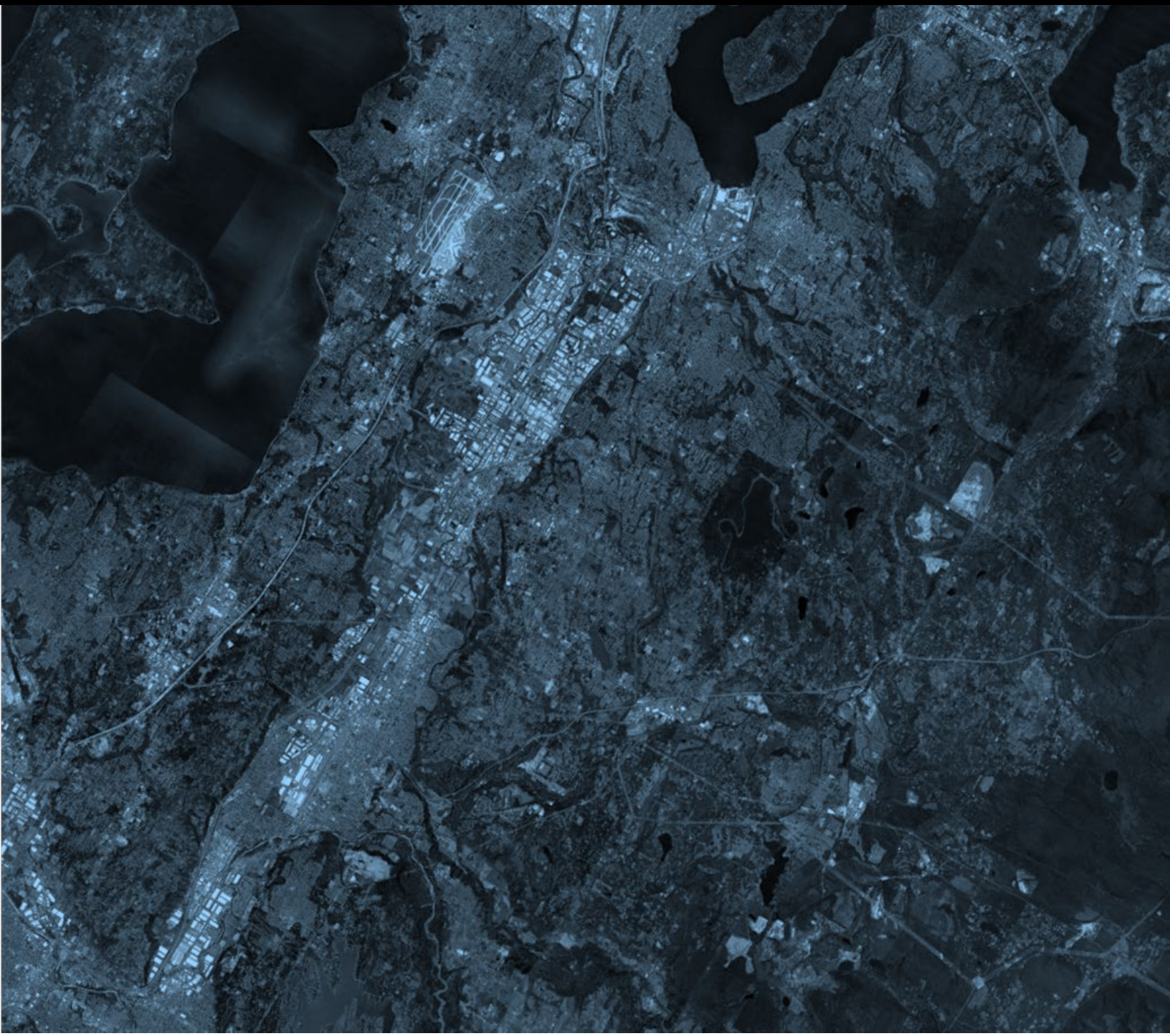
# South King County Housing Action Plan
# Housing Policy Assessment



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South King County Housing Action Plan

# Housing Policy Analysis

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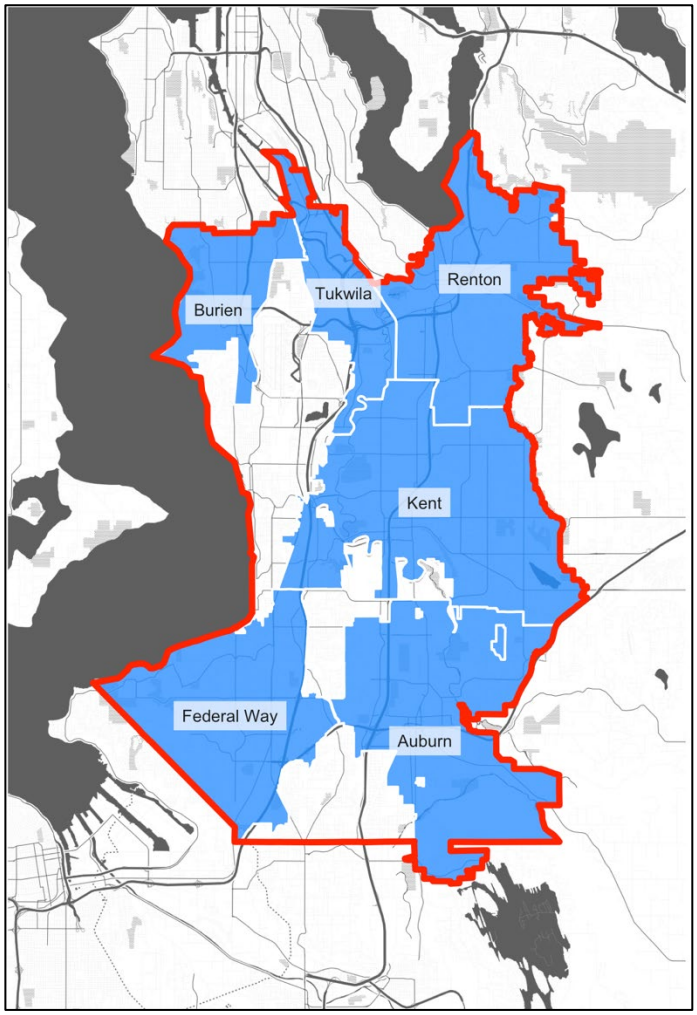
Cover photo courtesy of Google Earth, 2020

# BACKGROUND

Six cities in South King County, Washington—Auburn, Burien, Federal Way, Kent, Renton, and Tukwila—submitted applications for funding through HB 1923 and the Washington State Department of Commerce, with portions of each application identified for a collaborative effort to develop a subregional housing action framework. This subregional housing action framework includes demographic research, a housing needs assessment, and this assessment of existing policies. This work helps these cities better understand their current housing inventories and future housing needs as well as the demographic and employment trends in the region driving those housing needs. It also includes strategies and evaluation of different housing policies that can be implemented to produce the types of housing needed in the future.




