TO: REDMOND CITY COUNCIL

FROM: COMMUNITY DEVELOPMENT DEPARTMENT
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RE: AFFORDABLE HOUSING OPTIONS REPORT
Phase II: Affordable Housing Plan

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EXECUTIVE SUMMARY

Communities facing an affordable housing crisis have a wide array of strategies they can implement to attack the problem, ranging from policies and programs to regulations and incentives. The following report provides general information about the most widely utilized affordable housing tools, strategies and programs. It is intended to inform the community about potential options and approaches for encouraging and supporting affordable housing, rather than to steer planning efforts toward any particular strategy or initiative. Following is a list of the strategies and techniques contained in this report.

- Land Banking
- Affordable housing trust fund, and associated funding mechanisms
- Incentives for developers
- Zoning initiatives
- Voluntary inclusionary housing/zoning
- Community land trusts
- Preservation programs
- First-time homebuyer programs
- Rental assistance
- Regional consortium
- Partnerships
- State and Federal funding programs
- Tax increment financing
- Bonds and levies
- Tax abatement/relief
- Employer-assisted housing
- Asset-building techniques
- Mobile home policies/ordinance

The final section of the report contains a spreadsheet illustrating affordable housing tools and programs that five other communities utilize to create affordable housing opportunities.

AFFORDABLE HOUSING OPTIONS REPORT

Communities facing an affordable housing crisis have a wide array of strategies they can implement to attack the problem, ranging from policies and programs to regulations and incentives. The following report provides general information about the most widely utilized affordable housing tools, strategies and programs. It is intended to inform the community about potential options and approaches for encouraging and supporting affordable housing, rather than to steer planning efforts toward any particular strategy or initiative.

Land Banking

Land banking involves buying and holding undeveloped land that is situated in the path of future urban growth. The land is then used for affordable housing purposes some time in the future. The theory behind land banking is that buyers can save large sums of money by purchasing land before it is subject to urban growth pressures. Land banking also can involve the acquisition of vacant, foreclosed or underutilized property within developed areas.

As land becomes more expensive in Central Oregon, cities can reduce future costs of affordable projects by purchasing land today. Local governments may be able to acquire land from other public agencies at greatly reduced prices before the land is placed on the open market because state law gives them, and nonprofit organizations, priority in purchasing surplus land.[1] Sites that are land banked can be sold to nonprofit or for-profit developers at discounted prices in return for building affordable units. The land also can be sold for a profit to leverage other affordable projects. While the land is being held, expenses can be offset by leasing it for other uses.

Affordable Housing Trust Fund

There is consensus among housing practitioners that federal and state funding for affordable housing programs has declined in recent years and is unpredictable. As a result, many localities have undertaken efforts to establish a local source of funding to stabilize and support affordable housing initiatives. An affordable housing trust fund is a distinct fund that is set up by cities, counties and/or the states that is dedicated solely to affordable housing efforts. The fund is established through legislation or ordinance and has a consistent source of public revenue (see funding mechanisms below).[2] These funds typically have fewer restrictions than federal and state dollars so they can be used more flexibly. For example, funds can be used to leverage other private, state and federal dollars, or they can be used for services, operations or capital construction.

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[1] Knowledgeplex, – Land Use & Housing Planning/landbanking. www.knowledgeplex.org. (Accessed 10/24/06.)

[2] PolicyLink, www.policylink.org/EDTK/HTF (Accessed 10/22/06.)

Funding Mechanisms for Affordable Housing Trust Funds

- **Linkage Fee –** Fee assessed on new commercial, retail, and industrial property to support affordable housing programs. The fee is "linked" to new business development as a way to correct the jobs/housing imbalance that is created by new economic development. The premise of the fee is that lower-wage workers who are needed to fill jobs in the new businesses also need to be able to afford housing in the community.

- **New Construction Fee –** Assessment on all new development that is paid into a dedicated fund for affordable housing projects and programs. The fee can be based on a percentage of building permit valuation or a set fee for different tiers of valuation. The city of Bend recently adopted a new construction fee that assesses .00333% (1/3 of 1%) on all new buildings. Bend expects the fee to raise approximately $2.5 million annually to support affordable housing initiatives.

- **Tear Down Fee/Tax –** This tax is assessed as part of a demolition permit. It is used to mitigate the effect of demolition of older homes that generally are more affordable and that often are replaced by high-end homes that are not affordable.

