



CITY OF KIRKLAND
Department of Planning and Community Development
123 Fifth Avenue, Kirkland, WA 98033 425-587-3225
www.ci.kirkland.wa.us

MEMORANDUM

To: David Ramsay, City Manager

From: Dawn Nelson, Planning Supervisor
Arthur Sullivan, ARCH Program Manager
Eric Shields, Planning Director

Date: August 27, 2008

Subject: ARCH Priority Housing Strategies, File MIS08-00001

RECOMMENDATION

Staff recommends that the City Council hear a brief presentation from ARCH staff regarding the Strategic Planning Workshops that were held in Spring 2007 and resulted in the development of Priority Housing Strategies. Following the presentation, staff recommends that the Council hold a brief discussion of the strategies and consider adopting a motion to endorse the strategies.

BACKGROUND DISCUSSION

The attached Priority Housing Strategies Summary document provides an overview of the ARCH workshops held in Spring 2007, the criteria used to develop priority housing strategies, and a summary of the proposed priority strategies. ARCH staff will be attending meetings of all member City Councils this fall to encourage endorsement of the priority strategies. The rationale of having each jurisdiction endorse the strategies is outlined on page 4 of the report as follows:

The intent behind endorsing the proposed priority strategies is to increase the effectiveness of member's individual and collective efforts to address local housing needs. To maximize the effectiveness of the priority strategies, endorsing these priority strategies would have several implications for individual members and for ARCH:

1. Members will consider including these strategies in their work programs, and as appropriate, in their legislative priorities. **Endorsing these strategies is not a commitment to a particular approach or action on the specific strategies;**
2. Members are expressing an interest in working together to explore potential common approaches to these strategies among ARCH members. For example, this could include maximizing consistency of administrative procedures;
3. Endorsing these priority strategies does not suggest that the priorities are the only housing issues that the cities and ARCH will be working on; and
4. That these priorities will help shape the work program of ARCH. Member cities will have a chance to review ARCH's work program and discuss the balance between work on priority strategies and other projects

ARCH Strategic Planning Workshops March – May 2007

PRIORITY HOUSING STRATEGIES SUMMARY



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Purpose of ARCH Housing Workshops

Over the past decade there have been many successful efforts by ARCH members to increase affordable housing opportunities in East King County. However, there are still additional needs and members of ARCH told us they have goals to accomplish more. During an evaluation of the ARCH Trust Fund, the ARCH Executive Board recognized that the Housing Trust Fund, while a cornerstone of local efforts, was on its own insufficient to meet our local goals, especially in the face of changing market conditions. They concluded that a Trust Fund linked to a more coordinated and comprehensive set of strategies may yield more effective results. As a first step to exploring this idea, last year the ARCH Executive Board participated in an exercise to identify a range of alternative housing strategies. These strategies were grouped in the following categories:

- *Direct Local Support* (e.g., strategies for new sources of funds for the ARCH housing trust fund as well as other types of support such as donating surplus property or property tax reductions for affordable housing)
- *Other Public/Private Sources* (e.g., coordinating other public funds with local housing objectives, private sector investment)
- *Land Use Incentives for Affordable Housing* (e.g., accessory dwelling units, incentives for including affordable housing in mixed income development)
- *General Land Use/Building Regulations* (e.g., variable unit size requirement and allowing cottages in single family areas)

Another topic raised frequently in local council discussions is that there is a need for better communication/education on local housing issues.

Building on these two themes, the ARCH Executive Board organized a series of workshops in Spring 2007 with the purpose of creating a ARCH Housing Strategies Program. These workshops created a process whereby Council members, ARCH Executive Board members, Commission members, senior planning staff of ARCH members, and invited outside stakeholders (e.g. developers, lenders) assemble to discuss and help craft a set of proposed strategies.

This first workshop included a review of the purpose and anticipated outcomes of the workshops; a discussion of the local housing conditions and needs, and efforts to date by East King County Cities to create affordable housing; and an initial discussion of potential specific strategies that can be pursued to facilitate the provision of affordable housing.

The subsequent two workshops focused on the participants developing the components of a Housing Strategy Program. The Workshops and resulting Housing Strategy Program focuses around several main components:

- Identify a short list of top priorities from each of these four categories listed above, that are most universally applicable across the ARCH membership and will yield the most practical impact ('Priority Strategies').

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- Develop a set of ‘best practices’ for community outreach and education on housing needs in East King County.
- Initial research for implementing the priority strategies and ‘best practices’ including evaluating if any of these could be implemented through some form of collective or simultaneous effort of the ARCH members.

