

**Engrossed Second Substitute House Bill 2673  
Local Infrastructure Financing Tool (LIFT) Report**

**Sec .206 (2) (a-d) Requirements: Small Business, Low Income Housing, Job  
and Housing Growth, Housing Price Mix**

**August 7, 2006**

## **Sec .206 (2) (a-d) Requirements: Small Business, Low Income Housing, Job and Housing Growth, Housing Price Mix**

### **Overview**

This report fulfills the requirements of Engrossed Senate House Bill 2673 Sec. 206 (2) (a-d) by providing all required inventories, risk assessments, and mitigation plans for small businesses and low income housing within the Revenue Development Area (RDA). The inventory and displacement components of subsection (a) and (b) have been addressed in two separate sections to differentiate between small business and low income housing assessments and mitigation plans. This section also provides the required estimates of projected net job and low income housing growth and the estimate of net housing growth on the housing price mix as required by subsections (c) and (d).

### **Small Business: Inventory, Risk Assessment and Mitigation Plan**

This section fulfills the requirements of Section 206(2)(a-b) for small businesses.

#### **Small Business Inventory:**

In order to determine the impacts of the RDA on small business, it was first necessary to inventory and categorize the existing businesses within the RDA. Bellingham's RDA was outlined using the city's Geographic Information System (GIS). The GIS database was matched against the city's Business & Occupation tax database to produce a list of all business activity reported for the year and to quantify the total number of businesses that are located within Bellingham's RDA. The result was 317 matches of businesses that are located within the RDA that would need to be analyzed to determine the impact of the RDA upon them.

Additional information, regarding the 317 businesses, was obtained from the 2005 Info USA database that surveys and categorizes business by name, owner, address, description of business, number of employees, total revenues, SIC codes, etc. This information indicates that of the 317 businesses located within the RDA 12 businesses reported having more than 50 employees and thus do not qualify as a small business as provided in RCW 19.85.020. There are also 9 government agencies within the RDA that were taken off the list because they are part of much larger organizations and will not be negatively impacted by the RDA. In addition, we surmised that businesses of a sufficient size (by revenue) would most likely not be negatively impacted by the creation of the RDA or would at least have the financial capability to mitigate changes that resulted from the redevelopment. Although detailed financial information of each business was not disclosed in the survey, ranges of revenue were available from which to choose. Our threshold for these businesses consists of two parts: 1) Annual sales of at least \$1,000,000; and 2) sales of at least \$100,000 per employee. Combined, these two criteria provide some indication of a businesses ability to weather change. There were 57 businesses that met both of these criteria leaving 239 businesses that would need additional analysis to determine what impact the creation of the RDA may have.

**Small Business Risk Assessment:**

A number of assumptions and criteria were developed to identify the number of small business that may be negatively impacted within the RDA. These assumptions were developed and refined with assistance from the primary economic development agencies including Western Washington University Small Business Development Center, Chamber of Commerce and Industry, Downtown Renaissance Association, Bellingham Whatcom Economic Development Council and Sustainable Connections.

The first assumption was that because the project build-out is over 30 years there should be very little if any negative impact on existing small businesses. The second assumption is that many of the businesses will benefit from more activity and people living within the RDA. Bellingham's RDA is adjacent to the downtown and old town of the city. Retail, food service, banks, insurance and security businesses tend to benefit from an area that contains residences and is open seven days a week and beyond five o'clock. All of these businesses are counting on the continued revitalization of this area and will benefit from this project as well. Many of the businesses located within the RDA are single person professional offices (i.e. attorneys, CPA's, psychologists) that are destination type businesses. Customers of these professions will seek them out so the physical location of the office is driven more on rental rates than location. We assumed that these businesses could also be relocated quite easily as long as comparably priced offices were available. The last assumption was that if the business owned their current building that they would benefit from any new activity from the RDA and offset any negative impacts to their business. It is important to note that much of the property within the RDA is underdeveloped with little or no current business activity. Most of the businesses located within the RDA are along the edge of the RDA and adjacent to the downtown.

