



BUILDING SUSTAINING LEADING

Date: August 21, 2019

To: Phedra Elliott, Executive Director, Housing Resources Bainbridge

From: Kurt Creager, Executive Vice President, BRIDGE Housing Corporation

Re: Addendum and Further Analysis for the Suzuki Affordable Housing Site

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The following materials constitute revisions and refinements to the August, 3, 2019 report and recommendations for the Suzuki affordable housing site. This addendum is in response to the dialogue with and between City Councilmembers for the City of Bainbridge Island (City) at their August 6, 2019 study session. The following material is provided in advance of the public meeting scheduled by the City on August 27, 2019 wherein the two preferred options (91 Units and 100 Units) will be considered for approval. Our areas of refinement and further analysis fall into three broad categories:

1. Whether there is a financially feasible path forward for a project smaller than the 91 unit (Option 4) and 100 unit (Option 4B) options under consideration;
2. A description of financial assumptions underpinning BRIDGE's recommendations; and
3. Whether and how a preference policy might be applied to the project and its consistency with Federal fair housing law.

## **I. FINANCIAL FEASIBILITY OF SMALLER PROJECT**

Option 4 and 4B were deemed financially feasible based on the evidence and assumptions contained in the August 3 report and recommendations. In response to concerns expressed over density by representatives of the adjacent Commodore, Commodore West, and North Town Woods neighborhoods and by some members of the City Council, BRIDGE reviewed the assumptions and developed three new options that increases the ratio of for-sale units to generate more cross-subsidy for the rental units and thereby minimize the need for a State capital budget request:

- Option 2B: Same as Option 2, but with 15 additional for-sale units to reduce State request to \$2M
- Option 3B: Same as Option 3, but with 19-20 additional for-sale units to reduce State request to \$2M
- Option 3C: Same as Option 3B, but with a larger rental project to obtain economy of scale and more favorable tax credit pricing

In addition, all options were updated to include the \$800,000 budgeted by the City of Bainbridge Island for land use and environmental entitlement work to be undertaken by the Olympic Property Group.

At the City Council study session, councilmembers and neighborhood representatives also raised concerns about the setbacks to the wildlife corridor and from New Brooklyn Road, traffic, parking, and surface water management. While these concerns do not directly impact the financial feasibility of the project unless the net development density is reduced nor are they part of BRIDGE Housing’s scope of work, they will be addressed by the environmental assessment being undertaken on behalf of the City by Olympic Property Group.

The following table summarizes the updated financial feasibility analysis for all eight development options.

	Option 1	Option 2	Option 2B	Option 3	Option 3B	Option 3C	Option 4	Option 4B
Rental	35	36	36	48	48	54	60	60
For-Sale	0	18	33	18	37	38	30	39
Manager	1	1	1	1	1	1	1	1
<b>Total</b>	<b>36</b>	<b>55</b>	<b>70</b>	<b>67</b>	<b>86</b>	<b>93</b>	<b>91</b>	<b>100</b>
Cross-Subsidy from For-Sale	-	\$2.6M	\$4.9M	\$2.6M	\$5.5M	\$5.7M	\$4.4M	\$5.8M
Permanent Loan	\$2.3M	\$2.4M	\$2.4M	\$3.6M	\$3.6M	\$4.0M	\$4.7M	\$4.7M
Low Inc. Housing Tax Credit	\$3.8M	\$3.9M	\$3.9M	\$4.8M	\$4.8M	\$5.5M	\$6.0M	\$6.0M
Dev. Contribution/Deferred Fee	\$0.3M	\$0.3M	\$0.3M	\$0.7M	\$0.7M	\$1.0M	\$1.2M	\$1.2M
City Fee Waivers	\$0.6M	\$0.6M	\$0.6M	\$0.7M	\$0.7M	\$0.8M	\$0.8M	\$0.8M
County HOME / CDBG	\$1.0M							
Funding Gap / State Budget Req.	\$6.8M	\$4.2M	\$2.0M	\$4.9M	\$2.0M	\$2.0M	\$3.4M	\$2.1M
<b>Rental Project Cost</b>	<b>\$14.7M</b>	<b>\$15.2M</b>	<b>\$15.2M</b>	<b>\$18.4M</b>	<b>\$18.4M</b>	<b>\$19.9M</b>	<b>\$21.6M</b>	<b>\$21.6M</b>
Total and Per unit	\$420,000	\$421,000	\$421,000	\$383,000	\$383,000	\$370,000	\$360,000	\$360,000
<b>Reasonable State Budget Req.?</b>	<b>No</b>	<b>No</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>Yes</b>	<b>Maybe</b>	<b>Yes</b>
<b>Reasonable Public Subsidy?</b>	<b>\$8.4M</b>	<b>\$5.9M</b>	<b>\$3.6M</b>	<b>\$6.6M</b>	<b>\$3.7M</b>	<b>\$3.8M</b>	<b>\$5.3M</b>	<b>\$3.9M</b>
Total and Per Unit	\$240,000	\$109,000	\$52,000	\$100,000	\$44,000	\$42,000	\$59,000	\$40,000
<b>Economies of Scale/Cost Per Unit?</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Some</b>	<b>Some</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

