

**Research on State
and Local Means of
Increasing Affordable
Housing**

From Insight to Impact
– worldwide

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INTRODUCTION

High quality, affordable housing¹ is fundamental to the economic and physical well being of families, communities, and the nation. Despite its importance, a “perfect storm” of factors over the last several years has led to near crisis-level shortages of affordable housing. Among these factors are formerly pro-growth local governments that have become slow-growth, NIMBYs (Not-In-My-Backyard sentiments by neighbors of proposed housing developments) who resist development, rapid price increases in housing across much of the country in the first half of this decade, and declines in federal resources for affordable housing. Most recently, the problems in the subprime mortgage market have limited access to loans even for borrowers with good credit histories.

Each party in a development proposal has legitimate concerns: local budgets are strained, causing challenges in how to finance the education of current schoolchildren, much less new ones who may occupy new developments. Likewise, NIMBYs often have legitimate concerns about traffic and environmental impact.

The people who need the affordable housing also have a legitimate claim, however, and the lack of housing is leading to consequences for both households and local and regional economies that may become increasingly severe. The most obvious of these is that many families pay disproportionate shares of their income for housing, leading to financial stress.

Metropolitan areas also suffer. For example, some cities, such as Boston, are losing a large share of the population key to driving future economic success in the city – 24 to 34-year-olds – many of whom are leaving precisely because they view housing as too expensive. Employers often decide not to locate in a community if housing costs are too high and their workers can’t afford to live nearby. The environment, which NIMBYs and others try to protect, also suffers. The housing that does get approved tends to be high-end, in outer-ring locations that are seen as yielding higher property taxes and requiring fewer local services – but add to congestion and impacts on natural resources.

Lower-income families have long struggled to find housing that fits their budgets; the difference now is that the need for affordable housing exists nearly across the income spectrum and includes families earning up to 120 percent of the area median income and even higher in very high cost areas such as Southern California. The extent of the problem calls for new solutions, and the good news shared in this report is that new solutions are rapidly being generated and adopted at the local level.

The challenge is sharing these ideas across communities rapidly enough to avert the worst consequences of affordable housing shortages. The shift in responsibility for affordable housing from the federal government, with its declining resources, to state and local governments increases the complexity of spreading information about successful strategies. The disparate

actors involved and their poor connections with one another make it difficult to share strategies. A few strategies – such as inclusionary zoning – have spread to many places in the 30-plus years since they were first introduced. Despite the incidence of inclusionary zoning, however, no single strategy can fix the affordable housing shortage, and no single strategy works in every market. Inclusionary zoning may not work at all in a slow market, for example, and may well exacerbate the shortage of affordable housing even in a hot market.

Many strategies have not previously been well known or understood. The purpose of this report is to shed greater light on what approaches are being used successfully at the state and local level so that communities can adopt more comprehensive and effective strategies to address this critical need and problem.

Outline of the Report

This compendium of strategies being used at the state and local level to increase affordable housing is intended to help speed the spread of innovative ideas. Ideally, this resource will be valuable to developers, affordable housing advocates, and state and local officials in identifying new approaches to encouraging affordable housing in their locations.

Although the focus of the report is on innovative strategies, it is also intended to be as comprehensive as possible, so some strategies included, such as property tax abatements for maintaining affordable housing, have been in use for decades. This collection builds on the work of many people, but in particular Jeffrey Lubell and Tasha Harmon,² who have written shorter guides to tools for producing affordable housing.

Sixty-five different strategies are included here in all. These are divided into three categories: land use, financial, and a catch-all “other” strategies category. There is a great deal of overlap between both categories and strategies, so cross-references are included where appropriate.

Land-use strategies may work through the zoning process, create particular types of housing development, make land available for affordable housing development, provide relief for regulatory barriers to producing housing, or use local ordinances to control the use of land in other ways.

The land-use strategies chapter begins with a section on planning for affordable housing, which is an essential first step, but one that is often overlooked. Ideally, communities that solicit businesses to locate within their borders also plan for the housing new workers will need. Without this kind of planning, the population growth that accompanies economic development leads to increases in demand for housing that outstrip the ability of the market to respond, given the current land use system. Rises in the price of housing quickly exceed wage growth.

Financial strategies include sources of funding used by state and local governments to improve the affordability of existing housing, encourage the development of new affordable units, or discourage the conversion of affordable housing to more expensive

housing or to non-housing uses. Financial strategies may affect property taxes or other taxes, provide tax credits, provide financing from other sources, reduce or eliminate impact fees, provide regional approaches to financing affordable housing, or provide other types of financial assistance.

Other strategies operate in ways other than through regulation of land use or through providing financial incentives. They include provisions of state law intended to encourage affordable housing, strategies that provide information to communities and developers to improve acceptance of affordable housing, the creation of organizations that promote affordable housing, and relief from regulations (other than land use regulations) that impede the development of affordable housing.

In general, the strategies included are limited to those that lead to the production of new housing. Strategies useful for assisting individual homebuyers or renters, such as rent vouchers, property tax waivers for low-income homeowners, and downpayment assistance are generally excluded.

In addition, only strategies that can be implemented by state and local governments are included. The arsenal of federal strategies available for affordable housing is excluded because they are better known, and increasingly scarce. The strategies included here provide ideas for local and state governments stepping in to fill the void left by declines in funding for federal programs. In addition, they show how state and local governments are serving moderate-income households in need of workforce housing, who are largely unserved by federal programs.

Two to three page descriptions of each strategy include the history of the strategy, its target population, and the extent of its use. How the strategy is funded and administered is also included, as are pros and cons for using the strategy or types of markets where the strategy is more or less effective.

In addition, because seeing is believing, this report includes as many examples of locations using each strategy as possible. It also gives results of the strategies (number of units produced in a particular location, for example). Each description concludes with sources of information about the strategy (reports and websites) and contact information for people and organizations knowledgeable about the strategy.

Case studies of about half the strategies provide an in-depth look at how the strategy has been used in a specific location. The case studies are based on interviews with local officials, developers, and non-profits who have implemented or used the strategy. In some cases, the case studies highlight successes in using a particular approach. In others, they highlight lessons learned about implementing a strategy and offer advice for other places considering the strategy. It is clear that strategies must be very carefully adapted to each location and market condition and that, in some cases, there is still a lot to learn.

Observations from case studies

Several things stand out from the case studies research. First, the most successful places rely on an array of strategies to encourage affordable housing rather than any single strategy. Austin, Texas, for example, combines impact fee waivers, expedited permitting, advocacy to reduce NIMBYism, transit-oriented locations to reduce commuting expenses, and energy efficiency to reduce utilities costs. Austin's efforts result in 1,500 units of moderately priced housing per year, making it one of the most productive programs in the country. Polk County, Florida, in contrast, relies primarily on impact fee waivers, which people we interviewed feel would be far more effective if combined with downpayment assistance.

Second, inclusionary zoning is a commonly used approach. However, its implementation and success varies widely, from places that offer no cost offsets to developers whatsoever to places like Highland Park, Illinois, which offers developers cost offsets as well as – perhaps most importantly – flexibility in the size and type of affordable units compared with the market-rate units. In addition, in places with the most effective housing affordability programs, inclusionary zoning ordinances guarantee strong incentives for developers and are combined with several other strategies to produce affordable housing rather than being the only or primary strategy. In fact, voluntary programs with appropriate incentives such as those in Irvine, California, Lexington, Massachusetts, and Chapel Hill, North Carolina are considered to be quite effective.

Third, virtually all states in the nation are involved in efforts to produce affordable housing, not just very expensive places like California, New York, and the Northeast. Case studies cover locations in 15 different states, and examples of locations where strategies are used cover fully 49 states.

Fourth, the strategies that get the most press are not necessarily the most effective. Communities trying strategies such as transfers of development rights, cluster development, and transit-oriented development for affordable housing are generally having only mixed success, although we hope the lessons they have learned in using these tools (presented in case studies) will help other communities further develop these strategies to increase their effectiveness.

In contrast, less flashy strategies such as expedited permitting processes, advocacy efforts to reduce NIMBYism, zoning changes to encourage affordable housing, and regular local planning efforts that incorporate realistic assessments of the area's remaining development capacity, can have broad effects on housing affordability. These strategies are more difficult to quantify, but can affect virtually every new development in a community.

Last, the task of improving access to housing that is affordable to low- and moderate-income households is never finished. Constantly changing economic conditions, housing markets, and local conditions mean that even communities with highly successful programs to improve housing affordability must constantly reevaluate their efforts. We hope this resource is valuable to communities in all phases of their mission.

LAND-USE STRATEGIES FOR ENCOURAGING AFFORDABLE HOUSING

THE FIRST strategies included in this chapter are not strategies for using land at all; rather, they are ways communities plan for the use of their available land to improve housing affordability. As noted in the introduction, Planning for Affordable Housing is an important first step in accommodating housing – particularly for communities actively working to recruit employers to locate within their borders. These employers inevitably bring jobs, and the workers who fill these jobs need housing. The best plans incorporate projections of job growth as well as assessments of the existing housing stock and need and of the development capacity of the available land. These plans in turn should also inform zoning decisions. These plans are used in some states and communities to create comprehensive development initiatives, which combine resources into a single source for easier access; others acquire underutilized land either for reassembly in larger, more useable parcels, to redevelop for affordable housing. If necessary, strategies for redeveloping brownfields may also be employed.

Zoning for Affordable Housing includes more commonly thought-of land use strategies for increasing housing affordability. These include changes in zoning that allow smaller lot sizes or reduce the land costs of housing in other ways and designation of areas where housing-friendly zoning rules apply. Ordinances that allow manufactured housing and accessory dwelling units, two particularly affordable housing types, are also described.

Performance zoning is also included in this section. Although it has historically actually hurt housing affordability in many applications, some communities like King County, WA, are adapting it in ways that improve flexibility for building affordable housing. Sections on inclusionary zoning and density bonus programs (which also covers voluntary inclusionary zoning) include examples of locations where ordinances are particularly flexible and cost offsets are recognized as a necessary component.

Types of Development includes cluster development, mixed-use development, planned unit development, and transit-oriented development, among others. These strategies have not specifically developed as tools for improving the affordability of housing; rather, they are simply approaches to development. As demonstrated in case studies and examples of locations where they are used, their success for use in improving housing affordability is mixed.

The last strategies described in this section are **Affordable Housing Ordinances** that preserve a community's existing affordable housing stock – if not the units themselves, then at least the original number of units affordable to low- and moderate-income households.

PLANNING FOR AFFORDABLE HOUSING

State Mandates and Guidance for Local Planning

See also Assessments of Development Capacity; State-Level Fair Share and Remedy Programs (in Other Strategies)

Strategy description

Planning for housing is conducted by state and local governments for a variety of purposes. Consolidated plans are prepared to qualify jurisdictions for federal funding sources for housing, and many states require local communities to create comprehensive plans. However, these plans do not necessarily include projections of either job growth or population growth, leading to jobs/housing imbalances, pressure on housing costs, and housing cost burdens among low- and moderate-income households.

To prevent this, a number of states require local communities to create housing needs assessments and plans, or housing elements as part of a comprehensive plan. These plans are generally required to meet state criteria, including an assessment of current and future housing needs and plans for meeting these needs.

History of the strategy

The first state to mandate local planning for affordable housing may have been California, where it has been a requirement since 1980.

Target population

Local housing plans generally account for renters and homebuyers at all income levels, but may be required to set specific goals for constructing units affordable to low- and moderate-income renters and homebuyers.

How the strategy is administered

States mandate that local governments adequately plan to meet existing and projected housing needs for all income levels by developing local housing plans. Local governments may not be obligated to construct the homes outlined in the plan, but they may risk losing large sums of state grant money if they fail to comply with the state mandate to create a plan. In addition, they may be subject to overrides of zoning decisions through a state-level housing appeals process.

How the strategy is funded

No funding required, although the most effective state mandates provide incentives to local governments to meet affordable housing needs. These incentives, which may include planning grants and priority for state infrastructure funding, may be funded through state general tax revenues or bond issuance.

Extent of use of the strategy

Moderately used.

Locations where the strategy is being used

- California's Housing Element Law is the state's major tool for ensuring that local governments are planning appropriately for housing needs of all economic segments of the community. The Housing Element Law requires that all cities and counties in California develop a local housing plan that identifies land sites for current and projected housing needs. It must also include a program for removing local government barriers to development of affordable housing.
- Florida's Growth Management Program requires that the state and all local governments develop and implement a comprehensive growth-management plan that includes affordable housing.
- Washington's Growth Management Act requires the state's fastest growing counties and cities (26 counties making up 85 percent of the state's population) to comprehensively plan to meet the state's goals on elements that include affordable housing.
- Oregon's Land Use Act requires that all cities and counties must adopt a comprehensive plan that meets mandatory state standards and goals that include affordable housing.
- Rhode Island passed a fair share housing law in 1991 requiring each community to contribute its fair share of the state's goal of having 10 percent of the housing stock be affordable. Local planning to meet this goal became a requirement in 2004, when the Comprehensive Housing Production and Rehabilitation Act was passed. This Act requires communities that had not yet met the state's 10 percent fair share housing affordability goal to submit affordable housing plans describing how they will meet the goal.
- Wisconsin requires local communities' comprehensive plans to include a housing element.
- Many communities' comprehensive plans incorporate projections of housing and job growth. Some examples include the Village of McFarland, WI, Battle Creek, MI, and Scott County, MN.

Pros and cons to using the strategy

Pros:

- Ensures that local governments plan appropriately for current and prospective housing needs.
- Can spur communities to change zoning and provide other assistance to developers to produce affordable housing.

Cons:

- A lack of incentives or sanctions may make the planning process ineffective in actually accomplishing change.

- The planning requirement can be burdensome for communities, particularly smaller towns with limited planning staff.

Sources of information about the strategy

- “California Housing Element Manual: Law, Advocacy, and Litigation,” prepared by the California Housing Law Project, 2nd Edition, February 2007. Available at: [http://www.pilpca.org/docs/CALIFORNIA%20HOUSING%20ELEMENT%20MANUAL%202nd%20Ed%20Public%20\(Feb%202007\).pdf](http://www.pilpca.org/docs/CALIFORNIA%20HOUSING%20ELEMENT%20MANUAL%202nd%20Ed%20Public%20(Feb%202007).pdf)
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State and City Comprehensive Development Initiatives

Strategy description

Initiatives created at the state and metropolitan area level can foster affordable housing by prioritizing infrastructure and other funding for particular types and locations of development, by providing planning grants and technical assistance, and by combining existing resources into a single source for easier access.

Target population

Initiatives often target renters and homeowners generally; some target low- and moderate-income renters or homebuyers specifically.

How the strategy is administered

State and city comprehensive development initiatives create processes for ensuring that state grants, loans and other resources are utilized effectively to increase production of affordable housing. In some cases, these initiatives offer technical assistance for specific development projects.

How the strategy is funded

State and city comprehensive development initiatives often simply combine pre-existing sources of funding such as state grants, loans, and other resources. They may also include new sources of funding from general revenues, a housing trust fund, or government agency budgets.

Extent of use of the strategy

Limited use.

Locations where the strategy is being used

- The New Jersey Transit Village aims to encourage revitalization efforts in communities near transit facilities, reducing reliance on the automobile while make the community an appealing choice for people to live, work and play. Applicants for designation as a transit village must commit to grow in jobs, housing, and population, and must document how affordable housing will be incorporated into the transit village.
- In Michigan, cities and organizations engaged in community development projects that meet the goals of the Cool Cities Initiative have access to the Michigan Cool City Resource Toolbox, which combines 110 of the State's existing community improvement grants, tax credits, loans, and assistance programs into a single source. The goal of Cool Cities is to create safe, mixed-income, mixed-use, high-density, and pedestrian-friendly neighborhoods that attract young people and knowledge workers that companies would be interested in hiring.

Pros and cons to using the strategy

Pros:

- Pools funding and other resources, making them more likely to be effective in meeting affordable housing and other goals.
- Raises public awareness.
- Encourages collaboration between government agencies and the public and private sector for addressing housing needs.
- Often engages neighborhood input.

Cons:

- Because some funding for infrastructure is targeted to designated areas, funding for other areas is likely to decline.

Sources of information about the strategy

- Michigan's Cool Cities Initiative website, <http://www.coolcities.com/>
- New Jersey Transit Village Initiative, <http://www.state.nj.us/transportation/community/village/>

Contact information

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New Jersey Transit Village Initiative
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609-530-5957

Assessments of Development Capacity

Strategy description

Improved community planning for current and future housing needs can improve opportunities for new construction of housing in general and affordable housing in particular. Since land is an increasingly costly component of a finished home, an important tool in doing this is measuring the development capacity of state and local areas. Tools used to do this include land market monitoring systems, buildable land inventories (BLI), development capacity analysis, or build-out analysis.

A development capacity analysis provides a quantitative analysis of where, how, and what type of development could occur in a given jurisdiction under current zoning. The system can be used to help explain why certain areas have or have not developed and to reveal how current land use controls can help or hinder further development. In addition, it can be used to identify possibilities for redevelopment. The number of vacant buildable lots is estimated based on zoning and natural resource constraints (such as floodplains). The analyses are often conducted using GIS, running data and assumptions through geoprocessing procedures to create reports, tables, and maps to demonstrate the outcomes. Others are conducted manually.

History of the strategy

- Development capacity analyses were used in the late 1980s and 1990s in many areas of the U.S. to help answer questions raised by “sprawl” patterns of residential growth.
- The Center for Rural Massachusetts produced in 1992 a “Manual of Build-Out Analysis.”
- As the concept of Smart Growth has taken shape across the country, land use assessment systems have grown in importance and utilization. Technology such as GIS mapping systems have allowed for more sophisticated and useful analyses.

Target population

All community stakeholders located within the zone being assessed. Some cities make parcel-specific information available online, allowing developers to more easily identify parcels that may be suitable for housing development.

How the strategy is administered

Development capacity analyses are typically conducted and monitored by city planning staff and GIS experts. Developers and other community representatives may also have input.

How the strategy is funded

Planning department budgets.

Extent of use of the strategy

- GIS systems for land use planning are used in the majority of large cities throughout the U.S.

Locations where the strategy is being used

- Maryland's Development Capacity Task Force conducted a development capacity for 10 counties and towns in 2004. Since then, all jurisdictions in the state have committed to regularly conducting development capacity analysis as part of the comprehensive planning process (see case study).
- Fort Collins, CO conducted a buildable land inventory in 2004.
- Many communities in Oregon are required by law to maintain a 20-year buildable land inventory to ensure that available land within urban growth boundaries satisfy housing needs for the region's long-range population and housing projects.

Pros and cons to using the strategy

Pros:

- BLIs are useful for all stakeholders within a community – developers, environmental and city planners, local governments, and citizens – to see how certain development plans/outcomes might affect what is important to them.
- Allows for a sophisticated view of potential development options prior to any actual land sale or construction, therefore maximizing use of the land for the most beneficial community outcome.

Cons:

- There are many assumptions and factors that the model cannot incorporate.
- Local politics play an important role in making recommendations for development based on the assessment's results.
- Inventories are only as accurate as the underlying data, which may not exist or may not be accurate.

Sources of information about the strategy

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- “Land Market Monitoring for Smart Urban Growth,” Gerrit Knaap, editor, Lincoln Institute of Land Policy, December 2001.
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- Knaap, Gerrit, Richard Bolen, and Ethan Seltzer, “Metro’s Regional Land Information System: The Virtual Key to Portland’s Growth Management Success,” Lincoln Institute of Land Policy, working paper, November 2003.

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MARYLAND

ASSESSMENTS OF DEVELOPMENT CAPACITY

Like several other states, Maryland has growth management laws that direct development in the state to a limited number of areas. Unlike some other states, however, municipalities and counties are not required to create an inventory of available land for residential development. As a result of a concerted effort by the Home Builders Association of Maryland (HBAM) and other organizations, all jurisdictions in the state of Maryland are now committed to regularly conducting a development capacity analysis as part of the comprehensive planning process.

- ✓ Assessments of development capacity
- ✓ State mandates and guidance for local planning
- ✓ Creative public-private collaborations

“One of the missing aspects of Maryland’s growth management law is analysis of supply and demand,” said Tom Ballentine, director of Policy for Government Affairs for HBAM.

HBAM launched its effort to improve the local planning process in part because of increasing shortages of home construction opportunities in the state. Other states such as Oregon and Washington, which also have growth management laws, were the inspiration for HBAM’s effort to incorporate development capacity analysis in Maryland. These states require local jurisdictions’ plans to accommodate projected growth. “We got boundaries but not the requirement to fit the people inside the boundaries.”

Prior to the HBAM’s efforts, the last assessment of development capacity in the state was done in 1997, under the 1997 Priority Funding Areas Act. This legislation directs state spending for “growth-related” projects to Priority Funding Areas, which are existing communities and places where local governments want state investment to support future growth. State spending covered by the legislation include funding for highways, sewer and water construction, economic development assistance, and state leases or construction of new office facilities.³

However, as Ballentine puts it, “This was a one-time exercise.”

Development capacity analysis, also called build-out analysis or buildable lot inventory, is an estimate of the total amount of development that may be built in an area under a certain set of assumptions, including applicable land-use laws, policies (zoning), and environmental constraints.⁴

An important goal of conducting development capacity analysis is to improve planning in places with growth management laws. Without this planning, these policies can increase land and housing prices.⁵ “This is a way to put some impetus into the planning process to balance housing with job growth,” said Ballentine.

Ballentine says the idea of regularly conducting development capacity analysis was initially met with resistance from counties and towns, who believed the process would be expensive and time-consuming.

“We set out to prove that the technology was there to get the job done at a reasonable cost,” said Ballentine. To do this, HBAM contracted with the University of Maryland’s National Center for Smart Growth Research and Education to do a demonstration development capacity analysis for Baltimore County.

On the basis of a successful demonstration, HBAM’s next step was to convene the Smart Growth Collaborative in 2002. The goal of this effort was to gather the state’s key growth stakeholders to come up with recommendations for then-incoming Governor Ehrlich. Stakeholders involved included representatives of major environmental groups, state government, city governments, and industry groups.

One of the series of recommendations was requiring development capacity analysis as part of the comprehensive planning process. On the basis of this recommendation, the governor issued an executive order to form a task force that began meeting in December 2003. The Development Capacity Task Force established a methodology for conducting development capacity analysis, and did demonstration analysis in 10 counties and towns.

The outcome of the Task Force’s work was that local governments, through the Maryland Municipal League and the Maryland Association of Counties, signed a

Memorandum of Understanding (MOU) in 2004 committing to include development capacity analysis as part of their comprehensive plans. These plans are completed every six years, and jurisdictions' deadlines for revising their comprehensive plans are on a rotating schedule.

Local governments may conduct their own analysis using the Task Force's guidelines or work with the Maryland Department of Planning to generate the analysis. Counter to expectations that a development capacity analysis is overly burdensome, the process can be very simple for places that work with the Maryland Department of Planning. Local jurisdictions' responsibilities are limited to sharing data, providing input on key development issues, and reviewing rough draft analyses.⁶

Because the initiative is new and zoning change takes time, Ballentine says the commitment to conduct development capacity analysis has yet to have a big impact.

"There's been some impact, but it's a slow process," he said. "We're optimistic that it begins to provide an opportunity for Maryland's version of Smart Growth to be more reflective of jobs and housing growth. It makes it harder to ignore the demographic realities we're facing in the state."

*"There's been some impact,
but it's a slow process."*

-Tom Ballentine

In addition to fulfilling their commitment to conduct development capacity analysis, local jurisdictions are finding the information generated to be helpful. According to Brenda Denney, a planner with Carroll County, the development capacity analysis conducted for the county in 2005 has been useful to the public works department in decisions about making infrastructure improvements such as improving a road or installing sewer lines.

The county has also used maps produced as part of the development capacity in community planning meetings. "Looking at the maps changes some people's attitudes about how to use land in the county," said Denney.

Given that the process of instituting development capacity analysis took HBAM several years to achieve, Ballentine counsels other places considering the strategy to have patience and to be willing to work with others.

“It takes patience on the part of staff and [HBA] members to continue to eliminate objections one by one,” said Ballentine. “They seem insurmountable at first, but when you start eliminating them one by one and two by two, you can make progress in the end.”

He added, “The key for us was collaboration. The more time you spend with like-minded, middle of the road, and opposition groups, you begin to dispel some of the stereotypical opposition you get. The most popular notions of growth don’t always hold up under scrutiny.”

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Land Assembly/Land Banks

Strategy description

Local governments and non-profits use land assembly or land banking to acquire individual plots of tax-foreclosed or vacant property and reassemble them into larger, more marketable parcels. While land banks generally are used in older urban communities with significant inventories of abandoned property, they also are useful for safeguarding healthy communities from deterioration, for protecting land from excessive gentrification, and for assembling land for significant government or private investment. Land banks can make property redevelopment feasible in downward economic cycles as a stimulus for reinvestment and can reserve land for targeted purposes in upward economic cycles.

As compared with a community land trust, land banks generally hold land only temporarily, until sufficiently large parcels can be consolidated for redevelopment.

History of the strategy

Land banks were originally created over 30 years ago in response to growing numbers of vacant and abandoned properties in cities across the country. The earliest major land bank, the St. Louis Land Reutilization Authority, was created in 1971.

Target population

Land banks benefit the community generally, as formerly vacant or unused property, often a public health risk and an eyesore, becomes part of the community's revitalization efforts. Affordable housing built on property acquired by land banks target low- and moderate-income renters and homebuyers.

How the strategy is administered

- Land banks are usually enabled by state legislation. The majority of land banks are government entities, housed in one or more city or state agency; others are separate corporations with their own board of directors.
- Every land bank is designed to adapt to each specific community's needs. Some contract out the construction, others do this themselves.

How the strategy is funded

Funding can come from a number of sources, most commonly city or state funds generated by tax and bond revenue. Loans from banks or other financial institutions are also a common source of funding for land banks.

Extent of use of the strategy

Land banks are fairly widely used throughout the country, primarily in large cities but also in smaller cities and towns.

Locations where the strategy is being used⁷

- The St. Louis Land Reutilization Authority, the nation's first major land bank, was created in 1971.
- Ohio adopted state enabling legislation in 1976 that permitted creation of the Cleveland Land Bank.
- The City of Flint and Genesee County, Michigan created a land reutilization council in 2002 (this became the Genesee County Land Bank in 2004). Through a combination of tax foreclosure reforms, the Michigan Land Bank Fast Track Act, and amendments to the Brownfield Redevelopment Financing Act, the Genesee County Land Bank has acquired broad and flexible authority to acquire, manage, clear, demolish, rehabilitate and develop tax-foreclosed land.
- The Dallas Urban Land Bank Program develops affordable, single-family homes on vacant, tax-delinquent properties in Dallas neighborhoods. The City's goal is to acquire up to 2,000 unproductive, vacant, and developable lots to be "banked" for affordable housing development.
- Other locations include Louisville, KY, Atlanta, Macon, Savannah, and Valdosta, GA; Wyandotte County, KS; Omaha, NE; and Jackson County, MO.

Strategy results

- As of June 2006, the Dallas Urban Land Bank Program had identified 1,087 properties for tax foreclosure referrals, filed 474 suits, purchased 51 parcels, and sold 42 properties to community housing development organizations for affordable housing development.
- In a period of three years, the Genesee County Land Bank acquired 3,400 parcels, cleaned thousands of empty lots, and demolished hundreds of abandoned homes. The land bank has transferred at least 130 foreclosed, tenant-occupied properties to nonprofit housing organizations for preservation as affordable housing. In addition, the land bank has assembled hundreds of empty lots for city development projects, as well as local nonprofit and community organization projects.

Pros and cons to using the strategy

Pros:

- Uses previously developed property, reducing the impact on greenfields while at the same time improving areas that otherwise might be left abandoned and potentially hazardous.
- Revitalizes communities and neighborhoods by introducing new development that may include affordable housing and community facilities in areas previously blighted by abandoned property.

- Stimulates investment and growth.
- Can help resolve disputes regarding ownership of properties.
- Can be pragmatically adapted to the particular needs of a specific city.

Cons:

- It can be difficult to obtain approval from voters whose taxes will provide funding for land banks.
- Streamlining processes involved in purchasing, rehabilitating, and selling tax-foreclosed and/or vacant property can prove challenging.
- Holding vacant land or abandoned properties can be costly.
- Predevelopment costs can be especially difficult to fund (e.g., environmental assessments).

Sources of information about the strategy

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MICHIGAN

GENESEE COUNTY LAND BANK

Genesee County, which includes the city of Flint, Michigan, has suffered from population decline for four decades as deindustrialization forced General Motors, the economic stronghold of the city, to cut back production and eliminate over 50,000 jobs. At its peak in the 1960s, the city of Flint had a population of nearly 200,000; in comparison, recent estimates put the population below 120,000. While the rate of population decline has slowed recently, the city is still shrinking.

- ✓ Infill development
- ✓ Reusing vacant or abandoned property for affordable housing
- ✓ Land assembly/land banks
- ✓ Creative public-private collaborations

Accompanying this decline is a contagious pattern of blight, as abandoned properties diminish the value of surrounding property, which reduces property tax revenue that could be used to address declining conditions. According to the 2000 U.S. Census, 12 percent of Flint's housing stock was empty.

To help its cities deal with an overwhelming supply of abandoned properties, in 1999 Michigan passed Public Act 123, which reduced the time property owners had to pay their delinquent taxes before losing their property to tax reversion (see figure). As a result, local officials could reclaim abandoned and tax delinquent property after two years rather than six. The law opened the door for Michigan communities to reclaim, reinvest in, and rebuild declining neighborhoods.



Genesee County Land Bank Authority was formed in 2002 as an \$8 million self-reutilization fund that uses revenue from tax delinquent property to fund its development efforts. The land bank has taken on a variety of roles, serving as a landlord, contractor, real estate broker, planning and economic development agency, as well as a developer. Over time, the land bank has added 6,300 residential, commercial and industrial properties to its inventory, with the intention of carefully planning how to develop the acquired land to stabilize and revitalize neighborhoods in the city of Flint and the surrounding county.

To better position tax-reverted properties for reuse, the Land Bank runs nine different programs including:

- ❖ Demolition
- ❖ Sale and Lease-to-Own programs
- ❖ Side Lot Transfers
- ❖ Housing Renovation
- ❖ Property Maintenance
- ❖ Clean and Green
- ❖ Adopt-A-Lot
- ❖ Brownfield Redevelopment and
- ❖ Development.

In addition, to balance their efforts to capture abandoned or foreclosed property, the Land Bank has launched an aggressive campaign against foreclosure. In six years, their Foreclosure Prevention program has helped to pull 1,700 homeowners out of foreclosure.

Over time, the Land Bank has become more involved in supporting affordable housing. Given a relatively weak local nonprofit sector and the limited capacity of the local housing and planning offices, the County Treasurer's office evolved its role from property supplier to a lead developer of affordable housing. Developments have included rental and ownership housing, as well as lease-to-own programs that combine the two. These developments are often mixed-income, which is readily accepted in a market like Flint where the difference between market and affordable housing is relatively small.

County Treasurer and Land Bank Chairman Dan Kildee found it

difficult to explain to the local political and governmental structure why his department was getting involved in land and housing development. But Kildee

Tax Law Comparison Chart	
Former Foreclosure Law <ul style="list-style-type: none"> • 4-7 year process • No clear title • Hundreds of owners • Low-end speculation • Indiscriminate foreclosure • Homeowners at risk • Contagious blight 	New Tax Law (PA 123 of 1999) <ul style="list-style-type: none"> • 1-2 year process • Clear title judgment • Property titled to county • Tax liens eliminated • Hardship postponements • Intervention

noted that his agency's status as a public entity is what has made it most effective. He explained, "Our bottom line is different from that of typical developers; we do not need a return on our investment. We can lose money if it advances our long-term goals."

"Our work is more of a systemic long-term approach to a difficult urban problem."

-Dan Kildee

That type of long-term thinking allows the Land Bank to think strategically about how Flint should be developed but sets a slow pace for their work. "It's not an overnight fix," Kildee said. "Our work is more of a systemic long-term approach to a difficult urban problem. You can't just look at one year's results."

This makes quantifying visible progress difficult. Kildee estimates that the Land Bank demolishes about 10 units for every new unit it develops.