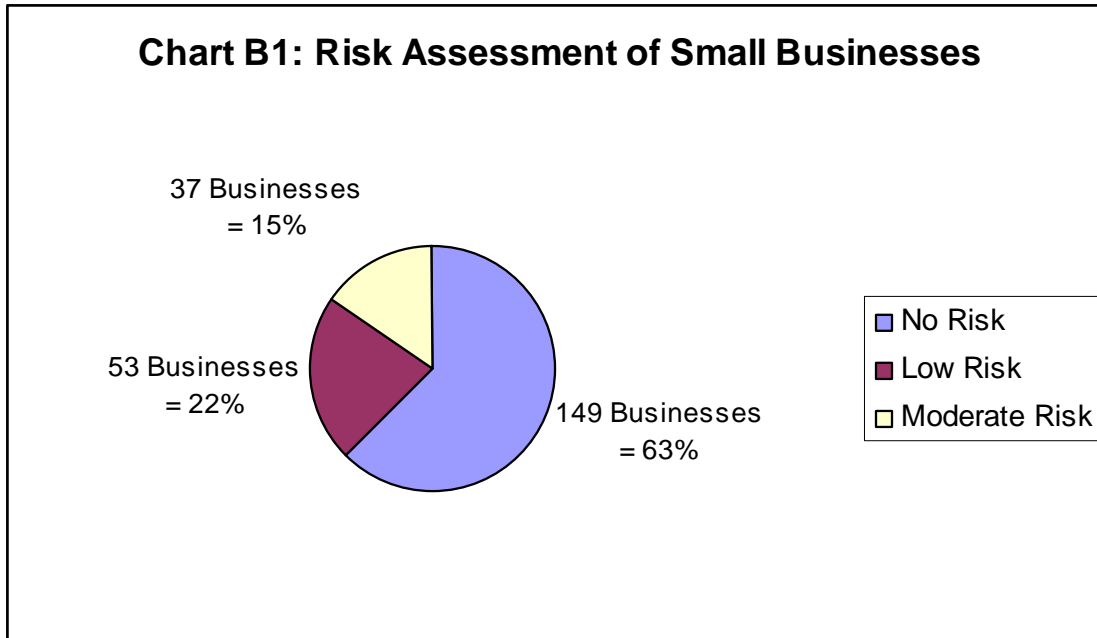
Using this criteria, 149 or a vast majority of the businesses are at no risk of being negatively impacted by the creation of the RDA and more than likely will benefit from the increased number of people in the area. The remaining 90 businesses were further categorized into low risk (53) category and moderate risk (37) businesses. Again, these are not businesses that will be directly displaced, but are likely to be impacted by the creation of the RDA. All of these businesses had at least one negative factor such as building condition, type of business, location, lack of information, rental rates, or other subjective criteria that placed them into one of these two categories. By far, the main reason a company was placed in either of these categories was because there wasn't any information available on them. Table B1 summarizes the results of the risk assessment for the 239 small businesses analyzed.

<b>Table B1: Risk Assessment of Small Businesses by Category</b>			
Business Sector	Risk Category		
	No	Low	Moderate
Construction	5		
Manufacturing	8	3	
Office	7	6	6
Professional Services	9	34	10
Retail	85	5	
Social Services / Non-profits	6	1	21
Food Service & Drinking Establishment	17	4	
Banks, Securities, Insurance, Real Estate	10		
Performing Arts	2		
<b>Category Totals (239 Businesses Analyzed)</b>	<b>149</b>	<b>53</b>	<b>37</b>

The largest category of moderate risk businesses (21) consists of social services organizations. These organizations typically have limited financial resources and are most dependent upon low rental rates. There were an additional 16 office / professional businesses that were in the at risk category mainly because we lacked information on the business itself.

