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ECONOMICS • FINANCE • PLANNING

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TO: RPS Committee
CC: Josh LeBombard
FROM: Beth Goodman
SUBJECT: AFFORDABLE HOUSING DEVELOPMENT TOOL DESCRIPTIONS

The purpose of the this memorandum is to provide more information about key tools that can be implemented by cities to support affordable housing development.

Tools implemented by local governments

Land Banking

How It Works	Land banks support affordable housing development by reducing or eliminating land cost from development. They can take several forms. Many are administered by a non-profit or non-governmental entity with a mission of managing a portfolio of properties to support affordable housing development over many years or decades. Ideally, a land bank is set up to manage financial and administrative resources, including strategic property disposal, for the explicit purpose of supporting affordable housing development. Cities can partner with non-profits or sometimes manage their own land banks. Cities may also donate, sell, or lease publicly-owned land for the development of affordable housing even without a formal 'land bank' organization.
Benefits	• Can greatly lower costs for the owner of the planned development. • In interviews, developers listed land donation or write down as among the most critical tools for supporting affordable housing production. • Can manage land as a portfolio of properties, employing a strategy of buying when land prices are low and holding for desired market conditions in the future. • If donating surplus land, the donation/disposition can relieve the upkeep costs for the city. • Can control the location of the development within the city. • Can leverage federal, philanthropic or private (if a non-governmental organization), or other sources of funding for land acquisition.
Drawbacks	• Requires political commitment over time and across market cycles. • Donating surplus land might require the coordination between multiple departments. • Purchasing new land requires the additional step of finding and securing the property and funding land acquisition and due diligence. • Administering a land-bank can be costly.
Current Status / Options for Implementing	A city has three general options for implementing a land bank: • Partner with / contribute funds to an existing non-profit land banking entity, or participate in the formation of a new non-profit land bank if one does not exist with sufficient capacity to serve Hillsboro. Partnering is the most administratively efficient of the potential approaches to land banking. • Land bank informally using land that is already publicly-owned, or by acquiring new land. This approach could work well for individual developments. However, without a separate governance structure, it may be difficult to maintain focus on using publicly-owned land consistently for affordable housing across changes in elected leadership and as market cycles progress through peaks and troughs. • Create a city-run affordable housing land bank. The City of Eugene provides one local example. Another pathway is to form a Land Bank Authority (LBA), using statutory authority recently provided by the Oregon Land Bank Authorities Bill. LBAs are boards that purchase and acquire environmentally contaminated properties ("brownfields") and promote their rehabilitation and development. LBAs could focus on leveraging federal clean-up dollars for affordable housing projects, creating a governance structure that can focus explicitly on land banking over time.

For more information	• Metro's January 2016 *Opportunities and Challenges for Affordable Housing* report provides examples of land banks in other communities, including details of Eugene's land bank model.

Land Trusts

How It Works	A land trust is typically a nonprofit organization that owns land and sells or leases the housing on the land to income-qualified buyers. Because the land is not included in the housing price for tenants / buyers, land trusts can achieve below-market pricing. Land trusts are most commonly used as a method for supporting affordable home ownership goals.
Benefits	• Can greatly lower costs for the owner of the planned development. • Encourages homeownership and wealth-building. • If working with an external non-profit, administrative costs will be low as an external party administers the program. • May be less expensive than other options, because it focuses on underwriting land costs.
Drawbacks	• Requires an appropriate accompanying funding structure. • A more cumbersome way of accomplishing affordable housing goals. • Depending on the structure, some land trusts limit the appreciation and wealth-building benefits of home ownership.
Current Status / Options for Implementing	• Land trusts can be used along with land banks. • One option is to contribute funds to an existing land trust. Proud Ground is an active, local land trust model.
For more information	• Metro's January 2016 *Opportunities and Challenges for Affordable Housing* report provides an overview. • Proud Ground's website describes its model: https://proudground.org/

