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MEMORANDUM

DATE: **December 12, 2017**

TO: Rebecca Lowell, Mount Vernon City Planner

FROM: Erika Rhett, Senior Associate, BERK

RE: Housing Affordability Program Code Suggestions

INTRODUCTION

Mount Vernon is the residential center of Skagit County and an attractive community in which to live. Yet, the production of housing in the city is not keeping up with demand. As housing becomes harder to secure and more expensive, families are paying larger portions of their incomes toward rents and mortgages. According to the Comprehensive Plan, more than a third of households spend more than 30% of their income on housing, which is the state and national benchmark of affordability. Mount Vernon also has the highest rate of overcrowding in Skagit County.

The local development community indicates that there are several likely reasons for the slowed pipeline of housing in Mount Vernon. They cited factors such as physical constraints, density limits, development regulations, and permitting issues. Additionally, the development of housing affordable to those at 80% of the AMI (area median income) comes with additional financing considerations.

In 2016 the City adopted a new Housing Element into the Comprehensive Plan that included several Goals, Objectives and Policies regarding affordable housing. The City's implementation strategy for these Goals, Objectives and Policies directs the adoption of code amendments aimed at helping those with the least resources first. As such, the code amendments BERK was retained to assist the City with involve improving housing affordability with the following two approaches:

- Increase the production of housing affordable to those at 80% of the AMI and below through incentive-based requirements that include tracking programs to ensure that affordable housing remains affordable for at least 50-years.
- Increase the production of infill housing in residential zones.

To facilitate these approaches, this memo looks at three areas: bonus densities, infill housing, and other factors to implement affordable housing in Mount Vernon.

WORK TO DATE

In March BERK produced a memo on approaches to housing affordability. This memo outlined the policy support in the Comprehensive Plan for making the housing more affordable in Mount Vernon by increasing the diversity of housing types and developing an affordable housing program. It lists best practices, approaches other communities have used, and information about managing affordable housing.

Following this work, BERK held a series of interviews with local housing stakeholders, including market-rate developers and builders and non-profits working to support affordable housing. The interviews sought to better understand the housing market in Mount Vernon and the potential barriers to housing affordability. It gathers a list of recommendations for reviewing development regulations and zoning designations, as well as looking at fees and permit streamlining. A full write up of the Housing Stakeholder Interviews can be found attached to this memo.

Capacity Analysis

One component of the City's adopted Land Use Element of the Comprehensive Plan is a Buildable Lands & Land Capacity Analysis. The Capacity Analysis is developed in support of the Comprehensive Plan and, among other things, analyzes and quantifies the number of additional dwelling units that could be created City-wide. As part of this effort BERK asked City staff to summarize how many future dwelling units are expected to be developed by development type. This aids in understanding how much land may be available for different types of developments ranging from small in-fill and very large planned developments. The table below provides details regarding how each of these categories are defined and the percent of future development anticipated to be created within each of the identified categories.

Exhibit 1. Capacity for Development by Development Type

Category of Development	# of Units Created within the Development	% of Future Unit Creation (not including UGAs)
Infill	1 to 9	27%
Small Developments	10 to 25	13%
Medium Developments	26 to 100	18%
Large Developments	100 or more	42%

Source: City of Mount Vernon, 2017

This analysis found that within City limits future residential development is anticipated to be almost equally split between infill and small developments (total of 40%) and large developments (42%) over the planning horizon. Between these two extremes, 18% of future residential development is anticipated to create a range of 26 to 100 lots each. This data supports the two-pronged approach to housing affordability that looks at creating opportunities for both infill housing and integrating affordability into larger housing developments.

DENSITY BONUSES

Outreach to for-profit and non-profit developers and builders in Mount Vernon revealed that one of the most desired changes is to allow increases in density. Additional density will help make new development more financially feasible, particularly for affordable housing. Remaining land in Mount Vernon is difficult to develop due to natural features like topography or critical areas, as well as economic features such as the cost of extending utilities and services. Spreading costs across a greater number of units lowers the overall cost of each home.

Density bonuses allow developers to build at higher densities than normally allowed in a zone if they provide affordable housing units. The additional density is intended to offset the cost of the affordable units with revenues from the additional market rate units, so the value of the bonus should be greater than the cost of providing the affordable units. Density bonuses work best in strong housing markets with high land costs, high home prices, and high market rents where local government has identified a shortage of affordable housing for low and/or moderate-income households. In other communities, density bonuses are very attractive when housing developers desire additional density. Mount Vernon's housing market is characterized by many of these factors, which makes it a favorable environment for the use of density bonuses.

