

**RECOMMENDATIONS EXCERPTED FROM THE NOVEMBER 2012 INTERIM REPORT:
BUILDING A SKAGIT COUNTY HOUSING AFFORDABILITY STRATEGY, PAGES 22 THROUGH 28**

POLICY CHOICES:

Each jurisdiction has already adopted Comprehensive Plan goals, policies and recommendations for action, and many of these recommendations would support a more affordable housing system.

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.

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 apply.

Pursuing underutilized nonlocal funding sources:

WA Commerce CDBG 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.)

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

WA Department of Commerce also offers CDBG planning grants of up to \$40,000 for projects that will principally benefit low-income households.

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

The HUD HOME Investment Partnership Program provides grant funding for low-income housing purposes, including construction, acquisition of land and housing, renovation of housing, tenant-based rental assistance, and funding for CHDOs (Community Housing Development Organizations).

Recommendation 5: Investigate further the advantages and administrative requirements of forming a HOME Consortium as an annual grant source, approximately \$600,000 per year for a Consortium of the municipalities in Skagit, Island and Whatcom County.

CREATING NEW LOCAL FUNDING SOURCES

Cities and counties can allocate unrestricted general funds for projects and programs that produce and preserve housing affordable to low-income people. 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.

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.

Recommendation 7: Work to build local support for housing and momentum that leads to a ballot measure asking voters to support local funding for housing for seniors, veterans, working families and other low-income people.

Under RCW 82.14.370, a portion of the state's sales tax revenue is returned to local jurisdictions to "finance public facilities serving economic development" strategies. This funding can incentivize affordable housing construction.

Recommendation 8: Skagit County could consider, through its normal consultation process, a small fraction of Economic Development Public Facilities Distressed/Rural Sales and Use Tax as an incentive for construction of affordable housing, with uses of the funding limited to paying impact fees and utility fees for eligible projects.

OTHER RECOMMENDATIONS

Skagit County has adopted a 10-Year Plan to End Homelessness that includes strategies that overlap with the recommendations in this report:

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

The Washington Farmworker Housing Trust worked with a local Skagit Valley Farmworker Housing Trust Advisory Board to create the Skagit Farmworker Housing Action.

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

Many working families and individuals would make great homeowners if homebuying opportunities were affordable in their price range.

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

Acquisition, renovation and preservation of existing housing offer advantages when compared to the construction of new affordable housing:

Recommendation 12: 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 low-income households. Determine whether adequate community investment is available to make the business plan feasible.

Building a Skagit County Housing Affordability Strategy

Interim Report

A project led by the
Skagit County Community Services Department

Called for in Skagit County Board of Commissioners
Resolution # R 2010 0206

Interim Report from
Paul Schissler, community development planner

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

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Attachments: *(In pdf version of this report, Attachments are in a separate pdf from report.)*

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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 # R2010-0206** starts out with that assertion. The Resolution, adopted in July 2010, goes on to establish the charge and membership of a new **Skagit County Affordable Housing Advisory Committee**. (Resolution attached as Attachment A.)

The Commissioners appointed the members of the Skagit County Affordable Housing Advisory Committee for the range of viewpoints they bring, representing both the private and public sectors, and both for-profit and nonprofit perspectives. The committee members each bring more than one of these four perspectives, and they bring their careers’ of experience working on issues related to housing and housing affordability in Skagit County.

The Commissioners’ Resolution directs the Skagit County Affordable Housing Advisory Committee (SCAHAC) to develop an affordable housing strategy for Skagit County, with a report to the Commissioners that includes recommendations for next steps.

The Skagit area is already implementing housing strategies, with a well-established system of agencies and citizens doing excellent work in the field of housing affordability. The Skagit community’s challenge is 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

The SCAHAC makes an excellent sounding board for ideas and strategies that might fit the circumstances in the Skagit area. 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 will be presenting the Commissioners with suggested next steps.

The SCAHAC 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.

Synopsis of this interim report: This interim 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 identifies which ingredients are missing or running in short supply. The final section offers suggestions for the next several years, as part of a concerted effort to add to the existing supply of housing that lower income people can afford.

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 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 making low wages or minimum wage cannot afford the cost of a 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 and apartments, compared to the supply that is needed by local workers and others who have incomes less than the median income. The supply and demand system does not work and does not supply the low cost homes that many people 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 spectrum. The most significant deficiency is the availability of homes where the price would be affordable for very low-income people, especially extremely low-income people.