- **Proportional Impact Fees –** These charges are assessed on new homes and are proportional to the size of the housing unit. Proportional impact fees are based on the theory that larger homes put a greater strain on public services and infrastructure. Most studies show there is a relationship between the size of a house and the number of occupants, vehicles, and school-age children requiring and using public services. Proportional impact fees also can be higher in areas that cost more to service such as housing on the urban fringe. Programs can be designed to exempt low and moderate income housing.[3]

- **General Fund –** Some jurisdictions dedicate a portion of their General Fund to an affordable housing trust fund.

- **Voluntary Contributions –** By definition affordable housing trust funds are not funded by private, voluntary contributions from developers, foundations, employers and other private sources. This type of funding usually goes into a community trust fund that is run by a private or non-profit organization. However some communities are exploring combining these types of contributions with their existing public trust funds.

- **Recording Fees –** There is a movement afoot in Oregon lead by the The Neighborhood Partnership Fund's Housing Alliance to lobby the state legislature to increase the recording fee for legal documents by $15 and

[3] Nelson, Arthur C., FAICP, "Top Ten State and Local Strategies to Increase Affordable Housing Supply," Fannie Mae Foundation, Volume 5 Issue 1, 2006.

dedicate that fee to the state's affordable housing trust fund. This is one way that many states have funded their affordable housing trust funds.

- **Real Estate Transfer Tax –** One of the most common sources of funding for an affordable housing trust fund is the Real Estate Transfer Tax (RETT), however state legislation currently blocks local jurisdictions from using this financing mechanism. The RETT is assessed every time a house is sold and is based on the sales price of the home. This funding vehicle is being used with increasing frequency outside Oregon.

Incentives for Developers

Incentives for developers take numerous forms but they generally fall into two categories – they either save developers time and/or money, or enable the developer to increase the profitability of their project.

- **SDC Waiver/Deferral/Reductions –** Systems Development Charges generally cost developers in the range of $6,000-$10,000 per unit, and many cities are increasing these rates. These fees are assessed at the time a permit is issued for a new home, not when it is sold. Some communities waive SDCs for affordable housing units, others defer the fees until some time in the future such as after the sale of the home, and others pay the developer's fees from their affordable housing trust fund. It also may be possible to reduce SDC charges for affordable housing developments built in neighborhoods that already have infrastructure in place. Any of these programs can be tailored to encourage certain types of development such as smaller homes, or homes that are priced to rent or sell to households in certain income categories.

- **Density Bonus –** The density bonus is one of the most common forms of developer incentive that municipalities employ. This policy encourages developers to build affordable units in return for allowing them to build at a higher density than permitted under current zoning. By increasing the number of units the developer can build on a given piece of land, more affordable units can be worked into the project.

- **Relaxed Design Standards –** Design requirements such as yard setbacks, and height restrictions contribute to the cost of a project. By relaxing some design standards cities can save developers money that then allow them to incorporate affordable housing into their projects.

- **Expedited Permitting –** It is not uncommon to hear developers complain about the slow process of obtaining a city permit. In the construction world, time equals money. Delays in obtaining building permits cost developers money by extending the time developers have to pay predevelopment loans and slowing down construction crews. Many cities have adopted a "fast track" permitting process for affordable housing projects that saves developers both time and money.

- **Relaxed Parking Requirements** –-Parking requirements contribute to the cost of housing because developers must allot more land per unit to cover parking needs. Cities can develop guidelines for affordable housing projects that reduce parking requirements to help bring down project land costs.

Zoning Initiatives

Zoning policies can encourage or discourage affordable housing development in a community. Some of the most common zoning tools utilized by jurisdictions to promote affordable housing include:

- Allowing accessory dwelling units
- Creating minimum density zones
- Allowing cottage developments
- Establishing low minimum lot size thresholds
- Encouraging mixed-use development in commercial zones
- Providing for density and height bonuses
- Enforcing inclusionary zoning (see description below)

Voluntary Inclusionary Housing/Zoning

Cities, counties and states increasingly are turning to inclusionary housing policies (also known as inclusionary zoning) to generate affordable housing units. Inclusionary housing policies require or encourage private developers to make a certain percentage of their new units affordable to low and moderate income households. These policies typically apply to new residential developments that exceed a certain size, such as 20 or more housing units. Typically 10-25% of a new development is "set-aside" for affordable housing. Small developments that fall below the threshold for an affordable set-aside sometimes pay an in-lieu fee that goes into an affordable housing trust fund.

Mandatory inclusionary housing policies have proven to be much more successful than voluntary programs, but mandatory inclusionary zoning currently is not allowed under Oregon law. However, some jurisdictions in Oregon have successfully incorporated inclusionary housing requirements into their annexation policies because annexation is a voluntary action. Voluntary inclusionary policies usually offer rewards or compensation to the developer for providing affordable units such as density bonuses, expedited permitting, and zoning variances.

