

RESOLUTION NO. 99-13

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
BAINBRIDGE ISLAND, WASHINGTON, ACCEPTING THE
BAINBRIDGE ISLAND HOUSING TRUST FUND PROPOSAL**

WHEREAS, the Housing Element of the City's Comprehensive Plan recommends that a Housing Trust Fund be established for use in purchasing land, assisting with financing and for providing infrastructure to support affordable housing on Bainbridge Island;

WHEREAS, Mayor Sutton appointed a 90-Day Committee to consider the key elements involved in establishing a Housing Trust Fund to complement existing city ordinances addressing affordable housing, to encourage development of moderate and lower income housing and to provide funding for income groups not serviced by other funding sources currently available;

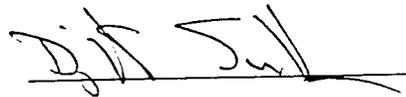
WHEREAS, the 90-Day Committee produced a report on November 13, 1998, entitled "Proposal for The Bainbridge Island Housing Trust Fund" outlining its recommendations and the means for establishing such a trust fund;

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BAINBRIDGE ISLAND, WASHINGTON, AS FOLLOWS:

Section 1. The City Council of the City of Bainbridge Island, Washington, accepts the proposal drafted by the 90-Day Housing Trust Fund Committee dated November 13, 1998, attached to this resolution.

PASSED by the City Council this 12th day of May, 1999.

APPROVED by the Mayor this 13th day of May, 1999.



DWIGHT SUTTON, Mayor

ATTEST/AUTHENTICATE:



SUSAN P. KASPER, City Clerk

FILED WITH THE CITY CLERK:
PASSED BY THE CITY COUNCIL:
RESOLUTION NO.

May 6, 1999
May 12, 1999

99-13

Sutton

November 13, 1998

Proposal for The Bainbridge Island Housing Trust Fund

A 90-Day Mayor's Committee Report

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REPORT SUMMARY

A Bainbridge Island Housing Trust Fund (HTF) would be a permanent source of locally controlled money dedicated to increasing affordable housing opportunities exclusively for projects on Bainbridge Island. This can be accomplished through providing grants and loans for construction and rehabilitation projects, operation of non-profit organizations, and assistance for financial hardship. The Housing Trust Fund Mayor's 90-Day Committee proposes that a Housing Trust Fund could be an effective way for Bainbridge Island to leverage other funding and resources to help reach its affordable housing goals.

The Comprehensive Plan's Housing Element—Enabling Language

Developing a Housing Trust Fund specifically addresses the implementation of Goal 1, Policy 4 of the Housing Element within the Comprehensive Plan, which states:

"The City recognizes the need to provide financing assistance for affordable housing. Accordingly, the City will actively pursue funds that may include, but are not limited to, councilmanic bonds, general obligation bonds, real estate excise tax, grants, and other available resources. These funds may be used to establish a Housing Trust Fund which will be used for purchasing land, for assisting with financing, and for providing infrastructure to support affordable housing on Bainbridge Island."

Housing trust funds are often used to develop capacity within an organization and help non-profit developers gain control of building sites. Funds also help leverage other sources of funding that could otherwise not be considered. Grants most often require matching funds and proof of other financial support.

A housing trust fund can be used to provide the most critical and difficult to come by financing for non-profit developers of affordable housing. Unlike for-profit developers, non-profits rarely have reserve funding to provide the initial financing in order to get a project underway. However, funds are generally available to for-profit developers if the funding contribution is necessary to make the project feasible.

The Mayor's 90-Day Committee (the "Committee") for a Housing Trust Fund considered the following key elements:

- 1) Source of revenue
- 2) How the fund is to be administered
- 3) What types of programs will be supported
- 4) How citizens can participate

Potential Revenue Sources:

The Revenue Source Subcommittee, used the expertise of the City of Bainbridge Island Finance Director, Ralph Eells and the documented experience of other housing trust funds across the country to define potential revenue sources available for the Housing Trust Fund. Their study suggests a combination of revenue sources to include: (1) fees

from planning and building permits, (2) specific housing-related business contributions, and (3) matching funding from the City's general fund. These revenue sources would yield an estimated annual HTF contribution of \$293,000 to \$337,000.

Administration of the Trust Fund

The Health, Housing and Human Services Council (HHHSC) has provided a successful model for the annual distribution of funds to local organizations from a City source. Another model is the ARCH Housing Trust Fund that serves Bellevue and other Eastside jurisdictions. The Administration Subcommittee proposes a hybrid of the two models. The HTF administration of the fund would be the official City body responsible for setting funding criteria, reviewing applications and monitoring use of funds. This recommendation is presented in considerable detail within the report.

Potential Programs Supported

The HTF can be a flexible instrument in helping the City meet its affordable housing goals. Most importantly, the HTF may be targeted to meet the varying needs of today's and tomorrow's low and moderate income renter and owner households. Each new funding round or each year, the Citizen's Advisory Board may review the uses of the funds and the targeted income groups and suggest changes that reflect the needs in the community. An initial focus of the HTF program could be down payment assistance for low and moderate income home buyers. Serving these populations in this manner would facilitate affordable housing development as currently required by the Municipal Code. The implementation of the HTF would demonstrate a coordinated program by addressing the demand-side of housing (Bainbridge families) as well as the supply-side (the developer/builder).

Partnerships

A Housing Trust Fund opens doors to a great number of partnerships. The HTF would provide a diverse number of resources, programs and organizations the incentive to working together toward a common goal. The Mayor's Committee members are the foundation of those partnerships representing many of the players in housing. The local partners provide the human infrastructure for a sustainable and substantial Housing Trust Fund. Also, the activities of the HTF Committee have caught the interest of the Washington State Finance Commission, a potential partner and revenue source to complement the sources raised through the HTF. News of this opportunity will be forthcoming shortly.

THE REPORT

The cost of housing on Bainbridge Island, whether rental or for-purchase, is out of reach of most of the existing Island workers. In order to afford to work on the Island, either a household depends upon another income for household expenses, the household has been fortunate enough to have purchased a home many years ago when housing prices were affordable to moderate and lower income households, they receive some sort of subsidy and live in the small number of subsidized units on the Island, or they have been lucky

enough to find one of the infrequently vacant affordable housing units. Presently, new households, whether singles or families, do not have these opportunities.