## HB1923 HOUSING GRANT

In 2019, the Washington State Legislature passed House Bill 1923 with the stated intent of "increasing residential capacity."[1] The bill included $4 million in grants to 52 local governments, administered by the Department of Commerce, for various studies and undertakings to help local jurisdictions increase the number of housing units produced. Some of the various methods chosen by cities included subarea plans, planned action environmental impact statements, design standards for duplexes and triplexes in existing single-family residential neighborhoods, and more.[2]

HB 1923 included suggested content and goals for housing action plans, including:

a) Quantify existing and projected housing needs for all income levels, including extremely low-income households, with documentation of housing and household characteristics, and cost-burdened households;
b) Develop strategies to increase the supply of housing, and variety of housing types, needed to serve the housing needs identified in (a) of this subsection;
c) Analyze population and employment trends, with documentation of projections;

[1] https://app.leg.wa.gov/billsummary?BillNumber=1923&Year=2019&Initiative=false
[2] http://www.commerce.wa.gov/wp-content/uploads/2019/11/gms-ah-grantees-2019.pdf

d) Consider strategies to minimize displacement of low-income residents resulting from redevelopment;
e) Review and evaluate the current housing element adopted pursuant to RCW 36.70A.070, including an evaluation of success in attaining planned housing types and units, achievement of goals and policies, and implementation of the schedule of programs and actions;
f) Provide for participation and input from community members, community groups, local builders, local realtors, nonprofit housing, advocates, and local religious groups; and
g) Include a schedule of programs and actions to implement the recommendations of the housing action plan.[3]

## PURPOSE OF THIS ASSESSMENT

Evermost, as a part of a consultant team including ECONorthwest and Broadview Planning, was contracted to conduct an analysis of the effectiveness of five separate policies currently being utilized by the six cities to incentivize housing development, which include:

- Multifamily Tax Exemptions
- Accessory Dwelling Units
- Fee Waivers
- Density and Height Bonuses
- Planned Action Environmental Impact Statements

The information contained herein will be used to inform the strategic policy framework and housing policy assessment tool, as well as the cities' individual housing action plans.

## METHODOLOGY FOR THIS ASSESSMENT

The six cities appointed representatives to a City Team to steer the planning efforts and to provide data. This City Team collectively chose the five policies to evaluate, provided data on the housing units produced for each policy over time, and a list of Current Planning staff to be interviewed to provide qualitative context to the quantitative data. The Cities also provided permit data and fee information, which was examined for trends. Six follow-up interviews were then conducted with ten staff representing five cities.

## ASSUMPTIONS

For the purposes of this report, the following are assumed:

- Cost of construction per square foot is $233. This "hard cost" value for residential construction is an average derived from ECONorthwest's related housing research and does not include land costs, developer fee, or parking-related costs. This value may vary regionally, sub-regionally, and on a per-project basis.
- Building permit costs are based on the fee schedule for valuation found in the International Code Council's International Building Code, 2018 version.
- Other than large real estate investment trusts or pension programs with lower return-on-investment (ROI) metrics based on long-term stability, most developers try to outperform the

[3] http://lawfilesext.leg.wa.gov/biennium/2019-20/Pdf/Bills/Session%20Laws/House/1923-S2.SL.pdf?q=20200616110225

stock market average. The S&P 500 stock index average return over the last 90 years is 9.8%. American developers, generally, strive for up to 20% margins to exceed that long-term average plus a combination of 3% annual inflation, additional finance costs, and holding costs. Some foreign investors, driven by safe-haven investing or citizenship programs like EB-5, are often willing to invest at a much smaller return, sometimes even lower than 6%.

# CONTEXT

The premise for HB 1923 is the rising costs of housing in Washington, specifically in the Puget Sound Region. The economic success of the region, primarily due to the technology sector, has seen median household incomes rise; but rapidly-growing population increases without an accompanying boom in housing production has resulted in plummeting housing affordability levels. There are now nearly 12,000 homeless individuals in King County as of the 2019 point-in-time count. Housing values vary widely across the county—with median home values in the City of Medina at $2,989,784 and the City of Enumclaw at $452,993, according to Zillow.

## SUBREGIONAL CONTEXT AND DEMOGRAPHICS

South King County is home to a diverse refugee and immigrant population, as well as both long-time homeowners and those fleeing rising prices in the Seattle metropolitan area; poverty rates are rising as the region's housing becomes unaffordable.[4] More demographic and population information is in the fact packets provided as part of the subregional housing action framework.

Housing in South King County has historically been more affordable than other parts of the Seattle metropolitan area, such as the City of Seattle and areas to the east. Due to rising home prices in these other areas, the South King County region has seen an influx of moderate and higher income households while low-income households have been pushed out. Between 2012 and 2018 the region saw an increase of 12,420 households earning more than 100% of the area median family income (or $103,400 for a family of four), and a decrease of 8,838 households earning below 30% of the area median family income (or $31,020 for a family of four).[5] Of these 8,838 lower income households leaving the region, 8,450 were renter households.