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 job-shed. According to the U.S. Department of Housing and Urban Development, **two out of every five households cannot afford the housing they occupy** in Skagit County (38.6 percent, 16,875 out of 43,713 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 household expenses.

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 one-third of your gross 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 pay no more than one-quarter of monthly gross income for housing including utilities, and 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 gross income on housing costs, including utilities, your housing is unaffordable. Thousands of Skagit County people and families face that challenge every month; their housing costs are more than they can afford, forcing them to juggle basic needs like food, transportation and medical care while they keep up with the rent.

According to HUD's analysis of U.S. Census Bureau data, two out of five Skagit households (38.6 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.

If less monthly income was consumed by housing costs, more household income would cycle into the local economy for other things, with increased prosperity for local businesses and employers. Instead, 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**.

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 minimum wage, the mean (or average) wage and a **Housing Wage** (a wage that makes housing affordable.) According to the U.S. Census American Community Survey (2006-2010) there were 13,544 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 \$11.06 per hour or \$23,005 per year if paid full time, 40 hours per week, 52 weeks per year.

This **Skagit mean renter wage, \$11.06**, and the other wage data cited here is based on the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages 2010 data and the U.S. Census Bureau American Community Survey (2006 – 2010). 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 lower-income people. (See more at the Out of Reach website, www.NLIHC.org/OOR/2012 and at Tab 3 of Attachments.)

“Affordable” is always defined in terms of income.

70 %	Monthly gross income is adequate to pay an affordable amount for housing.	Every month, the remainder of your take home pay is available for other things, after home costs are all paid.
30 %	Roughly one-third pays for your home.	Housing + utilities = about 30 percent of gross income.

How we define “affordable”

If one wage-earner holds a job paying the mean renter wage of \$11.06 per hour, that household can afford to spend as much as \$575 per month including utilities, using the standard “30 percent for housing” rule of thumb for affordability. That \$575 rent would be affordable for someone working full-time at the mean renter wage in Skagit County, a gross income of just under \$2,000 per month.

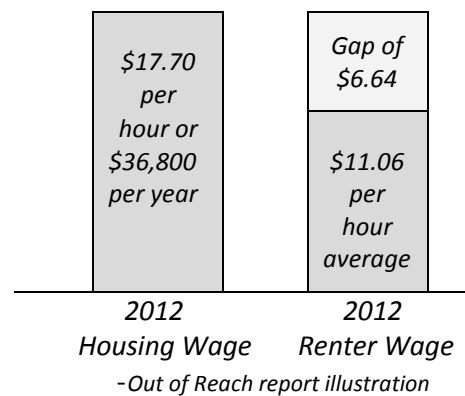
If one wage-earner holds a job paying the minimum wage, a household can afford to spend as much as \$470 in monthly rent including utilities. In 2012, the Washington minimum wage is \$9.04 per hour or \$18,803 per year and \$1,567 gross pay per month.

In Skagit County, there are few homes, including apartments, which rent for \$575 or less per month. Our local housing supply does not match up with the affordable rents that lower-income households can afford. In Skagit County, the Fair Market Rent for a studio apartment is \$599 per month and a two-bedroom apartment is \$920 per month, including an allowance for utilities.

A Skagit renter household needs a full-time job paying \$17.70 per hour in order to afford a two-bedroom rental at the Fair Market Rent, an income equal to \$36,800 per year. This is called the **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.”

Many jobs pay much less than the local *Housing Wage* of \$17.70 per hour, and many jobs are less than full-time. In Skagit, for a two-bedroom apartment, the gap between a full-time Housing Wage and the mean renter wage is \$6.64 per hour or \$13,800 per year, over \$1,000 short per month.

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



A renter earning the minimum wage must work 78 hours per week to afford a two-bedroom rental at the Fair Market Rent of \$920 including utilities. Or the renter household needs two people working full-time jobs earning the minimum wage to afford the two-bedroom rental cost. To afford a three-bedroom Fair Market Rent of \$1,259 including an allowance for utilities, it would take 107 hours per week of paid work earning minimum wage, or more than two and one-half full-time jobs.

The mean renter wage, at \$11.06, is almost 20 percent better than the minimum wage of \$9.04. But it still takes 64 hours at the mean renter wage per week to afford a two-bedroom apartment, and 88 hours per week, or two people working full-time at the mean renter wage, to afford the three-bedroom apartment fair market rent.