- The targets of the Housing Trust Fund are those households which depend on an Island-based income to support their home. The targets of the Housing Trust Fund are those households on which the Island depends upon as clerks, teachers, public employees, wait staff, artists, crafts people, skilled workers...In short, those people who make the Island run day to day in an interesting and economically viable way.
- Housing affordability is a essential to Island businesses.
- Housing affordability is essential to maintaining cultural, social and economic diversity on the Island.

The Committee set out on its investigation of what kind of housing trust fund would be appropriate on Bainbridge Island with a clear idea of the guiding principles stated in the Bainbridge Island Comprehensive Plan. Both the Committee and subsequently the mayor, city council, and the public will need to have a very clear understanding of the purpose of the Housing Trust Fund.

Mission of the Housing Trust Fund

The Housing Trust Fund 90-Day Committee was given the task of developing the framework for a local source and use of funding for affordable housing. The mission of the Housing Trust Fund is too complement existing city ordinances concerning affordable housing, encourage development of moderate and lower income housing and to provide funding for income groups not serviced by other funding sources currently available.

Committee Members

We benefit from a great deal of expert advice both from those on the Committee and those individuals we invited to inform us on various issues. The Committee was made up of a broad cross section of those in our community so that many of the talents of our community might have an opportunity to contribute to this effort and that a variety of ideas and issues could be examined and debated more fully.

Representatives on the Committee were:

Ralph Eells, Director of Finance, City of Bainbridge Island; Joan Holcomb, Helpline House; Karen Kline, Health, Housing and Human Services Council; Ed Kushner, Windermere Real Estate, Bainbridge Island; Jack MacArthur, President of the Chamber of Commerce; Rod McKenzie, Land Developer, Bainbridge Island; Susan Millan, Housing Planner, City of Bainbridge Island; Lynn Nordby, Administrator, City of Bainbridge Island; Gretchen Novasio, Housing Resources Board; Preston Prince, Kitsap County Consolidated Housing Authority; Garnie Quitslund, Housing Resources Board (HTF Committee Chairperson); Chelle Roberts, Housing Resources Board Coordinator; Stephen Rowley, Bainbridge Island School District; Dee Taylor, Washington State Finance Commission; John Teising and Ross Thomas, Washington Mutual Bank Bainbridge Island; Roger Waid, Kitsap County Consolidated Housing Authority; Charles Wenzlau, Wenzlau Architects.

Special guests/advisors to the Housing Trust Fund: Mary Brooks, Housing Trust Fund Project; Lee Desta, Community Builder, U. S. Department of Housing and Urban Development; Art Sullivan, Executive Director, A Regional Coalition for Housing (ARCH), Bellevue, WA .

At the first meeting of the Committee, the group divided into three subcommittees to deal with three components of the housing trust fund: (1) Revenue Source, (2) Administration and (3) Program (targets) and Feasibility.

REVENUE SOURCE

Revenue Source Goals

Key to any HTF is a revenue source. City HTFs are a challenge compared to that of a state-based HTF simply due to the more limited array and amount of revenue sources available to cities. While finding an appropriate dedicated funding sources is the most difficult part of the Housing Trust Fund development process, once found, housing trust funds typically leverage other funding dollars for projects at the rate of \$5 for every \$1 dollar provided by the trust.

The Revenue Source Subcommittee invented a unique program suited singularly to Bainbridge Island which combines voluntary contributions with public funds. The voluntary contributions are from those involved in the market-rate housing production and sales that have made such an impact of the Island: lending institutions, real estate companies and possibly others is then matched by a contribution from the City. The City's match would flow from the general fund in addition to an increase in the planning and building fees charged to developers. Currently, the City charges only a fraction of the cost of administering the planning program. Other cities, using similar fees for affordable housing, have proven the nexus between the rising cost of market rate housing—from which developers profit—and the increasing difficulty in providing affordable housing to those in the moderate and lower income ranges. Yet, the Committee recognized that many others in the community contribute to the high cost of housing and benefit from its presence on the Island.

Other sources of revenue which spread the cost across more of the community other than those developing new housing are being investigated (e.g., business and occupation tax, business license tax, condominium conversion fee, demolition fee, special property tax levy).

Voluntary Revenue Contributions

Part of the search for revenue sources lead the Committee to ask about the kinds of contributions that could come from sources other than those from the public coffers. The reasoning behind this search was that many other individuals and businesses benefit directly from the development, refinancing, and resale of housing. In other communities, where there are neighborhoods left out of the general economic health of the broader

community, lenders are required, by federal law, to demonstrate their reinvestment into their local community by servicing loans in those neighborhoods. There is no particular neighborhood that has been neglected or discriminated against in terms of lending on Bainbridge Island. However, there exists a lack of lower and moderate-income housing units for which to provide financing.

One of the first steps toward gathering a variety of revenue sources is educating the public of the community responsibility for affordable housing and the benefits of affordable housing.

It is essential that the source of funding reflect the ideal of fairness in sharing the cost of all housing. The businesses on the Island are major benefactors from low cost housing: they employ individuals earning their rent and mortgage payments in the service sector on the Island.

Revenue Source Subcommittee Recommendations

The following consideration of several substantive and permanent funding sources for the City of Bainbridge Island Housing Trust Fund, the Subcommittee recommends the proposed revenue sources outlined below. Taken as a whole, these sources represent a combination of private and public sources and their selection is based on the rationale that, in any given community, the rising cost of housing is directly related to population growth and development pressures in that community. Thus, just as the case is often made in the context of "impact fees", a case can be made here that significant sources of the funding for a housing trust fund should be monies generated directly in relation to growth and development activity.

Surcharges on Planning, Land Use and Building Permits

This proposal contemplates the establishment by ordinance of a uniform set of surcharges on all planning, land use and building permits required by the City of Bainbridge Island. The individual permitting activities are listed in the attachment together with a statement of fees collected by COBI through September of this year and an annualized estimate of these fees for 1998.

At present the City's fees for such services, by statute, cannot exceed the cost of providing them. Under the City's current fee structure, approximately 50% of the cost of planning and land use services and about 75% of the cost of building permit services are covered by fees. Thus, the amount of a surcharge which the City can impose is limited to approximately 50% on planning and land use services and approximately 25% on building permit services.

In recognition that a schedule of surcharges at these levels would push the outer limit of what is possible, we are recommending a schedule which is less aggressive: 25% on planning and land use services fees and 12.5% on building permit fees. Applying these hypothetical surcharge levels of 25% and 12.5% to the fees generated at current activity levels, the additional revenue which the City could generate and make available to the

HTF through the budgeting process would be approximately \$161,000 (For details, see appendix: Affordable Housing Funding Options).