Reduced Parking Requirements

How It Works	Parking is one of the more expensive parts of project development. To the extent that code requires more parking than a developer would otherwise want to provide, the cost of meeting these requirements creates financial burden. A city can adjust the zoning requirements for parking production relative to unit production, specifically for affordable housing projects. This reduces the construction and development costs of a project, especially for higher density projects with structured parking.
Benefits	• In interviews,, developers listed reduced parking requirements as among one of the most useful supports for more affordable housing production. • Changing the zoning is an inexpensive solution from a public-sector perspective. • Supports transit ridership, if development is near transit.
Drawbacks	• Reduced parking can have spillover effects. • On its own, reduced parking requirements may not provide enough incentive power to change development feasibility for affordable units. • If developers / tenants demand more parking than the lower ratios provide, the incentive power is lessened, as developers may be obligated to provide a greater amount of parking than the ratios require.
Current Status / Options for Implementing	
For more information	• ECONorthwest has worked with the City of Portland and the City of Gresham on analysis of changes to parking ratios and found that, in both cases, reducing parking ratios improved development feasibility.

Incentives for Space-Efficient Housing

How It Works	General policy focus on encouraging development of more dense neighborhoods to increase housing options. More communities are experimenting with this as cities grow, focusing on encouraging dwellings that are nonintrusive and that are compatible with existing neighborhoods, such as: cottage clusters, internal division of larger homes, corner duplexes, and accessory dwelling units. Generally, this type of development is accomplished through changing the zoning code, as such homes are traditionally either not allowed or not encouraged by the zoning code. In theory, these units are more affordable than other units because they are smaller.
Benefits	• Changing the zoning is an inexpensive market solution. • Can increase total land available for new market rate units, and may increase supply of smaller homes, which may be more affordable. • Does not require large empty properties. • Complements the shrinking sizes of households. • Depending on market conditions and property owner motivation, may be more likely to be privately funded (without public support).
Drawbacks	• Not guaranteed to promote housing of a certain price. • There are drawbacks to higher density. • A cut to zoning restrictions may be detrimental; e.g. a common one is to reduce parking requirements
Current Status / Options for Implementing	
For more information	• Through its Transportation Growth Management program (TGM), the State of Oregon has conducted substantial research into zoning and other policy approaches to space-efficient housing. http://www.oregon.gov/LCD/TGM/Pages/SpaceEfficientHousing.aspx

Inclusionary zoning (IZ)

How It Works	IZ requires or incents developers to set aside a certain share of new housing at a price affordable to people of low or middle income. In 2016, the Oregon Legislature passed Senate Bill 1533 which allows for a jurisdiction to implement an inclusionary zoning policy if it meets certain requirements. These requirements relate to the income at which the units are affordable (80% MFI or 60% MFI), the percent of the project set aside as affordable (no greater than 20% of the project), the size of the projects (only if greater than 20 units) and the requirement for both an in-lieu fee option and incentive package. In theory, private market-rate development supports some portion of the cost of the affordable units in an inclusionary project. However, in almost all cases, public incentives are also required. These incentives can be regulatory (reduced parking requirements or density bonuses, for example) or financial (property tax abatements or other forms of public investment). Funds can come from general fund, urban renewal, or other municipal sources described in this report.
Benefits	• Has opportunity to create some new affordable units, especially in "high-opportunity areas" (high rent) areas with good schools, jobs, and amenities. • Designed to lead to mixed-income projects; helps avoid economic and racial segregation • Can create a revenue source for affordable housing if the inclusionary program allows fee-in-lieu payments
Drawbacks	• IZ does not work unless market-rate development is feasible. • Programs can be administratively difficult to design and implement. Staff must ensure that tenants comply with income-qualification requirements. • If incentives are insufficient to offset program requirements, IZ may encourage developers to develop less housing or charge more for the non-zoned housing, pushing up overall rental costs. • Overall, evidence of success is mixed and seems largely dependent on which specific policies are adapted as part of the IZ policy and how they match the city's need. • Given the structure of Oregon's program requirements, IZ would result in relatively few new affordable units being constructed.
Current Status / Options for Implementing	
For more information	• http://www.oregon.gov/LCD/docs/legislative/landusebills2016.pdf • https://www.portlandoregon.gov/phb/72291