The Priority Strategies are being forwarded to all the ARCH member councils for their review and possible endorsement..

This first part of this report outlines the criteria used in selecting the priority strategies, This is followed by a summary of the priority strategies identified through the workshops. The last part of this report includes a summary of housing conditions and needs in East King County. Other reports prepared as part of the workshops are 1) a more detailed descriptions and initial research for each of the priority strategies, and 2) a report providing background information and the description of an Education Best Practices program developed in the workshops. ARCH received a grant from the Washington State Department of Community Trade and Economic Development to assist in the overall process of developing the Housing Strategy Program, including the assistance received from Cedar River Group, the Campaign for Affordable Housing, and Steeplejack Associates.

CRITERIA FOR HOUSING PRIORITY STRATEGIES

In the spring of 2007 ARCH held three workshops where council members, ARCH executive board members, commission members, senior planning staff, and invited stakeholders (e.g. developers, lenders) came together to look at existing conditions and identify potential housing strategies that could augment and expand upon our existing efforts. ARCH is now presenting these strategies to member councils for their consideration and potential inclusion in a collective effort, the ARCH Housing Strategy Program. ARCH received a grant from the Washington State DCTED to develop the Housing Strategy Program.

Criteria for Priority Strategies

The seven shorter term strategies and 4 longer term strategies were chosen by ARCH workshop participants from a larger list of potential strategies as being the most promising, as well as best fulfilling these criteria:

- Universally applicable. Select strategies that are most universally applicable across the ARCH membership, though not necessarily applicable to the same extent in all jurisdictions, and will yield the most practical impact.
- Range of Strategies. Develop a list of strategies that utilize the full range of regulatory and assistance tools available to the community and that touch upon all of the criteria (see end of memo). The range of tools include:
 - ❖ Direct Local Support (e.g., strategies for new sources of funds for the ARCH housing trust fund as well as other types of support such as donating surplus property or property tax reductions for affordable housing)
 - ❖ Other Public/Private Sources (e.g., coordinating other public funds with local housing objectives, private sector investment)
 - ❖ Land Use Incentives for Affordable Housing (e.g., accessory dwelling units, incentives for including affordable housing in mixed income development)
 - ❖ General Land Use/Building Regulations (e.g., variable unit size requirement and allowing cottages in single family areas)
- Create Short Term and Long Term strategies. The proposed strategies include primarily short-term strategies that could be accomplished in the next 1 – 3 years and a few longer-term strategies that may take 3 – 5 years to accomplish. Generally the longer-term strategies are ones that would require legislative action by another level of government within the State (typically the State level.)
- Build upon existing efforts. It is important to keep in mind that the proposed strategies are meant to build upon the efforts already in place to create affordable housing. Work in these areas will continue but has evolved to a point where concentrated, additional efforts are not as critical. One such examples would include accessory dwelling units.
- Community Partner input. Feedback from for-profit and nonprofit developers suggest that strategy will be effective.
- Demonstrated Success. Strategies have some level of success in other jurisdictions, either locally among some ARCH members, or in other areas of the region or country.
- Impact on housing cost. The strategy will have an effect on the ultimate cost of housing.

- Address range of needs. Include strategies that address needs at both low and moderate income levels and provide ownership and rental opportunities.
- Impact Revenue and Cost. Look for strategies that address both the ‘revenue’ side and ‘cost’ side of creating housing.

Endorsing Priority Strategies

The intent behind endorsing the proposed priority strategies is to increase the effectiveness of members individual and collective efforts to address local housing needs. To maximize the effectiveness of the priority strategies, endorsing these priority strategies would have several implications for individual members and for ARCH:

- 1) Members will consider including these strategies in their work programs, and as appropriate, in their legislative priorities. **Endorsing these strategies is not a commitment to a particular approach or action on the specific strategies;**
- 2) Members are expressing an interest in working together to explore potential common approaches to these strategies among ARCH members. For example, this could include maximizing consistency of administrative procedures;
- 3) Endorsing these priority strategies does not suggest that the priorities are the only housing issues that the cities and ARCH will be working on; and
- 4) That these priorities will help shape the work program of ARCH. Member cities will have a chance to review ARCH’s work program and discuss the balance between work on priority strategies and other projects.

