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August 28, 2019

To: Performance Audit Committee
From: Bill Vetter, Sr. Legislative Analyst
Re: Pierce County Affordable Housing Incentives Report

We are pleased to present this evaluation of Pierce County Affordable Housing Incentives. The study was requested by the County Council in Ordinance No. 2018-62s, directing the Performance Audit Committee to analyze “affordable housing policies and funding options” and recommend “policy options and funding opportunities that are viable for Pierce County.” The Performance Audit Committee adopted the study as part of its 2019 work program.

After a competitive bidding process, the Committee contracted with Berk Consulting, of Seattle, to conduct the study. Berk has extensive experience on affordable housing issues, including recent work with the City of Tacoma on their 2018 Affordable Housing Action Strategy.

In conducting the study, Berk (a) reviewed affordable housing incentives data; (b) interviewed staff responsible for implementing and managing the incentive program; (c) interviewed for-profit and non-profit developers and industry representatives who build housing in Pierce County; (d) estimated the value that incentives could provide to developers; (e) researched best practices used in jurisdictions across the Central Puget Sound Region and Washington State that have been successful in supporting affordable housing development; and (f) examined new funding and financing options made available through recent changes in Washington State and Federal law.

The report estimates the value of the County’s programs for affordable housing and makes several recommendations related to the standardization and promotion of affordable housing incentives and coordination with other jurisdictions in the management of affordable housing funds.

We appreciate the extensive cooperation and effort put into this study by Planning and Public Works and Human Services staff, as well as the for-profit and non-profit developers who participated.

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# Pierce County Affordable Housing Incentives

**Independent Evaluation and Recommendations to Increase Effectiveness**

## EXECUTIVE SUMMARY

In 2010, Pierce County adopted a package of incentives to promote the development of new affordable housing. These incentives include expedited permitting, fee waivers, density bonusing, and alternative development standards. Affordable housing produced through this program is intended for households with incomes 80% of the County area median income (AMI) or below. Collectively, the incentives are directed towards lowering project costs and increasing development capacity for affordable housing development. They are also intended to encourage market-rate housing developers to include affordable units within mixed-income housing developments.

Since the program's inception, a total of four projects have utilized the incentives, producing 682 new affordable units in unincorporated Pierce County. All four projects are affordable housing developments where 100% of units are reserved for low-income households.

### Key Findings

- While it is unlikely that the incentives were a deciding factor in any of the four projects moving forward, we estimate that the density bonuses allowed for the construction of 116 additional affordable units that would not have been permitted under standard zoning.
- Fee waivers are an important provision of the incentives, however a lack of funding allocated to these waivers has significantly reduced the value provided to developers that include affordable units in their projects.
- The $350,000 allocated in the 2019 budget to support fee waivers could theoretically provide support to projects with a maximum of 20-25 single-family units or 25-30 multifamily affordable units. However, we expect that restrictions on the distribution of these funds to different community planning areas will significantly reduce the amount of affordable housing production supported by this incentive.
- A relative lack of funding available for affordable housing development in Pierce County, paired with limited coordination amongst local agencies on funding strategies, reduces the ability of affordable housing developers to compete for state and federal grants and tax credits, especially in cases where local funding matches are desirable.
- Based on scenario evaluation, the current incentive package does not generally add enough value to encourage for-profit multifamily housing developers to include affordable housing in market-rate projects. Although on a case-by-case basis some incentives may provide greater benefits to developers, current incentives may not be enough to make most projects feasible.
- A lack of marketing activities, clear informational materials, and developer outreach has meant that stakeholders in the affordable housing and for-profit developer community may not know the extent of the incentives available, limiting their adoption.

## Recommended Actions

Based on the evaluation, we recommend the following actions for promoting and supporting the development of affordable housing in Pierce County. The main report includes specific steps the County can take to implement each of these actions.

### *Action 1: Simplify requirement to enhance impact of the financial incentives*

Reducing inconsistent qualification standards and streamlining application processes will foster a program that is easier to understand and applicable to more project types. We recommend reviewing existing financial incentives for unnecessary restrictions that may undermine the broader goal of enabling affordable housing production. This action includes several suggested areas of focus for this review, including thresholds to quality for fee waivers, requirements for distribution of fee waivers across community planning areas, and requirements for equity sharing on sale of ownership units. Simplified and streamlined requirements have the potential to reduce administrative burden for both the County and developers.

### *Action 2. Provide flexibility in development standards for affordable housing*

Giving developers more options in how to achieve design goals can help them to identify creative solutions that reduce cost of site development and construction, which can in turn make marginal projects more feasible and potentially increase the affordability of the units developed. This action includes several recommendations such as including affordable housing as a rationale for providing exceptions to zoning requirements through Planned Development Districts.

### *Action 3. Provide clear information and marketing materials*

To date, the County has shared very limited information about affordable housing incentives to stakeholders, and the typical audience for such information has been affordable housing developers. For incentives to be utilized by market-rate developers in the construction of mixed-income communities, the County will need to create clear informational materials and proactively market the program and coordinate outreach to demonstrate how potential developers can access resources. One potential area of focus would be developers who are unfamiliar with building in Pierce County or affordable housing in general, which could help to bring more partners together for affordable housing development.

### *Action 4. Increase and dedicate funding for fee waivers*

Developers seek predictability and reduced risk when evaluating the financial feasibility of a potential project. Currently, fee waivers are not consistently available to developers that are planning future developments. Increasing the funds available from the County and establishing a dedicated revenue source for funding this incentive in the future will improve the uptake of the suite of incentives by both affordable and market-rate project developers.

### *Action 5. Support affordable housing projects through land donation*

It is likely that Pierce County owns surplus or underutilized lands that may be suitable for affordable housing development. These public lands can be donated, leased, or sold to affordable housing developers.[1] As land prices can be one major factor in project feasibility with non-profits, providing land at a low or no cost can significantly reduce costs and help promote the development of more affordable housing. This action includes establishing a comprehensive land disposition policy, inventorying available public lands, and publicizing opportunities to affordable housing developers.

### *Action 6. Explore partnership opportunities with cities to coordinate on affordable housing funding*

Housing affordability is a regional challenge that cannot be solved within a single jurisdiction's boundaries, including unincorporated Pierce County. By pooling resources and coordinating to fund projects that address regional needs, Pierce County and its cities can potentially develop a more streamlined and strategic approach to supporting affordable housing development and addressing affordable housing needs.

[1] Washington House Bill 2382

# INTRODUCTION

In May 2019, the Pierce County Council asked BERK Consulting (BERK) to conduct an evaluation of its current policies and incentives intended to support or encourage affordable housing production in unincorporated areas, as well as funding options to increase the availability of affordable housing. This report details our findings and recommendations. These recommendations include steps to increase the effectiveness of the current incentives as well as additional actions the County can take to increase the availability of affordable housing.

The information presented in this report does not add up to a comprehensive affordable housing strategy. For instance, the incentive package currently offered by Pierce County is targeted to support households with incomes 80% of area median family income (AMI) or below. Different actions and strategies are needed to support the development of housing for households with lower levels of income. This report also provides only limited guidance regarding options for stimulating the development of additional market-rate housing, including "missing middle" housing that may be affordable to moderate- and middle-income households. As the sidebar discussion emphasizes, housing affordability challenges in Pierce County affect households across the entire income spectrum. We encourage the County to consider the recommended actions in the context of a broader housing strategy developed in coordination with its cities and other stakeholders.

## Methodology

BERK's research and analysis to support this study included the following elements:

- Reviewing the incentives and data about their usage.
- Interviewing Pierce County staff responsible for implementing and managing the incentive program, including planners, permit review, and human services.
- Interviewing for-profit and non-profit developers and industry representatives who build housing in Pierce County, including some who have taken advantage of the incentives.
- Conducting proforma analysis to determine the combined financial value incentives could potentially provide to developers and how this value impacts project feasibility.
- Researching best practices used in jurisdictions across the Central Puget Sound Region and Washington State that have been successful in supporting affordable housing development.

### HOUSING AFFORDABILITY IN PIERCE COUNTY

According to the latest census estimates, over half of all renter households are "cost-burdened", meaning they spend more than 30% of their income on housing. Nearly a third of all owner households are cost-burdened.* These residents have limited income left over to cover other necessities like food, clothing, transportation, and education.

One primary cause of increasing housing costs in Pierce County is rapid employment growth across the Central Puget Sound region. As more people move to the region, the competition for a limited supply of housing increases. This puts upward pressure on housing prices and rents.

As housing costs increase, it impacts Pierce County residents across the income spectrum. While many moderate- and middle-income households can still find market-rate housing that is affordable, it may be located much further from employment centers or reliable transit service. This can increase transportation costs and lower quality of life. For most low-income residents, there is no market-rate housing available at an affordable price point.

* Source: Census American Community Survey 5-Year Estimates, 2013-2017

- Examining new funding and financing options made available through recent changes in Washington State and Federal law.

## EVALUATION OF AFFORDABLE HOUSING INCENTIVES

In this evaluation we set out to answer the following questions:

- What incentives are offered by Pierce County?
- What types of projects took advantage of these incentives?
- Did Pierce County see new affordable housing development that would not have occurred if the incentives were not in place?
- What value do these incentives provide to a developer?
- What factors have limited the effectiveness of these incentives?

In the Recommendations section of this report, we include actions that Pierce County can take to make the incentives more effective at promoting affordable housing production.

### What development incentives are offered by Pierce County?

In 2010 the Pierce County Council adopted a package of affordable housing incentives. These incentives are detailed in Chapter 18A.65 of the Pierce County Code. Each incentive requires the developer to set aside a minimum percentage of units as affordable to low-income households with incomes at or below 80% of County AMI, and for these units to remain affordable by covenant for 50 years[2]. The incentives apply to both multifamily (rental or ownership) and single-family (ownership) housing projects within residential urban zones, including manufactured housing communities. There are four general kinds of incentives offered: expedited permit process, waived fees, bonus housing units, and alternative development standards.

#### *Expedited Permitting Process*

Pierce County offers an expedited review process for building permits, subdivision applications, and road/sewer design reviews for affordable projects. Exhibit 1 describes each incentive, projects that qualify, and limitations on use. These incentives have been used by all four projects which have elected to participate since inception of the program in 2010. Permitting staff with Pierce County Planning and Public Works (PPW) estimate that this expedited review may save an average of 30-60 days in a project's review process, shaving off 15-20% of the total timeline for project approval, although this is subject to variation depending on project size or resubmission requirements. There is also a minimum unit quantity requirement for subdivision and road/sewer review processes which could exclude valuable infill project opportunities.

During interviews Pierce County staff described a permitting and application process for developers seeking to take advantage of incentives that is efficient. In addition, staff discussed interest in developing

[2] According to P.C.C. 18A.65.030A, "[t]he duration of affordability may be reduced to a minimum of 30 years if appropriate compensation is provided, consistent with RCW 36.70A.540."

the program to allow the waiver approval process to run in parallel with permit application review to further reduce unnecessary schedule delays.

