

Anacortes is Getting Housing Done

April 11, 2022 by [Ryan Walters](#)

Category: [Housing](#), [Guest Author](#)



Eight years ago, Anacortes realized that the twin issues of housing availability and affordability were reaching crisis levels. Anacortes had been transforming from a whole community of refinery and cannery workers, shipwrights, nurses, and teachers, into more of a retiree community where it was becoming harder for everyone else to find affordable housing or make ends meet.

Anacortes' housing stock had become increasingly homogenous 3- and 4-bedroom single-family homes, with few condos or multifamily units, and new housing starts have been mostly expensive view homes. Skagit County as a whole has a [vacancy rate below 1%](#) — one of the lowest rates in the state.

Anacortes is a terminal point on Fidalgo Island — bordered on three sides by water and to the south by more than 3,000 acres of protected forestland. There's not much potential for the city to sprawl outward — but that's not different from any other GMA-planning city with a strictly enforced urban growth boundary. At the same time, Anacortes experiences growth pressures similar to other jurisdictions. Fidalgo Island's multiple bridges result in the island having a population equal to that of the San Juan Islands combined. And new deployments to the nearby Whidbey Naval Air Station have resulted in additional demand — officers with a housing allowance could afford the high prices, driving the average upward. Vacancy rates throughout Skagit County have been near zero for a very long time.

Recognizing we were on the wrong track, Anacortes started its [2016 Comprehensive Plan](#) update from a blank sheet of paper. A community-wide visioning effort yielded [policies](#) requiring a variety of housing types and styles to meet the full range of needs in our community, increased densities, and reduced minimum lot sizes. The Anacortes City Council unanimously rejected proposals to expand the urban growth area and committed to “building up, not out.”

Three years later, Anacortes finalized a completely new development code that fully implemented the new plan. Those planning and regulatory efforts took a lot of time, and the housing problem worsened substantially while we worked.

An Opportunity Presents Itself

In 2019, the Washington State Legislature offered cities and counties the opportunity to retain a small portion of the state sales tax (0.0073 %) for 20 years (SHB 1406, 2019, codified at RCW 82.14.540) for the purpose of “acquiring, rehabilitating, or constructing affordable housing” or “funding the operations and maintenance costs of new units of affordable or supportive housing.” There was essentially no downside to opting into retention of that tax revenue, but it didn’t amount to much — for Anacortes, only about \$41,655 annually. But notably, if a city were to levy its own local affordable housing tax under RCW 82.14.530, it would collect that additional tax *and double* the retained state sales tax. There we saw an opportunity to make a real difference.

Projected Annual Revenue from Sales Tax Mechanisms

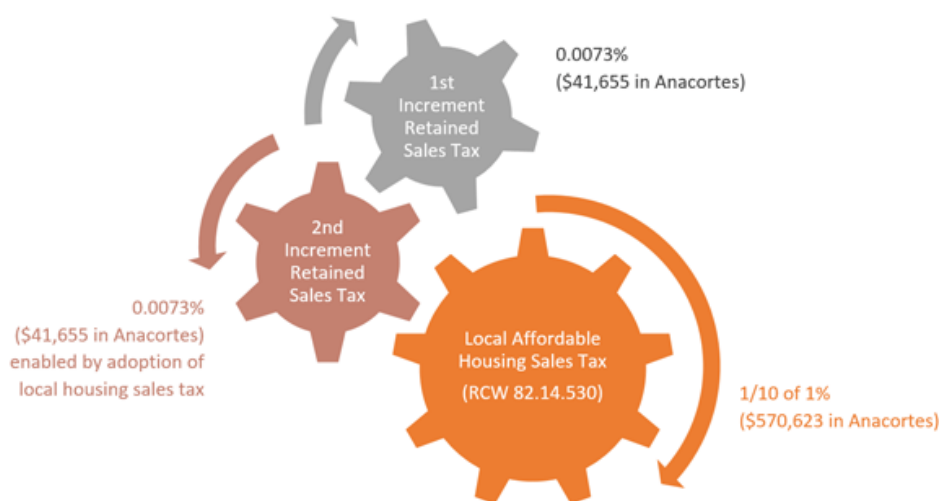


Image courtesy of the author

Skagit County had proposed that it would opt in to the first increment, pool the revenue that could otherwise be collected by the cities, and manage it on behalf of the entire county. But by levying its own local affordable housing tax, Anacortes would bring in nearly 2.5 times the revenue of the entire county combined. We quickly decided we would opt in ourselves, pre-empting the county.

At the time, the statute allowed the affordable housing sales tax only by a vote of the people. The Anacortes City Council set about to develop a proposal that would both appeal to voters and make a real difference in housing availability. We didn’t want to ask for new sales tax authority with a vague promise that we’d figure out what to do with the revenue later. We wanted a concrete proposal that would:

- immediately construct new housing;
- guarantee affordability for low-income residents (which was also required by the statute);
- show voters precisely what they would get for their sales tax dollars; and
- have broad-based appeal.

