



Health & Community Services  
**San Juan County**

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STAFF REPORT

To: County Council

Through: Pete Rose, County Administrator

From: John Manning, Health & Community Services Director, for:  
Housing Bank Commission

Subject: The Need for a Housing Authority in San Juan County

For Meeting of: October 28<sup>th</sup>, 2008

Issue:

Shall the County Council discuss the formation of a Housing Authority? (resolution per RCW 35.82.030 to form a Housing Authority for San Juan County)

Recommendation:

The Housing Bank Commission requests the County Council set a date for a public hearing to consider activating a Housing Authority for San Juan County.

Policy Decisions:

Creation of a housing authority would be a major policy shift in affordable housing for San Juan County. The county currently has investment policies via recording fees for homeless, down payment assistance loans and code incentives, such as density bonus, affordability covenants, etc. This policy would position the county to make or invest larger amounts in rental and ownership models or expanded rental vouchers. This would be done using federal housing programs. Different business models can be explored to accomplish this if the Council does not want to directly be in the housing "business".

Executive Summary:

This paper explores the issue of activating a housing authority for San Juan County. It demonstrates that San Juan County's housing market is the least affordable of any county in the state not only because of the inherent cost but also due to the prevalence of low wage jobs. It points out that local businesses (and government) already place high housing costs as their greatest obstacle to recruiting workers and that with an aging workforce this problem will only grow worse.

Current efforts to provide affordable housing by the non-profit groups in our community have had some measure of success, but that they cannot provide anything

close to an adequate number of homes for all the workers who need them. Efforts to attract outside non-profit or for-profit developers to build affordable workforce housing here have been unsuccessful.

The recommendation of the Housing Bank Commission is that it be replaced by a housing authority. This authority can access additional funds and would not burden county government financially in any way. Operational agreements with established housing authorities in other communities would limit the need for additional staff. The formation of a San Juan County Housing Authority would provide the vehicle to focus efforts on solving the housing shortage for working people in our community.

Background:

### 1) The Philosophical Perspective:

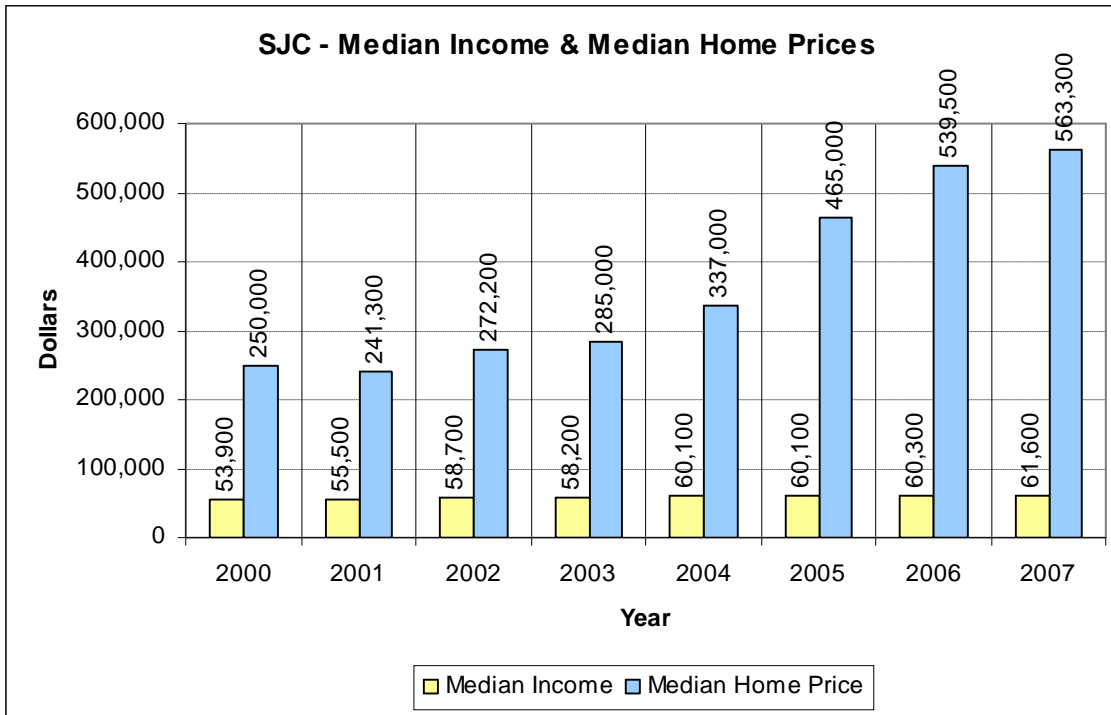
San Juan County's population in 2007 was estimated at 15,900 and is projected to grow to 22,513 by 2025 <sup>(1)</sup>. The characteristics of this future population demographic will be largely determined by what the county chooses to do about the issue today. Does the Council consider it important to maintain a level of economic diversity in the population? Will our island's population consist largely of affluent retirees? Or will it include teachers, sheriff deputies and nurses that serve our community? Will the people employed in critical fields have to commute from off-island because they cannot afford to live here, and so cannot fully contribute to the community? Are there policies and investments that can influence the population demographics?