Multiple-Unit Limited Tax Exemption Program (MULTE)

How It Works	Through the multifamily tax exemption, a jurisdiction can incent diverse housing options in urban centers lacking in housing choices or workforce housing units. Through a competitive process, multi-unit projects can receive a property tax exemption for up to ten years on structural improvements to the property in exchange for setting aside a percentage of the units in the project as affordable. Though the state enables the program, each city has the opportunity to control the geography of where the exemption is available, the application process and fees, the program requirements, the criteria (return on investment, sustainability, inclusion of community space, the percentage of affordable or workforce housing, etc.), and the program cap to shape the program to achieve its goals. The city can select projects on a case-by-case basis through a competitive process. Use of the program in the State includes: **City of Portland Multiple-Unit Limited Tax Exemption Program.** Within eligible areas, this program allows multi-unit projects to receive a ten-year property tax exemption on structural improvements to the property as long as program requirements are met. This program limits the number of exemptions approved annually, requires developers to apply through a competitive process, and encourages projects to provide greater public benefits to the community than would otherwise be possible. The applicant must submit documentation that the anticipated rate of return for the project for the period of the exemption will not exceed 10%. In 2014, the City made $1,210,000 in foregone tax revenue available. More info: https://www.portlandoregon.gov/phb/61191 **City of Eugene Multi-Unit Property Tax Exemption Program**. This program offers a property tax exemption on the new structure or the incremental change in the property value of a building for a maximum of 10 years. Projects eligible for the tax exemption include the construction of, the addition to, or the conversion of rental or ownership multi-unit housing within the MULTE boundary. More info: http://www.eugene-or.gov/index.aspx?NID=829
Benefits	• Tax abatements positively impact the feasibility of projects where market-rate projects are feasible and can help cross-subsidize the affordable units. • City-controlled on project-by-project basis. • Does not require active ground floor use. • Possible flexibility to tailor length of exemptions on a case-by-case basis, depending on the project benefits to the public. • The city can set an annual cap on the total amount of tax exemptions in any given year for all projects.
Drawbacks	• Requires regular reporting. Property owners must submit to city annual audited financial statements, tax returns and ten-year operating cash flow with current rate of return. • Depending on the project criteria, can be a highly competitive process among development projects. • City must weigh the temporary (up to 10 years) loss of tax revenue against the potential attraction of new investment in targeted areas. • Reduces general fund revenues for all overlapping taxing districts, which could make it harder to promote the tool to partner jurisdictions that do not perceive the same project benefits. • Can be competitive, depending on the criteria that a city outlines. • If a city also seeks abatement from overlapping taxing districts, requires a lengthy approval process. • Some programs have requirements for local and minority businesses to complete a portion of project construction, which can extend development timelines and costs.
Current Status / Options for Implementing	• Other cities, like Portland and Eugene, have implemented a MULTE program.
For More Info	• Details of program requirements and eligibility are noted in Oregon Statutes 307.600 to 307.637 https://www.oregonlaws.org/ors/307.600

Vertical Housing Tax Credit (locally enabled and adopted)

How It Works	Subsidizes "mixed-use" projects to encourage dense development or redevelopment by providing a partial property tax exemption on increased property value for qualified developments. An additional property tax exemption on the land may be given if some, or all, of the residential housing is for low-income persons (80 percent of area is median income or below). The exemption varies in accordance with the number of residential floors on a mixed-use project with a maximum property tax exemption of 80 percent over 10 years. The proposed zone must meet at least one of the following criteria: • Completely within the core area of an urban center. • Entirely within a half-mile radius of existing/planned light rail station. • Entirely within a one-quarter mile of fixed-route transit service (including a bus line). • Contains property for which land-use comprehensive plans and implementing ordinances effectively allow "mixed-use" with residential. Central Point has the provisions in place for use of the vertical housing tax credit in zones that allow mixed use development
Benefits	• Targeted tool to support mixed-use development in places with locational advantages. • City-controlled on project-by-project basis.
Drawbacks	• Only available in limited geographies • May provide insufficient incentive to lead to affordability unless paired with other tools. • Reduces general fund revenues for all overlapping taxing districts, including the city. • Requires retail space, which may not be viable or appropriate for all projects. • Requires a lengthy approval process with taxing districts.
Current Status / Options for Implementing	• Recent legislation was passed by the Legislature toincrease local control of the use of this tool.
For More Information	• Details of program requirements and eligibility are noted in Oregon Statutes 307.841 to 307.867 https://www.oregonlaws.org/ors/307.600