Skagit County's HUD 2012 Income Limits									
Gross annual income, adjusted for household size									
% AMI	Household size =	1	2	3	4	5	6	7	8
< 30 %	Extremely low-income	13,850	15,800	17,800	19,750	21,350	22,950	24,500	26,100
< 50 %	Very low-income	23,100	26,400	29,700	32,950	35,600	38,250	40,900	43,500
< 80 %	Low-income	36,900	42,200	47,450	52,700	56,950	61,150	65,350	69,600

How many people in Skagit County need affordable housing?

According to U.S. Census American Community Survey (2006-2010), a total of 17,727 out of 45,253 Skagit County households pay over 30 percent of their income for housing. This estimate of 39.2 percent is virtually the same as HUD's estimate of 38.6 percent of Skagit households, cited above.

The American Community Survey also reports that, for households with incomes of less than \$20,000 per year, 5,018 out of 6,148 households (or 82 percent) pay more than 30 percent of their income for housing.

Among the households in Skagit County with income up to \$50,000 per year, 12,279 of these 19,361 households (or 63 percent) pay more than 30 percent of their income for housing every month.



Hillview, 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 every month, it is a wonder that more people do not end up homeless.

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

At least an additional 4,550 households can be expected to need affordable homes by 2025, based on current demographic patterns and projected Skagit population growth. Here's the math:



Evergreen Manor, Mercy Housing Northwest

Skagit County jurisdictions have been planning for a population increase of roughly 32,000 people from 2010 to 2025, from 116,901 in 2010 to 149,080 in 2025. The average household size, currently 2.53 persons, tells us that we need to plan for 12,500 additional homes to accommodate the increasing population, an increase of over 800 homes needed each year, on average. Households are trending to be smaller over time, so 800 homes per year likely underestimates the real need.

According to the statistics in the HUD Comprehensive Housing Affordability Strategy (CHAS), 36.4 percent of all Skagit households are low income (at or below 80 percent of the Area Median Income (AMI)) and 9.8 percent have extremely low-incomes (below 30 percent of AMI.) If these percentages remain the same in the future, 36.4 percent of 12,500 future homes (or 4,550 homes) need to be

affordable in the low-income range. That translates to approximately 300 of the 800 homes built each year that need to be affordable to households with low-incomes, at or below 80 percent AMI.

Of the 800 homes to be built per year, an estimated 9.8 percent (or roughly 80 homes per year) need to be affordable for people with extremely low-incomes. Currently, few homes in this 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.

As we noted above, data from two sources concluded that around 17,000 households in the County are already paying more than they can afford, which is a hardship for these households and has negative ripple effects on the local economy.

In addition, we estimated that 4,550 households with low-incomes will be added to the County by 2025 and will face a challenging time finding housing they can afford.

The sum of these estimates (17,000 plus 4,550) tells us that 21,550 affordable homes will be needed between 2012 and 2025. Approximately 1,800 affordable homes per year will need to be added to meet the growing population's needs.

<i>Current need</i>	<i>17,000 homes</i>
<i>Plus projected need</i>	<i>4,550 homes</i>
<i>Total need</i>	<i>21,550 homes</i>
<i>Need per year</i>	<i>1,800 homes</i>

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

The community has some say over the first two options (conversion and construction); the third option is outside of local control. Increasing household income of local workers or fixed income seniors is beyond the reach of local governments and communities. There is no control over the global labor market that sets the standard for many local jobs that pay a modest amount, and our community has little influence over senior pensions or federal and state support for seniors.



Murdock Court Apartments, Sedro-Woolley

The community has some say about where and how homes can be made more affordable. However, the total need is formidable, from every angle. The number of homes needed per year is staggering. What can be done about the 17,000 households now facing unaffordable housing costs? How can our region possibly address the projected need, producing 300 homes per year affordable to low-income workers and others, including 80 or more homes per year affordable for extremely low-income people?

Even if the calculations above are off by a wide margin, the numbers are still quite high and can be daunting. The funding and policies do not currently exist to address a problem of that size. In recent times, financing and subsidies have been able to produce only a small fraction of the affordable homes that were needed.

If additional resources, grants and loans become available, community capacity can grow to meet the challenge of producing more affordable homes per year.