### 2) Affordability Gap:

According to the Washington Center for Real Estate Research, San Juan County has the largest housing affordability gap in the state. The Housing Affordability Index (HAI) measures the ability of a typical family to purchase a median-priced home. The HAI for San Juan County in the fourth quarter of 2007 was the lowest in the state at 33.6, meaning a typical family can afford about one-third of what it costs to buy a home in San Juan County. First time homebuyers here have an even greater affordability gap with a HAI of 19.9, which is also the lowest in the state. Only eight of Washington's thirty-nine counties had a HAI below 90.

### 3) Impact on Purchasing Power:

From 2000 to 2007 the median home price increased 125 percent from \$250,000 to \$563,300 <sup>(2)</sup>, while the area median income (AMI) for the county increased 14 percent from \$53,900 to \$61,600 <sup>(3)</sup> (see chart). While these statistics present a sobering picture of affordability for prospective homeowners, it must be remembered that they also have a dramatic impact on affordability for renters as well, particularly low- and moderate-income working people (which will be discussed below).



In 1995, the median home price in San Juan County was \$185,000 a sheriff's deputy with three years on the job could qualify for a house valued at about \$213,000, some 15 percent more than needed to buy the median priced house. In 2007, the median home value in San Juan County was \$563,300. That year, the sheriff deputy with three years on the job could qualify for a house valued at about \$340,000, some 40 percent less than needed to buy the median priced house. This escalating affordability gap in homeownership is similar for the teacher and the nurse. Good incomes, but much less purchasing power in the housing market than they had twelve years earlier.

#### 4) Market Influence:

The simple explanation for why an affordable housing crisis is occurring here is supply and demand. There is limited available land for development and development costs are high, making lower-end housing unattractive for developers to build. Additionally, there is a lot of pressure put on the market by affluent second home buyers from external communities, which push prices up and take available housing units out of the market for people who work and live here full time. These market forces necessarily work against the low- and moderate-income households in our county.

#### 5) Age of Workers: Accompanying Factor:

There is a looming issue facing business owners and local government alike. Of the thirty-nine counties in Washington State, San Juan County was one of the top four counties with the highest percentage of workers ages 55 and older with 21.1 percent of its workforce falling into this category (4). With almost 55 percent of the population over 50, there are fewer people to fill vacant positions from within the county. As the older workers retire, it will become increasingly difficult to fill the vacant positions with people relocating from outside the county. The high cost of housing is currently stated by local employers as the "leading obstacle" they face when searching for workers to fill vacancies (5).

