



CITY OF
BAINBRIDGE ISLAND

MEMORANDUM

Date: 10/1/2019
To: City Council
From: Morgan Smith, City Manager
Subject: Next Steps on Suzuki Affordable Housing Project

Background:

The City owns a 14-acre property at the intersection of New Brooklyn and Sportsman Club Road known as the “Suzuki Property.” The City intends to develop a 100% affordable housing project at this site, and has engaged Olympic Property Group (OPG) to complete the initial phases of property development and site preparation. The City originally planned to have Housing Kitsap serve as the development partner for the project. However, in Fall 2018, Housing Kitsap indicated that they were no longer available to serve in that role.

Subsequent decisions from the City included:

- In December 2018, an Ad Hoc Committee of Councilmembers was created and tasked with developing a recommendation on how the City should proceed with the Suzuki project, given that Housing Kitsap would not serve as the development partner. In January 2019, Ad Hoc Committee members met with OPG representatives and Housing Resources Bainbridge (HRB) Executive Director Phedra Elliott.
- At the Council Study Session on February 5, 2019, the Ad Hoc Committee presented its recommendations and the full Council discussed options for next steps. At that meeting, the Council approved asking HRB to conduct a feasibility study to assess financing options for the project for a range of scenarios from 30 - 90 units. HRB engaged Bridge Housing Corporation (Bridge) to complete this work. The City authorized up to \$49,500 to HRB to conduct this study. At that time, the City also requested that OPG pause their work on site development until the completion of the feasibility study.

- At the August 6, 2019 Study Session, the Council reviewed the HRB/Bridge feasibility study and discussed various options for the project ranging from 30 to 100 housing units. The Council agreed to schedule time at the August 27 Business Meeting to consider formal approval of either Option 4 (91 units) or the "Alternative" option (100 units).
- At the City Council Business Meeting on August 27, 2019, the Council approved moving forward with a site plan for the property that includes 100 total housing units: 39 for sale units, 60 rental units, and 1 manager unit. Of these, 70 units are planned as single family units and 30 (within the rental units) are planned as accessory dwelling units.

Numerous additional documents and studies related to the project are available on the "Resources" tab of the OPG project website: <https://www.suzukiaffordable.com/resources>

This memo covers the following topics related to next steps for this project:

1. Zoning assumptions within the selected site plan,
2. Financial assumptions within the selected site plan, and
3. Status of Olympic Property Group (OPG) site development activities.

1. Zoning Assumptions – Housing Design Demonstration Project (HDDP)

Currently, the Suzuki property is zoned as R-2 and is just under 14 acres (13.79). This designation means that if the property is subdivided, the property can develop 30 single family residences (SFR's) and an additional 30 accessory dwelling units (ADU's). This would result in a total of 60 housing units.

Additional discussion with HRB following the August 27, 2019 City Council meeting confirms that the HRB/Bridge analysis of the selected site plan – which proposes 100 housing units – assumed that the Suzuki project would meet the City's Housing Design Demonstration Project (HDDP) requirements. Eligible HDDP projects receive additional density as incentives to voluntarily provide public benefits beyond what is otherwise required. However, the selected site plan would not be eligible for HDDP density incentives according to current City Municipal Code.

Issues:

- The HDDP provides for a "Tier 3" project to receive 2.5 times base density in return for providing 50% or more of the project's total units as affordable (BIMC 2.16.020.S.4). If the Suzuki project met HDDP requirements, it could receive this density incentive and develop up to 75 SFR's instead of 30 SFR's.
- In August 2018, the City revised BIMC 2.16.020.S.2 (Ordinance No. 2018-31) to limit the HDDP so that the City will now only accept HDDP applications for

projects “where 100 percent of the housing units created will constitute affordable housing, as defined by BIMC 18.36.030.16, for one or more of the income groups defined in BIMC 18.21.020.A.” The Planning Commission recommended this change to the HDDP program until the update to subdivision regulations was approved. The Council approved revised subdivision regulations on September 24, 2019.

- The City’s definition of affordable per BIMC 18.21.020.A is up to 120% Area Median Income (AMI).
- The Suzuki selected site plan includes 39 for sale units that exceed this definition of affordable because they are priced at 140% AMI. As a result, the Suzuki selected site plan does not meet the HDDP applicability requirement to have 100% of the project’s housing units be affordable.

