

# Building a Skagit Housing Affordability Strategy

June 2016 Update

Update of the Interim Report produced in 2012

A project led by  
Skagit County Public Health

Called for in Skagit County Board of County Commissioners  
Resolution # R20100206

Updated Report from  
Paul Schissler, community development planner

On Behalf of  
Skagit County Public Health  
Jennifer Johnson, Director  
[jenniferj@co.skagit.wa.us](mailto:jenniferj@co.skagit.wa.us)  
(360) 416-1500

For more information about Skagit County's Housing Affordability Strategy, contact:

Bob Hicks  
Operations Manager  
Skagit County Public Health  
(360) 416-1504  
[bobhicks@co.skagit.wa.us](mailto:bobhicks@co.skagit.wa.us)

Kayla Schott-Bresler  
Housing Resource Coordinator  
Skagit County Public Health  
(360) 416-1520  
[kaylasb@co.skagit.wa.us](mailto:kaylasb@co.skagit.wa.us)

**Skagit County Affordable Housing Advisory Committee membership included those listed below** appointed by the Skagit County Board of County Commissioners Chairperson Sharon Dillon and Commissioners Ron Wesen and Kenneth A. Dalhstedt on October 18, 2010, in County Commissioner Resolution # R20100351 establishing an Affordable Housing Advisory Committee “...to develop and recommend an affordable housing plan for Skagit County”.

The Skagit County Affordable Housing Advisory Committee (SCAHAC) members met periodically through spring of 2013 when a set of recommendations was presented to and accepted by the Skagit County Board of County Commissioners. The SCAHAC recommendations from 2013 appear on pages 22 through 30, below, along with other updated information added in 2016. The SCAHAC members were:

Debra Lancaster, SCAHAC Chairperson and United Way of Skagit County Executive Director

Wayne Crider, Skagit-Island Counties Building Association Executive Director

Kenneth A. Dahlstedt, Skagit County Commissioner

Romeo De La Pena, Samish Indian Nation Planner

John Doyle, LaConner City Administrator and Planning Director

Margaret Fleek, Burlington Planning Department Director

Jana Hanson, Mount Vernon Community and Economic Development Department Director

Bill Henkel, Community Action of Skagit County Executive Director

Jennifer Johnson, Skagit County Public Health Department Director

Ryan Larsen, Anacortes Planning, Community & Economic Development Department Director

Tee McCallum, Anacortes Housing Authority Executive Director

Dan Mitzel, Hansell Mitzel Homes

Gustavo Ramos (later Melanie Corey), Housing Authority of Skagit County Executive Director

Bruce Shellhamer, Crossroads Covenant Church

Tom Theisen, Skagit Council Housing

Gene Van Selus, Salem Village Executive Director

Mike Youngquist, Skagit Valley Farmworker Housing Trust Advisory Council

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## Introduction

*“WHEREAS, there is insufficient affordable housing in Skagit County, and a need for a coordinated and strategic approach to identify strategies to meet those needs in collaboration with all jurisdictions and advocates for affordable housing”*

The **Skagit County Commissioners’ Resolution # R20100206** started out with that assertion. The Resolution, adopted in July 2010, goes on to establish the charge and membership of a **Skagit County Affordable Housing Advisory Committee**.

The County Commissioners’ Resolution directed the Skagit County Affordable Housing Advisory Committee (SCAHAC) to **“develop and recommend an affordability housing plan for Skagit County”** with a report to the Commissioners that includes recommendations for next steps.

The Commissioners appointed the members of the SCAHAC for the range of viewpoints they brought, representing both the private and public sectors, and both for-profit and nonprofit perspectives. The committee members each have more than one of these four perspectives, and they have years of experience working on issues related to housing and housing affordability in Skagit County.

In 2010, the Skagit region was already implementing housing strategies, with a well-established system of agencies and citizens doing excellent work around the issues of affordability. The Skagit community’s challenge has always been to build upon the existing efforts, to accomplish more in the face of the growing need for more homes people can afford. With a few more ingredients, much more is possible.



Wilson Hotel, Anacortes Housing Authority

In 2011, Skagit County asked Paul Schissler to help gather information and options that could add to the good local work already underway. Schissler has over twenty-five years of experience in the field of planning, community development and grantsmanship on behalf of governments and nonprofits. Examples of his work include a wide variety of programs and projects including housing affordability, community facilities, public utility systems and farmland protection.

After taking into account the diverse needs throughout the County and considering the menu of options that might make sense for this region, the SCAHAC produced the countywide housing affordability strategy that was reviewed and accepted by the County Commissioners in mid-2013.

**Synopsis of this report:** This report describes the housing affordability problem that Skagit is facing, with definitions and rules of thumb that form the basis for estimating the shortage. The second section of this report describes the context of the problem and why the issue of affordability doesn’t solve itself without collaborative community effort. Section Three reviews some of the key ingredients that every county needs and then identifies which ingredients are missing or running in short supply. The final section summarizes the SCAHAC recommendations as part of a concerted effort to increase the supply of community housing that people with lower income can afford to lease or own.

## Section One: Scale of the affordability problem, or how much more do we need?

Skagit County is much like any other county in Washington, where **the cost of housing is not affordable for many people who live and work in the community.**

Many people who work full-time, as well as others on fixed incomes, spend far too much on housing costs. Working people and families earning lower wages cannot afford the cost of a basic two-bedroom apartment, and many people cannot afford even a one-bedroom or studio apartment. (More on this need, with statistics, in this section, below.)

### ***The Housing Mismatch defined***

At the macro level, the lack of affordability is called the **Housing Mismatch**, meaning that the supply of homes available locally does not match up with the range of incomes earned locally. There is a shortage in the supply of lower cost homes, compared to the supply that is needed by local workers and others who have incomes much lower than the median income. The supply and demand market fails to supply the number of lower cost homes that the community's residents need.

The Housing Mismatch concept also includes the reality that many homes are occupied by people who cannot afford those homes, and other homes are occupied by people who could afford to be paying more per month for housing. The latter households are fortunate, whereas the former households are struggling to make ends meet. When the latter households move, theoretically they free up less expensive homes for people who need the affordability, in a process called **filtering**.

If you **think of the range of local housing choices as a spectrum** in terms of cost, type and location, the local spectrum of housing is deficient in the lower cost parts of the housing system. The most significant deficiency is the lack of availability of homes where the price would be affordable for people with very low income or extremely low-income.

#### **Definitions established by U.S. Department of Housing and Urban Development**

*Extremely low-income* = income at or below 30 percent of the Area Median Income (AMI)

*Very low-income* = income at or below 50 percent of the AMI

*Low-income* = income at or below 80 percent of AMI

*Moderate income* = income between 80 percent and 95 percent of AMI

*Middle income* = income between 95 percent and 120 percent of AMI

HUD publishes annual updates of Area Median Income (AMI); see table on page 6.

The spectrum of housing options and housing costs in the region does not match the range of incomes in the jobshed. Far from it! According to the U.S. Department of Housing and Urban Development, ***nearly two out of every five households in Skagit County cannot afford the home they occupy*** (37.2 percent, 16,895 out of 45,475 households.) When housing consumes over 30 percent of monthly income, the homes these households occupy are not affordable, leaving less for other basic needs and other household expenses.

***Nearly two out of every five households in Skagit County cannot afford the home they occupy.***

**What is Affordable? What does Affordable mean?**

The standard rule of thumb says that when you spend more than 30 percent or about one-third of your income on your housing costs, you are spending an unaffordable amount on housing. Years ago, the rule-of-thumb used to be that a person or family would need only one-quarter of gross income for housing including utilities, back when one income per household was often adequate.

We can contrast that outdated rule of thumb to today’s rule of thumb; that is, if you spend more than thirty percent or about one-third of your household’s gross income on housing costs, including utilities, your housing is unaffordable. Thousands of Skagit County people and families face this challenge: If your housing costs are more expensive than you can afford, you are forced to cut back on basic needs like food and medical care while you stress about the rent.

According to HUD’s analysis of U.S. Census Bureau data, two out of five Skagit households (37.2 percent) spend too much on housing, facing housing costs that do not match their income. If their housing did match their income, they would spend 30 percent or about one-third every month on housing, with money left over for groceries, transportation and child care.