The varying degree of risk indicates that there is potential for some negative impacts to occur over an extended period of time. However, as noted above, no businesses were identified that would be displaced as a direct result of creating the RDA. Rather these businesses are said to have some risk because we lack enough information to know how they will be impacted. Therefore, we have put them into either a low or moderate category for potential negative impact. However, any gradual displacement that may occur over the thirty-year project build-out, could reasonably be expected to occur independent of the creation of the RDA as land prices increase and buildings reach the end of their life cycles. Again, most of the existing businesses are located in areas that will be impacted by an already revitalizing downtown.

Chart B1 illustrates the relative percentage of small businesses in each risk category.



#### **Small Business Mitigation Plan:**

The business inventory indicates that there is a total of 319 business located within the RDA, of which 37 have been identified as small businesses that have a moderate risk of being impacted by the project. As noted above, this projects forecasted build-out is over a thirty-year time frame and many of the potential impacts to these businesses would have likely occurred as part of the natural building/redevelopment cycle.

One way to determine the amount of impact to these businesses is to measure the liquidity in the market for commercial space. In other words, assuming a worse case scenario that some of these businesses would need to relocate, how likely would they be to find available space at comparable rents. A baseline survey of vacancy rates and rental rates was conducted for greater Bellingham. Based on this analysis and verified by the economic agencies we consulted, an adequate supply of rentable space is available within the city limits of Bellingham.

Based on our analysis, it is reasonable to assume most businesses will be positively impacted by the creation of the RDA. Although the overall impact is expected to be positive, a small percentage of businesses may be at risk for displacement from the RDA. To ensure minimal impact to those small businesses that may be negatively impacted, the City of Bellingham is committed to the following measures:

- Continue to allocate funding to support economic development agencies which support existing small businesses. Services include providing free technical assistance to small business owners and managers including business plan development, loan packaging, secondary market research, marketing strategies, patent and trademark searches, and personnel issues. Special focus is currently targeted to the Downtown Bellingham helping to enhance the business retention

and expansion of the District. In 2005, 267 small businesses were counseled and 331 jobs were saved or created within Bellingham's city limits.

- Continue to allocate funding to provide small businesses access to relocation and retention services including technical assistance and economic development funding tools.
- Continue to allocate funding to strengthen the stability and diversity of our local economy through increasing the awareness about the personal, community and economic benefits of choosing local businesses.
- Continue to allocate funding to strengthen the Downtown Renaissance Network's (business association) ability to bring more stability and health to businesses in the Bellingham core.
- Encourage collaboration among community economic development partners to offer a greater coordinated approach to working with small businesses, retaining jobs and improving incomes.
- Develop a land use plan within the RDA which allows for a mix of uses which complement, rather than duplicate businesses in the Central Business District.
- Develop a land use plan that allows light industrial and marine related uses to continue operating within appropriate districts of the Revenue Redevelopment Area.
- Develop a land use plan and development requirements that provide for additional retail and commercial space as to not tighten the supply of rentable space.
- If the market demands additional assistance to dislocated businesses, support the creation of focused retention and relocation programs for businesses negatively impacted within the RDA.

In addition to the services the City of Bellingham provides, a number of institutions, agencies and non-profits provide numerous services to small businesses in the area. See Appendix A.

## Low Income Housing: Inventory, Risk Assessment and Mitigation Plan

This section fulfills the requirements of Section 206(2)(a-b) for low-income housing.