Proposed Housing Strategy Priorities

SHORT TERM STRATEGIES (1- 3 Years)

I. Direct Local Support

I.A.	<p>Dedicated Funding Source for the ARCH Housing Trust Fund</p> <p>ARCH cities have created a trust fund to financially support housing projects in East King County. However, the funding available from ARCH and other sources falls far short of meeting housing needs, particularly for low income populations. In the ARCH workshops the group affirmed an interest to explore creating a dedicated funding source to supplement the existing general fund and CDBG contributions to the ARCH Trust Fund. The goal is to identify and implement a ‘best’ dedicated funding source in 2008-09. Concepts to be considered include:</p> <ul style="list-style-type: none"> • Condo conversion tax • Demolition Tax for Existing housing • Commercial impact fee for housing <p>Some criteria for evaluating different sources include: a nexus between the revenue source and addressing local housing needs, and creates a meaningful amount of revenue.</p>
I.B	<p>10-Year Property Tax Exemption for mixed use zones</p> <p>Legislation was passed this year that now extends the authority to all cities in King County over 5,000 population to utilize a short term property tax exemption on the residential improvement value of housing in mixed use areas. In addition, the legislation is now more explicit about linking affordability to the exemption depending on the level of exemption provided. State legislation allows cities that choose to adopt this program a broad range of flexibility to eligible mixed use areas, and to specify program requirements, including adopting affordability guidelines that exceed the State minimum requirements.</p>

II. Other Forms of Direct Support by Public/Private Sources

II.A	<p>Private or other public ‘surplus’ or underutilized property for housing</p> <p>This strategy encourages working with public and private property owners, including churches, to determine if all or a portion of their surplus or underutilized property could be used for affordable housing development. There are several potential aspects of this strategy for cities. One is to make city surplus land available for affordable housing. In making city land available for housing, a city must consider the type of funds used to acquire that land (e.g. general funds or utility funds), which may determine whether the property can be made available at no cost or below market, or must be sold at market value. A second potential city role is to be more proactive to identify private property (e.g. church property) or property owned by other</p>
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	<p>public agencies that is vacant or underutilized (e.g. Park n Ride lots, school district property) that could be appropriate for affordable housing. A final approach is to more proactively facilitate the acquisition and rehabilitation of existing privately owned rental housing by community based groups to preserve their long term affordability. All three of these approaches have been done to some degree in the past.</p>
<p>II.B</p>	<p>Employer Housing Program The purpose of this strategy is to encourage some form of private sector investment in housing. One approach that has some track record in other areas is to partner with employers on a down payment assistance program, such as ARCH House Key Plus. ARCH House Key Plus currently offers \$30,000 second mortgages, however this program could be expanded or a similar program offered with employer contributions. To help incent employers to use this type of program, one idea currently being explored is State legislation that would reduce their State B&O tax based on their providing a rental or ownership housing benefit to their employees.</p>

III. Land Use Incentives for Affordable Housing

<p>III A</p>	<p>Regulatory Incentives (Mandatory and/or Voluntary) Programs, In discussing this strategy the workshop participants recognized that there are a range of approaches to link the provision of affordable housing with decisions to provide developers with some form of land use incentive. The group concluded that a ‘one size fits all’ approach was probably not appropriate. It is probably more feasible to develop a more consistent approach to creating incentive programs that can balance the goal of jurisdictions to see such incentives used, and developer interests of incentives or requirements being reasonable. A range of issues that would be explored under this strategy include:</p> <ul style="list-style-type: none"> • Cities working collectively through ARCH and involving input from builders to develop a more consistent methodology for jurisdictions considering incentive programs, including alternative methods for providing affordable housing (e.g. in-lieu fees, off-site). • Explore range of incentives that could be utilized. • Adopt policies that link land use actions that will result in increased development capacity, with provisions for providing affordable housing. Consider whether policies should be mandatory or voluntary. • Develop consistent administrative guidelines for affordable housing created through incentive programs
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IV. General Land Use/ Building Regulations to Increase Housing Diversity