The Land Bank now owns 6,300 local properties. It has redeveloped 179 rental units (90 of them affordable to households earning no more than 80 percent of the area median income) and 80 single-family homes. The Land Bank has also demolished more than 800 abandoned properties, sold 500 side-yards to neighbors, and invested \$3.8 million to rehabilitate an abandoned department store into a mixed-use development. Recently they have joined a public-private partnership to invest \$35 million in a new mixed-use downtown redevelopment. The Land Bank is contributing the land and financing tools and is serving as lead developer on several of the projects, including conversion of a historical hotel into about 100 housing units.

The Land Bank seeks to ensure a long-term impact on the community that focuses on urban "smart growth" and regional land use policies. The ultimate goal is to replace the old process of feeding blight by recycling properties through a system of tax foreclosure with a more cautious and deliberate approach that reduces the supply of low-value housing and strategically increases the supply of higher-quality housing.

Kildee advises other weak-market communities looking to revitalize blighted or abandoned properties to seek solutions in what may seem to be obscure areas of public policies. "Don't discount them as a possible source of an answer to the

problems you face,” he said. “People tend to look for the same solutions to their problems - usually more government money.”

Kildee also emphasizes the importance of understanding regional economics when solving urban problems. “We wouldn’t be able to do our work if we were a city land bank authority. We wouldn’t have the strength.” He explains that focusing on the regional or county-wide level, rather than city-level policies, increases the land and tax revenue available to fix a city’s problem.

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Reusing Vacant or Abandoned Property for Affordable Housing

See also Vacant Building Registry (in Other Strategies), Infill Development

Strategy description

Communities may adopt ordinances that identify underutilized or vacant property and facilitate the development or redevelopment of these properties for affordable housing. Examples of available land include tax-delinquent property, parking lots, and low-density structures in areas zoned for high-density development.

Target population

Affordable housing included as part of vacant or underutilized property redevelopment is targeted to low- and moderate-income renters and homebuyers, usually in blighted urban neighborhoods.

How the strategy is administered

Administration of the strategy varies widely. Local governments may take the lead in implementing strategies to redevelop vacant or abandoned land for affordable housing. The local government may do this directly, through a redevelopment authority established by the government, or through a community land trust. The strategy typically requires the cooperation of several government agencies, including those responsible for code enforcement and revenue, as well as the participation of for-profit or non-profit private developers.

Sometimes, the lead is taken by a non-profit working on neighborhood redevelopment efforts rather than by the local government.

How the strategy is funded

- City or state governments may provide technical assistance and financing to private for-profit and nonprofit developers seeking to renovate privately owned, abandoned buildings.
- The source of funding may be tax increment financing, general revenues, a housing trust fund, or the federal Low Income Housing Tax Credit.
- Land banks also provide funding for some of these initiatives; assistance from foundations and other private sources such as local employers may also be available.

Extent of use of the strategy

Moderate use.

Locations where the strategy is being used⁸

- Richmond, VA created the Neighborhoods in Bloom initiative in 1997. The initiative targets six of the city's most troubled neighborhoods, with significant vacant and code-violating properties. The city's code enforcement department works with community groups to identify vacant and substandard buildings and encourages the owners to rehabilitate their properties. Vacant properties are sold for redevelopment.
- In 2003, Indianapolis Mayor Bart Peterson initiated an effort with the help of Ball State University students to inventory all vacant properties in the city to determine which had potential to be redeveloped, resold, or improved by the owner. Survey teams collected information on the number of dwelling units and the status of vacancy; gave the site and property a condition rating; and photographed the property. The team surveyed a total of 7,193 properties and convened local experts and community leaders to recommend solutions.
- Project Houston Hope is a community revitalization initiative that focuses on areas that historically have been neglected and suffer from poor infrastructure, inadequate housing, and a scarcity of retail outlets. One of the major activities is the foreclosure of tax delinquent vacant lots. As of 2006, foreclosures were completed on more than 300 lots, 1,400 lots were in the process of being foreclosed, and lawsuits were initiated on more than 1,200 lots. A significant portion of the funding for the initiative comes from affordable housing set-aside monies generated through Houston's tax increment financing districts.
- In Massachusetts, state receivership laws allow abandoned buildings to be renovated and the costs to be passed along to the owner, who typically sells the property or turns control of the property over to a nonprofit organization.
- Kalamazoo, MI's Anti-Blight Team, initiated in 2003, encourages the conversion of vacant and blighted properties into use for affordable housing units.
- A similar approach is being used in Louisville, KY called the Blight Buster Initiative.
- New York City's more than 100,000 tax-delinquent and abandoned homes were used for many years to increase the availability of affordable homes and revitalizing neighborhoods citywide.

Strategy results

- As a result of Richmond's Neighborhoods in Bloom initiative, between 1997 and 2004 nearly 400 new or renovated houses were sold or under development; more than 130 owners with code violations repaired their homes; and aggregate value for tax assessments in the targeted areas increased between 44 and 63 percent.⁹
- Between 1997 and 2005, the number of abandoned buildings in Boston dropped 66 percent, from 1,044 to 350. The state receivership laws that allow abandoned buildings to be renovated at the expense of the owner has been an important tool in the city's success.

Pros and cons to using the strategy

Pros:

- Converts a neighborhood liability (a potentially hazardous or unattractive site) into an asset (new affordable housing units).
- Promotes infill development, conserving resources.
- Helps to revitalize the community.
- Significant potential cost savings, especially among tax-foreclosed properties, can be passed onto the eventual owner to reduce the cost of redeveloping the property as affordable housing.

Cons:

- Changes in state law may be required to allow or expedite taking tax-delinquent property.
- Land assembly processes can be lengthy.
- There may be barriers to construction such as zoning ordinances, traffic congestion, etc.
- The strategy requires significant political will and organizational capacity.
- Sites may involve environmental issues that may pose health risks.
- May concentrate affordable housing in neighborhoods with high poverty rates and poor schools and public services.

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LYNN, MASSACHUSETTS

The population in the City of Lynn, a former manufacturing center nine miles north of Boston, has been in decline for decades. Although the city's population has stabilized recently, average household income is lower here than elsewhere in the state. The population decline created housing abandonment, which Lynn's municipal government and non-profit sector are now using as an opportunity to create affordable housing.

✓ Reusing vacant or abandoned property for affordable housing

The City of Lynn has adopted a two-prong approach to deal with the abandonment issue. First, the city has undertaken aggressive efforts to deal with tax-delinquent properties. Tax-delinquent properties that formerly languished for six months before being sent to an attorney for foreclosure are now dealt with promptly. The city sends delinquent property owners letters threatening legal action. "It's working – people are paying," says City Treasurer Rich Fortucci, estimating that such letters save \$400 per case in legal fees. This effort has helped improve the city's bottom line. Rich Fortucci reports that the city collected \$1.1 million in delinquent taxes during 2003, the first year of the administrative change.

Despite such success in prompting payment of outstanding property taxes, Lynn also finds it necessary to take advantage of its authority to acquire tax delinquent property through a tax title taking. It is estimated that between two and three hundred properties are at some stage in the tax-title foreclosure process.

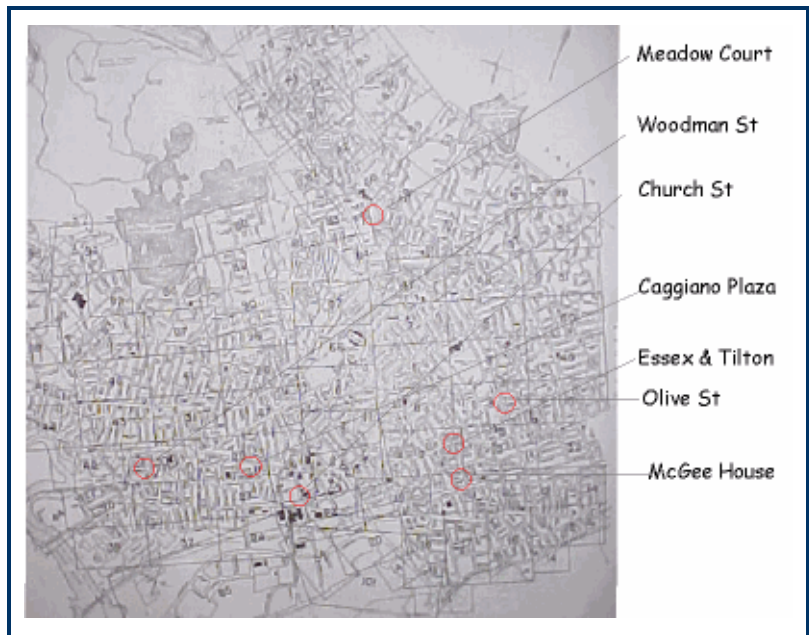


If owners do not respond to the letters, the city takes an aggressive approach to dealing with tax-title property both at the City level and through its partnership with an active non-profit organization, Lynn Community Development Housing Corp., an entity created by and closely affiliated with Lynn's housing authority and planning department.

Responsibility in Lynn for disposing of property taken for non-payment of taxes rests with the City Council's Public Property Committee. The Public Property Committee can dispose of property in any one of three ways: by conveying it to

Lynn's Economic Development Industrial Corporation; by conveying it to Lynn Housing Authority and Neighborhood Development (LHAND); or by soliciting bids. Under the third option, winning bidders are selected both by the amount of their bid and how their proposed use of the properties impacts the surrounding neighborhood.¹⁰

LHAND serves as both the City's housing authority and its neighborhood revitalization department. It also directs the work of an affiliated non-profit organization, the Lynn Community Development Housing Corp. The non-profit uses tax-title property to develop affordable housing, among other things. The only non-profit developer with a relationship with the City of Lynn, Lynn Community Development builds an average of 20 units of affordable housing per year.



Tax-title property is an important source for developing affordable housing in Lynn – it makes

up 75 percent of all property developed by Lynn Community Development. “The entity would not be in business without it,” says LHAND’s CEO Charles Gaeta. In addition to affordable housing, small tax-title lots are used for LHAND’s Add-a-Yard program, which deeds additional property to neighboring property owners for yards, additional parking, pocket parks, or community gardens.

Tax-title property also is important for the financial feasibility of affordable housing in Lynn. When the city conveys property to LHAND, no back takes are owed. The only property-related expenses are demolition, when necessary, and environmental remediation.

Brickyard Village in Lynn is one example of affordable housing created using tax-delinquent property. Brickyard Village is a 28-unit property scattered on several sites in an area described as a former drug haven. Five of the 14 parcels on which units are located were once tax-title properties, contributed by the city.

Cole predicts that the use of tax-title property for affordable housing will slow in the future. “There’s not much abandoned property left,” he says. He views places

*“There must be
commitment by the city.”*

-Norman Cole

with a backlog of tax-title property with some envy:
“For places with a lot of abandoned, vacant
property, I’d say, ‘You have a tremendous
opportunity.’”

He has specific advice for successfully developing affordable housing on tax-title property. “There must be commitment by the city,” Cole says. In addition, he advises having a specific process in place for taking tax-title property, foreclosing on it and selling it. Last, patience and vigilance are helpful. “Be prepared to wait two to three years to obtain a property.”

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Transfer of Development Rights

Strategy description

A transfer of development rights (TDR) directs development from one site to another in order to focus development where it is desired while protecting a low-density area against further development. Typically the exchange occurs between landowners in areas with low populations, such as farmland, and those in places with high population, such as downtown areas. However, sending zones within central cities are used as well. Landowners in the zone intended for protection, “the sending zone,” are allocated development credits that can be sold to developers, speculators, or the community. In return for selling their development credits, the landowners in the sending zone agree to place a permanent conservation easement on their land or, in some cases, to maintain their property as affordable housing. The purchaser of the development credits can apply them to develop at a higher density than otherwise allowed on property within the designated “receiving zone,” thus benefiting affordability by increasing housing production in the receiving zones.

History of the strategy

New York City’s first zoning ordinance, passed in 1916, contained the idea of transferring development rights, if not the term. The ordinance allowed landowners to sell their unused air rights to adjacent lots, which could then exceed the height and setback requirements. TDRs more closely approached their modern definition in 1968, when New York City’s Planning Commission began to allow transfers between lots several blocks apart.¹¹

Target population

- The strategy may benefit renters and buyers of units that have been preserved as affordable housing, and it may allow for the construction of new affordable housing properties.
- Landowners who decide it is in their best interest to sell their development rights also benefit.

How the strategy is administered

- TDR programs can be mandatory or voluntary. Within mandatory TDRs, sending area landowners are not allowed to build as many units as would have been allowed under the zoning in place before the mandatory TDR was implemented. Instead they hold development rights for the restricted units that they are permitted to sell to owners in receiving zones who are interested in purchasing rights to build more than would otherwise be permitted in those zones.
- Under voluntary TDR programs, owners in sending areas may choose to restrict development on their land and sell the development rights to owners in receiving areas. Alternatively, they can choose to develop the land as permitted under existing zoning.

- A development rights clearinghouse can be established that buys development rights from owners in the sending zone and sells them to owners in the receiving zone. A government body may serve as the clearinghouse.

How the strategy is funded

No external funding is necessary to implement this strategy, unless a government body buys development rights and holds them until developers purchase the rights. In this case, a large investment may be required. The investment will eventually be recovered when sales of development rights are made.

Extent of use of the strategy

- TDRs are used fairly widely throughout the country; however, many focus on protecting open space, natural resources, and farmland rather than on providing affordable housing.
- More than 20 states have passed TDR statutes.

Locations where the strategy is being used

- Portland, Oregon's TDR program allows existing affordable housing sites to sell their "unused density" (the difference between their current floor area ratio and what is allowed under zoning) to owners of other downtown sites who want to build taller buildings than are normally permitted. By selling the development rights, the owner of the affordable housing commits to keep the site in use as affordable housing in perpetuity. The strategy provides an influx of cash to the affordable housing and removes the threat that it will be converted to other uses.
- Seattle created a TDR program in 1985 to retain low-income housing; preserve historic landmarks; encourage infill development in historic districts; and create incentives for varying building scale. Developers of new office space in the downtown core are encouraged to purchase development rights from affordable housing sites.

Strategy results

From 1985 to 1997, the City of Seattle was the sole purchaser of TDRs, acquiring nearly \$4 million worth of development rights from eight sites in the sending districts. By 1997, the development community began making private purchases of development rights. For example, about half the total area of the W Hotel in downtown Seattle was made possible through purchases of TDRs. Among other achievements, these purchases preserved 372 units of affordable housing.¹²

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

For TDR to be successful there must be open space, farmland, or other land the community would like to protect as well as an area that can accommodate more growth. In addition, TDRs

are most successful in areas with a strong real estate market. In slower markets, developers are likely to use the existing densities allowed rather than pay more for higher densities.

Pros:

- Use of TDRs can help form partnerships between a variety of players, including affordable housing providers; people concerned with preserving farmlands and forestlands and natural areas; people advocating for compact development; developers who want to build high-density developments; and landowners who want to preserve their land as open space.
- Transfer of development rights can provide funding to maintain the stock of affordable housing when affordable housing sites sell their development rights.
- Preserves open space and farmland.
- Encourages development in downtowns and designated growth centers.

Cons:

- The transfer of development rights works well only in limited circumstances. If the zoning code already permits higher densities than developers are interested in building, TDRs will be ineffective as a strategy.
- Identifying appropriate sites for both sending and receiving TDRs might be difficult.
- Permanent restrictions on the use of the “sending zone” property must be applied in order for the TDRs to be effective in shaping long-term development.
- Residents of the receiving area may object to the higher density development, making the development rights difficult to use.
- Incentives for developers to purchase development rights, such as a density bonus, may be necessary.
- It can be difficult for sending zone landowners to find a buyer for their development rights unless the local government acts as an intermediary to create a market for the rights.

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Redevelopment of Brownfields

Strategy description

Brownfields are sites, often vacant or underutilized, that either are or are perceived to be contaminated. They may be old industrial sites or commercial sites like gas stations and dry cleaners. The real or perceived environmental contamination complicates expansion or redevelopment because of testing and clean up that may be necessary to ensure the safety of the site, as well as the liability that may remain even after remediation. However, recent changes in federal law relating to liability have improved opportunities for state and local governments to reuse brownfields.

Cities and states have taken several approaches to encouraging use of brownfields for affordable housing or mixed-use development that includes housing. These approaches include taking ownership of sites and working with developers, providing funding for clean-up, either directly or through tax credits, changing zoning to permit compact mixed-use development, and waiving development fees.

By one estimate, there are approximately 450,000 to 600,000 brownfields in the United States, ranging from large industrial sites to small abandoned gas stations and dry-cleaners.

History of the strategy

Brownfield redevelopment has existed for a number of decades. A 1980 federal law, known as the “Superfund,” attempted to address the issue of liability by making the current owner liable for cleanup costs. This had the possibly unintended effect of increasing the risk of acquiring brownfields for redevelopment and discouraging their reuse. Then, in 1995, the U.S. Environmental Protection Agency launched the Brownfields Economic Redevelopment Initiative to provide grants for projects and clarify liability and cleanup issues, among other things. This encouraged new brownfields redevelopment activity in the 1990s.

Target population

- Residents of urban areas and older suburbs may benefit from the removal of hazards and the redevelopment of sites that may be abandoned and unsightly.
- Affordable housing units created by brownfields redevelopment are generally targeted to low- and moderate-income households.

How the strategy is administered

Brownfields can be redeveloped by local or state governments, by non-profit or for-profit developers, or by a partnership that includes a combination of these groups. In addition to these participants, lenders, inspectors, and other community stakeholders may be involved in the process:

- First, brownfields with potential for redevelopment are identified. Individual developers, state and local governments, and other interested stakeholders may be involved.
- Second, a detailed plan for acquisition, remediation, and development is prepared, and regulatory agencies are involved in approving the plans.
- Third, the site is remediated and prepared for construction and construction begins.

How the strategy is funded¹³

- The Environmental Protection Agency, the U.S. Department of Housing and Urban Development, the Department of Commerce, and the Treasury Department offer a number of federal financing tools. Federal incentives for private investment in brownfields redevelopment include the Community Reinvestment Act, Industrial Development Bonds, Rehabilitation Tax Credits, and tax-deductible land donations.
- Several states provide loans and grants for brownfields redevelopment. For example, California's CalReUSE offers forgivable loans for site assessment and remediation.

Extent of use of the strategy

Brownfields redevelopment is a moderately used strategy across the U.S. It is used both by states and by localities, although not necessarily for affordable housing.

Locations where the strategy is being used¹⁴

- In Trenton, NJ, the city worked with the owner of a closed factory to redevelop the site for light industry and senior housing. Seventy affordable senior housing apartments were constructed on the site.
- In 1987, the Portland (OR) Development Commission purchased The Yards at Union Station, an abandoned train station, to create a high-density, mixed-use infill project near downtown. The remediation cost of The Yards was \$2.65 million, out of a total development cost of \$57 million.
- Brownfields laws in Michigan encourage redevelopment of previously contaminated properties. Michigan law protects owners from liability for existing contamination that they did not cause, and requires cleanup based on the intended land use, so that industrial sites do not have to meet the same standards as residential sites. The laws also allow communities to establish Brownfields Redevelopment Authorities that are authorized to use tax increment financing districts and tax credits to encourage investments in brownfields redevelopment areas.
- Firms in New York and California are looking at sites in each state for possible brownfield redevelopment investments that have the potential to produce 600 units of affordable housing.¹⁵

Strategy results

The Yards, in Portland, has produced 479 housing units, the majority of which are reserved for low-income households. In March 1998, 158 units of housing were completed. Forty percent of these were reserved for households earning up to 60 percent of median income, and the rest were sold at market value. In January 2000, another 321 apartments were finished. Half of these units were reserved for households earning less than 50 percent of median income, and half for those earning less than 60 percent.¹⁶

Pros and cons to using the strategy

Pros:

- Brownfields redevelopment has the potential to replace an unsafe eyesore with a development that helps meet community affordable housing and other needs.
- Brownfields are often large plots of land that can provide ample space for development of many homes.
- Brownfields are typically located in close proximity to existing infrastructure, transportation routes, and labor pools.
- Brownfields redevelopment encourages reuse of urban land.

Cons:

- Sites are potentially hazardous and, even after clean up efforts are made, potential dangers may still exist. The ongoing actual or perceived hazard creates permanent liability issues, particularly with the lending organizations involved.
- Significant public and/or private up front investment is required to clean up and inspect a site.
- Prolonged legal battles are usually necessary to get the original owner to agree to clean up the site.
- Redevelopment can be a very long process involving resolution of legal issues, testing and clean up, and actual development.

Sources of information about the strategy

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- Western Pennsylvania Brownfields Center website:
<http://www.cmu.edu/steinbrenner/brownfields/index.html>

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MICHIGAN

BROWNFIELDS REDEVELOPMENT

Dozens of sites throughout the state of Michigan that were once toxic, abandoned, or obsolete are being revived and put to use thanks to the state's brownfields revitalization efforts. Considered the premiere brownfield model in the country,¹⁷ the most recent version of the law, passed in 2000, has spurred significant investment from the state, local municipalities, and developers, including a variety of affordable housing projects, on sites that might otherwise remain underused eyesores.

- ✓ Redevelopment of brownfields
- ✓ Infill development
- ✓ Tax increment financing
- ✓ State tax credits

Michigan's brownfield strategy is one of a kind

One unique element of Michigan's strategy is its liberal definition of a brownfield, which expands significantly the amount of land that is eligible for redevelopment incentives. Under the law, the state is divided into core and non-core communities, based primarily on population. Non-core communities consist of the more rural areas of the state with significantly less development. These communities retain the standard brownfield definition, which includes abandoned or idle industrial or commercial sites where redevelopment is complicated by environmental contamination.

In core communities, on the other hand, land defined as brownfields is expanded to include blighted and functionally obsolete parcels, in addition to those that are environmentally contaminated. The 100 or so core communities are urban areas and inner-ring suburbs where the vast majority of brownfield redevelopment activities are taking place.

Brownfield financing tools are keys to its success

Michigan offers developers two major financing tools to promote development on brownfield sites. The first is revenues from tax increment financing (TIF), which can be used to help reimburse developers for the remediation process. The tax increment bonds are paid off from increases in property taxes created by the redevelopment.

The second tool is the Michigan Business Tax brownfields credit, which is offered to organizations redeveloping property declared as brownfields. The developer can apply for a tax credit of up to 10 percent of all eligible project costs including new construction, rehabilitation, and overall site improvement. The tax credit can be sold in a process similar to that of syndicating federal Low Income Housing Tax Credits (LIHTC) to raise equity for the project. These credits sell for about 80 to 85 cents for every dollar of tax credit.



Brownfields laws offer liability protection

A third unique feature of Michigan's brownfield efforts is the liability protection it offers to key stakeholders. Contaminated land may be purchased without liability, provided the new property owner establishes that they are not responsible for the contamination. Among other things, the buyer must participate in a Baseline Environmental Assessment (BEA) that proves they did not contaminate the land prior to or within 45 days of owning the property. Over 400 BEAs were filed within the first year (1996) of the liability provision, ten times the number of covenants-not-to-sue that were issued in the previous four years combined under the old legislation.¹⁸ The Department of Environmental Quality oversees the entire process to ensure that any liability that does exist is applied appropriately.

Once a brownfield site is identified, the state's Department of Environmental Quality addresses the environmental redevelopment concerns while the Michigan Economic Growth Authority (MEGA) assesses the financial redevelopment incentives applicable to the project.

Brownfield affordable housing development seeing positive growth

While Michigan's brownfield efforts were not initially developed to target affordable housing needs, they nevertheless have had a significant positive impact throughout the state.

An important development in this trend is the combination of the LIHTC with brownfields redevelopment incentives. The state realized that combining these tools could provide enough of a subsidy to developers to make affordable housing an attractive alternative.



Michigan State Housing Development Authority Director Joe Borgstrom views this packaging of financial incentives as an important feature. “Individually, both brownfields and [other] financial incentives for affordable housing have had great impacts, but when they are combined, they can be that much more effective,” he said.

As a result, mixed use and high-density affordable housing developments are on the rise, primarily in core communities. Affordable housing development is successful in these communities because of their higher population densities, according to Borgstrom. “You have to have the density to make affordable housing development really work,” he said.

For example, Ann Arbor is developing a \$100 million mixed-use and mixed-income project in its downtown using brownfields and other incentives. In Detroit, a combination of public and private investment has contributed a total of \$800 million over the last few years to revitalize abandoned and otherwise blighted inner city lots, including a number of affordable housing projects.

Michigan brownfield strategy is effective, but not perfect

Despite Michigan’s many successes in its brownfield redevelopment efforts, Borgstrom notes there is some room for improvement. The law does not currently contain a clawback provision that allows the government to rescind tax credits given to the developer, should he or she break the original contractual commitment. Similarly, the law lacks a long-term brownfield compliance ordinance, which would ensure the property remained utilized and free from contamination over the long term.

Overall, the state’s brownfield strategy has achieved significant success thus far, and with additional improvements, should continue to revive and revitalize areas once

marred by contamination, blight, and obsolescence. “I think we’ve got a great model,” Borgstrom said.

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ZONING FOR AFFORDABLE HOUSING

Overlay Zoning Districts

Strategy description

Overlay zoning districts are created to promote certain types of development in an area. New zoning provisions are adopted that apply in the district in addition to the provisions of the already-existing zoning ordinance. The provisions of an overlay district can be more restrictive or more expansive than those contained in the underlying zoning. For example, the overlay district may provide zoning incentives and waivers to encourage affordable housing development.

Target population

The target population can depend on the specific intended result of an overlay zoning district. Overall, however, an overlay zoning district seeks to improve the well-being of all the residents and other property owners that live or work within the district. Overlay zoning districts that specifically seek to address affordable housing needs target those seeking affordable housing opportunities.

How the strategy is administered

Overlay zoning districts are passed and administered on a town-by-town basis. While the state may promote their use, oversee their implementation on a statewide level, and provide funding, each local jurisdiction is ultimately responsible for their passage and for specific design and implementation efforts. State and local governments may provide other incentives, such as density bonuses, infrastructure financing assistance, and assistance with public education costs.

How the strategy is funded

Prior to enacting an overlay zoning district in a given community, the state or local jurisdiction will likely need to provide funding for outreach and planning to communities interested in using the strategy. Funding for specific projects once an overlay zoning district is passed will be provided by the developer as usual. However, the state or local jurisdiction may also provide a source of funding for infrastructure development within the overlay zoning district.

Extent of use of the strategy

Overlay zoning districts are widely used throughout the country. However, a large number of such districts do not appear to include promotion of affordable housing as a goal.

Locations where the strategy is being used

- In Massachusetts, overlay zoning districts are used in a number of locations that allow mixed-use development, with a density for apartment buildings of at least 20 units per acre and for single-family homes of at least eight per acre.

- Nashville, TN uses Urban Zoning Overlay Districts (UZO) to accomplish a number of goals, one of which includes an affordable housing requirement. To encourage residential development, a number of districts within the city permit a floor area bonus for mixed-use buildings in which at least 25 percent of the space is for residential use. Affordable units must be included to receive the bonus if the building has more than 10 living units.

Strategy results

Massachusetts' Overlay Zoning District program is expected to result in the construction of 33,000 new housing units – both market rate and affordable – within the Overlay Zoning Districts between 2003 and 2013. The program offers school reimbursement incentives to help offset the increased cost of education within the OZD communities.

Pros and cons to using the strategy

Pros:

- Allows significant zoning flexibility to more appropriately accommodate current needs in areas with out-of-date zoning laws.
- Allows for local control of design and construction decisions, permitting each community to tailor their efforts to meet the specific needs of their community.
- Promotes infill development, conserving resources.

Cons:

- May be difficult to pass because of NIMBYism and other local barriers.
- There can be significant up-front costs to state and local jurisdictions.
- Does not necessarily create affordable housing.

Sources of information about the strategy

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Affordable Housing Districts

Strategy description

Affordable housing districts are areas targeted for affordable housing development. Within these areas, special zoning rules encourage a variety of housing types and allow for greater densities in order to maximize the number of units produced. Affordable housing districts can also include financial incentives to owners of rental property and homeowners, such as tax breaks, waivers or amortization of fees, and deferrals on special assessments.

Target population

Targets low- and moderate-income renters and homebuyers in areas that have limited affordable housing or where the cost of developing it is high.

How the strategy is administered

Local governments designate a specific area as an Affordable Housing District. Incentives are provided to developers for building affordable housing within the district.

How the strategy is funded

No additional funding is required to establish the district; developers who construct the new affordable housing units may receive property tax concessions and other incentives funded with general revenues.

Extent of use of the strategy

Limited use.

Locations where the strategy is being used

- Grand Forks, ND first established affordable housing districts in 2002. In exchange for special concessions on tax assessments and land standards, developers in these areas agree to build higher density, smaller entry-level homes.
- Corte Madera, CA created an affordable housing mixed-use district that tripled density and required at least 50 percent of units to be affordable. The district now includes a 79-unit affordable housing project, several mixed-income projects, and accessory dwelling units.

Strategy results

- Prior to Grand Forks' efforts to establish affordable housing districts, only 14 affordable units were built in the entire city. Since 2002, of the 106 homes built in the affordable housing districts, over 57 percent meet affordable housing target prices.¹⁹

Pros and cons to using the strategy

Pros:

- Reduced zoning restrictions provide incentives for developers to build affordable housing.
- Promotes infill development and increased density, both of which conserve land and resources.
- The application process for developers seeking zoning variances is generally more relaxed and flexible.

Cons:

- It may be hard to win support of residents of communities where there currently is little affordable housing.

Sources of information about the strategy

- “Sample Affordable Housing District Regulations,” Urban Planning Associates Inc., Little Rock, AR, September 2003. Available at: http://www.planyourcity.com/Man_Housing3.pdf
- “Central Florida Workforce Housing Toolkit,” Orange County (FL) Government website. Available at: <http://www.orangecountyfl.net/cms/WorkforceHousing/default.htm>

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Inclusionary Zoning

See also Density Bonus Programs

Strategy description

Inclusionary zoning refers to a set of ordinances that require that some affordable housing be produced as part of a new market-rate development. The most effective ordinances are based on an understanding of local market conditions, include density bonuses or other means of offsetting costs to developers, and are used in conjunction with a variety of additional strategies to encourage affordable housing.

History of the strategy

Inclusionary zoning originated in the 1970's when Fairfax County, Virginia and Montgomery County, Maryland, both in the Washington, D.C. metropolitan area, adopted inclusionary zoning ordinances. In Fairfax County, the Virginia Supreme Court struck down the inclusionary housing ordinance because of a lack of state enabling legislation; a modified ordinance was adopted in 1990. In Montgomery County, the Moderately Priced Dwelling Unit Program has operated continuously since its adoption in 1974.

Target population

Units built under inclusionary zoning are targeted to low- and moderate-income renters and homebuyers.

How the strategy is administered

Inclusionary zoning ordinances mandate developers to provide affordable units in an otherwise market-driven development. These city ordinances require that a percentage of the units be affordable, typically 10 to 30 percent of new units. These units are often deed restricted to ensure long-term affordability.

Inclusionary zoning ordinances vary substantially. Variables can include:

- Whether the ordinance is mandatory for all developments or only applies to those who accept particular incentives.
- What, if any, incentives or cost offsets the local government provides in exchange for the affordable units. These may include density bonuses, streamlined permitting, reduced standards, and impact fee waivers.
- Definition of affordable
- Length of time that price restrictions apply to affordable units
- Percentage of units devoted to inclusionary housing

- Minimum size of development that ordinance applies to.
- Alternatives to affordable units constructed on site:
 - Whether a developer can pay a fee in lieu of building the affordable units
 - Whether the affordable units can be built off-site
 - Whether rehabilitation of off-site affordable units qualifies to meet the obligation
- Whether inclusionary housing must be indistinguishable from market rate housing in appearance.
- Which type of housing construction the ordinance applies to. (High-rise housing costs more per square foot, so compliance costs may prove prohibitive to the development. In some cases, high-rise housing may be exempt from the ordinance.)

How the strategy is funded

Inclusionary zoning ordinances may not require significant government expenditures if few cost offsets are offered; however, these ordinances are unlikely to produce very many units of affordable housing. In general, economists agree that inclusionary zoning ordinances act as a tax on development, and that costs are likely to be shared by developers, landowners, and market-rate homebuyers.²⁰

Extent of use of the strategy

Widely used.