**“Affordable” is always defined in terms of income.**

<i>70 % of income</i>	<i>Ideally 70 percent of gross income, or more, is not needed for housing and basic utilities.</i>	<i>Every month, the remainder of your take home pay is available for other things, after home costs are all paid.</i>
<i>30 %</i>	<i>Roughly one-third pays for your home.</i>	<i>Housing + utilities = about 30 percent of gross income.</i>

**How we define “affordable”**

People paying over 30 percent of their income for housing have a **Housing Cost Burden**, and households paying over 50 percent of gross income for housing have a **Severe Housing Cost Burden**. If less income got consumed by housing costs, more household income could recycle into the local economy for other things, with a boost of activity for local businesses and the local tax base.

**The hard facts: How much do you need to earn to afford an apartment in Skagit County?**

It can be helpful to think of housing costs in terms of the minimum wage, the average wage or a **Housing Wage** (a wage that makes housing affordable.) According to the U.S. Census American Community Survey (2010-2014) there were 14,914 households in Skagit County that lease or rent their homes, roughly one out of every three Skagit County households. Among these renter households, the estimated mean (average) wage is \$11.82 per hour or \$24,586 per year if paid full time, 40 hours per week, 52 weeks per year.

This **Skagit mean renter wage, \$11.82**, and the other wage data cited here is based on the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages 2014 data and the U.S. Census Bureau American Community Survey (2010-2014). Every year, the National Low Income Housing Coalition publishes this data at the county level, called the *Out of Reach* report, showing how out of reach housing costs can be for people with low income. (See more at the Out of Reach website, [www.nlihc.org/oor](http://www.nlihc.org/oor), managed by the National Low Income Housing Coalition.)

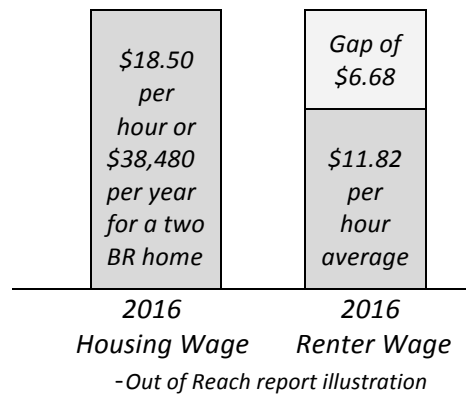
If one wage-earner holds a job paying the mean renter wage of \$11.82 per hour, that household can afford to spend as much as \$615 per month including utilities, using the standard “30 percent for housing” rule of thumb for affordability. That \$615 rent would be affordable for someone working full-time at the mean renter wage in Skagit County, a gross income of just over \$2,000 per month.

If one wage-earner holds a job paying the minimum wage, a household can afford to spend as much as \$492 in monthly rent including utilities. In 2016, the Washington minimum wage is \$9.47 per hour or \$19,698 per year and \$1,641 gross pay per month.

In Skagit County, there are few homes, including apartments, which rent for \$615 or less per month. The local housing supply does not match up with the affordable rents that households with lower income can afford. In Skagit County, the Fair Market Rent for a studio/efficiency apartment is \$663 per month and a two-bedroom apartment is \$962 per month, including enough for basic utilities.

A Skagit renter household needs an income of at least \$38,480 per year, equal to \$18.50 per hour full-time, in order to afford a two-bedroom rental at the \$962 Fair Market Rent. This is known as a **Housing Wage**, defined as “the estimated full-time hourly wage a household must earn to afford a decent rental at HUD estimated Fair Market Rent while spending no more than 30 percent of their income on housing costs.” The *Housing Wage* if you need a three-bedroom apartment is \$25.60 per hour full-time, or \$53,248 per year, \$4,437 each month.

**How big is the gap between the Housing Wage and what average renters earn in Skagit County?**



Many jobs pay much less than a *Housing Wage*, and many jobs are less than full-time. In Skagit, for a basic two-bedroom apartment, the gap or shortfall between a full-time *Housing Wage* and the mean renter wage is \$13,894 per year or \$6.68 per hour. That’s almost \$1,200 short each month.

A renter earning the minimum wage must work 78 hours per week to afford a two-bedroom rental at the Fair Market Rent of \$962 including utilities. Or the renter household needs two people working full-time jobs earning the minimum wage to afford the basic two-bedroom rental cost. To afford a three-bedroom Fair Market Rent of \$1,331 including an allowance for utilities, it would take 108 hours per week of paid work earning minimum wage, or almost three full-time jobs.

The mean renter wage in Skagit County, at \$11.82, is 25 percent higher than the minimum wage. But it still takes 63 hours per week at the mean renter wage to afford a two-bedroom apartment, and 87 hours per week, or two people working more than full-time at the mean renter wage, to afford the three-bedroom apartment fair market rent. Grim reality for many who work in Skagit County.

Skagit County’s HUD 2016 Income Limits									
Gross annual income, adjusted for household size									
% AMI	Household size =	1	2	3	4	5	6	7	8
< 30 %	Extremely low-income	13,650	15,600	17,550	19,450	21,050	22,600	24,150	27,500
< 50 %	Very low-income	22,700	25,950	29,200	32,400	35,000	37,600	40,200	42,800
< 80 %	Low-income	36,300	41,500	46,700	51,850	56,000	60,150	64,300	68,450

### ***How many people in Skagit County need affordable housing?***

According to U.S. Census American Community Survey (2010-2014), a total of 17,535 of 45,309 Skagit County households, just under 40 percent, are cost burdened, spending over 30 percent for housing.

The American Community Survey also reports that, for households with incomes of less than \$20,000 per year, 5,527 out of 6,479 households (or 85 percent) pay more than 30 percent of their income for housing, by definition, cost burdened.

Among the households in Skagit County with income up to \$50,000 per year, 13,230 of these 19,528 households (or 68 percent) pay more than 30 percent of their income for housing every month, cost burdened with unaffordable homes.



Hillsview, Sedro-Woolley Housing Authority

When housing is not affordable, households have to balance housing costs against other household expenses for food, transportation, health care, insurance, etc. in order to make ends meet. Savings and emergency funds might be nominal or nonexistent, putting households at risk of losing their housing. Loss of a job or health insurance, or missing a few paychecks, can result in homelessness.

When well over half of Skagit County households earning less than \$50,000 have unaffordable housing costs every month, it is a wonder that more Skagit residents do not end up homeless.

### ***What do the trends indicate about the future affordable housing needs?***

At least an additional 5,404 households can be expected to need affordable homes by 2036, based on current demographic patterns and projected Skagit population growth over a 20-year growth period. Here's the math:



Evergreen Manor, Mercy Housing Northwest

Skagit County jurisdictions have been planning for a population increase of roughly 35,751 people from 2015 to 2036, from 119,701 in 2015 to 155,452 in 2036. The average household size, currently 2.56 persons, tells us that we need to plan for 13,965 additional homes to accommodate the increasing population, an increase of almost 700 homes needed each year, on average. Households are trending to be smaller over time, so 700 homes per year likely underestimates the real need.

According to the statistics in the HUD Comprehensive Housing Affordability Strategy (CHAS), 38.7 percent of all Skagit households are low income (at or below 80 percent of the Area Median Income (AMI)) and 10.1 percent have extremely low-incomes (below 30 percent of AMI.) If these percentages remain the same in the future, 38.7 percent of 13,965 future homes (or 5,404 homes)



need to be affordable in the low-income range. That translates to approximately 270 of the 700 homes built each year that need to be affordable to households with low-incomes, at or below 80 percent AMI. Of the 700 homes to be built per year, an estimated 10.1 percent (or 71 homes per year) need to be affordable for people with extremely low-incomes. Currently, few homes in that affordable range are added each year, so the community is falling further behind as the need grows.

***What is the Total of Current Need plus the Projected Need?***

To get an estimate of the total need, we add the existing need for more affordable homes in Skagit County to the projected need derived from the increasing population of people with low incomes.

***How Many New Homes Need to be Affordable at Various Income Levels Per Year to Meet Projected Growth?***

As we noted above, data from two sources concluded that around 17,535 households in the County are already paying more than they can afford, which is a financial hardship for these households, which has negative ripple effects throughout the local economy.

0-30% AMI: 10.1% or 71 homes  
 30-50%AMI: 11% or 77 homes  
 50-80% AMI: 17.7% or 124 homes

In addition, we estimated that 5,404 households with low-incomes will be added to the County by 2036 and all of these households will face a challenging time finding housing they can afford.