### Low Income Housing Inventory:

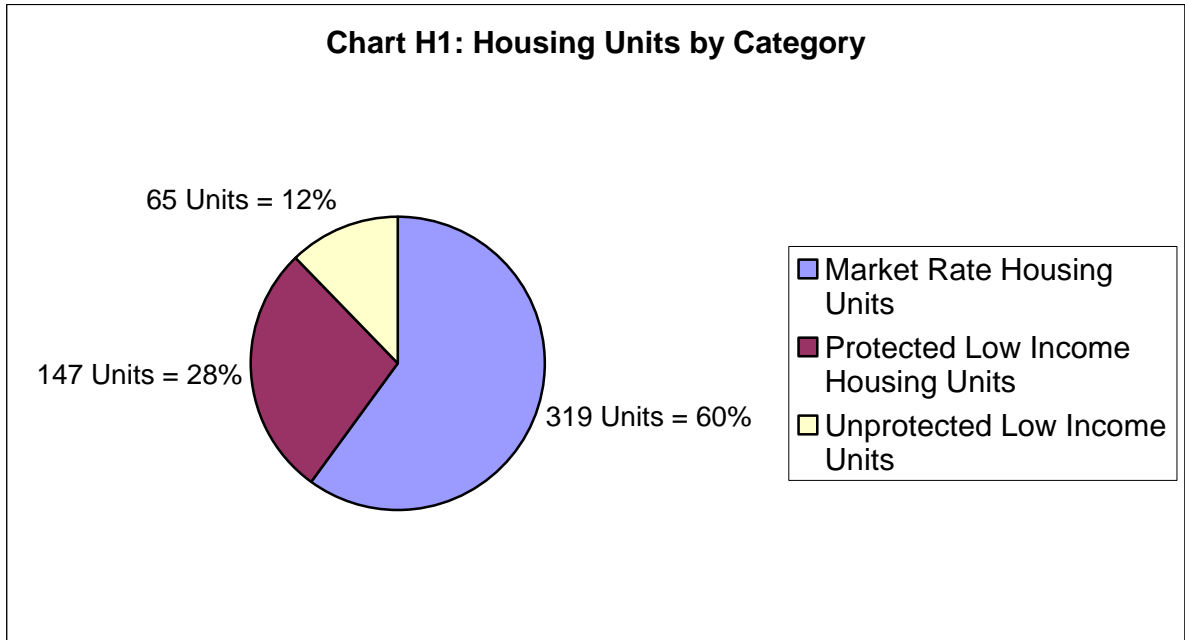
A review of existing housing inventory was conducted to determine the potential impact on low income housing within the RDA. The City of Bellingham's Geographic Information System was used to determine the location, use, and ownership of all properties that provide housing within the RDA. Data on unit descriptions, rental rates, and occupancy was obtained through phone interviews with private property owners, property management companies, and through exterior site inspections. Data on unit sales was obtained from the Whatcom County Assessor's office. Data were adjusted as appropriate for utility allowances and compared to low income housing thresholds as defined in Engrossed Senate House Bill 2673 to determine low income status.

The results of the housing inventory study indicate that there are a total of 531 housing units within the RDA. 212 of these units, or approximately 40% of the total number of housing units within the RDA, have been identified as low income. 147 of the 212 low income units, or approximately 69%, are located in facilities that are restricted to low income housing use for the next 20 to 50 years, depending on the various funding sources. Because of these restrictions, these units are not considered to be at risk of displacement and have been categorized as *protected*. The remaining 65 low income housing units, or approximately 31% of the total low income housing units, are potentially at risk for displacement and have been identified as *unprotected*. It is important to note that while these 65 units have the potential of being displaced, no specific units have been identified that would be displaced as a direct result of creating the RDA.

Table H1 displays the results of the housing inventory and details the number of housing units by category.

Table H1: Housing Units by Category		
Housing Category	# of Units	Comments
Total Housing Units	531	Total of all units in project area.
Market Rate Housing Units	319	60.1%
Low Income Housing Units	212	39.9% of all housing units are low income.
Protected Low Income Housing Units	147	69.3% of low income units are in restricted housing facilities.
Unprotected Low Income Units	65	30.7% of low income units are potentially at risk of displacement.

Chart H1 portrays the relative percentage of housing units by category based on the unit calculations in Table H1. It is important to note that out of the 531 total housing units, only 12% have been identified as unprotected low income.