Financing building permit and planning fees or SDCs

How It Works	These programs reduce the impact of development fees and systems development charges (SDCs) on the development cost of the project by allowing the developer to avoid the upfront cost and finance the fees over time. A financing program can be used as an incentive to induce qualifying types of development or building features (in this case, affordable housing). The city still receives fees and SDCs, but at a later date. This can, however, create cash flow challenges.
Benefits	• Nominally increases development feasibility by reducing soft costs for developers. • Fee cost structures are within city control and can be easier to implement than other components of the development cost structure.
Drawbacks	• Reduces revenues, in the short term, to provide permitting and compliance services. • Financing fees adds costs to a developer's operating budget, which is already very constrained. Although this tool will decrease the development cost, it will increase the operational cost of a project by having an additional debt payment. Employing this tool in an affordable deal might not be feasible due to a constrained operating budget relative to revenue.
Current Status / Options for Implementing	
For More Information	• The City of Portland Water Bureau has a financing option: https://www.portlandoregon.gov/water/article/219105

General Fund Grants or Loans

How It Works	A city can use general fund or tax increment dollars to directly invest in a specific affordable housing projects. These grants or loans can serve as gap funding to improve development feasibility. There are several options for using general fund grants or loans, including the potential for bonds to generate upfront revenue that is repaid over time, as recently approved in the City of Portland. Another option is to use general fund dollars to contribute to other programs that are successfully operating, such as non-profit land trusts or even other government agencies that have the administrative capacity to maintain compliance requirements over time, using intergovernmental agreements.
Benefits	• Flexible source of funds for gap financing. • Community can implement public projects that can, in turn, catalyze other development (e.g. parking garage, transportation improvements…).
Drawbacks	• General fund dollars may be limited, and allocated to other city priorities. • Investing over $750,000 of public funds directly into a new or rehab private project triggers prevailing wage requirements, which can increase overall project costs by 10 – 20%. • Lending of Credit provision prohibits a city from contributing to private sector projects, so the use of these funds should be evaluated carefully for legal compliance.
Current Status / Options for Implementing	

Funding sources

Many (though not all) of the tools described in this memorandum would require some kind of municipal funding. An overview of those funding sources, including benefits and drawbacks to their use, follows.

Construction Excise Tax (CET)

How It Works	In 2016 the Oregon Legislature passed Senate Bill 1533 which, in addition to allowing inclusionary zoning, permits cities to adopt a CET of 1% of the permit value on residential construction and at an uncapped rate on commercial and industrial construction, for use on affordable housing projects. A CET is a tax assessed on construction permits issued by local cities and counties. The tax is assessed as a percent of the value of the improvements for which a permit is sought, unless the project is exempted from the tax.
Fund Sources	New construction – development-derived
Use	The allowed uses for CET funding are statutorily defined. A city may retain 4% of funds to cover administrative costs. The funds remaining must be allocated as follows, if the city uses a residential CET: • 50% must be used for statutorily authorized developer incentives, including fee and SDC waivers, tax abatements, or finance-based incentives. In other words, a city would have to offer the incentives but could fund those with CET funds. • 35% may be used flexibly for affordable housing programs, as defined by the jurisdiction. • 15% is not available to the city, and flows instead to Oregon Housing and Community Services for home ownership programs that provide down payment assistance. If a city implements a CET on commercial or industrial uses: • 50% of the funds must be used for allowed developer incentives • The remaining 50% are unrestricted
Benefits	• CET provides a relatively flexible source of funding for affordable housing projects and incentives, but these uses must comply with state statutes. • CET pairs well with other commonly-used tools, as it provides a funding source for foregone revenue from property tax abatements or SDC or fee waivers. • CET has the potential to generate a stream of revenue for affordable housing over time.
Drawbacks	• To date, only the City of Portland and the City of Corvallis have implemented CET under the new State statutes (though Bend had a previous program that was grandfathered in prior to the new statutes which, therefore, follows different rules). • CET must be used in ways that comply with state statute. • Increased cost of unit production, as a result of CET, may result in financial feasibility challenges for some projects. For a unit that costs $150,000 (in hard costs) to build, a CET of 1% on that unit would result in approximately $2,000 in additional costs for that unit (due to the relationship between costs and other budget line items like contingencies). For construction typologies that are already financially challenging to implement, the addition of CET will increase the funding gap (by $200,000 for a 100-unit project based on the previous example) and the need for incentives or subsidies. • Where housing demand is sufficiently high relative to supply, may be passed on in the form of higher housing costs. • Because CET revenue is development-derived, it will fluctuate with market cycles.

