

Memorandum



To: City Council
From: Council Finance Committee (Eric Johnson, Bruce McDougall, Ryan Walters)
Date: October 23, 2019
Re: Financing Proposal for Affordable Housing Projects

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Background

Housing affordability and accessibility has been a major focus of the City for the last several years. According to the federal department of Housing and Urban Development, 33% of Anacortes households (48% of renters and 25% of owners) are housing-cost burdened,¹ meaning they spend more than 30% of their income on housing and therefore may have difficult affording other necessities such as food, clothing, transportation, and medical care.

The current need for affordable homes in Anacortes to accommodate the families in the 50% or less income categories is 330. According to the 2015 Berk Study², this translates to nearly 971 new housing units to meet our current and projected needs through 2036 for affordable housing.

Recent Council Action

The City has recognized the need to take action on many fronts if it is to improve housing affordability and accessibility to all sections of the Anacortes community. The City included a number of policies to support housing affordability in the 2016 Comprehensive Plan update. The City Council then established the [Housing Affordability & Community Services Committee](#) in January 2016, which produced a [strategic plan](#) (later adopted by City Council). The City has considered (but not adopted) a [multi-family housing tax credit program](#), which is separate from and not connected to the proposal described by this memo. The Council Finance Committee (“CFC”) has been working with Finance Department staff to develop the

¹ HUD, Consolidated Planning/Comprehensive Housing Affordability Strategy Data, 2012-2016 data, available at https://www.huduser.gov/portal/datasets/cp/CHAS/data_querytool_chas.html

² BERK Consulting, Skagit County Affordable Housing Needs, July 2015, available at https://www.skagitcounty.net/HumanServices/Documents/Housing/HousingNeed_CityProfiles.pdf

following proposal for financing three affordable housing projects. This proposal is an evolution of the discussions at the [June 24](#), [July 1](#), [August 19](#), and [August 26](#) City Council meetings.

Recent State Legislation

New state legislation presents new opportunities to the City to retain existing sales tax that now goes to the State, by leveraging a voter-approved sales tax for affordable housing.

In this year's session, the State Legislature adopted [Substitute House Bill 1406](#) which allows a city or county to obtain a portion of the state share of the sales tax for use for affordable housing. The allowed uses of those funds are:

- acquiring, rehabilitating, or constructing affordable housing, which may include new units within an existing structure or facilities providing supportive housing services under RCW 71.24.385 (behavioral health organizations);
- operations and maintenance costs of new units of affordable or supportive housing;
- rental assistance for tenants at or below 60% of area median income.

The legislation is complicated. The amount of funding available from the state with no further action is 0.0073% (which in Anacortes, is equal to about \$41,655 annually). On August 26, the City Council adopted [Resolution 2054](#) declaring our intent to retain this portion of the sales tax.

But if the City adopts an affordable housing sales tax under [RCW 82.14.530](#), the City would obtain 0.0146% (about \$83,311 annually) for 20 years of the state's share of the existing sales tax, in addition to the revenue from the additional local sales tax. That affordable housing sales tax, which would have to be approved by the voters, could be imposed at a 1/2 of 1/10 of 1% rate, or up to 1/10 of 1% rate (which would yield about \$570,623 annually). The allowed uses of the affordable housing sales tax are:

- constructing affordable housing, which may include new units of affordable housing within an existing structure, and facilities providing housing-related services;
- constructing mental and behavioral health-related facilities;
- funding the operations and maintenance costs of new units of affordable housing and facilities where housing-related programs are provided, or newly constructed evaluation and treatment centers;
- up to 40% of the money collected may be spent on operation, delivery, or evaluation of mental and behavioral health treatment programs and services or housing-related services.³

Proposal

We propose that the City Council place an affordable housing sales tax in the amount of 1/10 of 1% on the February 11 special election ballot.

The affordable housing sales tax would allow us to receive both SHB 1406 increments of the state sales tax plus the revenue from the new sales tax. Together, these funding sources would yield approximately \$654,000 annually, using 2019 sales figures, for a 20-year period.

³ RCW 82.14.530(2)(a).