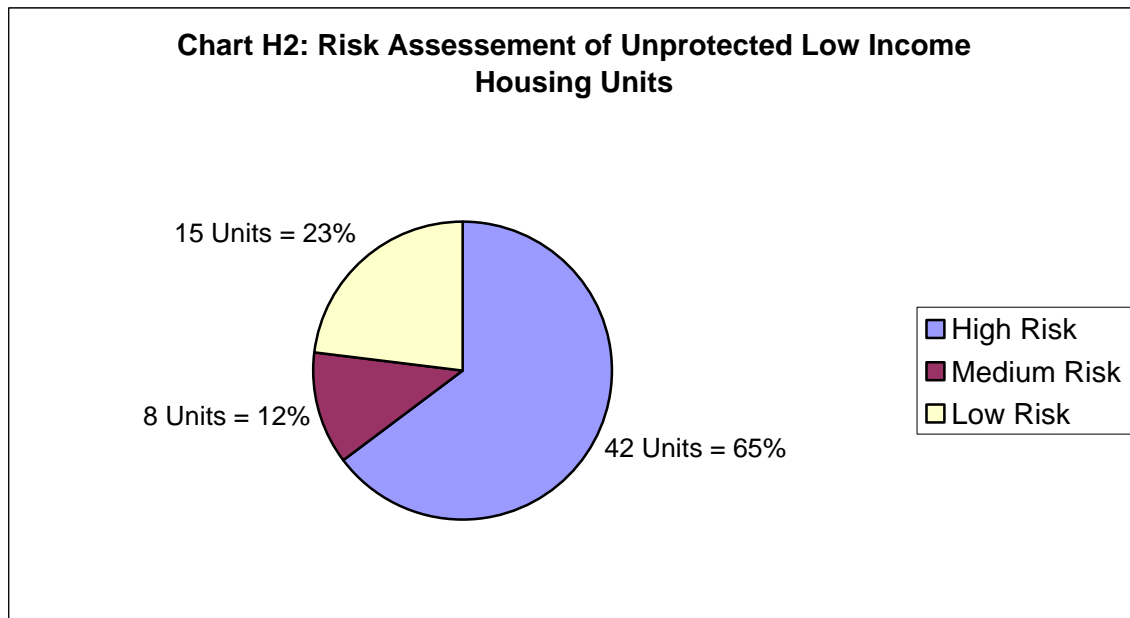
#### **Low Income Housing Risk Assessment:**

As noted above, only 65 housing units have been identified as unprotected and potentially at risk for displacement from the creation of the RDA. These units are provided in seven buildings, which are under distinct ownerships and are located throughout the RDA. The buildings vary in condition, location, and size, and thus offer varied potential for redevelopment. Because of these varied conditions, a risk assessment was performed to determine the overall risk of displacement of the unprotected low income units.

Two assumptions were made in forming the risk assessment: 1) newer buildings that offer higher quality accommodations are expected to reach market rates faster than older buildings that offer lower quality accommodations; and 2) the location of the property within the RDA affects its development potential such that properties with a higher development potential have an increased risk of displacement. Based on these assumptions, each of the seven buildings was evaluated as low, medium, and high risk for the following three categories: 1) quality (based on age and overall condition of the structure); 2) development potential (based on general location and proximity to actively developing areas); and 3) overall risk (a combination of the first two categories and other specific property factors such as ownership and range of rental rates within the building). Table 2 provides the outcome of the risk assessment of the seven properties that are currently providing low income housing that is considered unprotected.