Transaction-based Voluntary Contribution from Individuals and Businesses Directly Related to Real Estate Activities

This proposal contemplates that, at each “point” in a real estate transaction (a “point” being defined as a sale of a property, closing of a loan, completion of an appraisal or inspection, issuance of a policy of title insurance or home owner’s insurance, etc.). the individual or business involved would make a voluntary contribution to the HTF. Such amounts would be determined by the contributors and paid into the HTF periodically or in conjunction with some annual event such as the renewal of business licenses.

As an example, here is a list of the hypothetical contributions which might be generated from the close of the sale of just *one* single family residence:

Listing Agency	\$50
Selling Agency	\$50
Escrow Office	\$25
Lender*	\$25 *
Appraiser	\$10
Property Inspector	\$10
Title Insurance Company	\$25
Homeowner’s Insurance	\$25
TOTAL	\$220

* Washington Mutual/Bainbridge Island has already committed to this contribution and conversations with other individuals and businesses are underway.

Given that, in recent years there have been between 300 and 400 residential sales per year in Bainbridge Island, the total monies generated annually for the HTF by this proposal could be in the range of \$66,000 to \$88,000 annually.

Matching Funds from COBI General Fund

This proposal contemplates that the monies generated by the volunteer contribution outlined above be matched on a 1:1 basis by the City of Bainbridge Island from General Fund revenue sources. Assuming that the estimate of voluntary monies is valid, this proposal could also generate between \$66,000 and \$88,000 per year.

The combination of these sources, at present activity levels, could generate annual revenue in the range of:

	@ 300 sales	@ 400 sales
Planning and Land Use Surcharges ¹	\$107,000	\$107,000
Building Permit Surcharges ¹	\$54,000	\$54,000
Voluntary Contributions	\$66,000	\$66,000
COBI Matching Funds	\$66,000	\$66,000
TOTALS	\$293,000	\$337,000

Considerations for Future Public Revenue Source

The Subcommittee further recommends that, within five years, these revenue sources be supplemented with revenue generated from special affordable housing levy financing passed by the electorate of Bainbridge Island (See appendix concerning a special property tax levy per RCW 84.52.105).

ADMINISTRATION

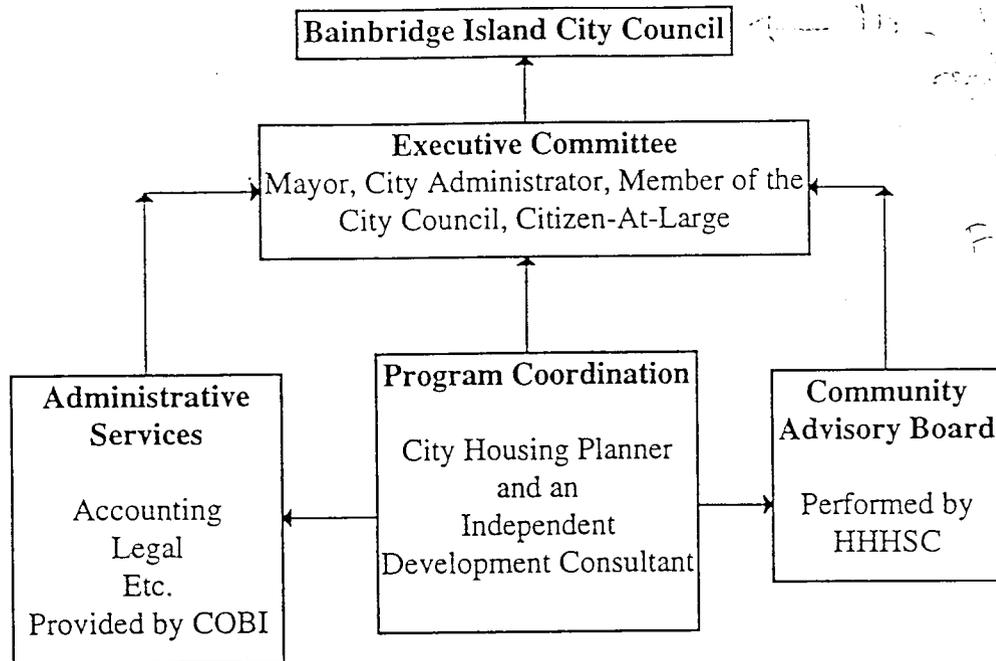
The Administration Subcommittee used the model provided by ARCH: A Regional Coalition for Housing. ARCH has an affordable housing delivery system that has worked in this region and in the existing housing climate. More importantly, the components of the administration demonstrated by ARCH closely resemble a successful model of fund administration in use on the Island by the Health, Housing and Human Services Council.

The Administration Subcommittee understood the importance of accountability of funding uses, low-cost administration (as well as self-sufficiency) and continued diverse community participation. Central to the model is use of existing City staff and other existing support agencies such as the Kitsap County Consolidated Housing Authority.

Below is an organization chart depicting the line of control and advisory relationships of the required functions. It is assumed that the HTF will be starting with a limited operating budget and therefore the City should provide certain functions from departments already in existence such as accounting and planning.

¹ See the appendices for the proposed individual sources for the planning and building fees: "Affordable Housing Funding Options."

The Administration Subcommittee recommends that technical assistance consulting is utilized on an as-needed basis and the City-employed planning staff person (a housing planner) coordinate between such a technical consultant and the rest of the HTF organization.



Administration Detail: Housing Trust Fund Lending Criteria

The purpose of the Bainbridge Island Housing Trust Fund (HTF) is to create and preserve affordable housing for low and moderate income households. In special circumstances middle income households may also be assisted.²

The HTF application includes a number of criteria that are used by the Community Advisory Board to complete its evaluation and recommendations. The purpose of the lending criteria is to allow applications to be evaluated for feasibility and timeliness, prioritized for funding, and establish conditions for funding. This report summarizes the criteria used to evaluate applications for HTF.

Schedule and Review Process

The HTF conducts one funding round each year. The typical schedule for the funding round has applications due in March, Executive Committee recommendations completed in May and Council action in June.