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

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 can factor into a strategy for more homes people can afford.

1. **Urgent Need Far Exceeds Production Capacity** If the Skagit area had far more funding and aggressive public policies, how could the Skagit area add 1,800 or more homes per year to the supply of homes affordable at or below 80 percent of median income?

The scale of the problem is an order of magnitude above what the current policies and funding could address 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 homes affordable for low-income people.



Salem Village, Mount Vernon

If the region can add additional policies and funding to the mix, the pace of production would increase, relying on the existing network of private and public agencies that focus on affordability and creating room for additional agencies to add to local capacity.

2. **Choose Dollars and/or Policy** Communities and municipalities have only two real 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, preservation, and availability of homes for people when their incomes are 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 low-income people. According to the data, the private sector for decades has been unable to supply enough lower cost housing to meet the need.



Skagit Habitat for Humanity

The best available options 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 and push the other to do as much as possible, to accomplish more.

3. **Small Money Turns into Big Money** Each layer of funding is essential, and small amounts make big things possible. Finding or innovating another 10 percent of a project's funding can leverage 10 times or more in total spending on housing construction and housing preservation.

The Low Income Housing Tax Credit program illustrates this point. When a developer wants to compete for federal Low Income Housing Tax Credits, the project must show a commitment of other funds. If the project has local funds or a Washington Housing Trust Fund commitment, it has much better odds of securing Tax Credits that can make a \$10 million dollar construction project feasible.

Early investments in planning and predevelopment and early commitments of construction funding will leverage other private and public funds for construction. 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 affordable housing developers, can get the 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 provide annual benefits for a long time. Bricks and mortar investments in affordable housing create jobs and produce public revenue during construction, while also providing an annual benefit to the residents and the community for as long as the homes remain affordable.

Whatcom County is experimenting with a concept that has public funding doing triple duty: RCW 82.14.370 rural sales tax funding is used in an economic development investment (EDI) that encourages construction of affordable homes. First, the EDI loan funds pay impact fees and utility fees, often a significant cost of construction. Next, the cities use the EDI payments for capital projects. Later, the EDI loan funds are repaid with interest back to the County for

reuse in other economic development projects. This economic development strategy has a host of other benefits, in addition to the public funds being used at least three times.

5. **Dollars from the Voters** 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 a 2 to 1 landslide in November 2009, troubled economic times. This seven-year levy will yield \$145 million, costing the owner of a median priced home about \$5.50 per month.

This fall, the City of Bellingham voters are being asked to approve the first Bellingham Home Fund, a property tax levy of up to \$0.36 per \$1,000 in value, to support a range of housing affordability programs with \$21 million in new local revenue over seven years.

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.



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 a three- or four-county strategy that could build the momentum for housing affordability throughout the region and, as we report below, could qualify the region for additional funding. (See HOME Consortium idea below.)

7. **Better Fair Share Allocations** 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 the 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 Whatcom rural sales tax funding described above is an example of a regional program with positive local impacts. The funding helps to make construction more affordable in urban areas, offsetting or counterbalancing the utility charges and impact fees that can be a cost hurdle in urban growth areas.

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 society, the environment and families 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 called *Housing+Transportation Affordability*. This is a more complete measure of affordability, with combined housing and 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 16 municipalities in East King County, with pooled funding and a regional allocation system that supports a pipeline of 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 adjacent counties.



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 more than 30 percent of their monthly income for housing.

If more of these existing homes could be made affordable, through HUD Housing Choice Vouchers or other means, these homes would be unobtrusively scattered throughout existing neighborhoods.

The strategies in Section Four below include the prospect of converting existing homes to a more affordable price for lower-income people.

11. **Twenty years is a short time** It is good public policy to require, whenever possible, longer-term affordability rather than allowing affordability to expire. 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 15 years.



Alpine Ridge, Mount Vernon

Public funded programs can be designed to provide more years of benefit. For example, public funding can be invested in housing in the form of a recoverable grant or deferred loan that remains invested for as long as the homes remain affordable for low-income people. This form of investment allows the public sector to recapture its invested funds if the homes come out of an affordability program while simultaneously incentivizing longer term affordability.

12. **HOUSING+TRANSPORTATION AFFORDABILITY** Another outcome of housing as an economic development strategy is an improved competitive advantage in the business world, because 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) 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. More than 45 percent is not affordable.