The sum of these estimates (17,535 plus 5,404) tells us that 22,939 homes affordable at less than 80 percent of the area median income will be needed between 2015 and 2036. That equals 1,147 affordable homes every year needed to catch up and meet the estimated total need by 2036. These numbers tell us where to aim for the appropriate scale of a reasonably complete remedy.

This number includes the current need, but misses the impact of net loss. Many relatively affordable homes are at risk of becoming unaffordable. Rent increases on market-rate homes make those homes more unaffordable for the households with low income that lease them. Without net loss being added, 1,147 more homes per year is an underestimate of the County’s real need.

<i>Current need</i>	<i>17,535 homes</i>
<i>Plus projected need</i>	<i>5,404 homes</i>
<i>Total need</i>	<i>22,939 homes</i>
<i>Need per year</i>	<i>1,147 homes</i>

There are three main options for meeting this need: making existing homes more affordable, building new homes that match the available jobs and incomes, or increasing household wages for lower-wage workers until housing costs are affordable.

The community has some say about all three options, although the third option is new territory for most thinkers. The other two options are more familiar: funding and policy options that create and preserve affordability for those who cannot otherwise afford the home they need.

Community discussions are underway about where and how more homes can be made more affordable. The total need is formidable, and the number of homes needed per year is staggering. What can be done about the 17,535 Skagit households now living with unaffordable housing costs? How can the region possibly address the projected growth that will require 270 more homes per year affordable to workers with lower wages, with at least 71 or more homes per year affordable for people with extremely low income?

Even if the calculations above are off by a wide margin, the numbers will still be daunting. Currently, the capacity, funding and policies are insufficient to address a problem of this size. In recent times, subsidies and incentives have allowed mission-driven developers to produce only a small fraction of the affordable homes that were needed.

On the flip side of that challenge, if additional resources, grants and loans become available, community capacity can grow to meet the challenge of producing many more affordable homes per year.

Local governments and community efforts have the capacity to influence and increase affordability. The challenge is assembling the ingredients to make more affordability happen. Section Three below talks about the essential ingredients and what else could be added to increase production. First, though, Section Two lays out some of the factors that will affect any housing strategy.

*Even if these calculations above are off by a wide margin, the numbers are still quite high and can be daunting.*

## ***Section Two: the components of a strategy and the issues to factor in***

A Skagit area strategy for creating more housing affordability starts with the ground rules and patterns that are already in place. Looking back over the last 20 years, there are at least a dozen key points that will factor into an evolving strategy for creating more homes people can afford.

1. **Urgent Need Far Exceeds Production Capacity** If the Skagit area had far more funding and proactive public policies, how could the Skagit area add 1,129 or more homes per year to the supply of homes affordable at or well below 80 percent of the area median income?

The scale of the problem is an order of magnitude above what the current policies and funding can produce in a good year. Radical solutions might be needed but, in the meantime, tried and true methods could produce or preserve 100 or more homes per year, growing the local supply of community housing that remains affordable for people with low income.



Salem Village, Mount Vernon

If the region can add proactive policies and more funding to the mix, the pace of production will increase, starting with the existing network of private and public agencies that focus on affordability, with room for additional agencies and private contractors to help boost local production capacity. The scale of the need creates a vacuum that calls for solutions.

2. **Choose Dollars and/or Policy** Communities and municipalities have two powerful choices when it comes to addressing the affordable housing shortage: policy and funding.

Public policy choices and/or more funding will result in increased production and preservation of homes affordable for people whose incomes are relatively low.

The private sector on its own cannot afford to produce or offer an adequate supply of homes at costs that would be affordable to people with very low income. According to the data, for decades the private sector has been unable to supply lower cost housing without the help of the public sector, sometimes with a boost from philanthropy and the faith-based community.



Skagit Habitat for Humanity

The best available remedies call for a combination of the private sector's capacity to build and manage housing with the public sector's capacity to create policies and funding that encourage, incentivize and subsidize the private sector. One without the other will not work. Each can call on the other to do more and as much as possible, while offering to do the same; that is, as much as possible in return. Public policy offers are essential if that dynamic is to work.

3. **Small Money Turns into Big Money** Each layer of funding is essential, and small amounts make big things possible. An innovation to find 10 percent of a project's financing will leverage 10 times that amount in total spending on housing construction and housing preservation.

The federal Low Income Housing Tax Credit program illustrates this point. When a developer wants to compete for Low Income Housing Tax Credits, the project must show a commitment of other matching funds. If the project has local funds or a Washington Housing Trust Fund commitment, it has much better odds of securing over half the project's funding from Tax Credits. The local match can make a multi-million dollar construction project feasible.

Early local investments in planning and predevelopment and early commitments of construction funding will leverage other private and public funds for construction and operating costs. Conversely, without the seed money and early commitments, projects will never attract the big money that makes them feasible.

County and city governments, working with mission-driven developers, can get more projects started and ready for big money.



Villa Santa Maria, Catholic Housing Services

- 4. Make Dollars Do Double Duty** Smart public policy looks for ways that public expenditures or investments can do double duty and/or provide recurring benefits for a long period of time. Bricks and mortar investments in affordable housing create ongoing, good paying jobs and produce public revenue during construction, while also providing ongoing, measurable benefits for the residents and the community for as long as the homes remain affordable.

As an example, Skagit County is experimenting with a concept that has public funding doing more than double duty: RCW 82.14.370 sales and use tax funding can be used as an investment in public infrastructure linked to the construction of affordable homes. First, the funds pay for impact fees and utility hookup fees, often a significant cost of housing construction. Next, the cities use the same payments for capital projects. This economic development strategy has other layers of benefit, in addition to the public funds being used at least two times.

- 5. Dollars from the Voters** Voters in the cities of Seattle and Bellingham have approved ballot measures that call for a property tax levy lid lift to fund housing affordability. These two votes generate approximately twenty million and three million dollars, respectively, on an annual basis. Other communities around the country are using property taxes and other sources of dedicated revenue in order to expand community housing supplies.



La Casa de Santa Rosa, Catholic Housing Services

- 6. Strategies Can Be Regional** It is better if regional solutions can be implemented. Small cities and local organizations can be strong allies if regional strategies make sense.

Housing affordability problems tend to be similar throughout the region, and similar solutions might make sense in several places at once, with economies of scale and cost savings from efficient implementation.

For the Skagit County area, it makes sense to consider three- and four-county strategies that can build the momentum for housing affordability efforts throughout the region and, as we report below, can qualify the region for additional, nonlocal funding.

- 7. Better Distribution to Fix the Housing Mismatch** Each jobshed needs homes affordable for its work force and its particular mix of incomes.

Each community can aim for a spectrum of housing that matches the needs of its work force, keeping in mind that 35 to 40 percent or more of all households will have low incomes, and many households will have incomes well below 80 percent of the area median income.

- 8. Regional Policy with Local Impacts** The RCW 82.14.370 funding described above is an example of a regional program with local impacts. The regional funding offers to make construction more affordable inside cities and towns, offsetting or counterbalancing the utility charges and impact fees that can be a cost hurdle in an urban growth area.

This regional policy and funding strategy has its biggest impacts at the local jurisdictional level, incentivizing affordable housing construction without cities giving up on impact fees and utility charges.

The program helps to assure that homes are built closer to jobs, schools, shops and services. It is better for families, society and the environment if people can afford to live close to where they work. It also fits with the growing awareness about the impact of location on housing costs, a concept labeled the *Housing+Transportation Affordability Index*. This is a more complete measure of affordability, ideally with combined housing plus transportation costs taking up no more than 45 percent of gross monthly income.

9. **A mini-ARCH in the Future?** A Regional Coalition for Housing (ARCH) serves sixteen municipalities in East King County, with pooled funding and a regional allocation system that supports a queue of affordable housing construction projects at appropriate locations, close to jobs and services.

ARCH also provides expert assistance to jurisdictions and local organizations, helps to develop and implement housing policies and programs, and encourages community involvement and leadership in affordable housing issues.

Skagit's towns and cities could consider a similar, coordinated approach, perhaps in collaboration with other members of the Skagit County Consortium.



Harbor House, Anacortes Housing Authority

10. **Conversion Instead of New Construction?** A large percentage of Skagit area homes are currently unaffordable for their occupants. The data indicate more than one-third of all Skagit households (at just under 40 percent, that's closer to two out of every five) are paying an unaffordable amount, more than 30 percent of monthly income, for housing.