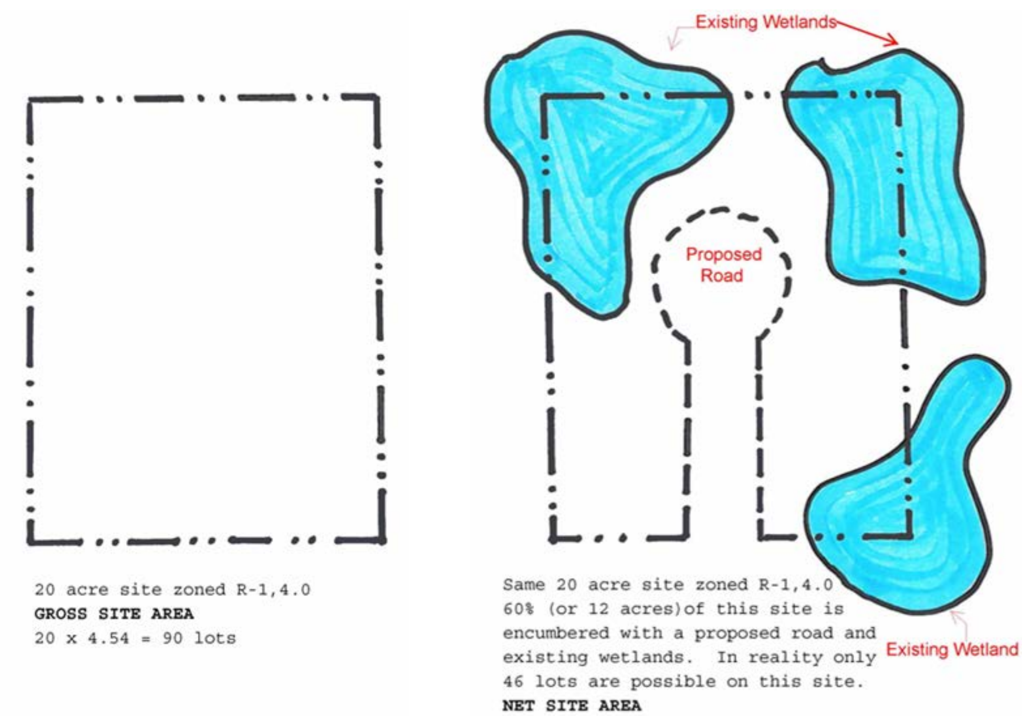
Density Calculations

Density is defined the number of dwelling units per acre. Mount Vernon's Comprehensive Plan and municipal code both use net density calculations because it is more accurate and reinforces to property owners and developers that they need to be aware that infrastructure is required to serve new development and if critical areas are found on/near a site the intensity of future development will be impacted.

Non-buildable areas such as public streets, open water, critical areas (such as wetlands), and their buffers are excluded from a gross acreage calculation to get net acreage. Net acreage is multiplied by the maximum number of lots allowed by zoning to get the maximum net density.

Exhibit 2 illustrates how net density is calculated.

Exhibit 2. Gross Versus Net Density Calculations



Source: City of Mount Vernon, 2017

Where vacant and available land is encumbered with waterways, critical areas, or critical area buffers, net density results in far fewer lots for development than the underlying zoning may indicate. As a result, existing zoning may not be able to yield net densities that express the full density allowed under the development regulations. Understanding the difference between gross and net density is important to understanding how density standards are applied.

Existing Density

The Mount Vernon Municipal Code currently allows densities of 3.23 - 7.26 units per acre in single family zones (R-1 in all its variations), 8-10 units per acre in the duplex and townhouse zone (R-2), and 10-20 units per acre in the multifamily zones (R-3 and R-4). Commercial zones that allow residential uses include the Limited Commercial (LC) zone, the C-1 zone, and the C-4 zone. Development of multi-family uses in these commercial zones is subject to the rules and standards of the R-3 zone. As a result, the rules for residential development in commercial zones are not shown in the table of existing standards in Exhibit 3.[1]

Exhibit 3. Existing Density in Mount Vernon Residential Zones

RESIDENTIAL ZONING DISTRICTS	EXISTING DENSITY REQUIREMENTS		MINIMUM LOT SIZE
	MINIMUM	MAXIMUM	
R-1, 4.0, Single-Family Residential	4.0 du/acre	4.54 du/acre	7,500 s.f.
R-1, 5.0, Single-Family Residential	4.0 du/acre	5.73 du/acre	6,000 s.f.
R-1, 7.0, Single-Family Residential	4.0 du/acre	7.26 du/acre	4,500 s.f.
Duplex and Townhouse (R-2)	8.0 du/acre	10.0 du/acre	6,500 s.f. for a duplex or townhouse unit
Multi-Family (R-3)	10.0 du/acre	15 du/acre*	N/A#
Multi-Family (R-4)	10.0 du/acre	20 du/acre*	N/A#

* Maximum density may only be achieved so long as 50% or more of the required parking spaces are located in an enclosed area beneath the habitable floors of the building.
# The lot must be of sufficient size to support the density, setbacks, parking, landscaping, infrastructure, and any other items required to comply with the City's development regulations.
Source: Mount Vernon Municipal Code, 2017

Case Studies

There are a variety of communities in Washington that provide density bonuses. Below a brief description of four different programs are provided. Some density bonuses are very simple to apply. Other bonus programs may vary the amount of bonus based on factors such as the target income range of the affordable housing or the amount of affordable housing included in a project. Each example includes a table that applies the density bonus to Mount Vernon's residential zones. This gives a sense of comparison between bonus systems.

[1] Stakeholders identified a number of potential amendments to residential development in commercial zones. These amendments will be considered at a later date.

Federal Way

Federal Way grants a density bonus of 10% for affordable housing. It defines affordable housing as units affordable to households at 80% AMI or below for home-ownership units and affordable to households at 50% AMI or below for rental units. Housing must be affordable for the life of the project and is required to record a covenant to memorialize this. There is no other enforcement measure noted in the code.

