URM Policy Development Committee
Funding Working Group
Meeting 1
February 28, 2023

Attendee	Organization
Becky Asencio	Seattle Public Schools
Rachel Brombaugh	Pace Equity
Christine Bunch	
Paul Cathcart	Seattle Public Schools
Tim Cook	WA EMD
Chuck DePew	National Development Council
Amanda Hertzfeld	SDCI
Yolanda Ho	Council Central Staff
Kathleen Johnson	Historic South Downtown
Naomi Lewis	Legislative Department
Adrian Matanza	Seattle Finance & Admin Services
Kenny O'Neill	Reid Middleton
Lisa Nitze	Nitze-Stagen
Peter Nitze	Nitze-Stagen
Brad Padden	Housing Diversity Corporation, ASAP!
Christie Parker	Seattle Budget Office
Mark Pierepiekarz	WA EMD
Evan Reis	US Resilience Council
Jeronimo Roldan	DAHP
Jared Silliker	NBBJ
Sarah Sodt	DON
Matt Stoutenberg	WA Office of Insurance Commissioner
Michael Sullivan	Artifacts
Terry Sullivan	King County- Climate Office
Amy Teshera	Office of Insurance Commissioner
Nicholas Vann	DAHP
Cynthia Weaver	Beneficial State Bank
Geoffrey Wentlandt	OPCD

Background on the meeting was discussed. The Funding Working Group is a result of the 2021 Council passed Resolution 32033.

The Resolution asks that the URM Program provide building owners access to financial support. It recognizes that near-term investments in seismic retrofits will contribute to Seattle's recovery from the economic impacts of COVID and make Seattle more economically resilient in the long term. It refers to the National Development Council (NDC) report that retrofit costs are estimated at $1.28 billion dollars (2019) and C-PACER loan program is one source of funding.

A tentative timeline was discussed showing that in order for the mandatory retrofit ordinance to be adopted, the technical standard must be completed and communicated, multiple funding sources need to be identified, and the ordinance compliance requirements and options will need to be widely communicated. Given the potential for unintended impacts of the required retrofits, such as increased rents and tenant displacements, a communications strategy and supporting resources are critical. Additionally, educating building owners on building performance compliant with the minimum standard will also be important.

Prior for the ordinance to be adopted, it will have to be shared with city lawyers, and it will have to be approved by Council and the Mayor. The shared tentative timeline uses fall/winter 2024 as the earliest an ordinance could be adopted. However, with the turnover in council, this will likely be pushed. Identifying multiple funding sources to accommodate the varying levels of capability and capacity of building owners will be critical to the success of the program.

The goal of the meeting was stated to walk through funding mechanisms and determine priority options and sub-groups to support their implementation.

Cost of Retrofits

- NDC developed costs of retrofits (~1.2B total, ~$640K for baseline compliance) are averages and represent the isolated cost of URM retrofits.
- Additional structural upgrades and potential code triggers are not represented in these costs.
    - Typically retrofit costs for installing the bolts and strengthening walls are a minority of the costs, majority are typically moving everything out of the way, like architectural finishes, mechanical, electrical, plumbing, etc.
- These costs are generalized, not specific to individual buildings.
- An adjustment to these costs for inflation is needed.
    - Speculative increases range from 20-40% due to covid. Construction cost increases may not be accurately reflected by an adjustment for inflation or consumer price index increases.
- Costs for relocation of tenants is also not included in these costs. Displacement is of particular concern in Pioneer Square and the Chinatown-International District, whether caused by relocation during construction or increases to rent.

Communicating Costs to Building Owners

- Once costs are updated, they need to be presented in tangible terms to building owners. Explaining in terms of monthly costs rather than lump sum.
- The assumption by many building owners is that they will pass the costs of retrofits onto tenants through rent increases.
    - It was suggested that rent increases for some of these buildings aren't feasible. Retrofits of a building don't increase the market value of a building, thus the building's market position doesn't change. Rents are assigned based on market position in commercial leases.
    - Building owners will bare the brunt of much of the retrofit costs.
    - Displacements aren't necessarily an automatic assumption when it comes to URM retrofits.