Additionally, the City’s HDDP is scheduled to expire on December 31, 2019. In terms of process:

- **Extension.** If the City wishes to extend the HDDP program beyond December 31, 2019, the Council would need to indicate that intent through formal action. After that action, City staff would prepare an ordinance to extend the HDDP and submit that ordinance to the Planning Commission for review. Following a recommendation from the Planning Commission, the ordinance would return to City Council for final review and consideration of approval. Typically, this is a process that requires a minimum of three to six months to complete and includes opportunities for public engagement. At this time, City staff do not have this item planned on their 2019/2020 workplans.
- **Applicability.** If the City wishes to revise the applicability requirements for the HDDP program, it could do so using the same process as is described for the extension. In order for the selected site plan for Suzuki to be allowed to apply for HDDP, the applicability requirement for 100% affordable units would need to be reduced to 60% affordable units or lower. If this change were made, any project that met that requirement would be allowed to apply for the HDDP program. As described on page 2, Tier 3 HDDP projects must provide 50% or more of total units as affordable housing.

2. Financial Assumptions

At the August 27, 2019 City Council meeting, the financial analysis of the selected site plan was presented. This analysis included several different financial assumptions related to the City’s support for the project. Additional conversation with HRB confirmed the amount and type of these financial assumptions. For the purpose of

clarification, I have developed a revised financial summary of the selected site plan that removes these assumptions. This summary is presented below.

Table 1 – Financial Summary with previous assumptions removed

Suzuki Option 4B - 100 Units		Amount	Note
EXPENSES:			
Property purchase		\$0	*assumes no payment to City
Other Acquisition (repay COBI development costs)		\$825,000	
Construction & other hard costs		\$13,744,546	
Soft costs		\$4,303,723	*assumes \$844,000 for City fees
Developer fees & syndication		<u>\$2,731,670</u>	
Subtotal - Expenses		\$21,604,939	
SOURCE OF FUNDS:			
Net Revenue from Sale Units		\$5,244,223	*assumes \$550,000 for City fees
Investor Equity Tax Credits - 4%		\$6,015,150	
Developer Contribution & deferred fees		<u>\$1,153,549</u>	
Subtotal - Sources of Funds		\$12,412,922	
Funding Gap:		\$9,192,017	
Assumed Public Support:			
Kitsap County - HOME, CDBG, AHGP/HHGP		TBD	
State funds		TBD	
Other funds		TBD	
Subtotal - Public Support		\$0	
Remaining Funding Gap:		\$9,192,017	
Estimated debt capacity per rental revenues		\$4,710,290	
Remaining Funding Gap:		\$4,481,727	

As shown above, the project has an estimated funding gap of roughly \$4.5 million, even if the City determines to provide the property site at zero cost to the project. This revised summary assumes that the project pays for City fees (as is legally required) and also assumes that the project repays the City for \$825,000 for site development services.

This revised summary maintains the HRB assumption for \$5.2 million in revenue from the 39 For Sale units. If the actual revenue from the sale of those units is less than expected, the overall funding gap for the project will increase. This could occur if the market forecast is overly optimistic, or if market conditions deteriorate in the time between design and completion, or if the units are redesigned in order to meet more stringent affordability requirements.

3. Status of OPG Site Development

The City has engaged OPG to complete site development work on the property through a professional services agreement. The budget for that agreement provides for roughly \$800,000 in total costs, of which roughly \$250,000 has already been spent. Given the fact that site development activities have been on hold for eight months, and the prospect that the selected site plan may require additional work or review by OPG or subcontractors, it is important to assess the status of the OPG activities.

I have asked OPG to confirm whether they are able to complete their original scope of work with the remaining funds of roughly \$550,000. At this time, they have not yet provided their response to this inquiry. If OPG determines that they are not able to complete their scope of work with the remaining funds, OPG will provide an estimate of the types of activity that would require additional funds, along with a revised budget and project timeline. This information will be provided for City Council review and, if additional funding is needed, approval via an amendment to the professional services agreement.