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**MEMORANDUM**

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**TO:** BELLINGHAM CITY COUNCIL

**FROM:** SAMYA LUTZ, HOUSING AND SERVICES PROGRAM MANAGER

**CC:** MAYOR SETH FLEETWOOD  
BLAKE LYON, PLANNING AND COMMUNITY DEVELOPMENT DIRECTOR  
TARA SUNDIN, COMMUNITY AND ECONOMIC DEVELOPMENT MANAGER

**SUBJECT:** HOUSING COST BURDEN FOR RENTERS, INCLUDING LIHTC PROPERTIES

**DATE:** SEPTEMBER 15, 2023

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**Previous Council Direction**

Council supported a motion during the Consolidated Planning process on May 8 of this year during discussion in the Community and Economic Development Committee to: “support the analysis of low-income tax credit facilities in terms of cost-burdened individuals and to explore policy changes regarding the issue of cost-burdened individuals in low-income tax credit facilities and the interplay of vouchers now and in the future.”

Housing cost burden refers to the degree that households are paying over 30% of their income for their housing, with severe cost burden referring to households paying over 50% of the income for housing. Staff has dug into the degree of cost burden in certain properties with 9% low-income housing tax credits (LIHTC) that are within their 30-year compliance period, analyzing the situation for tenants paying over 30% and over 50% of their income toward housing. Many of you have heard from Eleanor Apartments residents who are experiencing cost burden, and staff continue to discuss this issue with them and others.

Housing cost burden has become a bigger and bigger issue throughout our country, state, and local community as the housing supply issue becomes more acute, and the cost of housing is not well-matched with local incomes. Over 10,800 renter households are housing cost burdened in Bellingham.

**Federal Housing Policy**

At one point, this country had a robust public housing program that worked with local public housing authorities to provide direct subsidies for the development of public housing units. Bellingham has a number of these units that still exist, primarily located within Chuckanut Square, Washington Square, and Lincoln Square apartments. The US has not invested in the development of new public housing units for decades, the only housing option that maintains housing at 30% of a household’s income. The low-income housing tax credit (LIHTC) program was created in 1986, and unlike public housing, provides *indirect* subsidies for housing development

through a program administered by the Internal Revenue Service. Since the early 1990's, LIHTC has been the primary mechanism by which the US invests in major low-income housing development.

While public housing created units with rents tied to a *particular household's* income, LIHTC creates low-income housing by tying the affordability requirements to the *unit*, based on a fixed assumption of the income and household size of that unit. Take the example of a 2-person household earning \$2,500/month (about 39% of area median income or AMI) and living in a 1-bedroom apartment. If that household is in a public housing unit, their housing costs would likely be about \$750/month (tied to the household income). If that household is in a LIHTC unit, their housing costs would likely be about \$900/month (tied to a 1-bedroom unit for a household earning no more than 50% of the AMI).

### **State of Washington Administration of Low-Income Housing**

Just like the City Council has asked staff to look into this issue, the Washington legislature has asked the WA State Housing Finance Commission (WSHFC) and the Department of Commerce to also look into this issue. Both WSHFC and Commerce have a mandate to submit interim and final reports to the appropriate committees of the legislature on efforts taken to stabilize rents for tenants of affordable housing units they are involved with financing. These rent stabilization efforts may include, but are not limited to, limiting or mitigating the impacts of rent increases for tenants of qualifying units. The reports must be submitted by December 1, 2023 (interim report), and December 1, 2024 (final report).

The WSHFC budget proviso language is copied here (similar for Commerce):

- **Section 914 page 660**
  - (1) The Washington state housing finance commission must submit an interim and a final report to the appropriate committees of the legislature on efforts taken by the commission to stabilize rents for tenants of affordable housing units financed through federal low-income housing tax credits allocated by the commission, and other housing finance programs administered by the commission as applicable. Rent stabilization efforts may include, but are not limited to, limiting or mitigating the impacts of rent increases for tenants of qualifying units. The commission must submit the interim report by December 1, 2023, and the final report by December 1, 2024. (2) This section expires June 30, 2025.

City staff are committed to coordination with WSHFC and Commerce as they embark on this process. WSHFC has told us their plan for the initial draft is to lay out the overall issues, including things like increased construction/development costs, increased operating costs, disconnected AMI-to-fixed-income-index, and income stagnation (especially for fixed income), with some discussion about how these together have conspired to result in rising cost burden for tenants (especially fixed-income tenants) in LIHTC properties. They will likely not be getting to the solutions stage until next year. In the meantime, staff is developing possible approaches that can

be pursued at the local level to mitigate the impact of the increasing cost burden situation in LIHTC properties.

### **Local Statistics**

It's important to underscore that the cost burden situation is not unique to LIHTC properties. Consider some facts (these are focused on the City of Bellingham only, unless otherwise noted):

- 54% of renters, or 10,820 households, are cost burdened (paying more than 30% of their income for rent), based on the most recent Census data available (2015-2019 CHAS).
- 63% of all seniors who rent are cost burdened.
- Looking only at severe cost burden for renters (those paying over 50% of their income for rent), there are 6,245 households, or 31% of the renting households in the City.
- The Housing Authority spends over \$22M per year on rental assistance countywide. They also estimate that only about 1 in 4 households who qualify actually receive assistance, so the need is closer to \$90M+ annually.
- The only program that absolutely links rent to 30% of income is public housing, and the federal government has not funded **new** public housing since 1973, and there has been a loss of over 250k public housing units since the 1990s.
- Looking only at stated priority populations: 1) Families with Children and 2) Seniors; and looking only at severe cost burden, there are **3,800 households** in this situation (1,304 elderly + 2,560 families with children paying 50% or more of income for rent) (based on census data between 2014 and 2021).
- One-bedroom rent in a LIHTC property for <50% AMI tenant is about \$900/mo, vs the payment standard for a 1-bedroom Bellingham unit at about \$1,430/month – these LIHTC units may not be 'affordable' as defined by a rent at 30% or less of household income, but they are relatively more affordable than market rents by a significant margin.