Exhibit 4. 10% Density Bonus

RESIDENTIAL ZONING DISTRICTS	EXISTING DENSITY REQUIREMENTS		10% DENSITY BONUS
	MINIMUM	MAXIMUM	
R-1, 4.0, Single-Family Residential	4.0 du/acre	4.54 du/acre	4.99 du/acre with bonus units being affordable and allowing lots with affordable units to be reduced by 20% of minimum lot size
R-1, 5.0, Single-Family Residential	4.0 du/acre	5.73 du/acre	6.30 du acre with bonus units being affordable and allowing lots with affordable units to be reduced by 20% of minimum lot size
R-1, 7.0, Single-Family Residential	4.0 du/acre	7.26 du/acre	7.99 du/acre with bonus units being affordable and allowing lots with affordable units to be reduced by 20% of minimum lot size
Duplex and Townhouse (R-2)	8.0 du/acre	10.0 du/acre	11 du/acre with bonus units being affordable and allowing one bonus market rate unit for each affordable unit included in project
Multi-Family (R-3)	10.0 du/acre	12.0 du/acre - or - 15 du/acre if 50% of required parking located beneath the habitable floors of the building	13.2 du/acre with bonus units being affordable and allowing one bonus market rate unit for each affordable unit included in project - or – 16.5 du/acre if 50% of required parking located beneath the habitable floors of the building and with bonus units being affordable and allowing one bonus market rate unit for each affordable unit included in project
Multi-Family (R-4)	10.0 du/acre	15.0 du/acre - or - 20 du/acre if 50% of required parking located beneath the habitable floors of the building	16.5 du/acre with bonus units being affordable and allowing one bonus market rate unit for each affordable unit included in project - or – 22 du/acre if 50% of required parking located beneath the habitable floors of the building and with bonus units being affordable and allowing one bonus market rate unit for each affordable unit included in project

Source: Federal Way Revised Code 19.110.010 and City of Mount Vernon, 2017.

The Federal Way affordability bonus is straightforward and would be easy to administer. However, the 10% affordable bonus probably does not give enough incentive in the Mount Vernon market. Mount Vernon’s residential zones have small density ranges and the small unit of increase is unlikely to improve the feasibility of building affordable housing.

Poulsbo

Poulsbo grants a density bonus of 20% to any project that includes at least 10% of the (pre-density bonus) units as affordable to those with low incomes. The City grants a 25% bonus for projects that include at least 15% affordable units. Units created under the affordable housing provisions must remain affordable for 20 years. Poulsbo requires the recording of a covenant and for the property owner to gain the City's consent prior to selling or leasing the unit, so the City can verify that affordability requirements are met.

Exhibit 5. 20% and 25% Density Bonuses

RESIDENTIAL ZONING DISTRICTS	EXISTING DENSITY REQUIREMENTS		20% DENSITY BONUS	25% DENSITY BONUS
	MINIMUM	MAXIMUM		
R-1, 4.0, Single-Family Residential	4.0 du/acre	4.54 du/acre	5.45 du/acre if 10% of pre-density bonus units are affordable	5.68 du/acre if 15% of pre-density bonus units are affordable
R-1, 5.0, Single-Family Residential	4.0 du/acre	5.73 du/acre	6.88 du/acre if 10% of pre-density bonus units are affordable	7.16 du/acre if 15% of pre-density bonus units are affordable
R-1, 7.0, Single-Family Residential	4.0 du/acre	7.26 du/acre	8.71 du/acre if 10% of pre-density bonus units are affordable	9.08 du/acre if 15% of pre-density bonus units are affordable
Duplex and Townhouse (R-2)	8.0 du/acre	10.0 du/acre	12 du/acre if 10% of pre-density bonus units are affordable	12.5 du/acre if 15% of pre-density bonus units are affordable
Multi-Family (R-3)	10.0 du/acre	12.0 du/acre - or - 15 du/acre if 50% of required parking located beneath the habitable floors of the building	14.4 du/acre if 10% of the pre-density bonus units are affordable - or – 18 du/acre if 50% of required parking located beneath the habitable floors of the building and if 10% of pre-density bonus units are affordable	15 du/acre if 15% of the pre-density bonus units are affordable - or – 18.75 du/acre with 50% of required parking located beneath the habitable floors of the building and if 15% of pre-density bonus units are affordable
Multi-Family (R-4)	10.0 du/acre	15.0 du/acre - or - 20 du/acre if 50% of required parking located beneath the habitable floors of the building	18 du/acre if 10% of the pre-density bonus units are affordable - or – 24 du/acre if 50% of required parking located beneath the habitable floors of the building and if 10% of pre-density bonus units are affordable	18.75 du/acre if 15% of the pre-density bonus units are affordable - or – 25 du/acre if 50% of required parking located beneath the habitable floors of the building and if 15% of pre-density bonus units are affordable

Source: Poulsbo Municipal Code 18.70.070B and City of Mount Vernon, 2017.

A bonus of 20% or 25% is a more feasible incentive for Mount Vernon because it creates enough extra density to spread the costs of affordable housing over the project. At the 20% level, the bonus allows for the maximum development under the base zoning, 10% affordable units, and 10% extra market rate units. At the 25% level, there is really no additional incentive for creating affordable units, as it allows for maximum development under the base zoning, 15% affordable units, and 10% extra market rate units, but it could be a useful provision for non-profit developers. By setting a baseline of either 10% or 15% affordability for participation in the bonus, these provisions may prevent the inclusion of affordable housing at lower levels (say 5% or 8% of a major project).