Locations where the strategy is being used

- More than 200 communities in the United States have some sort of inclusionary zoning provision.²¹
- Montgomery County, MD requires residential developments of 50 or more units to make 12.5 to 15 percent of the units affordable to households with incomes less than 60 percent of the county's area median income. To compensate developers for the additional costs of building the affordable units, the county provides a density bonus of up to 22 percent above what could be built under existing zoning. The density bonus is based on a sliding scale that allows increasing densities for increasing proportions of affordable housing.
- North Kingstown, RI offers developers density bonuses of up to 100 percent under its "friendly comprehensive permit" approach to encouraging new affordable housing units (see case study).
- Highland Park, IL's inclusionary zoning ordinance offers one additional market rate unit for each additional affordable housing unit built. Developers appreciate the flexibility with which the ordinance is administered: affordable units are generally not required to all be the same size or housing type as the market-rate units (see case study).

Strategy results

The results of an inclusionary zoning ordinance depend greatly on its design. In Somerville, MA, the ordinance has resulted in the construction of about three affordable units per year over the last 15 years. In Montgomery County, which has one of the highest-producing ordinances in the country, about 385 units per year are created.²²

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Inclusionary zoning works best in “hot” real estate markets, where rising house prices increase developers’ willingness to make concessions in order to obtain building permits. Inclusionary zoning is likely to be less effective in “cool” housing markets, where builders may seek development opportunities in other towns rather than submit to inclusionary zoning requirements.

Pros:

- By linking construction of affordable units to construction of market rate units, inclusionary zoning aims to bypass local NIMBYism.
- By ensuring that developments include affordable and market-rate units, inclusionary zoning also aims to create income-integrated neighborhoods.

Cons:

- Inclusionary zoning is a very complex market intervention that can be difficult to administer, especially as market conditions change.
- Writing and adopting an effective inclusionary zoning ordinance can be expensive, as they need to be tailored to each community’s economic and demographic conditions.
- Inclusionary zoning ordinances, particularly those that are poorly designed, can nearly halt housing construction in a city entirely, raising the costs of housing generally.
- Poorly designed ordinances that stifle construction result in the construction of few if any affordable units.
- Deed restrictions on affordable housing units may eliminate much, if not all, of the benefit of home ownership for buyers of affordable units.
- NIMBYs may make it difficult or impossible for developers to build to the maximum densities allowed by density bonuses offered by the city.
- Inclusionary zoning, if used as the primary affordable housing tool, is unlikely to be as effective as a more comprehensive strategy.

Sources of information about the strategy

- Inclusionary Zoning for the City of Chicago: Myths and Facts. Available at: <http://www.northpark.edu/umin/tts/IHMythsFacts.pdf>

- “Inclusionary Zoning: The California Experience,” National Housing Conference, NHC Affordable Housing Review, Vole 3, Issue 1, February 2004, pg. 1. Available at: <http://www.calruralhousing.org/system/files/Inclusionary30Years.pdf>
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NORTH KINGSTOWN, RHODE ISLAND

DEVELOPER INCENTIVES FOR AFFORDABLE HOUSING

Residents of North Kingstown, Rhode Island, are balancing a number of goals in planning for affordable housing. In addition to expanding the supply of affordable housing for the local workforce, they also want to maintain the character of the town, practice environmental conservation, and revitalize declining industrial corridors. The town has found a combination of strategies to help achieve all of these goals.

- ✓ State mandates and guidance for local planning
- ✓ State-level fair share and remedy programs
- ✓ Density bonus programs
- ✓ Growth centers and corridors
- ✓ Accessory dwelling unit ordinances
- ✓ Inclusionary zoning
- ✓ Housing trust funds

A state mandate that local governments plan for affordable housing was an important motivation for North Kingstown's efforts. Rhode Island's Low and Moderate Income Housing Act (LMIHA) requires that all jurisdictions in the state submit an affordable housing plan that lays out a strategy for meeting the law's goal that 10 percent of the housing stock in every community be affordable.

In preparing its affordable housing plan, North Kingstown determined that the town needs an additional 322 affordable housing units by 2013 to meet the state's 10 percent goal – a whopping 27 percent of all new units projected to be built in the next decade.²³ In an area where most job growth is occurring in occupations whose salaries are too low to afford local housing prices, these new units will allow local public and service workers to live in the community they serve.

To achieve their goals, the town had to consider a number of local challenges. Infrastructure construction in a state with critical water bodies is difficult and expensive. In addition, residents of North Kingstown value their town's character and support environmental preservation and protection, reusing developed areas, and farmland protection. To respond to these challenges, the town has passed a variety of innovative planning tools to balance affordability and environmental goals.

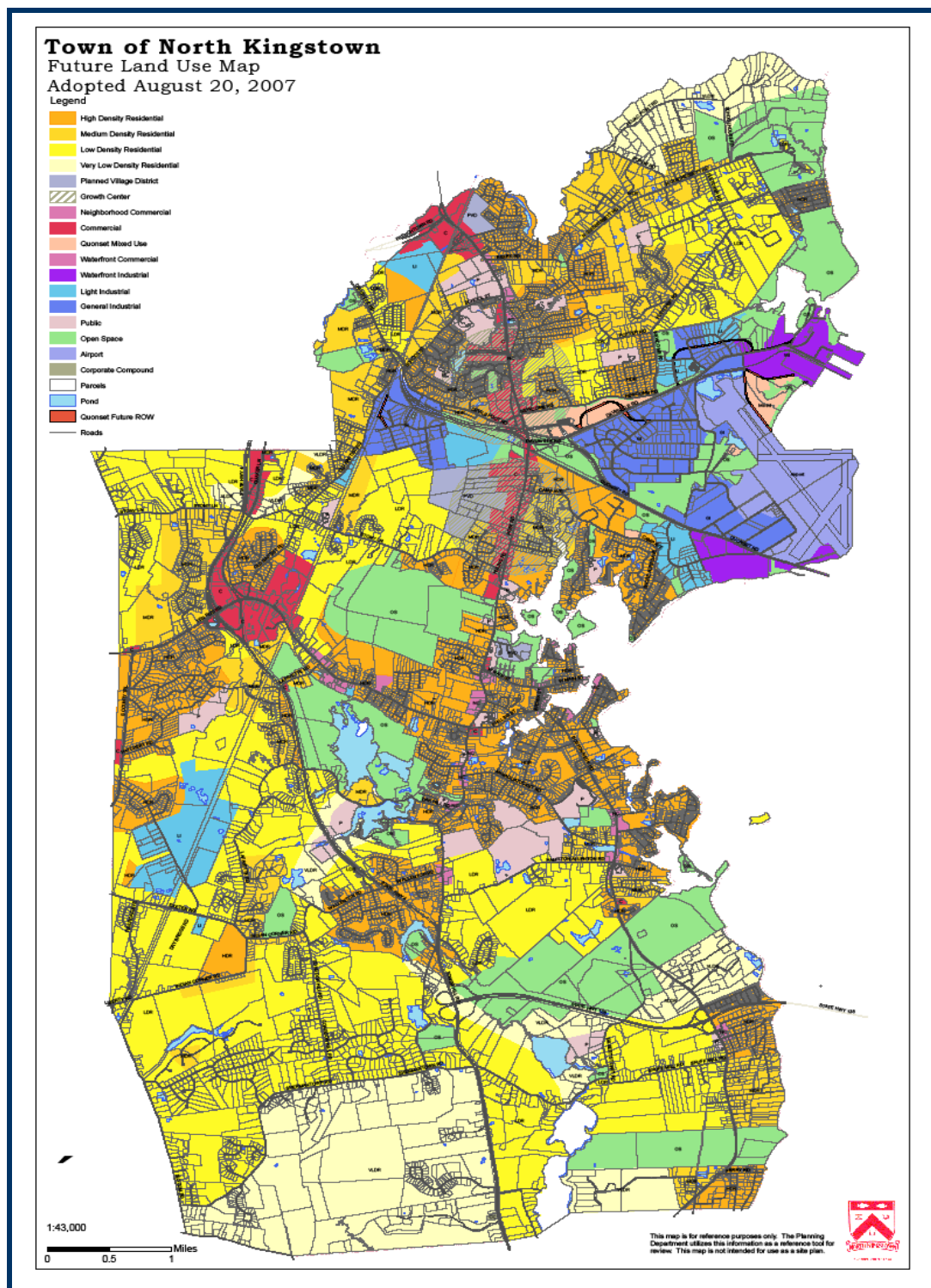
In addition, zoning restrictions designed to protect the local water supply and topographical restraints greatly limit the number and location of density bonuses North Kingstown can use to achieve their affordable housing goals. As a result, North Kingstown has to focus its planning efforts only on those areas suitable for higher density development.

A centerpiece of North Kingstown's affordable housing efforts makes use of comprehensive permits established in the LMIHA. These permits provide developers with streamlined permitting and up to a 100 percent density bonus for projects where 25 percent or more units are affordable.

Traditionally, the state's comprehensive permit process has involved unfriendly interactions between the local government and developers, as local governments try to halt unwanted development and developers appeal denials of permits to the State Housing Appeals Board. However, by focusing on development in areas targeted for smart, higher-density growth – such as the Post Road corridor – North Kingstown has fostered cooperation between developers and local officials and turned the comprehensive permit process into a housing strategy welcomed by developers and local officials alike.

Jon Reiner, planning director of North Kingstown, identified these “friendly” comprehensive permits as the most successful affordable housing tool they have implemented. In the previous fiscal year, three of five development projects that were planned or applied for included comprehensive permits.

A second affordable housing strategy is also an effort to revitalize an aging industrial corridor that is experiencing economic decline. In 2007, North Kingstown passed a Village Center Ordinance that increases the density allowance for projects that are high density, mixed use, and include at least 20 percent affordable housing. The town seeks to promote smart growth techniques and affordable housing inclusion and to lure developers to build on sites with existing infrastructure and in close proximity to employment centers and community services. By increasing the density allowance to four units per acre, as many as 424 units could be constructed on the 106 acres in the targeted area, compared with 87 units under previous zoning allowances.²⁴



In 2007 North Kingstown also revised its accessory dwelling unit code. Previously, lot area, maximum density, and other zoning provisions excluded accessory dwelling units. The revision created a new use category, “adaptive apartments,” that exempts affordable accessory dwelling units from the restrictions on larger-than-standard lot sizes, legalizing these units if they are made permanently affordable and brought up to building and housing code standards.

An inclusionary zoning ordinance passed in 2007 requires local developers to include 10 to 25 percent affordable housing in all new residential development.²⁵ Developers can meet the requirement by building the units on-site, paying a fee in lieu of the units, or by building inclusionary housing units on an approved alternative site. In exchange, developers may receive a density bonus equal to twice the number of inclusionary units proposed above the 10 percent requirement, up to 50 percent.²⁶

Reiner notes that a housing trust fund that will allocate in-lieu fees received from developers under the inclusionary zoning ordinance is in the works.

Reiner cites misconceptions about low- and moderate-income housing as an initial challenge to gaining support for the town’s affordable housing goals. “People did

*“Find out what people
really want and vision
with local groups.”*

-Jon Reiner

not realize you could make \$70,000 a year and still qualify. They think, ‘Wait a minute! These are my schoolteachers, firemen, and police. How can they afford to live here?’”

Looking back, Reiner recommends that communities interested in implementing an affordable housing plan engage in public outreach to all stakeholders in the community. “Find out what people really want and vision with local groups. You can’t talk about substantially increasing density if people don’t want to see it.” He also advocates for developing a local development plan and integrating affordable housing into all planning strategies. “Anything it applies to, apply it to.”

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Density Bonus Programs

See also Inclusionary Zoning

Strategy description

Density bonuses allow housing developers to build more units on a site than are otherwise permitted, provided that the developer agrees to reserve a percentage of the total number of additional units for low- to moderate-income households. The number of additional units is usually subject to a specific threshold, such as 20 percent of the normally permitted density. Units reserved for low- or moderate-income households must remain reserved for these households for a defined length of time.

Density bonus ordinances usually are enacted at the city or county level; state law may also require communities to offer density bonuses. Density bonus programs are used to achieve a variety of public goals by reducing the cost of land for housing. They are often used to compensate developers for inclusionary zoning policies and also can be used as an incentive for cluster developments that both create affordable housing and preserve open space. Density bonuses used as incentives for constructing affordable housing are sometimes known as voluntary inclusionary zoning programs.

History of the strategy

Density bonuses have been used as a strategy to increase the supply of affordable housing since the 1970s.

Target population

The density bonus strategy has been used by state and local governments in the wake of rising land prices to ensure long-term affordability of rental and ownership units for low- to moderate-income families and senior citizens.

How the strategy is administered

- An ordinance allowing density bonuses is typically enacted at the city or county level. In California, local governments are required to offer density bonuses to developers who include affordable housing in developments.
- The density bonus ordinances may have provisions that define the objectives, identify the area where the bonuses are allowed, develop specific policies for allowing bonuses, and include calculations of allowable density bonus. In addition, they specify target groups, minimum affordable housing units, and maximum bonus grants.

How the strategy is funded

There is no direct cost for the community other than the cost of writing and administering the ordinance. Developers fund the development of additional units for low- to moderate-income residents in exchange for a specified percent increase in the number of units that can be developed above the number otherwise allowed under current zoning.

Affordable units built under voluntary inclusionary zoning programs often rely on federal, state, and local subsidies.

Extent of use of the strategy

Many cities and counties have adopted this strategy to increase the supply of affordable housing.

Locations where the strategy is being used

- King County, Washington enacted a density bonus program for affordable housing to encourage developers to build affordable housing.
- Arlington, Virginia implemented a density bonus ordinance in 2001 that allows developers to increase density by 25 percent (up from 15 percent allowed previously) above existing zoning restrictions.
- San Diego County in California has three different density bonus policies in addition to the density bonus required by the state (see above). These include density bonuses for affordable housing for the elderly; a density bonus for mobile home park developments; and a program for lower-income families program that allows density of up to 20 units per acre in designated areas.
- Anaheim, CA offers density bonuses for affordable housing that vary based on the income level of households targeted.
- Irvine, CA, Lexington, MA, and Chapel Hill, NC all have voluntary inclusionary zoning programs that are considered to be quite successful (see strategy results below).

Strategy results

Chapel Hill's voluntary inclusionary zoning ordinance produced 162 affordable homes from 2000 to 2004 and collected about \$178,000 in fees.²⁷

Pros and cons of using the strategy

Pros

- The community and low- to moderate-income families benefit from additional affordable homes.
- Developers are allowed to build at a higher density than would otherwise be permitted.
- There are minimal direct costs to the community and tax payers.

- Because it is voluntary, it is a strategy that is often accepted by builders and developers, the community, and politicians.
- Effective density bonus programs provide sufficient incentives to produce affordable housing, therefore avoiding the “tax on development” that results from inclusionary zoning.

Cons:

- Requires review and redesign of the zoning policies or community plan.
- NIMBYs sometimes resist higher-density development allowed with density bonuses.
- Some voluntary inclusionary zoning policies are effectively mandatory because developers find it difficult to get necessary approvals and/or permits without including affordable housing units in the development.

Sources of information about the strategy

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Growth Centers and Corridors

See also Assessments of Development Capacity

Strategy description

Growth centers have a core of commercial and community services, residential development, and natural and built landmarks and boundaries that provide a sense of place. Growth corridors are linear and often stretch between two growth centers. Both are areas targeted for additional development and higher densities, where more efficient use of land, infrastructure, and services can improve the affordability of housing. Density bonuses are sometimes offered to encourage affordable housing units in developments in growth centers.

Target population

- Affordable units created in growth centers are targeted to low- and moderate-income renters and homebuyers.
- Other community members benefit generally from the increased investment in concentrated development that conserves resources and can help to revitalize the community.

How the strategy is administered

States and/or localities designate specific areas as growth centers. Frequently, a task force consisting of representatives from various state agencies and other key stakeholders is created to monitor and carry out the growth center plans. The task force works with developers and lenders to ensure compliance and successful plan implementation.

How the strategy is funded

Funding and other incentives for the development of growth centers include expedited permitting for projects in growth centers, density bonuses, CDBG/HOME funds, and Low Income Housing Tax Credits. States may also encourage development by committing to locate all future suitable state facilities in designated growth centers, providing funds for open space and recreation areas, and prioritizing transportation and infrastructure funding to these areas.

Extent of use of the strategy

Limited.

Locations where the strategy is being used

- The Maryland Department of Planning established Priority Funding Areas through legislation passed in 1998. Priority Funding Areas are locations where the state and local governments target their efforts to encourage and support economic development and new growth. State funding for projects in Maryland municipalities, other existing communities,

industrial areas, and planned growth areas designated by counties receive priority funding over other projects. Counties may designate areas as Priority Funding Areas if they meet guidelines for intended use, availability of plans for sewer and water systems, and permitted residential density.²⁸

- In Rhode Island, the Governor's Growth Planning Council in 2002 and procedures adopted by the State Planning Council in 2004 allow Rhode Island communities to identify, and the state to approve, Growth Centers. The State focuses its development assistance, including capital spending, technical assistance, expedited permit approvals, and other support to approved Growth Centers.²⁹
- Act 183, passed in Vermont in 2006, created the Growth Center Planning and Coordination Committee. The Committee is now working to create incentives for affordable housing in growth centers.

Pros and cons to using the strategy

Pros:

- Concentrates development, conserving resources.
- Higher-density development accommodates a diversity of types of residential development, including smaller, lower-priced units.
- Reduces transportation burdens, as growth centers are often located in close proximity to bus and subway lines, and to areas with significant commercial development.
- Encourages a diverse community in terms of mixed income and mixed usage.

Cons:

- May create gentrification, if property values increase as a result of the increased development.
- May deflect growth to other areas if requirements are too restrictive.

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- National Center for Smart Growth Research and Education website, available at:
<http://www.smartgrowth.umd.edu/>.

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Changes in Zoning to Encourage Affordable Housing

Strategy description

Exclusionary zoning regulations create barriers to the development of a diverse housing stock in many communities. A variety of zoning changes can be used to create more opportunities for affordable housing. Some of these include:

Providing a range of lot sizes to allow a variety of housing types

- Minimum-density requirements, so that land zoned for multifamily housing cannot be developed as single-family housing
- Zoning for multifamily housing, accessory dwelling units, and live/work units
- Rezoning underutilized industrial and/or commercial areas for residential use. Many cities have seen a decline in manufacturing and other types of industrial uses that are not likely to return and have a limited supply of land for housing, but have not rezoned land to reflect this new reality.
- Eliminating or reducing minimum lot sizes, buffer requirements, square footage and setback requirements, and restrictions of the number of units in a single building
- Eliminating septic and wetlands requirements that are more stringent than state requirements
- Reducing parking requirements for affordable housing developments, particularly those near public transportation
- Revising zoning rules that discourage affordable housing development to prohibit “*undue* adverse impacts” instead of “adverse impacts” on current property owners
- Using unified codes that eliminate separate subdivision requirements
- Avoiding broad interpretations of zoning rules that prohibit development that “changes the character of an area.” Such rules are sometimes interpreted to mean that all denser housing types are prohibited.

History of the strategy

Zoning that discourages affordable housing development has been used in towns and cities for decades. For example, the 1975 New Jersey Supreme Court’s decision in the *Mount Laurel* case specifically recognized that zoning rules were being used to exclude affordable housing. Changes in zoning to reverse exclusionary effects of zoning have been used as a strategy to encourage affordable housing for almost as long.

Target population

- Changes in zoning target different populations, depending on the specific zoning change. Some reduce barriers to multifamily development, targeting primarily renters; most target homebuyers at all income levels.

How the strategy is administered

Community stakeholders, including developers, local business owners, landowners, affordable housing advocates, and others may all petition for or advocate for zoning changes. A legislative body must pass the changes, whether that is a planning commission or a local government.

How the strategy is funded

No funding is necessary other than for enforcing new zoning codes.

Extent of use of the strategy

- Zoning changes are widely used to promote increased development of affordable housing.

Locations where the strategy is being used

- The city of Fremont, CA established a multifamily zone to encourage multifamily developments in the city. Among other incentives, the city offers reduced minimum lot setbacks, reduced increased maximum lot coverage, reduced on-site parking standards, and reduced minimum street widths.
- By enacting zoning policies that support a diversity of housing types, Cambridge, MA accommodates mixed-income developments such as Auburn Court. The development includes a mix of one-, two- and three-bedroom units, flats and duplexes for a total of 137 housing units.
- Cincinnati, OH revised its zoning code to allow 2,000 and 4,000 square foot lots in older neighborhoods. It also reduced requirements for side yards and setbacks.

Pros and cons to using the strategy

Pros:

- Reduces costs of building residential housing generally by permitting more efficient use of land.
- Improves diversity of the housing stock, creating units affordable to households at a range of incomes.
- Smaller lots and more dense development help protect environmentally sensitive areas that might have otherwise been used for development.
- May reduce transportation costs because residents may have shorter commutes and live closer to other amenities.

Cons:

- Changes in zoning can require a lengthy process.
- Zoning changes can meet strong resistance from local homeowners who fear that a change would drive property values down, or change the make-up of the community, or negatively affect community services.

Sources of information about the strategy

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KING COUNTY, WASHINGTON

ZONING CHANGES TO PROMOTE AFFORDABLE HOUSING

For over two decades, King County, Washington, has been using one of the most comprehensive sets of housing strategies in the country to anticipate and adjust to an ever-growing and ever-changing population. Between the county's rapidly rising house prices and the large geographic area it encompasses, progress has often been hard to come by, particularly in the affordable housing arena. The county nevertheless has been effective at developing strategies that address King County's specific needs and priorities.

- ✓ Changes in zoning to encourage affordable housing
 - Minimum density requirements
 - Elimination of minimum lot sizes
 - Cottage housing ordinance
- ✓ Cluster development
- ✓ Increased use of manufactured housing
- ✓ Accessory dwelling unit ordinances
- ✓ Mixed-use development
- ✓ Inclusionary zoning with density bonuses up to 100 percent
- ✓ Expedited permitting processes
- ✓ Impact fee waivers
- ✓ Performance zoning

In anticipating the region's significant growth of the 1980s, the county realized it would need to figure out a way to accommodate and manage the growth, particularly in the urban areas. At the same time, it would have to balance new housing with other priorities to mitigate sprawl, preserve open spaces, and reduce potential environmental damage from development.

Zoning changes are a piece of King County's solution

From this frame of reference, the county adopted a series of zoning-based strategies through the 1980s that included minimum density requirements in subdivisions; eliminating minimum lot sizes to encourage cluster development; and protections for green spaces.

In 1993, the county adopted a new zoning code, Title 21A, which allowed for a greater range of affordable housing choices and densities through expanded opportunities for townhouses, accessory dwelling units, manufactured housing, mixed-use development, and cottage housing.

More recently, King County has continued to make zoning changes to meet the rising demand for affordable housing. For example, in 2000, the county reduced restrictions in single-family-only zones to allow attached housing. This has resulted in a significant increase in townhouse and attached housing production throughout the county.

As a second example, a 2004 cottage housing ordinance allows units no greater than 1,200 square feet to be built in clusters around a common green space, permitting twice the density of normal small cottage housing developments. Similar ordinances have been used in a number of the 38 incorporated King County cities since 2004.

Affordable housing production remains a challenge

The area's rapidly growing population means that King County has faced a constant struggle to create sufficient incentives to promote affordable housing production without sacrificing the county's desire to limit urban sprawl and protect valued lands. According to Stephanie Warden, director of the King County Department of Development and Environmental Services, some of these strategies have worked much better than others. Under its inclusionary zoning law, the county has incorporated a 100 percent density bonus for projects that include units affordable to people with incomes ranging between 50 percent and 120 percent of AMI.

Expedited permitting processes have also fostered affordable housing production by shortening the approval period, thus saving the developer money. "Builders always

*"Builders always tell us
time is money,"*

-Stephanie Warden

tell us time is money," Warden said. Under King County's expedited permitting procedures, affordable housing proposals automatically move to the top of the pile. Furthermore, the county's residential BASICS permit program, which is designed for permit applicants who wish to build the same house design on a repetitive basis,³⁰ allows individual unit building permits to be issued for pre-approved master plans in an average of less than two days. Permitting services have been made available on Saturdays, and the average wait time for permit information has been reduced to under a minute.³¹

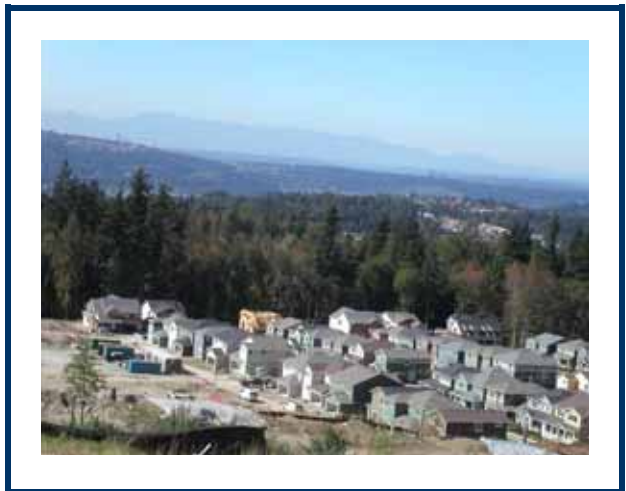
Other incentives to promote affordable housing production include impact fee waivers for approved income-based affordable housing projects, and local government aid through block grant money to help pay for high infrastructure costs, such as roads and wastewater management.

“Zoning tools are only a starting point,” said Warden. “Because of high land prices, affordable housing overall is really hard to pencil,” and therefore requires additional tools to be financially feasible.

Pilot project introduces promising new strategies

Despite the array of affordable housing strategies that have already been implemented in King County, one of the most promising developments currently underway has taken advantage of yet another series of zoning strategies that the county hopes to implement much more widely in the future.

Just south of Seattle, in the White Center area, the county’s housing authority is managing the redevelopment a 900-unit, HOPE VI site as one of three pilot projects currently underway that are using overlay zoning codes. At one point the largest public housing development in western Washington, the Greenbridge project will incorporate a range of affordable units, including some for seniors and first-time homebuyers.



Pre-existing zoning codes would not have allowed for many of the development strategies being used as part of Greenbridge. The county has rewritten the zoning codes for this valuable piece of land to maximize its density and greatly expand its uses, which will include a school, a food bank, retail stores, and other commercial uses. Warden says that by diversifying the community through mixed-use and mixed-income housing, the buying power of its residents will be substantially augmented so that it can remain a vibrant community over the long term.

In exchange, the developer is including affordable housing, meeting green building standards, and using low-impact development techniques. Warden describes this as performance-based zoning, which ignores traditional land-use rules in relation to development. This approach has enabled the county to allow the developers much greater flexibility and has, in turn, created new opportunities for affordable housing and other much-needed development activity in King County.

Over the next 18 months, the county is hoping to use the success of this project to continue rewriting zoning codes to allow for even greater overlay and performance zoning opportunities throughout the county. Warden says that in addition to the overlay and performance-based approaches, the overall flexibility the county has allowed in its zoning, particularly with high densities, mixed uses, mixed housing, and cluster development, has proved to developers that affordable housing production can be achieved without sacrificing financial success.

“We’re now in a place in the county where people can accept higher densities,” Warden said.

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Accessory Dwelling Unit Ordinances

Strategy description

Accessory dwelling unit ordinances are zoning rules allowing single-family dwellings to include an additional housing unit. ADUs can be created in a variety of ways, including converting a portion of an existing house, adding to an existing house, converting an existing garage or constructing an entirely new building. In addition to creating a new unit of affordable rental housing, they can make homeownership more affordable by providing the owner with a source of income. Incentives to provide accessory dwelling units that will be deed-restricted as affordable may be offered, such as property tax limits for the accessory dwelling unit.

History of the strategy

Accessory dwelling units were common up until the end of World War II. After World War II, suburbanization and an increasing emphasis on the nuclear family decreased the number of ADUs. In some communities, ADUs were prohibited.

Target population

Ordinances allowing or encouraging accessory dwelling units target low- to moderate-income renters, often elderly relatives of the homeowner.

How the strategy is administered

States can enact legislation to promote the use of ADUs. More commonly, communities adopt ADU ordinances. Tax incentives are often administered by the assessor's and/or the local treasurer's office; code enforcement is administered by the building department.

How the strategy is funded

No funding required; however, some localities may offer incentives to promote the production of accessory dwelling units.

Extent of use of the strategy

Widely used

Locations where the strategy is being used

- Brick Township, NJ offers up to \$15,000 toward the creation of an accessory apartment that will be maintained as affordable for 10 years. After 10 years, the \$15,000 loan is forgiven.
- Montgomery County, MD and Arlington County, VA are reducing burdensome requirements for accessory dwelling units.

- In Santa Cruz, CA, the city revised its zoning ordinance in 2002 to end a covered parking requirement for single-family houses, which made space available for accessory units. The revision also included design elements to ensure that accessory units complement their neighborhoods.

Strategy results

- In the first full year of operation of Santa Cruz's ADU ordinance, 35 accessory units were built. The city estimates that 40-50 new units will be built each year over the next few years.

Pros and cons to using the strategy

Pros:

- Allows elderly homeowners to maintain their homes and their independence with rental income. In many cases, ADUs can offset the cost of rising property taxes, maintenance and repair costs, and other housing expenses that often burden older homeowners.
- Provides small units suitable primarily for singles (elderly, graduate student, young professionals).
- Makes use of existing infrastructure and space.
- Community networks can be established to match homeowners' and renters' needs (for example, an elderly homeowner may want a renter who also provides service).
- Provides affordable units scattered around the community that blend with the neighborhood.

Cons:

- ADU opponents are often concerned with the impact of ADUs on property values and demand for parking and community services.

Sources of information about the strategy

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SANTA CRUZ, CALIFORNIA

ACCESSORY DWELLING UNITS

Although Santa Cruz's recently created Accessory Dwelling Unit (ADU) program adds just one rental unit at a time, the city is finding that the numbers can add up fast. About 40-50 new ADUs per year are being built in the city.

"In a small town, this is huge. It's the equivalent of a 200-unit development over five years," says Carol Berg, the Santa Cruz Housing and Community Development manager. "For a built-out community, it's a great way to add housing without destroying neighborhoods." She said construction of rental units is not as profitable as for-sale housing, so ADUs are the only rental units being added to the city's rental stock.

- ✓ Accessory dwelling unit ordinances
- ✓ Impact fee waivers and reductions
- ✓ Building code changes to promote rehabilitation
- ✓ Changes in zoning to encourage affordable housing
- ✓ Infill development

Also known as "mother-in-law" or "granny" flats, ADUs offer separate living space, attached or detached from the primary residential unit, that includes its own separate kitchen, sleeping, and bathroom facilities. According to Berg, Santa Cruz is a university town where over 50 percent of residents rent, so the ADU program adds much-needed rental stock in a city that is essentially built out. Additionally, the rental income on ADUs makes homeownership more affordable for moderate-income households.

City provides incentives for creating accessory dwelling units

Santa Cruz's ADU Development program encourages construction of ADUs in several ways. To help homeowners finance ADU development, the ADU Loan Program offers loans of up to \$100,000 at 4.5 percent interest. To qualify for these loans, the homeowner must live at the same address as the ADU; have equity in their homes of at least 50 percent of the loan amount; and agree to restrict rents to levels affordable to households at or below 80 percent of the area median income (AMI) for a minimum of 15 years.



In addition to loan funds, the City offers impact fee waivers to homeowners who agree to rent the units at affordable levels in perpetuity. Partial fee waivers are offered for a commitment to rent to low-income households; homeowners who agree to rent to very low-income households are given full impact fee waivers. However, homeowners can later opt out of affordability restrictions by paying the waived impact fees.

“The escape valve is an important feature,” said Berg. “Without this, we would get zero takers.”

The City also offers technical assistance to homeowners building ADUs. The ADU Technical Assistance program provides materials to assist homeowners interested in adding an ADU. For example, the City offers a “how to” manual that includes an introduction to the ADU program, design and construction advice, development checklists, sample lease agreements, and a list of City Department contacts. A second manual focuses specifically on converting garages to ADUs. The City also offers *ADU Prototype Plan Set*, a book that contains seven ADU prototype concepts designed by local architects, as well as *ADU Alternative Roof Plans*.

According to Berg, zoning changes were the most effective way to encourage homeowners to build ADUs. To encourage garage conversions to ADUs, the City of Santa Cruz passed legislation waiving covered parking requirements for homes with ADUs. For these homes, the City of Santa Cruz allows up to three cars to be parked in the front yard (up to 50 percent of the front yard may be paved for parking). Alternatively, up to three cars can be parked in tandem in the driveway. Additionally, ADU homeowners can now count off-street parking as space for the front yard setback, so homeowners have more space to build ADUs.