In most cases communities with inclusionary housing policies require developers to build the affordable units within the new development, although some jurisdictions allow construction on a different site. Some inclusionary housing programs also allow large developers to pay an in-lieu fee instead of building affordable units. To ensure that units are priced affordably for future buyers, a covenant that restricts the resale price is recorded with the title of the home. Usually these affordability covenants stay in place for 30 years or more.

Inclusionary housing is a proven method for increasing construction of affordable housing units, creating mixed income communities, and dispersing affordable housing throughout a community.[4] This affordable housing strategy is used most successfully in areas that are experiencing growth, as it relies on market demand to stimulate private sector construction of new housing developments.

Community Land Trusts

Community land trusts (CLT) generally are nonprofit organizations that acquire and hold land to be used for affordable housing. Housing on the land is sold at an affordable price and the homeowner leases the rights to the land on which the house sits. In this way the cost of the land is removed from the purchase price, thereby making the housing more affordable. Long term leases (typically 99 years) are renewable as well as assignable to heirs. Limited equity formulas restrict the resale price of the home to ensure that the housing remains affordable for future buyers.[5] Many cities support the formation of community land trusts as well as provide surplus land for the CLT's use.

Preservation Programs

One of the most important affordable housing strategies a city can undertake is to ensure the preservation of existing affordable housing within the community. Numerous strategies exist, including rehabilitation grant and loan programs, foreclosure prevention programs, and replacement housing regulations that generally take the form of condominium conversion ordinances.

- **Rehabilitation Grants & Loans –** Cities can provide direct grants or loans to households that fall in targeted income categories to make repairs and upgrades to their homes. Another common approach is for a city to provide a grant to an existing nonprofit organization to administer the grant/loan program. Grants and loans are provided for emergency home improvements such as plumbing, electrical and roof repairs, and for other non-cosmetic upgrades that improve the safety and accessibility of a home. One such example is NeighborImpact which currently administers a deferred payment low-interest loan program in the tri-county area for households at 80% or below median family income. Another type of rehabilitation loan or grant that may be available from the state or federal government helps developers convert and rehabilitate old hotels or buildings into affordable housing.

[4] PolicyLink, www.policylink.org/EDTK/IZ. (Accessed 10/23/06)
[5] Institute for Community Economics, www.iceclt.org/clt. (Accessed 10/20/06)

- **Foreclosure Prevention Programs –** Foreclosure programs can take the form of property tax deferrals, low-interest loans or grants, homebuyer education classes, credit counseling, emergency mortgage payment programs, and mortgage refinancing. Nonprofit housing organizations often provide some of these services to the community.

- **Condominium Conversion Ordinances –** Particularly in gentrifying areas, the conversion of rental units into condominiums can greatly reduce housing options for households that cannot afford to purchase a home. In hot housing markets the conversion of rental units to condos is exacerbated by the fact that few multi-family rental projects get built when developers can build more lucrative single family subdivisions. To combat this problem some jurisdictions have adopted condominium conversion ordinances that try to mitigate the loss or rental units. Ordinances take many forms, including requiring one-for-one replacement of affordable rental units that are converted to ownership units, requiring property owners to set aside a certain portion of units to remain affordable to low income households, tenant protection measures, and so on. .

- **Community Organizing –** For some communities federal subsidies were used to build much of their affordable housing stock. Two important federal sources of funding – Section 236 mortgages and project-based Section 8 assistance – allow property owners to prepay their mortgage or "opt out" of the program once their subsidy contracts expire. The owners of these properties are then free to convert their units to market rate. The threat of converting to market rate is greatest in strong housing markets, and this process can decimate the supply of affordable housing in a community. Tenants and concerned organizations strive to be aware of what facilities are at risk of converting to market rate and work with property owners and government agencies to develop strategies to preserve them for affordable housing.[6]

First-time Homebuyer Programs

First-time homebuyer programs are designed to help reduce barriers to homeownership. These programs usually fall into one of three categories: 1) educational services that prepare individuals for homeownership; 2) financing opportunities that assist households in buying a market-rate home; and 3) programs that keep the price of the home below the market rate for the first buyer, and usually for subsequent buyers of the home as well.

Education programs may feature pre-purchase seminars, credit counseling, post-purchase classes, foreclosure prevention and refinancing lessons. The purpose of these educational programs is to make sure individuals are fully prepared for the responsibilities of

[6] Levy, Comey, and Padilla, "Keeping the Neighborhood Affordable: A Handbook of Housing Strategies for Gentrifying Areas," The Urban Institute Metropolitan Housing and Communities Policy Center, 2006, pp. 18-19.

homeownership. Often potential homebuyers must attend a first-time homebuyer course or seminar in order to qualify for special financing programs. NeighborImpact runs a Homeownership Center in Redmond that provides counseling services to homeowners and potential homeowners.