An initial screening of applications is conducted by staff to determine the completeness of each application, with applicants informed of additional information needed. Applications

²For the purpose of the Bainbridge Island Trust Fund the Seattle MSA median income, as defined by HUD, will be used.

that are very incomplete may not be given further consideration that round. HTF staff prepares a summary of the submitted applications which is forwarded to Community Advisory Board.

The final staff reports are forwarded to the Community Advisory Board (CAB) for their review and funding recommendation. The CAB will appoint a subcommittee which will be comprised of professional expertise in housing, lending or related areas. The CAB will always contain members who have professional expertise in mortgage underwriting, and development of housing (e.g., for-profit residential developer, not-for-profit affordable housing developer).

As vacancies occur, the CAB will maintain expertise in these areas. In this way, financial expertise will be available in reviewing applications prior to referral to the Executive Committee. The CAB will always include at least three members with private lending or residential development professional background. CAB reviews each application and identifies any issues which require clarification of further review/research. During the second meeting, the CAB will prioritize the applications and issue a funding recommendation, and recommend conditions to be met before funds can be expended. These recommendations will be voted for approval by CAB.

The Executive Committee receives the funding recommendation from Health, Housing and Human Services Committee. The Executive Committee is comprised of the Mayor, City Administrator, member of City Council, a Citizen at Large. The Committee reviews the CAB recommendation and approves it -- with or without modification.

The Executive Committee recommendations are then forwarded to BI City Council. Council approval is required for a funding allocation to be made.

If the City Council approves funding for a project, the Program Coordinator provides administrative assistance with preparing contracts and monitoring projects.

Completeness of Applications

An initial screening will be performed to determine the completeness of each application. The HTF application form requests information to help measure how projects meet program criteria. Information requested in applications is described in more detail below. Projects that are deemed incomplete may be rejected without further consideration.

Basic Eligibility

The Housing Trust Fund has established some basic guidelines that all proposals must meet. These include:

Eligible Applicant

- Non-profit organizations
- Private for-profit organizations
- Public housing authorities

- Public development authorities

Partnerships involving combinations of the above groups are encouraged, especially in the case where a private for-profit organization applies for funding.

Income Served

Use of the HTF must be directed towards eligible beneficiaries -- households with incomes up to 95% of the Area Median Income (AMI) adjusted by household size as defined by HUD for the Seattle MSA. In some cases, the beneficiaries may have incomes at or below 120% of AMI.

Use of Funds

There is a wide range of eligible uses of HTF. These include acquisition, construction, rehabilitation, and others. If CDBG funds are used project must comply with any CDBG restrictions (e.g., not available to for profit developers, constraints on using for construction costs).

Feasibility

Once a complete application is received, it will be reviewed in further detail. The overall intent is to determine whether the project will be capable of accomplishing established goals in a reasonable time frame, or whether assumptions/omissions made by the proponent cast doubt on project feasibility.

Development budget

Applicants provide detailed breakdowns of development costs, including: acquisition, construction/rehabilitation, professional services, finance, site development and others. Issues which may be evaluated from this information include:

- Completeness-any line items missing from the budget breakdown, including inappropriate contingency for the type of project.
- Do any of the line items appear to stand out (too high or too low)
- Are the overall per unit costs reasonable
- Are the HTF per unit costs reasonable
- How do the Costs compare with other projects with similar type work
- Are the HTF costs eligible for CDBG fund use

Operations Budget

The purpose of this budget is to show all the costs associated with the daily operation and management of the project after it is completed, such as staff, supplies, insurance, professional services, utilities, repairs, reserves and the like. Key issues include:

- Completeness - are all of the costs included, or are important items missing
- Is the vacancy rate built into the rent income project appropriate
- Are there "rainy day" funds (operating reserves and replacement reserves)

- Do the costs provided appear reasonable
- Continuity - will the budget support their needs years down the road
- Is the debt service less than the net operating income
- Is there a positive cash flow (e.g., For projects with private debt is there an appropriate debt coverage ratio).

Support Services Budget

For some projects, support services are an integral part of the housing program. In these cases information is requested on the support services budget. The purpose of this budget is to identify all the casework, assessment, counseling, training/seminar, and other support services, which are provided by the sponsor or by another agency (for or in cooperation with the sponsor). These may be provided on or off-site. Key issues to evaluate include:

-
- Does the support services budget account for all services provided.
- Are the funding sources for the support services realistic.
- Is funding for support services potentially available on an ongoing basis? If not, what plans are there in the event a specific funding sources is lost.

Funding Sources/Commitment

In this section, the applicant identifies the amounts and sources of all the funds required for development of the project. The applicant also provides the current status of the funds -- whether they have been approved (or not) for the project. Key issues include:

- Does the total of all sources equal the total of the development budget.
- Does the ratio of HTF dollars to other dollars seem high/have other potential sources of funding been reasonably assumed.
- Are private funding sources included at a reasonable level
- Is it realistic to expect other public funding sources to commit at the level indicated
- Does the schedule for the commitment of other funds seem timely
- Is there too much dependence upon a single funding source

Organization/Team

A successful project starts with a sponsor who is experienced and well organized. When appropriate, the sponsor may pull in other player for the team to help with the project, as well as to operate it after construction. By knowing who is involved in project development, and who will be involved in operating the project after construction, it will be easier to evaluate the potential success of the proposal. Key issues include:

- Are the key team members identified -- do they have the right experience
- Does the sponsor have experience developing projects like the proposal. If not, have they brought in members to the team that have appropriate experience
- Is the construction manager identified -- does she/he have experience

- For providing housing-related social services, are the agencies/individuals identified and do they have the appropriate skills
- Will the proposal have the potential to increase the capacity of a local organization, thus increasing the area's overall organization capacity to provide affordable housing

Management Plan

This section addresses tenant selection, tenant interaction with management decision-making (such as tenant councils, apartment manager, etc.), terms of occupancy, routine facility maintenance, and (if emergency or transitional housing) what are the support service provision for the proposal. Key issues to look for include:

- Are the daily and overall management provision clearly set forth and sound
- Do the provision (including if appropriate the availability of services) seem appropriate for the type of facility
- If support services are included, how are they integrated into the project
- Do the tenants have reasonable provisions for management interaction

Site Control/Site Issues

Does the applicant have the "right" to use the property as proposed? This evaluation also includes the appropriateness of the site for the proposed use. Key issues include:

- Is there formal site control (e.g., ownership, binding option or purchase agreement)
- Does the agreement allow sufficient time for the project to secure all financing, permits, etc.
- Is the proposed use allowed under local land use regulations:
- Is the site appropriate for the proposed use (e.g., is there access to necessary services for residents)