Expedited review demonstrates the County's commitment to promoting affordable housing and can be an important part of a package of incentives. However, these incentives alone are not enough to influence a project decision.

**Exhibit 1. Expedited Permitting Incentives Provided by Pierce County**

| Expedited Review | Minimum Threshold to Qualify | Limitation of Use | Description |
|---|---|---|---|
| Building Permit Application | Applies to any and all affordable housing units within a Project. | N/A | All building permits for affordable housing units shall be a priority to review and process over other submitted market rate applications for all Pierce County reviewing departments. |
| Subdivision Applications | Minimum of 10 units within the development, with at least 20% designated affordable. Minimum of 5 units for a Project that is 100% affordable. Applies to entire Project Area. | Not to exceed 10 projects per year, on a first come first served basis. | Preliminary plat, short plat and final plat subdivision applications, and other related applications, by all Pierce County reviewing departments. |
| Road/Sewer Design Review | Minimum of 10 units within the development, with at least 20% designated affordable. Minimum of 5 units for a Project that is 100% affordable. Applies to entire Project Area. | Not to exceed 10 projects per year, on a first come first served basis. | Applications for road/sewer design review shall be a priority to review over other submitted market rate projects by all Pierce County reviewing departments. |

Source: Pierce County Code (PCC) 18A.65; BERK, 2019.

### *Fee Waivers*

Housing developers in Pierce County must pay several different kinds of fees during the permitting process. The County estimates that these costs add up to about $23,000 per unit for a typical 2,000 square foot single-family home.[3] The affordable housing incentives include waivers for many development fees, such as building permits, impact fees, facilities charges, and plat applications. Each available waiver is described in Exhibit 2.

Most fee waivers are distributed on a first come first served basis, based on the availability of county funding to cover the cost of the fee. Only the Traffic Impact Fee (TIF) waiver is offered without budget appropriations to backfill the payments. Exhibit 3 presents BERK's estimates of the value of fee waivers provided, including the amount of funding needed by the County, per unit, to provide these waivers. Prior to 2019, the County did not appropriate funding to cover the cost of fee waivers.

[3] See Approximate Permit Costs for a Single-Family Residence https://www.co.pierce.wa.us/DocumentCenter/View/58053/Cost-of-house-building-permits

In 2019 Pierce County set aside **$350,000** in its budget to fund fee waivers. If projects take full advantage of waiver potential, BERK estimates that this funding could assist in the production of approximately 20-25 single-family units or 25-30 multifamily affordable units. No projects to date have taken advantage of this funding and the full suite of fee waivers. Therefore, it is not clear yet whether the County has an efficient process for implementing these on a predictable timeline for potential developers.

**Exhibit 2. Fee Waiver Incentives for Affordable Housing Production Offered by Pierce County**

| Fee Waiver | Minimum Threshold to Qualify | Limitation of Use | Dependent on Replacement Funding? |
|---|---|---|---|
| Building Fee | All affordable units. | N/A | **No.** Pierce County can waive this fee. |
| | All units within a project of ≥10 units where 20% of units are designated affordable. | Available first come first served depending on funding. Claim must be made no later than the time of the building permit application. | **Yes.** Pierce County collects this fee and funds contribute to Planning and Public Works budget. |
| Traffic Impact Fee | All affordable units. | N/A | **No.** Pierce County can waive this fee. |
| | All units within a project of ≥10 units where 20% of units are designated affordable. | Project must be located within ½ mile of a regularly scheduled transit route. Claim must be made no later than the time of the building or site activity permit application. | **Yes.** Funds collected contribute toward projects for system capacity improvements. |
| School Impact Fee | All affordable units within a school district that charges impact fees. | First come first served depending on funding availability. | **Yes.** These fees are collected by individual school districts. Pierce County must pay the district directly for each waived unit. |
| Park Impact Fee | All affordable units within a project of ≥10 units where 20% of units are designated affordable. | First come first served depending on funding availability. | **Yes.** Pierce County collects these fees and distributes to the Parks Department for capital project funding. |
| Sanitary Sewer System/Facility Charge Waiver | Projects of ≥10 units where 20% of units are designated affordable, or Projects of ≥ 5 units where 100% of units are affordable. | First come first served depending on funding availability. | **Yes.** Pierce County collects these fees for extending facilities to new developments. |
| Preliminary Plat/Formal Plat/Short Plat Application Fee | Projects of ≥10 units where 20% of units are designated affordable. | First come first served depending on funding availability. Claim must be made no later than the time of the application for a subdivision or site development activity permit. | **Yes.** Pierce County collects these fees. Funds contribute to Planning and Public Works budget. |

Sources: PCC 18A.65, PCC 17C.10.070, PCC 4A.10.010 B 2, Exhibit B to Ordinance No. 2018-71s, PCC 4A.30.030, PCC 4A.20.030

**Exhibit 3. Fee Waiver Value Estimates Per Residential Unit**

| Fee Waiver | Single-Family | Multifamily |
|---|---|---|
| Traffic Impact Fees | $4,492 | $2,054 |
| Building Permit Fees | $1,665 | $1,138 |
| School Impact Fees | $3,700 | $2,000 |
| Park Impact Fees | $2,552 | $2,552 |
| Sanitary Sewer System | $7,300 | $7,300 |
| **Total value to a developer** | **$19,709** | **$15,044** |
| *Total waived fees that must be replaced with County funding per affordable unit* | *$13,552* | *$11,852* |

Note: Excludes platting application fee waiver which would not apply to all projects. Platting fees for a 10-unit project would be about $642 per unit.

Source: PCC 18A.65; PCC 17C.10.070; Exhibit B to Ordinance No. 2018-71s; PCC 4A.30.030; PCC 4A.20.030; Pierce County, 2019; BERK, 2019.

### *Bonus Units*

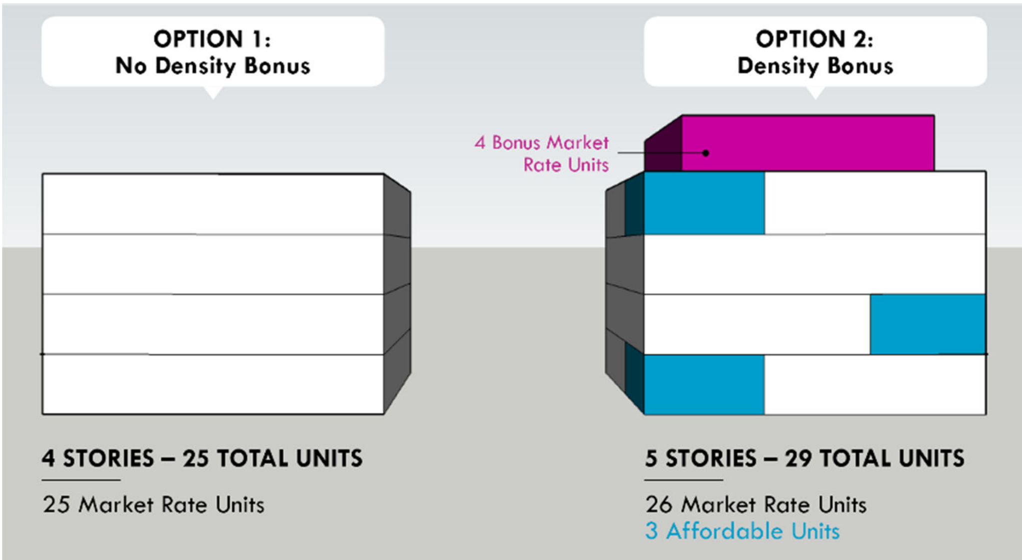
A density bonus allows qualified projects to exceed standard zoning limitations for dwelling units per acre, up to a certain density threshold. For each unit of affordable housing incorporated into a development, Pierce County allows for an additional unit of market rate housing to be created beyond standard regulations (see image in Exhibit 5 and detail in Exhibit 4). Density bonuses can offer a financial incentive for developers by increasing the size of a project and the number of units that can be included on a property of a given size. This benefit requires no direct financial investment from the County but can subsidize affordable units with income from market-rate units. Note that all four projects that have participated in the incentive program to date have taken advantage of the density bonus.

**Exhibit 4. Density Bonus Incentive for Affordable Housing Offered by Pierce County**

| Incentive | Minimum Threshold to Qualify | Limitation of Use | Description | Maximum Density |
|---|---|---|---|---|
| Density Bonus | Projects where at least 10% of units are set aside as affordable | Project must be located within ½ mile of regularly schedule transit | Rental projects gain 1.5 units of market rate housing for each affordable unit | Multifamily Zones: 1.2x maximum density |
| | | | Ownership projects gain 1 unit of market rate housing for each affordable unit | Single Family Zones: 1.33x maximum density |

Source: [Pierce County Code 18A.65]

**Exhibit 5. Example Multifamily Project with MUD (Mixed-Use District) Zoning on a 1-Acre Lot**




Note: Density bonus impacts will vary based on zone and building type.
Source: BERK, 2019.

### *Alternative Development Standards*

Pierce County offers a variety of alternative development standards for affordable housing projects. These include reduced requirements for parking, open space, and lot size on qualifying projects. Some alternative development standards were used by all four projects which have elected to participate since inception of the program in 2010, with parking reductions being the most common.

Like a density bonus, these incentives offer flexibility and relaxed requirements for site planning, which can increase the revenue-generating potential of a project. The nuances of these incentives are more complicated and clear communication between Pierce County agencies and developers is key for maximizing their use. For instance, visual representations of the relevant design standards could help to demonstrate their potential to developers. Ongoing review of these standards to maintain design flexibility will maximize their ability to incite production of affordable units.