If more of these existing homes could be made more affordable, through HUD Housing Choice Vouchers, local rent assistance, a change in ownership motives, or other means, these homes would become affordable, scattered throughout existing neighborhoods.

The strategies in Section Four below include the prospect of converting existing homes to a more affordable price for thousands of households with low incomes.

11. **Twenty years is a short time** It is good public policy to require, whenever possible, longer-term affordability rather than allowing affordability to end. Most public funding programs, including HUD, USDA and the IRS Low Income Housing Tax Credit programs, have allowed the affordability requirements to end after a limited number of years.

Some programs, like community land trusts and the updated Low Income Housing Tax Credit program, are designed to require or encourage the longest possible period of affordability. Incentivizing long-term affordability is good policy, but some older programs had limits as short as fifteen years.



Alpine Ridge, Mount Vernon

Public funded programs can be designed to incentivize or require more years of benefit. For example, public funding can be invested in the form of a recoverable grant or deferred loan that remains invested for as long as the homes remain affordable for people with low income. This form of investment allows the public sector the option of incentivizing longer-term affordability and gaining extra years of measurable benefit while simultaneously allowing the option of recapturing public investments if the homes come out of an affordability program. The public funder can off-load the stewardship/monitoring role to a community housing partner after the public funding's compliance terms are met.

- 12. Competitive Advantage for Workforce Stability** Another outcome of housing as an economic development strategy is an improved competitive advantage in the business world. There is a ***Housing+Transportation Affordability*** issue that increasingly factors into workers' and businesses' decisions about staying or relocating.

Affordability depends on location, and transportation costs can negate the benefit of lower housing costs if you spend too much money and time commuting to work, shops and services. The Center for Neighborhood Technology ([www.htaindex.cnt.org](http://www.htaindex.cnt.org)) has mapped the affordability of neighborhoods throughout the U.S. and recommends a new rule of thumb: no more than 45 percent of monthly income spent on housing and transportation. Spending more than 45 percent of gross income is not affordable.

Businesses need a work force that can afford to stay, and a healthy supply of affordable housing is crucial. Ideally, workers' homes should be close to their jobs because lower transportation costs factor into what is affordable, especially when wages are low.

Few places have this competitive advantage; thus, a community is smart to increase the number of homes that its many jobholders can afford, even if wages are low.



The President, Housing Authority of Skagit

## **SHIFTING GEARS: HOUSING AFFORDABILITY IS ECONOMIC DEVELOPMENT**

**Ripple effects make housing affordability an important part of local economic development strategies.** Investing in housing affordability ripples through the economy, with short-term multipliers measured in terms of jobs and spending, and with long-term implications for the health of the local economy and the stability of the local work force.

The role of housing affordability in economic development can become a motivating force for more concentrated efforts by the private and public sectors. Along with the highlights on the following three pages, research reports are accumulating that document the direct and significant impacts on the economy. For example, the Center for Housing Policy sums up the findings of the National Association of Home Builders, Urban Land Institute and others, compiled into the 20-page report, *The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A Review of the Literature*.

Among the impacts of housing affordability on jobs and economic development, we can list:

- a) **ON-GOING JOBS IN CONSTRUCTION** Housing projects will spur job growth, with skilled jobs that will help revitalize the local economy, especially in the hard-hit real-estate sector and the construction trades.

The National Association of Home Builders estimates that 120 jobs or more are created during the construction of 100 apartments funded by the Low-Income Housing Tax Credit program, in addition to roughly 30 on-going jobs in other sectors after the 100 homes are finished and occupied.

These jobs in construction and related fields will be permanent, not temporary, if the region can establish a local financing system for a continuous, annual queue of affordable housing construction. The need and the demand for housing are huge; the biggest missing ingredients are adequate funding and supportive policies.



Milwaukee Park Apartments, Compass Health

Note, too, that construction jobs often pay a Housing Wage or higher—the kinds of jobs every community wants.

- b) **BUILDING A SKILLED, STABLE WORK FORCE** Housing affordability is an investment in the local work force. A healthy economy depends on a stable, skilled labor force, with workers who can afford to stay in their jobs because they can afford a home nearby.

Investing in a stable work force means less spent on employee turnover, on employee recruitment and training expenses, and on the loss of productivity or loss of quality that can result from higher employee turnover. Instead, local employers benefit from the higher productivity of more experienced, reliable workers.

This stable labor force issue is especially acute in certain economic sectors, including health care, agriculture and the education sectors, where many essential, skilled employees earn incomes that are well below the median and, therefore, too low to afford market-priced housing for themselves or their families.



LaVenture Workforce Housing

Many thousands of these modest-wage jobs are essential to the local economy and will never be off-shored. It's likely that these jobs will always be paid less than a Housing Wage unless something revolutionary happens. Some of these jobs, such as early childhood care and education, will likely be paid wages well below the Housing Wage, in spite of early childhood care being among the most important and valued jobs in any community. The whole community is better off if qualified, dedicated workers can afford the jobs they love.

- c) **HOUSING IS INFRASTRUCTURE FOR THE ECONOMY** There are physical components that support a healthy economy, and housing is an essential component of a healthy economic infrastructure. Housing for the work force is just as important as a water supply or a good transportation system.

Like other parts of the community's infrastructure, the community's homes are a long-term capital asset. The smart use of public policy and funding can increase the community's enduring capital of affordable homes, bringing the supply closer to what the needs actually are, given the realities of the local jobs and work force.



Raspberry Ridge, Housing Authority of Skagit

Longer-term, each community needs to build up the number of affordable homes available within the economic infrastructure that serves its local area, or jobsheed.

- d) **HOUSING PRODUCES PUBLIC REVENUE** Construction of new homes and renovation of existing homes produces immediate income for state and local governments. In Washington State, the revenue includes sales tax for building materials during construction and from the ongoing spending of residents; charges for permitting and impact fees; utility hook-up fees and monthly revenue from utility customers, and on-going property and utility tax revenue.

Affordable housing usually takes an urban form, with a higher number of homes per acre. This translates into higher property values per acre and therefore higher property tax revenue per acre. When combined with the other on-going revenue (like sales tax, utility rates, fuel tax, etc.) from the economic activity of that higher number of people per acre, urban affordable housing makes more fiscal sense than lower-density development.

After construction of new affordable home projects, the property values and tax revenue from surrounding properties may also increase. According to research results compiled by the Center for Housing Policy in 2009, "Overall, the research suggests that neighbors should have little to fear from the type of attractive and modestly sized developments that constitute the bulk of newly produced affordable housing today." A six-page summary of the research is titled, *Does Affordable Housing Cause Nearby Property Values to Decline?*

- e) **THE DOUBLE MULTIPLIER EFFECT** For a broader economy-wide impact, investing in housing for the work force will have a double multiplier effect.

The first multiplier effect compounds the local public investment by five to ten times; that is, construction spending will be five to ten times or more the amount of local public funding.



Affordable housing projects must compete for funding, and local funds get the cascade of matching funds rolling, picking up layers of state, federal and private matching funds.

The second multiplier effect results from construction spending rippling throughout the overall economy, creating three or more times the local economic impact of the construction spending.

Therefore, conservatively estimated, each \$1,000,000 in local funding invested in housing affordability will create \$5,000,000 to \$10,000,000 in construction activity, and an overall impact of \$15,000,000 to \$30,000,000 or more in local economic activity. Seldom will local funding leverage that much additional spending nor have as large a multiplier effect.

Other economic arguments can be added to the five listed above. Other sources, such as the 2011 report from the Center for Housing Policy titled *The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A Review of the Literature*, summarize the data from a long list of studies that confirm the relationship between affordability and economic development.

## **MAKING HOUSING WAGE JOBS OUT OF LOW-WAGE JOBS, INSTANTLY**

The community can convert a lower wage job into a Housing Wage job by making housing costs affordable.

This insight, conceived by Ferndale City Administrator Greg Young, provides a helpful illustration of how powerful affordability can be, for both the worker and for the overall economy.

When the infrastructure of the community can offer homes that working people can afford, workers have money left over for groceries, transportation and child care.

Workers can afford to stay in their jobs if their community offers homes with costs that match the incomes earned. If a worker's housing costs are affordable, the worker's job has become a Housing Wage job (a wage that makes housing affordable.)