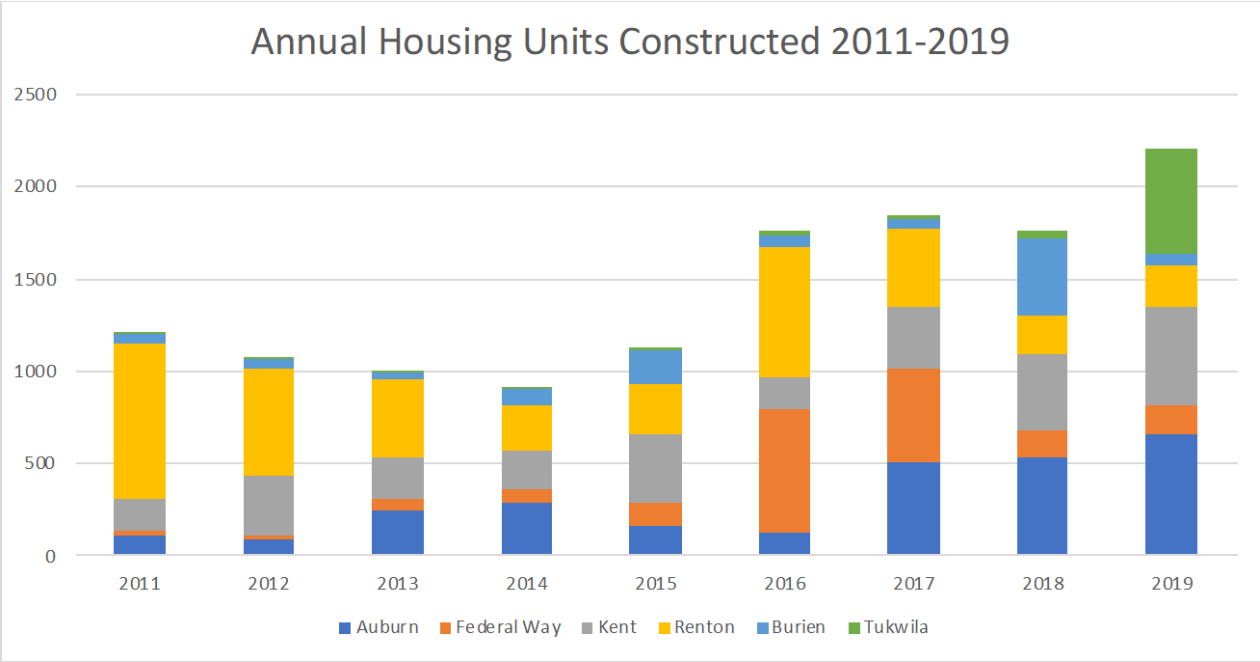
## HOUSING UNIT PRODUCTION

During the period of 2012-2019, shown in the graph and table below, an upward trend in housing production is visible on a year-over-year basis since the end of the Great Recession.

| Annual Housing Unit Production | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| City | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total | Yr. Avg. |
| Auburn | 113 | 86 | 247 | 283 | 159 | 124 | 506 | 534 | 651 | 2,703 | 300 |
| Federal Way | 24 | 25 | 63 | 70 | 126 | 672 | 514 | 147 | 172 | 1,813 | 201 |
| Kent | 175 | 325 | 226 | 222 | 369 | 176 | 332 | 410 | 524 | 2,759 | 307 |
| Renton | 842 | 583 | 418 | 240 | 282 | 708 | 417 | 216 | 234 | 3,940 | 438 |

[4] https://www.seattletimes.com/seattle-news/poverty-hits-home-in-local-suburbs-like-s-king-county/
[5] ECONorthwest analysis of HUD 2018 MFI and Census 2012 and 2018 PUMS 1-year survey data.

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Burien** | 46 | 46 | 42 | 87 | 177 | 57 | 51 | 416 | 55 | 977 | 109 |
| **Tukwila** | 7 | 7 | 7 | 21 | 18 | 20 | 34 | 36 | 576 | 726 | 81 |
| **S. King County Region** | **1,207** | **1,072** | **1,003** | **923** | **1,131** | **1,757** | **1,854** | **1,759** | **2,212** | **12,918** | **1,435** |




*Source: ECONorthwest analysis of Washington Office of Financial Management Data 2011-2019*
*Note: data focuses on new unit production, is net of demolitions, and excludes annexations (of which there were several during this timeframe).*

When including annexations, the subregion saw an increase of 28,382 housing units between 2010 and 2019, while the number of households grew by 37,632. This means the region only produced 75 new housing units for every 100 new households – creating intense demand for housing. Coupled with underproduction elsewhere in the Puget Sound Region and the growth of higher income households in South King County specifically, this underproduction put upward pressure on rents and home prices in the region. More discussion on this can be found in the Methodology Memo.

## DEVELOPMENT CONTEXT

There are a large number of interrelated variables to consider where housing will be built (which is generally where it will be the most profitable for developers); among these variables are:

- **Base regulations** – base density, height limits, lot coverage or floor-area ratios, etc.
- **Incentives** – fee waivers, density and height bonuses, direct financial contributions, etc.
- **Inclusionary requirements** – length of restrictions, setaside amounts, income levels, etc.
- **Market conditions** – base rents, area annual income growth, land costs, etc.
- **Infrastructure** – mobility (transit, roads, and trails), parks, stormwater, etc.
- **Internal metrics** – developer internal rate of return, finance costs, etc.

The difficulty in balancing these variables is that each site, each project, and each developer have widely varying characteristics, therefore there is no single equation that results in the provision of affordable housing.Each party can only make decisions that affect their span of control:

- **Developer:** Choosing a region with anticipated profit, controlling for land costs, reducing the quality of the units, or charging increased prices for the finished units; since the first is sometimes fixed, and the last two are tied to market rates, controlling for land is often the overriding factor.
- **Jurisdiction:** Reducing regulatory burden—parking requirements, impact fees, permitting timelines, cost of compliance, etc.—or increasing incentives.
- **Outside of control of either party:** Financial markets, regional economic growth/decline.

# POLICY ANALYSIS

## MULTIFAMILY TAX EXEMPTION (MFTE)

Washington state law, in RCW chapter 84.14, allows cities with a population greater than 15,000 to establish a multifamily tax exemption program. This program exempts eligible new construction or rehabilitated housing from paying property taxes for either an 8-year or 12-year period of time. (There was previously an option for a 10-year contract as well.) Development seeking to take advantage of this program must be within one of a city's designated target areas; 8-year exemptions can be granted broadly, but 12-year applications must include a minimum 20% of units affordable to low- and moderate-income households[6]. By waiving taxes on improvements for a period of time, housing developments have lower operating costs, which affects the project's overall feasibility by making it more economical to build new units.

