

TUMWATER CITY COUNCIL WORKSESSION

MINUTES OF MEETING

April 24, 2018 Page 1

CONVENE: 5:30 p.m.

PRESENT: Mayor Pete Kmet and Councilmembers Michael Althaus, Joan Cathey, Leatta Dahlhoff, Debbie Sullivan, Tom Oliva, and Neil McClanahan.

Excused: Councilmember Eileen Swarthout.

Staff: City Administrator John Doan, City Attorney Karen Kirkpatrick, Police Chief Jon Weiks, Assistant City Administrator Heidi Behrends Cerniwey, and Community Development Director Michael Matlock.

HOUSING & HOMELESSNESS WORKSESSION NO. 4:

Paul Knox introduced housing panelists Trudy Soucoup of Homes First, Bob Ricks of the Housing Authority, and Zach Kosturos of Prime Locations. Following a short introduction from each panelist and information about their respective organization, the panel shared profit and non-profit perspectives on maintaining and creating affordable housing within the Thurston region.

The primary issue facing the region is a lack of housing supply with a vacancy rate under 3% for both single-family and multi-family housing. Between 2014 and 2015, Thurston County experienced a population increase of 3,400 people. Between 2015 and 2016, the population increased by 5,300 people and by 4,200 people between 2016 and 2017. A typical household is comprised of 2.64 people requiring 1,300 new households in 2015, 2,000 in 2016, and 1,600 households in 2017. In 2015, 1,073 housing permits were issued by the cities of Lacey, Olympia, and Tumwater. Between 2003 and 2008, permits issued countywide totaled 2,300 per year for single-family dwelling units outpacing population growth. Since then, the most current increase was in 2016 with 1,944 dwelling unit permits issued. In 2009, the vacancy rate was nearly 10% for apartments. Rents were lower than they had been in a decade. Much of today's housing crisis is attributed to reestablishing that equilibrium.

According to Thurston Regional Planning Council data, the median income in Thurston County per household is \$53,000 annually. Approximately 49,000 households of 104,000 households within the county fall within the 88% or below median income. At the 88th percentile, an affordable rate of housing is \$1,375 a month. Approximately half of all households in the county can support a housing payment of less than \$1,400 a month. The typical rent for a three-bedroom, 2 bath apartment is \$1,400 a month.

TUMWATER CITY COUNCIL WORKSESSION

MINUTES OF MEETING

April 24, 2018 Page 2

Today, a new apartment would rent at approximately \$1.55 per square foot per month. A new one-bedroom apartment totaling 750 square feet would require a rental rate of \$1,100 plus utilities.

Mr. Kosturos shared that part of the solution is stabilizing the rental market. The addition of more affordable housing helps keep existing rents lower. Stabilizing rents in older properties over the next four to five years affords more purchasing power through increased wages, as well as time to catch up. The issue is not the dollar amount people pay for rent, it is what the purchasing power allows them to buy.

Banks have a cash flow requirement of the borrower called a debt coverage ratio. When the rate of return is at .8% or less, many developers cannot afford to construct new housing. The public sector in Thurston County adds approximately 50-80 affordable housing units each year while the need is at least 608 units each year. While it is unlikely the issue could be resolved today, one model would incentivize private developers to construct more affordable housing.

Discussion ensued on potential measures to ensure the percentage of affordable housing remains affordable indefinitely through deed restrictions, covenants, or government program requirements.

Mr. Ricks shared information on housing programs administered by the Housing Authority. Nearly 70% of all housing units in Thurston County are single-family homes. Additionally, the pool of renters continues to increase, as millennials tend to rent rather than purchase homes. With more people moving to the county and construction of new units at historic lows, it has been impossible to keep up with demand. Today, supply and demand are not in balance, creating a housing shortage and high rental rates because of low vacancy rates. Thurston County has a shortage of affordable housing. Any new rental housing would improve the market, as existing supply is not adequate to meet needs. The region has a shortage of affordable housing. Washington State conducted a housing needs assessment in 2015 and the numbers were alarming. The study identified those households at a zero to 80% of median income. Approximately 13,000 households were rent burdened and were paying more than 30% of their income in rent. Of those 13,000 households, nearly half were paying more than 50% of their income in rent.