Increasing Market Value:

- Retrofitting URMs does not increase their market value, resulting in a disincentive to invest in seismic upgrades. Current appraisals don't take into account URM buildings and often when seeking financing, earthquake insurance is required, specifically with Freddie Mac loans to ensure the building's probable maximum loss (PML) is higher than the 20% threshold. Banks are only looking at URM buildings from a square footage perspective.
    - The insurance and appraisal industries are responsible for this and haven't historically been open to changes.
        - Nationally, there has been recent momentum in reforming the insurance and lending industry to better reflect risk. Reducing insurance rates when investments are made in resiliency or improving loan rates to support these investments. Precedence has been set in both California and Alabama where significant discounts for properties are offered which are retrofitted to meet resilience standards.
            - Fannie Mae and Freddie Mac have expressed potential for properties having access to loans for resilience investments that wouldn't have previously qualified. Partnerships with the insurance and lending industries have potential.
            - It was suggested to engage David Ford, the policy and legislative analyst for property and casualty issues with the State Office of Insurance Commissioner.
            - PML is generally calculated by a model that doesn't adequately account for seismic hazards. The capability is now there to improve it, partnering with the insurance industry to feel more confident with the benefits of retrofits is needed.
            - It was decided that a sub-group would be created to discuss insurance and lending partnership opportunities to reduce insurance rates and improve loan rates for building owners looking to invest in seismic resilience.
    - Property Tax Exemptions are another mechanism, choosing to defer collection of taxes rather than collecting them. Reducing property taxes significantly lowers operating costs, decreasing expenses. This approach is often used during historic projects and low income housing to get a higher property value.
- The solar and energy efficiency industry ran into these same problems a decade ago, where appraisals were not coming in high enough to secure loans to cover their costs. The appraisal industry has since worked that out, it's no longer an issue.
- Some attendees suggested we focus on cash flow, or at least reducing negative cash flow, rather than valuation, which the retrofit credit proposal would provide.

FEMA Grants

- Berkeley, CA has successfully obtained grants from FEMA to support a seismic retrofit program, providing up to $150K reimbursements for design costs; their most recent grant was $6M.
- FEMA has two types of grants which both have application periods and federal requirements which much be met. They take on average three years to obtain funding. Grant applications must be specific to a project, the scope must be clearly defined.
  - Building Resilient Infrastructure and Communities (BRIC)
    - Administered by FEMA through the state, nationally competitive.
  - Hazard Mitigation Grant Program (HMGP)
    - Administered by the State (WA EMD), requires a disaster declaration.
- Conducting building assessments and designing the structure's retrofit could be a good candidate for a FEMA scoping grant. Submitting a letter of intent or pre-application to WA EMD during their application period would be the first step of the grant application process.
- Specific structures that aren't strong candidates for C-PACER or loans, could be retrofitted (construction/project grant) using FEMA grants. It was confirmed that the use of federal funding for building owner use would not be constrained by the City's gifting of public funds laws.
  - Institutional building owners in the Pioneer Square and Chinatown-International District would be good candidates.
- The timing and burdensome nature of grant applications, local match requirements, the challenging benefit cost analysis, competition, award, and management of funds was discussed.

FEMA Revolving Loan Fund:

- FEMA recently created the Safeguarding tomorrow revolving loan fund. It is expected to have roughly $100 million nationally, working out to roughly $5M for the first year. The state has to provide 10% match and first set-up an office to manage the fund. They will also have to work with the state legislature to get some rules modified and appropriate funds for the match.
- While potentially a useful program in the future, it is not currently functional or a big enough pot of funding to support our efforts.