**Exhibit 6. Alternative Development Standards for Affordable Housing Offered by Pierce County**

| Incentive | Minimum Threshold to Qualify | Limitation of Use | Description |
|---|---|---|---|
| Parking Requirements | Projects where at least 10% of units are set aside as affordable. Benefits only apply to affordable units. | Multifamily projects within safe walking distance of ¼ mile of a scheduled transit route. | Off-street parking requirement reduced to one space per unit. |
| | Projects where at least 10% of units are set aside as affordable. | Multifamily projects maintaining the standard for off-street parking spaces. | Projects may increase the proportion of compact stalls to 75% of total stalls. |
| | Projects where at least 10% of units are set aside as affordable. Benefits apply to all dwelling units. | N/A | Off-street parking is not required to be located adjacent to the housing unit served. May be provided within a parking court ≤ 100 ft from the housing unit. |
| Parks and Open Space Requirements | Projects where at least 10% of units are set aside as affordable. | Project must be within ¼ mile walking distance to an existing public park or public school with on-site recreational area open to the public after school hours. | Required active recreation area within the project may be reduced at a 1:1 ratio with the recreation area provided at the public park. |
| | See above | N/A | On-site public trail construction and dedication may substitute for open space when the proposed trail is identified in an adopted community plan. |
| Lot Area/Lot Width Requirements | Projects where at least 10% of units are set aside as affordable. | Number of lots with reduced lot area should be equal to the number of affordable units in the project. | Lot area and width may be reduced by 20% of the minimum standard. Design must minimize visual impacts of the garage, provide for porches or covered stoops, and vary roof forms. |
| Infill Compatibility | Projects where at least 20% of units are set aside as affordable. | New residential development adjacent to lots less than 1 acre in size and of lesser density. | A minimum of one of the design requirements identified under PCC 18J.15.020 E shall be required, at the discretion of the Hearing Examiner |
| Road Standards | Projects where at least 20% of units are set aside as affordable. | N/A | Projects may incorporate narrower road widths of Neighborhood Streets and Access Lanes, as specified by relevant County design standards.[4]<br><br>Lots fronting a common open space are not required to front on a private or public road.[5] |

Source: Pierce County Code 18A.65

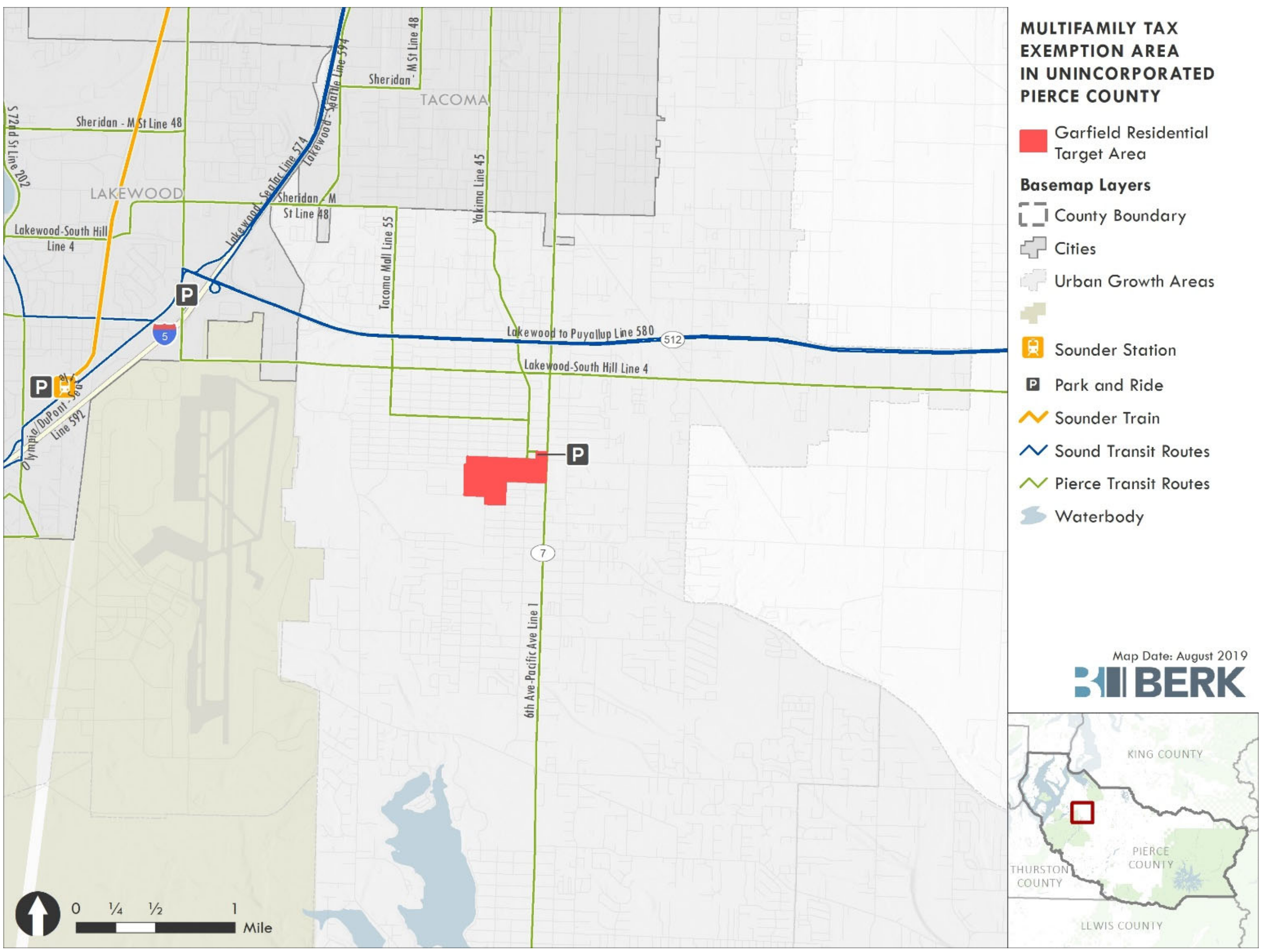
[4] Units accessed on such roads must be compliant with NFPA 13 D interior sprinkler standards
[5] All lots not fronting on a private or public road must have a pedestrian entry easement and be within 150 ft of emergency vehicle access

### *Multifamily Tax Exemption (MFTE)*

Multifamily Tax Exemption (MFTE) programs incentivize housing development by providing an exemption on the property taxes paid on the value of improvements on a parcel. Under RCW 84.14, cities and counties can create MFTE programs to forgive these property taxes within a designated area for eight years for any new housing units, or 12 years for new affordable housing units. In counties with populations greater than 350,000 (including Pierce County), a targeted area must be in an Urban Growth Area (UGA) and include a higher education campus of at least 1,200 students.[6]

Across the state, the only targeted area permitted in any county is within the UGA around Pacific Lutheran University (PLU), which has been designed as the Garfield Residential Target Area by the County (shown in Exhibit 7). For the 12-year MFTE program in this targeted area, developments taking advantage of the tax exemption must make 20% of rental units in a new development affordable to low and moderate-income households, and ownership projects must provide 20% of units to moderate income households.

**Exhibit 7: MFTE Target Area in Pierce County**




Source: Pierce County Ordinance 2012-45, BERK 2019

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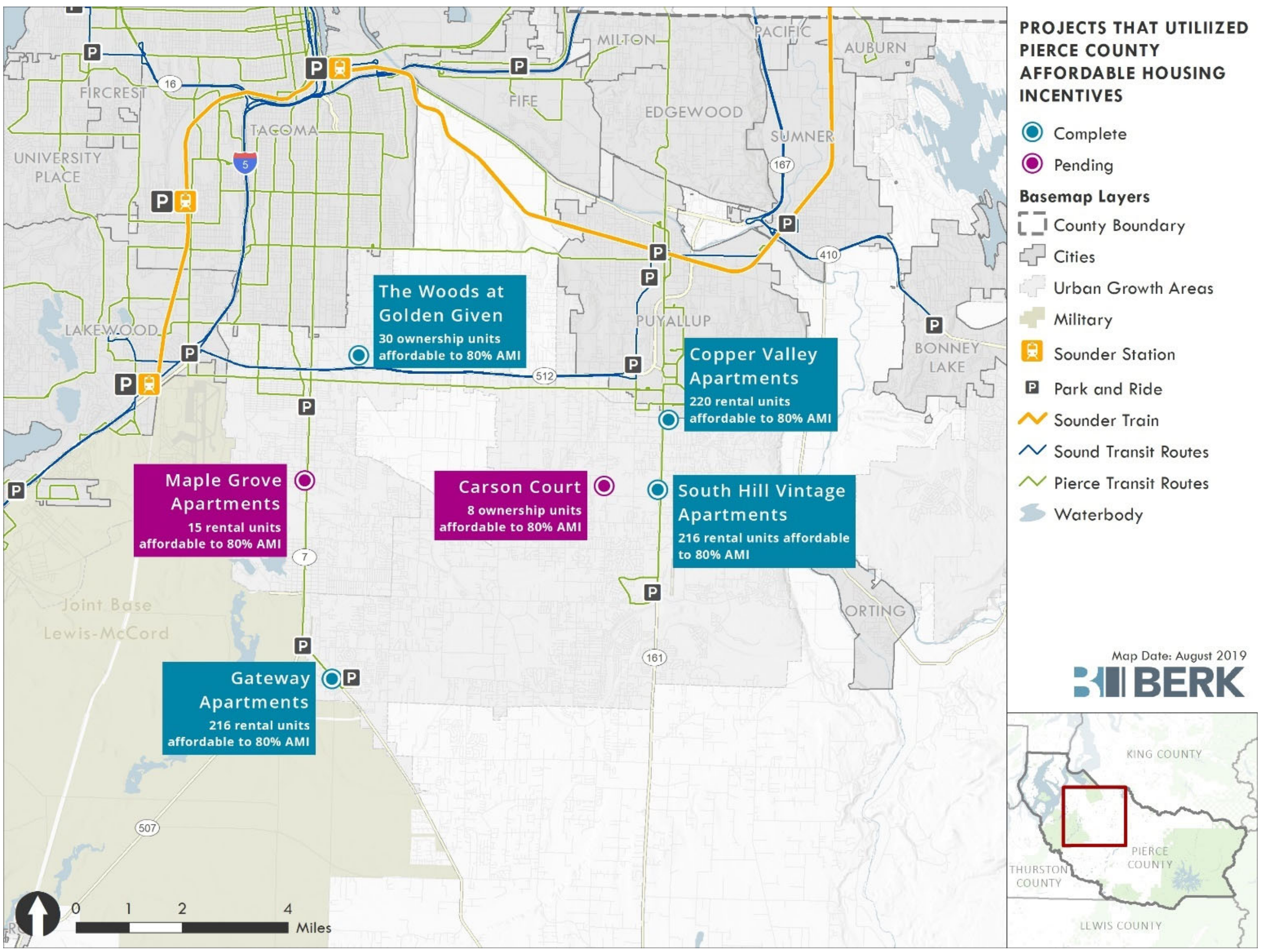
[6] RCW 84.14.140(1)(d)

## What types of projects have used these incentives?

According to Pierce County records, a total of four projects have taken advantage of incentives. These are shown in Exhibit 8, along with two additional projects that were pending as of July 2019. Each of these projects received the same combination of incentives: expediting permits, traffic impact waiver, bonus units, and alternative development standards. All projects were affordable housing developments with 100% of the units set aside for low-income tenants or homebuyers. In total, the incentives have been used in the creation of 652 rental units in multifamily buildings and 30 single-family homes for owners, with an additional 15 rental and 8 ownership units pending.

Between 2010 and 2019, approximately 14,500 housing units were built in unincorporated Pierce County.[7] The 682 total affordable units produced with support of the incentives account for about 4.5% of the total housing production during that period.

**Exhibit 8. Projects that have utilized Pierce County affordable housing incentives**




Source: Pierce County, 2019; Pierce Transit, 2019; Sound Transit, 2019; BERK, 2019.