The Housing Authority is unable to solve the problem for the community and neither can Homes First or the private sector. It will require all organizations - private and public - working

TUMWATER CITY COUNCIL WORKSESSION
MINUTES OF MEETING
April 24, 2018 Page 3

together to facilitate development of affordable housing.

Mr. Ricks said the Housing Authority owns 202 housing units in Tumwater. The Housing Authority also provides case management services for homeless families with children. One property in Tumwater offers three units of emergency housing for homeless families for three to four months while receiving case management services to try and solve problems contributing to the family's crisis. Typically, the Housing Authority is providing 30 to 40 households case management services at any one time.

The Housing Authority's owned units experience a turnover rate of 20% annually.

Mr. Kosturos noted that private market-rate apartments experience a turnover rate of 50% annually.

Mr. Ricks reported that under the Section 8 Voucher Program, the typical turnover rate is 13% to 17% of households per month. The agency has experienced severe budget constraints since last year and has been unable to fill any of the vacancies resulting in a permanent loss of 16 to 17 households that no longer are able to receive services. Previously, the Department of Housing and Urban Development (HUD) would provide a unit allocation. The program eventually transitioned to a grant program with a specific amount of funds allocated to the agency that are pro-rated each year by HUD with the levels established by Congress. As rents increase, the budget has remained the same. Consequently, the agency has lost approximately 17 vouchers a month. The Housing Authority previously had a reserve fund for the program of approximately \$1 million equating to approximately one month of rental assistance. Today, the reserve can only handle four to five days of rental assistance because of federal budget cuts. Many voucher recipients are also unable to locate landlords willing to honor the vouchers.

Mr. Ricks shared information on how housing options are limited to low-income or homeless individuals. A conviction also makes it very difficult for a person to secure housing.

Panelists and the Council shared information and opinions on whether building more housing units alone would solve the lack of affordable housing and homelessness, as newer apartments are generally unaffordable to Section 8 holders or people with low income. Non-profits and housing agencies are not able to solve housing problems alone. Mission-based organizations serving community needs must also generate a profit to continue investing

TUMWATER CITY COUNCIL WORKSESSION
MINUTES OF MEETING
April 24, 2018 Page 4

in the community. Incentivizing and engaging the private market is required to help solve the problem. Balancing the needs of the community and affording developers ensures a reasonable profit to help solve some of the problems.

Discussion ensued on the ability under state law for landlords to evict month-to-month tenants with a short, 20-day notice because of redevelopment of the property or remodeling the units to increase monthly rents.

Mr. Kosturos contended that another important aspect is static wages not increasing sufficiently to pay for the rising cost of housing. The housing problem is a two-sided coin. One is the cost and regulations for developing real estate. The second is employment and wages. Addressing both problems is important. Figuring out a better way for people to increase their purchasing power while slowing the erosion of purchasing power is part of the solution.

Ms. Soucoup shared how non-profits and private sector companies have the same expenses, except non-profits can solicit other sources of assistance not available to private developers. That assistance helps non-profits defray costs and maintain low-income and affordable housing. Homes First purchases existing housing to secure a long-term investment for the community. Homes First turnover and vacancy rates are under 2%. Today, Homes First is turning away qualified candidates because of low vacancy rates in the region. Homes First has 17 properties that utilize project-based vouchers enabling Homes First to help offset costs by charging a higher rent with the tenant paying only 30% of their income. Private market developers, for the most part, could accept Section 8 Vouchers and receive assistance should a tenant encounter a problem with meeting the rent. However, most private developers are unaware of the services provided by the Housing Authority to work with tenants who may be encountering difficulty in meeting their monthly rent.

Discussion ensued on potential opportunities municipalities could do, such as policy and code regulatory changes to spur more private and non-profit housing development.