Financing programs run the gamut from down payment assistance grants, below-market-rate loans and loan guarantees to silent-second mortgages and shared appreciation programs. The state of Oregon offers low interest loans for first-time homebuyers and a special advantage program that helps buyers with closing costs or down payment costs.

Limited equity programs such as those employed by community land trusts, housing cooperatives and inclusionary housing programs restrict how much a house can be sold for to ensure affordability. Sales price restrictions can be as short as five years or as long as in perpetuity. The sweat equity model is yet another technique utilized to help low-income households purchase their first home. Habitat for Humanity is the best-known organization that uses this strategy to help create affordable housing opportunities. Homeowners must volunteer a certain number of hours toward the construction of their home in return for a greatly reduced sales price. Sales price restrictions remain in place for Habitat homeowners for a specific period of time.

Rental Assistance

Most rental assistance is provided by the federal and state governments through allocation of funds for rental facilities, the Section 8 housing voucher program, and the Rural Development rental assistance program. However, some organizations also provide emergency rental assistance to households in times of crisis. It also is possible to develop longer-term rental assistance programs, but these tend to require deep subsidies to reach the neediest of families.

Regional Consortium

The fragmentation of regulatory policymaking among cities and counties can exacerbate affordable housing problems.[7] A regional consortium can help alleviate some of the problems that are created when communities work in isolation. There are many ways that a regional group can work together to stimulate affordable housing efforts, including banding together to qualify for governmental and private funding that individual cities would not qualify for; mutually contributing to organizations and projects that serve the region as a whole; and assisting each other in developing regulations and policies to encourage a wider range of housing products at different levels of affordability. Interviews with key individuals which were conducted for this project revealed that many stakeholders believe a regional consortium would be beneficial for Redmond.

[7] The Center on Urban and Metropolitan Policy, The Brookings Institution and The Urban Institute, “Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice,” Dec. 2003

Partnerships

Developing a comprehensive affordable housing plan requires partnerships between both the private and public sectors. There are roles to be played by developers, businesses, non-profit organizations and governmental agencies. Some outfits do certain things better than others, and it's important to structure partnerships to capitalize on each player's strengths. A community resource study can help identify both organizations and individuals in the city and region who have the expertise and capacity to contribute to affordable housing initiatives. These groups and individuals are invited to the table to help develop solutions for affordable housing.

State & Federal Funding Programs

In addition to several homeownership and rental assistance programs, the state sponsors and administers a number of funding programs to support affordable housing construction, rehabilitation, and preservation. They include tax incentives, a housing trust fund, grant programs, low interest loans, and bond programs. Some of the funds are awarded through a competitive application process, while others are not competitive but are evaluated in the same way a commercial lender would review a loan request. Funds tend to be steered toward projects that serve households earning 60% or less of area median income, although mixed use projects are acceptable according to Kim Manie-Oskoii, the Central Oregon regional contact for Oregon Housing and Community Services. (Manie-Oskoii noted that much of Central Oregon's workforce falls into this income category.)

One of the most successful programs – but also an extremely competitive one – is the federal government's Low Income Housing Tax Credit (LIHTC) program which is administered by the state. This program is the major federal program designed to produce affordable rental housing, and it is responsible for producing hundreds of thousands of affordable units nationwide. The LIHTC program offers private investors federal tax credits in exchange for the development of rental housing units.[8] Another competitive program run by the state called the Oregon Affordable Housing Tax Credit (OAHTC) helps lower the interest rate on permanent loans by as much as 4%. Projects that are awarded this tax credit must pass the financing savings on to households through reduced rents.

Tax Increment Financing

Tax increment financing has become a common tool used to finance and stimulate economic development in urban renewal districts. Some communities are now utilizing the tool to help create affordable housing within such districts. Tax increment financing enables local municipalities to issue bonds to finance improvements and stimulate investment in blighted areas that are designated as urban renewal districts. Revenues from the bonds are invested in infrastructure improvements or other projects within the

[8] Levy, Comey, and Padilla, p. 7.

area. As property values increase due to reinvestment in the area, the property tax gains – or the tax increment – are used to pay off the bondholders. Affordable housing comes into play when a renewal agency is required to set aside a portion of the TIF revenue for affordable housing projects.[9] In California urban renewal areas have mandatory TIF set-asides for affordable housing, and the city of Portland currently is working on establishing an affordable housing TIF set-aside.