Cities around Washington, and even within King County, use the program very differently. North King County cities like Kirkland and Redmond require MFTE projects to provide affordable housing with affordability covenants for the life of the project. In many of the South King County cities, the 8-year programs have been used to encourage redevelopment in target areas with no affordability requirements—the goal was to redevelop older properties with newer, higher quality housing. Burien has engaged 8-year, 10-year, and 12-year contracts, and thusly has different performance than the rest of the South King County subregion.

| CITY | YEAR ADOPTED | MFTE CONTRACTS | UNITS BUILT | | |
|---|---|---|---|---|---|
| | | | 8-yr | 10-yr | 12-yr |
| Auburn | 2003 | 4 | 680 | | |
| Burien | 2004 | 3 | 115 | 124 | 228 |
| Federal Way | -- | 0 | 0 | | |
| Kent | 2001 | 2[7] | 657 | | |
| Renton | 2003 | 13 | 263 | 1602 | 104 |
| Tukwila (expired) | 2014 | 3 | 658 | | |

[6] https://app.leg.wa.gov/rcw/default.aspx?cite=84.14.020
[7] https://www.kentreporter.com/news/kent-city-leaders-approve-property-tax-break-for-apartment-developers/

According to discussions with various city staff, there's an interest in expanding the MFTE programs—possibly to include affordability requirements in jurisdictions where there are none—but there's also a need to balance the competing interests of building more units and diluting focus away from the target areas. The MFTE program has been very successful in Renton for market-rate projects, and has seen recent success in Burien, but the rest of the jurisdictions didn't report a large number of units created.

In much of South King County, relatively low land costs (compared to the region), lengthy commute distances, and lack of high-capacity transit are prohibiting the types of dense developments which can most benefit from an affordability-focused MFTE program. Except in very active urban markets like Seattle or Bellevue—which can command higher profits—development incentives are generally required in tandem with inclusionary affordability requirements to make projects financially attractive for the private developers who are building these units[8]. If the requirements are not sufficiently mitigated by incentives, the profit required by the developer will not be actualized. The level of incentive necessary will vary greatly between jurisdictions within a region, and even vary within jurisdictions themselves depending on "submarket" conditions present at a site. It's important to thoroughly evaluate—and constantly refine—the incentives to make sure that they are priced according to the market, or they will not produce housing.

***Example:*** *At $233 per square foot of construction costs—again, ignoring land and parking costs--even a 600-square foot studio apartment would cost roughly $140,000. If a developer had to build two such units in a ten-unit project to meet the 20% inclusionary requirement of the 12-year MFTE program, the developer would then have to reallocate all or part of the $280,000 cost across the other eight units, as a function of the reduced expected income from the two inclusionary units. The result of this algorithm is that in places with the highest rental rates or sale prices, the developer return on the other units will more likely offset the loss from the inclusionary units—this naturally selects higher rent areas for inclusionary MFTE projects. In places where the profit margins from the market-rate units aren't sufficient to cover the affordable units, neither incentives nor mandates are profitable.*

Some jurisdictions offer an additional bonus unit along with the required (or bonus) inclusionary unit, so a ten-unit development that could previously construct eight market rate and two affordable units can now construct ten market rate and two affordable units, spreading the cost of the affordable units across more market-rate units; Renton offers a variant of this concept. Overall profitability still depends generally, however, on market rate rents or sales of finished dwelling units.

It should also be noted that the state law differentiating the 8-year and 12-year programs is a minimum standard. Nothing in state law prohibits jurisdictions from granting other bonuses with the tax exemption, making the MFTE especially suited to pair with the other types of programs and offerings evaluated in this paper.

### *SUGGESTIONS FOR IMPROVEMENT*

With respect to 8-year MFTE programs, the current focus on high-quality (primarily market rate) development or redevelopment in target areas should remain the emphasis until market conditions change—such that the area rents or sales prices increase, financing costs decrease. Eventually, when it starts getting more utilized, the 8-year program can have affordability components added, such as

[8] https://uli.org/wp-content/uploads/ULI-Documents/Economics-of-Inclusionary-Zoning.pdf

Redmond's program, where the 12-year exemption requires 20% of units to be affordable, and the 8-year requires 10% of units to be affordable.

Every jurisdiction should also adopt a 12-year program—even if it's not used for in the immediate future or for long spans of time—because there's no disincentive to having one already adopted when market conditions change and a developer wants to take advantage of it. With recent changes in the condo indemnity laws, that change could be coming sooner than later, assuming the economic fallout of the Coronavirus pandemic is short-lived.

Because the subregional context isn't homogenous, the MFTE incentives and requirements can't be either. Assuming that the target areas for MFTE programs are distinct and compact, it may be possible to conduct a detailed cost-of-construction analysis within each target area and tailor program expectations accordingly. This would need to be on a case-by-case basis, but could be envisaged as a multivariate program: one target area might be appropriate for certain incentives to make the affordable portion of the development "pencil", while another might be appropriate for different incentives.

Another method would be to follow the "development agreement" approach, wherein a city identifies general performance requirements and a developer chooses from a menu of corresponding incentives, which allows the city to obtain some exactions such as specific unit types or sizes. Burien uses a similar concept with their Public Benefit program in their downtown but doesn't include affordable housing provision as a criteria.

## ACCESSORY DWELLING UNITS

Accessory dwelling units (ADUs) provide an additional dwelling unit—typically with its own sleeping, bathing, and cooking facilities—on properties with existing single-family homes. These can typically be constructed in a new detached structure, or even by renovation within an existing structure, such as finishing a basement, attic, or garage. ADU policies attempt to increase housing density in ways that do not change the character, look, and feel of existing neighborhoods, and put more housing in areas with access to amenities such as jobs, schools, and retail centers. In theory, because they are smaller than single-family homes, ADUs can be cheaper housing options – but this is not always the case.

Generally, most jurisdictions require that ADUs be smaller than the primary dwelling unit, some jurisdictions have size limitations, and others have limitations on whether units may be detached from, or connected to, the primary residence; additional regulations may include the need for additional on-site parking, separately metered utilities, and even owner-occupancy of one of the units—these more burdensome conditions can negatively impact ADU production[9].

ADUs have numerous challenges as an effective housing policy tool —the primary obstacle being the need for capital. With the hard costs of new construction in the subregion around $233 per square foot, even a modest 800 square-foot ADU can cost nearly $200,000 dollars, not including architecture (typically 8% of construction costs), permitting, impact fees, utility connection charges, site improvements, and much more[10].