Besides zoning reform, The City of Santa Cruz has also relaxed building code requirements that proved prohibitive for homeowners considering adding an ADU in the past. For example, the Santa Cruz Fire Department no longer requires that a separate water sprinkler system be retrofit for attached ADUs. Additionally, attached ADUs are no longer required to have a separate water hookup from the main residential unit.

Community supports new units

According to Berg, the City conducted community outreach before launching the program, which has reduced neighborhood objections to new ADUs. Besides the city's efforts to encourage ADU development, Berg emphasizes that much of the success of the program can be attributed to the socially minded Santa Cruz community. According to Berg, the Santa Cruz community understands that rising housing costs are pushing individuals out of their neighborhoods, so the community has come together to address the housing crisis.

"People were being personally impacted."

-Carol Berg

"[The program was launched] at a time when people were waking up to the housing crisis in this community," she said. Two elementary schools had closed because of declining school enrollment; in addition, Berg said many people had family members and neighbors who were leaving the community because of the high cost of housing. "People were being personally impacted."

In addition to conducting community outreach, ADUs are subject to several requirements intended to protect neighbors' privacy and maintain the character of the neighborhoods. Units must be neighborhood compatible, which means they are built with similar materials as the main house and are visually compatible with the main residential unit.

Berg concluded by saying that, though they're small, ADUs can add up to have a huge impact on the housing problems many communities face. "This layer of rental housing just isn't being created in many communities. It's housing development that's happening without government assistance," she said.

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Increased Use of Manufactured Housing

Strategy description

Manufactured housing is a useful source of affordable housing because it can be built cheaply and efficiently in a controlled factory environment where a skilled and consistent workforce generates continuous, high-volume production without weather delays. Manufactured housing is increasingly well-designed and high quality. However, a number of communities exclude manufactured housing through zoning regulations. Changes to these regulations can improve affordable housing opportunities.

History of the strategy

In the past, manufactured housing was usually in the form of a “trailer,” often located in a rural field or in a “trailer park.” Manufactured housing is now frequently indistinguishable from site-built housing. Manufactured housing runs the gamut from traditional mobile home to large structures.

Target population

- Policies that encourage the use of manufactured housing target low- to moderate- income homebuyers.

How the strategy is administered

Legislation may be enacted at the state level that prohibits local communities from discriminating against manufactured housing. In addition, local communities may enact zoning ordinances that allow or encourage manufactured housing.

How the strategy is funded

- State legislation and local zoning ordinances generally require no additional funding.

Extent of use of the strategy

Widely used.

Locations where the strategy is being used

- Twenty-five states have statutes prohibiting local governments from discriminating against manufactured housing. These states include Arkansas, California, Connecticut, Florida, Idaho, Indiana, Iowa, Kansas, Kentucky, Maine, Minnesota, Nebraska, New Jersey, New Mexico, Nevada, North Carolina, Ohio, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, West Virginia, and Washington.³²

Strategy results

- According to the Manufactured Housing Institute, construction cost per square foot for a manufactured home is from 10 percent to 35 percent less than a comparable site-built home. This lower cost can mean a smaller mortgage (and lower payments) for the purchaser or, perhaps, more house or amenities for the same price as traditional construction.³³
- Manufactured housing is one of the largest sources of non-subsidized affordable housing in the nation, accounting for almost three-quarters of the growth in the nation's affordable housing stock in the 1990s.³⁴

Pros and cons to using the strategy

Pros:

- Manufactured homes are less expensive than site-built homes.

Cons:

- Some types of factory-built housing are located on leased land parcels in parks. The resident may own the unit but rent the land on which the unit is located. In other words, the resident is both homeowner and a renter. This may work well in some situations. However, if the park rents increase drastically or the park owner decides to sell the land to someone else, the homeowner/park resident may have a difficult time.
- Some localities prohibit the location of manufactured housing except in traditional manufactured housing communities.
- Only about one-third of all manufactured housing units are titled as real property; the remainder is titled as personal property, equivalent to a car or camper. This makes financing harder to get and can preclude some federal and state tax advantages available to site-built housing owners.

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- Manufactured Housing Institute website: <http://www.manufacturedhousing.org/default.asp>

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Adaptive Reuse of Underutilized Buildings

Strategy description

More intense use of underutilized buildings, some of which have outlived their original purpose, is one strategy towns and cities are using to create affordable housing. Old schools, military bases, and nursing homes have all been adapted for use as affordable housing. In addition, in town centers, buildings often have second and third stories that are underused. Several communities and states actively encourage their use as affordable housing by relaxing zoning requirements, providing limits on property taxes, and offering low-interest loans for rehabbing space for residential use.

History of the strategy

Adaptive reuse was first introduced as a result of growing concern for the environment arose in the 1960s and 1970s. Ghirardelli Square in San Francisco is considered the first successful adaptive reuse of an industrial complex. Since then, the concept has been adopted for use in creating affordable housing.

Target population

Adaptive reuse projects that include affordable units target low- and moderate-income renters and homebuyers.

How the strategy is administered

At present, zoning in most jurisdictions does not allow for residential or commercial uses in industrial buildings. Solutions include the creation of mixed-use zones, special preservation districts, form-based codes, or zoning review procedures for adaptive reuse.

Complying with building codes is probably the biggest challenge when considering an adaptive reuse project. Standard codes are primarily intended for new construction and offer few exceptions for rehabilitation. In many cases, historic buildings pre-date existing building codes and thus are probably not in full compliance. Adopting alternative building codes for rehabilitation projects can reduce regulatory complexity and encourage adaptive reuse. Recent studies have found that adopting a rehabilitation code can cut costs for historic rehabilitation by up to 50 percent.³⁵

State and local officials can offer additional incentives, which may include:

- Waiving density restrictions
- Limiting or waiving parking restrictions
- "Grandfathering-in" nonconforming floor areas, setbacks, and heights, which removes the required approval of a variance;

- Allowing mezzanines to be added without considering the added space as new floor area
- Waiving loading space requirements

How the strategy is funded

In many cases, rehabilitating non-residential structures for use as affordable housing can be less costly to developers than constructing new affordable housing. Financing may include federal Low-Income Housing Tax Credits, state and federal historic tax credits, other government sources of financing, and developer equity.

Extent of use of the strategy

Moderate use.

Locations where the strategy is being used

- Los Angeles, CA adopted the Adaptive Reuse Ordinance, which allows underutilized commercial buildings to be converted into apartments, condominiums, artists' lofts, and live-work spaces. The program works by streamlining the approval process for developers while relaxing parking, density, and other zoning ordinances. Based on many successful projects in the downtown area, Los Angeles expanded the program to cover areas of Hollywood, Mid-Wilshire, Koreatown, Chinatown, Lincoln Heights, and Central Avenue.
- New Jersey adopted a subcode that recognizes six types of projects involving existing buildings; repair, renovation, alteration, reconstruction, change of use, and addition. The rules that apply to a change of use depend on the level of hazard or safety requirements imposed by the change.
- Lexington, MA, converted a former high school into Muzzey High Condominiums in 1985. The building contains 70 affordable units, 12 of them rental.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Cities that were former industrial centers are more likely to have an abundance of suitable vacant buildings for reuse as affordable housing than other cities. However, many cities have school buildings, warehouses, and upper stories of town center retail buildings that may be reused as affordable housing.

Pros:

- Adapting old buildings for use as affordable housing directly increases the number of affordable housing units.
- Reusing old buildings rather than constructing new development makes efficient use of resources.

- Adaptive reuse can improve the neighborhood environment by rehabilitating a building that may previously have been a neighborhood eyesore. It may also encourage other types of new development.
- Many adaptive reuse projects are located in close proximity to the downtown area, employment centers, and public transportation.

Cons:

- Contamination from decades of industrial activity prior to the passage of hazardous substance regulations may present significant barriers to the adaptive reuse of historical industrial buildings.
- A finite number of buildings are available for reuse as affordable housing, so adaptive reuse typically must be used with a variety of other strategies to produce significant numbers of affordable housing units.

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DOVER, NEW HAMPSHIRE

ADAPTIVE REUSE

The Seacoast region in New Hampshire is the fastest growing region in New England,³⁶ with housing demand expected to exceed 1,500 new units of housing annually over the next five years.³⁷

The growth in demand has increased rents in the region substantially over the last few years, and wages have not kept pace.³⁸ These factors are leading communities and private developers in the region to seek creative solutions to the affordable housing shortage.

- ✓ Adaptive reuse of underutilized buildings
- ✓ Housing trust funds

One of these solutions is adapting old buildings, such as schools, mills, and factories, for use as residential developments. There are hundreds of obsolete buildings throughout the region that have been abandoned or are being underutilized. Private developers have begun to see the financial opportunities in these buildings and are assembling innovative financing packages to support the buildings' redevelopment as market rate and affordable housing.

Dover, NH, in the heart of the Seacoast region, is home to one example of a successful adaptive reuse project, Bellamy Mill Apartments. This project has been critical to expanding Dover's affordable housing stock, because the City of Dover has limited resources to develop affordable housing directly.

Dover has historically been a city with diverse housing opportunities, varied in affordability and ownership, but as Dover has become an increasingly attractive community to live in, more affluent residents have been drawn to the community, impacting housing costs.³⁹ The increase in housing costs has affected low- and moderate-income households, decreasing the quality of the housing they can afford. This is particularly true for residents who are above the threshold for subsidized housing.

In recent years, private developers have begun working with city and Housing Authority officials to build affordable housing units. The most successful adaptive re-use project in Dover was the complete rehabilitation of the historic Bellamy Mill. The 1832 mill is located on two and a half acres of riverfront property. At the time of purchase in 2001, the property was already properly zoned, and had access to municipal water and wastewater services. It was a functioning mill since its inception, housing at one time a cloth mill, the Dover Film company, a shoe

manufacturer, and most recently a furniture manufacturer.



Through the work of Great Bridge Properties and the staff of the City of Dover, 30 units of affordable housing were created, six one bedroom units and 24 two bedroom units, all handicap accessible and adaptable. Additionally, many of the building's unique historical features were

preserved including the exposed granite, brick walls, and brick arches. New highly efficient historic replica windows and roof tiles were installed, as were an elevator and fire-prevention sprinklers, and the exterior was restored.

Sixteen of the units are reserved for residents earning less than 50 percent of area median income (AMI) and 15 units are reserved for residents earning less than 60 percent of AMI. There are 30-year affordability restrictions on rent levels for all units.

Financing available through the New Hampshire Housing Finance Agency (NHHFA) made the project feasible. In total, the project cost \$4,400,000 (\$147,000/unit) and came from three sources (all administered by NHHFA): Low Income Housing Tax Credits (LIHTC),⁴⁰ HOME funds, and Affordable Housing Trust Fund loans.

The LIHTC and HOME funds are federal resources administered by NHHFA.⁴¹ Both are awarded competitively and require that the project be targeted at low-and/or very low-income households.

The state's Affordable Housing Trust Fund (AHF) provided construction and permanent loans to Great Bridge Properties. In general, the AHF provides below-market rate loans or grants to support rental housing, group homes, and manufactured housing cooperatives, covering financing gaps or funding projects that cannot support debt. Both for- and non-profit sponsors are eligible for funding and 50 percent of units in project must be affordable to households at 80 percent or less of the area median income. Typically, projects financed by the AHF also have other funding sources, most commonly tax credits.⁴²

Upon completion of the building rehab, Great Bridge Properties retained partial ownership of the building and employed a property management firm to carry out day-to-day operations. The 30 units available leased up very quickly.

Supportive services for residents are provided through a partnership with Strafford County Community Action Committee (CAC). CAC is a Head Start early education, daycare, and school age childcare provider, as well as a provider of counseling, housing, education, and nutritional services for families and geriatric outreach, transportation, and meals on wheels for seniors. A CAC program counselor keeps office hours on site one day a week and CAC refers potential applicants to the Bellamy Mill Apartments for tenancy.

The two significant outcomes of this adaptive reuse project were the creation of an additional 30 affordable housing units in a community facing housing growth pressures and the fact that the developer, Great Bridge Properties, has gone on to do an additional five affordable housing adaptive reuse projects in New Hampshire and Massachusetts. The Bellamy Mill Apartments project was Great Bridge Properties' first adaptive reuse project and they found that it was more interesting than traditional development projects, that it supported smart growth, and resulted in affordable housing being built.

Though the experience was positive and the developer has replicated the development process in multiple communities, there were a few obstacles that had to be addressed during the redevelopment process. First, actual operations on site were different from legal property lines and traffic patterns. Midway through the site plan approval process, Great Bridge Properties discovered that the main access

road to the property was legally a one-way street, though it functioned as a two-way. Additionally, the City's right of way was in what Great Bridge perceived to be their property. Both of these issues had to be addressed before development could proceed.

The second obstacle was negotiating with the City. The city planner required a study of the average number of children per unit in comparable developments and modified unit sizes to decrease the likely number of children in the units in order to compensate for the site's lack of sidewalks. Ultimately, though, the negotiation process with the city planner was fruitful and helped speed up the final approval of the site plan according to Chris Davies, principal of Great Bridge Properties.

For communities or developers considering an adaptive reuse project, Davies recommends finding a site with existing water and wastewater, zoning that allows multi-family housing "as of right," a community that is supportive (including both local officials and abutters), and an interesting building that provides creative energy to help compensate for the additional challenges that come with retrofitting an existing building.

To ease the development process, Davies recommends working with planning staff up front and conducting an extensive education process with elected officials, adjacent property owners, and community members at large. Problem properties tend to be magnets for community support because the community wants to see them renovated; education is all that is needed to help create the vision and build trust between the community and the developer.

The Bellamy Mills project has been a positive and concrete improvement in the affordable housing market in Dover. However, some question whether the units are targeted at the population in greatest need, those working full-time with incomes above the eligibility limit for public housing assistance.

Jack Buckley, Dover Housing Authority's (DHA) executive director, argues that the real need in the community is workforce housing, that is for households with incomes above the public housing limit. LIHTC properties like Bellamy Mills are unlikely to house this population, which are more likely to be occupied by households using Housing Choice Vouchers. These households are directly referred

by the housing authority to Bellamy Mills and the rent is assured, leaving those in need of workforce housing with few options.

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Performance Zoning

Strategy description

Performance zoning is an alternative to conventional zoning. Where conventional zoning specifies what uses land can be put to in specified districts, performance zoning specifies the intensity of land use that is acceptable. It deals not with the use of a parcel, but the performance of a parcel and how it impacts surrounding areas.

History of the strategy

Lane Kendig, considered the father of performance zoning, first implemented this strategy in Bucks County, PA in 1973. Many US municipalities soon followed Bucks County's lead, but in most cases they hybridized performance zoning with more traditional zoning ordinances. Traditionally, performance zoning has been used to protect natural resources and to promote overall environmental quality in a given area rather than for affordable housing purposes, although several jurisdictions in Washington state are in the process of adopting performance zoning to accomplish affordable housing goals.

Target population

This strategy does not necessarily target one particular subset of the population. Rather, its overall aim is to improve the conditions and opportunities for all people within a specific municipality by facilitating the most efficient and appropriate use and performance of the land, including potentially allowing for a range of densities and housing types.

How the strategy is administered

This strategy is normally administered by the local municipality upon passage of a performance zoning ordinance. Implementation often occurs through a points-based system in which project approval is based on obtaining a sufficient number of performance-related points. Points can be based on a variety of factors, which include: compliance with density standards; traffic generation; neighborhood compatibility; proximity to existing infrastructure; proportion of open space; and protection of natural features. Additional discretionary criteria may also be established as part of the review process.

How the strategy is funded

No specific funding is necessary other than for administration and enforcement of the code.

Extent of use of the strategy

Very few communities have used performance zoning exclusively; more often, communities incorporate specific performance zoning standards into a more traditional framework. Use of performance zoning to encourage affordable housing has been fairly limited.

Locations where the strategy is being used

- Carrboro, NC included in a 2002 city plan a number of performance zoning provisions to help boost its supply of affordable housing.⁴³
- A number of municipalities in Washington State have included performance standards in their zoning codes, including Vancouver, Jefferson County, and North Bend.
- As a result of success in using performance-based zoning principles in the Greenbridge development in western Washington, King County is planning to rewrite zoning codes to allow for additional performance-based zoning opportunities (see case study). Performance-based zoning is also under consideration in Kirkland, WA.

Pros and cons to using the strategy

Pros:

- May save time compared with traditional zoning, as appeals, re-zonings, and variances are not necessary.
- Allows significant flexibility to both the developer and the local municipality, as land can be used in a variety of ways (e.g. mixed dwelling types, mixed uses), as long as its impact is not “negative.”
- Fosters positive, problem-solving relations between private and public sectors.
- If used for affordable housing, can increase the supply of developable land, which can translate into reduced land prices and hence lower costs to develop.

Cons:

- Most performance zoning ordinances are used for natural resource protection rather than to encourage the creation of jobs and housing; they are relatively rarely used for affordable housing.
- Can be complex to understand and to apply without favoritism.
- Effects may work against higher densities and even make it difficult to achieve presumably allowed densities.
- Ordinances can limit land supply if they include extensive open space and buffering requirements.
- Can be costly to develop and administer.

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TYPES OF DEVELOPMENT

Cluster Development

Strategy description

Cluster development concentrates houses on smaller lots within specified areas of a parcel or site, allocating the remainder of the parcel to be set aside as common open space or to protect environmentally sensitive areas. Clustering houses can reduce the cost of housing by centralizing infrastructure. Road frontage, lot size, setbacks, and other traditional subdivision regulations may also be relaxed to permit the developer to preserve ecologically sensitive areas, historical sites, and/or other unique characteristics of the land being subdivided. Cluster development most often incorporates affordable housing when used in conjunction with density bonuses.

Target population

Cluster development targets the population that resides or will reside in the cluster zone generally. When density bonuses are allowed in conjunction with cluster development, some of the additional units are often targeted to low- and moderate-income renters and homebuyers.

How the strategy is administered

Cluster development can be administered in a number of ways. Normally, a cluster development strategy or ordinance must be adopted by a local municipality before implementation in the same way as any other ordinance or regulation would. The municipality can decide to mandate cluster development or offer it as a voluntary option to developers, in which case it usually includes incentives such as density bonuses.

The city/municipality may identify particular pieces of land suitable for cluster development and develops goals for those areas or may allow the use of cluster as an overlay zone or by right. These goals can be met through any number of incentives, including density requirements, physical design standards, and transfer of development rights.

Once a development has been completed in a clustered format, the open space created can be used exclusively by the residents, or to preserve agricultural land, wildlife, or other elements of local importance. Many communities also mandate the establishment of a homeowners association (HOA) to manage the common open space. The HOA is ultimately responsible for all management and maintenance responsibilities and capital improvements once the land development has been completed.

How the strategy is funded

No funding is necessary other than administration and enforcement of the code.

Extent of use of the strategy

Limited use as an affordable housing tool.

Locations where the strategy is being used

- In 2004, Woonsocket Neighborhood Development Corporation completed Woodridge Estates, a 26-unit development of affordable homes in Rhode Island. The cluster development strategy utilized for the project permanently preserves as open space seven of the ten acres of the wooded site upon which the units sit.
- The city of Moxee, WA incorporated cluster development standards in order to promote more efficient land use and encourage affordable housing through greater overall density.
- Amherst, MA encourages affordable housing in cluster development subdivisions by providing density bonuses for developments that include affordable units (see case study).

Pros and cons to using the strategy

Pros:

- Clustering development can reduce infrastructure costs and allow smaller lots, thus increasing affordability.
- Preserves ecologically and otherwise sensitive land areas, and thus contributes toward creating more aesthetically pleasing and safe surroundings for local residents.
- Can be easy to administer.
- Does not require large public expenditures.
- Effective in protecting the rights of rural property owners.

Cons:

- Not necessarily tied to affordable housing: most cluster development strategies that have been used in the U.S. are designed to protect ecologically sensitive areas or preserve other important land features rather than to provide affordable housing.
- Requires developers and communities to learn a system that can be very different from more traditional zoning ordinances.

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AMHERST, MASSACHUSETTS

CLUSTER DEVELOPMENT

The town of Amherst, Massachusetts has worked diligently over the last 30 years to protect the natural and cultural landscape surrounding their community. The unintentional result of the town's aggressive land protection strategy was an increase in land prices because much of what would have been buildable now was protected. Amherst became a highly desirable community with expensive residential land. Affordable housing was a community goal but an unachievable one without public intervention.

- ✓ Cluster development
- ✓ Inclusionary zoning
- ✓ State incentives to local governments to encourage affordable housing development

The genesis of the environmental protection policies occurred in the late 1970s and early 1980s, when it became clear that development could jeopardize the quality of the community's water supply and soil. At that time, the town began purchasing land and easements to support conservation. Eventually, agricultural easements were also used to ensure the pastoral landscape of the community was preserved and a revised zoning code was adopted to require cluster developments in aquifer recharge and watershed protection areas.

To meet the community's goal of providing housing for individuals of varying income levels while simultaneously pursuing the larger goals of conservation and sustainability, the town integrated affordable housing goals into its conservation-oriented ordinances through the use of density bonuses and inclusionary zoning.

Cluster development is Amherst's primary land use tool for encouraging affordable housing

The cluster development bylaw is one of the primary ways affordable housing is encouraged within Amherst's development regulations. Cluster developments are a sophisticated form of subdivision that cluster buildings into groups on reduced lot sizes in order to aggregate open space and permanently preserve it from development. The stated goals of the Cluster Development ordinance are:

- ❖ to develop in harmony with the natural features;
- ❖ to compatibly develop in line with the surrounding residential areas;
- ❖ to efficiently use land to increase the options for affordable housing;
- ❖ to protect natural resources, including aquifers, wetlands, and farmland; and
- ❖ to economically and efficiently install, construct, and maintain street, utility, and public facilities.⁴⁴

All of these goals are accomplished by the unique design of the cluster developments, which group homes in developable areas and set aside the remaining undevelopable areas as permanent open space. Since this land generally would be undevelopable anyway, given the properties' location over the aquifer or in the watershed, the ordinance allows for creative treatment of the land to reach community goals. Affordable housing is encouraged by the Town of Amherst in all cluster development subdivisions through its provision of density bonuses for all developments that include affordable units.



Each cluster development must be a minimum of five acres, and at least 40 percent of the dwelling units must be single-family units. The level of density allowed is similar to what would be allowed in a conventional subdivision. The exception to this is “affordable clusters.” If 10 percent of units in a development are affordable (to households earning less than 120 percent of area median income), the Planning Board may authorize an increase in the number of lots allowed up to 120 percent of the standard number of building lots allowable.

Inclusionary zoning

Amherst has also included an inclusionary zoning provision in its ordinance. The number of affordable units to be built is calculated used the following guidelines:

- ❖ Less than 10 units in a development 0 affordable units

❖ 10-14 units in development	1 affordable unit
❖ 15-20 units in development	2 affordable units
❖ 21+ units in development	12 percent of total unit count

Results

There were some early successful projects developed in Amherst when the ordinances were first put in place in the late 1980s and early 1990s. The first was Misty Meadows (1987), a 137-acre farm that was purchased by local developers (for \$750,000) to build housing. Before the housing was built, the town bought 97 of the original 137 acres (for \$310,000) for open space/conservation. The remaining 40 acres were developed under the town's Cluster Development Bylaw, with 41 units



on 18 acres and 22 acres of permanently preserved open space. To receive the density bonus, the developers developed 15 affordable units (37 percent of total).⁴⁵

The second successful project was Canterbury Farms (1990). Canterbury Farms was a 26-acre parcel including 23 acres located within the Aquifer Recharge Protection overlay district and three acres within the Watershed

Protection overlay district. Under the conventional subdivision ordinance, development would have been prohibited, so the local developer sought to develop under the Cluster Development Bylaw, as well. The affordable housing density bonus allowed the developer to include two more lots than would have otherwise been allowed under the bylaw. In total, 15 single-family units were built, four of which were affordable (27 percent). Affordable housing agreements were created in both examples to ensure affordability in perpetuity.⁴⁶

Since these early successes, the cluster development ordinance has been used many times, and developers have included affordable units in a quarter of the

developments. In total, about 35 affordable units have been developed under the ordinance through 2007.⁴⁷

The effectiveness of the inclusionary zoning requirements has been limited by the size of projects being built (four to eight units). Since the requirement is triggered when ten or more units are built, most projects are exempt from the requirement. This trend is likely to continue because land constraints and market preference for single-family units are driving the number of units in each development.

*“...those few have been
fought with unrelenting
ferocity by neighbors.”*

-Jonathan Tucker

Jonathan Tucker, planning director for Amherst, believes that neighborhood opposition is a major obstacle to developing more affordable units. “Our varied regulatory affordable housing incentives have been real, but fairly tepid and few and far between. And those few have been fought with unrelenting ferocity by neighbors,” he said.

Tucker and his colleague Roy Rosenblat, community services director for Amherst, emphasized the fact that citizen’s objections have stalled most projects.⁴⁸ Locally, there has been strong support for the idea of affordable housing; when it comes to approving the actual citing of units, though, there is consistent and significant opposition from abutters. The consensus of Rosenblat and Tucker was that neighborhood objection can derail the best ordinances and regulatory provisions. Additionally, they both agree that the private market isn’t demanding affordable housing and that the incentives available are not sufficient to change developer behavior or make the units more cost effective.

Community Preservation Act provides important resources for developing and preserving affordable housing

The town continues to encourage developers to take advantage of the affordable housing incentives available. However, to date, the Town has had the most success getting affordable units on the ground using resources available under the Massachusetts Community Preservation Act (CPA). Under the CPA, towns and cities in Massachusetts can choose to adopt the act, levying up to a 3 percent surcharge on taxable property.⁴⁹ The local tax revenue is then placed into a fund that the state matches at 100 percent. Activities related to open space, historic

preservation, and community housing initiatives must each receive at least 10 percent of a community's CPA funds; the remaining 70 percent of revenues may be spent on any of these purposes, plus recreation.⁵⁰

Amherst adopted a 1.5 percent surcharge and revenues total about \$600,000 per year. Resources are allocated evenly between affordable housing, historic preservation, and open space projects. The local Housing Authority administers the dedicated affordable housing funds. Funds have been used to support affordable units in planned market subdivisions through the provision of infrastructure and financing and have been used to save affordable units whose affordability requirements were expiring. About 18 affordable units have been developed or preserved using CPA revenues.

Amherst's cluster development bylaws are a work in progress

Amherst has been experimenting with cluster development and inclusionary zoning for over 20 years. During this time, they have learned that public support often is best focused on "buying down the cost" of a project through donating or purchasing land, particularly when land prices are high. Both Misty Meadows and Canterbury Farms received public support through land purchase or donation.

The other lesson Amherst learned was that cluster development should be allowed "by right" in the zoning code rather than require a zoning change. Rezoning generally requires the approval of the Zoning Board of Appeals, which is relatively easy for citizens to control because of its small size. Allowing the use as of right, through the special permit process (which requires approval by the planning board, a much larger body), provides the developer more surety that some form of the development will be approved and allows the town to maintain influence over project design.

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Infill Development

See also Reusing Vacant or Abandoned Property for Affordable Housing, Vacant Building Registry (in Other Strategies)

Strategy description

Infill development takes advantage of empty lots, underused or vacant buildings, and other property within existing urban areas, often for affordable housing. Infill development can benefit from public utilities and other infrastructure that is already in place, reducing the cost of housing construction.

Target population

The target population for infill development varies; however, generally infill development involves single-family homes and small multifamily developments because it can be difficult to find large enough parcels for more sizeable developments. Infill development specifically for affordable housing is targeted primarily to low- and moderate-income renters and homebuyers.

How the strategy is administered

Developers must obtain the necessary permits to conduct infill development; local governments may encourage infill development by streamlining this process, waiving impact fees (see Graduated Impact Fees for Infill Development), providing subsidies, or other strategies.

How the strategy is funded

Most infill development is self-funded by developers, but the locality may provide at no or low costs properties acquired through tax foreclosure or code enforcement and may reduce or waive impact fees or assist with provision of infrastructure.

Extent of use of the strategy

Widely used throughout the country.

Locations where the strategy is being used⁵¹

- The Midtown neighborhood of St. Petersburg, FL, has 3,000-4,000 vacant lots, along with 300-500 boarded up buildings. The city acquires properties through code enforcement and demolition, and offers them for sale to nonprofits at a discounted price to encourage development. The city is working to revise zoning regulations to speed the pace of infill development. Regulations established in the 1970s require lots with 75-foot frontage, but homes in older areas of the city have 50-foot frontages. Developers will no longer be required to obtain zoning variances to build new houses in areas such as Midtown with smaller lots, or to acquire two lots to build one house.

- Phoenix's Infill Housing Program was established in 1995 to encourage development of single-family owner-occupied housing on vacant or underutilized land within the "mature" portions of Phoenix. Incentives for builders include Development Occupation Fee waivers for water and sewer, both worth \$600 per unit; city aid for off-site improvement costs for qualifying projects; blight control adjacent to infill sites; and expedited review processes.
- In 1997, the Downtown Partnership launched the Downtown Housing Initiative, which sought to revitalize the Howard Street portion of downtown Baltimore. Through various redevelopment incentives, including state-sponsored short term financing to convert downtown commercial buildings to housing; deferred or reduced property taxes; and contributions from the city toward streetscape improvements, the city has begun to revitalize a once vibrant downtown shopping district. Over 400 housing units had been completed or were underway by 1999.
- Sacramento's Vacant Lot Development Program was tested as a pilot program in the Oak Park and North Sacramento neighborhoods beginning in 2002. Infill development was a cornerstone of the strategy, which sought to address the long-term difficulties associated with vacant lots, low owner-occupancy rates, and the lack of large homes in certain Sacramento communities. An initial allocation of \$200,000 by the county of Sacramento was used for the construction of six four-bedroom homes and two three-bedroom homes.
- Seattle's Central Area Development Association used a combination of infill and mixed-use development, and a citywide housing levy to revitalize the business areas of the Central Area portion of Seattle, in part by providing additional affordable and market-rate units. One of the major projects, Welch Plaza, was built on the former site of a neighborhood hardware store. CADA partnered with a private real estate development company to complete the approximately \$27 million project, which included 162 apartments, 48 percent affordable, and 18,000 square feet of ground floor retail and commercial space.
- Once a site full of dilapidated industrial buildings, Emeryville, CA has used a variety of infill development strategies to transform itself into one of the San Francisco Bay Area's most successfully redeveloped areas. Between 1995 and 2000, the city built 561 apartments, lofts, townhouses, and condos, 224 of which were classified as affordable for low and moderate-income families. Surrounding the homes are a wide variety of retail shops and other commercial developments, including office space. The city has adopted a variety of inclusionary zoning ordinances and has used tax-increment financing to fund many of the redevelopment efforts. The city was also selected by the EPA to participate in a brownfields cleanup program. One element of the program was the creation of an online "One-Stop-Shop" where landowners, developers, residents, and other interested parties can access land use zoning, property ownership, and environmental information on any parcel within the city (see case study).

Strategy results

- In St. Petersburg, FL, the number of vacant and boarded properties in the Midtown neighborhood decreased 50 percent between 1998 and 2001 and has been further reduced since then.
- Denver has made substantial efforts at generating housing units through infill development throughout the metropolitan area, including 7,283 units completed, 2,203 units under construction, and 7,059 units planned for development.

Pros and cons to using the strategy

Pros:

- Useful in urban areas such as downtowns, economically depressed neighborhoods, transit corridors and locations near employment, shopping, recreational and cultural centers.
- Promotes efficient use of land in existing communities.

Cons:

- Since vacant land parcels are often scattered and spread out, opportunities to build more than one housing unit at a time are relatively uncommon.
- Constructing new buildings or rehabilitating existing buildings that are connected to already existing buildings can be difficult structurally and lead to increased costs.
- Existing infrastructure may be outdated and inadequate.
- Building on small sites, where there is very little room for equipment necessary for construction, can be difficult and costly.
- Infill development can be challenging in neighborhoods with old housing stock. Resale can be challenging because the new housing developed may be much more expensive than surrounding properties.
- Permitting policies can be difficult in areas where potential infill development may occur.