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

To increase this competitive advantage, a community can increase the number of homes that will be affordable for workers who earn lower wages in the local jobshed.



The President, Housing Authority of Skagit

HOUSING AFFORDABILITY AS AN ECONOMIC DEVELOPMENT STRATEGY

Ripple effects make housing affordability an important part of local economic development strategies. Spending on housing affordability ripples through the economy, with short-term multiplier effects 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, *Insights from Housing Policy Research*, attached at Tab 4, sums up the findings of the National Association of Home Builders, Urban Land Institute, Center for Housing Policy 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 jobs in other sectors after the 100 homes are finished and occupied.

These jobs will be permanent—not temporary—in construction and related fields if we can establish a local, replicable financing system for a continuous, annual stream of affordable housing construction. The need and the demand for housing is huge; the 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 having 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 also likely that these jobs will always be paid less than a Housing Wage. Some of the jobs, like 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 jobs in any community.

- c) **HOUSING IS INFRASTRUCTURE FOR THE ECONOMY** There are physical capital or built capital components to a healthy economy. Strategically, 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 built infrastructure, a community's homes are a long-term capital asset. The smart use of public policy and funding can increase the built capital of affordable homes, bringing the supply closer to what the actual needs are, given the demographics 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 job-shed.

- 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 on-going spending of residents; charges for permitting and impact fees; utility hook-up fees and monthly revenue from utility customers, and on-going property 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, affordable housing makes more sense than lower-density, suburban 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." (Six-page summary is attached at Tab 5, *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 would be five to ten times or more the amount of local public funding. As noted above, projects must compete for funding, and local funds get the snowball 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. Attached to this report at Tab 4 is a 2011 fact sheet 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* which summarizes the data from a long list of studies that confirm the relationship between affordability and economic development strategies.

MAKING LIVING-WAGE JOBS OUT OF LOW-WAGE JOBS, INSTANTLY

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

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

As Greg Young points out, when the infrastructure of the community can offer homes working people can afford, workers have money left over for groceries, transportation and child care.

They can afford to stay in their jobs, which by definition makes the low wage job into a living wage job. 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 \$17.70 per hour, and the mean renters wage is \$11.06 per hour, for a difference of \$6.64 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 \$575 per month including utilities,) the affordable rent makes the mean renters wage feel like a Housing Wage to the worker; that is, \$11.06 per hour feels like earning \$17.70 per hour.

Annually, that adds up to more than \$4,000 a year if working full-time. Because the mean renters wage worker is paying an affordable rent (\$575 with utilities) instead of paying an unaffordable rent (\$920 including utilities for the same two-bedroom apartment) that same worker has over \$4,000 (\$345 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 \$1,259), the mean renters wage worker has over \$8,000 (\$684 x 12 months) per year for other expenses.

The whole economy benefits because \$4,000 to \$8,000 or more annually per working family that 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 or more from each home that gets built. For every 100 homes built, then \$4,000 or more multiplied by the 100 homes equals \$400,000 or more per year of local economic impact, year after year.

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

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

One thousand affordable homes = \$4,000,000 or more every year spent on other things, not housing

The workers who need affordable housing are already here, working in jobs and industries that can only afford to pay low wages.

Many of these lower wage local jobs are in health care, the agricultural economy and education where the employers can only afford to pay a lower wage. Yet these jobs are vital to the economic health of the community.

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

Section Three: What are the essential ingredients and what are we missing?

Skagit County has many of the key ingredients needed to produce more housing affordability: affordable 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.

If we can add a few more ingredients, more progress will be possible.

Essentially, there are only three ingredients: funding, policy and capacity to produce housing.

Funding Options

Local 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 public 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 Money Turns 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 10 times or more than that amount in total spending on housing construction and preservation.

Could one or more of the following be the source of that powerful 10 percent?

We list here the range of public funding options under local control, and then some of the nonlocal funding options that could be or are being used in Skagit County.

Local funding options: First, a menu of the local funding options, with item A, B and C having the most potential impact as new revenue streams for housing affordability:

- A. Municipal general funds can be used for housing affordable to low-income people;¹
- B. Real Estate Property Tax (levy lift) as authorized by RCW 84.52.043 and 84.52.105; the former counts toward the maximum levy rate and targets housing affordable at up to 80 percent of AMI, the latter does not count toward the maximum levy rate and targets 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 for affordable housing construction projects, (more on this in Section 4, below);
- D. Real Estate Excise Tax (REET) cannot be spent directly on affordable housing but could be used for off-site infrastructure for areas that could accommodate affordable housing development;
- E. Utility Tax Surcharges that could be linked to waiver of impact fee or waiver of utility charges for

¹ 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.