[7] Source: Postcensal Estimates of Housing Units, April 1, 2010 to April 1, 2019, Washington State Office of Financial Management, Forecasting and Research Division.

## Did Pierce County see new affordable housing development that would not have occurred if the incentives were not in place?

According to one Pierce County staff member familiar with each of the projects that applied for incentives, all projects would have gone forward had the incentives not existed. Additionally, these projects were all conceived as affordable housing developments. The incentives did not encourage any market-rate developers to include affordable housing units in a mixed-income development.

However, each of the projects did take advantage of the density bonus. Assuming each project maximized the density bonus potential, BERK estimates that the density bonus incentive allowed for an additional 116 affordable units to be constructed which would otherwise not be allowed under typical zoning requirements, as shown in Exhibit 9.

**Exhibit 9. Estimated Number of Additional Affordable Units Enabled by Density Bonus Incentive**

| Affordable Housing Project | Total Units in Project | Estimated Density Bonus Units |
|---|---|---|
| The Woods at Golden Given | 30 | 7 |
| Copper Valley Apartments | 220 | 37 |
| South Hill Vintage Apartments | 216 | 36 |
| Gateway Apartments | 216 | 36 |
| **Total** | **682** | **116** |

Note: Estimate assumes developer used the maximum possible density bonus of 1.2x zoned capacity for multifamily zones and 1.33x zoned capacity for single-family zones.
Source: Pierce County, 2019; BERK, 2019.

## What value do these incentives provide to developers?

### Overview

Typically, affordable housing is built by two different kinds of developers: *mission-driven developers*, and *for-profit developers*. Mission-driven affordable housing developers are largely non-profit or not-for-profit entities that assemble public and private funding to finance an affordable housing project. While these developers usually do not work to maximize profits, they typically seek financially feasible projects that provide a rate of return to repay their loans and sustain their business operations to continue to build affordable housing projects. For these developers, incentives can lower the cost of development and increase the number of units they can provide, but decisions on whether to move forward with a project will depend on whether enough funding is available.

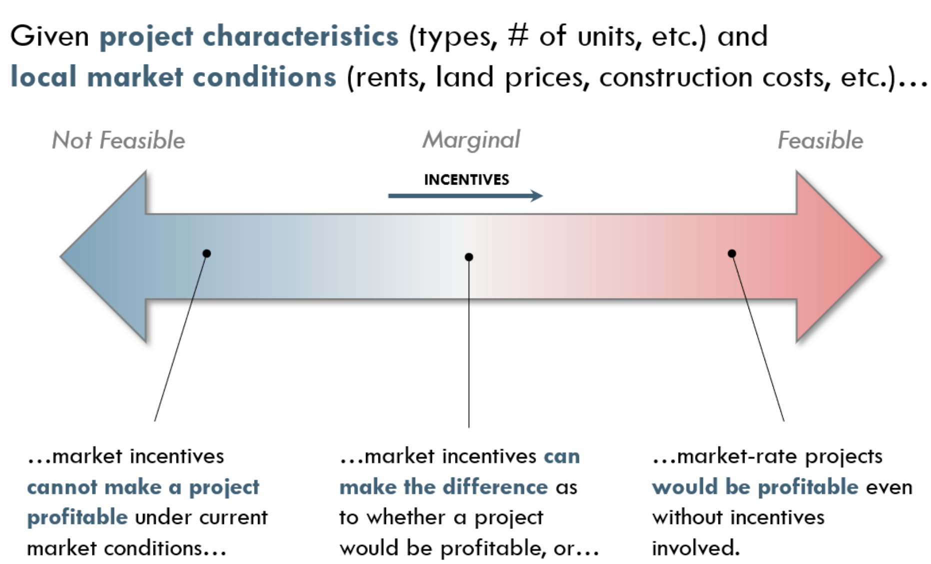
Affordable housing can also be built by for-profit developers who typically build market-rate housing. These developers may use incentives that require a portion of the units to be set aside as affordable in exchange for benefits to the development that would improve overall returns such as a density bonus, parking reductions, fee waivers, or other allowances. While some of these developers may be motivated by social responsibility, for-profit companies will likely only use these incentives if there is a clear financial advantage in doing so.

Exhibit 10 illustrates a conceptual understanding about setting the most efficient development incentives across a spectrum of financial feasibility. In a competitive market, incentives are best deployed to "shift the needle" and make a project that is not feasible (by not providing a high enough rate of return for investors) become more feasible due to the financial benefits from incentives. Across the spectrum, some projects are not feasible because the costs of land, construction, and financing are far too high to provide enough of a return to make a profit given expected revenue. If the gap between costs and revenue are too high, incentives are unlikely to make any difference in this situation.

Conversely, other projects will be consistently feasible because high profits from the development will result in significant profits. In cases where a developer's profits are expected to be very good, especially in comparison with other investment opportunities, projects are highly likely to be built even without incentives since the returns are relatively high. In this case, providing incentives would only make these projects more profitable, putting public subsidies into the pockets of landowners and developers, and would not really change the decision of a developer to move forward with a project.

In between these two cases are marginal projects. These projects are potentially feasible, but there is less certainty that private developers pursue the project when greater returns would be available elsewhere. For these marginal projects, incentives can impact whether a project will go forward.

**Exhibit 10. Spectrum of Market Feasibility**




Source: BERK, 2019.

### *Example of an affordable housing unit development proforma*

By modeling the financial feasibility of a hypothetical multifamily development project in Pierce County, we can determine whether the incentives are likely to provide enough value to motivate a for-profit developer to choose to include affordable units in an otherwise market-rate development. This analysis looks at the potential rate of return for an apartment building in the Midland area of the county close to Tacoma. The sidebar lists assumptions used in the proforma analysis.

To begin, we used proforma modeling to compare the estimated rate of return of this example project under four different housing affordability conditions, assuming no incentives were available. We present the results in Exhibit 10. If the project is 100% market-rate, the rate of return is about 8–9%. This could be considered on the lower end of feasibility of returns for a new real estate development.

When affordable units are added into this project, the rents received from the property decline. This has different effects on the finances of a project:

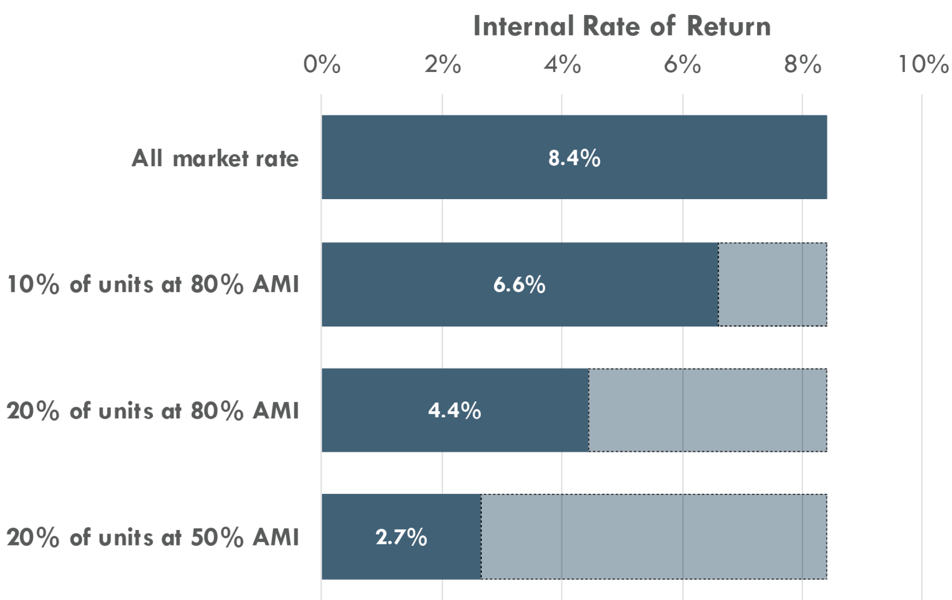
- The net operating income (NOI) of the project declines, reducing the regular income received from the building.
- As the NOI decreases, the debt service coverage ratio (DSCR), calculated as NOI/debt service payments, will also decline. This will impact the ability for a project to receive financing, as loans typically require a DSCR of 1.25–1.35 to ensure that cash flow is enough to cover the debt service payments.
- If the building is sold and the affordable units are retained, the value of the property using an income-based evaluation will also go down, reducing the price at sale.

#### Multifamily Proforma Assumptions

- Wood-frame construction with a maximum height of 4 stories, and a density limit of 20 units per acre. Other setback requirements are assumed to have a negligible impact on the site design and unit yields.
- The site is assumed to accommodate a minimum of 500 sf of open space per dwelling unit, with 25% as active recreation space.
- The site area is assumed to include no encumbrances or development limitations that would restrict the use of the site.
- Only residential uses are included in the building; commercial at-grade uses are not considered.
- Parking is accommodated with a surface parking lot on-site, and requirements for parking are drawn from PCC 18A.35.040.
- The distribution of units and their rents are as follows:
  - 25% studio apartments, $1,200/month
  - 25% one-bedroom apartments, $1,400/month
  - 50% two-bedroom apartments, $1,700/month
- The sale price of the project after a 10-year holding period assumes that the affordability of units will be maintained.

The actual reductions in return are highly sensitive to the differences between market and affordable rents in a project, as well as their expected rates of growth over time. Therefore, these values will change due to local, regional, and national market conditions. The general trends, however, are important to consider as losses in income will have significant impacts on returns.

**Exhibit 11. Internal Rate of Return, Example Multifamily Development Project without Incentives**




Source: BERK, 2019.