Linkage Fees

How It Works	Linkage fees are charges on new development, usually commercial and / or industrial development only, that can be used to fund affordable housing. To implement them, a city must undertake a nexus study that identifies a legal connection between new jobs housed in the developments, the wages those jobs will pay, and the availability of housing affordable to those employees.
Fund Sources	Development derived
Use	• Can be used for acquisition and rehabilitation of existing affordable units. • Can be used for new construction .
Benefits	• Creates a revenue source that can be used to fund incentives or development. • Depending on results of nexus study (which determines the legally allowable maximum amount of the linkage fee), could generate more revenue than CET.
Drawbacks	• Requires a nexus study, plus impacts of administering the program. • Additional fee on new development, which could affect development feasibility and potentially affect. business recruitment and retention actions. • Revenue stream ebbs and flows with the development of market cycles.

Urban Renewal / Tax Increment Finance (TIF)

How It Works	Tax increment finance revenues are generated by the increase in total assessed value in an urban renewal district from the time the district is first established. As property values increase in the district, the increase in total property taxes (i.e., city, county, school portions) is used to pay off the bonds. When the bonds are paid off, the entire valuation is returned to the general property tax rolls. Urban renewal funds can be invested in the form of low interest loans and/or grants for a variety of capital investments, including affordable housing development.
Fund Sources	Local taxing jurisdictions' permanent rate property tax impacts (including city).
Use	• Can be used for acquisition and rehabilitation of existing affordable units. • Can be used for new construction.
Benefits	• Existing tool in Downtown. • Among the most flexible incentives. Can be used as a direct investment into an affordable housing capital stack, for site prep, for pre-development analysis or design work, or for needed utilities or other infrastructure to serve a site.
Drawbacks	• Can only be used inside of established urban renewal areas. • Investing over $750,000 in TIF (or any public funds) directly into a new or rehab private project triggers prevailing wage requirements, which can increase overall project costs by 10 – 20%.

Federal and State Financing Sources

Most affordable housing developments access some combination of federal and state funding tools. In brief, these funding sources include the following common sources:

Federal Financing Sources

Community Development Block Grants (CDBG)

How It Works	Community Development Block Grants provide communities with resources to address a wide range of community development needs, including infrastructure improvements, housing and commercial rehab loans and grants as well as other benefits targeted to low- and moderate-income persons.
Fund Sources	Federal HUD funds
Use	• Can be used for acquisition and rehabilitation of existing affordable units. • Can be used for new construction, depending on housing types, how the program is set up, and what community development efforts are prioritized.
Benefits	• Funds are fairly flexible in application. • Program has been run since 1974, and is seen as being fairly reliable. • HUD Section 108 is one mechanism that increases the capacity of block grants to assist with economic development projects, by enabling a community to borrow up to 5 times its annual CDBG allocation
Drawbacks	• Competitive process to secure loans/grants for individual projects. • Administration and projects must meet federal guidelines such as Davis Bacon construction requirements. • Amount of federal funding for CDBG has been diminishing over the past few years. • CDBG program is run through counties and is not in the control of a city.