Displacement/Relocation

This section only applies to "existing" residential units, and not new construction. It also does not apply to vacant units. If existing tenants are displaced or have to be relocated, they may be eligible for financial compensation. The key issues include:

- Will temporary or permanent displacement/relocation occur
- Is there a reasonable plan to address any potential displacement/relocation
- Have all reasonable efforts been made to avoid/reduce displacement/relocation

Timeliness

Addresses whether the components of the application can, individually and collectively, be delivered in an appropriate time frame. Also if the application is premature to be requesting funding. (Note: Other communities have created local funding programs with several public funders to provide predevelopment loans. One purpose of such a program is to provide some funding so that projects can address some basic issues before requesting funds from public funders) Key issues include:

- What are the time frames for commitment of funding sources
- Does site control cover all the time frames for funding commitment
- How soon will the project be ready to go
- If a project is relatively early in the process, does making a commitment now help the project in any way (e.g., help to secure other funding)
- Are there any warning flags which suggest possible delay. If so, have they been accounted for, or could they adversely affect the proposal.

Priority For Funding

Once applications are determined to be feasible, they are then evaluated against several other overall objectives of the HTF. This procedure is especially important when the total HTF funds requested by an applicant exceeds the total HTF available. This evaluation can help make the decision about whether proposals should be funded at the current time.

Level of Affordability

The applicant must identify the income targets (expressed as a percentage of Seattle MSA median income) of the intended tenants. Key issues to evaluate include:

- Are the intended tenants low or moderate income (no more than 95% of area median income)
- If middle income (up to 120% AMI), what special circumstances justify the proposal
- Are the proposed rents (including utilities) affordable to the proposed tenants
- If applicable, comparison of proposed rents to existing rents in the project
- Comparison of proposed rents to average rents in the project's local area

Duration of Affordability

The applicant must propose a specific time period for which rents will remain affordable to targeted tenants. The key issue here is:

- Will the applicant provide a duration of at least 30 years? Shorter time periods maybe allowed, but the preference is for a minimum of 30 years.

Consistency with Bainbridge Island Housing Needs/Goals

The City of Bainbridge Island has housing goals, policies and objectives set forth in its Comprehensive Plan. Proposals are evaluated for consistency with these policies. In addition the HTF has established a long term objective that funds be distributed proportionally between several types of housing. If certain types of housing have disproportionately been funded in previous rounds, the application packet will state a preference for under funded types of housing. Key issues include:

- Is the project consistent with local housing goals and policies
- Has the community already taken some steps to help initiate the proposal, or expressed support for the proposal

Underwriting

Underwriting criteria provide the documentation and other information necessary to ensure that funds are not made available until certain conditions are met, therefore minimizing the likelihood a project will not be completed as finally proposed. It can also provide protections to maximize the city's ability to protect its long term interests in the property. This can include items such as maintaining Affordability, property maintenance, and repayment or recapture of city funds. Finally, underwriting criteria will determine in what form funds will be made available (e.g., grant, loan, or deferred loan). Some underwriting criteria will determine in what form funds will be made available (e.g., grant, loan, or deferred loan). Some underwriting criteria will be standard to all projects while others may be developed to address specific unique issues for a certain project. These underwriting criteria are incorporated into the funding contract, promissory notes and/or regulatory agreements. Key criteria include

Cost/Funding Confirmations

Most projects begin with a series of cost estimates, that suffice for conceptualizing and preliminary review. Yet before funds are actually committed to a project, costs are verified. Appraisal/purchase - sales agreements, appraisals, inspection reports/bids, and the like, give certainty to costs - and confidence that there won't be any financial surprises down the road. To the extent confirming information (e.g., appraisal) are not provided with the application, there will be conditions included in the contract that this information needs to be provided prior to receiving local funds. Key issues include:

- Are the cost confirmations current
- Who performed the confirmations
- Do the confirmations verify the proposed project

Land Development Issues

Applicants are required to provide information confirming that the proposed use is allowed (letter from permits, etc.), and any potential significant site constraints identified and, if applicable, addressed. Types of reports that can be required include:

- Inspection report
- Hazards/Wetlands survey
- Soil test
- Zoning verification

Form of Assistance (loan/grant)

Funds can be given to the applicant in the form of a grant, or repaid over time in the form of a straight or 'deferred' loan. In recommending the form of assistance issues include:

- Does the project have enough cash flow initially to make loan repayments immediately,

- Does the project have the potential to increase cash flow in the future, thus allowing repayment at some future point in time, or when certain cash flow standards are achieved (e.g., net cash flow is greater than a predetermine % of gross income)
- Would loan repayment affect Affordability in the project
- Is a project serving certain types of a households that funds should be made available as a grant (e.g., transitional housing, very low income families, handicapped individuals)

Formal Agreements

Legal agreements (contracts, promissory notes, regulatory agreements) are used to formalize the financial relationship between the lender: (local jurisdiction) and the recipient, governing the award of HTF dollars. Key elements of these agreements include:

Contract:

- List conditions (as described above) that must be met prior to releasing funds (e.g. other funding commitments, permits, final budgets)
- All funding conditions must be met before funds are released
- Any significant revision to the scope of work or budget must be submitted for review and approval of staff
- Establishes time frames in which key steps must be completed, or funding reservation can be withdrawn unless an extension is approved by staff
- Establishes timing/procedures for drawing funds. (In what proportion local funds will be drawn relative to other finding sources. For example, for private developers, developer funds may be expected to be spent proportionally to local funds)
- City can recapture funds if not used for intended purposes

Promissory Note:

- Establishes any terms for repayment of funds
- Secured by recorded deed of trust.
- City can cure defaults on any 'senior' loans
- Subordinates city loan to 'senior' loans (typically private loans)
- Funds made available as a non-recourse loan to applicant

Regulatory Agreement:

- Recorded agreement that establishes the levels and terms of Affordability
- Specifies projects monitoring/reporting obligations
- If ownership project, establishes process for resale, and how to calculate future affordable price

PROGRAM/FEASIBILITY

Program/Feasibility Subcommittee of the Housing Trust Fund

The Program/Feasibility Subcommittee was charged with making recommendations about the target population, eligibility and what kinds of projects/programs the funds should support. The City of Bainbridge Island Comprehensive Plan Housing Element (1994) established affordable housing needs on the Island. The data and conclusions of the Housing Element form the foundation for our recommendations.