Table H2: Risk Assessment of Unprotected Low Income Housing Units				
Low Income Units in Facility	Quality	Development Potential	Overall Risk	Comments
33	High	Low	High	New building, other units in building at market rates.
3	High	Low	High	Newly remodeled units, below market rates.
7	Medium	Medium	Medium	Other units in building at market rates.
9	Medium	Medium	Low	Studio units only, far below market rates.
6	Low	High	High	Redevelopment within 5 years is likely.
1	Medium	Medium	Medium	Redevelopment within 5 years is likely.
6	Low	Low	Low	Redevelopment within 5 years is unlikely.
65	Total Units			

The results of the risk assessment indicate that 15 housing units are considered at low risk, 8 units are at medium risk, and the remaining 42 are at high risk for displacement. Chart H2 portrays the number of units by risk category.



The varying degrees of risk identified indicate that the potential displacements can reasonably be expected to occur over an extended period of time. In addition, these units are disbursed throughout the developed portions of the RDA close to downtown and would thus likely be displaced as downtown is revitalized over time. This gradual displacement can reasonably be expected to occur over time independent of the

creation of the RDA. As noted above, no units have been identified that would be immediately displaced as a direct result of creating the RDA. Any gradual displacement that does occur over the thirty year project build out could reasonably be expected to occur independent of the creation of the RDA as land prices increase and buildings reach the end of their life cycles.

#### **Low Income Housing Mitigation Plan:**

The housing inventory indicates that there a total of 531 housing units within the RDA, 212 of which have been identified as low income. The risk assessment indicates that only 42 of these low income units have been identified as unprotected low income and at high risk for displacement. As noted above, the potential displacement of the unprotected low income housing inventory is expected to occur over an extended period as part of the natural building/redevelopment cycle.

Although potential losses of low income units are expected to occur over time, this displacement will not be any higher than what has already naturally occurred in Bellingham's downtown area. The City recognizes the importance of an adequate supply of low income housing within the RDA and in downtown and will continue to build upon its many programs that promote and provide for low income housing. It is important to note that all of the 147 protected low income housing units identified in the housing inventory have been created within the last 10 years. All of these projects have been partially funded by the City of Bellingham. This represents an average low income unit growth of over 14 units per year, with most of the growth actually occurring recently. In fact, 91 of these protected low income units have been developed within the last year.

In addition to the recent developments within the RDA, there are also numerous existing and proposed low income housing developments within the City of Bellingham within very close proximity to the potentially displaced units. There is also evidence of that the agencies involved in redevelopment of the RDA are dedicated to pursuing additional low income housing opportunities. For example, the Port of Bellingham and the Bellingham Housing Authority have recently entered into a Memorandum of Understanding which supports the development of additional housing within the waterfront portion of the RDA.

It is reasonable to assume that the recent trend in low income housing development combined with the City's partnerships and financial support of non-profit agencies will continue to add to the supply of low income housing units within the RDA and downtown Bellingham. Ongoing and continued efforts by the City of Bellingham to provide low income housing include the following measures:

- Continue to allocate funding for low-income rental and homeownership housing efforts. These funds are heavily leveraged with recent projects having ratios of approximately \$1 City to \$20 in other funding.
- Continue to support non-profit agencies such as Bellingham Housing Authority, Catholic Community Services and Kulshan Community Land Trust in their efforts to create low-income housing.

- Encourage the preservation of current low-income non-subsidized housing in Bellingham by assisting non-profit housing providers in the purchase of those existing projects as they become available in the market.
- Assist non-profit housing providers in the purchase, conversion and/or re-development of low-income housing on vacant or in underutilized properties throughout Bellingham.
- Continue to provide building permit fee waivers and multi-family tax credit subsidies for low-income housing development as appropriate.
- Continue to support development of policies that support low income housing development in the New Whatcom area as set forth in the Memorandum of Understanding between the Port of Bellingham and the Bellingham Housing Authority.

### **Projected Job and Housing Growth**

This section fulfils the requirements of Section 206(2)(c).

Based on the 2005 Info USA database, 2,985 part-time, seasonal and full-time jobs are held within the RDA. These persons are employed by both small and large businesses. Based on the land use and build out assumptions used for this report, an additional 2,591 full-time positions are projected to be created by the creation of the RDA.