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 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 (CDBG qualifies as local funding under some circumstances.)

Nonlocal funding options: Among the nonlocal funding sources available for use in local projects, already familiar to Skagit nonprofit developers, with item Q. below offering an avenue to new annual federal funding.

- L. **Community Development Block Grant** funding as competitive grants of up to \$1,000,000 for construction projects and up to \$40,000 for CDBG Planning-Only projects from the WA Department of Commerce. www.commerce.wa.gov/cdbg
- M. **WA Housing Trust Fund** funding as competitive grants and loans, much reduced from 2009-2011 biennium peak, but hopefully to rebound, www.commerce.wa.gov/site/493/default.aspx
- N. **Federal Low Income Housing Tax Credits**, private sector investments for affordable rental housing construction, www.wshfc.org/tax-credits/index.htm
- O. **Multifamily Housing Bonds** also offered through the WA Housing Finance Commission that also manages the LIHTC program, www.wshfc.org/housing/index.htm
- P. **U.S. Department of Agriculture Section 502 Mortgages** used by Whatcom Skagit Homes and usable directly by individuals, www.rurdev.usda.gov/rhs/sfh/brief_rhdirect.htm
- Q. **HOME Consortium**, with an annual Federal HOME Investment Partnership Program grant, if Skagit municipalities form a consortium with Whatcom and Island county municipalities, www.hud.gov/offices/cpd/affordablehousing/programs/home/consortia (more on this in Section 4, below)
- 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, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/progdes/c/eld202

Policy Options

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 we 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 development regulations:

“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 municipal code changes that will enable, incentivize or promote housing affordable to low-income people. 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 low-income people,
- ✓ 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.

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 capacity to plan, develop and manage the properties that make up a community's affordable housing infrastructure. Fortunately, the Skagit County area has well-established organizations that have proven themselves capable.

Among the agencies already involved in producing housing for low-income people, we can list:

Housing Authority of Skagit County

Sedro-Woolley Housing Authority www.sedrowoolleyha.org

Anacortes Housing Authority www.anacorteshousing.com

Skagit County Community Action Agency www.skagitcap.org

Catholic Housing Services www.ccsww.org

Mercy Housing Northwest www.mercyhousing.org/page.aspx?pid=430

Home Trust of Skagit www.hometrustedskagit.org

Skagit Habitat for Humanity www.skagithabitat.com

Salem Village www.salemvillage.org

Upper Skagit Housing Authority

Swinomish Housing Authority www.swinomish.org/resources/housing.aspx

Samish Indian Nation Housing Department www.samishtribe.nsn.us/programs/housing

Whatcom Skagit Housing www.whatcomskagithousing.com

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

First, to summarize the prior sections of this report:

- Section 1: The Skagit area has a large and growing need for homes people can afford, especially for people with incomes below median income.
- Section 2: 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 3: 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,
- ✓ Expediting permitting for projects affordable for low-income people,
- ✓ 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: 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: 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 apply.

Pursuing underutilized nonlocal funding sources:

Community Development Block Grant General Purpose Grant Program CDBG 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 \$1,000,000 in CDBG General Purpose Grant Program funding for projects that principally benefit low-income households. (See page 4 and 6 of this report for CDBG low-income definitions and income limits.)

February 2013 will be the next deadline for the annual competition administered by the WA Department of Commerce, and the WA Commerce policies and process allow a potential applicant to estimate if a local CDBG-eligible project will be competitive or not.

CDBG funding works well for acquisition of land for development of affordable housing, for acquisition of land with housing that is 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: Have at least one strong CDBG-eligible project ready each year for the CDBG GPGP competition and have a pipeline 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 \$40,000 for projects that will principally benefit low-income households. Projects are funded on a first in/first funded basis until the annual allocation is exhausted. This year, \$500,000 became available in May, and Commerce expects the same amount to be available again beginning in May 2013.

Recommendation: 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 Partnership Program provides grant funding for a range of low-income housing 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 HOME Consortium that qualifies the Consortium area for an annual HOME grant.