The Need

- A need assessment was done by Kitsap County in 1993. Based on that assessment, the County recommended 2,900 affordable housing units (rental and purchase) on Bainbridge Island. Please refer to pages 1, 2, 3 of the Housing Element.
- Ross Thomas provided our Program/Feasibility Subcommittee with demographics for the Island from 1997. This data showed that 45.7% of Island citizens make less than \$49,000 a year. This number represents 3,104 households. Given the current incomes of existing households of the Island, 29% of the total households could qualify to buy only 6.5% of the existing housing stock on the Island. In other words, 93.5% of the housing stock is out of reach to most moderate and middle income households.
- If rental units were available, the market price for 2-bedroom rental units in the City Center of Winslow would range from \$625-\$850 per month. The market prices for three bedroom rental units in Winslow would range from \$950-\$1200.

Based on 30% of income spent on housing, the 10.33% of households who make up to \$15,000 income per year could afford \$375 per month rent. 8.5% of our population could afford \$375 to \$625 per month on rent. 10.6% could afford \$624 to \$850 per month on rent. It is in this range that households could find market rate units. The housing needs assessment denotes that there is an almost zero vacancy rate in rent assisted units (around 2% overall according to *Trends*).

- The Program/Feasibility Subcommittee saw the need and it is great. The Comprehensive Plan recommends an additional 550 multi-family rental units by the year 2012. The majority of the 550 should be affordable to moderate and lower income households. Currently, there are 73 guaranteed affordable rental units (less senior housing). This includes projects by HRB and KCCHA. There are a number of market rate rental units on the Island that are affordable to moderate and lower income households. We have anecdotal evidence from Helpline House, HRB and KCCHA that corroborate the continuing need for affordable housing. The Subcommittee was unable to determine the number of accessory dwelling units available

- Types of projects and programs the HTF is proposed to support based on identified need in the community: (a) preservation of existing affordable housing stock, (b) rental units – singles and large households, (c) first time home buyers—funding to support education and identify loan sources, (d) education to promote development of affordable housing by attracting developers, encourage lenders to participate in affordable housing financing, to inform those in need and to gain community support.
- Other criteria: (a) allows for affordability in the future, (b) design consistent with Island values, (c) create conservation of energy efficient homes to improve affordability, (d) environmentally friendly home design and function.

Subcommittee Observations

There are two gaps between recommended housing-cost related guidelines for Kitsap County and Bainbridge Island. One gap is the difference in median household income on the Island as compared to Kitsap County. Bainbridge Island's median income (\$54,337) is 13% higher than the median income of Kitsap County (\$48,100). The County guidelines are used to generate funds from affordable housing grants. For the purpose of the Housing Trust Fund, and perhaps other affordable housing programs initiated by the City, Bainbridge Island incomes and housing costs correlate more closely to Seattle/King County rather than Kitsap County. Using Seattle/King County figures makes home ownership opportunities more feasible to develop given high land costs.

The second gap is the difference median home values between jurisdictions. In 1997, the median home value in Kitsap County was \$136,000, whereas the median home value in the same year on Bainbridge Island was \$229,077. Moreover, developers tell us that development costs are 15% higher on the Island compared to the County. These factors, in addition to the high cost of land on Bainbridge Island make it difficult for developers and non-profits to build affordable housing.

In today's economy, a full-time employee must make more than double minimum wage to afford an average two-bedroom rental in our state's urban areas. The Programs/Feasibility Subcommittee interviewed Island stores, Day Road businesses, Safeway, Thriftway, Bainbridge Island Police, the City and the School District employees and discovered that half of these people live off-Island. Of course, we cannot determine if the location of their housing is by choice or affordability. People with median incomes for Bainbridge Island cannot afford to buy here and people with moderately low incomes cannot afford to rent here. Amazingly, there are some households who manage to find housing despite rising housing costs. The Subcommittee's study found that 25% of Island household make \$25,000 or less per year. More study is needed to learn more about the condition of the housing, its age, tenancy and cost burden to such households (See appendix: "Housing Options for Seattle Residents with Low and Moderate Income").

Recommendations

In general, linkages to other Island affordable housing-related programs should be encouraged and supported. Affordable housing is linked to the local economic, environmental and community health, and should be linked to a broader range of policy decisions to support affordable housing goals.

The Program/Feasibility Subcommittee and the Committee as a whole debated the issue of target populations and the types of programs the Housing Trust Fund could support at each of its meetings. One exercise, presented in detail in the appendices, helped the Committee identify and prioritize who would be assisted through the HTF and how (see appendices: Housing Trust Fund Criteria Worksheet and Ranked Housing Trust Fund Criteria).

Findings

- Target population of the HTF is the median income level and below.
- The majority of the HTF would pay to assist development of new, affordable units.
- The HTF would pay to provide opportunities to potential home buyers to purchase permanent affordable homes.
- Eligibility for HTF dollars: (a) non-profit organizations, (b) developers, (c) recommend that HTF fund be used to leverage other funding sources to assist developers in creating affordable units.

The Program/Feasibility Subcommittee suggests that the Housing Trust Fund initially assist affordable housing by:

- Providing down payment assistance to for-purchase units created through the Affordable Housing Ordinance (whether rental or for-purchase and at the income-level required per unit). For example, the HTF could provide down payment assistance up to \$10,000 per unit for low, moderate or middle income home owners.
- Rehabilitation loans for low-income households (up to \$5,000)

A final key issue for the Housing Trust Fund to evaluate is the amount of funding needed to effectively serve the development and preservation of affordable housing. The Committee asked the question: How much money each year is necessary to support and sustain a HTF? Given the goals set forth in the Comprehensive Plan, production thus far, due to the Affordable Housing Ordinance (BIMC 18.90), and other information available it is possible to estimate the potential need. The revenue sources may not provide all that is need to create all the affordable housing needed on the Island, the amount provided by the HTF could help leverage this amount. The amount needed will depend on the range of loans and grants and the specific income levels of households to be served in any given year. However, as an estimate, the funding needed to serve 50 households per year with a down payment and rehabilitation loan/grant program, as mentioned above, could be in the range of \$285,000 to \$375,000. These estimates are a reasonable goal given the revenue sources identified by the Committee (For detail, see appendix: How much funding is needed per year to be effective?).

APPENDICES

Other sources of revenue: a special property tax levy per RCW 84.52.105.