IV. A	<p>Housing Emphasis Zones within mixed use neighborhood.</p> <p>Many community’s plans rely on meeting long term housing needs in their town centers and other areas that allow mixed use. Over 50% of overall housing capacity, and over 80% of all multifamily housing capacity among cities in East King County is within mixed use zones. Also, housing in mixed use area is seen as a key component to the long term vitality of these areas. In mixed use zones there can be uncertainty about what uses will ultimately develop, and whether housing can “compete” financially with other allowed commercial uses. This strategy could involve one or more components, such as:</p> <ul style="list-style-type: none"> • Monitoring of development in mixed use zones to assess if development patterns are achieving community goals; • More explicit regulatory strategies to achieve housing in their mixed use zones. Could entail a range of efforts. One example would be to allow higher densities or FAR for developments that include housing; or require development in designated ‘housing zones’ include a certain proportion of housing units. Such approaches are being used by the City of Redmond in the Overlake neighborhood and by Kirkland in Totem Lake. Other examples could be to examine parking standards, doing district wide SEPA review or expedited permitting for developments with housing. • Communities could more proactively invest or develop public infrastructure in areas where they are trying to encourage housing. (e.g. upgrading local infrastructure, adding public amenities, or lowering certain impact fees).
IV. B	<p>Smaller homes (innovative housing) in single family areas (e.g., cottages / bungalows, duplexes)</p> <p>One way to provide more varied housing choices and potentially reduce the cost of housing is to encourage the creation of smaller homes. Historically smaller clustered units have been allowed in multi-family zones but some jurisdictions now have policies encouraging innovative forms of smaller housing, including cottages, duplexes, and zero-lot-line development in single-family neighborhoods. This strategy could be implemented potentially at two different levels.</p> <p>A) <u>Consistent Policy</u>. Cities could work more collaboratively so that when they adopt regulations allowing innovative housing, the regulations would be as consistent as possible. It is unclear to what extent ARCH could add value to such an effort. ARCH staff does not have the same level of experience or expertise as local staff. If ARCH were to have a role, it might be to help convene or facilitate collaboration of communities.</p> <p>B) <u>Demonstration Project</u>. A demonstration project can let a city test proposed regulations before they are adopted into code. In some circumstances this might be considered an important first step to</p>

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	<p>allowing innovative housing. Kirkland used such an approach for evaluating allowing cottages and small lot homes at higher densities in single family zones. If there is interest in doing a demonstration project for a particular type of housing, then ARCH could potentially help facilitate such an effort. Such a role had been previously envisioned for the Homechoice Way concept. ARCH's objective would be to help facilitate a development in a manner that multiple jurisdictions could potentially be involved, or benefit from the lessons learned from the demonstration project.</p>
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LONGER TERM – LEGISLATIVE/REGIONAL STRATEGIES (3 – 5 Years)
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There was discussion around the idea of looking at some strategies that would involve legislative efforts by other levels of governments which would presumably entail a longer term and different type of local investment. In the workshops it was noted that success with these strategies would require a united effort and 'voice' not only of ARCH members, but other interest groups from around the region and/or state. However, given the potential gain if successful, they were considered strategies worth participating in at some level of long term effort.

	Sales Tax Exemption for Affordable Housing
	Tax increment financing
	Allow Outright 'Waiver' of Impact fees.
	<p>Countywide/Regional Bond Issue/Levy A countywide/regional bond levy would not require state legislative action, but would likely require cooperation of multiple local and County government(s) in either the County or the larger region.</p>

East King County Housing Conditions and Needs Summary

ARCH member cities established goals in the mid 1990s (reaffirmed several years ago) for directing the allocation of resources, including the Housing Trust Fund. These goals are based on a larger effort undertaken by a range of stakeholders to define relative housing needs in Eastside communities:

<u>Target Population</u>	<u>Goal</u>	<u>Actual (through 2006)</u>
Elderly	19%	20.57%
Families (inc. Single Households)	56%	58.7%
Homeless/Transitional	13%	13.2%
Special Needs Populations	12%	7.5%

In addition, when these goals were reconfirmed several years ago, refinements were made to address emerging needs, including the following:

Very low income housing. An increasing proportion of low-income households have incomes that are below 30% of median income. Therefore, developments are encouraged that serve a variety of incomes, including units affordable at 30% of median income.

Senior Assisted Housing. The Eastside continues to see an increase in senior residents (65+) from 9.8% to 12.5% of the population. (Countywide senior population is 10.5%.) Importantly, essentially all the increased proportion of seniors is among seniors over age 75. Therefore, we should seek to provide affordable housing for seniors that includes services.

Homelessness. Based on the 2006 One Night Count, it was estimated that on any given night in King County there are approximately 7,900 homeless persons. About half are estimated to be households with children, and 30% of all homeless are estimated to be under age 18. Homeless housing efforts now are focusing more on “housing first” and supportive housing, which allows families and individuals to secure housing with services provided as needed.