### **City Staff Analysis**

The WA State Housing Finance Commission (WSHFC) provides annually a local inventory of active LIHTC properties within the City limits of Bellingham. A few of these (4) are not owned by nonprofit agencies, but the vast majority are. City staff have been granted view access to nonprofit-owned properties in the Web-based Annual Reporting System (WBARS) that contains detailed information about each of these LIHTC properties. Staff have compiled the following about these properties based on 2022 WBARS data that we accessed in July and August of 2023.

- The 27 LIHTC properties reviewed represent 1,347 units of rental housing, or about 6-7% of the City's rental housing units.
- 53% of these units have a housing authority voucher associated with the unit. These vouchers provide additional rental assistance, though do not ensure a household pays

only 30% of their income for their housing. The percentage of these property units with a rent voucher ranges from 4% to 100% across the 27 properties.

- 31% of the analyzed LIHTC tenant households are cost burdened (n=416), paying over 30% of their income for housing. Properties were also analyzed individually on the percentage of their tenant households who are cost burdened, and that ranged from 2% to 75%.
- 11% of the analyzed LIHTC tenant households are severely cost burdened (n=150), paying over 50% of their income for housing. Properties were also analyzed individually on the percentage of their tenant households who are severely cost burdened, and that ranged from 0% to 28%.
- 6% of the analyzed LIHTC tenant households pay over 60% of their income for housing (n=87).

City staff also analyzed the cost differential based on the amount of subsidy needed in a given month to bridge the gap between the cost of rent and what the household would pay based on various assumptions. Again, based on the 2022 WBARS data:

- If there was a commitment to pay the difference between *60% of a household's income* and what their housing costs are, across these 27 properties and the 87 relevant units, that cost would be *about \$20,000 per month, or \$240,000/year.*
- With a commitment to pay the difference between *50% of a household's income* and what their housing costs are, across these 27 properties and the 150 relevant units, that cost would be *about \$32,000 per month, or \$384,000/year.*
- With a commitment to pay the difference between *30% of a household's income* and what their housing costs are, across these 27 properties and the 416 relevant units, that cost would be *about \$110,000 per month, or \$1,320,000/year.*

These estimates are for a point in time, based on 2022 WBARS information including tenant household income and then-current rent. We do not know enough about each of these properties and the tenant occupants to be able to say whether those in certain categories have a greater frequency of housing cost burden, for example seniors, farmworkers, or those who are disabled. Most of the LIHTC properties serve a variety of populations in a single property.

### **Staff Recommendation**

Fundamentally, the policy options involve prioritization and choices about depth vs. breadth of financial support. In this case, we know that housing cost burden is less of a problem in LIHTC properties than in other rental properties throughout the City, as evidenced by the lesser % of renters experiencing cost burden in LIHTC properties (31% in LIHTC vs. 54% citywide).

For LIHTC projects, specifically, staff have brainstormed several options that were discussed with LIHTC property operators and administrators. The full suite of options discussed is included the Attachment A; the staff recommendations with support for moving forward now are:

- **Improve Disclosures at Time of Tenant Application and Lease-up** – Develop clear language for notifications and disclosures communicated to and signed by tenants at the time of application and lease-up (option 2 in Attachment A). ***Staff recommends we modify the City’s Housing Development Guideline and Procedure Handbook to incorporate this requirement.***
- **Support Eviction Prevention Programs in Partnership with Other Funders** – Where funds can be made available for rent assistance and eviction prevention, do so through supporting programs that can be accessed equitably throughout the community (option 5 in Attachment A). Note the approved HUD Action Plan included \$275,564 in Housing Levy funding for ‘additional rental assistance’ with a commitment to return and discuss how best to deploy this. ***Staff recommends the City add \$275,564 to the Eviction Prevention program administered by the Opportunity Council to provide additional rental assistance resources.***
- **Develop a Homeshare Program** – A partnership with online platform Nesterly and a local administrator (City or nonprofit) could facilitate the use of unused bedrooms throughout Bellingham, providing homeowners with additional income and chore assistance, and renters with an alternative less-expensive tenancy option. This has potential to reduce housing cost burden for both parties involved in each match, and free up rental housing inventory elsewhere in the City. This recommendation comes after a year of discussions with Chuckanut Health Foundation, including research and study, along with informal surveys and outreach to Whatcom Council on Aging, Western WA University, Northwest Regional Council, and Opportunity Council. Estimated cost for this program is about \$200,000/yr with a 5-year commitment needed. ***Staff recommends we continue researching the feasibility of administering this program internally and return to the City Council with a final recommendation.***

**Conclusion**

See Attachment A to this memo for additional approaches analyzed by staff with input from experts in the field, with discussion including points about why we are not advancing them all in our staff recommendations. While some potential solutions seemed reasonable initially, further study and discussions revealed numerous unintended consequences that would not serve the goal of providing additional below-market housing and mitigating cost burden.

If you have any questions, please feel free to contact me at 360-778-8385 or by email at [slklutz@cob.org](mailto:slklutz@cob.org); or Tara Sundin at [tsundin@cob.org](mailto:tsundin@cob.org).