Revenue Source	How Authorized	Annual Amount
Retention of 0.0073% State Sales Tax (1st Increment)	SHB 1406, via Council resolution	\$41,655
Retention of 0.0073% State Sales Tax (2nd Increment)	SHB 1406, only if voters approve Affordable Housing Sales Tax below	\$41,655
Voter-Approved 1/10 of 1% Affordable Housing Sales Tax	Council must place on ballot; Voters must approve	\$570,623
	Total	\$653,963

Because this funding source is based on sales, the amount of annual revenue is subject to fluctuations in the local economy. City Finance Department analysis of historical sales suggest we should retain at least 25% of the annual amount in a reserve fund to cover shortfalls that are likely to occur over the 20-year period of the tax. Used to support bank loans or bonds, that annual amount could raise \$6.5 million for immediate spending on housing.⁴

If the affordable housing sales tax measure passes, the City would enter into contracts with the Housing Authority and the Family Center to fund the three projects described in this memo by providing a stream of payments that would enable the AHA and the Family Center to obtain bank loans or other financing that would provide them sufficient cash to immediately fund their projects. The funding amounts would be (approximately):

Project	Funding Stream Sufficient to Access
AHA Townhouses	\$1.5 million
AHA Olson Building	\$2.0 million
AFC 26th Street Affordable Housing	\$3.0 million
Totals	\$6.5 million

Both entities have confirmed to the Council Finance Committee that this arrangement would enable them to access the capital required to proceed with the projects. The contracts would:

- Commit AHA/AFC to building the described project and providing affordable housing consistent with the statute, on a specified timeline.
- Commit the City to providing the funding stream described in the chart above. The City would take on the risk of shortfall. Because these revenue sources are sales taxes, we recommend we commit only 75% of that projection to immediately fund housing projects, and retain 25% of the revenue stream in a reserve fund to ensure the City’s obligations are covered during recessionary periods.

With adoption of the new affordable housing sales tax, our community would be contributing approximately \$570,000 annually in new revenue, but also leveraging that to access an additional

⁴ State law allows the City to use only 50% of the proceeds of the affordable housing sales tax for a bond.

\$83,000 annually in sales tax that is already being collected by the state, but would under this proposal be reallocated to Anacortes.

Shovel-Ready Projects in Anacortes

① AHA Townhouses

The [Anacortes Housing Authority](#) is a government agency that owns several housing facilities in Anacortes including the Wilson Hotel, Harbor House, and Bayview Apartments. The AHA currently owns 183 units that house approximately 350 people that have few—if any—other housing options.⁵ They have nearly 200 households on their waiting list, and give preference to local residents.

The AHA recently purchased a lot on 19th Street between Commercial and O Avenues on which they propose to build **five townhouses**. The AHA’s rough estimated price tag for the project is **\$1.5-1.65 million**. The project does not require conditional use permits. Construction could occur immediately after funding.



② AHA Olson Building

The Housing Authority recently acquired the historic Olson Building, on the corner of 3rd Street and Commercial Avenue, from the Port of Anacortes with the intent to renovate and restore the building, preserve the business spaces along Commercial Avenue, and make **15-20 housing units** available to low-income tenants on the second floor. Preservation of the building is the AHA’s stated primary goal, with preservation of at least the building façade at a minimum.⁶



The AHA’s rough estimated price tag for the project is \$3.5-4 million. Construction would likely occur during 2021.

⁵ [Memo from AHA Commissioner Susan Rooks](#) (August 22, 2019).

⁶ Photo by Steve Halverson. CC BY-NC-SA 2.0. <https://www.flickr.com/photos/stevehalverson/6884301121/>

③ Family Center

The Anacortes Family Center owns property at 1019 26th Street, adjacent to its existing housing project at 1016 27th Street, on which it proposes to construct **20 apartments** in a new four-story building behind the hospital. The building would replicate the 27th Street building's floorplan except for addition of a first-floor childcare space to support the residents.



The Family Center's estimate price tag is **\$3.75-4 million** (approximately \$3 million of which is attributable to the first three floors). AFC has already lined up a contractor, which is on notice to being work within one quarter of obtaining funding.