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EMERYVILLE, CALIFORNIA

Someone passing through Emeryville in 1977 and again in 2007 would hardly recognize the city. Emeryville has undergone a significant transformation over the past 30 years. During the late 1970s and early 1980s, Emeryville was dotted with abandoned former industrial sites, virtually all of which were contaminated. Today, Emeryville is dotted with shopping centers, residential communities, and commercial headquarters.

- ✓ Infill development
- ✓ Redevelopment of brownfields
- ✓ Changes in zoning to encourage affordable housing
- ✓ Mixed-use development
- ✓ Inclusionary zoning
- ✓ State mandates and guidance for local planning

At the same time that Emeryville has undergone revitalization, the city has maintained a focus on affordable housing, using a variety of strategies to produce hundreds of affordable units each year. These strategies range from brownfields and infill development to high-density zoning and inclusionary zoning.

Brownfields redevelopment and infill development

With 20 percent of Emeryville's non-residential property vacant and 40 percent underutilized in the 1970s, the city realized that the revitalization necessary to restore the city to fiscal health would require clean up and redevelopment of these areas. As a result, infill and brownfields redevelopment became the city's first major tools. "The city was literally dying," said Amy Hiestand of the Emeryville Redevelopment Agency. "Manufacturing was leaving."

The city established two redevelopment project areas that covered 99 percent of the area of the city. Using federal, state, and local sources of grant funding for redevelopment, the city partnered with the private sector by helping finance brownfields clean-up. Hiestand notes that the city recognized the importance that partnerships with the development community would play, including providing financial assistance for clean-up. "[These partnerships] really had to happen for any development to work," she said.

High-density zoning one of city's most effective strategies

Given that Emeryville is essentially built out, the city's next strategy was to allow high-density development and encourage mixed-use development. The city's zoning laws allow housing in all of the city's zoning districts except the shoreline and open recreational space zones. Even in the heavy industrial zones, live/work units are allowed.

Perhaps more importantly, Emeryville's zoning laws permit high unit density allowances by right. Emeryville contains no low-density zones; medium density

zones allow 20 units per acre by right, and 45 with a conditional use permit, while its high density zones allow 45 units per acre by right, and 108 with a conditional use permit.

"We encourage a higher density. We recognize we have limited land capacity."

-Amy Heistand

"We encourage a higher density," said Heistand.

"We recognize we have limited land capacity.

The city has tried to take a proactive role in encouraging attractive high density [residential development]."

As one strategy the city has used to promote attractive high-density development, the Redevelopment Agency has commissioned design studies and design guidelines that allow for maximum density usage.

"We use this as a tool for developers to show them what has been the density of projects in the city," said Heistand.

The city also maintains a master list of all proposed, current, and completed projects throughout the city to allow for streamlined and efficient land use planning processes. In working directly with developers who focus specifically on corridor development, Emeryville has been able to maximize efficient land use in crucial areas such as the San Pablo Avenue corridor.

Finally, the city has strongly encouraged mixed-use development that contains a ground floor retail component. Heistand indicates that this has proved challenging at times, however, because the city does not yet have the population to support these businesses, so many of the already developed ground floor spaces remain for

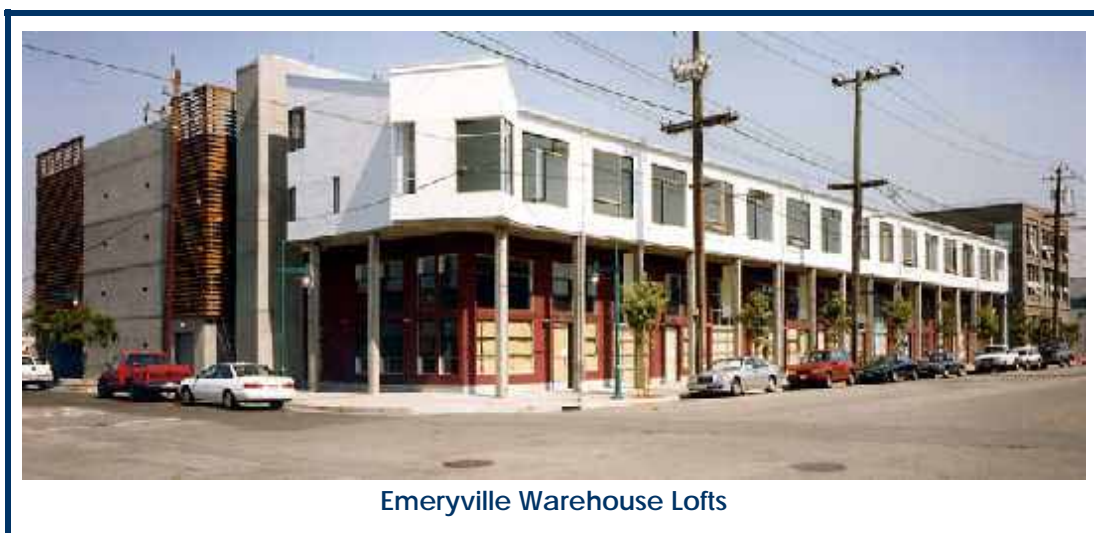
lease. To help solve this problem, the city is considering converting some of the designated retail spaces into office space.

Emeryville seeks solutions to refine inclusionary zoning ordinance

The city of Emeryville has also spent much of the last 20 years developing a workable inclusionary zoning policy. The City passed an inclusionary zoning law in 1990 requiring projects with 30 or more units to include 20 percent moderate income units (affordable to households with incomes up to 120 percent of the area median income). As partial cost-offsets, the city offers a 25 percent density bonus and, with approval, permits the square footage of affordable units to vary from the market-rate units.

With a slow housing market during the 1990s, however, it was not until 2000 that a development project was subject to the inclusionary zoning ordinance. By this time, Emeryville's residential market was heating up, and the city began to see growth in private development, including many large parcel projects with mixed residential, retail, and commercial uses, almost all of which have produced affordable units under the inclusionary zoning law.

The first of these projects was the Emeryville Warehouse Lofts, completed in 2000, which converted an old warehouse building into 140 lofts, including 11 live/work units and 129 residential units, 26 of which were purchased by moderate- and low-income households. The development also contains a renovated parking structure, 7,000 square feet of retail space, and a 4,500 square foot landscaped courtyard.⁵²



Although dozens of moderate-income units have been produced since 2000 under the inclusionary zoning ordinance, property owners have struggled to find tenants to fill them. Part of the problem, Hiestand says, stems from the fact that in Emeryville, rental units affordable to moderate-income households rent for roughly the same amount as the market rate units, an average of about \$1,800/month for a one-bedroom apartment.

In response, the Emeryville City Council is revising the inclusionary zoning law. The requirement that 20 percent of units be affordable to moderate-income households will be reduced to 9 percent, and 6 percent of units must be affordable to low- and very low-income households, for a total of 15 percent affordable units.

The city is soliciting input from the development community through a series of focus group meetings on how to revise the law. The city intends the new inclusionary zoning ordinance to be cost neutral for developers compared with the current 20 percent requirement. The city also hopes the units produced will better match the affordability needs of the community. Understanding Emeryville residents' housing needs is something that Hiestand indicates is a key lesson the city has learned through this process.

City provides direct financial assistance to developers and homebuyers

Under state law, 20 percent of the Redevelopment Agency's tax increment financing revenues are dedicated to a Low and Moderate Income Housing Fund (LMIHF), which provides direct assistance to developers and homebuyers. Last year, 40 homebuyers received a total of \$2.26 million in loans, of which \$1.1 million was from the LMIHF.

The city also provides low interest loans and land write-downs to developers; however, the assistance subjects developers to the state's prevailing wage laws, so many developers are not interested in the city's funding.

Emeryville plans for long-term housing needs

Emeryville's affordable housing production emphasis stems, in part, from local and state pressures. The regional government, the Association of Bay Area Governments (ABAG), of which Emeryville is a member, allocates the number of units each city

within the nine Bay Area counties is expected to produce over the next 10 years. California's Housing Element Law requires that the city prepare a Ten-Year Housing Compliance Plan to be updated every five years. This document must include plans for meeting the ABAG target.⁵³

Emeryville's target for housing production between 2006 and 2014 is 1,137 units. The city has calculated that 49 percent of that number must be affordable to moderate, low, or very low-income households to meet state affordability targets.

Emeryville takes these targets seriously. "We're ahead of the game on our Housing Element," said Heistand. "It's due in 2009, and we started [working on it] in 2009."

The last time Emeryville completed a similar housing plan, between 1999 and 2006, it surpassed the total number of targeted units, but struggled to meet the affordable allocation. Heistand says that the city is well on its way to meet the current plan's total unit production goals, but once again will struggle to achieve its affordable target.

Bay Street project highlights Emeryville's development progress

The first phase of the Bay Street project is one of Emeryville's largest and most successful redevelopment efforts to date. Bay Street includes retail stores, restaurants, a 16-screen multiplex movie theater, parking facilities for up to 1900 vehicles, a 250-room hotel,⁵⁴ and 322 residential units, of which 57 are affordable to very low and low income households. Bay Street also frequently hosts community events. An extension of the original project, which would add another 293 units as part of another mixed-use development is currently under review.



Bay Street Residential

The 21-acre brownfield, originally known as South Bayfront, formerly housed industrial warehouses dating to the early 1920s. After nearly a decade of planning, the Emeryville Redevelopment Agency invested \$27 million from tax increment financing and tax allocation bond revenue to clean up, remediate, and assemble the nine separate but connected properties that made up the site.⁵⁵

Once the site was ready for development, the Agency sold the property to the developers—Madison Marquette which developed the retail portion, and MacFarlane Partners, which did the residential portion—while it simultaneously sought repayment for the contamination from the responsible parties. The Agency financed the retail portion of the project; the retail developer is repaying the Agency over a 25-year period for their portion of the acquisition.

Due to the difficulty in financing mixed-use projects in Emeryville, Madison Marquette acquired pre-leases from 60 percent of the eventual tenants.⁵⁶ On the residential side, MacFarlane Partners sold many of the site's condominiums prior to the project's completion.

The residential portion of the development is divided into two sections; the first contains 95 market rate condominiums that sit above the ground floor retail stores, and the second is a 284 unit rental complex on the opposite side of the property, which includes



Bay Street Retail

20 percent (or 57) very low income units. As expected, the affordable units were very popular from the outset, attracting 400 applications for the 57 available units.

Hiestand considers the Bay Street development to have been a success for all parties involved, generating millions of dollars in annual sales tax and property tax

revenues for the city, increasing the number of jobs in the area from 150 to between 1,650 and 1,800, depending on the time of year, securing much-needed affordable housing, and helping Emeryville continue its transformation.⁵⁷

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Mixed-Use Development

Strategy description

Mixed-use development is designed to allow a variety of land uses, including office, commercial, residential, live/work and—in some cases—industrial or manufacturing, to be combined within a single development or district. Commercial and market-rate residential units are sometimes used to subsidize affordable units. In addition, cost savings including shared parking arrangements, shared costs for building operation, maintenance, and security, and higher density development can improve housing affordability. In addition to reducing the costs of housing, mixed-used development may also reduce traffic and transportation burdens to residents and has the potential for creating job opportunities near affordable housing.

History of the strategy

Throughout most of human history, the majority of human settlements developed as mixed-use environments. Industrialization changed this, as cars and mass transit became standard and zoning segregated residential and other land uses early in the 20th century. Beginning in the 1960s the term mixed use development began to be incorporated into urban revitalization plans, as developers and city planners realized that combining residential and commercial land uses could benefit communities.

Target population

Low- and moderate-income renters and homebuyers benefit from affordable housing units created in mixed-use developments. Mixed-use development may also benefit the community generally, as development is concentrated, often in infill locations, creating a better synergy between uses and a more vibrant setting.

How the strategy is administered

- Administration varies, but often the local government works with developers (for-profit or not-for-profit) to identify land suitable for mixed-use development. Zoning ordinances must be in place to allow for mixed-use and/or high-density development; if they are not, new zoning laws must be adopted to allow for such development. For example, form-based codes, a method of regulation that primarily controls physical form and has only a secondary focus on land uses, can be implemented. This form of zoning addresses the design of a site in ways that are intended to create a sense of place. Codes may include requirements for building height, how a building is placed on site, and building elements (such as location of windows, doors, etc.).
- When affordable housing units are incorporated into mixed-use developments, local governments may be involved in ensuring long-term affordability.

How the strategy is funded

- The funding can come from a number of different sources. Often, local municipalities that own the land offer grants or loans to developers who choose to use mixed-use strategies as part of their development plan. Financing for mixed-use development can be difficult to arrange because of its combination of residential and commercial uses, so multiple lenders and city and state agencies may be involved in the same development project.
- Local governments sometimes offer density bonuses for mixed-use developments that include affordable units

Extent of use of the strategy

Mixed-use development is used widely throughout the country.

Locations where the strategy is being used

- Vermont has established a Task Force on Redevelopment of Upper Stories of Downtown Buildings, New Town Center Development Incentives and Regulatory Reform, or “upper floors task force.” They found that many of Vermont’s older and historic buildings in downtowns have unused or underused upper stories. One of the task force’s recommendations that has been adopted is to provide a 50 percent state tax credit, up to \$12,000, for installation or improvement of a lift, and \$25,000 for installation or improvement of an elevator or sprinkler system in buildings in designated downtowns. Upper floors have been redeveloped in several Vermont towns, including Windsor, Brandon, Bellows Falls, and Randolph.
- In order to address the limited financing available for mixed-use development, the Pennsylvania Housing Finance Agency makes loans for rehabilitating residential portions of vacant properties while banks provide financing for the commercial portions.
- In Rollins Square, in South Boston, 20 percent of the units are rentals reserved for households with incomes from 30 to 60 percent of the Boston area median income, 40 percent are for-sale units for households with incomes 80 to 120 percent of the AMI, and the remaining 40 percent are market-rate units. A non-profit developer built Rollins Square.
- Through its “Upstairs, Downtown” program, New Jersey’s Housing and Mortgage Finance Agency provides below-market mortgage funds to encourage property owners to create and maintain second story residential units above commercial uses in downtown locations.
- East Greenwich, RI has a mixed-use planned district that specifically encourages affordable housing. The low-density commercial part of the development is intended to offset the tax burden of the higher density residential component.

Pros and cons to using the strategy

Pros:

- Higher-density development can include a diversity of housing types, from lower-priced studio apartments to much larger units.

- May reduce residents' transportation expenses, because they are more likely to be in walking distance of jobs and amenities.
- Often makes use of underutilized existing space and infrastructure.
- Allows for shared parking between residential, office, and commercial uses.
- In distressed communities, mixed-use developments with careful planning of layouts can improve safety and create a sense of community.

Cons:

- Difficult to finance because lending institutions typically cannot sell loans for mixed-use developments on the secondary market, but must hold them in portfolio, limiting the financing available.
- Often requires changes in zoning ordinances that historically have separated residential from commercial land use.

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Planned Unit Development

Strategy description

Planned unit development (PUD) is a type of zoning district as well as a site planning approach to development that includes mixed uses and a variety of housing types, typically on large parcels of land. Within a PUD, flexibility in zoning is allowed, and regulation focuses on overall design of the development rather than lot-by-lot zoning. Residential land uses in a PUD typically are clustered to allow for shared open space. The higher densities often allowed, as well as the clustering of buildings and mixing of uses, allow for reduced site costs, which can increase housing affordability.

The primary difference between PUD and cluster development is that PUDs now typically include commercial as well as residential uses and generally involve larger parcels.

History of the strategy

The concept of a Planned Unit Development was used shortly after World War II in Levittowns, which were developed as whole communities within large metropolitan areas. In 1949, Prince Georges County, Maryland permitted the development of a large tract of land as a complete neighborhood unit, having a range of dwelling types, shopping facilities and off-street parking areas, parks, playgrounds, school sites, and other community facilities. One of the first uses of the term Planned Unit Development was in 1962 in San Francisco's zoning ordinance.⁵⁸

Target population

PUDs benefit the community generally, by providing housing that may be less expensive because of the higher densities and lower cost of infrastructure. This is more true in communities that provide density bonuses for PUDs. Affordable housing included in PUDs is likely to target low- and moderate-income renters and homebuyers.

How the strategy is administered

PUD provisions must be added to a community's zoning law or ordinance. The process of adding PUD provisions to the local zoning law is identical to adopting any zoning local law or amendment. The PUD local law must be drafted, published, subjected to public hearing, and the zoning map amended, adopted and filed. Some communities create an overlay zone to accommodate PUDs, some treat it as a conditional use, and others as a designated district.

How the strategy is funded

No additional funding necessary.

Extent of use of the strategy

PUDs are widely used in municipalities throughout the country. While affordable housing is rarely the primary goal, the provision of affordable housing often accompanies the use of PUDs.

Locations where the strategy is being used

- Sequim, WA requires affordable housing to be included in PUDs of less than five acres, and allows a bonus of one standard lot for each affordable unit. PUDs larger than five acres are also allowed bonuses.⁵⁹
- Bozeman, MT offers flexible application of underlying zoning requirements in a PUD in exchange for community goods provided in the PUD such as affordable housing or open space.
- Teton County, WY has a provision for PUD Districts for Affordable Housing. This special district allows flexibility for landowners to plan for the development of affordable housing.
- Talent, OR's PUD standards allow for innovative, affordable housing types such as cottage housing.
- Gardiner, ME offers density bonuses in PUDs for affordable housing.

Pros and cons to using the strategy

Pros:

- PUDs provide flexibility by allowing for mixed uses and a variety of structure types and densities. Single- and multifamily affordable housing can be mixed with market-rate housing, creating a community with income diversity.
- PUDs minimize the costs of infrastructure by minimizing lengths of roads and utility lines through efficient development planning.
- PUDs may reduce transportation costs because residents may have shorter commutes and/or live closer to shopping and other amenities.
- PUDs can increase the amount of protected open space without cost to the government, or need for maintenance by the municipality, if private ownership of the open space is retained.
- PUDs help to build relationships among various community stakeholders, as they work together to determine the specifications of the PUD.

Cons:

- PUDs may take longer to approve because they may require the cooperation of many different community stakeholders.

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Transit-Oriented Development

Strategy description

Transit-oriented development is development located near existing public transit infrastructure. Housing typically has relatively high densities, and residents are more likely to be able to use public transit instead of an automobile. By reducing transportation costs, transit-oriented development reduces household expenditures. Homebuyers in such developments can sometimes be approved for larger mortgage amounts because they will face lower transportation costs (e.g., Fannie Mae's Smart Commute Initiative). In addition, a portion of units in transit-oriented developments may be reserved specifically for low- and moderate-income families.

History of the strategy

Transit-oriented development was initially designed to link jobs in the city to homes in the suburbs in the early 20th century, but the concept has changed over time to accomplish a variety of goals. In the 1970s, TOD was used to relieve congestion in metropolitan areas such as San Francisco and Atlanta. In the 1990s, developers have chosen to build residential and commercial communities around transit areas as good investment opportunities. More recently, TOD has broadened beyond financial returns to reap a combination of benefits that include relieving congestion, developing pedestrian friendly communities, creating increased transit ridership, reducing household transportation costs, creating housing in proximity to jobs, and ensuring affordable homes in transit-oriented areas.

Target population

Transit-oriented development is a strategy used partly to ensure affordable housing units targeted at low- to moderate-income families who rely on public transportation.

How the strategy is administered

- Private developers, transit agencies, or local government entities initiate TOD projects. Local governments provide incentives for developers to undertake TOD projects and to include affordable units in the development.
- Community groups can negotiate agreements with developers or government agencies to ensure that TOD projects provide affordable housing.
- Some private developers have specifically designed TOD to create affordable housing units.

How the strategy is funded

Transit-oriented development projects with goals to ensure the creation or preservation of affordable housing units may be funded by state and/or local general revenues, donations, private financing, federal funding, tax increment financing, or a combination of any of the above.

Extent of use of the strategy

Transit-oriented development with a focus on affordable housing is used in a number of cities.

Locations where the strategy is being used

- Arlington, VA has targeted its development around the county's five subway stations for the past 30 years, creating high-density, mixed-use developments that form a bull's eye pattern around each Metro station. The county uses a variety of tools to encourage affordable housing in its TODs, including a housing trust fund, special affordable housing protection districts, and transfers of development rights (see case study).
- In 2006, Fairfax County, VA approved a transit-oriented development plan near a Vienna, Virginia subway stop. The new MetroWest development will replace cul-de-sacs with approximately 2,250 housing units. In addition, the development will include about 300,000 square feet of office space and 100,000 square feet of retail space.⁶⁰
- In San Jose, California, the Ohlone-Chynoweth Commons project, completed in 2001, provides affordable housing with access to light rail and bus stations for low-income families in an affluent area. The Santa Clara Valley Transportation Authority leased the land to a developer, Eden Housing, Inc., at a reduced rate, making affordable housing feasible.
- In Las Vegas, Nevada, the Tom Hom Group, a private developer, initiated a TOD project targeted specifically at low-income families. Campaigne Place was designed specifically to provide 319 unit, single room occupancy residential housing for low-wage earners who earn no more than \$22,000 per year and pay rent of about \$99 a week or about \$400 per month.
- Redmond, Washington built 308 affordable housing units in 2001 in a bus transit center for working families to have access to transportation. All housing units are reserved for people making 60 percent or less of the area median income. This project provides low- to moderate-income residents access to affordable homes in an affluent area.
- Los Angeles, CA developed a mixed-income pedestrian friendly community on 22 acres in NoHo Commons at the North Hollywood Red Line subway station. The development features 162 affordable housing units, including 28 units for very low-income, 80 low-income units, and 54 moderate-income units.

Strategy results

- Five percent of homes in the proposed MetroWest development in Fairfax County will be affordable, which is almost double the number required under current Fairfax County provisions for developments of this density.
- In the San Jose, CA Ohlone-Chynoweth Commons project, the developer, Eden Housing, built a \$31 million complex with 194 units, all targeted to families earning 30 to 60 percent of the median income.⁶¹

Pros and cons to using the strategy

Pros

- Provides low- and moderate-income families who rely on public transportation access to affordable homes in close proximity to transit hubs and jobs.
- Reduces transportation costs for families, increasing disposable income for other household expenditures such as housing.

Cons

- TOD projects that do not explicitly mandate the provision of affordable housing probably will be unaffordable to low- and moderate-income households.
- Can be difficult to implement because of conflicting roles of local jurisdictions and transit agencies, lack of commitment from stakeholders, lack of consensus on the approach, limited financial resources, complex financing structures for mixed income neighborhoods, and community opposition to density and affordable housing.
- Current zoning and regulations in most localities impede TOD; developers and local governments must collaborate to make the project possible.
- Rapid gentrification as a result of increased land value around transit-oriented communities may displace low-income households located in the TOD proposed sites.
- Affordable homes may require large subsidies.

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ARLINGTON, VIRGINIA

TRANSIT ORIENTED DEVELOPMENT

With a recent focus on the environmental benefits of public transit and a renewed interest in urban living, communities are increasingly turning to transit-oriented development when planning for new growth and development. Under the strategy, mixed-use development is concentrated within a half-mile radius of a public transit station in order to create compact, mixed-use communities.

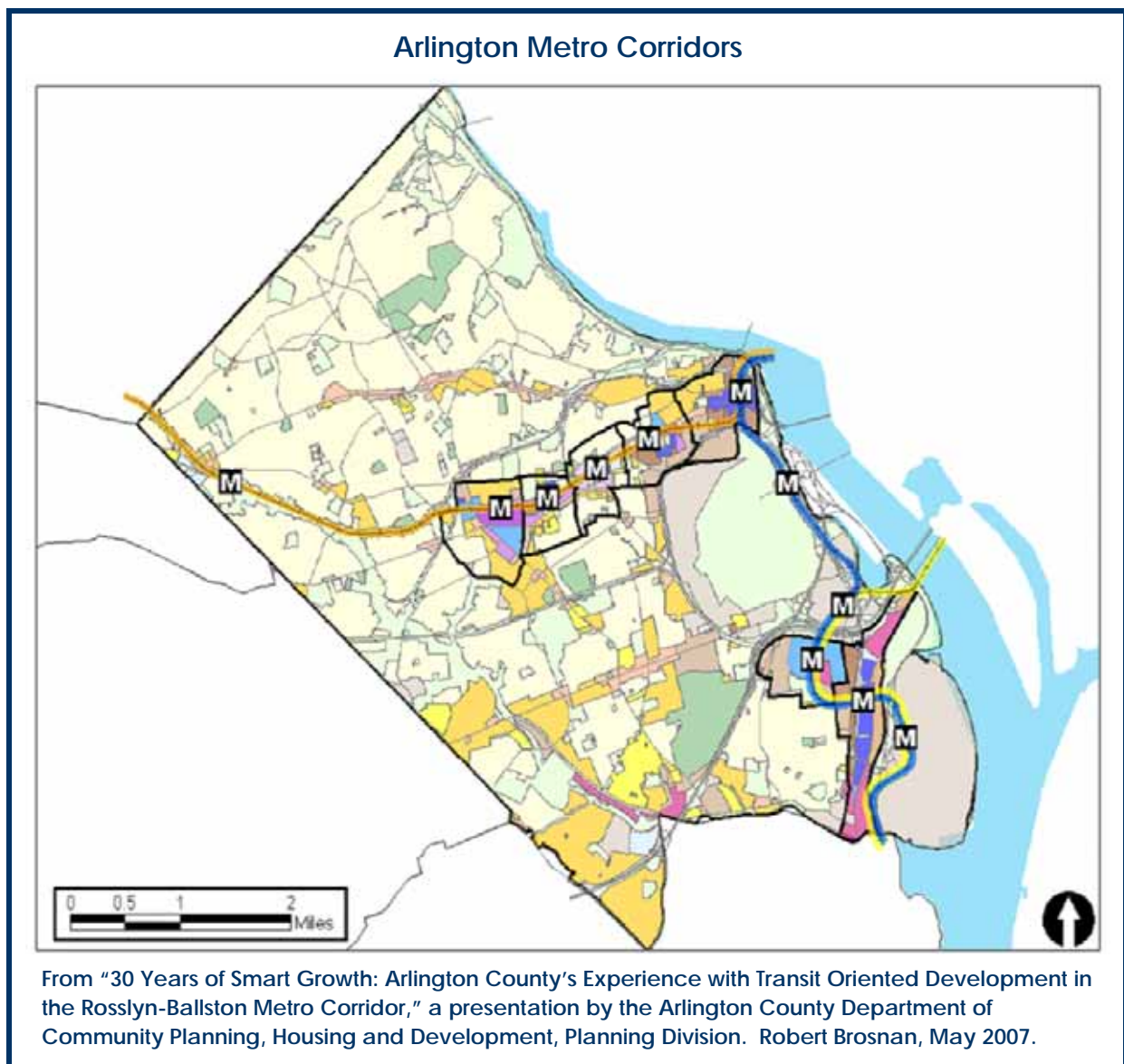
- ✓ Transit-oriented development
- ✓ Mixed-use development
- ✓ Housing trust funds
- ✓ No net loss mandates
- ✓ Transfer of development rights

With the construction of the Metro system in the Washington, DC area, Arlington County, Virginia has been on the forefront of the transit-oriented development trend for the past 30 years, helping to shape new growth with an award-winning development strategy.⁶² Prior to the construction of the DC area's MetroRail system in the 1970's, Arlington's metro corridors were aging, low-density commercial areas with declining commercial activity surrounded by low-density residential neighborhoods. Since then, Arlington has focused its growth around five MetroRail stations, creating two corridors of "urban villages," which are high-density, mixed-use developments that form a bull's eye pattern around each Metro station.

But while transit-oriented development strategies can help communities manage growth, minimize traffic, promote alternatives to automobiles, and maintain a healthy tax base, they do not always help in increasing the production of affordable housing for a community. As Arlington has grown, affordable housing – especially in the coveted "urban villages" – has become scarce as developers increasingly focus new development efforts on the luxury condominium market, making it more difficult to include affordable housing.

Between 2000 and 2005, 52 percent of rental units (almost 9,900) became unaffordable to low and moderate-income households. The county reported that between November 2004 and July 2006 more than 2,200 rental units were being converted to condominiums and more than 400 rental units were slated for demolition.⁶³

Without efforts to preserve and increase the supply of affordable housing, Arlington will face serious social and economic consequences. As it is, the county's ability to attract and retain a local workforce is threatened, including critical workers such as teachers, police, fire and rescue, and service personnel. Only 25 percent of county police and 911 responders, 9 percent of county firefighters, and 41 percent of county teachers live in Arlington County. In 2005, the starting salaries for many occupations were below the \$55,000 minimum salary needed to afford Arlington's average rent of \$1,375.⁶⁴ Increasing housing prices are changing the makeup of Arlington's neighborhoods, threatening its history and tradition of diversity.



To respond to the affordability crisis, Arlington County is using several tools to incorporate affordable housing into its existing transit-oriented development strategy. Because of the high cost of land within the County's transit corridors, the tools vary greatly, in some cases focusing on preservation rather than production or allowing alternatives to on-site affordability requirements.

Arlington uses one-for-one replacement strategy

In 1990, the County Board created Special Affordable Housing Protection Districts to promote the retention of affordable housing within its transit corridors where density is higher and affordable housing is not usually available. The Districts require the preservation or one-for-one replacement of existing affordable housing units either on site or in a similar (near transit) location off site. Seven special affordable housing protection districts have been established since 1990.

Developers include affordable units in projects

A second strategy requires developers to include some form of support for affordable housing in new site plan requests.⁶⁵ In 2005, the County approved amendments to the County Zoning Ordinance that require all new site plan requests to include affordable housing or contributions to support affordable housing in order to receive County Board approval for the project. Because transit-oriented development is often built at higher densities than by-right zoning allows, many new projects near Arlington's transit stations will require site plan approval.

Site plan applicants can meet these requirements by including affordable units on site, offsite with square footage requirements that vary with distance from the project, or by paying a cash contribution that varies with density.⁶⁶ To be considered affordable, units must be affordable to households earning 60 percent of the area median income and must remain affordable for 30 years.

After agreeing to fulfill the affordable housing requirement, developers do not need to commit to an approach for meeting the requirement until they file for a Certificate of Occupancy. Depending on how developers choose to satisfy the requirements by building units, between 28 and 57 units of affordable housing could be generated from the site plans approved in 2006, or contributions of up to \$3.3 million could be collected (see figure).

**Potential Benefits from Residential Site Plan Approved under the Affordable Housing Ordinance
(For-Profit Developers)**

FY 2006 Approved Site Plans	Total Project Units	Alternative Benefits from Affordable Housing Ordinance			Contribution Option
		Units if 5% of GFA	Units if 7.5% of GFA	Units if 10% of GFA	
1200 N. Irving St.	155	7	11	15	\$155,000
Two Metropolitan Park	300	12	17	24	\$1,187,000
Clarendon Center	244	9	14	18	\$1,996,050 ¹
FY 2006 Total	699	28	42	57	\$3,338,050

¹If units are provided, the contribution will be \$809,000 on the commercial use.

Note: The Affordable Housing Ordinance was approved in December 2005. The Easton, the Alexan at S. Glebe, and the North Tract Lofts projects were approved prior to the Ordinance taking effect and so do not appear on the above list. The County will receive funding for Metro station improvements from the Spire project (Fairmont).

Shift of density allows increases in density in affordable projects

Another strategy the County uses to combine affordable housing with transit-oriented development is a shift of density, which is similar to transfer of development rights. Developers are allowed to shift density from one part of a site to another within a site plan. In some cases, the higher density can be used to help compensate for the costs of including affordable housing in a development, such as in Arlington's areas of transit development.

This strategy allowed the nonprofit developer Arlington Partnership for Affordable Housing (APAH) to use excess density from an urban park to a portion of their adjacent development Rosslyn Ridge II, resulting in a 238-unit mixed income project with 95 affordable units. APAH will also receive a \$1.8 million loan from the County's Affordable Housing Investment Fund (AHIF, described below) for the project.

Financing tools for supporting affordable housing

In addition, the County offers several financing tools to help support the production of affordable housing. The AHIF is a revolving loan fund established in 1987 for acquiring, rehabilitating, and constructing affordable housing. It is funded with \$5.7 million annually from County general revenues and federal HOME funding. The County also backs AHIF Plus, a \$20 million revolving line of credit that provides below-market interest rate loans to developers for affordable housing. The third financing tool is the Housing Reserve Fund, which uses private developer

contributions to finance the acquisition of affordable units to mitigate the displacement of low-income tenants and apartment banking. This fund generates about \$500,000 annually.