Ms. Soucoup reported the Thurston Thrives Housing Action Team identified three incentives for housing:

- Regulations – speed up the permitting process or prioritize permits for affordable housing applications
- Provide tax incentives to non-profits and private

TUMWATER CITY COUNCIL WORKSESSION
MINUTES OF MEETING
April 24, 2018 Page 5

- developers with the same restrictions
- Mitigation of fees

Mr. Kosturos reported on actions undertaken by the City of Olympia to help promote the development of affordable housing. He described how the private market contributes to the development of affordable housing through absorption of increased operational costs. He explained the 10-year cost formula for ascertaining the costs and profits of a development project.

Mr. Ricks explained that the Housing Authority pays more for development of housing than a private developer does because prevailing wages requirements for construction employees. However, the Housing Authority also has some advantages through exemption of property taxes, with savings passed to residents. The Housing Authority does not have to pay sales tax on materials. The combination of those two savings nullifies the increased costs of prevailing wages. All interior doors are solid core, which are higher in cost but do not require frequent replacement. Most of the housing constructed by the Housing Authority is of higher quality than the private market, as well as more energy efficient.

Mr. Ricks reported banks are under pressure to earn credit by investing in affordable housing projects. However, banks often receive negative remarks during audits because the bank has not incurred sufficient credits. Many banks are eager to finance affordable housing projects to receive Community Reinvestment Act (CRA) credits. The credits apply to interstate banks, as well as to some credit unions that are considered a Community Development Financial Institution (CDFI).

Mr. Kosturos pointed out that for many large-scale projects the lender is Fannie Mae because many local banks will not finance larger housing projects. He shared information on the difficulties many local developers experience in securing loans from local banks.

Mr. Ricks reported the agency typically finances up to 55% of the development cost with the remaining budget funded through grants or funds invested into the project by the agency. The units produce cash flow for investment in new development.

Councilmember Dahlhoff inquired about the option of incentivizing homeowners to develop cottage housing or accessory dwelling units. Mr. Kosturos reported that within municipalities

TUMWATER CITY COUNCIL WORKSESSION
MINUTES OF MEETING
April 24, 2018 Page 6

that currently allow ADUs, only 16 units were constructed last year. As a member of the Housing Action Team, ongoing discussions centered on the private development model. The next step is meeting with municipalities to discuss incentives and ways to reduce costs. The Housing Action Team invited participation from different municipalities outside the region. Municipalities do not have the ability to waive impact fees but could consider other tax reductions, such as sales tax for affordable housing.

City Administrator Doan commented that if the City elected to pursue a 75¢ per \$1,000 (valuation) property tax for home funds, the City could generate \$2.4 million annually. Using a housing authority model, approximately 10 units could be built each year over 20 years. Conversely, within the private sector market, home fund money could be used to cover all City generated connection and permit fees in exchange for affordable housing units for the next 50 years that are privately managed enabling the market to add 1,200 affordable housing units within the same timeframe.

Ms. Soucoup clarified that the Homes First approach is offering permanent supportive housing; however, Homes First does not provide any of the support services other than partnering with other community organizations (Housing Authority, Family Support Center, and others). Homes First does not remove tenants who are encountering problems, but refers tenants to support services. There are many different permutations on why the agency is so effective. Many of the agency's tenants do not require support services but do need a safe place to live.

Mayor Kmet noted the challenge of convincing the public to pass a 75¢ levy resulting in a \$300-\$400 increase in property tax each year. Many homeowners who are living on the margin would likely be unable to afford staying in their homes. The issue is whether a levy might compound the problem or whether the additional money would help solve the housing crisis. Several years ago, the federal government provided the funds for 90% of sewer system costs. Federal grants were available for improvements to streets and other City infrastructure. Those sources of funds are no longer available to jurisdictions requiring municipalities to finance improvement creating a cost burden on all properties. Finding a balance is the difficult task.

Mayor Kmet thanked the panelists for attending and sharing information.

The meeting was recessed for approximately 15 minutes for a break.

TUMWATER CITY COUNCIL WORKSESSION

MINUTES OF MEETING

April 24, 2018 Page 7

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) AWARDS DISCUSSION:

Gary Aden, Thurston County, updated the Council on the status of the CDBG applications and the CDBG budget. Recent information reflects that HUD plans to increase the funds. Information from a consultant in Washington, D.C. indicated Home funds would be increased by 40% and CDBG funds would increase by 10%. Regardless of the funding decisions, a contingency plan is required if less funds are received to reflect how the funds would be allocated, as well as how the funds would be allocated if funding increases. Mr. Aden offered to work with City officials to develop a funding matrix under both scenarios.