## 6) Income/Wage Dichotomy:

Despite the relative prosperity of many San Juan County residents, the average wages for workers are low. In 2007 the average wage was \$14.60 per hour, which is one of the lowest in the state. By comparison, the King County average was \$27.20 per hour (86% higher than San Juan County) (6).

## 7) Difficult Alternatives for Replacement Workers:

In other high-cost areas, workers typically commute from homes in outlying lower-cost communities. In the case of San Juan County, a commute from a less expensive area would entail the use of the ferry system. This of course adds costs for workers making a low wage. The expensive commute, plus the ferry travel time, combined with the low wages available in the county make working here a tough sell for people living off-island.

## 8) Potential Difficulty Filling Public Safety Volunteers:

Another consequence of the demographic disparity regards the need to staff fire departments and other first responders. The San Juan Island Fire Department is staffed largely by volunteers (as are all fire departments in the San Juan's). These volunteers are almost all workers or small business owners (a few are retired), with an average tenure of 7.4 years. Ages range from the 20's to the 50's, with the median age of 48.8. This volunteer program includes mandatory retirement at age at 65; so many current volunteers will be forced out of the program in the coming decade. The time commitment for volunteers is extensive. Younger working people in our community are generally not able to volunteer for these positions as they are too busy holding down two or three jobs just to be able to afford to live here. At a time when service expectations are increasing, it is difficult to recruit enough volunteers from within the community. If there are not adequate numbers of workers in our community to supply the number of volunteer firefighters needed, the alternatives are to replace them with paid staff or for the community to accept a decrease in the level of service provided. This is a decision that our community will be forced to make in the future if the trend continues.

The consequence of having paid firefighter and EMS staff working here but not living in the community could be dire. In the event of an extreme weather episode or a major earthquake there wouldn't be enough first responders here to deal with the emergency. Additionally, if all fire departments are forced to replace their volunteer staff with paid staff, it will greatly increase the fire district tax burden for homeowners in our community.

## 9) Impact on Rentals:

The option of renting a home is also very difficult for low, moderate and middle income working people in the county. According to the US Census 2000, only 7.5% of all housing stock in San Juan County is in multi-unit structures, versus 25.6% statewide. A few more than 200 apartment units in the county are considered income restricted affordable apartment units. Most are limited to tenants with incomes at 60 percent of AMI (or less). Although there is a high demand for these units, there have been fewer than 10 affordable rental housing units constructed countywide within the last decade. Over the next several years, many of the income restricted properties will fulfill their

affordability requirement leaving their long-term future affordability at risk. Following the national trend, most may revert to market rate rental housing or be converted to condominiums.

Those families with incomes above 60 percent AMI do not qualify to rent the affordable units, yet they have a difficult time finding rental housing in their price range. This is largely due to seasonal vacation rentals, which can charge upwards of \$1,000 per week during the peak tourist season. Some vacation rentals are available longer term at less rent during the off-season; however, this creates a situation where a family may have to move several times in any given year, just to stay in housing they can afford.

#### 10) Current Efforts to Create Affordable Housing:

Current groups in our community making an effort to combat the high housing costs include the three Community Land Trusts of San Juan, Orcas and Lopez Islands and Homes for Islanders on San Juan. These local non-profits offer affordable homes for purchase through construction subsidy and sweat-equity programs. Collectively since 1992 these groups have built 118 homes, with an additional 52 homes currently under development. Although they provide an invaluable service to lower income working people (the majority of the homes are available only to people with incomes at or below 80% AMI), they exclude the middle income technical workers and working professionals who generally make too much to qualify to purchase one of these homes and yet they do not make enough to buy a market rate home. Purchasing a home in San Juan County is essentially out of reach for most people in the middle income group.

#### Facts & Findings

##### 1) Seeking Solutions:

There is no simple solution to this crisis. With land costs currently some of the highest in the state, it will be impossible for these needs to be met by private individuals and the few organizations currently committed to this effort. Solving this crisis will require that the community intervene by adopting the tools, as well as creating new mechanisms to increase the production of workforce housing.