Challenges to including affordable housing in transit-oriented developments

Robert Brosnan, Planning Director at the Arlington County Department of Community Planning and Development, explains that there is limited opportunity to combine affordable housing and transit-oriented development strategies because the limited supply drives up the price of land. “In transit-oriented development, everything is high rise and high density. It’s a challenge to fit [affordable] units in. ... Money is used more often outside of Metro corridors than inside. The problem with affordable housing near transit is the value of the land is so high that the per-unit subsidy becomes very high. It is very difficult to [build affordable housing] right adjacent to Metro stations.”

“In transit-oriented development, everything is high rise and high density. It’s a challenge to fit [affordable] units in.”

-Robert Brosnan

Brosnan adds that because including affordable housing in transit-oriented development is so expensive, much of the affordable housing that has been created in the County was made possible by the County’s affordable housing funds. The County can get a better return on its investment by using housing fund dollars to help nonprofits such as APAH build affordable housing.

Brosnan advises tells communities trying to use transit-oriented development to decide what type of development they want and build it into the initial planning process, then design supportive public policies and planning tools.

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AFFORDABLE HOUSING ORDINANCES

Housing and Condominium Replacement Ordinances

Strategy description

Housing replacement ordinances require a developer undertaking a project that removes affordable housing from a community to replace it, either through physical construction or through monetary contributions. Policies vary from requiring unit-for-unit replacement within the same neighborhood to those that allow contributions to a local trust fund in lieu of creating replacement units.

Condominium conversion ordinances are used to regulate conversion of multi-family rental housing to ownership. Some require that affordable rentals lost to condominium conversion be replaced; others require that a percentage of condominiums created from rentals be affordable to current tenants. Other condo conversion ordinances require that tenants be notified long in advance of the conversion; give current tenants the right to buy their unit if their income allows them to qualify; and limit the total number of rental units that can be converted in any one year.

History of the strategy

- A federal “one-for-one” replacement law for public housing existed from 1937 to 1995, when Congress eliminated it because of the expense and because it discouraged owners from demolishing unlivable units, some of which were long vacant. During this period, every public housing unit that was eliminated was required to be replaced.
- Hartford, CT may have passed the first local replacement ordinance in 1986. This ordinance required private developers to either replace low-income apartments demolished or converted to market rate or to pay into a housing fund. The ordinance was repealed in 1995.

Target population

Low-income renters.

How the strategy is administered

Local governments enforce housing and condominium replacement ordinances. Affordable units created can be administered either by a local government or by independent affordable housing organizations. For example, community land trusts could enter into agreements with local governments to ensure long-term affordability of units created.

How the strategy is funded

No funding is necessary other than for enforcement.

Extent of use of the strategy

- Condominium conversion ordinances and housing replacement ordinances are in limited use.
- State and local laws that require advance notification and/or right of first refusal when an owner is planning to leave the federal Section 8 program or sell the property are in moderate use.

Locations where the strategy is being used

- In the mid 1990s, Chicago implemented a number of strategies to prevent displacement of low-income households from gentrifying neighborhoods. Strategies used included limits on condominium conversions and unit-for-unit replacement requirements.⁶⁷
- Portland, OR passed a limited housing preservation ordinance in 1998 that required owners of Section 8 housing units interested in leaving the program to offer the city the right of first refusal or pay a fine of \$30,000 per unit.⁶⁸
- Denver, CO passed a housing preservation ordinance in 2000 modeled after Portland's.
- The Stamford, CT city legislature passed an ordinance in 2001 that requires that owners of government-subsidized housing replace every unit they demolish, or convert to market rate, with an apartment renting for the same price. The law applies to units affordable to tenants with incomes below 50 percent of the local median.⁶⁹
- Burlington, VT passed a Condominium Conversion Ordinance in 1987. For all buildings larger than a duplex, the seller must provide at least two-year notice of intent to convert rental units to condos. Elderly and disabled tenants must receive four years' notice. Tenants have right of first refusal and City can purchase units for affordable housing. Burlington's Housing Replacement Ordinance requires replacement of all housing units lost through conversion or demolition (including demolition resulting from neglect). New units must be restricted to households at 65 percent of the area median income for at least 10 years.⁷⁰
- San Francisco has a unit-for-unit ordinance in place that is similar to Burlington's.
- Portland, ME's Housing Replacement Ordinance can be satisfied either by replacing affordable units or by paying a fee that is used to fund the Housing Replacement Fund.⁷¹

Pros and cons to using the strategy

Pros:

- Can slow displacement in gentrifying communities and provide opportunities to preserve affordable units.

Cons:

- Laws requiring the government to replace demolished units are costly.
- Legal challenges to replacement ordinances by private landowners are likely.

Sources of information about the strategy

- Harmon, Tasha, “Integrating Social Equity and Smart Growth: An Overview of Tools,” Institute of Community Economics, 2004. Available at: <http://content.knowledgeplex.org/kp2/cache/documents/98054.pdf>
- “Thinkers and Resources for Promoting Equitable Development,” PolicyLink, 2000. Available at: <http://www.policylink.org/pdfs/PromotingEquitableDevelopment.pdf>

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No Net Loss Mandates

Strategy description

A no-net-loss policy is a commitment by a city or other government entity to maintain the same number of affordable housing units in a given area in the future as exists in the present. The commitment is most often made when a city undertakes an urban renewal project that is expected to increase property values. The policy is intended to prevent displacement of low-income residents that might otherwise occur.

“No net loss” mandates can also refer to zoning density. These state laws require that jurisdictions either maintain current zoning density to ensure there is no net loss of residential capacity or justify any downzoning.

Target population

Low-income renters in urban renewal districts

How the strategy is administered

- A local governmental body can pass legislation that ensures that city-sponsored development will not result in a decline in the number of affordable housing units.
- Alternatively, a state passes legislation requiring that local jurisdictions maintain (or increase) residential zoning density unless it can be justified.

How the strategy is funded

This strategy requires a variety of strategies and public resources to preserve or replace units.

Extent of use of the strategy

Limited use.

Locations where the strategy is being used

- Portland, OR’s no-net-loss policy applies to city-sponsored development.
- California has a state no-net-loss zoning law.
- St. Paul and Brooklyn Park, MN both require the replacement of affordable rental housing if a city-assisted project results in the loss of such units.

Strategy results

Portland, OR’s no-net-loss policy has offset losses caused by city-sponsored development in the central city, although losses related to non-Portland Development Commission related private development have been unaffected.

Pros and cons to using the strategy

Pros:

- Obligates the government to act rather than adding requirements for private developers and landowners.
- Allows for leverage to argue for increased funding for affordable housing and for permanent affordability requirements, as well as for approaches that modify the private market.

Cons:

- Requires enormous public resources or financing combined with regulatory strategies to maintain affordability over an extended period of time.

Sources of information about the strategy

- *Institute of Community Economics* publication, Harmon, Tasha, “Integrating Social Equity and Smart Growth: An Overview of Tools,” 2004. Available at:
<http://content.knowledgeplex.org/kp2/cache/documents/98054.pdf>
- Portland Development Commission: Governance, Structure, and Process:
http://www.pdxcityclub.org/pdf/pdc_2005.pdf
- St. Paul administrative code on the Housing Replacement Policy. Available at:
<http://www.stpaul.gov/code/ac093.html>

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PORTLAND, OREGON

NO NET LOSS MANDATE

Since the 1980s, Portland's central city has experienced significant growth in commercial and market-rate housing development. Simultaneously, the number of units affordable to low-income households has declined significantly.

Unit losses have been attributed to rent increases, demolition, condominium conversions, opting out of project-based Section 8 contracts, building closures, and conversion to commercial uses.⁷²

- ✓ No net loss mandates
- ✓ Transfer of development rights
- ✓ Tax increment financing

In response, the Portland City Council adopted a formal "No Net Loss" policy in August 2001. The intention of the policy was to create financial and regulatory resources for creating, preserving, and rehabilitating affordable housing in the central city.⁷³ The City Council also established a goal of preserving, replacing, or constructing at least 1,200 low-income units (at or below 60 percent median family income (MFI)) in the central city by 2006.

A complex set of programs and policies has been used by the City to implement the policy and accomplish the No Net Loss goal. A few of the most innovative include an affordable housing preservation ordinance, transfer of development rights, and dedication of Urban Renewal Area resources for preserving affordable housing.

The first tool is Portland's **Affordable Housing Preservation Ordinance**, adopted in 1998. The ordinance requires property owners of expiring Section 8 and/or 202 contracts to notify the City about the expiration and provide the City an opportunity to purchase the property before the owners convert the units to market-rate housing. Since 1998, over 400 units were preserved and/or replaced using resources from a "preservation line of credit" (a line of credit the city of Portland established with a local lender to provide short-term resources to complete preservation transaction within 120 days), tax increment financing, and the federal government.⁷⁴

The **Floor Area Transfer Option for Residential Uses and/or Single Room Occupancy (SRO) Housing**, also adopted in 1998, is the second innovative preservation tool. The transfer option is a method of allowing for the transfer of development rights (TDR) from one central city property to another. An existing affordable housing site can sell any unused portion of its development rights to another central city property owner, who can then increase the FAR (floor area ratio) purchased to expand the size of the project, regardless of the total FAR allowed in the development codes. In return, the affordable housing site owner guarantees the affordability and maintenance of his or her units in perpetuity.



The intention of the program is to preserve affordable housing and increase density in the central city, a community goal for the area. Unfortunately, the transfer options have seldom been used, if at all. In a recent study commissioned by the City of Portland, researchers suggest that the option hasn't been used because property owners "are unaware that they are sitting on excess development rights" and because some "are hesitant to lose the FAR potential on aging SRO properties that (they) might redevelop."⁷⁵

Troy Doss, planner for the City of Portland, believes that neither provision has been used because it is cheaper to use other FAR transfer options. The most common FAR transfer transactions occur within a single site (sites can be as large as city blocks and are under common ownership) or within a planned urban development or target development area like the South Waterfront subdistrict.

Doss explained that these single-owner or owner-to-owner transactions require minimal paperwork, fewer appraisals, and the price set by the market is generally lower per square foot. In comparison, the price of FAR in a Residential Floor Area Transfer transaction is likely to be above \$10 per square foot because property

locations are more centralized and there are higher administrative costs associated with formalizing the affordability provisions with the City.

Portland's unsuccessful experience with FAR transfers is not necessarily a flaw in the concept of using FAR transfers to preserve affordable housing. Doss confirmed that the concept and approach is sound; the challenge in Portland is that there are provisions in the Central City Zoning code to incentivize 18 different public goals. The large number of options results in the opportunity for cheaper alternatives that allow developers to achieve their goals of building higher densities without utilizing the affordable housing FAR transfer.

The third affordable housing tool is the use of **Urban Renewal Area** (URA) resources for protecting and replacing affordable housing. URA's in Portland are tax increment finance districts (TIF) that generate resources to improve the community within the URA boundaries. Over the last ten years, millions of dollars have been invested to preserve affordable housing.

In 2006, the percentage of URA resources dedicated to affordable housing became more reliable and guaranteed. At that time, the City Council adopted a resolution requiring that 30 percent of all resources invested in new URAs be dedicated to creating affordable housing (existing districts are required to dedicate varying percentages depending on their remaining bonding authority). The TIF set-aside for developing, preserving, and rehabilitating housing is applicable to all URAs, including the URAs within the central city.

The Portland Development Commission administers Urban Renewal Funds and allocates them in two ways: either through a request for proposals for development of housing on privately owned property or on PDC-owned property in Urban Renewal Areas, or in response to a direct request by a developer for financial assistance to complete a planned affordable housing project. All proposed projects must further the objectives outlined in the URA plans and be affordable for households with incomes below 80 percent of MFI.⁷⁶

Historically, the average percentage of URA resources spent on housing was less than 20 percent, a subset of which was for affordable housing. The new 30 percent requirement for affordable housing will significantly increase available resources:

approximately \$23 million dollars will be reallocated from other urban renewal activities.⁷⁷

As a result of these three interventions, the City of Portland has been able to preserve, replace, or construct 680 affordable units between 2001 and the end of 2006, dedicating approximately \$22 million in TIF resources.⁷⁸

However, this fell well short of the City's goal to preserve or develop 1,200 units by the end of 2006. The City is considering the reasons for this shortfall. Among other things, Related to the TDR provision's limited use, the Bureau of Planning commissioned a study of its entitlement bonus and transfer programs to better target its incentives to ensure that the most important goals are being met. They concluded that limiting the amount of FAR available for transfer would make the city's incentives more attractive to developers and more likely to foster the intended results. The city is now in the process of considering these recommendations and will likely implement some of revisions through their Central City Plan Revision Process that began in 2007.

The future effectiveness of the Preservation Ordinance is also in jeopardy because of limited resources to purchase expiring units. The preservation of units currently protected by Housing Authority of Portland (HAP) contracts is questionable because the Preservation Line of Credit has expired; TIF districts in older urban areas have expired; and there is now greater competition for TIF funds in remaining districts. There are over 700 units under expiring contracts within the next 10 years and the City's "current and projected resources are inadequate to address this next wave of expiring project based contracts."⁷⁹ Additional resources need to be identified if the City is to continue preserving units in the future.

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FINANCIAL STRATEGIES FOR ENCOURAGING AFFORDABLE HOUSING

AFFORDABLE HOUSING is expensive. This chapter describes 24 different ways that states and local governments have financed affordable housing, either by implementing taxes that raise revenues for affordable housing, or by reducing the expense of constructing housing for property owners. The **Property Taxes** section includes some tried strategies such as relieving property taxes for maintaining affordable rents or developing affordable rental housing; a more unfamiliar strategy is one that involves encouraging development by taxing land at a much higher rate than improvements on the land. **Other Taxes** used to improve affordability of housing include land gain taxes, which are designed to discourage speculation, and demolition taxes, which can provide a revenue source for constructing new affordable housing.

State Tax Credits work to reduce tax liability for investors in an affordable housing project, thereby raising equity for the project. These are generally patterned after federal programs, although North Carolina's tax-linked bonus, the most efficient of these programs, is unique.

Reductions in Impact Fees also reduce the expense of constructing new housing, generally on a much smaller scale than tax credits. However, because they can be applied to housing that covers a much broader range of incomes – such as workforce housing – subsidies are shallower and as a result, more households can typically benefit.

One **interesting Regional Approach to Financing Affordable Housing** is tax-base sharing, which reduces wealthy communities' incentives to zone out uses considered to raise insufficient property taxes, such as housing that is affordable to low- and moderate-income households. Massachusetts answers the question of how to pay for the education of schoolchildren who will occupy new housing by offering state funding to offset these costs to communities that build affordable housing.

The last section describes a variety of **Other Sources of Financing** for affordable housing, including housing trust funds, housing-linked deposits, and general obligation bonds. Tax increment financing is most often used for community revitalization; however, some places, such as Maine, are successfully adapting the tool for affordable housing. Linkage fees, which assess commercial development a fee for its impact on the housing needs of the community, is a strategy that helps keep a balance between jobs and housing.

“Double bottom line” private equity funds, which invest in workforce housing projects, are a bit complicated but well worth understanding given their success in communities in California. Importantly, these funds provide financing for housing affordable to moderate-income households that are excluded from federal sources of funding. Last, although shared equity does

not finance the construction of new units of housing, it allows buyers of subsidized homeownership units to accumulate enough equity to buy market-rate housing while leaving subsidized units affordable to low- and moderate-income households.

PROPERTY TAXES

Property Tax Relief for Maintaining Affordable Rents

Strategy description

Property tax relief for current and potential owners of affordable multifamily rental properties can encourage its preservation as affordable housing. In exchange for property tax relief, owners make a long-term commitment to maintain units at affordable rent levels and/or to renovate affordable rental units. The tax relief can be in the form of reduced valuation of the property or a reduced tax rate.

Target population

The direct beneficiaries of this strategy are the owners of rental properties that experience a tax reduction.

The ultimate beneficiaries are the low- and moderate-income renters who are able to pay lower rents because the owner's operating costs are reduced thanks to the reduced tax burdens.

How the strategy is administered

Property owners apply to the taxing agencies for the reduced property valuation and/or a reduced tax rate.

How the strategy is funded

Property taxes are generally administered at the local level, but may be subject to state laws (such as in Minnesota) that provide property tax relief. State legislative action is required to implement property tax relief that will apply to affordable housing statewide; local jurisdictions apply the appropriate assessed value or tax rate and collect the property taxes.

Extent of use of the strategy

Limited use.

Examples of locations where the strategy is being used

Minnesota⁸⁰ has a "4d" tax classification that provides a reduced tax rate of .75 percent for landlords who agreed to keep rents affordable to households at or below 60 percent of area median income (40 percent lower than the rate for market rate rental property).⁸¹

In several states including Alaska and Iowa, tax assessors value LIHTC properties using the statutorily mandated limited rents, rather than at market rents, thereby lowering the assessed value of the property and reducing the tax burden.

Pros and cons to using the strategy

Pros:

- Promotes the preservation of affordable rental housing.

Cons:

- Reduces tax revenues for the administering localities.

Sources of information about the strategy

- “Relief Found for Increasing Property Tax Burdens” Regulatory Barriers Clearinghouse website, updated October 2004: www.huduser.org/rbc/newsletter/vol2iss3more.html
- “Assessment and Classification Practices Report: Class 4d Low-Income Rental Housing,” Property Tax Division, Minnesota Department of Revenue, February 26, 2007. Available at: www.taxes.state.mn.us/property/other_supporting_content/4d_report_final.pdf
- City of New York Department of Housing Preservation and Development website, Mayor’s Office press release #307-03: www.nyc.gov/html/hpd/html/pr2003/mayors-release307-03-pr.shtml

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Property Tax Relief for Developing Affordable Rental Housing

Strategy description

Tax abatements are used as incentives for constructing or rehabilitating affordable rental housing. For example, some jurisdictions encourage rehabilitation of older affordable properties by offering property tax abatement over a specific period (often 10 years) to owners who improve their properties and, in some cases, also agree to rent them at affordable levels. The abatement may freeze the property's assessed value at the current level for a period, tax the property at a lower rate during that time, or exempt the property entirely from property taxes. Similarly, some jurisdictions encourage affordable housing construction by providing tax abatements for a period of time on new apartments.

History of the strategy

New York City has been offering property tax abatements for newly constructed apartment buildings since 1971.

Target population

The strategy targets low- and moderate-income renters.

How the strategy is administered

This strategy can be administered in a number of ways. California provides property tax abatement for specific types of affordable housing projects; New York City issues negotiable tax-abatement certificates that can be bought and sold. Tax abatements can be applied city- or county-wide, or in a particular district.

How the strategy is funded

Property taxes are generally administered at the local level, but may be subject to state laws (such as in California) that provide property tax relief. State legislative action is required to implement property tax relief that will apply to affordable housing statewide. For local efforts to provide property tax relief, local government action (such as by the board of commissioners in Cook County) is required to pass an ordinance. In either case, local jurisdictions apply the appropriate assessed value or tax rate and collect the property taxes.

Extent of use of the strategy

Limited use.

Examples of locations where the strategy is being used

- Portland, OR has several tax abatement programs designed to promote transit-oriented development, rehabilitation of rental homes, construction or rehabilitation of owner-occupied homes in “opportunity areas,” and nonprofit ownership of affordable rental units.
- Chicago has a special property tax classification designed to stimulate the construction and rehabilitation of affordable rental homes.⁸²
- New York City’s 421a program provides developers a partial tax exemption for new apartment buildings. In “exclusion zones,” the units must meet an affordability standard to qualify for the tax abatement.
- In Richmond, VA owners of small multifamily residential properties undergoing substantial rehabilitation can request a partial tax exemption for the value of the rehabilitation.
- Many types of affordable housing developments in California qualify for property tax abatement under the Welfare Exemption of the California Revenue & Taxation Code Section 214(g).

Strategy results

- In Portland, OR, as of fiscal year 2004-2005, about 12,725 homes were receiving tax abatement under one of the city’s various abatement programs.⁸³
- More than 110,000 apartments – both affordable and market-rate – have been built under New York City’s 421-a program over the last 36 years.⁸⁴

Pros and cons to using the strategy

Pros:

- Provides strong incentives to developers and property owners to create or preserve maintain affordable housing.

Cons:

- Reduces tax revenues for the administering localities.

Sources of information about the strategy

- New York City website on the 421a program:
www.nyc.gov/html/dof/html/property/property_tax_reduc_421_a.shtml
- Scott, Janny, “In Overhaul, City Seeks To Expand Lower-Cost Units,” *New York Times*, December 21, 2006.
- Lubell, Jeffrey, “Increasing the Availability of Affordable Homes: A Handbook of High-Impact State and Local Solutions,” prepared by the Center for Housing Policy, 2006. Available at: www.nhc.org/pdf/pub_hwf_solutions_01_07.pdf

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- Real Property Assessment Classification Ordinance, Cook County Assessor’s Office, available at: <http://www.cookcountyassessor.com/forms/ordinance2006.pdf>

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Special Taxing Districts

Strategy description

Tax districts are quasi-governmental entities with distinct boundaries that may provide one or more public services, including funding for infrastructure projects. Funding for the districts typically comes from an annual tax surcharge applied to property owners within the district's boundaries.

Several types of tax districts provide public services that can reduce the cost of developing new housing. These include community development districts, real estate improvement districts, community facilities districts, and special improvement districts. Real estate improvement districts, in particular, are designed specifically for infrastructure development intended to lower directly the costs of developing housing.

History of the strategy

- Iowa, the only state to allow real estate improvement districts, passed its Special Districts statute in 2005.
- Other types of special districts have been in use much longer. For example, in 1976, the Hawaii state legislature created the Hawaii Community Development Authority to revitalize urban areas in the state in need of redevelopment and also designated the Kaka'ako area of Honolulu as the Authority's first community development district.

Target population

All residents of special districts benefit from the enhanced public services. Residents of real estate improvement districts benefit from reduced infrastructure costs for new residential construction; affordable units built using revenues from these districts provide additional benefits to low-income homebuyers and renters.

How the strategy is administered

- In order to form a real estate improvement or other special taxing district, owners of property in a geographic area to be designated as a district must file a petition requesting that the issue be put before the area's voters.
- Community development districts typically are administered by a community development authority composed of voting members from the private and public sectors who oversee the authority's operations and establish policies to implement its legislative objectives.

How the strategy is funded

Funding for infrastructure improvements and affordable housing development may come from a tax surcharge or a bond issuance to be repaid from future property tax assessments.

Extent of use of the strategy

Moderate use.

Examples of locations where the strategy is being used

- Iowa is the only state to have authorized real estate improvement districts, although it appears that no districts have been established.
- At least 11 states have authorized community development districts, including Hawaii and Arizona.
- Five states allow special districts to provide for infrastructure finance and development, including Iowa, Arizona, Florida, Colorado, and Texas.

Strategy results

In the community development district in the Kaka'ako area of Honolulu, the Hawaii Community Development Authority (HCDA) has created 1,388 affordable housing units.

Pros and cons to using the strategy

Pros:

- Reduces reliance on impact fees for new residential construction, improving affordability of housing generally.
- Increases accountability in public spending by tying activities to an explicit revenue source.

Cons:

- Requires the approval of the area's voters.
- May impose tax and other burdens on residents who might not be directly affected by the additional affordable housing or improvements.

Sources of information about the strategy

- Hawaii Community Development Authority Homepage. Available at: <http://hcdaweb.org/>
- *Infrastructure Solutions: Best Practices from Results-Oriented States*, National Association of Home Builders, 2007, p.4.
- *Land Development*, National Association of Home Builders, 2007, v20, n2, p. 9.

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Taxing Land and Buildings at Different Rates

Strategy description

A two-rate (or split-rate) property tax structure taxes land at a higher rate than buildings. Most U.S. localities currently apply one tax rate to both buildings and structures, leading to what some consider to be under-taxation of land and therefore speculation, private land banking, and sprawl. Higher land taxes and lower (or no) taxes on improvements encourage property maintenance and may reduce speculation and therefore land prices, improving the economic feasibility of affordable housing development.

History of the strategy

In the 19th century, political economist Henry George proposed a land value tax to eliminate land speculation and make more land available for production. The use of land value tax structures in the U.S. has been limited until the last few decades, when a number of Pennsylvania towns and cities began adopting two-rate or split-rate property tax structures, which are a version of a land value tax.⁸⁵

Target population

Two-rate property taxes benefit homebuyers and renters generally, as these tax structures are intended to stabilize and reduce housing costs.

How the strategy is administered

State-level enabling legislation is necessary in most states to give municipalities the option to institute a two-rate property tax. Then municipalities can pass an ordinance adopting a two-rate property tax. For most homeowners, the change will result in a decrease in property taxes.

How the strategy is funded

If implementation of a two-rate property tax is designed to be revenue neutral, no funding is necessary.

Extent of use of the strategy

Limited use of two-rate property taxes; no pure land value tax systems in the U.S.

Examples of locations where the strategy is being used

- The Pittsburgh Improvement District uses a pure land value taxation as a surcharge on the regular property tax.
- 20 jurisdictions in Pennsylvania use a two-rate tax.

Strategy results

- Harrisburg, Penn. has taxed land at a rate six times that on improvements since 1975, and this policy is credited with reducing the number of vacant structures in downtown Harrisburg from about 4,200 in 1982 to less than 500.⁸⁶
- Many small towns in Pennsylvania that use split-rate structures saw increased construction in their centers after implementing the tax.

Pros and cons to using the strategy

Pros:

- Under a revenue neutral change to a land value tax, homeowners and owners of rental housing would get a tax cut.
- Discourages land banking and speculation and encourages efficient and productive use of land.
- Encourages increased building in urban centers.⁸⁷
- Reduces disincentives to revitalize marginal areas, helping to revive declining downtowns.

Cons:

- Difficult to persuade voters to adopt a change to a property tax system that may be difficult to explain.
- Likely to lower the value of undeveloped property because the higher property taxes will be capitalized into the value of the property.

Sources of information about the strategy

- Maryland Land Value Tax Project website: www.marylandlandtax.org/
- New Rules Project website, a project of the Institute for Local Self-Reliance: www.newrules.org/environment/landtax.html
- Center for the Study of Economics website, www.urbantools.org/.

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PENNSYLVANIA

TAXING LAND AND BUILDINGS AT DIFFERENT RATES

In Pennsylvania, an arcane property tax structure is credited with helping revitalize communities, put vacant and underutilized land to use, and improve housing affordability, for both renters and homeowners.

✓ Taxing land and buildings at different rates

The land value tax, also called a two-rate property tax and a split-rate property tax, is currently in use in 16 municipalities in Pennsylvania. A typical property tax assesses taxes on land and the improvements on the land at the same rate. In contrast, land value taxation places a higher tax on land while reducing or eliminating the tax on improvements.

Henry George, a late-19th century economist, advocated the idea of taxing land in the interest of fairness. He believed that an increase in the “natural value” of land (or the unimproved value) is unearned, making landowners speculators. Therefore, he believed taxing this value would not affect productivity. Similarly, proponents of the land value tax today believe that taxes on the improvements on land place the tax burden on those who generate economic growth.

Land value taxes may improve housing affordability and revitalize declining cities

The Center for the Study of Economics, a Philadelphia-based nonprofit started in 1980, advocates for land value taxes in communities around the country. Joshua Vincent, the Center’s executive director, explained that a land value tax implemented to be revenue neutral (to leave overall property tax revenues unaffected) improves housing affordability in two ways.

First, it reduces property taxes for most homeowners. “Most people getting a first house don’t take advantage of benefits to homeownership, like the mortgage deduction, because their incomes aren’t high enough [to itemize and claim the mortgage deduction],” Vincent said. In contrast to the mortgage deduction,

reducing property taxes for homeowners improves affordability regardless of income.

Second, Vincent describes a land value tax as a “stick” that encourages development by increasing the expense of holding vacant or underutilized land. The land value tax encourages denser development, because unlike a property tax that assesses land and improvements at the same rate, there is no disincentive to develop the property. This includes denser residential development, which can be more affordable than new construction on large lots.

“This flips the script by punishing disinvestment and rewarding investment,” said Vincent. However, for a land value tax to have an impact on development in a community, Vincent says the tax on land must be at least five times higher than the tax on buildings.

“This flips the script by punishing disinvestment and rewarding investment.”

-Joshua Vincent

For example, Harrisburg, PA, had a moribund downtown when the land value tax was first implemented in 1975. The tax on land was about twice the rate of the tax on buildings until 1982, when one observer ranked Harrisburg the second most distressed city in the country. The tax on land was increased incrementally until it was six times the tax on buildings, where it remains. Since then, there has been an 85 percent reduction in the number of vacant properties, and there were 3.5 times the number of businesses on Harrisburg’s tax rolls in 2003 as there had been in the early 1980s.⁸⁸

Vincent cautions that a land value tax does not work quickly: “It generally takes five to ten years to see results,” he said.

Communities with vacant and underutilized property are ideal candidates for a land value tax

The Center for the Study of Economics conducts research on the land value tax and assists communities interested in implementing the tax. Once the tax is in place, the land value tax is not administratively complicated. “Towns of 6,000 people – they manage to implement it,” he said.

According to Vincent, the best candidates for a land value tax are communities with high numbers of substandard housing units and buildings and vacant or underutilized lots. “If there’s an abundance of these, that’s an indicator that we should implement a land value tax,” he said. In addition, the tax should result in property tax savings for most residential parcel owners.

Savings to homeowners on property tax bills vary widely by community. Vincent says the highest savings to homeowners are in communities with high building values relative to land values. In general, he said homeowners can expect to save about 25 to 40 percent annually on their property taxes.

Of course not every property owner is better off under a land value tax. In Philadelphia, Vincent says opposition to the tax is led by parking lot owners. Other types of commercial property, such as gas stations and convenience stores, which are more land intensive than building intensive, also pay higher taxes.

Adopting a land value tax can be controversial

A typical approach to evaluating whether a land value tax will work in a community involves calculating the change in property taxes for each parcel in the community and providing an assessment of the revenue impact for the city and each parcel. “The city looks at the implications: if they see that our productive citizens, those keeping up their property, will be rewarded, they adjust the property tax ordinance,” said Vincent.

Vincent says adoption of a land value tax is often done quietly, without much community outreach or involvement. Although voters aren’t typically involved in adoption of the land value tax, Allentown, PA, provides evidence that voters can enthusiastically support an issue that can be difficult to explain. In Allentown, after contentious debate and a great deal of lobbying by opponents, a land value tax ordinance on the ballot passed with 60 percent of the vote in 1996. An effort to repeal the tax about a year later, led by a small number of commercial landowners including owners of a large fairground in the city center, was overturned.⁸⁹

However, a significant challenge to organizing support for a land value tax is that the relatively few property owners who will face substantially higher bills as a result

of the tax are typically better organized than individual homeowners, who do not have as much at stake financially.

To date, the Center for the Study of Economics has focused its efforts in Pennsylvania. “Now we’re trying to spread the word elsewhere,” said Vincent. The big island of Hawaii also uses a land value tax, but most states do not have enabling legislation authorizing municipalities to implement a land value tax.

Vincent expects state enabling legislation to be introduced in Connecticut, New York, Minnesota, and possibly Indiana during the next legislative year.

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OTHER TAXES

Land Gain Taxes

Strategy description

A land gain (or speculation) tax is a graduated tax on the profit between the sale and resale of the same house or building. The tax rate depends on the period of time that the land is held, with shorter holding periods and higher profits subject to higher tax rates. The strategy is intended to prevent the rapid “flipping” of real estate for a quick profit and instead to encourage long-term ownership. The tax also is intended to return to the community a significant portion of the short-term gains made by the rapid turnover of real estate. By discouraging speculation, these graduated taxes may reduce the land costs of affordable housing.⁹⁰

History of the strategy

In the 1970s, the state of Vermont adopted a graduated tax on the profits from land sold within six years of purchase in response to concern raised about the effects of rapid increases in land prices, particularly in rural areas. The tax applies to the value of land, not buildings.

Target population

Direct Impact:

- The tax creates a funding stream that can be used to fund low-income housing.

Indirect Impact:

- Discouraging speculation benefits buyers and renters generally by making increases in property prices steadier and more likely to reflect current local economic conditions.

How the strategy is administered

State legislation is required to adopt a land gain tax, which is collected by the state tax department.