"In 1993, the Washington Legislature passed a bill that enables a county, city or town to impose additional regular property tax levies of up to 50 cents per thousand dollars of assessed value of property in each year for up to ten consecutive years to finance affordable housing for very low income households [for BI: very low = \$22,800 for a 4-person household]. It requires a majority of the voters of the taxing district voting on a ballot proposition that authorizes the levy" (*Current Topics from the Housing Trust Fund Project*, August 1996, p.17).

84.52.105 Affordable housing levies authorized—Declaration of emergency and plan required. (1) A county, city, or town may impose additional regular property tax levies of up to fifty cents per thousand dollars of assessed value of property in each year for up to ten consecutive years to finance affordable housing for very low-income households when specifically authorized to do so by a majority of the voters of the taxing district voting on a ballot proposition authorizing the levies. If both a county, and a city or town within the county, impose levies authorized under this section, the levies of the last jurisdiction to receive voter approval for the levies shall be reduced or eliminated so that the combined rates of these levies may not exceed fifty cents per thousand dollars of assessed valuation in any area within the county. A ballot proposition authorizing a levy under this section must conform with RCW 84.52.054.

(2) The additional property tax levies may not be imposed until:

(a) The governing body of the county, city, or town declares the existence of an emergency with respect to the availability of the housing that is affordable to very low-income households in the taxing district; and

(b) The governing body of the county, city, or town adopts an affordable housing financing plan to serve as the plan for expenditure of funds raised by a levy authorized under this section, and the governing body determines that the affordable housing financing plan is consistent with either the locally adopted or state-adopted comprehensive housing affordability strategy, required under the Cranston-Gonzalez national affordable housing act (42 U.S.C. Sec. 12701, et seq.), as amended.

(3) For purposes of this section, the term "very low-income household" means a single person, family, or unrelated persons living together whose income is at or below fifty percent of the median income, as determined by the United States department of housing and urban development, with adjustments for household size, for the county where the taxing district is located.

(4) The limitations in RCW 84.52.043 shall not apply to the tax levy authorized in this.

Housing Trust Fund Criteria Worksheet

Income Criteria:

Extreme Low Income = 30% and below AMI

Very Low Income = 30% to 50% AMI

Low Income = 50% to 80% AMI

Moderate Income = 80% to 95% AMI

Middle Income = 95% to 120% AMI

Criteria	Multiplier☆	Extreme Low Income 30% and below	Very Low Income 30% to 50%	Low Income 50% to 80%	Moderate Income 80% to 95%	Middle Income 95% to 120%
General Goals						
Rank of Income Level (1-5)		1	3	3	5	4
Meets a Comprehensive Plan goal	8	8	24	24	40	32
Ease in monitoring	5	5	15	15	25	20
Creates permanently affordable housing for 30 years	10	10	10	30	50	40
Proximity to public transportation, or, development includes transportation component	8	10	8	24	40	32
Provides a continuum of housing	9	9	27	27	45	36
Provides education concerning affordable housing	10	10	10	30	50	40
Provides affordable housing in an area with few existing affordable opportunities	10	10	10	30	50	40
Provides affordable housing to several income levels within a single development	10	10	10	30	50	40
Compatibility with neighborhood	10	10	10	30	50	40
Environmentally friendly	6	6	6	18	18	30

Home ownership						
Rank of Income Level (1-5)		1	1	3	5	4
Provides home ownership opportunities	10	10	10	30	50	40
Down payment assistance to income qualified home purchase applicants	7	7	7	21	35	28

Rental						
Rank of Income Level (1-5)		5	4	4	2	1
Provides rental opportunities	10	50	40	40	20	10

Finance						
Rank of Income Level (1-5)		1	3	3	5	4
Demonstrates high degree of leverage of other funding sources	10	10	30	30	50	40
Grant funding	10	10	30	30	50	40
Long-term loan funding	8	8	24	24	40	32
Bridge (short-term) loan funding	10	10	30	30	50	40

Housing Type						
Rank of Income Level (1-5)		1	3	3	5	4
Preserves existing affordable housing	10	10	30	30	50	40
Makes existing housing more affordable	10	10	30	30	50	40
Recognizes existing housing need	10	10	30	30	50	40
Promotes mixed-income housing	10	10	30	30	50	40

Ranked Housing Trust Fund Criteria

Highest Priority (Score of 50)

Creates permanently affordable housing for 30 years for Moderate Income
Provides education concerning affordable housing for Moderate Income
Provides affordable housing in an area with few existing affordable opportunities for Moderate Income
Provides affordable housing to several income levels within a single development for Moderate Income
Compatibility with neighborhood for Moderate Income
Provides home ownership opportunities for Moderate Income
Provides rental opportunities for Extreme Low Income
Demonstrate high degree of leverage of other funding sources for Moderate Income
Grant funding for Moderate Income
Bridge funding for Moderate Income
Preserves existing affordable housing for Moderate Income
Makes existing housing more affordable for Moderate Income
Recognizes existing housing need for Moderate Income
Promotes mixed-income housing for Moderate Income

Score of 45

Provide continuum of housing for Moderate Income

Score of 40

Meet a CP Goal for Moderate Income
Creates permanently affordable housing for 30 years for Middle Income
Proximity to transportation for Moderate Income
Provides education concerning affordable housing Middle Income
Provides affordable housing in an area with few existing affordable opportunities Middle Income
Provides affordable housing to several income levels within a single development Middle Income
Compatibility with neighborhood Middle Income
Provides home ownership opportunities for Middle Income
Provides rental opportunities for Low Income
Preserves existing affordable housing for Middle Income
Makes existing housing more affordable for Middle Income
Recognizes existing housing need for Middle Income
Promotes mixed-income housing for Middle Income
Provides rental opportunities for Very Low Income
Demonstrates high degree of leverage of other funding sources for Middle Income
Grant funding for Middle Income
Bridge funding for Middle Income
Long-term loan funding for Moderate Income

Score of 36

Provides a continuum of housing for Middle Income

Score of 35

Down payment assistance to income qualified Moderate Income

Score of 32

Meet a CP Goal for Middle Income
Proximity to transportation for Middle Income
Long-term loan funding for Middle Income

