessons that can be applied by, any new PDA.

Please call any of our public finance and municipal law attorneys if you have questions or would like more information.

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Dated: May 3, 2021.

King County

KING COUNTY

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516 Third Avenue
Seattle, WA 98104

Signature Report

September 5, 2018

Ordinance 18781

Proposed No. 2018-0324.1 **Sponsors** Kohl-Welles

AN ORDINANCE authorizing the executive to enter into an interlocal agreement with the city of Seattle to permit Capitol Hill Housing Improvement Program to exercise its chartered authority in unincorporated King County.

STATEMENT OF FACTS:

1. The city of Seattle chartered Capitol Hill Housing Improvement Program ("CHHIP") in 1976 as a corporation, and its current purpose is to assist homeowners, property owners, residential tenants, and residents of the Capitol Hill community and such other areas as approved by the CHHIP board of directors in preserving, improving and restoring the quality of their homes, property and neighborhood, and to provide additional housing, cultural, social and economic opportunities and facilities.

2. CHHIP has a long history of successfully fulfilling its purpose both inside and outside its Capitol Hill boundaries, including a prior affordable housing project in unincorporated King County in which CHHIP partnered with the Delridge Neighborhoods Development Association and the White Center Community Development Association to secure tax credit equity for the SOPI Village affordable housing project.

3. CHHIP desires to work with community-based partners in unincorporated King County to provide affordable housing, cultural, social and economic opportunities and facilities.

4. RCW 35.21.740 provides that a public development authority may not operate outside of the boundaries of the establishing city unless that city enters into an agreement with another city or county.

5. Seattle Municipal Code section 3.110.170.B. states, "If authorized by its charter to do so, a public corporation may undertake projects and activities or perform acts outside the limits of the City only in those areas of another jurisdiction whose governing body by agreement with the City consents thereto," and the CHHIP charter so authorizes.

6. It is in the interests of King County to permit CHHIP to engage in mission-driven projects that provide affordable housing and community development in unincorporated King County.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. The King County executive is hereby authorized to enter into an interlocal agreement with the city of Seattle for the purpose of permitting Capitol Hill Housing Improvement Program, a public corporation chartered by Seattle, to develop affordable housing and community development projects located outside the Seattle limits in the unincorporated areas of the county. The agreement shall be in substantially the form of Attachment A to this ordinance.

Ordinance 18781 was introduced on 8/20/2018 and passed by the Metropolitan King County Council on 9/4/2018, by the following vote:

Yes: 9 - Mr. von Reichbauer, Mr. Gossett, Ms. Lambert, Mr. Dunn, Mr. McDermott, Mr. Dembowski, Mr. Upthegrove, Ms. Kohl-Welles and Ms. Balducci
No: 0
Excused: 0

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

J. Joseph McDermott, Chair

ATTEST:

Melani Pedroza, Clerk of the Council

APPROVED this 6 day of SEPTEMBER 2018.

Dow Constantine, County Executive

Attachments: A. Interlocal Agreement

Attachment A

INTERLOCAL AGREEMENT

THIS AGREEMENT is entered into between King County, a municipal corporation and political subdivision of the State of Washington, hereinafter referred to as the "County" and The City of Seattle, a Washington municipal corporation, hereinafter referred to as "Seattle", each being a unit of general local government of the State of Washington.

RECITALS

WHEREAS, Seattle chartered Capitol Hill Housing Improvement Program (CHHIP) in 1976 with the current purpose to assist homeowners, property owners, residential tenants, and residents of the Capitol Hill community and such other areas as approved by the CHHIP Board of Directors in preserving, improving, and restoring the quality of their homes, property, and neighborhood, and to provide additional housing, cultural, social, and economic opportunities and facilities; and

WHEREAS, CHHIP has a long history of fulfilling successfully its purpose both inside and outside its Capitol Hill boundaries; and

WHEREAS, an important component of CHHIP's mission is to facilitate and provide safe and affordable housing and community development for the benefit of low- and moderate-income individuals and families; and

WHEREAS, CHHIP has identified certain specific mission-driven projects in the County and anticipates additional projects in the near future (collectively, the "Projects"); and

WHEREAS, CHHIP is a public corporation established under SMC Chapter 3.110; and

WHEREAS, Seattle Municipal Code, Section 3.110.170, states in part: "If authorized by its charter to do so, a public corporation may undertake projects and activities or perform acts outside the limits of the City only in those areas of another jurisdiction whose governing body by agreement with the City consents thereto," and the CHHIP Charter so authorizes;

WHEREAS, both the County and Seattle desire to facilitate CHHIP's undertaking of projects and activities consistent with its chartered purpose and to provide needed affordable housing; and

WHEREAS, by Seattle Ordinance 125424, the City Council of Seattle authorized the Director of Intergovernmental Relations to enter into this agreement with the County to enable CHHIP to perform the activities described herein;

NOW, THEREFORE, IN CONSIDERATION OF THE FOREGOING CIRCUMSTANCES, THE PARTIES AGREE AS FOLLOWS:

1. Consents

The County and Seattle each consent to Capitol Hill Housing Improvement Program ("CHHIP"), a public corporation chartered by Seattle, developing affordable housing and community development projects located outside the Seattle limits in the unincorporated areas of the County, which may include, without limitation, participating in the financing, ownership, and operation of such projects. The consent provided in this Agreement is intended to satisfy the conditions of SMC 3.110.170 and the Charter of CHHIP for actions outside Seattle, and does not constitute approval of any components of such projects that may be required by any local, state, or federal law or regulation.