[9] https://www.planning.org/knowledgebase/accessorydwellings/
[10] https://www.forbes.com/sites/aaronnorris/2020/12/30/2020-the-year-of-the-adu/#6fe51f396952

The construction cost of the previous example of a 800 square foot ADU ($250,000) could yield a rental income in Kent, for example, of $1428[11], but will cost $1140 per month to construct and finance—assuming a 3.625% interest rate and a 20%, or $60,000, down payment. This doesn't include increased property taxes or income taxes. Along with the costs and risks of operating as a landlord, the slim profit margin may just not be worth the risk for many homeowners, if they can afford it at all. Some homeowners may choose ADUs to provide multigenerational housing for at-home adult children or elderly parents and may see other non-financial benefits in construction, but the low production numbers are indicative of the nationwide lack of access to capital for ADUs coupled with the rising costs for construction.

Due to the total costs, homeowners are generally required to take a loan, such as a second mortgage, cash-out refinance, home improvement loan, or other financial vehicle to fund the project. Burien suggests, in Comprehensive Plan Policy 1.11, that the additional income from an ADU can help buyers purchase a home. Qualifying for financing can be difficult, however, when applying for conventional funding sources without a documented income stream[12]. Applicants may have the most success with an FHA 203k improvement/rehabilitation loan.[13]

Cities around the country have undertaken direct efforts to bring down the costs of an ADU. Many have waived impact fees, saving several thousand dollars per unit. Many have also waived separate utility metering requirements, saving tens of thousands of dollars per unit. Some communities, like Clovis, California[14] and San Diego County, California[15], have created pre-approved ADU plans for use by their residents: a plan which is designed by an architect and already approved by the planning and building departments for construction. For a $250,000 project, the use of pre-approved plans alone eliminates the cost of design ($20,000+) and plan check review fees ($2,000+).

While allowing ADUs in all single-family zones is a laudable way to encourage additional dwelling units, jurisdictions will not see large numbers of ADUs actually being constructed until market rents reach a level that makes development feasible or unless they also create a program to help homeowners lower their costs and connect with financing.

The South King County cities have a relatively small number of ADUs compared to their housing stock as a whole.

- **Auburn**: only six recorded units during the 2005 to 2020 timeframe.
- **Burien:** 98 building permits issued for ADUs since 2005. Burien's Zoning Code[16] doesn't seem to have any special regulations or allowances that would result in such a relatively large number of units compared to the neighboring jurisdictions.
- **Federal Way**: no data provided.
- **Kent**: has issued 33 permits for ADUs since 2005.

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[11] https://www.apartments.com/kent-wa/#guide
[12] https://www.buildinganadu.com/cost-of-building-an-adu
[13] https://accessorydwellings.org/2013/11/15/financing-your-adu-has-become-easier/
[14] https://cityofclovis.com/planning-and-development/planning/cottage-home-program/
[15] https://www.sandiegocounty.gov/content/sdc/pds/bldg/adu_plans.html
[16] https://www.codepublishing.com/WA/Burien/#!/Burien19/Burien1917.html#19.17.070

- **Renton**: no tracking data provided, but they estimated that only 8 applications for ADUs had been submitted since 2010.
- **Tukwila**: tracks approximately 30 ADUs constructed over the span of 1960 to 2020, but half of those within the last five years. The City's "amnesty" program in 2019 registered new and existing ADUs with relaxed regulations.

Of the six cities, Renton by far has the most ambitious strategy towards building ADUs. Among the many actions taken with their new ADU ordinance and new program actions, the City:

- Allows for offsite parking and shared parking for ADUs;
- Has funded 26 pre-approved designs for ADUs;
- Reduces 50% of city fees;
- Exempts owner occupancy requirements in exchange for 60% AMI affordability; and
- Conducts site-planning meetings with homeowner applicants to help design and facilitate applications.

### *SUGGESTIONS FOR IMPROVEMENT*

The Cities could, individually or through a regional partner such as SKHHP, create an ADU assistance program, similar to the assistance provided by Renton or by ARCH for residents in the East King County cities. Such a program could include informational materials, advisory meetings, workshops, and connections with lenders. An ideal program would also include—in the manner of Renton or San Diego County—providing pre-approved ADU plans for homeowners and a waiver of some fees or a percent of fees. Even providing an ADU guidebook, as Tacoma[17] has done, helps take some of the uncertainty out of the process for people who may not have experience with design, construction, or permitting.

Regulations should also strive to be as permissible as possible, including reducing on-site parking requirements and eliminating the need for separate utility meters, when the costs of allowing such waivers is accounted for and deemed reasonable.

## FEE WAIVERS

The list of potential fees when entitling a new building often includes, but is not limited to, zoning application fees, mitigation fees, building permit fees, plan check review fees, utility connection charges, building inspection fees, and impact fees. Other jurisdictions may charge specialized fees for environmental impacts—like stormwater fees—or require critical area determinations and additional surveys.

Building permit fees are often adopted when the new version of the International Building Code, which contains a detailed fee schedule, is adopted. Plan check fees are almost always a function of this building permit fee.

Impact fees, by state law, may only charge a proportional share of the cost of new fire, transportation, parks, and schools capital facilities to a new development.[18,19] School district capital plans identify the

[17] https://tacomapermits.org/wp-content/uploads/2019/05/2019-ADU-Design-Booklet.pdf
[18] http://apps.leg.wa.gov/rcw/default.aspx?cite=82.02.050
[19] http://apps.leg.wa.gov/wac/default.aspx?cite=365-196-850

facility needs for the specified time horizon, and detail student generation rates for new development to ensure the proportionality test required by state law is met.

While these fees are important funding sources for their respective municipal departments and special districts, they can add up and effectively discourage new housing development–particularly at lower price points. New developments must then be priced high enough to overcome these fees and the costs of construction, while still allowing the developer their return on investment. A case study from the Bay Area city of Palo Alto, California showed that the combined processing and impact fees added only 2% to a project's total cost and were only a disincentive for affordable housing projects, but easily absorbed by market rate development[20].

A city might institute strategic fee waivers to encourage more development, or lower-cost development. Fee waivers in the South King County cities seem to have only been used to lower the total development costs—particularly of affordable housing projects, thereby allowing the construction of additional incremental units.