Kirkland

Kirkland has inclusionary zoning that requires that 10% of all new units to be affordable. Using a sliding scale, units geared toward households with lower incomes may count as more than one unit. Payment of a fee-in-lieu of development is allowed. Beyond that requirement, the City includes a bonus for affordable housing when it exceeds 25% of the project. The bonus allows two additional market rate units for each affordable unit, up to 50% total bonus density. Kirkland belongs to ARCH (A Regional Coalition for Housing), in which Eastside jurisdictions collaborate to address and manage affordable housing. ARCH assists in housing development, establishing pricing and income qualifications, marketing, education, annual monitoring, and sales and resales of ownership units. Member cities pay into a fund that keeps ARCH running.

Exhibit 6. Two Market Rate Unit Bonus for Each Affordable Unit

RESIDENTIAL ZONING DISTRICTS	EXISTING DENSITY REQUIREMENTS		DENSITY BONUS
	MINIMUM	MAXIMUM	
R-1, 4.0, Single-Family Residential	4.0 du/acre	4.54 du/acre	6.83 du/acre maximum with two market rate bonus units allowed for every affordable unit created when the total affordability of the project exceeds 25%
R-1, 5.0, Single-Family Residential	4.0 du/acre	5.73 du/acre	8.6 du/acre maximum with two market rate bonus units allowed for every affordable unit created when the total affordability of the project exceeds 25%
R-1, 7.0, Single-Family Residential	4.0 du/acre	7.26 du/acre	10.89 du/acre maximum with two market rate bonus units allowed for every affordable unit created when the total affordability of the project exceeds 25%
Multi-Family (R-3)	10.0 du/acre	12.0 du/acre - or - 15 du/acre if 50% of required parking located beneath the habitable floors of the building	18 du/acre maximum with two market rate bonus units allowed for every affordable unit created when the total affordability of the project exceeds 25% - or – 22.5 du/acre maximum with two market rate bonus units allowed for every affordable unit created when the total affordability of the project exceeds 25%
Multi-Family (R-4)	10.0 du/acre	15.0 du/acre - or - 20 du/acre if 50% of required parking located beneath the habitable floors of the building	22.5 du/acre maximum with two market rate bonus units allowed for every affordable unit created when the total affordability of the project exceeds 25%- or – 30 du/acre maximum with two market rate bonus units allowed for every affordable unit created when the total affordability of the project exceeds 25%

Source: Kirkland Municipal Code 112 and City of Mount Vernon, 2017.

Kirkland's affordable housing program is multi-tiered, with required and incentivized housing, and with a sliding scale that incentivizes the creation of housing for households with low and very low incomes. Such a system may be complicated to administer and enforce. However, it allows two market rate units as bonus for each affordable unit created, which is the largest bonus studied. Given the cost of housing development in the Eastside market, such a large bonus may be necessary to incentivize affordable housing production. However, allowing a bonus density of up to 50% may result a significant increase in Mount Vernon's single-family residential zones, which currently have small density ranges that distinguish them from one another.

Ellensburg

Ellensburg allows a density bonus of one additional market rate unit for each affordable unit created, up to 50% of the pre-bonus density. Housing must be affordable to incomes at 80% of county AMI. Long-term affordability is assured by the recording of a covenant that is in place for 25 years.

Exhibit 7. 50% Density Bonus

RESIDENTIAL ZONING DISTRICTS	EXISTING DENSITY REQUIREMENTS		50% DENSITY BONUS
	MINIMUM	MAXIMUM	
R-1, 4.0, Single-Family Residential	4.0 du/acre	4.54 du/acre	6.81 du/acre with ½ of bonus units being affordable and ½ bonus units being market rate
R-1, 5.0, Single-Family Residential	4.0 du/acre	5.73 du/acre	8.60 du/acre with ½ of bonus units being affordable and ½ bonus units being market rate
R-1, 7.0, Single-Family Residential	4.0 du/acre	7.26 du/acre	10.89 du/acre with ½ of bonus units being affordable and ½ bonus units being market rate
Duplex and Townhouse (R-2)	8.0 du/acre	10.0 du/acre	15 du/acre with ½ of bonus units being affordable and ½ bonus units being market rate
Multi-Family (R-3)	10.0 du/acre	12.0 du/acre - or - 15 du/acre if 50% of required parking located beneath the habitable floors of the building	18 du/acre - or - 22.5 du/acre if 50% of required parking located beneath the habitable floors of the building and with ½ of bonus units being affordable and ½ bonus units being market rate
Multi-Family (R-4)	10.0 du/acre	15.0 du/acre - or - 20 du/acre if 50% of required parking located beneath the habitable floors of the building	22.5 du/acre - or – 30 du/acre if 50% of required parking located beneath the habitable floors of the building and with ½ of bonus units being affordable and ½ bonus units being market rate

Source: Ellensburg City Code 15.330 and City of Mount Vernon, 2017.

Ellensburg's code creates a strong incentive that is easy to understand and administer. However, allowing a bonus density of up to 50% may be seen as a significant increase in Mount Vernon's single-family residential zones, which currently have small density ranges that distinguish them from one another.