HB 1590 (2020) amended RCW 82.14.530 to allow a county or city to impose the 1/10 of 1% affordable housing sales tax councilmanically. The option to retain the state portion of the sales tax under RCW 82.14.540 expired in July 2020. Read more on MRSC’s Affordable Housing Funding Sources page.

Anacortes has two major organizations supporting housing — the [Anacortes Housing Authority](#) (created under [RCW 35.82](#)) and the [Anacortes Family Center](#) (a private nonprofit). Both had shovel-ready housing projects awaiting funding, and both were willing partners in this effort.

Anacortes Family Center Apartments

With the help of Skagit County, the Anacortes Family Center (AFC) had purchased property adjacent to its existing housing projects, on which it proposed to construct 20 apartments and a first-floor childcare space in a new four-story building that took advantage of a [height bonus](#) in our new development regulations.



Image courtesy of AFC

The project's estimated price tag was \$3.75-4 million. Pandemic-related inflation boosted the price to \$6.2 million, but AFC made up the difference with private fundraising and a \$500,000 contribution from the city's COVID-relief funds. The project should be completed early 2023.

Anacortes Housing Authority Townhouses

The Anacortes Housing Authority (AHA) had recently purchased land, just off the main street of town, on which they proposed to build five townhouses, which could be permitted by right under the city's [new development regulations](#). The AHA's rough estimated price tag for the project at the time was \$1.5-1.65 million; the project, which is now under construction and scheduled for competition later this year, was bid at \$2.5 million.



Image courtesy of AHA

Historic Olson Building

AHA had also recently acquired the historic but dilapidated Olson Building in downtown Anacortes with the intent to renovate and restore the building, preserve the business spaces, and make 10-15 housing units available to low-income tenants on the second floor. The Olson Building is

a landmark in the city, and its preservation is important to many residents.

The AHA's rough estimated price tag for the project is \$3.5-4 million. They expect to start this project following completion of their townhouse project.

Photo by [Steve Halverson](#)



Financing

The city's expected \$650,000 a year in revenue wouldn't be able to make much of a dent in the construction of these projects, but it could *finance* their construction. We were challenged by the constraint in [RCW 82.14.530\(5\)](#) that allows only 50% of the proceeds from the affordable housing sales tax to be used for bonds. Instead, the city contracted with each entity to promise them half the revenues from the tax, and the AHA and AFC were able to leverage that

revenue stream themselves by negotiating bank loans with the pledge of sales tax revenue from the city as a guarantee of repayment.

Who does the revenue benefit? Both [RCW 82.14.530\(2\)](#) and [RCW 82.14.540\(7\)](#) restrict the use of the sales tax revenues used for affordable housing to people at or below 60% of the median income in the county. [RCW 82.14.530](#) also restricts it to use for specified groups, including persons who are homeless or at-risk of being homeless.

The Ballot Measure

The city council voted to pursue the sales tax measure with the promise of funding these three projects and set the measure on the February 2020 ballot. The housing community in Anacortes ran an excellent campaign in support, and there was no organized opposition. Voters were persuaded by the concrete plan; the time-limited opportunity for the extra benefit of the state sales tax rebate; and the fact that, as a sales tax, the costs would not fall entirely on the shoulders of residents. The [affordable housing sales tax measure](#) passed 55-to-45%.

The pandemic followed immediately afterward, and shutdowns, supply shortages, and uncertainty about expected sales tax revenue held up the start of our housing projects. But sales tax remained strong, and two of the three projects are now underway.

What's Next?

Anacortes continues to lead on housing. One key to our sales tax effort was the city council's [Housing Affordability and Community Services committee](#), which put elected officials in a leadership role where they could make bold decisions about the course the city should take.

While we recognized the importance of jumpstarting subsidized low-income housing, we also need more affordable market-rate housing of diverse types and styles to fit different families and lifestyles. We're seeing the construction of more market-rate townhouses and multifamily units, enabled by our new development regulations. We're taking a

hard look at vacation rentals that have taken housing stock out of the market. We're looking at leasing vacant city parcels to Habitat for Humanity, and we're preparing possibilities for the next subsidized housing project, should another funding opportunity come our way.

MRSC is a private nonprofit organization serving local governments in Washington State. Eligible government agencies in Washington State may use our free, one-on-one [Ask MRSC service](#) to get answers to legal, policy, or financial questions.



About Ryan Walters

Ryan Walters, AICP, is an attorney and a member of the Anacortes City Council and former planning director and deputy prosecuting attorney. Ryan specializes in municipal governance, land use planning, plain language code development, and the thorny issues of code enforcement.

Ryan is writing as a guest author. The views expressed in guest columns represent the opinions of the author and do not necessarily reflect those of MRSC.

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