However, there are trade-offs to fee waivers. In combination with MFTE and other tax abatement programs, and if heavily utilized, the cost of fee waivers to a city and any other taxing authorities (school district, water district, etc.) may deprive those entities of necessary funding, and may not necessarily be offset by associated economic activity (construction, new resident spending, etc.).[21]

- **Auburn**: Fee Waivers for the Downtown Catalyst and Downtown Plan Areas implemented in 2001 are identified in City Code Section 19.04. The fee waivers were extended through Ordinance 6637 and expired on December 31, 2017. These fee waivers have been utilized in conjunction with MFTE.
- **Burien**: no fee waiver program identified.
- **Federal Way**: no fee waiver program identified.
- **Kent**: no fee waiver program identified.
- **Renton**: Eight projects totaling 247 units receiving fee waivers under 4-1-210 (miscellaneous) and 4-1-190 (transportation and school impact fees); Renton Housing Authority has received waivers for four of those projects, totaling around 150 units. All projects receiving fee waivers were located only in the Downtown and Sunset target areas, and produced primarily affordable units. In Renton, fee waivers are offered for ownership projects over 10 units, where at least 50% of the units are sold as affordable housing for those <80% AMI. Fees are waived for rental projects, with affordability of 100% of units at <60% AMI (with a different unit minimum by zone). The City of Renton is currently retooling its waiver program from 100% of fees waived—which require general fund commitments of 20% of the total waived fees to offset revenue losses, per state law[22]—to 80% of fees waived, which doesn't require general fund outlays; they also capped the unit count of eligible projects to limit the potential cost associated with very large developments.
- **Tukwila**: TMC 16.04.260 applies to permit fees for construction of dwelling units including building, mechanical, electrical, and plumbing permits. Units with 2 or more bedrooms that meet

[20] https://grandboulevard.net/programs-and-policies-in-use-by-corridor-jurisdictions/new-housing-planning-land-use-and-developer-incentive-tools/fee-waivers-deferred-fees
[21] https://inclusionaryhousing.org/designing-a-policy/land-dedication-incentives/fee-waivers/
[22] https://app.leg.wa.gov/rcw/default.aspx?cite=82.02&full=true

an 80% affordability target qualify for a 40% fee reduction, units that meet a 60% affordability target qualify for a 60% fee reduction, and units of any size that meet a 50% affordability target qualify for an 80% fee reduction. Projects within the Urban Center subarea also don't have to pay water and sewer connection charges.

The table below contains some sample senior housing projects from Kent and Tukwila to look at the total development fees—including permitting, impact fees, and other city charges—for similarly sized developments. While the total fee calculation for the entire project seems expensive, on a per-unit basis the cost appears much less significant. Larger developments are able to spread the fees across a greater number of units, thereby typically increasing the profitability of a development.

| SAMPLE DEVELOPMENT IMPACT FEES PER UNIT | | |
|---|---|---|
| | KENT | TUKWILA |
| | LARC at Kent Station | Marvelle |
| Year | 2018 | 2017 |
| Units | 131 | 166 |
| SEPA | $2,715.86 | $644.70 |
| Zoning permit/Design Review | $3,040.05 | $4,852.40 |
| Plan Check Review | included elsewhere | $91,468.00 |
| Civil Construciton | $281,153.52 | $108.15 |
| Building Permit | $245,968.12 | $249,296.00 |
| Water Connection | $138,700.70 | $0.00 |
| Sewer Connection | $2,762.40 | $0.00 |
| Traffic Impact | $111,695.09 | $118,207.00 |
| School Impact | $0.00 | $0.00 |
| Parks Impact | $0.00 | $232,068.00 |
| Fire Impact | $223,004.99 | $199,200.00 |
| Stormwater Fees | $148,747.30 | $0.00 |
| Pre-Application Fees | $470.50 | $0.00 |
| Fire Alarm & Sprinkler Permit Fees | $29,662.73 | $0.00 |
| Grading Permit | $6,206.33 | $0.00 |
| | | |
| Total Fees | $1,194,127.59 | $895,844.25 |
| Fees per Unit | **$9,115.48** | **$5,396.65** |

*SUGGESTIONS FOR IMPROVEMENT*

Permitting fees provide much-needed revenue to operate these local departments but can be a barrier to providing lower-cost housing. Right-sizing of municipal permitting fees should occur with input from the development community to ensure that the exactions required by a jurisdiction do not exceed the profit-margin of development. While school impact fees and other special purpose district assessments sometimes appear to be among the largest fees, they are typically more regulated by state law and are less easily altered.

Fee deferrals are a preferable alternative to waivers. The City can still receive its revenue but will obtain the fees from the developer later in the process using their permanent financing instead of the upfront, higher-cost short-term construction financing[23]. In 2015, Washington State mandated an on-request deferral system in SB 5923[24] that was codified in RCW 82.02.050[25], so cities should already have this in their toolkit.

## DEVELOPMENT INCENTIVES AND BONUSES

Most cities offer some manner of incentives or bonuses in exchange for additional exactions on the developer; these incentives can often result in better design or substantially advancing public interest while making the project more profitable for the developer. Policies are often put in place when a jurisdiction wants to encourage a type of development that the market is not delivering, so the jurisdiction makes it easier, less costly, or more profitable to build the desired type of project.

- **Auburn:** not evaluated.
- **Burien:** Municipal Code Section 19.15.025.1.J[26] offers bonuses to floor area in exchange for streetscape improvements, design elements, civic contributions, and uses. No data was provided regarding the use of this program.
- **Federal Way:** Bonuses are now offered to cottage housing development, although this program is slated for removal; only one cottage housing development has occurred that has taken advantage of this incentive . No other bonuses for affordable housing are now present.
- **Renton**: Renton's Density Bonus for Affordable Housing (RMC 4-9-065) has been utilized on 4 projects (102 total units) which included 11 affordable units and 11 bonus units. Renton's code also allows a Conditional Use Permit for height increases (RMC 4-2-110A and 4-2-120A) which are designed to result larger square footage per units; 20 units have been completed using these bonuses, with 582 in the pipeline, including 48 townhomes and 534 multi-family units.
- **Tukwila**: Despite the presence of multiple bonuses available to increase the height up to 115 feet, no projects had yet taken advantage of them. The 19-story Washington Place project was constructed by development agreement before these standards were in place.