Next, we examined the impact of six different incentive scenarios would have on the rate of return for a project with 20% of the units offered at 80% of AMI. Each scenario is described in the sidebar to the right. These incentives will generally reduce costs and increase revenue in two ways:

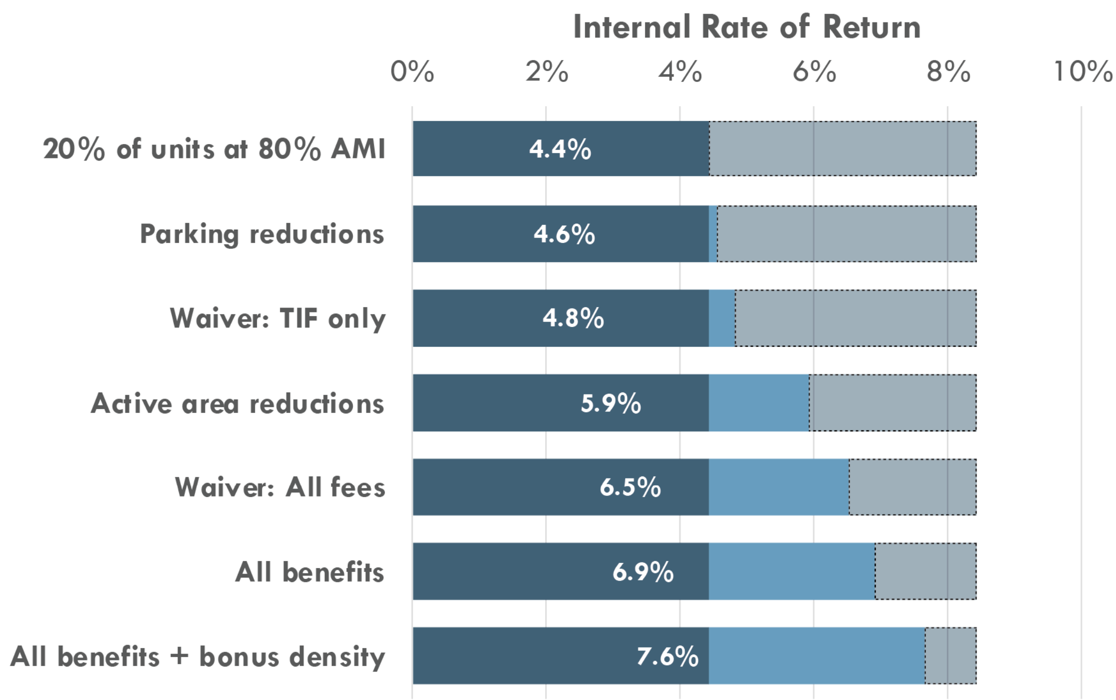
- The costs of constructing a project will decrease if certain requirements such as parking or impact fees are reduced.
- The characteristics of the development will change to allow for more revenue generating spaces. This is most obviously the case with density bonuses, but in the case of reducing the space required for surface parking, this may allow for larger buildings that can be built to the density limits of a site.

Exhibit 12 provides the internal rates of return when each incentive scenario is incorporated into the development plan. It shows that all the incentives combined plus additional density do not recover the full return lost in providing affordable units for development. However, the broader the package of incentives included, the greater the recovery of returns to this example project.

### Incentives Tested in Proforma

- Waiver of transportation impact fees, assuming the project is within ½ mile of a regular transit route (Section 18A.65.040 B). Note that this is considered separately as the County may waive these fees without replacement.
- Waiver of all fees (Section 18A.65.040 B). Note that school impact fees will still be required for market-rate units.
- Reduced parking requirements and dimensions (Section 18A.65.050 B).
- Elimination of active recreation area requirements assuming the project is close to a park or trail, reducing estimated landscaping costs by 10% (Section 18A.65.050 B).
- All benefits included above.
- All benefits included above, plus a bonus of market-rate housing units (Section 18A.65.050 A).

**Exhibit 12. Internal Rate of Return, Example Development Project with Incentives.**




Source: BERK, 2019.

Some key points to note with these results:

- **Projects with enough surface area to support parking will only minimally benefit from reduced parking requirements.** At present, land prices in Pierce County are not high enough to support underground parking, and most development relies on attached garages and surface parking to meet requirements. In cases where development densities and site constraints may limit the amount of space for required parking, this incentive may have a significant benefit. However, in cases where parking is not a limiting factor (such as with this scenario), this incentive will not have a strong effect on project feasibility.
- **Active area reductions may have a notable impact, but this will depend on the cost differential between active and passive open space.** In this example, a simple price reduction in overall construction costs from landscaping was used to assess the effects on rates of return. However, the actual price effect will depend on the cost savings of leaving spaces otherwise required for active recreation in passive use. This may be highly variable and should be examined in more detail to determine the general value of this benefit.
- **Transportation impact fees waivers will have a smaller impact, but a full suite of fee waivers may be a considerable incentive.** In examining the fee waivers that can be provided by the County, the transportation impact fee waiver appears to have only a nominal effect, shifting the rate of return in this scenario by a small amount (about 0.4%). While this may be a welcome benefit for non-profit developers, the savings of about $2,000 per unit does not appear to have an appreciable impact in the development feasibility of this for-profit project. Excluding all fees

except for school impact fees for the market rate units will have a more significant impact, and in this scenario all possible waivers increase the rate of return by over 2%. Although the impacts to project feasibility may change on a case-by-case basis, larger fee waivers would seem to have an appreciable impact.

- **Given the current suite of policy tools currently in use, there does not appear to be a significant financial incentive for for-profit developers.** Although the impacts of the tools displayed in Exhibit 12 do not demonstrate the effects of incentives that are harder to quantify (e.g., expedited permit processing), the full package of incentives evaluated suggests that while the benefits may largely subsidize the lost revenue from affordable rents, it does not fully cover the reduced rate of return. Similarly, this full package of incentives has not been consistently available for potential projects, meaning that for some projects the maximum benefit will not be available. Therefore, while these programs may assist non-profit developers in providing affordable units, affordable housing development may not be preferred by for-profit developers due to a lower financial return.

## Why have the incentives not been more effective?

There are several factors that likely contributed to the slow uptake of incentive use by developers in Pierce County. These include both the magnitude of the benefits and potential issues with implementation.

### *Lack of dedicated funding for fee waivers*

Among available incentives, fee waivers provide the clearest financial benefit to developers. However, due to the lack of dedicated funding prior to 2019, the only waiver available to developers was for the transportation impact fee. This amounted to only about a quarter of the full potential benefit that fee waivers could provide if fully funded, and the previous analysis shows that the magnitude of the transportation impact fee waiver alone is small in comparison to the cost of incorporating affordable housing.

In addition, developers seek predictability when evaluating project risk. The fact that this key element of the incentive package was unfunded undermined the relevance of the other incentives to prospective developers. A regular, dependable source of funding would allow for-profit and non-profit developers to coordinate their planning around expected access to these incentives.

While council did provide limited budget for funding fee waivers in 2019, requirements for the distribution of these funds will severely constrain the number of projects that will benefit. PCC 18A.65.040.B.2 includes language that requires funding for fee waivers be spread geographically among different community plan areas, so that no single area shall receive more than "11 percent of the total off-setting funds available for any given year and no more than 25 percent of the available funding in any 5-year period". With this requirement, at least nine separate affordable housing projects, each in a different community plan area are needed to take full advantage of available funding for fee waivers in a given year. However, Pierce County has seen only four projects built using affordable housing incentives during the past nine years. Therefore, it is highly unlikely that there would be nearly enough eligible projects to take advantage of the waivers, and only a small portion of the available funding is likely to be used, if any, in 2019.

### *The incentives do not offer enough value to for-profit housing developers*

Based on scenario evaluation, the current incentive package does not generally add enough value to encourage for-profit multifamily housing developers to include affordable housing in market-rate projects. Although on a case-by-case basis some incentives may provide greater benefits to developers, current incentives may not be enough to make these projects feasible.

### *Lack of additional financial support from the County*

Mission-driven affordable housing developers interviewed for this study indicated that one reason they do not look to build in Pierce County for support is the relative lack of resources for affordable housing development in the form of public funding, particularly when compared to King County. Project that have a local contribution are likely to be more competitive for state and federal grants or tax credits, and the probability of accessing funding is even greater with regional coordination and support. This issue is discussed in more detail in the following section.

### *Lack of marketing and clear informational materials*

Following adoption of the incentives, the County has not done enough outside of regular Notices of Funding Availability (NOFAs) to spread the word about the availability of these incentives to prospective developers. While County staff have highlighted the availability of incentives in meetings with affordable housing developers, program marketing or outreach to market-rate housing developers has been limited.[8] This is unfortunate because many of the incentives are designed to promote the inclusion of affordable units within mixed-income market-rate housing developments, and most market-rate housing developers do not typically consider the option of including affordable units within their developments. Interviews with market-rate developers indicated low awareness of the opportunities available through these incentives. Better information materials can also help, such as illustrations or examples of the benefits that alternative design standards can provide.

Another barrier to the use of incentives by market-rate developers is their lack of experience managing projects with an affordable housing component. Pierce County lacks guiding materials or technical assistance capacity to support developers with issues such as managing affordable apartment units with income-restrictions, advertising the availability of units, or following rules governing shared equity and the resale of affordable units.

### *Inconsistent and complicated requirements in code language*

For the incentives to be most effective, they should be easy to understand and provide developers with a sense of predictability. Unfortunately, inconsistencies, vague language, and unnecessary requirements in the current code are contributing to confusion and uncertainty among developers considering their use. In these circumstances, many developers will opt out of using the incentives or focus on affordable housing projects in other jurisdictions with more familiar rules. The complicated requirements for geographic distribution of fee waivers (described above) are a good example. Other examples follow.

The financial incentives detailed in 18A.65.040 of Pierce County Code hold a variety of minimum threshold requirements. Some incentives do not mandate a minimum number of units to apply, while others

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[8] One reason for this is the absence of funding allocated to support the production of marketing materials or resources.

require a minimum of 5 or 10 units to participate. These inconsistencies undermine the potential support for affordable housing projects that involve single lot rehabilitation or small infill developments.

Language around fee waivers also adds complication, with varying descriptions of fee “waiver or reimbursement”, “exemption”, or simply no clarification. These discrepancies can cause confusion for inexperienced program participants. Similarly, there are inconsistent mandated cutoff dates for when waiver claims must be submitted in the development process. These restrictions may affect a market-rate project that re-evaluates its project plan to include affordable units.

Finally, the resale agreement for homeownership units creates an unknown and complex process, even for experienced non-profit developers. It also fails to ensure that the units remain affordable for the long term, further undermining the long-term effectiveness of the incentive program for promoting affordable home ownership.

## EVALUATION OF FUNDING AND FINANCING SUPPORT

Aside from fee waivers and alternate development standards, there are also financial incentives that can be used in Pierce County to support the production of affordable and attainable housing. Many of these options for financial support are state and federal programs, but the County can play a key role in providing a holistic response to outreach and coordination to support developers, housing providers, and residents.

### What are current dedicated sources of County funding for affordable housing?

Although the County can support housing and homelessness programs through allocations from the General Fund, there are sources of revenue available that provide direct support for affordable housing. Restrictions on the use of these funding sources can mean that these resources must be specifically directed to low-income households and neighborhoods.

#### *Recording fee surcharges*

For counties, one source of funding for housing programs has been surcharges added to recording fees charged by the county auditor. Under state statute, mandatory surcharges have been added to support state and local efforts in affordable housing:

- The **Affordable Housing for All (SHB 2060) surcharge**, amounting to $13 per instrument recorded. Counties receive 60% of this amount after administrative costs, which can be used for eligible housing activities that serve very low-income households with incomes of 50% AMI and below, with a priority for extremely low-income households at or below 30% AMI. Eligible activities can include acquisition, construction, or rehabilitation of housing; support for operations and maintenance costs for housing affordable to very low-income households; and rental assistance vouchers.[9]
- **Local Homeless Housing and Assistance (SHB 2163) surcharges**, of which counties and their cities receive about $62 per instrument recorded for administering and implementing their homeless housing plans. Note that a city with their own homeless housing program in the county

[9] RCW 36.22.178.

receives a prorated share of these proceeds equal to the proportion of the real estate excise tax (REET) received from the city.[10]

In 2017, Pierce County received about **$935,000** into its low-income housing fee fund and **$4.8 million** into its homelessness housing program fund from these surcharges. With recent fee increases, the 2019 budget estimates **$1.32 million** in revenue for its low-income housing fund and **$6.7 million** for its homelessness housing program. Typically, these funds are used as a cash match to leverage federal funding for low-income housing and homeless services.