HUD's website explains how to form a HOME Consortium and how to determine if certain areas qualify. Using the HUD online spreadsheet, *Consortia Builder*, it appears that the Skagit County area alone does not meet the minimum size requirements, based on a HUD formula. Skagit County's annual grant was \$263,000, which is well below the minimum \$500,000 required to form a Consortium. Neither would the Skagit plus Whatcom areas qualify as large enough unless the federal HUD HOME appropriation goes up by six percent or more in future federal budgets.

However, if three counties (Skagit, Whatcom and Island) and most, if not all, of the cities and towns in the three counties (exempting Bellingham which receives its own HOME entitlement) agreed to participate in a HOME Consortium, an annual HOME entitlement of \$596,000 could fund HOME-eligible activities in the three county area. The grant would be renewed annually, depending on the federal budget's HOME appropriation.

The HOME Consortium grant would create an additional administrative layer and paperwork burden at the local level. The HUD prerequisites and local matching fund requirements of HOME would be challenging. For example, completing the required "Consolidated Plan" for use of HOME funds would be time-consuming project. The 10-Year Plan to End Homelessness and other local housing strategies do not qualify as a HUD Consolidated Plan, although they provide a strong foundation.

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

Recommendation: Investigate further the advantages and administrative requirements of forming a HOME Consortium as an annual grant source, approximately \$600,000 per year for a Consortium of the municipalities in Skagit, Island and Whatcom County.

CREATING NEW LOCAL FUNDING SOURCES

Municipal general funds Cities and counties can allocate unrestricted general funds for projects and programs that produce and preserve housing affordable to low-income people. 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: Look for opportunities for local governments to invest in housing affordability programs and projects.

Real Estate Property 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.

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.

This year, on the November ballot, the City of Bellingham voters were asked to approve the first-ever Bellingham Home Fund property tax levy, allowing up to \$0.36 per \$1,000 in value, raising \$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 very low-income families and individuals and for a range of housing production and programming.

Bellingham voters approved Bellingham Home Fund by a sizable majority, with 55 percent of the voters in favor. The Bellingham Home Fund is now slated to begin receiving \$3 million in new revenue next year, for a range of housing uses, as already prescribed in local plans and policies.

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 tax levy lid lift that designates a portion of local property tax revenue for affordable housing.

Recommendation: Work to build local support for housing and momentum that leads to a ballot measure asking voters to support local funding for housing for seniors, veterans, working families and other low-income people.

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.

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 a skilled, stable work force,
- ✓ Framing housing as 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 is 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 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, especially when the target for affordability is housing for the local work force.

Whatcom County has established a local funding program that builds on this strategy. The Whatcom County Economic Development Investment (EDI) Program, funded with RCW 82.14.370 revenue, has set-aside \$1.2 million as an incentive for the construction of affordable housing for low-income homebuyers. 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 in 50 years, whichever comes first. The program has been used in the homebuyer construction programs of Habitat for Humanity of Whatcom County and Kulshan Community Land Trust. Whatcom Skagit Housing might use this funding source in their future projects.

Recommendation: Skagit County could consider a set-aside of its Economic Development Public Facilities Distressed/Rural Sales and Use Tax as an incentive for construction of affordable housing, with uses of the funding limited to paying impact fees and utility fees for eligible projects.

OTHER RECOMMENDATIONS

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 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: 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 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 farmworkers and their families.

Recommendation: 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 appears 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 House Key mortgage. 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 low-income homebuyer can afford. This mortgage gap can be financed with *community capital investments* such as the nonlocal and local funding discussed above and with *sweat equity* from the homebuyers who help to build their own homes.

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

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

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 (2006 – 2010), two out of every five households cannot afford the housing they occupy in Skagit County (38.6 percent, 16,875 out of 43,713 households) because they spend more than 30 percent of their gross monthly income on housing costs.

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

- ✓ Acquisition and preservation has a quicker impact compared to the long lead time 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, and
- ✓ Affordable rental housing developments may see their affordability requirements disappear unless the community can work with the owners to extend the affordability period.

None of the Skagit area's existing nonprofit housing providers, with the exception of Home Trust of Skagit, have a program designed to acquire existing, market-priced housing and convert it to housing affordable for low-income households.

The same basic formula (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.

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 that could step forward to become the owner of scattered site rental housing serving people who cannot afford the market rate rentals.

Recommendation: 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 low-income households. 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 throughout Washington, including many 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.