##### 2) Housing Authority: Options, Governance and Powers:

The purpose of starting a housing authority for San Juan County would be to have an organization solely focused on finding and implementing solutions to the housing crisis in our county. Only 50 percent of the housing units developed by a housing authority must be available for the income categories of 80 percent AMI or less (compared to 75% required of a non-profit). The other 50 percent of housing units would not be required to have any income restrictions. Establishing a housing authority will allow the county to focus efforts on mixed-income projects providing the workforce housing so desperately needed.

The housing authority would be able to own and develop projects. However, it would not have the power to encumber the county. Additionally, it would not be funded through the county budget process. Funding for the authority would be generated through

administrative fees (from HUD or state agencies) for providing services, such as Section 8 vouchers and Tenant Based Rental Assistance vouchers, tax deductible donations or by generating development fees. It could also contract with other housing authorities to take advantage of their technical support, experience and expertise, eliminating the need for significant staffing.

The Board of Commissioners for the housing authority would consist of five individuals appointed by the County Council. These five commissioners would be in control of setting the policies and procedures for the operation of the housing authority and also control the vision and direction of the housing authority.

### 3) Discussion:

#### a) Advantages:

- Ability to build mixed-income developments including “workforce” housing.
- Sell tax exempt bonds for its own projects, as well as for non-profits (for a fee).
- Access to financing that is not easily available to cities/counties.
- HUD funding. Housing authorities have a monopoly on HUD rent subsidies (Section 8 vouchers). We may have a greater influence of getting more vouchers (and selecting the type of vouchers) with our own housing authority.
- Banks give very low interest rates to small housing authorities.
- Ability to form alliances with larger housing authorities for development and administering programs (7).
- They can accept donations, which are tax deductible.
- Housing Cooperation Act – allows counties to purchase land and convey it to a housing authority or provide no interest loans to the housing authority.
- They can make and execute contracts and partnership agreements enabling them to cooperate with existing entities in “public/private” projects.
- Forming a housing authority per RCW 35.82.030 takes a simple resolution by the County Council. The law firm of Foster Pepper PLLC in Seattle has offered to do all of the creation documents at no charge.

#### b) Disadvantages:

The disadvantages associated with a housing authority include the fact that HUD paperwork can be extensive and that small housing authorities generally have greater costs to operate. However, a San Juan County Housing Authority could keep costs down by continuing the partnership with Skagit County Housing Authority to administer San Juan County’s Section 8 housing choice voucher program. In addition, utilizing

resources of larger housing authorities, such as, technical assistance, experience and expertise would mean fewer staff members would be needed.

Another possible concern for some might be that housing authorities have the power to condemn property. However, this concern should be tempered by the fact that this power would be in the control of a board of commissioners who are appointed by the County Council.

Another perceived disadvantage may be that housing authority owned properties are exempt from paying real property taxes. It could be argued that the benefit to the community for having affordable housing far outweighs the lack of tax revenue generated. That is a policy decision that can be aided by staff running several scenarios for you.

c) Alternatives:

As an alternative to forming a housing authority, it is permissible by law to have a larger housing authority established in another county develop projects in our county. However, it may not be easy to find one that is interested as most housing authorities are hard-pressed to deal with issues and demands within their own jurisdiction. We have asked several housing authorities in Washington State if they would be interested in developing affordable housing in San Juan County. All of them declined (Bellingham and Whatcom County Housing Authority, Island County Housing Authority, Seattle Housing Authority, Tacoma Housing Authority and Kitsap County Consolidated Housing Authority). The reasons given were generally that they were too busy. Some have commissioner directives that do not allow development outside of their own communities.

The other option is to engage a non-profit developer to build affordable housing in the county. However, there is little interest on the part of non-profit developers to build affordable housing here. The reasons are that land and development costs are extremely high and the size of the projects needed are very small, making them unattractive to non-profit developers. This was confirmed by meetings with the non-profit developers Common Ground, The Low Income Housing Institute and Beacon Development. However, it would be possible to have either a large housing authority or a non-profit developer work in the capacity of consultant to assist our own housing authority with capacity building, technical assistance and the development process.