### *Federal HUD grants*

The U.S. Department of Housing and Urban Development (HUD) provides Pierce County with annual funding through grants. This funding is managed as part of a funding partnership, the "Urban County Consortium", that includes the County and 18 cities and towns.

Current entitlements under HUD programs take the form of three grants:

- **Community Development Block Grant (CDBG)**, which are employed to support public facilities, economic development, affordable housing preservation and development projects, home repair loans for low-income households, and basic services to vulnerable populations. The estimated 2019 federal grant amount is **$3 million.**
- **HOME Investment Partnership Grant (HOME)**, which is used for affordable housing development and preservation, homebuyer loan programs for low-income households, and basic services. Loans are administered through the Pierce County Community Development Corporation (CDC). The grant amount estimated for 2019 is **$1.2 million**.
- **Emergency Solutions Grant (ESG)**, which focuses on homeless services such as emergency shelter and rapid rehousing. The estimated grant for 2019 is about **$250,000**.

In addition to planned program support, the County disperses the grants received from these programs with the local funding match from SHB 2060 and SHB 2163 surcharges using a competitive NOFA. In 2018, this process awarded funding to eight different organizations for affordable housing projects, including Mercy Housing NW, Vadis, and the YWCA.

## What other sources of dedicated funding are available to the County?

While several additional revenue options are available to counties seeking to support affordable housing development in Washington State, here we focus on one new option that imposes no additional tax burden on county residents or businesses.

### *Sales Tax Redirect (SHB 1406)*

Substitute House Bill 1406, passed by the Washington State Legislature in 2019, enables counties to redirect up to 0.0146% of the sales tax currently authorized by the state. These funds can be used by a county for acquiring, rehabilitating, or constructing housing that is affordable to households at or below

[10] RCW 36.22.179 and 1791.

60% of AMI. On August 24, County Council passed legislation approving this funding redirect which will create a new pool of revenue for affordable housing available starting in December.

Use of this new funding mechanism would impose no new tax in Pierce County. Rather, a portion of sales and use tax already collected by the State of Washington would be redirected to the County. Pierce County would be able to redirect tax revenue from businesses in unincorporated areas as well as cities that do not pass their own resolutions to redirect tax revenue.

In 2018, Pierce County (including its cities) had about $17.6 Billion in taxable retail sales. If the sales tax redirect were in place, this would have resulted in about **$2.6 Million** in affordable housing revenues. The County could also choose to bond against future tax revenue to boost short-term funding for affordable housing.

Any city in Pierce County could choose to redirect their portion of the sales tax revenue to their own affordable housing funds. This would reduce the amount of funding available to Pierce County. The City of Tacoma has already taken initial actions to redirect their portion of the sales tax, which amounts to approximately $850,000 per year. Without Tacoma's portion of the sales tax redirect, the County could expect to receive up to **$1.7 Million** per year. If additional cities choose to take their own portion, this amount would be reduced further.

One emerging issue with SHB 1406 is with the inclusion of a cap on the maximum amount of sales taxes that can be diverted under this program.[11] Under this requirement, a participating county is limited to collecting an amount equal to the taxable retail sales across the entire county in FY 2019, less the taxable retail sales from cities that have imposed the tax prior to the county. Therefore, although this tax will expire 20 years after it is passed, it will be limited by this cap over its duration and anything over this amount will be remitted back to the State.

## What other financial support is available for affordable housing?

In addition to dedicated sources of funding used by the County itself, there are also other resources available for low-income housing developers to support low-income housing development and rehabilitation. As opposed to the sources of funding identified above, these resources are typically administered by other jurisdictions, primarily the state and federal governments. Because of this, the County will have more of an indirect, secondary role with these programs, likely providing information and support to assist local organizations in accessing these incentives.

### *Low-Income Housing Tax Credits (LIHTCs)*

The federal government provides Low-Income Housing Tax Credits (LIHTC) to subsidize affordable low-income housing projects. Started in 1986, this program provides incentives for developers by allowing them to sell these tax credits to investors, who in turn use the credits to reduce their federal tax liability.

For Pierce County, the program is overseen by the Washington State Housing Finance Commission. Housing financed through the LIHTC program is required to be affordable to households at 60% AMI or lower for at least 30 years. Two types of the tax credit can be received:

[11] Laws of 2019, ch. 338 § 1(4)(a)

- A 9% tax credit is available that can generate equity for 70% of development costs. This credit is limited at a state level, and because of this it is issued through a competitive process managed by the Commission. The criteria for awarding credits typically focuses on lower-income households, as well as those with special needs in the population.
- A 4% tax credit is available that typically generates equity for 30% of development costs. While this tax credit is not limited, tax-exempt bonds must be used to finance 50% of the costs. This option is typically preferred for for-profit developers using this program, and the focus is usually more on workforce housing.

This program has been used extensively across the state, with over 7,000 multifamily units developed in 2017 through $644 million in tax credits and $732 million in tax-exempt bonds.[12]

### *Washington State Housing Trust Fund (HTF)*

The Department of Commerce (DOC) manages the State Housing Trust Fund (HTF), which provides amortized loans, deferred loans, and recoverable grants to support projects that acquire, build, and/or rehabilitate affordable housing. These funds are only available to non-profit developers and government agencies, with preferences for projects that serve populations with the highest need and can leverage other sources of funding.

A competitive application process is used to apply for HTF funding, with eligible projects ranging from group homes to multifamily housing to community land trusts. This funding may be used to acquire existing low-income housing, acquire property for development, finance construction or rehabilitation, coordinate other on-site improvements, and provide support for down payments or closing costs for eligible homebuyers. Units are considered affordable under this program if they are accessible to 80% AMI, with federal HOME funding requiring affordability at 50% AMI. A covenant is typically secured to ensure that the required affordability of units is maintained for 40 years.

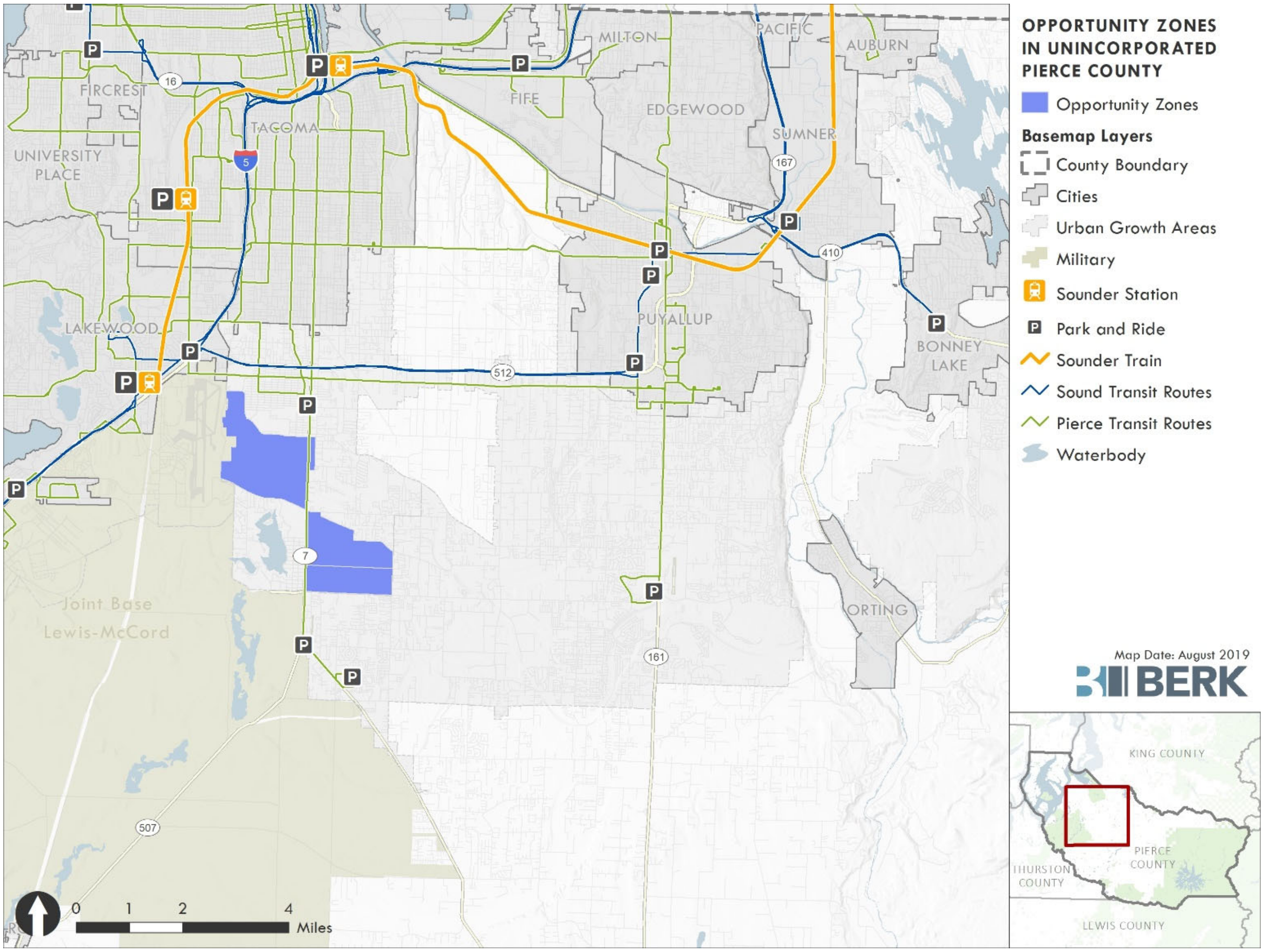
In addition to state HTF funding, DOC also manages other applications for housing support, including the National Housing Trust Fund (NHTF) from HUD, public-private matching funds, and supplemental Ultra High Energy Efficient Housing funding (SHB 1102). These sources can provide additional funding for low-income housing projects and can supplement HTF support.

### *Opportunity Zones*

Opportunity Zones were developed as part of the federal Tax Cuts and Jobs Act (TCJA) of 2017. Through the TCJA, states could designate “Qualified Opportunity Zones” (QOZs), or economically distressed areas where attracting private capital for new investments has been a consistent challenge. The intent of the QOZ designation under the Act is to provide favorable tax benefits for investors that can help spur economic development and job creation in these communities. As of December 2018, there are 12 census tracts in Pierce County designated as “Low-Income Communities” that qualify, two of which are designated QOZs located in unincorporated Pierce County, as shown in Exhibit 13.