Bonus Density for Mount Vernon

After reviewing the case studies, desirable features of a bonus density for affordable housing for Mount Vernon may include the following features:

- Easy to understand and administer. Allow one additional market rate unit for each affordable housing unit (up to a maximum bonus density).
- Provide incentives for housing affordable to moderate and low or very low incomes. Require half of the units created through the incentives to be targeted toward households with incomes above 60% and up to 80% AMI and half of the units targeted toward households with incomes at or below 60% AMI.

- The density bonus preserves the distinction between the existing single-family zones. Allow a total bonus of up to 50% in multi-family (R-3, R-4) zones and up to 40% in the duplex-townhouse (R-2) zone. This allows a greater bonus in areas already identified for denser housing. Single-family zones allow a smaller maximum bonus to preserve their character and distinctiveness.

Exhibit 8. Suggested Maximum Density Increases in Mount Vernon

RESIDENTIAL ZONING DISTRICTS	EXISTING DENSITY REQUIREMENTS		MINIMUM LOT SIZE	SUGGESTED MAXIMUM DENSITY INCREASE
	MINIMUM	MAXIMUM		
R-1, 4.0, Single-Family Residential	4.0 du/acre	4.54 du/acre	7,500 s.f.	5.45 du/acre (20% total)
R-1, 5.0, Single-Family Residential	4.0 du/acre	5.73 du/acre	6,000 s.f.	6.88 du/acre (20% total)
R-1, 7.0, Single-Family Residential	4.0 du/acre	7.26 du/acre	4,500 s.f.	9.44 du/acre (30% total)
Duplex and Townhouse (R-2)	8.0 du/acre	10.0 du/acre	6,500 s.f. for a duplex or townhouse unit[2]	14.0 du/acre (40% total)
Multi-Family (R-3)	10.0 du/acre	15 du/acre*	N/A#	22.5 du/acre (50% total)
Multi-Family (R-4)	10.0 du/acre	20 du/acre*	N/A#	30 du/acre (50% total)

* Maximum density may only be achieved so long as 50% or more of the required parking spaces are located in an enclosed area beneath the habitable floors of the building.

The lot must be of sufficient size to support the density, setbacks, parking, landscaping, infrastructure, and any other items required to comply with the City's development regulations.

Source: Mount Vernon Municipal Code and BERK Consulting, 2017.

Example Application of Suggested Affordability Bonus

Consider the following hypothetical development scenario to better understand the application of the suggested affordability bonus. A developer wants to develop a property consisting of 10 gross acres. The site has a small wetland and buffer that will need to be subtracted from the gross acreage, as well as future road rights-of-way and a stormwater detention pond. As a result, the net acreage of the parcel is now approximately 7 acres. Exhibit 9 shows the number of units that would be created under existing zoning and if the maximum suggested affordability bonus is applied.

[2] For properties currently in the R-2 zone 6,500 s.f. is the minimum lot size for duplex or townhome development. Multiple units may be constructed on a single lot. For properties achieving a maximum 50% bonus density in the R-2 zone, a smaller minimum lot size would be needed to develop duplex units. It would need to be less than 6,200 s.f. to fit duplex units at 14.0 units per acre.

Exhibit 9. Affordability Bonus for Hypothetical Development (10 gross acres/ 7 net acres)

RESIDENTIAL ZONING DISTRICTS	MAXIMUM EXISTING DENSITY	MAXIMUM SUGGESTED DENSITY	TOTAL UNITS UNDER EXISTING CODE	TOTAL UNITS UNDER SUGGESTED CODE
R-1, 4.0, Single-Family Residential	4.54 du/acre	5.45 du/acre (20% total)	31 units	38 units ▪ 34 market rate units ▪ 4 total affordable units (at least 2 affordable at 60% AMI or less)
R-1, 5.0, Single-Family Residential	5.73 du/acre	6.88 du/acre (20% total)	40 units	48 total units consisting of: ▪ 44 market rate units ▪ 4 total affordable units (at least 2 affordable at 60% AMI or less)
R-1, 7.0, Single-Family Residential	7.26 du/acre	9.44 du/acre (30% total)	50 units	66 total units consisting of: ▪ 58 market rate units ▪ 8 total affordable units (at least 4 affordable at 60% AMI or less)
Duplex and Townhouse (R-2)	10.0 du/acre	14.0 du/acre (40% total)	70 units	98 total units consisting of: ▪ 84 market rate units ▪ 14 total affordable units (at least 7 affordable at 60% AMI or less)
Multi-Family (R-3)	15 du/acre*	22.5 du/acre (50% total)	105 units	157 total units consisting of: ▪ 131 market rate units ▪ 26 total affordable units (at least 13 affordable at 60% AMI or less)
Multi-Family (R-4)	20 du/acre*	30 du/acre (50% total)	140 units	210 total units consisting of: ▪ 175 market rate units ▪ 15 total affordable units (at least 17 affordable at 60% AMI or less)

* Maximum density may only be achieved so long as 50% or more of the required parking spaces are located in an enclosed area beneath the habitable floors of the building.

INFILL HOUSING

Supporting infill housing is another way to increase the affordability of housing in Mount Vernon. Vacant parcels and lower density single-family areas, especially those closer to the center of town, present an opportunity for increasing the supply of housing and revitalizing neighborhoods through infill development. Costs related to the construction of utilities or roads can be reduced, providing a natural incentive for development if there are no other barriers to discourage innovation or significantly increase development costs. Infill projects may be able to take advantage of bonus density provisions for affordable housing. However, it is more likely that infill will provide affordable and diverse housing options at market rates.