2. Powers and Authority

Pursuant to RCW Section 35.21.740, the County and Seattle agree that with respect to all activities of CHHIP related to such projects and all related property interests now or hereafter held by CHHIP, the powers, authorities, and rights of Seattle to establish, to confer power and authority upon, and to exercise authority over, a public corporation or authority, as expressly or impliedly granted pursuant to RCW Sections 35.21.730 through 35.21.755, shall be operable, applicable, and effective in unincorporated King County, so that CHHIP shall have the same powers, authority, and rights with respect to such activities as CHHIP has within the corporate limits of Seattle, and shall be subject to the same Seattle ordinances and authority of Seattle.

3. Duration

This Agreement and the consents herein shall take effect when both parties have signed this Agreement and shall remain in effect so long as the corporate existence of CHHIP continues, unless and until modified or terminated by written agreement of the County and Seattle.

4. Miscellaneous

This Agreement represents the entire agreement of the parties with respect to the subject matter hereof. Nothing in this Agreement shall impose any obligation, liability or responsibility on the County or Seattle for any liability, action, or omission of CHHIP.

KING COUNTY, WASHINGTON	CITY OF Seattle
By: Signature	By: Signature
Printed Name	Printed Name
Title	Title
Date	Date
Approved as to Form: OFFICE OF THE KING COUNTY PROSECUTING ATTORNEY	Approved as to Form: CITY OF SEATTLE CITY ATTORNEY
Signature	Signature
Title	Title
Date	Date

1246: Middle-income Tax-exempt Mezzanine Financing Model Narrative Overview

5.12.21

Why The Middle-income Tax-exempt Mezzanine Financing Model?

There is a gap in both the private capital markets and traditional affordable housing resources for capital targeted to Middle-Income/ Workforce Housing.[1] Additionally, it is difficult to really meaningfully move the lever on key inputs that drive the cost of housing: construction costs and land value, BUT there is the potential to affect the cost of capital.

The Middle-income Tax-exempt Mezzanine Financing Model is a replicable financing structure to create middle-income housing (new construction and existing) that attracts traditional investors with appropriate risk-adjusted returns.[2]

What is the Middle-income Tax-exempt Mezzanine Financing Model?

The Middle-income Tax-exempt Mezzanine Financing Model is a different approach to capitalizing new construction or existing buildings. It does not rely on the multiple layers of public funding that are traditionally required in the subsidized affordable housing portion of the market, nor does it replicate the private market-rate capital stack, which relies on traditional debt and private equity. Instead, it's a 100% financed approach that leverages tax-exempt bond financing.

A Sponsor/Owner issues tax-exempt debt (either government purpose bonds or potentially 501(c)3 bonds, depending on the entity) for 100% of the project costs.[3] The debt is structured in two tranches: (1) traditional senior tax-exempt note (~65%-75% loan-to-value) and (2) a subordinate mezzanine tax-exempt note (25%-35% loan-to-value). Functionally, this structure is exchanging traditional "equity" with the tax-exempt discount "mezz" note. The traditional senior tax-exempt note pays principal and interest and the tax-exempt mezz note pays a

[1] Affordable to households between 60% and 120% AMI—depends on the submarket.

[2] ~6-9% target after-tax returns, pre-tax equivalent of ~10-15%. Dependent on investor tax rates, levels of affordability, property tax exemption, and many other factors. This is compared to ~12-18% target pre-tax returns for market-rate, traditionally capitalized multifamily housing. Dependent on source of equity, rent levels, product type, submarket and many other factors.

[3] Tax-exempt financing is a financing tool available to eligible borrowers (government entities, PDAs, 501(c)3, Private Activity Bond-eligible projects) as a means of raising funds for capital needs. Interest rates on tax-exempt bonds are considerably lower than interest rates on comparable taxable obligations because the interest component of the bond debt service payments is exempt from federal and sometimes state and local income taxes for the bond holder.

modest cash coupon. The Project Sponsor/Owner does not have to contribute any equity upfront but is responsible for owning, maintaining, managing and stewarding the asset over the long-term (10-15+ years). Accrued project equity is allocated between the Sponsor/Owner and mezz note investor up to a predetermined annual building appreciation with the remainder going to the Sponsor/Owner.

This lower cost capital structure enables the Project Sponsor/Owner to keep rents affordable to workforce/middle-income households and deeper levels of affordability within that range can also be achieved by layering property tax exemptions through the Multifamily Tax-Exemption (MFTE) program.

How does the Middle-income Tax-exempt Mezzanine Financing Model Relate to Existing Private Capital Markets and Affordable Housing Resources

The goal of Middle-Income Tax-Exempt Mezzanine Finance Model is to expand the financing tools available for middle-income housing (60%-120% AMI) to increase supply of middle-income housing by creating a new financing path. This new path achieves the following:

- Increases the supply of quality, affordable units and attracts well-established, quality housing providers to operate in the City, once the City provides an invitation/approval of the Owner/Sponsor to operate in the City.
- Attracts traditional tax-exempt bond investors to invest in middle-income housing in addition to low-income housing
- Attracts investors who have not traditionally invested in the tax-exempt bond space for housing to invest by creating attractive risk-adjusted tax-exempt returns

The new path does <u>not</u>:

- Rely on additional financial or policy support from the City
- Expose the City to liability
- Rely on any local, state and federal housing funding resources other than tax-exempt bonds
- Require federally-allocated private activity bonds and the associated LIHTC equity, which are competitively allocated and oversubscribed
- Advantage or disadvantage non-profits or for-profits by using resources relied upon by those entities