[12] Washington State Joint Legislative Audit & Review Committee, 2019. “Analyzing Development Costs for Low-Income Housing”. https://deptofcommerce.app.box.com/s/dtojhkppbfw55l0xzzk0mi62mjtelv5w

**Exhibit 13. Opportunity Zones in Unincorporated Pierce County**




Source: Washington State Department of Commerce, 2019; Pierce Transit, 2019; Sound Transit, 2019; BERK, 2019.

The approach under the TCJA relies on the reinvestment of capital gains from investments into "Qualified Opportunity Funds" (QOFs), which are required to invest in QOZs. For tax purposes, capital gains invested are deferred until a QOF investment is sold or exchanged, or until December 31, 2026. If a QOF is held for more than 5 years, there is an exclusion of 10% of the total capital gains, which increases to 15% after 7 years. Additionally, capital gains from the sale of the QOF itself are excluded from taxation after it is held for 10 years.

Altogether this provides additional incentives for investments in business activities in these areas. This can include opening or expanding businesses in Opportunity Zones as well as investment in real estate projects in these areas. Development projects can include multifamily residential properties, but a QOF investment either requires that the property is new construction, or that property rehabilitation doubles the improvement value of the property.

As an additional incentive available to promote housing development in QOZs, the U.S. Department of Housing and Urban Development (HUD) offers expedited review and application fee reductions for certain loans with Federal Housing Administration (FHA) mortgage insurance. These incentives and loan products are described below.

### *HUD/FHA loans*

At the national level, the FHA and HUD administer loan programs that support affordable housing projects. FHA loan insurance programs can allow for more favorable lending terms than regular private-sector mortgages for affordable housing (e.g., higher loan-to-value ratios, longer terms, lower debt service coverage, etc.).

Two key programs of interest for affordable housing programs include:

- The **Section 221(d)(4)** program, which insures construction loans for new construction or substantial rehabilitation of moderate- and low-income rental housing that contains five units or more.
- The **Section 223(f)** program, which insures mortgages for the purchase or refinancing of existing multifamily housing that contains five units or more. Substantial rehabilitation of properties is not permitted under this program.

Easier access to lending can be a significant benefit for non-profit/not-for-profit developers. A challenge with these programs has been the additional time and effort for processing and closing these mortgages, as well as higher fees and the annual administration necessary for HUD oversight of these programs.

As part of efforts to promote investment in Opportunity Zones, additional benefits are provided to applicants looking to build or substantially rehabilitate multifamily properties to try to address these concerns:

- Expedited reviews by specialized Senior Underwriters to reduce application times.
- Application fee reductions from $3 per thousand to $1 per thousand in the case of broadly affordable housing projects (as defined by a LIHTC affordability use restriction or Section 8 Project Based Rental Assistance contract), or $2 per thousand for market rate and other affordable housing projects.

### *HUD 202 Grants*

HUD provides funding for supportive housing projects for very low-income seniors (aged 62 years and older, at 50% AMI or lower) with severe housing needs through the Section 202 Supportive Housing for the Elderly program. This funding takes two forms:

- Capital advances used to cover the construction, acquisition, or rehabilitation costs for a project.
- Project Rental Assistance Contracts used as rental assistance to cover the difference between the reduced rents for the project and the operating expenses of the development.

Additionally, funding can be provided as grants for predevelopment steps, service coordinators, or emergency repairs. Private nonprofit organizations are eligible for this funding and successful applicants are expected to demonstrate best practices in physical design and supportive services for facilities that promote independent living and aging within the community.

### *USDA Grant and Loan Programs*

The US Department of Agriculture (USDA) provides grants and loans for projects aimed at providing affordable multifamily rental housing in rural areas. These include:

- **Housing Preservation & Revitalization Demonstration Loans & Grants**, which restructure existing loans for Rural Rental Housing and Off-Farm Labor Housing projects to maintain affordable housing for at least 20 additional years.
- **Housing Preservation Grants**, which are provided to sponsoring organizations to repair and rehabilitate housing owned by low- and very low-income rural residents.
- **Multifamily Housing Direct Loans**, which provide direct, competitive financing for affordable multifamily rental housing for very low- to moderate-income, seniors, or disabled individuals and families in eligible rural areas.
- **Multifamily Housing Loan Guarantees**, which are loan guarantees to private lenders for financing of rental housing directed towards low- and moderate-income households. Rents in supported projects are capped at 115% AMI, and average rents for a project cannot exceed 100% AMI.
- **Multifamily Housing Rental Assistance**, which provides financial assistance to low- and very low-income households in USDA-financed Rural Rental Housing or Farm Labor Housing projects.

## How can the County use additional funding?

The County currently relies on recording fees as a distinct stream of revenue for affordable housing, supported by regular HUD grant funding. This is part of the financial support that can be accessed by developers working with low-income housing in the county, with state and federal programs providing some additional sources for support.

The new SHB 1406 sales tax diversion and other possible sources of funding provide the potential to allocate additional resources to affordable and attainable housing. A significant question in charting future policy though will be how this funding can be deployed most effectively. Available funding structures suggest options that can use new funding to bridge the gaps with current options.

The most significant role of new funding may be with providing matching grant funds for projects seeking additional support through state and federal grants. Competitive applications for 9% LIHTC allocations, State HTF funding, and federal HOME and NHTF grants can be more effective if they demonstrate local support through County funding, and a greater level of affordability can be attained with additional subsidy. This would require a more comprehensive strategy to assigning these resources that may involve coordinating with funding recipients to bundle resources from other funding programs.

Another possible approach is to combine new funding with alternative, non-competitive sources. Projects that would be ineligible or less competitive for housing grant programs or the 9% LIHTC, such as low-cost rehabilitation of low-income units or construction of low- or moderate-income housing targeted to higher income levels, may still be infeasible without support. The use of the 4% LITHC program is not restricted (although the utilization of commission-issued tax-exempt bonds has exceeded volume caps), and FHA loan programs can provide for more favorable lending terms that can help make these projects more feasible. When combined with additional grant support, more of these affordable projects may be implemented without the need to depend on other funding sources.

Finally, the use of fee waivers to support affordable housing could be expanded without additional appropriations from the County general fund by use of revenue from the SHB 1406 sales tax diversion (See Action 1). Restrictions on the use of funds would need to be considered in this case, and the administration of waivers may need to be constructed to address statutory requirements. This approach would be more effective at targeting for-profit projects by private developers that would include some affordable units, but it may need be paired with active outreach to developers to raise interest in waivers as an option. The "first come, first serve" nature of these benefits may also hamper efforts to coordinate the use of these resources.

## RECOMMENDED ACTIONS

### Action 1: Simplify requirements to enhance impact of financial incentives

There are several actions Pierce County can take to simply, standardize, and streamline its code that will make the incentives easier to understand and more predictable for the developer community. These changes have the potential to enhance program performance and reduce the administrative burden for both the County and developers who participate.

Through this evaluation we have identified several opportunities for targeted revisions to county code to promote the goals of reducing unnecessary administrative burdens and increasing the effectiveness with which they can encourage affordable housing production. These targeted revisions are listed below. However, this study did not conduct a full audit of the code to identify all opportunities for streamlining and standardization. We believe a full audit of the existing code is warranted and can be beneficial. This work would require staff time and resources, and any code changes will require legislative action to implement.

#### *Steps to implement this action:*

- Conduct a full code audit to comprehensively identify opportunities to streamline the incentives through simplification and removal or standardization of requirements which limit their applicability.
- In this code audit consider the following changes:
  - Remove or standardize minimum unit requirements for project size in Table 18A.65.040. Financial Incentives.
  - Standardize language for reimbursements across fee waivers and remove unnecessary timing restrictions for applications.
  - Remove all language in 18A.65.040.B.2, including limits on annual funding for fee waivers in each community plan area to 11%. Alternatively, consider raising the percentage to 50 or modifying language to enable the County to allocate unused funding if it does not receive an adequate number of suitable applications for projects in each community plan area during a funding cycle.
  - Modify 18A.65.030 (G) remove the complicated shared equity requirements and instead treat the amount of fee waivers provided as down payment assistance for the homeowner, similar to

**ALTERNATIVE MODELS FOR RESALE OF AFFORDABLE HOME OWNERSHIP**

Option A – Modified Shared Equity Approach

- Shared equity established by the percentage of fee waiver value to the home sale value at the time of purchase
- Shared appreciation lasts for a set number of years (example: 9) and each year the owner regains 1/9 of the equity
- This model was used for years in Seattle, providing precedent and familiarity for affordable housing developers

Option B – Down payment assistance (DPA) model

- Impact fee waivers are treated as DPA
- This assistance is passed on to a future low-income buyer at the time of resale
- This model is like an existing process found in 2060, HOME, and CDBG programs

Both options maintain that homes are deed restricted to remain affordable for 50 years.

the county's practices with 2060, HOME, and CDBG funding for ownership projects. Or take advantage of existing and known processes for affordable resale projects. Examples shown in sidebar.

- Selected changes to the code will require legislative action by the county council to implement.

## Action 2: Provide flexibility in development standards for affordable housing

One concern expressed by for-profit developers with respect to creating new affordable and attainable housing in the county was with development standards that impacted project costs and the final yield of residential units. These standards can range from tree preservation requirements that require less efficient parcel configurations in a subdivision, to frontage and setback requirements that increase the costs of servicing, to parking requirements that may limit the design and configuration of the site.

Flexible standards can reduce development costs to improve affordability. This currently includes three provisions in the current County Code:

- Residential small-lot zoning (PCC 18J.17) provides additional density through smaller minimum lot sizes, which provides greater housing yields and lower per unit land costs. Design standards under these requirements, however, can limit flexibility with development and the resulting cost-savings. While this framework isn't specifically targeted to affordable housing, it can help to lower the costs of housing.
- Planned Development Districts (PDDs, PCC 18A.75.050) are intended to relax the standards provided through regular zoning on a site, either to address site limitations or provide site-specific public benefits. In other jurisdictions, PDDs can include affordable housing as public benefits.
- Affordable housing regulatory incentives (PCC 18A.65.050) include specific provisions to allow for bonus housing density and relaxed open space, parking, lot size, and road dimension requirements. These are summarized in Exhibits 4 and 6, and give flexibility to development standards when 10–20% of housing units are affordable and potentially close to other community resources.

Although each of these approaches are already included in the County Code, modifications may help to enhance allowable flexibility and present additional cost reductions. This should be done with a consideration of additional staff time for support and review.

### *Steps to implement this action:*

- Review and streamline the design requirements for small residential lots under PCC 18J.17 to improve the flexibility of developers looking to use these provisions for affordable and market-rate housing.
- Amend the list of public amenities considered as a rationale for PDDs under PCC 18A.75.050J, and reinforce that affordable housing is a public amenity that can be considered in the development of a PDD. These efforts should focus on site-specific situations where affordable housing may be included with other amenities, or a site-specific evaluation of conditions would be needed to determine feasible requirements for low-income housing.