***Converting a mean renters wage job into a Housing Wage job is equal to \$4,000 or more in local spending per worker per year***

When we do the math based on Skagit County wages and prices, we show the powerful impact of turning a low wage job into a Housing Wage job. When housing costs are affordable, workers can achieve a better standard of living, freeing up some of their monthly income to contribute to the prosperity of the local economy.

In Skagit County, the Housing Wage for a two-bedroom apartment is \$19.00 per hour, and the mean renters wage is \$11.91 per hour, for a difference of \$7.09 per hour. (Pages 5 and 6 above explained how these two wage numbers were derived.)

If the community can somehow offer an affordable home to a mean renters wage worker (affordable would have that worker spending no more the \$620 per month including utilities,) the

affordable rent makes the mean renters wage feel like a Housing Wage to the worker; that is, \$11.91 per hour feels like earning \$19.00 per hour.

Annually, that adds up to more than \$4,000 a year if working full-time. When the mean renters wage worker is paying an affordable rent (\$620 with utilities) instead of paying an unaffordable rent (\$988 including utilities for the same two-bedroom apartment), that worker has over \$4,000 (\$368 x 12 months) in income freed up each year for other basic needs and a few extras. For a three-bedroom apartment (Fair Market Rent of \$1,387), the mean renters wage worker has over \$9,000 (\$767 x 12 months) per year for other expenses.

The whole economy benefits because \$4,000 to \$9,000 or more annually per working family can be spent on other things, not consumed by an unaffordable monthly housing cost.

If this conceptualization of the impact of affordability is reasonable, the overall impact on the economy is huge and annual. There's a local economic impact of \$4,000 to \$9,000 or more from each home that becomes affordable. For every 100 homes, \$4,000 to \$9,000 per home multiplied by the 100 homes equals \$400,000 to \$900,000 or more per year of local impact, year after year.

One more affordable home = \$4,000 to \$9,000 or more every year a family can spend each year

One hundred affordable homes = \$400,000 to \$900,000 or more every year in economic activity

One thousand affordable homes = \$4,000,000 to \$9,000,000 every year for other things, not housing

The workers who need affordable housing are already here, working in jobs and industries that pay low wages. Many of these lower wage local jobs are in health care, the agricultural economy and education sectors. These jobs are vital to the economic health of the community.

These jobs will be part of the local economy long-term, so it makes sense to plan and build an infrastructure of community housing that matches the local economy.

### **Section Three: What are the three essential ingredients and what's missing?**

Skagit County has many of the key ingredients needed to produce more housing affordability: mission-driven housing agencies, private sector builders and suppliers, willing lenders, professionals in architecture, engineering and housing finance, and municipal plans and policies that recognize the need for more homes local people can afford. Additionally, Skagit County offers a limited amount of federal, state, and local funding to housing agencies.

If the region can add a few more ingredients, more progress will be possible. Essentially, there are only three types of ingredients: funding, policy and capacity. Let's look at each of the three:

## Funding Options

Public funding options are limited in Washington, and local officials get to decide which ones to use for housing affordability. This section reviews the options available at the local level.

In contrast, federal and state funding policies and appropriations are controlled in distant places less responsive to local influence, although the Skagit community can tap into that nonlocal funding to augment local sources of revenue.

To repeat a point made in Section 2 above, small amounts of money turn into big money: Each layer of funding is essential, and small amounts make big things possible. Finding or innovating another revenue stream to help with a project's costs can leverage ten times that amount, or more, in total spending on housing construction and preservation.

Could one or more of the following be the source of that powerful ten percent?

Here is the range of public funding options under local control that could be or are being used in Skagit County.

**Local funding options:** First, a menu of the local revenue options for housing affordability:

- A. Municipal general funds can be used for housing affordable to people with low income.<sup>1</sup>
- B. Real Estate Property Tax, with a levy lid lift as authorized by RCW 84.52.043 and 84.52.105. The former counts toward the maximum levy rate and can be used to assist with homes affordable at up to 80 percent of AMI. The latter does not count toward the maximum levy rate and can be used to assist housing affordable at up to 50 percent of AMI (more on this in Section 4, below).
- C. Distressed/Rural Sales and Use Tax, authorized by RCW 82.14.370, sometimes called "Point Oh Nine" funding, which can only be used for publicly owned facilities and can be used to pay impact fees and utility hook-up charges associated with affordable housing construction projects (more on this in Section 4, below). Skagit County recently authorized the use of these funds for affordable housing projects.
- D. Real Estate Excise Tax (REET) cannot, unless state law is changed, be spent directly on housing affordability but could be used for off-site infrastructure for areas that could accommodate affordable housing development.

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<sup>1</sup> Readers may already be familiar with the issue of whether public funding may assist with housing affordability and how to address the provision in the Washington State Constitution at Article 8, Section 7 which says "No county, city, town or other municipal corporation shall hereinafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and the infirm..."

*This issue has been addressed by the Washington State Legislature and case law which authorizes towns, cities and counties, as a measure of "support of the poor," to assist in low-income housing with loans or grants to owners or developers of such affordable housing. WA State statutes also refer to the same income standard used with many federal affordable housing programs, that is, gross household income at or below 80 percent of the area median income (AMI) adjusted for household size, relying on HUD's annual published AMI standards.*

- E. Utility Tax Surcharges that could be linked as revenue for affordable housing, although utility taxes are unrestricted general funds.
- F. Cash in-Lieu Payments if incentive zoning or inclusionary housing policies are adopted with in-lieu payments as an option.
- G. Sale of land that is publicly owned but surplus to public needs, although the proceeds from the property sales may not be unrestricted general funds.
- H. Business and Occupation Tax increase devoted to housing, although B&O taxes are unrestricted general funds.
- I. General Obligation Bonds, either councilmanic or voter-approved like Seattle's senior housing bond issue in 1981 that preceded its subsequent four voter-approved housing levies (repayment of bonds from general funds would put this option in competition with other priorities for use of the general fund).
- J. Document Recording Fees, also known as 2060 and 2163 Funds, with allowable uses set by state statute and restricted to affordable housing uses and already making a big impact locally.
- K. Community Development Block Grant funding, as an annual entitlement received by Anacortes and Mount Vernon for use within those two cities and competitively available to other cities and towns. (CDBG qualifies as local funding under some circumstances.)

**Nonlocal funding options:** Local housing affordability projects may be able to use nonlocal funding sources already familiar to Skagit nonprofit developers:

- L. **Community Development Block Grant** funding as competitive grants from the WA Department of Commerce of up to \$750,000 for construction projects and up to \$24,000 for CDBG Planning-Only projects, [www.commerce.wa.gov/cdbg](http://www.commerce.wa.gov/cdbg)
- M. **WA Housing Trust Fund** funding as grants and loans, much reduced from a peak in 2009-2011, but hopefully to rebound, [commerce.wa.gov/Programs/housing/TrustFund/Pages/default.aspx](http://commerce.wa.gov/Programs/housing/TrustFund/Pages/default.aspx)
- N. **Federal Low Income Housing Tax Credits**, private sector investments for affordable rental housing construction, [www.wshfc.org/mhcf/index.htm](http://www.wshfc.org/mhcf/index.htm)
- O. **Multifamily Housing Bonds** also offered through the WA Housing Finance Commission that also manages the LIHTC program, [www.wshfc.org/mhcf/BondsOnly8020/index.htm](http://www.wshfc.org/mhcf/BondsOnly8020/index.htm)
- P. **USDA Section 502 Mortgages** used by Whatcom Skagit Housing and directly by individuals, [www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans](http://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans)
- Q. **Skagit County Consortium**, with an annual federal HOME Investment Partnerships Program grant to a consortium of 19 Skagit, Whatcom and Island County municipalities, [www.hudexchange.info/home/topics/consortia/](http://www.hudexchange.info/home/topics/consortia/)
- R. **HUD Section 202 Supportive Housing for the Elderly Program**, although the annual appropriations for this program have been much too slim and extremely competitive, [portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/mfh/progdesc/eld202](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/progdesc/eld202)

## Policy Options – Low Cost and No Cost Choices

There are many “no cost/low cost” policy options that municipalities can consider. Policies that incentivize or require housing affordability at appropriate locations can have the multiplier effects noted above, leveraging other funding and stimulating the local economy.