Significant increases in ethnic/cultural diversity, especially Asian and Hispanic. Overall, the percentage of non-white households on the Eastside increased from under 10% to almost 19% from 1990 to 2000.

OTHER DATA DESCRIBING HOUSING NEEDS

Available local resources are inadequate to fully address local housing needs. This implies the need to develop other local resources and/or strategies that will have a significant impact. While local resources could be focused on one or two housing needs, the Growth Management Act requires the development of strategies that address the full range of identified local housing needs. The following describes Eastside cities’ overall progress in meeting affordable housing goals and production, which is then followed by describing several other factors that could influence strategies for moving forward:

- Housing production has generally been at or above GMPC housing targets.
- Currently there is sufficient land capacity to meet 2022 housing targets.
- East King County cities have met about 30% of their housing goals for low income housing (up to 50% of median income).

- East King cities have been achieving the overall goals for moderate-income housing, though results do vary from community to community, and these have generally been smaller, rental units, thus not fully meeting the range of needs of moderate income households.

In evaluating this information there are several **potential implications** for future efforts.

- Market Efforts and Gaps. While moderate-income housing goals have been cumulatively met, gaps for moderate-income housing have included entry-level ownership and housing for families. Also a good portion of moderate-income housing in the past was created by the private market, but given trends with housing prices and rents, cities may need to be more proactive to see continued production of moderate-income housing, especially by the private sector.
- Residential Capacity. For a number of cities, their residential land capacity is relatively close to their housing target, therefore could be more of a challenge accommodating the next population goals in 2012, and/or increases the importance of creating housing in mixed-use zones.
- Housing Demand from Employment. Housing demand from new employment is expected to outpace new housing supply. The State of the Workforce Update (Feb 2007) states that while some jobs on the Top 25 list provide good wages, 73% of vacancies pay a median wage of \$10 per hour or less.
- Leveraging other Public Resources. Essentially all low-income housing requires direct public assistance, and that trend can be expected to continue. This emphasizes both the importance of local resources for housing, and the need to secure other funding sources.
- Geographic Distribution of Affordable Housing. Implicit in the GMPC Housing Goals and ARCH funding policies is to create a geographic balance of affordable housing throughout East King County. ARCH's Housing Trust Fund has allowed cities to achieve a good geographical distribution of affordable housing over time, which we would want to continue into the future.

OTHER FACTORS AFFECTING HOUSING NEEDS AND SUPPLY

Preservation. Existing housing has been a key source of affordable housing. ARCH's objective is that funding for preservation projects continue at or above previous funding levels of approximately 30% of the distribution of funds. There are several distinct types of preservation:

- *Section 8 Preservation*. Preservation of existing federally subsidized Section 8 housing for families and seniors that is eligible to be converted to market-rate housing. Over 460 such units have been preserved, but there are still approximately 150 units that are potentially threatened.
- *Market-Rate Rental Housing*. Involves local groups (e.g., DASH, St Andrews, Housing Authority, YWCA) buying existing private rental housing which usually has low and moderate income residents. These properties are rehabilitated and variable rent levels established to be affordable to a range of families income levels.
- *Manufactured Housing Communities*. While there are relatively few manufactured housing communities in East King County, they offer an affordable form of housing that is threatened with closure. Remaining communities are primarily in the north part of the County.

Condo-conversion has increased for the last several years. Conversions reduce the number of existing rental properties, further supporting the concept of securing properties for long-term affordable rental.

Town/Urban Centers. Increasingly cities are getting housing in town centers / mixed use zones; and much of the future growth is planned for these areas. To date there has been relatively little housing for moderate- and lower-income households provided in these areas, though they are logical areas for affordable housing because of proximity to employment and transit.

Market Conditions. The Eastside market requires a group to be able to move quickly to purchase property. This situation is exacerbated by several constraints of public funding: (1) Affordable housing funds are available only once or twice a year, and often take several rounds to complete financing; and (2) Sales prices can be based more on speculative value, while public funds require justification of the purchase price with an appraisal.

Leveraging Other Public Funding Sources / Funders' Priorities City funds have been significantly leveraged by county, state, federal and private funds. Many projects are influenced by policies of other funders (Washington Housing Finance Commission, King County). In recent years priorities have included housing for very low income (i.e., 30% of median), homeless, and special populations/needs (e.g., large families, persons with disabilities).

Community Partners. One of the keys to success in addressing housing needs is the growth and success of our community partners. In the past decade, local non-profit housing groups have grown and are developing a range of housing, and the Housing Authority has increased its local efforts.