Bonds & Levies

Voter-approved General Obligation Bonds allow jurisdictions to sell bonds to finance a specific project or projects. The bond is then repaid usually over a 20-year period with funds raised from a new property tax levy. Money from this funding source can only be used to pay for construction and other capital expenses for government-owned projects. Local option levies are voter-approved special purpose property taxes that raise a fixed amount of money each year for a specific purpose, such as affordable housing programs. Funds raised through levies can be used for operations costs as well as capital expenses. However, local option levies are limited to five years for operations projects and 10 years for capital constructions projects. Furthermore, these taxes are subject to Oregon Constitutional restrictions imposed by Measures 5 and 50 which limit the amount of property taxes that can be placed on individual property tax accounts.[10]

Tax Abatement/Relief

Some jurisdictions grant property tax exemptions for affordable housing developments. This kind of exemption usually is designed to encourage a certain type of development such as multi-family rental housing. These programs also can be structured to encourage development in targeted areas and/or to serve specific income categories. Seattle utilizes this tool to encourage affordable housing projects.

The Vertical Housing Program run by Oregon Housing and Community Services Department encourages mixed-use developments in core urban areas through a partial property tax exemption. According to OHCS program description, the exemption varies in accordance with the number of residential floors in the project with a maximum property tax exemption of 80 percent over 10 years. However additional exemption may be given if some or all of the residential housing is for households earning 80 percent or less of median family income. This program may be a useful tool for stimulating workforce housing in the downtown area.

Employer-Assisted Housing

Some businesses provide housing benefits as a way to recruit and retain employees. Employer-assisted housing programs generally fall into one of two categories: 1) demand programs that enhance the affordability of existing housing; 2) supply programs that

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[9] Levy, Comey, and Padilla, pp. 10-11.
[10] The Community Development Network, www.cdnportland.org

stimulate the development of units for its employees. Demand programs include group mortgage plans where a mortgage lender reduces rates or fees for a bulk lending commitment; closing cost assistance; mortgage guarantees where the employer guarantees all or part of the mortgage; group mortgage insurance; down payment assistance loans; mortgage buy-down programs in which the employer buys down the interest rate of the loan; and purchase of mortgage revenue bonds whereby the employer purchases taxable bonds and uses the proceeds to fund employee mortgages or loans. Supply programs include providing land for housing sites, construction financing, cash contributions to projects, and purchase guarantees to developers.[11]

Asset-Building

Asset-building programs are intended to help individuals build savings and develop economic self-sufficiency. This is yet another approach to addressing housing affordability. Usually these programs are run by nonprofit organizations that provide a broad range of services to low income households. Examples of asset-building programs include individual development accounts, limited equity cooperatives, homeownership education and counseling, and other self-sufficiency programs such as Families Forward which is run by Housing Works. This 5-year program helps Section 8 voucher recipients set both financial and personal goals and work to attain those goals. Many participants who enter the program strive to become homeowners and relinquish their public assistance.

Mobile Home Policies/Ordinances

The city of Bend is working out the details of a new mobile home ordinance that it hopes will protect mobile homeowners from displacement while also respecting the property rights of park owners. After much negotiation it appears that the final version of the ordinance will allow higher housing densities for redeveloped parks if a certain percentage of the new homes are priced affordably. Displaced mobile homeowners would have the first opportunity to purchase the affordably-priced units. As details of a final ordinance are being worked out Bend has extended its temporary mobile home park ordinance until March 2007. (That law requires park owners that want to evict tenants to pay for relocation costs to another park within 100 miles or purchase those homes that cannot be moved.) By increasing the density of redeveloped parks the city of Bend hopes that its new ordinance will not be susceptible to lawsuits based on Measure 37 property rights.

Conclusion

Before a community begins to select affordable housing strategies it must first define who its target service population is, what type of housing it wants to encourage (rental vs. homeownership, or both), and how it will manage the programs it undertakes. Successful

[11] Hoffman, Daniel N., "A Blueprint for Employer-Assisted Housing" www.eahousing.com/newsandarticles.html (Accessed 10/30/06)

implementation of these programs depends heavily on adequate operational capacity and staff expertise.

Local governments need a full set of tools and techniques to provide and stimulate affordable housing development and to preserve the existing affordable housing stock. These strategies must be systematically reviewed and analyzed by the community to determine their usefulness and appropriateness given market conditions and community culture. Regardless of which strategies ultimately are chosen, the three key ingredients to developing a successful affordable housing plan are political leadership, broad community participation and reliable funding.[12]

[12] Meck, Retzlaff, & Schwab, "Regional Approaches to Affordable Housing," American Planning Association, Feb. 2003