Many policy options have been included in the Comprehensive Plans that have been adopted by Skagit County jurisdictions, each of which has a Housing Element as required by the WA Growth Management Act (GMA). The GMA statute’s planning goals require that comprehensive plans and implementing programs and regulations must:

*“Encourage the availability of affordable housing to all economic segments of the population of this state, promote a variety of residential densities and housing types, and encourage preservation of existing housing stock.” - RCW 36.70A.020*

In Skagit County, the Countywide Planning Policies (CPPs) provide a framework for Comprehensive Plan housing elements:

- ✓ Local governments shall allow for an adequate supply of land use options to provide for a wide variety of incomes, housing types, and densities. (CPP 4.1)
- ✓ Public/private partnerships shall be encouraged to build affordable housing and devise incentives for innovative and environmentally sensitive design to meet the housing needs of people with low and moderate incomes and special needs populations. (CPP 4.2)
- ✓ The Comprehensive Plan should support innovative land use management techniques, including, but not limited to, density bonuses, cluster housing, planned unit developments and the transfer of development rights. (CPP 4.3)
- ✓ The existing affordable housing stock should be maintained and efforts to rehabilitate older and substandard housing, which are otherwise consistent with comprehensive plan policies, should be encouraged. (CPP 4.4)
- ✓ The construction of housing that promotes innovative, energy efficient and less expensive building technologies shall be encouraged. (CPP 4.5)
- ✓ Comprehensive Plan provisions for the location of residential development shall be made in a manner consistent with protecting natural resource lands, aquatic resources, and critical areas. (CPP 4.6)
- ✓ Manufactured home parks shall be allowed only within urban or urban growth boundary areas. (CPP 4.7)

Starting from this CPP framework, Comprehensive Plans throughout the County have housing chapters that include goals, objectives and policies that encourage affordability, rely on cooperation, and in some instances call for regulatory code changes that will enable, incentivize or promote housing affordable for people with low income. Among the common themes in the housing chapters are ideas that can increase the production and preservation of affordable homes, including:

- ✓ Allowing and encouraging smaller residential lots, lot size averaging, clustering, accessory dwelling units, attached housing, mixed uses in appropriate areas, and other means to increase the number of homes per acre,

- ✓ Finding funding for and/or reducing the costs of development, including fee reductions or fee waivers,
- ✓ Expediting permitting for projects affordable for people with low income,
- ✓ Providing an adequate supply of land suitable for affordable homes,
- ✓ Offering incentives such as density bonuses and flexible design standards,
- ✓ Establishing minimum densities in new residential developments,
- ✓ Implementing incentive zoning or inclusionary housing policies, either broadly applied or linked to rezone and annexation decisions that increase land value,
- ✓ Establishing annual performance measures to determine how well the region is meeting the projected need,
- ✓ Creating an incentive zone that offers a property tax exemption for up to twelve years for multifamily housing developments that include relatively affordable apartments or condos,
- ✓ Offer underutilized or surplus publicly-owned properties for affordable housing development or mixed-use and/or mixed income development, and
- ✓ Preserving manufactured housing communities (mobile home parks) when suitably located.

Each jurisdiction can play a proactive role in creating housing affordability that matches the incomes and jobs in its sphere of influence. Each jurisdiction can do three key policy-related things:

1. Implement from the menu of ideas that were compiled into its Comp Plan housing element,
2. Allocate local funding to incentivize affordable housing or to cover impact and utility fees, and
3. Collaborate with other local jurisdictions on regional policy and funding strategies.

### **The Third Ingredient: Local Capacity**

In addition to funding and public policy, the third essential ingredient for the creation of affordable housing is the local capacity to plan, develop, own and manage the properties that make up the community housing infrastructure. Fortunately, the Skagit County area has well-established organizations that have proven themselves capable.

Among the local agencies involved in producing homes for people with low-income, one can list:

Housing Authority of Skagit County	<a href="http://www.skagitcountyha.org">www.skagitcountyha.org</a>
Sedro-Woolley Housing Authority	<a href="http://www.sedrowoolleyha.org">www.sedrowoolleyha.org</a>
Anacortes Housing Authority	<a href="http://www.anacorteshousing.com">www.anacorteshousing.com</a>
Skagit County Community Action Agency	<a href="http://www.communityactionskagit.org">www.communityactionskagit.org</a>
Home Trust of Skagit	<a href="http://www.hometrustedofskagit.org">www.hometrustedofskagit.org</a>
Skagit Habitat for Humanity	<a href="http://www.skagithabitat.com">www.skagithabitat.com</a>
Skagit Council Housing	<a href="http://www.salemvillage.org">www.salemvillage.org</a>
Upper Skagit Housing Authority	
Swinomish Housing Authority	<a href="http://www.swinomish.org">www.swinomish.org</a>
Samish Indian Nation Housing Department	<a href="http://www.samishtribe.nsn.us">www.samishtribe.nsn.us</a>
Whatcom Skagit Housing	<a href="http://www.whatcomskagithousing.com">www.whatcomskagithousing.com</a>

Parkview Services	<a href="http://www.parkviewservices.org">www.parkviewservices.org</a>
Pioneer Human Services	<a href="http://www.pioneerhumanservices.org/housing/">www.pioneerhumanservices.org/housing/</a>
Catholic Housing Services	<a href="http://www.ccsww.org">www.ccsww.org</a>
Mercy Housing Northwest	<a href="http://www.mercyhousing.org">www.mercyhousing.org</a>
Compass Health	<a href="http://www.compasshealth.org">www.compasshealth.org</a>

### ***Section Four: Next steps for what we can do to improve the situation***

First, to summarize the prior sections of this report:

Section One: The Skagit region has a large and growing need for homes people can afford, especially for people with incomes below 80 percent of the area median income.

Section Two: The issues around affordability are complex and exert a huge impact on the local economy and on people who do not have homes they can afford.

Section Three: To do more to address the problem, the Skagit area has most of the essential ingredients (great organizations, supportive public policies, some funding), but additional ingredients could be added to the mix.

What next steps might improve the situation? Here are a few to consider:

#### **POLICY CHOICES:**

Each jurisdiction has already adopted Comprehensive Plan goals, policies and recommendations for action, and many of these recommendations are ready and waiting to be implemented.

The Comprehensive Plans include an appealing menu of policy options, including:

- ✓ Allowing and encouraging smaller residential lots, lot size averaging, clustering, accessory dwelling units, attached housing, mixed uses in appropriate areas, and other means to increase the number of homes per acre,
- ✓ Finding funding for and/or reducing the costs of development, including fee reductions or fee waivers, surplus of underutilized, publicly-owned land suitable for housing,
- ✓ Expediting permitting for projects affordable for people with low income,
- ✓ Providing an adequate supply of land suitable for affordable homes,
- ✓ Offering incentives such as density bonuses and flexible design standards,
- ✓ Establishing minimum densities in new residential developments,
- ✓ Implementing incentive zoning or inclusionary housing policies, either broadly applied or linked to rezone decisions and annexation decisions that increase land values,
- ✓ Establishing annual performance measures to determine how well the region is meeting the projected need.

**Recommendation 1:** By implementing the Comprehensive Plans, each jurisdiction will play a proactive role in creating housing affordability that matches the incomes and jobs in its sphere of influence.

## NONLOCAL FUNDING CHOICES:

In the past, Skagit organizations have done well securing nonlocal sources of investment for affordable housing construction and preservation including, for example, from the WA Housing Trust Fund, the WA State Housing Finance Commission, USDA Rural Development, and from the federal Community Development Block Grant Program.

These nonlocal funding sources have not grown to keep pace with the growing need, and all of them are extremely competitive. In spite of that competitive and shrinking resource base, Skagit organizations can continue to pursue and secure nonlocal funding.

**Recommendation 2:** Be ready for the competitive opportunities for nonlocal funding as those opportunities recur or new opportunities emerge, and have a steady stream of housing projects on the drawing boards, getting ready to proceed when funding becomes available.

### Pursuing underutilized nonlocal funding sources:

Community Development Block Grant General Purpose Grant Program The WA CDBG Program can support housing projects throughout the County except inside the city limits of Anacortes and Mount Vernon (both of which receive an annual *entitlement* grant of CDBG funds.)

Each year, Skagit County and/or the smaller cities within the County can apply for up to \$750,000 in CDBG General Purpose Grant Program funding for projects that principally benefit people with low income. (See page 4 and 6 of this report for CDBG low-income definitions and income limits.)