Bonus Density/Transfer of Development Rights/Retrofit Credit

- ASAP! has proposed a rezone of the industrial centers to create receiving sites with development capacity in order to fund or directly incentivize seismic upgrades.
  - This proposal is intended to be more comprehensive, providing funding for seismic and energy upgrades- thus supporting city and state energy mandates in addition to required seismic upgrades.
  - URM owners could sell their development rights to fund the retrofit of their building.
- OPCD provided a high level overview of the city's current status on transfer of development rights.
  - Uptown and U District are existing TDR areas for URMs. Neither of programs are currently operations.
  - A third area, the Manufacturing Industrial Centers, will soon have a version of TDR for URMs.

    - The city also has TDR programs for other types of benefits, like regional TDRs for open space, and TDRs for historic landmark structures.
- The proposed retrofit credit TDR program could leverage the existing precedent of these programs, and would require additional work to develop.
    - A Directors Rule would need to be created to identify eligible structures, which would reference the city's URM database.
    - A TDR bank, to facilitate the transactions between buyer-seller, would need to be created. There is currently a bank for regional open space credits and for historic preservation of landmarks, establishing a precedent.
        - The Regional Open Space program for King County just recently sold out all of its credits. The bank is currently empty, demonstrating that there is a market for something like the Retrofit Credit proposal. King County Council made a $1.5M appropriation to start the bank.
        - Funding and management of the retrofit credit bank would need to be established.
- Concerns about an existing market to support this proposal was discussed. Despite the complexities of administering and the capital needed to start the program, there is concern of a saturated market, too many sending sites with not enough receiving sites. Additionally, there are competing incentives. (It is for this reason that the Uptown and U District programs haven't been used)
    - ASAP!'s proposal is to streamline the program by creating a separate standalone URM credit that would enable URM owners to trade density for cash to fund their retrofits, and it requires the expansion of receiving sites.
    - Establishing a true market for these credits, $100-$200 per square foot, the program could generate a significant amount of money to support the upfront costs of conducting URM retrofits.
    - Something similar was done for energy upgrades through the 2030 program, establishing precedent. It has not been used due to limited sending sites.
    - Current TDR programs are bound by their neighborhood, limiting sending sites.
        - These parameters are in place to balance and control growth.
        - Generally, tiered bonuses are added at the time of an up zone, where the city adds additional significant development capacity and incentivizes certain public benefit to go along with them. As the city continues to upzone, additional areas for URM TDRs could be added. This is already starting with the upzone to the Manufacturing Industrial Centers.
        - It was asked if there are instances where TDRs can applied without upzones, such as by schools. Research is needed to determine an answer.

Loans: Mortgages and C-PACER

- Ownership of these buildings can be complex, making getting a commercial mortgage or a C-PACER loan a challenge. The proposed Retrofit Credit would make getting funding easier for more complex ownership structures.

Loans: City-Bond funded

- When San Francisco passed their URM ordinance, they provided low interest loans to building owners by passing a $350M bond.
    - This would not work in Seattle due to it's laws against gifting of public funds.

Historic Tax Credit Program

- There are some gaps with the program that C-PACER helps fill.
- The 10% credit went away with tax reform, leaving 20%. Legislation has been in Congress for over ten years to enhance the historic tax credit and it hasn't passed.
- Did not discuss this program in detail.

Combining upgrades:

- While the ordinance will only mandate seismic retrofits, combining them energy upgrades may open the project up to additional funding sources associated with energy upgrades. For example, funding for the moving of architectural finishes which is needed for both seismic and energy upgrades, could be funded from an energy upgrade funding bucket, thus stretching the dollar further.

Next steps:

- Establish a sub-group to focus on TDRs and Retrofit Credits, identifying capabilities, legalities, and funding needs.
    - Once capabilities and budget needs are fully identified, proceed with presenting to council for support.
- Establish a finance, loans, and insurance sub-group
- Establish a grant sub-group