The number of units created using these bonuses are small enough, as a proportion of total units created over the same time, that they can be seen as having minimal effect on the provision of housing on the whole. While there has been some utilization of bonuses or incentives, it seems that the benefit is small (incremental unit production) when compared to a go/no-go decision for a market rate project.

Tukwila planners reported that some projects were not utilizing their maximum allowable density because of the need for frontage improvements, and that on-site recreation space requirements were likely causing some development concepts to not proceed.

A discussion of the economic value of bonuses and incentives also occurred above in the MFTE section.

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[23] https://www.localhousingsolutions.org/act/housing-policy-library/reduced-or-waived-fees-for-qualifying-projects-overview/reduced-or-waived-fees-for-qualifying-projects/
[24] http://lawfilesext.leg.wa.gov/biennium/2015-16/Pdf/Bills/Session%20Laws/Senate/5923.SL.pdf
[25] https://apps.leg.wa.gov/RCW/default.aspx?cite=82.02.050
[26] https://www.codepublishing.com/WA/Burien/html/Burien19/Burien1915.html

### *SUGGESTIONS FOR IMPROVEMENT*

Discussions with staff from multiple cities stressed that while they strive to create a vibrant and high-quality environment for multifamily neighborhoods, the cost of the exactions required to achieve those design standards—in open space, frontage improvements, etc.—may exceed the development's internal return on investment requirements, lowering profitability and stifling projects. In addition, the bonuses provided by a City may not be enough of an incentive for a developer to engage a project. Right-sizing the exactions in relation to bonuses is critical to ensuring that they are viable.

Jurisdictions wanting to increase quantity of housing production could consider bonuses related to on-site and off-site improvements. For example, instead of requiring highest-quality street frontage by right, there could be a mandatory minimum standard with available density/massing bonuses for completing higher-quality frontage improvements, similar to Burien's use of their Public Benefit system. This approach could assist in lowering the costs of affordable housing projects and make a wider variety of market-rate products available.

## PLANNED ACTION EIS

Under the Washington State Environmental Policy Act (SEPA), a planned action—such as rezoning, development agreement, or subarea plan—can pre-analyze the predicted impacts of a certain level of development. For example, a downtown revitalization plan may result in a future maximum of new residential units and additional vehicle trips per day, then as development occurs within the area covered by the planned action ordinance (PAO), each new project may be able to claim coverage under the EIS for the analyzed impacts. Jurisdictions may implement these policies to encourage development by allowing projects to avoid costly SEPA analyses, increasing certainty around mitigation requirements, and avoiding lengthy delays due to SEPA challenges.

The review fees can also be less expensive: in Tukwila, projects outside of planned action areas have to complete a SEPA checklist and pay a $2,026.50 fee, whereas planned action coverage costs only $644.70.

| INITIAL PLANNED ACTION COVERAGES IN THE SOUTH KING COUNTY SUBREGION | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Res (du) | Comm (sf) | Retail (sf) | Office (sf) | Hotel rooms | Manf. (sf) | Peak Trips | Other |
| AUBURN GATEWAY SUBAREA[27] | 500 | | 720,000 | 1,600,000 | | | | |
| AUBURN DOWNTOWN[28] | 708 | | | | | | | |
| BURIEN DOWNTOWN | 460 | 24,000 | | | | | | |
| FEDERAL WAY CITY CENTER SEIS[29] | 2654 | | 2,308,190 | 467,045 | 830 | | | |

[27] https://auburn.municipal.codes/ACC/18.08
[28] https://www.auburnwa.gov/city_hall/community_development/zoning__land_use/downtown_urban_center
[29] https://www.cityoffederalway.com/content/city-center-redevelopment

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| KENT DOWNTOWN SUBAREA[30,31] | 2403 | | | | | | 3800 | 2323 (jobs) |
| RENTON LAKESHORE LANDING | 880 | 800,000 (non-residential sf) | | | | | | |
| RENTON SOUTHPORT | 543 | 750,000 | 38,000 | | 220 (115,800sf) | | 112,020 | |
| RENTON SUNSET | 2506 | | 476,299 | 745,302 | | | | |
| TUKWILA URBAN CENTER | 600 | 71,760 (hotel) | 319,934 | 200,000 | 370 | | | |

All of the study area cities have some manner of planned action coverage. Interviews with the planning staff in these jurisdictions, however, have reported that there are not often SEPA challenges to non-coverage projects, perhaps making this tool useful for reducing cost of analysis but not necessarily reducing delays.

### *SUGGESTIONS FOR IMPROVEMENT*

An important component of the planned action coverage concept is accurate tracking against the analyzed impacts to facilitate development. Many of the jurisdictions don't have readily available tracking systems to identify which previous projects utilized coverages and which coverages remained available, making it difficult to have pre-development discussions with developers and ascertain planned action eligibility. Renton developed a tracking table as part of a project SEIS, an excerpt of which is contained below as an example of what jurisdictions should endeavor to create and update.

| RENTON SUNSET PA TRACKING 2011-2030 | | | |
|---|---|---|---|
| | Planned Action | Claimed | Remaining |
| Residential (dwelling units) | 2,506 | 1,352 | 1,154 |
| Schools (sq. ft.) | 57,010 | 21,763 | 35,247 |
| Office/Service (sq. ft.) | 776,805 | 31,503 | 745,302 |
| Retail (sq. ft.) | 476,299 | 22,179 | 454,120 |

## SUMMARY

The six cities involved in the South King County Regional Housing Action Plan sought to evaluate five policy tools and gauge their effectiveness, as well as their suitability for implementation by other South King County jurisdictions. This summary of effectiveness ranks the policies from those seen as most effective at encouraging new housing development, to those seen as least effective.