As of July 2006, the housing inventory study indicates there are a total of 531 housing units within the RDA. Based on the land use and build out assumptions, an additional 3000 will be developed by the creation of the RDA.

### **Impact to Housing Price Mix**

This section fulfils the requirements of Section 206(2)(d).

According to the city's new Comprehensive Plan, accommodating significant new housing in Bellingham's city center and central waterfront areas (including the RDA) is critical to the success of the city's infill strategy. The plan anticipates the construction of between 2,500 and 5,000 new dwelling units housing between 4,500 and 9,000 people. In other words, this area alone could accommodate as much as one-third of the city's forecasted 20-year population growth. Since much of the infrastructure needed to support housing development in the city center portion of the RDA is already in place, the resulting housing should be more affordable than other types of housing constructed in other parts of the community where developers are responsible for providing the infrastructure.

Since 2000, approximately 450 new housing units have been constructed in Bellingham's city center area and 750 more units are in the permitting stage. Adding 2,500 to 5,000 more units in the RDA and surrounding areas would increase the current supply of housing by 100% to 400%. The resulting dramatic increase in the supply of

housing will create competition in this sector of the housing market, thereby reducing housing costs or, at a minimum, slowing the rate of price increases.

Many of the new dwelling units constructed in Bellingham's city center over the past ten years were done by nonprofit organizations such as the Bellingham Housing Authority. These units are permanently affordable, contributing to the current pricing mix. It is appropriate to assume that nonprofits will be just as active in building or acquiring affordable housing in the RDA. As an example, the Bellingham Housing Authority has completed a Memorandum of Understanding with the Port of Bellingham to develop residential property in the waterfront portion of the RDA that will include "a multi-tiered housing price structure to serve a broad spectrum of the community".

As with other housing constructed in a downtown or waterfront environment, there are multiple variables that will contribute to creating a range of unit prices in a building. An element of affordability that is generally inherent in new residential development is the unit's location within a building. Whether a unit is located on a lower floor close to street level, has a view or not, has solar access or located on the north (shaded) side of the building can have a tremendous impact on price. Other variables include whether or not new development includes private recreation facilities within a building or the number/quality of public amenities that a building has convenient access to. Given the size of the proposed RDA and the diversity of the site, there should be a number of opportunities to build new housing at a range of prices.

Within the waterfront portion of the proposed RDA, the Port of Bellingham is responsible for cleaning up the property and city has committed to constructing a number of significant bridge, arterial street, parking, and pedestrian improvement projects. The City's use of "LIFT" and other financing methods to construct these improvements means those costs will not be borne by the developers of new housing in the RDA. In fact, absent use of public funds by the City and the Port to finance cleanup and infrastructure construction, it seems unlikely that any housing would be built in this area. Again, the use of LIFT and other public sources of funding in the RDA should reduce the price of the housing or at least reduce the rate at which housing prices have been increasing.

**Appendix A: Economic Development Service Agencies and Programs**

<b>Organization</b>	<b>Service</b>
Western Washington University	Small Business Development Center Center for Economic and Business Research
Chamber of Commerce & Industry	Business Center Relocation Information Whatcom Young Professionals Program
Sustainable Connections	Local Business Networking Initiatives Small Business Conference and Events Buy Local Campaign
Bellingham Whatcom Economic Development Council	Revolving Loan Fund
Downtown Renaissance Network	Downtown Small Business Support Services
Building Industry Association	Professional Development Program
Bellingham Whatcom County Tourism	Business Education Workshops Business Listings
Whatcom Community College	Business Administration Program Career Center Worker Retraining Program
Bellingham Technical College	Small Business Management Course Career Center
Whatcom Council of Governments	Regional Economic Development Planning
Whatcom County	Economic Development Investment Program
Port of Bellingham	Redevelopment, Business Leases and Support