Score of 30

Creates permanently affordable housing for 30 years for Low Income

Provides education concerning affordable housing for Low Income
Provides affordable housing in an area with few existing affordable opportunities for Low Income
Provides affordable housing to several income levels within a single development for Low Income
Compatibility with neighborhood for Low Income
Provides home ownership opportunities for Low Income
Demonstrates high degree of leverage of other funding sources for Low Income
Grant funding for Low Income
Bridge funding for Low Income
Preserves existing affordable housing for Low Income
Preserves existing affordable housing for Very Low Income
Makes existing housing more affordable for Low Income
Makes existing housing more affordable for Very Low Income
Recognizes existing housing need for Low Income
Recognizes existing housing need for Very Low Income
Promotes mixed-income housing for Low Income
Promotes mixed-income housing for Very Low Income
Environmentally friendly for Middle Income

Score of 28

Down payment assistance to income qualified Middle Income

Score of 27

Provides a continuum of housing for Low Income
Provides a continuum of housing for Very Low Income

Score of 25

Ease in monitoring for Moderate Income

Score of 24

Meet a CP Goal for Low Income
Proximity to transportation for Low Income
Long-term loan funding for Low Income
Long-term loan funding for Very Low Income
Meet a CP Goal for Extremely Low Income

Score of 21

Down payment assistance to income qualified Low Income

Score of 20

Ease in monitoring for Middle Income
Provide rental opportunities for Moderate Income

Score of 18

Environmentally friendly for Moderate Income
Environmentally friendly for Moderate Income

Score of 15

Ease in monitoring Low Income
Ease in monitoring Very Low Income

Score of 10

Creates permanently affordable housing for 30 years for Very Low Income
Creates permanently affordable housing for 30 years for Extremely Low Income
Proximity to transportation for Extremely Low Income
Provides education concerning affordable housing for Very Low Income

Provides affordable housing in an area with few existing affordable opportunities for Very Low Income
Provides affordable housing in an area with few existing affordable opportunities for Extremely Low Income
Provides affordable housing to several income levels within a single development for Very Low Income
Provides affordable housing to several income levels within a single development for Extremely Low Income
Compatibility with neighborhood for Very Low Income
Compatibility with neighborhood for Extremely Low Income
Provides home ownership opportunities for Very Low Income
Provides home ownership opportunities for Extremely Low Income
Demonstrates high degree of leverage of other funding sources for Extremely Low Income
Grant funding for Extremely Low Income
Bridge funding for Extremely Low Income
Preserves existing affordable housing for Extremely Low Income
Makes existing housing more affordable for Extremely Low Income
Recognizes existing housing need for Extremely Low Income
Promotes mixed-income housing for Extremely Low Income
Provides rental opportunities for Middle Income
Provides education concerning affordable housing for Extremely Low Income

Score of 9

Provides a continuum of housing for Extremely Low Income

Score of 8

Meet a CP Goal for Very Low Income
Proximity to transportation for Very Low Income
Long-term loan funding for Extremely Low Income

Score of 7

Down payment assistance to income qualified Very Low Income
Down payment assistance to income qualified Extremely Low Income

Score of 6

Environmentally friendly for Very Low Income
Environmentally friendly for Extremely Low Income

Score of 5

Ease in monitoring Extremely Low Income

How much funding is needed per year to be effective?

The following are *examples* of possible funding scenarios that could be considered upon implementation of the Housing Trust Fund.

For 50 units per year:

A combination of \$10,000 and \$5,000 loans or grants. The variation of the loan/grant from 50% to 100% is meant to reflect the possible variation in need per households served.

	Scenario 1	Scenario 2
Down payment Program		
25 loans/grants reserved for up to \$10,000 (maximum amount)	\$250,000	
-OR- 13 loans/grants @ 100% and 12 loans/grants @ 50%		\$130,000 \$60,000
Subtotals	\$250,000	\$190,000
Rehabilitation Program		
25 loans/grants reserved for up to \$5,000 (maximum amount)	\$125,000	
-OR- 13 loans/grants @ 100% and 12 loans/grants @ 50%		\$65,000 \$30,000
Subtotals	\$125,000	\$95,000
Grand Total	\$375,000	\$285,000

The funding needed to serve 50 households per year with a down payment and rehabilitation loan/grant program could be in the range of \$285,000 to \$375,000.

Housing Options for Seattle Residents with Low and Moderate Income

The next page illustrates what is affordable to the various income levels. There is a gap between what working people can earn on the Island and the cost housing available. While generated for Seattle for 1997, the next page applies to income levels appropriate for Bainbridge Island in 1998.

Housing Options for Seattle Residents with Low and Moderate Incomes

	no income (0% of median income)	very low income (30% of median income)	low income (50% of median income)	low-moderate income (80% of median income)	moderate income (100% of median income)	moderate income (120% of median income)
1 person household						
• typical job / wage ¹	• unable to work	• fast food worker, ≈\$5.50/hr	• shipper / receiver, ≈\$9.50/hr	• mechanic, ≈\$15/hr	• machinist, ≈\$19/hr	• police officer, ≈\$23/hr
• income ²	• minimal	• \$11,550	• \$19,300	• \$30,880	• \$38,600	• \$46,320
• rental housing ³	• minimal	• \$289 for rent and utilities	• \$482 for rent and utilities	• \$772 for rent and utilities	• \$964 for rent and utilities	• \$1,158 for rent and utilities
• maximum priced home to purchase ⁴	• not possible	• \$35,275	• \$58,789	• \$94,063	• \$117,579	• \$141,094
3 person household						
• typical job / wage ¹	• unable to work	• hotel maid, ≈\$7.30/hr	• secretary, ≈\$12/hr	• registered nurse, ≈\$19.45/hr	• civil engineer, ≈\$24/hr	• carpenter, ≈\$29/hr
• income ²	• minimal	• \$14,900	• \$24,800	• \$39,680	• \$49,600	• \$59,520
• rental housing ³	• minimal	• \$372 for rent and utilities	• \$620 for rent and utilities	• \$992 for rent and utilities	• \$1,240 for rent and utilities	• \$1,488 for rent and utilities
• maximum priced home to purchase ⁴	• not possible	• \$45,350	• \$75,586	• \$120,983	• \$151,172	• \$181,407

¹ 1995 "Occupational Compensation Survey, Seattle-Tacoma-Bremerton," U.S. Department of Labor
² 1997 Income, Department of Housing and Urban Development

³ Assumes 30% of income for rent and utilities or for mortgage, taxes and insurance

⁴ Assumes 30 year loan, 8% interest and PMI, 5% down payment, 1.2% property tax, 3% insurance