There are several code changes that will support the development of quality infill housing. First, a greater diversity of housing types can make housing generally more affordable by supplying smaller housing units that meet different community needs. Second, additional flexibility is needed in development regulations such as lot size, setbacks, height, and coverage to meet the needs of different housing types and make infill development. Finally, attention to design and landscaping helps to ensure that individual privacy and compatibility of uses are maintained.

Mount Vernon should consider the following code amendments to encourage infill housing:

- Allow duplexes as an outright permitted use in the R-1 zone. Duplexes should be required to meet all development standards as if they were a single-family use, including density requirements.
- Allow accessory dwelling units (ADUs) in the R-2, R-3, and R-4 zones. Accessory dwelling units should be allowed at one ADU per lot and follow all applicable provisions and size limitations in MVMC 17.81. However, the code should be amended to allow ADUs to be constructed on any lot. This could facilitate the development of "carriage units" in non-single-family developments, where there is a small housing unit attached to the garage. The code should also allow ADUs to be part of new construction projects in addition to the conversion of existing spaces.[3]
- Allow cottage housing in the R-1 and R-2 zones. Limit cottage housing in size and scale but allow it additional density. The scale of cottage housing allows it to blend in with single-family neighborhoods without sacrificing character. It is also an adaptable housing type that can be applied in lower density multi-family neighborhoods characterized by duplexes, triplexes, and townhomes. Just as ADUs have their own development standards, develop specialized standards for cottage housing.
- Allow zero lot line and small lot single-family homes in the R-2 zone. A 6,500 s.f. minimum lot size is required for townhome or duplex development in the R-2 zone (it allows multiple units per lot). However, this minimum lot size prevents the development of small lot single-family homes or zero lot line development (such as townhomes or duplexes that are individually owned, not rented) that can provide good opportunities for first time home buyers. Zero lot line development will also require a minor amendment to setback standards to allow attached housing.
- Allow administrative modification of lot coverage, setback, lot width, and lot size standards for infill housing where new housing is developed on a lot that contains existing housing (this could include land that is short platted). The ADU code already allows administrative approval of variances of up to 20% for lot width, setbacks, lot coverage, height, parking, and buffers, so there is precedence for modifications. The potential impacts of modifying the standards could be off-set by limiting the size of the new dwelling unit(s) and/or increasing landscaping requirements.

[3] Consider a longer-term strategy of working with an architect to design a few ADU templates with building plans. Special use permits for ADUs designed according to an approved template could be approved over the counter by appointment. This would facilitate the construction of ADUs.

- Adopt performance-based design guidelines to ensure graceful transitions between infill development and existing development, and that new development matches the character of the existing neighborhood.

AFFORDABLE HOUSING IMPLEMENTATION CONSIDERATIONS

Fee Reductions

Impact fees and other fees increase the costs of developing housing. Mount Vernon assesses impact fees for transportation, fire services, schools, and park and recreation. These services are essential to maintaining quality of life for local residents. The Growth Management Act allows cities to exempt affordable housing from impact fees under RCW 82.02.060. Impact fee reductions lower some of the upfront costs and make affordable housing more economically feasible. However, the need for affordable housing should still be balanced with other community needs.

Affordable housing at or below 60% AMI faces the most challenges for feasibility. Stakeholders reported in interviews that at this level of affordability financial assistance in most needed. As a result, an impact fee reduction of 50% is recommended for affordable housing units targeted toward households with incomes at 60% AMI or less.

Fee-in-lieu Program

A fee-in-lieu program would allow a housing developer to capture the bonus density for a project without building the required affordable housing on-site. Instead, the developer would pay a fee to the City that could then be used to build affordable housing elsewhere. Although it is possible that the City could develop affordable housing on its own, it is probably more effective for the City to provide funds to a non-profit affordable housing developer. Fee-in-lieu funds could be used to assist non-profit developers in a number of ways such as: the purchase of land, to leverage for grants or other financing tools, and to provide cash funding for construction, mortgage costs, or other needs.

Fee-in-lieu programs offer flexibility to the developer and were recommended by participants during stakeholder interviews in September. Affordable projects built using fee-in-lieu funds are less likely to be scattered throughout the community. However, they are developed by non-profit housing providers with expertise in affordable housing creation and management.

On-going Program Management

Once affordable housing is created, it is important that it stays affordable for at least 50 years.[4] Although there are several mechanisms that can be used, covenants are the most common tool used to ensure that affordable housing created under bonus provisions remains available to people with low incomes over time. Requiring adoption of covenants for affordable housing should be included in Mount Vernon's code.

[4] Required under affordable housing provisions in RCW 36.70A.540.