Low Income Housing Tax Credit (LIHTC) Progam

How It Works	• The Low Income Housing Tax Credit (LIHTC) program is a federally established program that encourages investment in affordable housing through tax incentives; both for-profits and nonprofits are eligible, as well as private investors.
Fund Sources	• Federal HUD funds
Use	• May be used for acquiring and/or rehabilitating exisiting units whether or not they have been built with federal subsidies. • Requires that either 40% of a project's units be set aside for renters earning less than 60% of the area's MFI, or that 20% be dedicated to those earning less than 50%. In addition, the gross rent can be no higher than 30% of imputed income from the MFI. • Maximum tax credit eligibility determined by multiplying the applicable annual percentage rate (4% to 9%) by the eligible cost of construction or rehab attributable to designated low-income units in the development.
Benefits	• Research
Drawbacks	• Research

HOME Investment Partnerships Program

How It Works	• The HOME Investment Partnerships Program supports the development of low and very-low income affordable housing. It distributes federal funds, but each administering agency has unique structures and requirements.
Fund Sources	• Federal HUD funds
Use	• Can be used for acquisition and rehabilitation of existing affordable units. • Can be used for new construction, depending on housing types, how the program is set up, and what community development efforts are prioritized. • Minimum of 90 percent of HOME funds used for rental housing must assist persons with household incomes below 60 percent of the median income. 20 percent must assist persons with household incomes below 50 percent of the median income. • Rents cannot exceed published low and high HOME rents for period of affordability. (Term of affordability is 5 to 20 years depending on type of activity).
Benefits	• Research
Drawbacks	• Subsidy limits that range from $28,000 to $187,000 per unit. • Prohibits the combining of other federal rescources on HOME assisted projects. • Must provide 25 percent non-federal match.

Local Income Weatherization Progam (LIWP)

How It Works	• The Low Income Weatherization Program (LIWP) provides funds for improving energy and heating efficiency in multifamily housing through various installations and housing improvements.
Fund Sources	• Federal HUD funds
Use	• A project must demonstrate "measurable cost-effective energy conservation" to be considered eligible for funding. • At least one-half of the units in the project must be rented to households whose income is at or below 60 percent of the HUD-defined area median income.
Benefits	• Research
Drawbacks	• Eligible projects must be located in a Portland General Electric (PGE) or Pacific Power service area.

Oregon State Financing Sources

Oregon Affordable Housing Tax Credits (OAHTC)

How It Works	• Oregon Affordable Housing Tax Credits (OAHTC) are provided for affordable housing loans where a lender has reduced the interest rate by up to 4%. The program contains a stipulation that the credit be used solely to reduce rents for tenants for a twenty year term.
Fund Sources	• Oregon Housing and Community Services
Use	• One hundred percent of savings in the form of the reduced loan must be passed on to reduce rents for low-income tenants. • Low-income tenants are defined as those with household incomes less than 80 percent of the area median income.
Benefits	• Research
Drawbacks	• One hundred percent of savings must be passed on to tenants in the form of lower rents.

Local Innovations and Fast Track (LIFT) Housing Program

How It Works	• Competitive grants awarded for the provision of affordable housing. Priority given to projects that request a maximum of $38,000 per unit and provide 100 percent of units (financed with LIFT funds) to persons with household incomes at or below 60 percent area median income.
Fund Sources	• Oregon general obligation bonds
Use	• Prioritizes projects in rural areas and communities of color, projects with short development periods (units ready for initial lease-up) within the minimum threshold of 30 months, projects that provide strong social service partnerships, can effectively serve DHS recipients earning 60 percent of area median income or below, and demonstrate innovative design, efficieny, or address equity and diversity issues through the use of Minority, Women, and Emerging Small Businesses (MWESB) services.
Benefits	• Research. Relatively flexible?
Drawbacks	• Competitive process to secure funding for individual projects.