All public service applications received by the City are eligible except for one application received from Homes First for enhanced property management for \$75,000. The challenge with the application is the lack of a clear low-income benefit as the application requests CDBG funds to pay a property manager, which is not tied to low-income and defeats the purpose of CDBG funds. Mr. Aden clarified that the project proposal would fund a Homes First property manager who would work with anyone in the community. To qualify for CDBG funds, all contacts would need to be low-income individuals. In response to comments by Councilmember Cathey, Mr. Aden offered to review the application with HUD.

Mr. Aden reported the City received applications from Habitat for Humanity, Homes First, and Olympia Union Gospel Mission for capital CDBG funds. Habitat for Humanity's project spans a nine-year timeframe. The request is for funds to acquire the property. Although the project is eligible, there are many uncertainties that could occur over a nine-year span. HUD recommends Habitat for Humanity should have all funds identified prior to receiving CDBG funds. Mr. Aden recommended the Council should require a timeline of when the remaining funds would be received. CDBG capital funds can be used to purchase land, infrastructure improvements, and renovations. However, CDBG funds cannot be used for new construction of housing. Mr. Aden recommended some caution as the project is scheduled over nine years. He shared several funding scenarios the Council could consider.

Mr. Aden and the Council discussed challenges associated with the Habitat for Humanity project as no funds were identified for the construction of the homes, which speaks to the issue of acquiring the land first. Councilmember Cathey remarked that the organization appears not to be ready for this CDBG funding round.

**TUMWATER CITY COUNCIL WORKSESSION
MINUTES OF MEETING
April 24, 2018 Page 8**

Mr. Aden provided additional clarification on the eligibility requirements and HUD guidelines for utilizing the City's full allocation of CDBG funds, as well as examples of how other jurisdictions allocated funds when some projects were dropped for various reasons. The City is obligated to allocate all CDBG funds and not retain some funds for future allocation. The Council must submit projects by June 1 to afford the county time for a 30-day public comment period.

Mr. Aden described how housing pipeline projects are comprised of two funding sources – the HOME Program, a federal funding source for construction of housing, and the state's Substitute House Bill (SHB) 2060, which generates fees for document recording used to construct rehab housing for people who make 50% or less of the median income in the county. Currently, a project may qualify for 2060 funds or CDBG funds. The project sponsor is the Union Gospel Mission for sewer connection of property located in Tumwater. The county approved the possibility of using CDBG funds or 2060 funds to enable the project to proceed to avoid federal prevailing wage requirements.

The Council conducted a preliminary straw poll and shared their respective reasons for funding applicants. Results included the following recommendations for funding:

- Olympia Union Gospel Mission
- Homes First
- Family Education and Support Services
- Boys & Girls Club
- Catholic Community Services (Community Kitchen)
- Interfaith Works
- TOGETHER! (Community Schools)

The Council discussed and shared concerns about funding Olympia organizations, the importance of services benefitting the Tumwater community, and developing a contingency funding plan if the City receives more CDBG funds.

The Council agreed to consider the CDBG funding proposal using the recommendation as a general framework during the May 1 City Council meeting.

**MAYOR/CITY
ADMINISTRATOR'S
REPORT:**

City Administrator Doan asked the Council to consider any additional topics for the second day of the retreat. One major topic is parks and recreation funding and consideration of a funding proposal from the Parks & Recreation Task Force. The next topic continues the discussion by Mr. Knox on housing and

TUMWATER CITY COUNCIL WORKSESSION

MINUTES OF MEETING

April 24, 2018 Page 9

homelessness and identifying next steps. Mayor Kmet recommended providing the Council with a menu of options to aid the Council's discussion. The third topic is next steps for the brewery with the discussion supported by the Brewery Action Plan and actions over the last six years.

ADJOURNMENT:

With there being no further business, Mayor Kmet adjourned the meeting at 8:50 p.m.

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