How the strategy is funded

No need for funding other than ensuring proper enforcement of the tax.

Extent of use of the strategy

Limited use

Examples of locations where the strategy is being used

- While considered in a number of states (Rhode Island, Hawaii, and Virginia), a land gain tax is currently only used in Vermont.
- A bill was proposed in the Hawaii state Legislature in the spring of 2007 that would add a new tax to the existing capital gains tax on sales of real estate. Homeowners selling their property within 6 months of its purchase would be taxed 60 percent on capital gains; 30

percent on capital gains between 6 and 12 months of ownership; and 15 percent on capital gains between one and two years of ownership. The bill would go into effect in January 2008 if passed.

Strategy results

As of 2005, the tax in Vermont was raising nearly \$4 million annually, a significant increase from the \$500,000 it had been generating only a few years prior.

Pros and cons to using the strategy

Pros:

- Decreased fluctuation in rents may reduce displacement of renters.
- The housing market will better reflect current incomes of the local population.
- Provides a possible dedicated source of funding for affordable housing.
- May slow inflation of housing prices.

Cons:

- Legislation must be written carefully to avoid unintended consequences for affordable housing developers, owner-occupants, and others.

Sources of information about the strategy

- Text of Vermont Statute Title 32, Chapter 236: Tax on Gains from the Sale or Exchange of Land: <http://michie.lexisnexis.com/vermont/lpext.dll?f=templates&fn=main-h.htm&cp=>
- *Institute of Community Economics* publication, Harmon, Tasha, "Integrating Social Equity and Smart Growth: An Overview of Tools," 2004. Available at: <http://content.knowledgeplex.org/kp2/cache/documents/98054.pdf>
- *Star Bulletin* news item about proposed bill in Hawaii state legislature: <http://starbulletin.com/2007/03/17/business/story01.html>
- Discussion of proposal to implement tax in Rhode Island and descriptions of Vermont's law in the *Rhode Island Policy Reporter*, <http://whatcheer.net/ripr/ripr23.pdf> and <http://whatcheer.net/index.cgi/2005/11/>

Contact information

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Demolition Taxes

Strategy description

A tax is levied upon demolition in order to promote the preservation or creation of affordable housing. The demolition tax only applies to residential demolitions, and is only in effect with the removal of more than 50 percent of an existing structure.

Target population

Demolition taxes are sometimes used to provide revenue to a housing trust fund that creates housing targeted to low- and moderate-income renters and homebuyers. It may also help preserve the diversity of a community's housing stock, benefiting the community generally.

How the strategy is administered

Typically administered by the city's Building Division; payment is required prior to issuance of a demolition permit. Exceptions may be granted to property owners who are replacing their house if they occupy it for a specified length of time (often three years).

How the strategy is funded

No funding is necessary.

Extent of use of the strategy

Limited use.

Examples of locations where the strategy is being used

- The city of Highland Park, IL levies a \$10,000 demolition tax on residential property; exceptions include property owners who have resided in the property for five years or who sign covenants agreeing to remain in the property for five years after the new house is built. Revenues are largely dedicated to the city's housing trust fund (see case study).
- Lake Forest, IL enacted a \$10,000 demolition tax on residential property in February 2006. Half of the revenue is dedicated to an affordable housing trust fund; the other half is allocated to the city's general fund.
- Evanston, IL also has a \$10,000 demolition tax on residential property that has been in effect since 1998. The tax generates about \$60,000 per year for the city's affordable housing initiatives.

Strategy results

Highland Park's demolition tax raised about \$1 million for the city's affordable housing trust fund over the last four years.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Demolition taxes are effective primarily in strong and gentrifying markets, where modest homes are being torn down and replaced with larger homes. They are less effective in distressed areas, because the tax is a disincentive to revitalization.

Pros:

- Provides a source of revenue for the city and/or a housing trust fund.
- May help maintain a diverse housing stock in a gentrifying area.

Cons:

- Likely to face opposition by property owners.

Sources of information about the strategy

- City of Highland Park Affordable Housing Demolition Tax, June 2006, available at: www.cityhphil.com/pdf/commissions/housing_demoTax.pdf
- “Affordable Housing Toolkit for Communities in the Chicago Region,” Business and Professional People for the Public Interest, undated. Available at: www.bpichicago.org/documents/RegionalToolKit.pdf
- Lake Forest Demolition Tax, available at: http://metroplanning.org/homegrown/fin_lf_demotax.pdf
- Evanston Affordable Housing Demolition Tax, available at: http://metroplanning.org/homegrown/fin_ev_demoTax.pdf

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HIGHLAND PARK, ILLINOIS

Highland Park, IL is one of the more expensive and high-income areas in the country, and might seem an unlikely candidate to encourage and implement affordable housing strategies. The median home price for new single family homes is about \$1.2 million.

- ✓ Housing trust funds
- ✓ Community land trust
- ✓ Inclusionary zoning
- ✓ Demolition taxes
- ✓ Profit-nonprofit partnerships
- ✓ Creative public-private collaborations

Nevertheless, years of commitment to maintaining a stock of affordable housing have enabled Highland Park to emerge as leader in the affordable housing arena. The city's accomplishments have been achieved through an array of strategies including demolition taxes, employer-assisted housing, green building, a flexible inclusionary zoning ordinance, and the establishment of a housing trust fund and a community land trust.

Highland Park has a long history of promoting affordable housing

Highland Park's focus on creating a diverse community that includes affordable housing dates to the 1870s, when the Highland Park Building Company began constructing homes of varied sizes and affordable rental units near the central business district. The establishment of the city's Housing Commission in 1973, which remains one of the city's strongest affordable housing proponents, sought to further address the need for affordable housing in the community. With input from the Housing Commission, the 1976 and 1997 city master plans both committed to promoting and increasing affordable housing opportunities, in a large part through early inclusionary zoning ordinances.⁹¹

Despite the city's initial efforts to prioritize affordable housing, an assessment in the late 1990s demonstrated a clear loss in affordable units over the previous two decades as a result of teardowns, the increased cost of new housing, and a depleted supply of developable land.⁹² In response, the city initiated a joint task force in 1998, which, through significant community outreach and input from developers and other stakeholders, developed a solution. The four cornerstones of the most recent Affordable Housing Plan include:

- ❖ Revised inclusionary zoning ordinances;
- ❖ Establishing a housing trust fund to be funded in part by a demolition tax;
- ❖ Creation of the Highland Park Community Land Trust; and
- ❖ An employer assisted housing component.

Flexibility is key to the success of Highland Park's inclusionary zoning ordinance

The city's inclusionary zoning ordinance is both flexible and caters to the needs of developers to the extent possible. Michael Blue, director of community development for the City of Highland Park, emphasizes that flexibility has been the

"If [inclusionary zoning] is always black and white, it makes it much more difficult for a plan to work."

-Michael Blue

ordinance's greatest asset, as no two developers ever approach a project in the same way. "If [inclusionary zoning] is always black and white, it makes it much more difficult for a plan to work," he said.

Regulated developments with five or more units are required to set aside 20 percent of units as affordable, and the ordinance applies to new construction projects, renovations of multi-family developments that increase the number of dwelling units, and changes in the use of property from non-residential to residential or condo conversion.⁹³ Developers are rewarded for such developments with a one for one density bonus. An additional density bonus is offered for planned unit development (PUD), of up to 0.5 market rate units for each affordable unit to a maximum of 1.5 bonus units.

The flexibility of the ordinance comes in the construction of the affordable and market-rate units. The market rate and affordable units need not be identical, but they must be visually indistinguishable, contain the same number of bedrooms, possess gross floor areas within 75 percent of each other, and meet the same energy efficiency standards.⁹⁴

Developers are also offered alternatives to on-site construction of affordable units. Developers of single-family projects with fewer than 20 units can make an in-lieu development cash payment of \$100,000 per affordable unit by right; developers of projects with more than 20 units may appeal to the City Council for approval of an in-lieu payment, may dedicate land to the Housing Commission, or may provide

off-site units. The in-lieu revenue is dedicated to the city's Housing Trust Fund, although only one developer so far has elected the in-lieu option, having opted to build two affordable units and pay the fee for the third required unit.

Incentives offered by the city to help offset the cost of the affordable units include a \$10,000 impact fee waiver for these units as well as demolition permit fee and demolition tax waivers.

One of the largest developments the city has seen in a long time is currently underway, consisting of 42 units, including 30 townhomes and 12 condos. The 20 percent inclusionary requirement will generate seven affordable units, including five condos and two townhomes. The relatively high share of condos that are affordable relative to townhomes is one way the city provided the developer some flexibility in satisfying the requirement.

Housing trust fund provides key financing element

The city's housing trust fund (HTF), established in 2002, has also been a key element in providing affordable housing opportunities. The Fund's primary funding sources come from a \$10,000 per teardown demolition tax, a \$550 demolition permit fee, and other city sources such as a recent \$1 million refinance of a local senior housing property. According to Blue, Highland Park averages about 50 teardowns per year, which have generated over \$1 million over last four years in demolition tax revenue for the HTF.

Since its inception, the HTF has spent between \$1.8 and \$2 million for affordable housing purposes, the majority (\$1.3 million) going to the community land trust (described below) to help it purchase land for the eventual development of affordable homes. An additional \$50,000 has been set aside as matching funds for the city's still developing employer-assisted housing program.

CLT's multi-functional role is crucial to Highland Park's affordable housing success

Highland Park's community land trust was also established in 2001 to provide a long-term solution to the city's affordable housing needs. The CLT's initial role was to assist in the management of the newly implemented inclusionary zoning ordinance, including finding buyers for affordable inclusionary units.

Its primary functions now include providing technical capacity to builders, nonprofits, and other key affordable housing stakeholders; developing inventories of homes to remain affordable over the long term; and maximizing public investment. The CLT purchases and rehabilitates properties to sell as affordable units. It also uses grants to write down the price of properties on which it maintains deed restrictions. The maximum household income for buyers of CLT-financed properties is 115 percent of the area median income (AMI), although former CLT executive director Mary Ellen Tamasy notes that this can vary from project to project, and that the average is closer to 100 percent AMI. For rental properties, qualified renters have incomes closer to 80 percent of AMI. While anyone can apply who meets income qualifications, the CLT gives priority to those who live or work in Highland Park.



Laurel Court is a new 15-unit development that includes two affordable units.

The CLT's operational funding comes primarily from the HTF; however, it also receives direct donations and foundation grants. Funding for specific projects comes from a much greater variety of sources, including the HTF, bank loans, the Lake

County affordable housing fund, the Illinois Development Authority, the state donation tax credit, and the Federal Home Loan Bank.

To date, the CLT has created 13 affordable units, including six townhomes, five single-family detached homes, and two condos.

Partnerships are essential to the CLT's success

Some of the units created by the CLT were the result of a partnership between the CLT and a for-profit builder who initially acquired a foreclosed site. The CLT pieced together the financing for the Temple Unit Townhomes project, which included grants from the city and the county, money from the community development block grant, and a number of other sources. Appraised at \$292,000 per unit, the CLT was able to subsidize \$132,000 of the price and sell each unit for \$160,000.

The CLT's current focus is a 14-unit townhome/apartment development at 500 Hyacinth Place, which includes both rental and for sale properties, all of which will be affordable.

The Hyacinth project also highlights the key role that partnerships play in the community's ability to generate affordable housing. The property was originally acquired by the HTF and donated to the CLT. Since then, the CLT has been working on the project with Brinshore Development, a local for-profit development company, and a nonprofit, the Housing Opportunity Development Corporation. Brinshore Development is guaranteeing loans and providing technical expertise; the Housing Opportunity Development Corporation is applying for public funding sources and managing the property.

Highland Park's agenda for the road ahead

Highland Park's employer-assisted housing (EAH) component is still very much a work in progress, but the city is hopeful that it will both further expand affordable housing opportunities and build a stronger local workforce that is more connected to the community. The plan was devised from research done by the Housing Commission subcommittee on existing local and national EAH models. When the program is launched, eligible EAH activities will include downpayment and closing

cost assistance, reduced interest mortgages, rental subsidies, and security deposit assistance.

Although green building is not directly tied to affordable housing in Highland Park, it is nevertheless a significant piece of their overall approach and has the potential to play an increasingly important role in improving long term affordability for Highland Park residents. The Hyacinth project currently underway will be powered in part by a wind turbine and geothermal heating, among other green features.

Lessons learned: “There is no silver bullet”

According to Blue, one of the most important lessons he and the rest of the community have learned through this process is the importance of customizing any

“There is no silver bullet.”

-Michael Blue

affordable housing approach to meet the needs of the community. “There is no silver bullet,” says Blue.

One crucial component in devising a housing plan is obtaining input from the people affected by it. Before approving the Affordable Housing Plan, the Highland Park Commission conducted outreach to developers and other key community members. Their input was incorporated into all of the plan’s strategic components. Blue says maintaining flexibility in the plan is also important, and it must be adapted to the inevitable changes the community will face over time.

The success of Highland Park’s Affordable Housing Plan has received substantial recognition, having won various National APA and state awards. Locally, its adoption is being considered in a number of neighboring communities, paving the way for potential subregional implementation. “We are evangelizing this plan all over the country,” Blue said.

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STATE TAX CREDITS

Tax Credits for Donations to Affordable Rental Housing Projects

Strategy description

State charitable tax credits provide tax credits to charitable donors (individuals or corporations) that donate money to affordable rental housing projects that are developed by non-profit developers. The donor receives an approved, one-time credit and the donation provides equity for the project. While there is some variation in the specific tax credit percentage allocated between different state programs, a tax credit valued at 50 percent of the contribution is most commonly used. In some states the program is limited to properties that also receive LIHTC allocations.

Target population

The direct beneficiaries are the non-profit developers of affordable housing projects that receive the donations. The ultimate beneficiaries are low-income renters who have access to the additional affordable units developed through the program. In some cases the target population is households with incomes below 80 percent of area median, and in others the target is households with incomes below 60 percent of area median.

How the strategy is administered

The state tax credits typically are administered by the state housing finance agencies. Donors apply for credits, which are capped at different levels in each state (ranging from about \$1 million to \$13 million per year per state).

How the strategy is funded

The strategy is a state tax credit, which means that the state forgoes revenue in order to promote affordable housing.

Extent of use of the strategy

The strategy is being used by a number of states.

Examples of locations where the strategy is being used

- Illinois' Affordable Housing Tax Credit allows individuals or organizations to give donations to non-profit housing developers. The tax credit is worth 50 cents per dollar donated.
- Missouri's Affordable Housing Assistance Program provides about \$11 million in tax credits annually. Of this, \$10 million is allocated for Production credits for donations to construction, rehabilitation, and rental assistance activities. The remaining \$1 million is for donations that help fund the operating costs of the non-profit organization.

- Maryland's Community Investment Tax Credit Program allows businesses to support a wide range of community projects including affordable housing. Businesses donating to qualified nonprofits receive state tax credits equal to 50 percent of the value of their contributions. The state authorizes \$1 million in tax credits annually for the program.

Strategy results

Missouri's Charitable Tax Credit funded about 1,250 affordable housing units in 2002.

Pros and cons to using the strategy

Pros:

- Brings in private contributions for affordable housing.
- Can be combined with existing housing programs to reduce the debt and, therefore, the rent levels needed to support the project (federal LIHTC, or state-financed programs).
- Flexible in terms of the types of contributions that can be made (can be cash or in-kind contributions such as land).
- Donations also generally qualify for federal income tax deductions, providing an additional incentive to donors.

Cons:

- The state forgoes some tax revenues.

Sources of information about the strategy

- Listoken, David, and Kristen Crossney, "Best Practices for Effecting the Rehabilitation of Affordable Housing," Volume 1 Part 3: Resource Guide and Literature Guide, September 2006, available at: www.huduser.org/publications/affhsg/bestpractices.html.
- Illinois Housing Development Authority website, www.ihda.org/oldsite/iahtc.htm
- "Community Investment Tax Credit Program: Directory of Projects," Maryland Department of Housing and Community Development, 2007. Available at: <http://www.neighborhoodrevitalization.org/Programs/CITC/Documents/CITC%20Mar2007DirectoryFinal.pdf>
- "Missouri Affordable Housing Assistance Program," Missouri Housing Development Commission website, http://www.mhdc.com/rental_production/ahap/

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Missouri Housing Development Commission
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State Tax Credits for Investments in Affordable Rental Housing

Strategy description

Tax-based incentives from local and state governments include tax credits for state tax liability to developers of affordable rental housing. The developer sells the credits, usually through a syndicator, to an investor who gains an ownership stake in the project. The sales value of the credits provides equity for the project. State tax credits are sometimes used with federal Low Income Housing Tax Credits.

History of the strategy

Most state tax credits for affordable housing are modeled after the federal Low Income Housing Tax Credit, which was created by the Tax Reform Act of 1986.

Target population

Investment tax credits are generally targeted to rental housing for households with incomes below 80 percent of the area median income. In some states, part or all of the credits are reserved for housing affordable to households with incomes below 60 percent or 50 percent.

How the strategy is administered

Administration is often identical to administration for the federal Low Income Housing Tax Credit program. In general, developers apply to a state agency for an allocation of the available tax credits for that year. Successful applicants must obtain the additional financing needed, meet milestones for placing the units into service, and comply with rules governing maximum rents that may be charged for the units and the income levels of the families and individuals who move into the units.

How the strategy is funded

Tax credits represent foregone revenue for the state and as such either constraint other spending or must be made up with higher fees or taxes from other sources.

Extent of use of the strategy

Moderate use: at least eight states have a housing investment tax credit.

Examples of locations where the strategy is being used⁹⁵

- Under California's Investment Tax Credit, projects approved for the federal Low Income Housing Tax Credit are also allocated state tax credits. In 2005, California had \$70 million in state tax credits available, more than the \$67 million in federal tax credits available that year.

- Massachusetts' Low Income Housing Tax Credit program has provides about \$20 million in tax credits each year since 2001. State credits generally reduce the amount of federal Low Income Housing Tax Credits awarded to a project.
- Tennessee has a community investment tax credit for the promotion of affordable housing opportunities and small business lending.
- Other states include Hawaii, New Jersey, Oregon, Utah, and Missouri

Strategy results

- Massachusetts' credits have been used to create more than 1,800 housing units since 2000, more than 1,100 of which are affordable.
- Missouri's State Low Income Housing Tax Credits funded 1,256 units in 2002, at a cost to the state of about \$78,000 per unit.⁹⁶

Pros and cons to using the strategy

Pros:

- An indirect method of funding affordable housing investment can be more politically palatable than making direct expenditures.

Cons:

- State tax credits are not an entirely efficient mechanism for funding affordable housing because of their impact on the recipients' federal taxes. Because state taxes reduce federally taxed income, reducing state tax liability increases federal tax liability, typically by 35 percent for corporations. As a result, \$1 in foregone state revenue results in less than \$1 (and no more than about \$.65) in affordable housing investment.
- The ability to transfer credits by selling equity to investors other than the housing developer increases their flexibility and value. However, state tax credits that can be sold sell for significantly less than federal tax credits, probably because the market is thinner and credits must be sold to another taxpayer in the same state.
- The process of obtaining tax credits typically is lengthy and bureaucratic.
- The fixed expenses of obtaining and selling the tax credits can be high, precluding small projects from using them.

Sources of information about the strategy

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www.oregon.gov/OHCS/HD/HRS/pdfs/HRS_Factsheet_Oregon_Affordable_Housing_Tax_Credit_Program.pdf

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State Historic Tax Credits

Strategy description

Historic tax credits are provided to developers who rehabilitate historic buildings, complying with standards of historic preservation. Historic tax credits are not necessarily linked with affordable housing, but some states reserve a portion of historic tax credits for projects containing affordable housing. In addition, state historic tax credits are also sometimes used in combination with the federal Low Income Housing Tax Credit program. Even in states where tax credits are not explicitly linked to affordable housing, historic tax credits are often an important source of subsidy for rehabilitating affordable housing.

History of the strategy

State historic tax credit programs generally are modeled after federal Historic Preservation Tax Incentives, which were enacted in 1976. States began implementing similar programs in the early 1990s.

Target population

State tax credits for historic preservation generally are targeted to historically significant buildings and sometimes are limited to targeted areas.

How the strategy is administered

A state agency, such as the Massachusetts Historical Commission, administers selection criteria for projects applying for tax credits, allocating the credits available annually among qualifying projects that provide the most public benefit. Projects must be certified and overseen to ensure that tax credits are used for qualified rehabilitation expenditures.

How the strategy is funded

Tax credits represent foregone revenue for the state and as such either constrain other spending or must be made up with higher fees or taxes from other sources.

Extent of use of the strategy

State historic tax credits are widely used; those directly linked with affordable housing are in limited use.

Examples of locations where the strategy is being used

- About 25 states have a state historic tax credit. In general, states that award tax credits to income-producing properties (such as multifamily rental property) are more likely to improve the affordability of housing than those that are intended primarily for owners of private residences.

- In Massachusetts, at least 25 percent of tax credits must be awarded to projects that contain affordable housing.
- The Rhode Island Historic Preservation Investment Tax Credit Program provides a credit for 30 percent of the “qualified rehabilitation expenses,” and can be combined with the federal Historic Rehabilitation Tax Credit, which covers 20 percent of expenses.

Strategy results

Although the tax credit is not directly linked to affordable housing, a study of the economic impacts of Rhode Island’s Historic Tax Credit found that, of 1,699 residential units created in the 111 projects analyzed, 409 are designated as affordable to people of modest means. The state cost of the tax credit is about \$1.3 million per project.⁹⁷

Pros and cons to using the strategy

Pros:

- State historic tax credits can often be used with other tax credits, such as the federal Low Income Housing Tax Credit and the federal Historic Tax Credit. The combination of subsidies may allow units created to be affordable to low-income households at lower rents than would have been possible with only one source of subsidy.

Cons:

- Most state historic tax credits are used for purposes other than affordable housing.

Sources of information about the strategy

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www.sec.state.ma.us/mhc/mhcidx.htm

Tax-Linked Bonuses

Strategy description

Tax-linked bonuses are one-time grants from a state to a non-profit affordable housing developer seeking gap funding for a specific project. As the project has no tax liability, the bonus provides the project with a grant to be used for equity. Funding is direct from the state to the project, but the bonus is implemented through the state income tax system.

History of the strategy

See below.

Target population

This strategy is ultimately targeted at those seeking affordable rental housing, particularly in the lower income neighborhoods, as a higher bonus is given to developments in those communities. The direct beneficiaries of the strategy are the developers whose projects receive the bonuses from the state.

How the strategy is administered

This strategy is administered through the State Housing Agency in exactly the same way as the LIHTC, and is calculated using the same financial process. The State Department of Revenue gives a check to the project, which may be used as a grant or is transferred to the State Housing Finance Agency to be administered as a loan.

How the strategy is funded

This strategy is funded through federal and state funds.

Extent of use of the strategy

Very limited use

Examples of locations where the strategy is being used

- This strategy is currently only being used in North Carolina, where it is only applicable to projects that are LIHTC-sponsored. The State provides eligible projects with a bonus check that can be claimed directly by the project or transferred to the NC Housing Finance Agency, which then lends it to the project. The value of the credit is 10, 20, or 30% of the developer's eligible base, which includes the sum of all depreciable construction costs. The percentage given depends on whether the location of the project is in a High, Moderate, or Low Income county.
- Minnesota has done research on this strategy and has considered its implementation.

Strategy results

In 2003, the first year of the strategy's implementation in North Carolina, the state funded 2,441 units, totaling \$35,451,241. The average expenditure per unit was \$14,500 in 2003. Overall, this strategy provides the majority of state affordable housing funding.

Pros and cons to using the strategy

Pros:

- Very easily administered and legally simple because it does not involve outside investors.
- Highly efficient, in that every \$1 of public money spent under the program is used for affordable housing.
- Projects are held to strict levels of financial feasibility, project design, developer capacity, and monitoring.

Cons:

- Legal costs do exist, although they are minimal.
- Use is currently restricted to LIHTC-eligible projects.

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NORTH CAROLINA

A number of states, including Minnesota, Oregon, California, North Carolina, Missouri, and New Jersey, offer state tax credits for affordable housing. Of these, North Carolina's goes the farthest in the amount of affordable housing per state dollar of tax expenditure.

- ✓ Tax-linked bonuses
- ✓ Housing trust funds

A typical state tax credit is very similar to the federal Low Income Housing Tax Credit. Developers of affordable housing receive an allocation of tax credits, which are sold through a syndicator to investors who want to reduce their tax liability. The money raised through the sale of the tax credits is used as the developers' equity in the project. Inefficiency arises through the administrative costs of selling the tax credits, the impact of changes in state tax liability on federal taxes, and in the level of demand for state tax credits.

Although federal tax credits sell to investors for almost \$1 for each \$1 of the government's foregone tax revenue, these typical state tax credits sell for much less. In addition to limited demand for the credits, the price of state tax credits reflects the fact that they increase federal tax liability. State taxes reduce federally taxed income, so reducing state tax liability increases federal tax liability, typically by 35 percent for corporations. As a result, \$1 in foregone state revenue results in \$.65 in affordable housing investment at best, and in some states much less.⁹⁸

North Carolina's tax credit (called a tax-linked bonus) is structured in a way that avoids these inefficiencies. Similar to the federal Earned Income Tax Credit, the program provides a subsidy through a refundable tax credit that returns funds to taxpayers, even if they do not have any tax liability. The owner of a tax-credit project, either a limited liability company or a limited partnership, claims the credit. Since these pass-through entities inherently have no income tax liability, the full amount of the credit is refunded. Owners transfer the right to this refund to the North Carolina Housing Finance Agency (NCHFA), which then makes a loan to the project in the same amount.⁹⁹



North Carolina's state tax credits can only be used for projects that are allocated federal Low Income Housing Tax Credits. Almost all LIHTC projects (over 90 percent) also use the state tax credit, which is set at 10, 20, or 30 percent of the development's eligible basis, depending on whether it is in a high-, moderate, or low-income county. On average, state tax credits contribute about \$16,000 per affordable unit.

Because state tax credits must be used with the federal LIHTC, the amount of state tax credits in any year is limited by the state's federal tax credit ceiling. As a tax credit, however, it is not subject to the state's annual appropriation process.

According to Mark Shelburne, NCHFA's counsel and policy coordinator, the state tax credit is very well distributed across high-, medium-, and low-income areas of the state. In addition to the LIHTC, the state tax credit is also often used in combination with federal HOME funds or money from the state's housing trust fund.

Shelburne says legislative approval of North Carolina's tax-linked bonus in 2002 was the result of an unusual alignment of political will in favor of affordable housing. He said the affordable housing community "Had the 'perfect storm' of an alignment of forces in our favor."

Like other states, North Carolina's affordable housing tax credit was initially also very similar to the federal LIHTC. The original state tax credit, implemented in 1999, was initially successful, but the pool of investors was extremely limited—they had to have both significant state tax liability and familiarity with affordable housing and tax shelter investing.¹⁰⁰ After two years, these institutions had reached the limit of their need to offset state taxes, and according to Shelburne, the value of the state tax credits would have been reduced to zero. As a result, most LIHTC projects in the works, which also relied on the state tax credit, would have unexpected large financing gaps, making them financially infeasible, and future projects would have more debt and higher rents.

Shelburne says this funding crisis was one critical component of getting a more efficient affordable housing funding mechanism. The second was determination and a close working relationship between the NCHFA, the Department of Revenue, and key legislators, and the third was a good argument.

“We were able to show how to save money and increase the subsidy [to affordable housing projects],” said Shelburne. The relationships were equally important: “Just having a compelling case isn’t enough to make something happen legislatively,” cautions Shelburne.



According to Shelburne, the tax-linked bonus does three things. First, it allows properties to be funded in rural areas, which was one of the initial goals of the tax credit. “Otherwise, it’s hard to make federal tax credit projects work – [rural areas] have such low rents,” said Shelburne.

Second, in urban areas, the tax credit allows deeper subsidies than would otherwise be possible. Because of the state tax credit, about one-quarter of units in high-income counties are affordable to households with incomes of 30 percent of the area median income.

Third, the tax credit allows 10 percent of units to be set aside for people with disabilities, who often have extremely low incomes. These units are given an operating subsidy by the state through the Key Program, which makes up the difference between what disabled residents can afford and the operating costs of the unit. In addition, owners partner with local human services agencies to provide placement, supportive, and other services to disabled tenants.¹⁰¹

In all of these situations the result is housing that is more affordable for low-income renters.

Although a number of other states have investigated North Carolina's tax-linked bonus, none has adopted it. One reason is that states with an existing affordable housing tax credit risk the possibility that their state legislature might eliminate the credit altogether rather than passing the legislation necessary to switch to a tax-linked bonus. North Carolina had an existing affordable housing tax credit before converting to a tax-linked bonus, but was fortunate during the legislative approval process that essential stakeholders did not advocate for its elimination.

"We might not have made the change if we were not backed into a corner."

-Mark Shelburne

Importantly, the state's Department of Revenue was convinced that the tax credit was valuable, and supported the switch to the tax-linked bonus.

Still, "We might not have made the change if we were not backed into a corner," said Shelburne. "We wouldn't have done it but we had nothing to lose. Other states still have something to lose, even if it's \$.20 on the dollar."

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IMPACT FEES

Impact Fee Waivers and Reductions

Strategy description

Impact fees can make affordable housing development economically infeasible. To address this obstacle, some municipalities provide impact fee waivers for affordable housing units. Developers typically are required to apply for an impact fee waiver prior to construction. In some places, impact fees are deferred until the property changes ownership or no longer qualifies as affordable, at which point the fees must be paid. Alternatively, some jurisdictions change the full impact fee but allocate funds for forgivable second mortgages to cover the costs of impact fees for qualifying households.

Many municipalities charge impact fees that disadvantage multifamily housing, which tends to be more affordable than single-family housing. Lower impact fees for multifamily housing may be justified because this type of development often uses public services more efficiently than other types of development.

History of the strategy

Impact fees were first used in the 1950s and 1960s to fund water and wastewater facilities. As federal and state grants to local governments declined, use expanded in the 1970s to non-utilities such as roads, parks and schools. By the 1980s, when court cases in several states had validated their use, impact fees were being levied for a broad range of public services, including fire, police, and libraries.

Texas adopted the first state impact fee enabling act in 1986. About half the state acts that provide local jurisdictions with explicit authority to charge impact fees allow waivers for certain types of projects, most often affordable housing.¹⁰²

Target population

Impact fee waivers are offered to developers who construct affordable housing; ultimately, these benefits are intended to be passed on to low- and moderate-income homebuyers and renters.

How the strategy is administered

If state enabling legislation for impact fees allows local governments to waive these fees for affordable housing, a local government action (such as a city council or county commission vote) implements the waiver in the local area. The local planning department or other government agency may administer the program.

How the strategy is funded

Five of the state enabling acts that allow local governments to waive impact fees require that the impact fee fund be reimbursed by another source of revenue.¹⁰³

Extent of use of the strategy

Widely used.

Examples of locations where the strategy is being used

- At least 14 state impact fee enabling acts specifically allow local governments to waive impact fees for affordable housing: Colorado, Florida, Georgia, Idaho, Indiana, New Jersey, New Mexico, Pennsylvania, South Carolina, Texas, Vermont, Utah, Washington, West Virginia, and Wisconsin.
- Atlanta, Georgia offers a 100 percent reduction in the impact fee if the housing unit rents for less than 60 percent of the regional median rent or sells for less than 1.5 times the regional new home sale price. Impact fees are reduced by 50 percent if the unit rents for between 60 and 80 percent of the regional median rent or sells for 1.5 to 2.5 times the regional new home sale price.¹⁰⁴
- Polk County, Florida provides partial impact-fee waivers for workforce housing (see case study).
- In Santa Fe, New Mexico, all impact fees for a development are waived if at least 25 percent of the units are affordable to low-income households.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

In high-cost housing markets, impact fee waivers may have little impact on the affordability of new homes. In these markets, impact fee waivers need to be combined with other strategies, such as density bonuses and downpayment assistance programs, in order to close the gap between incomes and house prices.

Pros:

- Although impact fees in some areas are modest, in others they can reach tens of thousands of dollars. In places with high impact fees, an impact fee waiver can make an important contribution to improving affordability of housing.
- Impact fee waivers may encourage developers to build more affordable housing units.
- Impact fees that are proportional to the actual impact of the housing type (multifamily versus single family) tend to encourage lower-cost multifamily development.