Skagit County recently applied for and was awarded a \$750,000 in CDBG funds by the WA Department of Commerce for a Homeownership Assistance Project. Non-profit housing developers will use the funds to provide downpayment assistance to homebuyers with moderate to low incomes. This project is a regional effort, able to assist income-qualified homebuyers in Skagit, Island and Whatcom Counties.

The annual competition administered by the WA Department of Commerce has a June deadline, and the WA Commerce policies and process allow a potential applicant to determine ahead of time whether a local CDBG-eligible project will be competitive or not among statewide applications.

CDBG funding works well for acquisition of land for development of affordable housing, for acquisition of land with homes that are or will become affordable, for repair and rehabilitation of renter- and owner-occupied housing, and in some cases for construction of new housing by community-based development organizations (CBDOS).

To be competitive, a project must be ready to proceed, including having commitments in place for any matching funds, for project site(s) and for agencies involved in the project's implementation.

**Recommendation 3:** Have at least one strong CDBG-eligible project ready each year for the state CDBG competition and have a queue of future CDBG-eligible projects on the drawing boards.



Community Development Block Grant Planning-Only Grant Program WA Department of Commerce also offers CDBG planning grants of up to \$24,000 for projects that will principally benefit people with low income. Projects now compete once per year, during the annual statewide competition for CDBG funds. In 2016, the Washington Department of Commerce will make available \$240,000 for competitive CDBG Planning-Only proposals and has offered Skagit County \$24,000 to help fund the Skagit Council of Governments 2016 Housing Work Program.

**Recommendation 4:** Consider using the CDBG Planning-Only Grant Program to plan for programs and projects that produce affordable low-income housing.

HOME Consortium Funding The federal HOME Investment Partnerships Program provides grant funding for a range of housing affordability purposes, including construction, acquisition of land and housing, renovation of housing, tenant-based rental assistance, and support for Community Housing Development Organizations (CHDOs).

Larger counties and cities automatically qualify for an annual HOME grant, but smaller counties and cities are not eligible unless they work together to form a Consortium that qualifies the Consortium area for an annual HUD HOME grant.

In 2014, Skagit, Island, and Whatcom Counties joined with sixteen cities and towns in the region to form the Skagit County Consortium. The Consortium received \$623,166 in HOME funding in 2015 and expects to receive an additional \$1,240,000 by 2017. As the administrator of the Consortium HOME grant, Skagit County is responsible for grant administration, contracts, and securing local matching funds.

The HOME regulations are complicated, but this represents one of the few opportunities for new, recurring annual grant funding for the Skagit area.

**Recommendation 5:** Administer the Consortium's HOME grant to allocate in the three-county area at least \$600,000 annually in support of homeownership assistance, tenant-based rental assistance, support for Community Housing Development Organizations (CHDOs), planning and administrative costs.

## **CREATING NEW LOCAL FUNDING SOURCES**

Municipal general funds and in-kind support Cities and counties can allocate unrestricted general funds for projects and programs that produce and preserve housing affordable to people with low income. With all the competing priorities for limited general fund revenues, this may be a tough sell. However, when a housing project is pursuing nonlocal funding, it sends a powerful message if a municipal government is spending its staff time, offering land for housing, providing a deferred loan, or otherwise addressing the issue of housing affordability.

**Recommendation 6:** Look for opportunities for local governments to invest in housing affordability programs and projects, both cash and in-kind resources such as staff time, land, bridge funding, deferred loans and other measures.

Real Estate Property Tax and Sales Tax Municipal governments are authorized by RCW 84.52.043 and 84.52.105 to designate real estate property tax revenue for low-income housing programs and projects including acquisition, renovation, construction, rent assistance and wrap-around services.

In Washington, the City of Seattle provides an example of how a relatively small amount of property tax revenue can leverage other private and public funding to create affordable housing. Seattle voters approved a Senior Housing Bond in 1981 and have since voted to renew the property tax for affordable housing four more times when the levy was about to expire. The most recent Seattle Housing Levy passed by 2 to 1 in November 2009, during troubled economic times. This seven-year levy will yield \$145 million, costing the owner of a median priced home about \$5.50 per month.

In November 2012, the City of Bellingham voters were asked to approve the first-ever Bellingham Home Fund property tax levy lid lift, authorizing up to \$0.36 per \$1,000 in value to raise \$21 million in new local revenue to be collected over seven years. The ballot measure relied on the authorities in both RCW 84.52.043 and 84.52.105, with most of the funding targeting families and individuals with very low-income, for a range of housing production and programming.

Bellingham voters approved Bellingham Home Fund by a sizable majority, with over 56 percent of the voters in favor. Since 2012, the Home Fund has assisted with the production and preservation of 730 homes affordable people with very low income. In addition, the Home Fund is used to support rental assistance and supportive services.

Other communities around the U.S. have been voting in support of housing, and that trend will encourage more Washington communities to consider the idea. Skagit County and its cities and towns could look ahead to the possibility that voters would approve a real estate tax levy lid lift that designates a portion of local property tax revenue for affordable housing.

Sales and Use Tax for Housing and Related Services RCW 82.14.530 authorizes counties to submit to the voters a sales and use tax of up to one-tenth of one percent for affordable housing construction, services, and operations and maintenance. If counties do not take advantage of this option prior to October 2017, cities within the county have the option to submit the sales and use tax to a vote of the people.

Authorized by the legislature in 2015, this local funding option provides an opportunity to fund service delivery and operating costs that are typically very difficult to resource. Communities across Washington State are currently considering this new tool as an alternative or addition to the real estate property tax levy. This sales tax option is similar in size and scope to the Mental and Substance Abuse Treatment Sales and Use Tax, adopted by the Skagit County Board of Commissioners in 2006 when Skagit County was one of the first counties in Washington State to take advantage of this local funding option.

**Recommendation 7:** Skagit County municipalities can consider a ballot measure asking voters to support more local tax revenue for housing for seniors, veterans, farmworkers, working families and other people with low income.

Economic Development Public Facilities Distressed/Rural Sales and Use Tax In 1997, the Legislature authorized a portion of the state's sales tax revenue to be returned to local jurisdictions to "finance public facilities serving economic development" strategies. Funding under RCW 82.14.370, sometimes called "Point Oh Nine" funding, can only be used for publicly owned facilities, not for

private facilities or private buildings. This funding can incentivize affordable housing construction at appropriate locations, inside urban growth areas (UGAs) that charge fees for public facilities.

Housing for the work force is an essential component of a healthy economic infrastructure and an effective part of local economic development strategies for many reasons including those outlined above on pages 14 to 16, including:

- ✓ Creating permanent jobs in construction and services,
- ✓ Building and supporting a skilled, stable work force,
- ✓ Recognizing that housing is part of the infrastructure of a strong economy,
- ✓ Producing public revenue from construction and on-going economic activity, and
- ✓ Recognizing the double multiplier effect of local public funding.

If construction of housing affordable for the work force and construction of public facilities are recognized as part of an economic development strategy, then the Distressed/Rural Sales and Use Tax statute allows this funding source to pay for public facility costs that are related to that construction, specifically the fees and charges for public facilities associated with new construction.

These public facility costs are often called “off-site improvements”, and examples of these costs include impact fees (transportation, schools, parks) and utility charges (capital facility costs of public utilities including water systems, sewer systems and stormwater systems). These public facility fees and charges add up to a significant cost of construction.

Whatcom County in 2010 established a local funding program that uses this strategy. The Whatcom County Economic Development Investment (EDI) Program, funded with RCW 82.14.370 revenue, allocated \$1.2 million as an incentive for the construction of affordable housing for people with low income. The Whatcom EDI funds can pay impact fees and utility fees for homes affordable at or below 80 percent of the area median income.

Whatcom EDI funds are invested as deferred loans, secured by the property and recorded on the title deeds, with repayment of the loan if a home comes out of an affordability program or at the end of 20 or 50 years, whichever comes first, for rental and homeownership projects, respectively. The program has been used in the construction programs of Habitat for Humanity of Whatcom County, Kulshan Community Land Trust and Whatcom Skagit Housing.

Following Whatcom’s lead, Skagit County recently approved the use of Skagit Economic Development Public Facility Funds as an incentive for the construction of affordable homes. In 2015, the County set aside \$100,000 in funding with additional allocations, potentially, in future years.

**Recommendation 8:** Skagit County could increase its set-aside of Economic Development Public Facility Funds to create more opportunities for affordable housing. With significant impact and utility connection fees across the County, eligible projects—and those residents with low-income who will occupy them—could benefit substantially from access to these funds.