Monitoring and enforcement of the covenant must also be managed. Options that might work for Mount Vernon include:

- Annual compliance review conducted by the City. This could be processed similar to a permit, where affordable housing units or projects must complete a compliance form with supporting documentation. The City would need staffing to process the review, which could become significant over time as affordable housing incentives are successful. Additionally, the City would need policies and procedures for enforcement if units are out of compliance because they are leased or sold to occupants that do not meet income qualifications.
- Contracted management. Ideally, this could be a non-profit organization (such as Community Land Trust, Community Action, or Skagit Council Housing), but it could also be a private agency. The City would need to establish a reliable funding source to pay for the costs of contracted management. The *Approaches to Housing Affordability* memo dated August 2017 includes a list of possible funding sources. Contracted management could engage at various levels of service:
  - Annual compliance review, similar to the option stated above for the City.
  - Compliance review prior to the sale or lease of affordable housing units. This would avoid the problem of trying to enforce covenants after a unit has been improperly leased or sold, but would likely include review of leases and real estate documents and possibly occupant screening or income qualification review.
  - Full management of the affordable housing program including marketing, screening, and selection of eligible occupants, resident education, and managing rental units.

CONCLUSION

This memo suggests an affordable housing program for Mount Vernon. The first part of the program is to use bonus density incentives to encourage the development of housing affordable to households with incomes of 80% AMI or less. The second part of the program is to increase the affordability of market rate infill housing by allowing a wider variety of housing types and allowing the modification of some development standards. Implementation of this program also requires consideration of how the City might best financially support affordable housing development and how to ensure the perpetuity of affordable housing through monitoring and enforcement.

Direction on these issues is needed to move on to the next step of developing draft code amendments.

These code amendments would also be the first phase of updates to implement that Comprehensive Plan. In the period 2018-2020, the City will be looking at further code updates that could include review of:

- Multi-family zoning locations on the Zoning Map.
- Provisions for mixed use and multi-family development in commercial zones.
- Permit streamlining.
- The costs of implementing development standards.

Housing Stakeholder Interviews

Mount Vernon Housing Code Amendments 2017

Interviews

Five interviews were held on September 25, 2017 with local housing stakeholders. BERK consulting introduced a series of questions related to the development of housing in Mount Vernon.

Questions for Developers/Builders:

- What kind of housing/development do you do now?
- Are you working in Mount Vernon now? Why or why not?
- What are the market trends and opportunities for housing development/construction in and around Mount Vernon?
- Would you ever consider trying a different housing market or housing product? What might influence your decision?
- In the communities in which you work do you ever use development tools or incentives offered by local government? Why or why not?
- Would you consider building affordable units as part of a future project?
- Is there anything that the City could do that would help you to include affordable units in your next project? (Here we can specifically ask about different incentives and bonuses)
- Would you ever consider partnering with a non-profit or public agency to build affordable housing?

Questions for Non-profit/Housing agencies:

- What is your role in housing development now?
- Are you working in Mount Vernon now? Why or why not?
- What do you see as the biggest gaps in the Mount Vernon housing market or housing supply?
- What needs to be done to fill the gaps you identified? Are there regulatory, geographical, or other solutions?
- In the communities in which you work do you ever use development tools or incentives offered by local government? Why or why not?
- Is there anything that the City could do that would help you to develop, construct, or manage your next project?

PARTICIPANTS

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Summary

This section summarizes the ideas presented by the participants in the interviews. The material is based on personal experiences and opinions. Since the interviews were conducted in five sessions, participants were not present to hear or respond to the input given by many of the other participants. There is no consensus opinion amongst the participants and some of the ideas presented may be in conflict. It is also worth noting that some participants held incorrect assumptions about the Mount Vernon Municipal Code. In such cases barriers were identified that do not exist. For example, participants mentioned allowing manufactured housing in the single-family zone and allowing multi-family uses in the C-1 zone. Yet both uses are allowed in the respective zones. The purpose of the interview summary is merely to report the results of the interviews.

Market Information

Mount Vernon is the residential center of Skagit County and its location makes it within acceptable commute distance of employment in Everett and even Seattle. The remaining land in Mount Vernon is not high quality and tends to be difficult to develop. The cost of development has many builders only looking at lots that are ready to go. They are not taking on development costs themselves. This has significantly slowed the pipeline of housing production in Mount Vernon.

There are areas of Mount Vernon that were suggested as good sites for new housing:

- Fairgrounds
- Area near Cleveland and Blackthorn (rehabilitation of housing)

Multi-family housing is a very hot market in the region. However, at the current densities, it is not economically feasible in most circumstances in Mount Vernon. Higher density would allow fixed costs to be distributed across more units, thus making the units more affordable.

People making a median income cannot afford the median home price unless they have existing equity in a home. There are also few homes available to rent for families with modest incomes. There is demand for housing but the supply is limited.

For new construction of housing for people with incomes of 50% AMI or less, additional resources will be needed because it is very difficult to make that pencil.

Equity Considerations

The Latino community is disproportionately affected by the housing shortage. They have a strong sense of neighborhood and community and will double up to help prevent homelessness. This can create areas with tight density and neighborhoods with people of different classes and cultures, which is positive for the community. However, overcrowding also is subject to community bias and racism based on stereotypes.

Mount Vernon Code

There is a big increase in age-restricted senior housing because it has more relaxed requirements and does not pay as much in impact fees. This is an implicit incentive to develop age-restricted housing.

A mixed-use development on a two-acre lot in the Sedro Wooley CBD zone (equivalent to the Mount Vernon C-1 zone) produced 8,000 square feet of commercial and 48 residential units over three stories. These units are affordable at median income and could be developed as affordable to 80% AMI without additional bonuses. This is because the City of Sedro Wooley allowed increased density and relaxed parking requirements.