- Provide greater benefits as a part of the development incentives for affordable housing included in PCC 18A.65.050B. This could be done by increasing the development incentives as included in the current Code; for example, reduced lot area and dimension requirements could apply to all lots in a subdivision, as opposed to a number of lots equal to the number of affordable units. Conversely, the affordability requirements could be decreased to require 10% versus 20% affordable housing units to reduce the costs incurred to receive specific benefits.

## Action 3: Provide clear informational and marketing materials

For incentives to be effective, developers need to know that they exist and understand how to use them in their own projects. This requires clear and easy-to-access information. Completing Action 1 and 2 are essential steps towards designing the incentives to be easy to understand. The next step is to improve the communication of these incentives to different kinds of developers, including those who build multifamily, single family, and missing middle housing types, as well as non-profit and for-profit. The goal is to engage a variety of developers to encourage production of affordable units in a variety of formats.

One challenge is that most developers are not seeking out information about affordable housing incentives. Developers tend to build business models around consistent product types. The County should do more to engage developers at the early stages of project planning. For instance, when receiving market-rate permit applications PPW staff could note potential site changes and density bonuses that utilize incentives as well as financial benefits. These kinds of conversations can help some developers to identify and explore opportunities for adjusting the status quo.

Promotional materials can convey the strength of Pierce County's affordable housing incentives program and are a valuable tool in outreach efforts. The various incentive types should have concise summaries highlighting financial benefits and site design advantages for developers who choose to contribute to the affordable housing stock.

Many counties and municipalities are experimenting with developer incentives to increase their affordable housing stock. Programs that are effective in promoting their benefits offer information in formats that are clear and concise. There are a variety of methods for this, but maintaining a well-placed, easily

### EFFECTIVE COMMUNICATION OF AFFORDABLE HOUSING INCENTIVES

**Santa Fe Homes Program**

This website communicates the city's affordable housing program, supplying developers with an excel template to calculate affordable unit requirements and providing a direct city contact for program questions.

**City of Shoreline**

The Planning & Community Development Department maintains one page showing all development related handouts available, which simplifies the search process. 1- or 2-page documents translate code into plain language for concept such as ADUs.

**Grounded Solutions and the SF Housing Action Coalition**

Advocacy organizations have created simple graphics and videos that communicate complex concepts like density bonuses.

**Missing Middle Maps**

Olympia connects information about smaller lot and multiunit housing types with zoning maps to highlight development opportunities.

accessible forum for all information in the same place on the Pierce County website is key.

This is an administrative action that would require some additional funding for information design, website development, and potentially staffing.

### *Steps to implement these actions*

- Develop a clear process for accessing the incentives and communicate this process in the form of a simple checklist or something similar.
- Create concise documents that outline the affordable housing incentives offered and explain how to ensure that a project maximizes potential benefits.
- Develop a central web portal for this information, accessed through the existing County website, that acts as a resource for incorporating affordable housing into residential projects. Make it mobile friendly for ease of use and navigation on cellphones.
- Maintain a single point of contact for information regarding these incentives and how they impact project designs and applications.
- Identify partners who can provide technical assistance or resource connections for developers who are new to building projects with income-restricted affordable units.
- Consider including a comment form on the web portal that allows developers to make suggested code changes that would support more housing production.

## Action 4: Increase and dedicate funding for fee waivers

**Pierce County estimates $22,000 or more in permitting and development fees can be expected per unit for a single-family development. Fee waivers reduce this cost by up to 86% for affordable units, depending on project specifics**

2019 is the first year that Pierce County has dedicated funding to fund fee waivers for all units within a project satisfying the 20% affordability metric. While the $350,000 allocated in the 2019 budget is a good start, BERK estimates it could only assist in the production of up to 20-25 single-family or 25-30 multifamily affordable units.[13] And requirements that limit funds used in a single community plan area to 11% will severely constrain the amount of this funding that can support affordable housing production in any given year. These limitations undermine the purpose of the incentives to encourage the development of affordable housing.

The effectiveness of this incentive can be greatly improved by increasing the funding available for fee waivers and providing greater assurance that the funding will be renewed each budget cycle. When developers cannot rely on an incentive being available at the point of permit application, it undermines their ability to assess project feasibility and secure funding. The incentive would also be improved by removing or modifying the restriction outlined in 18A.65.040 B 2 limiting the total fee waiver amount that a project is eligible to receive. As there has not been a year with multiple projects competing for available funding, putting a cap by geographic boundary on a variable and inconsistent amount of total

[13] Since some fee waivers apply to entire projects which may include both market-rate and affordable units, the actual number of affordable units that can be supported by the fee waivers could vary year to year based on the mix of project types that apply for the benefit.

funding is restrictive. This unpredictability increases project risk and decreases the likelihood that a developer will seek to utilize the incentive. Given that the fee waivers are among the most valuable of the incentives offered for affordable housing development, increasing their reliability can help improve the effectiveness of the entire affordable housing incentive package.

The County could use document recording fee revenues as a dedicated source of funding for fee waivers. Another option is sales tax redirect funding available through SHB 1406. In the latter case, the waiver might need to be provided as an upfront subsidy or reimbursement to the developer to offset the costs of fees, and it could only be used for projects with units affordable to households with incomes at 60% AMI or below.

Pierce County could consider earmarking a portion of these funds specifically for affordable units in mixed-income projects, or other desired development types that are more challenging to attract. A transparent application process and record-keeping system will be necessary to track the success and utility of this incentive.

### *Steps to implement this action*

- Identify a target number of affordable units to fund on an annual basis.
- Identify a dedicated source of revenue sufficient to fund projects that would include the target number of units.
- Modify or remove 18A.65.00 B 2 restriction on total funds a project may receive.
- Develop a plan for marketing this incentive to the development community (see Action 3).
- Develop a system to track fee waiver applications and awards.

## Action 5: Support affordable housing projects through land donation

The **City of Bellevue** supports affordable housing projects by donating or leasing public lands to affordable housing developers. Four projects have been assisted in this way: Hopelink Place, Habitat Eastmont, Brandenwood Apartments, and Park Highlands at Wilburton Apartments.

It is likely that Pierce County owns surplus or underutilized lands that may be suitable for affordable housing development. These public lands can be donated or leased to affordable housing developers. As land prices can be one major factor in the feasibility of nonprofit affordable housing projects, providing land at a low or no cost can significantly reduce project cost and help enable more affordable housing to be developed.

County staff are already in the process of developing an inventory of available public lands that could be used for affordable housing. This work should include assessment for environmental or other constraints that would undermine development feasibility. An easy-to-use and interactive mapping website could greatly help in raising awareness of these opportunities. Development of this kind of website would require staff time and potentially additional resources.

### *Steps to implement this action:*

- Establish a comprehensive land disposition policy that outlines goals for use of publicly owned land, including creating a priority for affordable housing development. The policy could identify criteria to assess the suitability of sites for affordable housing development such as multifamily zoning, access to transit service, size, lack of environmental constraints, etc. This policy could also consider how proceeds from the sale of lands unsuitable for affordable housing development could be dedicated to supporting affordable housing development elsewhere in the county.

- Create an interactive website to share the inventory public and partner-owned lands and identify parcels suitable for affordable housing development using county disposition policies.
- Publish this inventory online and raise awareness of opportunities for development among affordable housing professionals.
- Develop a consistent process for developers to access publicly owned land and surplus property, such as through semi-annual solicitations. This policy should also include a well-coordinated internal process across county departments and designate a lead agency to administer.

### Action 6. Explore partnership opportunities with cities to coordinate on affordable housing funding

Housing affordability is a regional challenge that cannot be solved within a single jurisdiction's boundaries, including unincorporated Pierce County. By pooling resources and coordinating to fund projects that address regional needs, Pierce County and its cities can potentially develop a more streamlined and strategic approach to supporting affordable housing development and addressing affordable housing needs.

The availability of funds through SHB 1406 creates an opportunity for coordination between the County and its cities. Having the County serve as a single point of collection for redirected sales tax revenues would reduce administrative burdens for partner cities. Creating a single larger pool of funds can also enable the county and its cities to make a greater impact on funding for affordable housing projects in the shorter-term. However, some cities may be concerned about giving up their portion of the redirected sales tax revenue to a common pool. The County could address such concerns by setting up a coordinating process or body with city-appointed representatives. It could also develop memorandums of understanding with participating cities that clarify policies with regards to the distribution of redirected sales tax revenues to housing projects.

Fortunately, there are successful models of regional partnerships established in Washington State that can be used to help inform the design of a partnership in Pierce County. The sidebar provides three examples in the Central Puget Sound Region.

There are steps the council can take to assess what kind of partnership would be most appropriate for maximizing the benefits of coordination while minimizing unnecessary administrative overhead. For instance, the partnership could be set up as a formal commission with board members appointed by the County and participating cities. Or it could be a more informal process that provides guidance to the Pierce County Housing Authority and Tacoma Housing Authority on use of funds passed through to their organizations.

*Preliminary steps to implement action:*

- Reach out to other cities as well as organizations in Pierce County that are seeking to address housing affordability challenges. These may include the Pierce County Housing Authority, Tacoma Housing Authority, Tacoma Community Redevelopment Authority, Tacoma-Pierce County Affordable Housing Consortium, and the South Sound Military Community Partnership (SSMCP). Use these meetings to gain input on the potential benefits and limitations of regional coordination, as well as what kind of structure (if any) may be needed.
- Reach out to other regional partnership organizations such as ARCH or AHA to learn about their experiences and best practices.
- Identify existing city/county coordination processes that can be leveraged and built upon instead of starting from scratch. For instance, the SSMCP has an open RFP for a housing study focused on addressing active-duty military housing needs.

### OTHER REGIONAL AFFORDABLE HOUSING PARTNERSHIPS IN WASHINGTON STATE

**ARCH** (A Regional Coalition for Housing), is a partnership between King County and several cities in eastern King County. ARCH assists member governments in developing housing policies, strategies, programs, and development regulations; coordinates the cities' financial support to groups creating affordable housing for low– and moderate-income households; and assists people looking for affordable rental and ownership housing. Members contribute Community Development Block Grant (CDBG) and General Funds to ARCH's Housing Trust Fund, which awards loans and grants to affordable housing developers.

**Alliance for Housing Affordability** (AHA) is a similar partnership between 13 Snohomish County cities, Snohomish County, and the Housing Authority of Snohomish County. AHA manages a housing trust fund with contributed revenues from Snohomish County Real Estate Excise Tax (REET) 2 funds, per RCW 82.46.037 Section (1)(b) and (c) as well as member city General Fund contributions.

**South King Housing and Homelessness Partners** is a more recent coalition forming among King County and cities in South King County.