Based on a comparison of the eight development options, we conclude that:

- **Each for-sale unit generates \$140,000-\$150,000 in cross-subsidy for the rental units** assuming the Housing Resources Bainbridge (HRB) controls the land through a leasehold or fee simple title interest. Increasing for-sale units helps reduce the State budget request and enhances the feasibility of lower density options.
- **Smaller projects require more public subsidy on a per unit basis.** For example, a project with 100 permanently affordable homes (Option 4B) requires approximately the same amount of subsidy as a 70 unit project (Option 2B). Our calculation of the public subsidy does not include the value of the land donation by the City (because BRIDGE is not party to the current appraised value) which would make the subsidy per unit even more pronounced.
- **Options 1, 2, and 3 remain infeasible due to a significant funding gap and State budget request.**
- **Option 4 has become less feasible due to the additional \$800,000 in City entitlement costs and the need for a larger State capital budget request.** The amount of State request required by Option 4 increased from \$2.6 to \$3.4 million, which is much higher than historical budget requests. Option 4B's request also increased from \$1.2 to \$2.1 million, but this is still in line with past State budget requests.
- **New Option 2B at 70 total units (36 rental, 33 for sale and 1 manager unit) is too small to effectively compete for state resources and too small to be financially sustainable.** It would be professionally irresponsible for BRIDGE to assert that a project of this size is feasible if it relies on Low Income Housing Tax Credits and tax exempt bonds as an essential part of the capital stack. The size of the project also reduces developer interest and the pool of potential partners for the City and HRB. See section below for a detailed explanation.
- **New Option 3B at 86 total units (48 rental, 37 for sale and 1 manager unit) is more likely to succeed compared to Option 4 but still may not effectively compete for State resources.** Option 3B reduces reliance on State capital funding by filling the gap with for-sale proceeds. However, the small size of the rental project still raises questions of whether it can effectively compete for Private Activity Bond Cap. Being twenty percent (20%) smaller than Option 4, fewer people in need of affordable rental housing will be served over time on the same land parcel.
- **New Option 3C at 93 total units (54 rental, 38 for sale and 1 manager unit) is less dense than Option 4B, compares favorably in terms of subsidy per unit, and will compete effectively for State resources.** This option is postulated as an option to achieve economic performance similar to 4B and compete effectively for Private Activity Bond Cap from the State. Compared to 4B, Option 3C would also allow for a reduction in

the height of units on New Brooklyn Road from 3 to 2 stories which may appeal to some neighbors. These two story rental buildings would not include the ground floor Accessory Dwelling Units (ADUs), reducing somewhat the amount of handicapped accessible or adaptable units. Nonetheless, the rental housing of this project exceeds State standards for accessibility in any event. Single family homeownership is exempt from any stipulated accessibility requirement.

## II. FINANCIAL ASSUMPTIONS UNDERPINNING BRIDGE'S RECOMMENDATIONS

A PDF of the financial model for the Suzuki Site is attached as background to support our conclusions and recommendations.

Much weight and consideration in the report and this addendum is placed on the ability of the project developer to attract Private Activity Bond Cap (Bond Cap) for the rental component. Since the mid-1980s, each state has received an allocation of Bond Cap and may distribute the resource to uses authorized by Congress according to a State plan. Since its inception in 1984, Washington State has received over \$13 billion in Bond Cap. The Department of Commerce administers the Bond Cap program in Washington State which, in 2018, made available approximately \$778 million in resources available for eligible uses. Of the total Bond Cap, housing is apportioned 32 percent (increased by the Legislature in 2017 to 42 percent, beginning with the 2018 allocation year). Eighty percent (80%) of this housing apportionment is allocated to the Washington State Housing Finance Commission (WSHFC) and twenty percent (20%) is allocated to Local Housing Authorities.<sup>1</sup>

Based on these formulas, approximately \$265.8 million is available from WSHFC and \$66.5 million is available from LHAs for distribution for affordable housing projects each year. In some years, additional funding is available from other Bond Cap categories that have remainders available at the end of the year which is then re-pooled by WSHFC for distribution for housing placed on a waiting list should additional Bond Cap become available.

The Bond Cap Program is oversubscribed which has resulted in a competitive process in which WSHFC selects projects based on established public policy criteria. In 2019, the WSHFC received applications for three times as much Bond Cap as what was available. As of May 2019, WSHFC reportedly received Bond Cap applications for \$731.7 million in Bond Cap for over 4,400 units of additional housing.<sup>2</sup>

In 2019, only two (2) projects under 100 units were funded in Washington State and they ranged from 90 to 95 units.<sup>3</sup> The propensity for larger projects is in large part due to the transaction costs (e.g. legal fees and the cost of syndicating tax credits). Larger projects can

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<sup>1</sup> For a complete report on the life to date performance of the Bond Cap program, please refer to "Johnson, Allen & Green-Taylor, Liz Bond Cap Allocation Program; the 2018 Biennial Policy Report and Activity Summary Washington State Department of Commerce, June 2018."