## OTHER RECOMMENDATIONS

Update and Implement the Skagit County 10-Year Plan to End Homelessness Skagit County has adopted a 10-Year Plan to End Homelessness that includes strategies that aim for three goals:

- ✓ Reduce the occurrence and prevalence of homelessness,
- ✓ Reduce the amount of time people spend in a state of homelessness, and
- ✓ Reduce homelessness recidivism or relapse into an episode of homelessness.

The Skagit County Commissioners endorsed the 10-Year Plan after a community effort that included input from homeless services stakeholders who reviewed local conditions and opportunities and factored in data and research results from programs around the country.

The 10-Year Plan's strategies to end homelessness, in addition to a focus on the quality and coordination of services, includes two strategies that overlap with the recommendations in this report:

- ✓ Increase the supply of permanent housing and permanent supportive housing, and
- ✓ Develop new resources to implement the 10-Year Plan.

**Recommendation 9:** Make sure the implementation of the recommendations in this report support the progress being made to implement the 10-Year Plan to End Homelessness.

Implement the Skagit County Farmworker Housing Action Plan The Washington State Farmworker Housing Trust worked with a local Skagit Valley Farmworker Housing Trust Advisory Board to create the Skagit Farmworker Housing Action Plan 2010 – 2015, based on regional survey findings and the best available information about the impact of agriculture on the local economy.

The broad-based advisory board reached consensus on the recommendations for strategies and action to support housing for farmworkers, including:

- ✓ Public awareness efforts focused on the benefits of housing and a change in public perceptions,
- ✓ Land availability at appropriate locations while protecting valuable agricultural lands, and
- ✓ Partnerships and coordination of resources for farm employees and their families.

**Recommendation 10:** Carry forward the Action Plan adopted by the Skagit Valley Farmworker Housing Trust Advisory Council.

Support and expand the capacity of homeownership programs Many working families and individuals would make great homeowners if homebuying opportunities were affordable in their price range.

With interest rates at historic lows, the next several years appear to be an ideal time to focus on affordable homeownership, working with eligible homebuyers to create more affordable homes at appropriate locations, close to jobs and services.

When a household can show a good credit rating, low household debt and a modest downpayment, mortgage lenders can offer affordable mortgages that make homeownership possible. Lenders include the USDA Section 502 program used by Whatcom Skagit Housing, local mortgage lenders who use the safe and reasonable Fannie Mae underwriting criteria, and local lenders that use the WA State Housing Finance Commission's state bond mortgage programs. From the lenders' perspective, local homeownership programs create new customers for the mortgages they offer.

The missing ingredient is the *mortgage gap financing* that can fill the gap between the total costs of buying a home and the mortgage plus downpayment that a homebuyer with low-income can afford. This mortgage gap can be financed with *community capital investments* such as the nonlocal and local funding discussed above, with innovative policies and incentives, and with *sweat equity* from the homebuyers who help to build their own homes.

The Skagit area is fortunate to have four affordable homeownership programs that can work independently and in collaboration with each other: Skagit Habitat for Humanity, Whatcom Skagit Housing, Home Trust of Skagit and Parkview Services.

**Recommendation 11:** Support and expand the capacity of nonprofit homeownership programs by securing more local and nonlocal funding as the *community capital investments* that work as the *mortgage gap financing* that makes homebuying and homeownership more affordable.

Support the development of high-quality *permanent supportive housing* for people with behavioral health conditions Supportive housing is a nationally-recognized best practice for improving health outcomes, creating efficiencies, and reducing public costs. This model housing serves people who are experiencing, or are at risk of, chronic homelessness and have a serious mental health illness, chemical dependency illness or multiple and complex physical health problems. By pairing affordable housing with adequate wrap-around services, a home helps people achieve stability and dignity.

Increasingly, communities are moving toward a supportive housing model as studies show it is more cost-effective than keeping people on the streets or cycling through shelters or transitional housing. Unlike shelters or transitional housing, permanent supportive housing looks like normal housing and does not limit a resident's stay.

Supportive housing is a win-win for residents and the community. According to the Corporation for Supportive Housing, this model:

- **Improves Lives:** Research has shown that supportive housing has positive effects on housing stability, employment, mental and physical health, and school attendance.
- **Generates Significant Cost Savings to Public Systems:** Cost studies in six different states and cities found that supportive housing results in tenants' decreased use of public services, hospitals, emergency rooms, jails, and prisons.

- **Benefits Communities:** Evidence shows that supportive housing benefits communities by improving the safety of neighborhoods, beautifying city blocks with new or rehabilitated properties, and increasing or stabilizing property values over time.

Skagit County’s Mental Illness and Substance Abuse Sales Tax revenue can be used to fund supportive housing services for people with behavioral health needs, and new tools, such as a potential Medicaid waiver for supportive housing, may make it easier to operate these types of programs.

**Recommendation 12:** Create a task force of housing developers, service providers, local business, interested citizens, and local government officials to assist with siting, funding, and developing supportive housing for people with behavioral health needs and other special needs.

Preservation of existing housing and conversion to affordability Much of the housing throughout the County has monthly costs that are mismatched with the incomes of working families and other lower-income people. According to the HUD’s analysis of U.S. Census Bureau American Community Survey (2008-2012), nearly two out of every five households cannot afford the home they occupy in Skagit County (37.1 percent, 16,900 out of 45,475 households) because they spend more than 30 percent of their gross monthly income on housing costs.

Additionally, many properties in Skagit County are older and may suffer from unhealthy housing conditions, such as mold or lead-based paint. In many cases, property owners do not have the money to fix these problems, and in rental housing, residents may be nervous to report repair needs to landlords. These conditions negatively impact residents’ health, employment and educational attainment while exacerbating the strain on other systems such as emergency services and Medicaid.

Acquisition, renovation and preservation of existing housing offers at least four advantages when compared to the construction of new affordable housing:

- ✓ Acquisition and preservation has a quicker impact compared to the long lead times required to plan, finance, permit, and build new housing.
- ✓ Existing housing already fits into the fabric of the city, and its preservation and renovation is more likely to be welcomed by its neighbors than new construction.
- ✓ Existing housing may be in need of upgrades to improve the health and safety of residents. Acquisition and renovation provides an opportunity to assess the health of housing and funding to address needed repairs.
- ✓ Affordable rental housing developments may see their affordability requirements disappear unless the community can work with the owners to extend the affordability period.

The same basic formula is used for new affordable housing production. A combination of community capital investment and debt service repaid with monthly housing payments could be used to acquire, renovate and preserve existing housing to be

offered at affordable monthly costs as rental or leasehold housing.

Additionally, the County and cities could use funding to offer incentives, such as deferred loans, for housing rehabilitation—particularly housing that is shown to be substandard or unhealthy—in exchange for making those homes affordable long-term. New tools being discussed at the state legislature may make it easier for communities to incentivize housing preservation, to keep homes affordable and healthy for extended periods of time.

In the private for-profit sector, property management companies have business models that work well to provide market rate rentals. The missing ingredient for the Skagit area is a private or public sector entity(ies) that could step forward to serve as the owner and manager of scattered rental housing for people who cannot afford market rate rentals.

**Bonus recommendations:**

- Assess housing preservation needs throughout Skagit County, including:
  - An inventory of properties at-risk of losing Federal and/or State subsidy
  - Outreach to tenants and property owners to assess healthy housing needs
- Conduct research and outreach to property owners to identify incentives that may encourage the preservation of existing rental housing at affordable levels.
- Build a business plan for the acquisition, renovation, and preservation of existing housing that could be offered as rental housing with monthly costs affordable for households of low-income. Determine whether adequate community investment is available to make the business plan feasible.

***Coda***

Housing affordability remains one of the most complex issues facing policy makers at the local level. Skagit County faces its own version of the same complications that make homes unaffordable for many hard working families and individuals who pay more for housing than they can afford.

Without reinventing the wheel and by using good ideas from elsewhere, the Skagit area has opportunities to make things better, immediately and for the long term. Skagit’s challenge is moving forward more quickly towards a local system that supplies more homes people can afford and that stay affordable for the range of incomes that will exist in Skagit County.

Kudos to you for reading this far, hopefully with the sense that more good things are possible in the Skagit region. If you know of questions, concerns, suggestions and ideas that might benefit the Skagit housing affordability strategy, let your peers including Skagit County staff know. Contact names appear on the first two pages of this report.