Additional affordable homes for sale and rental must be built in order to meet the needs of the replacement workers that will be required over the coming decades. There was an estimated 11,365 total housing units (single and multi-family) in San Juan County as of 2007 (8). Since the population projection for 2025 is estimated to be 22,513, based upon current inventory it is not apparent that developing additional housing units would be necessary. However, according to US Census 2000 nearly a third (28%) of all housing units in the county are second homes and are only occupied part time. It is reasonable to assume this ratio would remain constant or even increase in coming years as our population ages. Although they have a role to fill, the Community Land Trusts and Homes for Islanders do not have the capacity or the ability to build enough homes to meet all of the needs of these replacement workers, which is mainly due to the restrictive guidelines of their funding sources. Even if they could build enough homes, not everyone who needs housing would qualify to purchase one.

The need for affordable housing for both low- and moderate-income households is great and it is growing. Attracting enough outside non-profit or for-profit developers to provide the type and quantity of affordable housing that is so desperately needed in our community is not possible without the focus that a San Juan County Housing Authority can bring to the situation.

Our own housing authority will benefit our community by giving us control over the type of housing that is produced and ensure that it contains workforce housing, as well as affordable housing for low and moderate income individuals and families. Creating a housing authority for San Juan County is imperative if this county is to remain a viable community.

d) Process for Activating a Housing Authority:

RCW 35.82.030 (attached) creates a Housing Authority for each city and county in the state of Washington. The statute also provides that the Housing Authority shall remain inactive until the governing body (the county council) has passed a resolution declaring a need for the Authority to function on an active basis. Before adopting such a resolution the Council must make a finding that one of the following three conditions exists within the County:

- 1) That insanitary or unsafe inhabited dwelling accommodations exist; or
- 2) That there is a shortage of safe or sanitary dwelling accommodations in the county available to persons of low income at rentals they can afford; or
- 3) That there is a shortage of safe or sanitary dwellings, apartments, mobile home parks or other living accommodations available for senior citizens.

For reasons stated in this memo the Housing Bank Commission believes that criteria two and three are met and that the Council should discuss the option of passing a resolution activating the San Juan County Housing Authority.

Recommended Discussion:

The County Council discuss the need for action to work on this problem.

The County Council discuss forming a Housing Authority for San Juan County.

The County Council discuss governance options for the newly created San Juan County Housing Authority.

The County Council discuss the process by which it would make this decision (i.e.: outreach meetings, public hearings, special presentations).

Prepared by: \_\_\_\_\_  
Angela Lausch, Affordable Housing Coordinator

## Source Documentation

- (1) Population estimates provided by Washington State Dept. of International Trade and Economic Development.
- (2) Median home prices provided by Washington Center for Real Estate Research/WSU.
- (3) Median income levels provided by HUD [www.huduser.org/datasets](http://www.huduser.org/datasets)
- (4) Labor Force statistic provided by Washington State Employment Security Department.
- (5) According to the San Juan County Economic Development Council's Business Retention & Expansion Survey Summary, October 2007.
- (6) WA State Employment Security Dept. report "Average Weekly Wage by County, Fourth Quarter 2007".
- (7) Housing authorities can use a consortia type structure whereby two or more smaller housing authorities join together to conduct their administrative functions and even their programmatic operations. In Washington State there are a number of such arrangements. King County Housing Authority operates the Sedro Wooley Housing Authority. Bremerton Housing Authority does the same thing for Jefferson County and Mason County Housing Authorities. Longview Housing Authority provides housing services for Lewis and Pacific Counties. Spokane Housing Authority operates the Section 8 program in six other counties.
- (8) According to the Washington Center for Real Estate Research/WSU