There were several suggestions for zoning changes that would make the development of new housing and affordable housing easier in Mount Vernon:

- Zoning changes:
    - Create more areas of multi-family zoning
    - Consider rezoning unused commercial parcels for multi-family use
    - Allow more mixed-use zoning
    - Allow additional uses in multi-family zones
    - Allow multi-family uses in the C-1 and C-2 zone
    - Allow horizontal mixed use (like Sedro Wooley)
    - Allow row houses, small lot single-family detached housing, co-op housing, zero lot line, cottages, compact housing types, ADUs, live-work units
    - Allow high end manufactured homes on single-family lots
- Density changes:
    - Allow additional density in all zones
    - Change the density calculation back to gross density not net density

   - Consider the TDR program
   - Allow densities of 45 units an acre and 6-10 stories in multi-family zones
- Density bonuses to consider:
   - If C-2 is a mixed-use zone (see above) allow density bonuses for commercial development on the ground floor
   - Allow increased density if development pays into an affordable housing fund (look at Burlington)
   - Density bonuses for setting aside land for the Community Land Trust or other affordable housing providers
   - Allow density bonuses for the percentage of affordable units in a project
- Development regulation and standards changes:
   - Reduce setbacks for buildings as they get taller, instead of the opposite
   - Allow smaller yards and setbacks
   - Consider relaxing development standards for infill projects
   - Reduce landscaping requirements and pay extra parks fee or fee in lieu
   - Allow fee-in-lieu for park requirements
   - Eliminate requirement for two car garage in R-2 and R-3 zones
   - Examine and reduce parking requirements
   - Eliminate requirements or incentives that involve structured parking
   - Reduce regulations on mobile home parks
   - Examine street standards and the costs to implement them
   - Examine conflicting requirements, e.g. street standards require more ROW but stormwater standards require less impervious surface
   - Adjustments to the clearing code, which is seen as costly and puts too much decision making to the arborist
   - Examine the costs associated with energy regulations
- Fee adjustments:
   - Allow impact fee waivers and fee reductions for affordable housing
   - Allow on-site improvements that will result in waived impact fees
   - Reduce impact fees for multi-family units and for smaller unit types like townhomes

Permit Streamlining

Permit streamlining was very important to many participants. Suggested ways to improve the permit process included:

- Reduce the number of review processes that projects must go through
- Examine the land use approval process for efficiencies
- Examine the design standards process for efficiencies
- Reduce permitting requirements for home rehabilitation
- Consider developing templates for certain housing types that could have reduced review
- Add additional staff to help process permits
- Develop checklists for the whole process
- Estimate permitting fees up front for the whole process
- Create a guide to development and building, perhaps on video
- Develop a process so people with unique ideas can get approval without a code amendment
- Ensure that there is plenty of notice and opportunity to comment on regulation changes.

Supporting Affordable Housing Creation

Non-profit and affordable housing providers need land and cash most of all. Free or cheap land that is zoned and ready for housing is most needed. Zoning should be in the range of 20-50 units an acre. Inexpensive bank-owned lands are harder to come by now that the economy is recovered. Cash is needed to build the development itself.

Sources of support for affordable housing creation include:

- City money (from REET2) to pay impact fees
- Federal funds and HUD money, CDBG funds
- Donations of land and money
- Low Income Housing Tax Credits
- Working with builders who are willing to work at cost instead of at a profit
- Property tax levy (look at how Bellingham does it)
- HomeFirst (a successful housing trust fund model in Portland)
- Socially-minded investors willing to put at least 1/3 of the money down for a project
- The City supporting an embedded social worker to help with case management for special populations

Affordable housing should be located throughout the city, but located where there is transit and City services.

The City could act as an advocate by convening those interested in creating affordable housing and working on creating partnerships in the local community and in the region. It should also support land use changes for projects, such as Mount Vernon Manor, that would create affordable housing.

Community Land Trust would consider buying substandard homes and rehabilitating them, which would avoid impact fee costs, but they would need a partner or funding source to help them to the rehabilitation work.

Community Land Trust, Community Action, and Skagit Council Housing have all managed affordable housing in the past or present.

Next Steps

Based on the *Approaches to Housing Affordability* memo from August 2017 and input from the stakeholder interviews, the following code review is recommended:

- Examine densities in residential zones
- Allow and encourage a variety of housing types
- Examine regulations on manufactured housing and mobile home parks
- Consider reduced or flexible standards for infill development
- Identify regulations or standards that may be relaxed (or processes streamlined) for the development of affordable housing such as parking, landscaping, setbacks, height, design, etc.
- Look at the development of templates to improve permitting for ADUs
- Identify fee waivers or reductions that might be considered for affordable housing
- Look at impact fee reductions based on the size of the unit
- Examine density bonuses for affordable housing including land set-asides, fee-in-lieu, or on-site construction of affordable units
- Consider ways in which an affordable housing program could generate land or cash for non-profits to develop and build affordable housing projects in Mount Vernon
- Identify a management process for ensuring that affordable units will remain affordable

The following review could be tabled for the 2018-2020 review of increasing market rate housing production:

- Review the City zoning map to look for areas that can be rezoned for multi-family zoning
- Consider provisions for multi-family and mixed-use development in commercial zones
- Review how density is calculated
- Consider density bonuses for mixed use development
- Examine TDR program
- Look at the costs associated with development standards such as street standards, stormwater standards, land clearing, or energy codes
- Examine permit streamlining efforts