<sup>2</sup> Bond/Tax Credit Allocation Round Washington State Housing Finance Commission, May 31, 2019.

<sup>3</sup> Ibid; Pioneer Human Services' Belmont 1 Project & Human Good's Filipino Village in Seattle

attain economies of scale and developers can distribute the transaction costs over more units thereby creating more economies of scale.

While it is possible that projects of 50 or fewer units could receive funding and sometimes have received funding in the past, it is not probable as shown in the projects chosen last year for the reasons stated above (e.g. transaction costs, inability to achieve economies of scale). Moreover, from year to year, the pool of applicants and WSHFC's selection criteria are subject to change, making the selection process difficult to predict accurately.

### **III. PREFERENCE POLICY AND FEDERAL FAIR HOUSING REQUIREMENTS**

During City Council deliberations at the August 6, 2019 study session, there were several questions about how and whether a preference policy could be applied to benefit certain populations. Neighborhood groups adjoining the Suzuki Site advocated in writing for public employees priced out of the local market.

Preferences have been used by BRIDGE Housing in California (particularly for sites owned by local school districts) and by Kurt Creager, EVP of BRIDGE, in his professional capacity as Director of the Portland Housing Bureau and on the board of the Housing and Development Law Institute in Washington D.C. for 19 years. The statements below are based on BRIDGE and Kurt Creager's professional experience and do not represent a legal opinion. We recommend the City and HRB consult with an attorney to consider the following:

- Kitsap County and Housing Kitsap should be consulted early in the policy and program development process because some of the resources they may contribute to this project are federal funds which carry specific requirements.
- If Kitsap County is amenable to supporting a local preference on Bainbridge Island through the use of Community Development Block Grant (CDBG) funds and HOME Investment Partnership Act (HOME) funds, then they will need to include a provision in their Consolidated Plan to enable this policy change. This plan is subject to review and approval by the U.S. Department of Housing and Urban Development (HUD).
- Likewise, Housing Kitsap's Administrative Plan and Procedures for their Housing Choice Voucher Program (Section 8) needs to describe how the Project Based Rental Assistance (PBRA) vouchers could be granted to people living in units which fill vacancies using a preference policy. This plan is also subject to review and approval by HUD.
- The largest possible market area should be used when crafting such a policy to avoid legal risk and exposure for fair housing violations including claims that policies have a disparate (facially unintentional) impact on protected classes, especially people with disabilities or ethnic and/or racial minorities. Therefore, a preference policy tailored to Bainbridge Island would likely be deemed discriminatory if it reinforces patterns of racial

segregation. A county-wide preference policy, would be more likely to withstand legal scrutiny because the ethnic diversity of the County is more varied than that of the City.

- Based on HRB data, many public employees are better compensated than many people who work on the Island but cannot afford to live on the Island. The proposed 2019-2020 City of Bainbridge Island budget estimates the salary of proposed new municipal police officers at \$112,500. The proposed rental housing is structured so that 75% of the units serves households with incomes at or less than 50% of the Area Median (AMI) income (\$42,750 per year for a household of four) and the remaining 25% of units for households earning up to 80% of AMI (\$68,400 per year for a household of four).
- According to the U.S. Census,<sup>4</sup> over 4,120 people work on Bainbridge Island and live elsewhere while 2,210 live and work on Bainbridge Island. The City's municipal workforce in the proposed 2019-2020 budget consists of 125.9 Full Time Equivalent (FTE) employees or 0.02% of the Island total workforce. Without doing an evaluation of the on-Island municipal workforce, it is difficult to ascertain the level of racial and ethnic diversity within the City compared to Kitsap County. However, if the municipal workforce was found to be less diverse than that of the Kitsap County general population, then the City and the developer of the Suzuki site could be exposed to a potential fair housing violation under disparate impact case law.
- Based on the forgoing, a policy which grants a preference to people in rental housing at the Suzuki Site from low income households from throughout Kitsap County could be structured in compliance with Federal fair housing laws.
- It may also be possible to structure an opportunity for municipal workers to acquire homes with the understanding that: 1) the units receive no subsidy from state or federal sources and; 2) subject to ratification that the municipal workforce emulates that of the County as a whole racially and ethnically. If not, inclusion of School District Employees and other public employees may help alleviate the potential for a disparate impact claim. The largest preference group possible will help alleviate the potential for fair housing claims and legal risk to the parties at interest.

In conclusion, BRIDGE Housing will be available to respond to questions at the August 27, 2019 City Council meeting. We appreciate the opportunity to assist the City Council work through its policy choices and to advance one of its stated priorities for the year – the development of the Suzuki site for affordable housing. It is a singular opportunity to make a difference in a highly desirable location and BRIDGE is honored to be of assistance to the City and community.

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<sup>4</sup> U.S. Census LED On the Map; 2015