[30] https://www.kentwa.gov/home/showdocument?id=4854
[31] https://www.codepublishing.com/WA/Kent/?Kent11/Kent1103.html&?f

- **MFTE** – Based on the information received from the jurisdictions, this seems to be useful in creating market-rate units, but has been less effective at creating affordable housing in the South King County subregion.
    - Until land costs rise or market rents increase accordingly, this program should continue to be used to encourage high-quality redevelopment, instead of re-tooling the 8-year programs to achieve affordability targets.
    - Every jurisdiction could easily adopt an inclusionary 12-year program along with their 8-year program; there's no harm in having it available if market forces change and suddenly it's an attractive option for a potential developer.
- **Accessory Dwelling Units** – ADU regulations have resulted in less than 200 total units being permitted, with little or no direct financial cost to the jurisdictions.
    - Development of formal ADU programs within the cities—informational materials, connecting owners with lenders, pre-approved building plans, etc.—could lead to additional numbers of units being constructed.
    - Better ADU tracking systems are needed to monitor the numbers of units constructed and operated within cities. While this won't, in itself, create any new units, it can be used to gauge the efficacy of programs and serve as an important metric for possible future grant funding. This could be done on a subregional level, but causal relationships might only be determinable at the city level, given the differences in regulations.
- **Development Incentives** – This is an attractive and low-cost option for cities to incent developers to construct to the City's desired outcomes. There's not a significant enough sample set to determine if any incentives were a deciding go/no-go factor in pursuing the development, however—Renton has seen just 10 bonus units constructed out of projects totaling 109 units.
    - Cities should examine ways to amend their by-right standards to simply produce a higher quantity of units, while offering substantial allowances in exchange for the highest-quality or most-affordable developments.
- **Fee Waivers** – This policy has created a few dozen units in the region, generally constructed by affordable housing developers, but it has limitations: primarily that of reducing municipal revenue by up to 80%.
    - Waivers should be used tactically for the most affordable projects by non-profit developers and on as much of a case-by-case basis as the code can allow. From Anacortes[32] to San Francisco[33], removal of development fees has helped build low-income housing, but the waived fees have little impact on the go/no-go decision by a developer who has likely already solidified the financials before acquiring the site or applying for permits.
    - Fee deferrals may instead be useful to for-profit developers for incentivizing stalled market-rate growth, or for incentivizing inclusionary affordable units. The developers then must obtain less short-term, high-cost construction financing, and the city still collects the fees at occupancy (or other determined point in the future.)
- **Planned Action EIS** — This particular tool is in use in all jurisdictions in the study area. Planned action coverage is, in theory, an effective way to lower the cost of development and accelerate

[32] https://www.goskagit.com/anacortes/news/impact-fee-waiver-to-help-affordable-housing-project-move-forward/article_a69e7c94-588a-11e8-9fcd-1378211830bb.html/
[33] https://journal.firsttuesday.us/san-francisco-cuts-fees-to-spur-affordable-housing-production/68755/

timelines, but there's not enough data to show that this is resulting directly in the production of any units other than in Renton's Landing and Sunset areas.

- To be more useful, the cities should be actively tracking projects and coverages within planned action areas, have ready access to the amounts of available coverages remaining, and have a procedure for developers to quickly and easily be able to claim coverage.
- Future planned action ordinances and environmental impact statements should very clearly identify, in a prominent location (such as an executive summary), the precise types of actions and development metrics evaluated. In most of these documents, the actions evaluated and available for coverage are unclear or difficult to locate, or the reader is directed to multiple documents to piece together the answer.

# FUTURE STUDY

Analysis of the data provided, and the subsequent interviews with staff, have demonstrated that the following policies could make larger impacts in the provision of market-rate and affordable housing in the South King County subregion.

## Parking Standards

While the concept of fee waivers seems to be the one aspect that the city has most control over, and therefore the quickest way to lower costs for the developer, the sum total of all permitting and impact fees per unit is likely less than $30,000, and then the jurisdiction has to make up the shortfall in whatever funding those waived fees were obligated to. A single parking space in a structured garage, however, can range widely in cost from $25,000 to over $118,000[34]. Planners interviewed in Tukwila, for example, remarked that two parking spaces per dwelling unit are required in multifamily developments even within TOD corridors along the Link Light Rail alignment or along Tukwila International Boulevard. The act of reducing the need for a single parking space per unit would have the likely effect of offsetting as much financial burden to the applicant as all of the city's fees combined, without impacting municipal finances. Cities should endeavor to right-size their parking requirements, especially in transit corridors and station areas; Kent and Auburn have done so, and Renton has modified parking standards for affordable housing.

## Transit Accessibility

Housing projects located along transit lines quality for additional funding through federal and state sources[35], as well as occasionally transit agency funding. Such projects also have lower total and per-unit construction costs because they don't have to provide as much parking on site.

Renton is seeing extensive multifamily housing growth (relative to other South King County cities) due to its location along the I-405 corridor with relatively rapid commutes to jobs in Seattle and Bellevue, and to a lesser extent, its RapidRide F line connection. Auburn, much further south, is seeing substantial growth—386 units and retail—around its Sounder commuter rail station. Similarly, Tukwila is planning for growth and development around the Tukwila International Boulevard LINK station area.

Though it may seem like basic planning knowledge, all cities should endeavor to locate high-capacity transit facilities within their jurisdictions, and to continue to advocate for the placement of such facilities

[34] https://www.seattletimes.com/seattle-news/transportation/100000-per-parking-space-costs-soar-for-sound-transits-kent-park-and-ride-garage/

[35] https://www.huduser.gov/Publications/pdf/better_coordination.pdf

specifically within their targeted growth areas. The transit infrastructure supports higher density and lowers parking needs, which improves attractiveness (income) and lowers costs, which in turn helps cover the costs of building inclusionary affordable housing.

## Infrastructure Needs

Discussions with the Auburn planning staff illustrated a need for extensions of water and sewer infrastructure into the lower-density areas within their jurisdictions. All of the cities also have unincorporated and/or potential annexation areas (PAAs) immediately adjacent to their boundaries—some of which may be suitable for higher intensity of development.

Without adequate utilities, desired densities can't be achieved, therefore cities (and water & sewer districts) should endeavor to extend services as appropriate. This may require bonds, utility local improvement districts (ULIDs), or other financing methods.

## Funding and Land Contributions

One topic of discussion mentioned by a few city staff was the direct participation of cities through providing funding or land to affordable housing developments. The City of Tukwila directly participated by giving land to SHAG's project at Tukwila Village, and Renton Housing Authority donated land to the Willowcrest Townhomes project. The City of Renton has a Housing Trust Fund and has previously allocated grants to affordable housing projects.

South King Housing and Homelessness Partners (SKHHP) may eventually be able to end Seattle and ARCH's near-monopoly on housing grant and fund awards by creating funding pools in the south county with which to leverage cash against grant funds, raising project competitiveness.