Cons:

- Impact fee waivers may need to be combined with other subsidies to achieve affordability of new housing.
- In states that require waived impact fees to be reimbursed with other revenues, impact fee waivers can increase other fees and taxes, such as property taxes.

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POLK COUNTY, FLORIDA

Polk County, Florida, has found that a combination of strategies is the most effective solution to house prices that have recently become unaffordable even for moderate-income households.

- ✓ Impact fee waivers and reductions
- ✓ Housing trust funds
- ✓ Workforce housing
- ✓ Expedited permitting processes

One of these strategies is an impact fee waiver. Although Polk County has used impact fee waivers to encourage affordable housing for nearly two decades, growing evidence that moderate-income households also face affordability problems led Polk County to pass a workforce housing ordinance in the spring of 2007 that provides partial impact fee waivers to moderate-income households.

The new workforce housing ordinance targets those with incomes between 80 percent and 120 percent of area median income (AMI). It waives 50 percent of all impact fees for workforce housing units as long as the buyer stays in the home at least seven years. With impact fees in Polk County totaling almost \$12,000, the partial fee waiver means a savings of almost \$6,000 for workforce housing units.

Fee waivers 101

The logistics of the fee waiver are complicated. First, the developer pays the full impact fee when applying for a permit. Upon sale of the house to a qualified moderate-income buyer, the developer is reimbursed by the county. The impact fee portion of the price is “paid” by the county, reducing the price to the borrower. To enforce required repayment of the waived impact fees if the house is sold within seven years, the county places a lien on the property.

Take, for example, a house purchased by a moderate-income buyer for \$150,000. The buyer is responsible for financing \$144,000 of the price (\$150,000 minus \$6,000 in waived impact fees); the remaining \$6,000 is “paid for” by the county and secured by the lien. If the owner chooses to sell the house before the end of seven years, he or she must pay the county back the \$6,000. If the owner stays in the house for seven years, the lien is forgiven, and the owner realizes the additional \$6,000 in equity.

Fee waivers also apply to rental housing, although the administration of the waiver is slightly different. The fee waiver on rental housing requires an annual certification of eligibility from the property owner. When the fee waiver is granted, a percentage of the units are set aside as workforce housing units, to be rented to families with incomes between 80 percent and 120 percent AMI. For the next seven years, the owner must certify annually that these units are occupied by households that were verified to be workforce housing-eligible when they rented the unit. If the units have been rented to households that are not eligible, the lien on the property is due to the county.

Impact fee waivers nothing new for Polk County

Polk County first introduced impact fee waivers in 1990, when it passed an ordinance that waives all impact fees for affordable housing development. Affordable housing developments that qualify for the waiver must contain units that are designated for households with incomes at or below 80 percent of AMI. This ordinance also includes the seven-year provisional period, in which the ownership and affordability status must be maintained, or the fee applies.

To limit the financial impact that the fee waivers might have on the county budget, the county sets a maximum annual waiver cap of \$250,000 across all projects in the county. If the cap is reached, a developer may appeal to the appropriate commission for fee waivers that would exceed the cap.

Fee waivers granted are funded from general revenues, gas taxes, and other county sources of revenue. However, Scott Coulombe of the Polk County Builders Association believes the revenue

generated from new residents through property taxes and an overall more diversified and vibrant community will more than offset the impact fee losses. “You have to look at the big picture. You’ll get 20 times as much as you’re giving up,” he said.

“You have to look at the big picture. You’ll get 20 times as much as you’re giving up.”

-Scott Coulombe

Impact fee waiver has been slow to produce results

Despite the county's good intentions, only nonprofit organizations including the Keystone Challenge Fund, Habitat for Humanity, and Rural Development have thus far taken advantage of the impact fee waiver ordinance.



The impact fee waiver alone is not enough to make homeownership affordable for moderate-income families in Polk County, according to Jeff Bagwell. Bagwell is director of the Keystone Challenge Fund, a local affordable housing nonprofit that provides homebuyer education, constructs community housing developments, and has helped over 3,000 low to moderate-income households obtain downpayment and closing cost assistance.

Bagwell notes that despite both the healthy buyer's market that currently exists in Polk County and the recently passed impact fee waiver ordinance, qualified buyers need deeper subsidies to purchase a home. He believes that funding for downpayment assistance to be used in combination with the waiver would solve the problem.

"This is the best time in five to six years to buy a home in Florida, but without downpayment assistance to help them out, the waived impact fees have yet to do much good," Bagwell said. "If I [as a nonprofit lender] had both downpayment assistance and impact fee waivers, I could close loans all day long."

In addition, Bagwell notes that an impact fee waiver must be well publicized and fully understood by the building community before a county or other municipality can expect it to yield results. Up until recently, many of the details about the waiver had yet to be worked out, which may have kept builders from building homes that would, with the impact fee waiver, be affordable to moderate-income families.

Florida's HTF heads list of additional affordable housing strategies

In addition to the impact fee waiver ordinance, Polk County expedites permitting procedures for affordable housing projects, and is considering adopting voluntary inclusionary zoning that would include density bonuses.

Bagwell, also the chairman-elect of the Board of the Florida Affordable Housing Commission, says that the key to affordable housing production in Polk County and throughout Florida, however, is the state's housing trust fund. The fund generates between \$400 and \$600 million a year, primarily from documentary stamp revenue.¹⁰⁵ A substantial percentage of the revenue goes directly into the fund.



HTF money is used to fund the State Housing Initiatives Partnership (SHIP) Program. SHIP is the nation's first permanently funded state housing program to provide funds directly to local governments to produce and preserve affordable housing opportunities. This is accomplished through the creation of partnerships between local public and private stakeholders. Using SHIP funds, these partnerships offer very low-, low-, and moderate-income families with assistance to purchase a home, funding to repair or replace a home, and other types of housing assistance.¹⁰⁶

Not all money collected for the state's housing trust fund is dedicated for affordable housing, however. Substantial portions of the money have been used to pay for hurricane damage relief in 2002 and to help balance the state's budget. Currently, the amount collected by the fund that can be used for affordable housing is capped at \$243 million annually; the remainder has been left unappropriated. Bagwell notes that were the cap removed, these funds plus the impact fee waiver would provide more than enough in subsidies (such as downpayment assistance) to generate significant affordable housing production.

Bagwell has joined others in Polk County in a committee formed in 2006 called Polk Vision. The committee will re-examine ways to promote and generate affordable housing for the long term.

In the meantime, Bagwell is optimistic that with the right combination of strategies, Polk County can increase opportunities for affordable and workforce housing for its residents.



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Graduated Impact Fee Schedules for Infill Development

Strategy description

To improve the economic feasibility of infill development, some jurisdictions use a graduated impact fee schedule for small infill projects for which infrastructure already exists.

Target population

Direct impact: Developers of infill areas pay lower impact fees, which reduces the cost of the housing being produced. In addition, some governments waive impact fees altogether for affordable housing in infill areas.

Indirect impact: Areas with opportunities for infill development are likely to be in urban centers, and more likely to be lower-income than other areas. Impact fees that encourage development in these neighborhoods may increase housing options and revitalize the community.

How the strategy is administered

State enabling legislation is required for a local government to be able to charge impact fees. In states with this enabling legislation, local government action (such as a city council or county commission vote) implements waivers or reductions for infill development. The local planning department or other government agency may administer the program.

How the strategy is funded

The strategy can be self-funding; if infill areas are adequately served by existing infrastructure, or if minor improvements are needed, then impact fee reductions or waivers reflect the true impact of infill development. If infill areas need more extensive infrastructure improvements to accommodate new development, then impact fees may be higher in other areas.

Extent of use of the strategy

Moderate use.

Examples of locations where the strategy is being used

- Florida's Impact Fee Act (the state enabling act for impact fees) allows local governments to offer incentives for redevelopment within urban infill and redevelopment areas.
- Albuquerque, NM developed a tiered system of impact fees for areas that are "fully served," "partially served," which have most or all of the infrastructure already in place for new development, and "unserved," which do not. Impact fees are lower in "fully served" areas, which are more likely to have infill and redevelopment opportunities, as well as to encourage

more efficient development patterns and use of resources. Impact fees for designated “Infill Development Zones” are waived completely.¹⁰⁷

- The Sacramento Regional County Sanitation District implemented impact fees that varied based on whether areas were “infill” (at least 70 percent built out) and “new growth” in 2002 to encourage infill development. Based on analysis of the costs of providing services, fees in infill areas were set at 15 percent of the fees in new growth areas.¹⁰⁸

Pros and cons to using the strategy

Pros:

- Impact fee reductions encourage infill development, promoting more efficient development patterns and making better use of already-existing infrastructure.

Cons:

- Reduced impact fees for infill development may be poorly targeted for encouraging affordable housing production, as reductions benefit both affordable and market-rate housing.
- Savings to developers in impact fees may not be passed on to renters or homebuyers.

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REGIONAL APPROACHES TO FINANCING AFFORDABLE HOUSING

State Incentives to Local Governments to Encourage Affordable Housing Development

Strategy description

Several states have provided financial incentives that encourage local governments to take specific measures to encourage the development of affordable housing. This may include adopting more liberal zoning measures, approving permits for affordable housing, or planning for affordable housing. In general, these financial incentives are intended to cover some of the external costs associated with developing more affordable housing units, such as constructing parks, community centers, police or fire stations, or to cover the cost of educating children living in newly developed housing.

History of the strategy

State financial incentives to local governments appear to be a relatively recent development, implemented first in California and Massachusetts in 2004.

Target population

The incentives target low-and moderate-income renters and homebuyers indirectly by encouraging actions that increase affordable housing, particularly in areas where current zoning measures create barriers to affordable housing development or where current planning for affordable housing is inadequate.

How the strategy is administered

A law must be passed at the state level to provide funding for an affordable housing incentive program. A state-level agency administers the financial incentives; to qualify for incentives, local governments make the necessary zoning and other changes to encourage affordable housing and apply for incentives.

How the strategy is funded

Funding for the incentives comes from state government appropriations or other revenue sources.

Extent of use of the strategy

Use appears to be limited to Massachusetts and California.

Examples of locations where the strategy is being used

- Massachusetts passed Chapter 40R in 2004 and 40S in 2005. This legislation aims to add new housing within established growth areas in order to moderate inflation in housing prices. Chapter 40R provides financial incentives to communities that establish a state-

approved smart growth zoning district (SGZD). Communities are eligible for up to \$600,000 for establishing the district and an additional \$3,000 for each building permit issued (see case study).

- Massachusetts' Chapter 40S creates a Smart Growth School Cost Reimbursement Fund to provide full reimbursement for any net new education costs resulting from housing units built under 40R, mitigating the potential impact the creation of new homes (under 40R) might have on education costs. Funding for Chapter 40S is available starting in 2008.
- Illinois' Good Housing Good Schools law, implemented in 2007, provides incentives to school districts in towns that support the rehabilitation or development of affordable homes. The homes must be maintained as affordable long term.
- From 2004 through 2006, California conducted a Workforce Housing Reward Program that provided financial incentives to cities and counties that issued building permits for housing units affordable for low- and very low-income households. Local governments received grants based on the number of bedrooms in qualifying rental or ownership units.

Strategy results

Smart Growth Zoning Districts have been established in 15 towns across Massachusetts as a result of Chapter 40R, and are being considered in a dozen other communities. Nearly 5,000 housing units were planned in zones already approved. However, not all the promised funding has come through, as the state has struggled to find an ongoing funding source for the program.¹⁰⁹

Pros and cons to using the strategy

Pros:

- Unlike ordinances that require that a certain percentage of each development be dedicated to affordable housing, these “carrot” strategies take into account the different needs of specific communities.
- The burden of providing affordable housing is shared by the state’s population generally, rather than borne those living in a particular jurisdiction.

Cons:

- Given that participation is voluntary, many communities may elect not to adopt the strategy despite the financial incentive.
- These financial incentives are costly, leading to long-term financing challenges.

Sources of information about the strategy

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MASSACHUSETTS

FINANCIAL INCENTIVES TO LOCAL GOVERNMENTS

Housing has become increasingly unaffordable for low- and moderate-income households in Massachusetts, especially in the Boston metro area. Home prices in Greater Boston more than doubled between 1998 and 2002, and by June of 2003 the average sale price of a single-family home in the state exceeded \$400,000. Despite the recent downturn in the state's housing market, the third quarter 2007 median sales price for a single-family home in the Greater Boston area was \$501,500.

- ✓ State incentives to local governments to encourage affordable housing development
- ✓ Transit-oriented development
- ✓ Density bonuses
- ✓ Changes in zoning to encourage affordable housing

The high cost of housing in the state threatens its economic competitiveness and its ability to attract the human capital necessary to maintain its workforce. In the 1990s, the state lost nearly 20 percent of its young population between the ages of 20 and 34. Meanwhile, land-use regulations and building patterns have contributed to sprawl as more large-lot single-family homes are built away from city centers and mass transit.¹¹⁰

Restrictive zoning laws are the primary source of the state's housing problem, according to the Commonwealth Housing Task Force (CHTF), a diverse coalition of stakeholders in the affordable housing debate. To address this problem, CHTF designed state legislation that provides incentives to local governments to encourage denser housing production and mixed-use developments in areas near public transit, concentrated development, or in areas with existing infrastructure. In July 2004, their proposal was signed into law as the Smart Growth Zoning and Housing Production Act (40R).

Smart Growth Overlay Districts ("40R districts"), which are approved and voted on by the town, allow high-density residential development as-of-right. The zone must allow at least 20 units per acre for multifamily housing developments,¹¹¹ 12 units per acre for two- and three-unit buildings, and eight units per acre for single-family homes. To meet the affordability component of the law, 20 percent of units in

projects consisting of 12 or more units must be affordable, and 20 percent of total housing units in each 40R district must be affordable.¹¹²

Eleanor White, co-chair of the Commonwealth Housing Trust Fund and President of Housing Partners, Inc. emphasized the important advocacy role that their diverse

“Without a coalition, [the legislation] will die a thousand deaths.”

-Eleanor White

coalition played in getting the legislation passed.

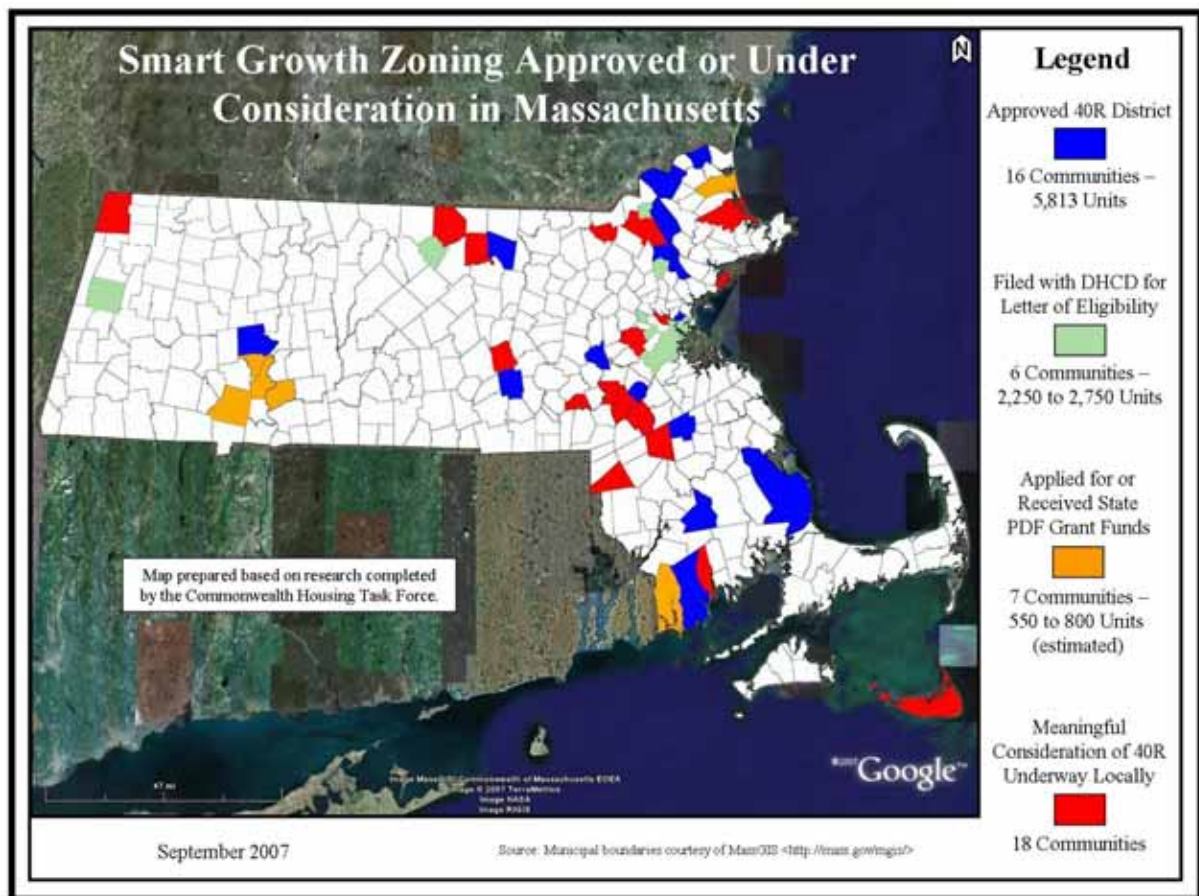
“It was the first time housing advocates sat in the same room with representatives of business, academics, labor unions, environmental groups, real estate professionals, homebuilders, and local officials.”

Her advice to other states working on similar programs: “Without a coalition, [the legislation] will die a thousand deaths.”

The goal of 40R is to add enough new housing in established growth areas to bring house prices more in line with family incomes. The CHTF estimates that the state needs to build 33,000 new market-rate and affordable housing units over the next 10 years to accomplish that goal. To put this number in context, this is about the number of units built under the state’s 40B law from 1969 to 2003. This law, which is unpopular with local governments in Massachusetts because it takes away some local control over development, allows developers to appeal denied permits to the state. If the project includes affordable housing and less than 10 percent of the housing units in the locality are affordable, the state is likely to side with the developer.¹¹³

To reach this level of housing production, 40R provides several financial incentives to make up for potential increased costs related to denser residential development. Towns receive one-time payments of up to \$600,000. The amount actually awarded is based on the number of new housing units allowed in the 40R district in excess of what was previously allowed. In addition, for each building permit issued, a town receives a “density bonus payment” of \$3,000 per additional housing unit.¹¹⁴ The law also offers other incentives to participating communities, including priority for state funding and \$50,000 in technical assistance for the district planning process.

In November 2005 the state passed 40S, which provides full reimbursement to municipalities for all new net education costs resulting from housing units built under 40R. 40S addresses local concerns that denser housing in 40R districts will substantially increase educational costs beyond the revenue these additional households will generate.¹¹⁵ For single-family units, these costs can be substantial: they are estimated at \$5,000 per year for each single-family home priced below \$500,000.



Contrary to conventional wisdom, net education costs for new multifamily units are modest. In more than half of communities in Massachusetts, typical mixed-income multifamily developments result in no new net education expenses; in the remainder of communities, the cost is \$320 per unit, because relatively few multifamily units house school-age children.¹¹⁶

Estimated annual costs of 40R and 40S include \$14 million in incentive payments and \$35 million for net education cost reimbursement, funded by a Trust Fund supported by revenues from the sale of surplus state land. Costs of 40S may be substantially lower than estimated because virtually all proposed housing units to date are multifamily; however, the source of revenue for the 40R Trust Fund already appears to be inadequate.¹¹⁷ The state is currently working on legislation that will provide a self-funding mechanism for 40R, but the lack of funding remains one of the primary concerns of local governments considering 40R districts.

Not a single proposed 40R district has failed to pass the required local vote. As of September 2007, 16 municipalities in the State have passed 40R districts, which will create almost 6,000 rental and ownership units. Another 35 towns have district plans in the works. As hoped, the planned and proposed districts are scattered all over the state, reflecting the program's success in encouraging housing production in all communities in the Commonwealth (see figure).

While multifamily housing developers have been very proactive in pursuing 40R projects, almost none of the planned developments include single-family homes. To deal with this disappointing result, CHTF is currently working on a new incentive program that would target the production of single-family "starter homes" priced between \$250,000 and \$350,000.¹¹⁸

While few housing units have actually been built, development plans show that 40R districts will have a major impact on the supply of affordable housing in participating communities, especially in larger projects such as in Plymouth and Kingston, which will include almost 150 units of affordable housing. In addition, CHTF is working to ensure that development is representative of racial and economic diversity in the state and has formed an Expanding Opportunities Committee to increase participation by minority and lower-income households.

*"This type of advocacy
can't be done via
mailings..."*

-Eleanor White

White warns communities that even after passage, these programs require ongoing education and advocacy at the local level to encourage communities to participate. She and her two CHTF co-chairs spend a huge amount of time in cities and towns talking about the program and alleviating

concerns about density, affordability, and development. “This type of advocacy can’t be done via mailings. You have to show up physically and go back several times.”

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Tax Base Sharing

Strategy description

Under this regional approach to affordable housing, each city in a region contributes a certain percentage of its total tax base (or increased tax base from new development) to a regional pool. The pool is distributed back to jurisdictions according to a formula that gives preference to communities with more modest local resources in order to improve the supply and condition of affordable housing in those communities. The strategy is designed to overcome differences in the ability of local tax bases to pay for public services that typically exist across a region.

History of the strategy

Myron Orfield, a former Minnesota state representative, pioneered the development of this model and its implementation in the Minneapolis-St. Paul region in 1971.

Target population

This strategy affects all residents in the region, but specifically targets low-income residents of inner cities and older suburbs.

How the strategy is administered

State legislation is typically required to implement this strategy. The strategy is administered by all of the local governments in a given region that has adopted this strategy. Once the regional pool has been established, the various governmental (or other non-governmental) players determine which jurisdictions should receive which share of the pool, and what that money should be spent on.

How the strategy is funded

Tax-base sharing requires no additional funding, but distributes property tax revenues across a region, rather than one town or city.

Extent of use of the strategy

Limited use

Examples of locations where the strategy is being used

- A number of states have adopted tax base sharing for public school funding, which has reduced the interregional competition for commercial development as well as disparities in educational spending between poor and rich districts.
- Under the Minneapolis/St. Paul Twin Cities Fiscal Disparities Fund Plan, each community in a seven-county area contributes 40 percent of the post-1971 growth of its commercial and industrial property tax base. The funds are redistributed according to a formula that is based

on each jurisdiction's population and fiscal capacity. Sixty percent of the tax base increase remains in the host community. As a result, about 20 percent of the region's total tax base is shared. In 2000, the Fiscal Disparities Fund totaled \$393 million. As of 2000, 140 municipalities were recipients of the Fund, and 47 municipalities contributed to the Fund.

- The New Jersey Meadowlands Commission, established in 1972, collects and shares revenues among 14 municipalities using a formula similar to the Twin Cities' Fiscal Disparities Fund. Its primary purpose is to protect wetlands, but it recently has started planning for and funding affordable housing projects.
- The Dayton ED/GE Plan is a 9-year joint economic development and revenue sharing compact that includes matching grants for development, private mortgage commitments and renovation loans, and contributions to the art and cultural community. Tax sharing is a small part of the plan and has a modest impact: no more than 13 percent of the growth in any municipality's property and income tax revenues is pooled, and only about \$600,000 a year has been shared among local governments.
- A plan nearly identical plan to the Twin Cities' was adopted in the Iron Range area of Minnesota in 1996. The Iron Range also shares taxes collected from taconite mines, regardless of where the mines are located.
- In Montgomery County, Ohio, tax receipts from a one-percent add-on sales tax are shared.

Pros and cons to using the strategy

Pros:

- Orfield estimates that polarization of resources within regions benefits a small percentage of the residents and jurisdictions, while most of the residents in inner cities and older suburbs lose out. For example, according to his estimates, the percentage of residents disadvantaged by regional polarization is between 65 percent and 85 percent.
- If residential property values are included, tax base sharing can reduce incentives for zoning ordinances that are designed to maximize tax base and that lead to large-lot zoning that makes inefficient use of resources.
- Reduces interregional competition for non-residential development.
- Increases equity in provision of public services among municipalities in a region.

Cons:

- A proposal to establish tax-base sharing is likely to be highly controversial.
- Localities in the region lose control over a portion of property tax revenues.
- Some localities clearly lose by redistributing tax base from their locality to others in the region.
- A formula based on growth in each municipalities' tax base may lead to undesired results, e.g., high fiscal capacity towns becoming recipients of funding rather than contributors.

Sources of information about the strategy

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OTHER SOURCES OF FINANCING

Housing Trust Funds

Strategy description

Housing trust funds (HTFs) are funds established by cities, counties and states to dedicate public sources of revenue to support affordable housing. A property tax surcharge or housing levy is a common method of funding housing trust funds. HTFs can be used for a variety of purposes, including creation and maintenance of affordable housing, homebuyer assistance, and rental housing subsidies. The financial support may be in the form of gap financing or loans for the development of affordable housing or pre-development or institutional support for nonprofit housing developers. The trust fund may feed resources into a revolving loan fund. Whatever the form of the financial assistance, there may be a requirement for leverage of additional sources of support.

History of the strategy

Housing trust funds have a history of about 30 years.

Target population

Low- and moderate-income renters and homebuyers.

How the strategy is administered

- Some housing trust funds are private nonprofits, funded by charitable contributions and other fundraising. A board of directors typically administers these.
- Public housing trust funds are administered by a public agency, often with an oversight board. These trust funds require legislation enacted at the state or local level.

How the strategy is funded

Housing trust funds are funded with a variety of sources of revenue. These may include a property tax surcharge, a bond issuance, a demolition tax, real estate taxes or fees (e.g., transfer taxes and recording fees), in-lieu fees contributed by developers under inclusionary zoning requirements, tax increment funds, and general revenue funds.

Extent of use of the strategy

Widely used: there are nearly 600 housing trust funds in 43 states nationwide¹¹⁹

Examples of locations where the strategy is being used

- Five states, Iowa, Massachusetts, New Jersey, Pennsylvania, and Washington, have passed state-level legislation that enables or encourages the creation of local trust funds.
- Massachusetts matches funds set aside in local trust funds under the Community Preservation Act.

- Thirty-eight states have a state-level housing trust fund.

Strategy results

The nearly 600 housing trust funds nationwide generate more than \$1.6 billion a year for affordable housing.¹²⁰

Pros and cons to using the strategy

Pros:

- Establishes a dependable stream of revenue to fund affordable housing initiatives.
- Can be tailored to local affordable housing policies and needs.

Cons:

- Requires renewed sources of public funding over time.
- Can be perceived as another layer of bureaucracy.
- Requires administrative oversight to set policies, issue RFPs, underwrite loans and grants, and monitor awarded funds.
- May be difficult to win public approval for the source of revenue required to fund the trust fund.

Sources of information about the strategy

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Center for Community Change
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MARYLAND

AFFORDABLE HOUSING TRUST

Maryland's Affordable Housing Trust (MAHT), one of more than 600 trust funds nationwide, uses an innovative source of funding to generate needed resources for affordable housing. The Maryland state legislature created the Trust in 1992 to establish a fund to enhance the availability of affordable housing throughout the state.

✓ Housing trust funds

Funding comes from a portion of the interest generated by title company escrow accounts. In Maryland, these accounts can generate over \$5 million in annual revenue, which is used to leverage nearly 20 times that amount of funding from other sources. In total, the combined funding is used to produce hundreds of housing units each year.

The funding mechanism is modeled after Interest On Lawyers Trust Accounts (IOLTA), which were first established as an innovative way to generate funds for legal services to the poor. Under IOLTA, lawyers are required to create trust accounts for the funds they receive from clients. If client funds are too small or held for too short a time to earn interest for the client, they are placed in a pooled interest-bearing trust account that generates interest that neither the client nor the lawyer would have otherwise received. The interest generated from the pooled account is distributed through local grants to nonprofit organizations.

Similarly, the MAHT Act requires each title insurer or title insurance agent to pool individual client trust accounts if they are not expected to generate sufficient interest (usually \$50 or less) to warrant opening a separate interest-bearing account. Interest on the pooled account is paid to MAHT, which distributes funds via a competitive application process.

The MAHT is governed by an 11-member board of trustees and is staffed by the State Department of Housing and Community Development. The board includes representatives from eight different groups: title companies, the Maryland Low Income Housing Coalition, financial institutions, local governments, nonprofit

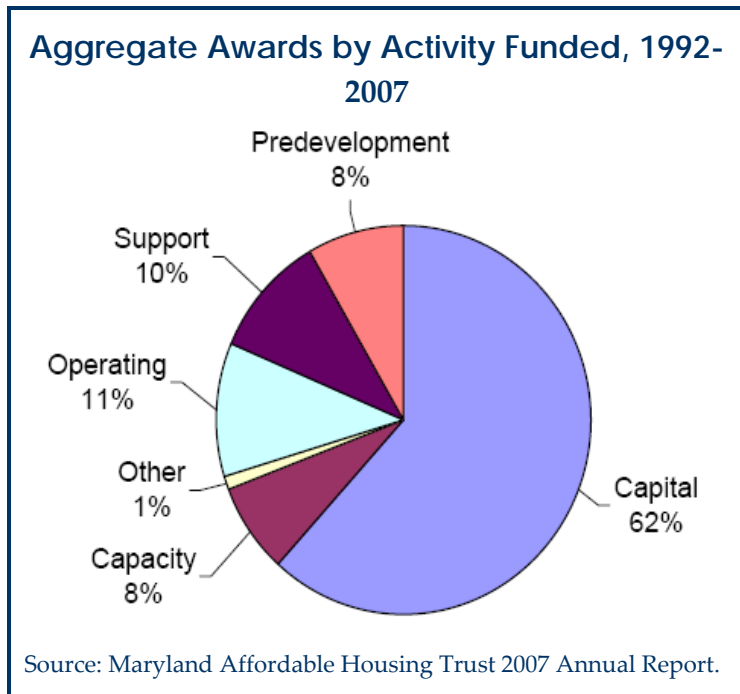
housing developers, for-profit housing developers, public housing authorities, social services providers. In addition, three representatives of the general public serve on the board.

Funds are distributed in two annual funding rounds in which local nonprofit organizations, public housing authorities, government agencies, or for-profit entities can apply for loans or grants. MAHT funds may be used for a variety of activities including capital costs, operating expenses, capacity building, supportive services, or predevelopment costs (see figure).

Projects eligible for MAHT funding must contribute to affordable housing targeted at households earning less than 50 percent of the area median income (AMI), with preference given to projects targeting households earning less than 30 percent AMI. Preference is also given to:

- ❖ Housing development projects that offer the longest term affordability
- ❖ Capital projects serving those most in need
- ❖ Projects providing both housing and self-sufficiency assistance for families with children
- ❖ Projects serving single adults needing single-room occupancy permanent housing

Examples of 2007 award recipients include Habitat for Humanity local affiliates, local homeless shelters, the City of Westminster Affordable Housing Initiative, and the Housing Authority of the City of Annapolis.



During FY07, the MAHT received \$5.3 million in revenue – an increase of \$1.1 million from 2006. Since 1992, they have received a total of \$29.4 million in trust account revenue and have awarded 467 grants in 53 jurisdictions. Because MAHT awards tend to only cover a portion of project costs, their goal is to use its funds to leverage dollars from other sources. During FY07 MAHT used \$4.6 million of their own funds to leverage over \$96 million in total project and program development costs. Leveraged monies came from public funds at the local, state, and federal levels as well as private financing and foundation grants.

The funding structure of the trust fund makes it vulnerable to conditions in the local real estate market. With the recent slowdown in the housing market, MAHT has seen a downturn in revenues. In addition, the structure of the trust fund, which gives control to the Maryland Insurance Administration,¹²¹ presents a challenge to managing the fund. For example, MAHT must ask permission to audit title account activities.

“Some places don’t have many places to go for resources. For them, a little money goes a long way.”

-Ron Callison

Regardless, the Trust has been successful at filling a funding gap for affordable housing development by providing a stable and flexible funding source that supports a variety of activities. In the past 10 rounds of funding, the MAHT has funded 69 percent of its applicants and 51 percent of the requested funds. While

in some cases award amounts may be relatively small, Callison notes, “Some places don’t have many places to go for resources. For them, a little money goes a long way.”

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Housing-Linked Deposits

Strategy description

Under an affordable housing linked deposit program, an investor (either a government entity or a non-profit organization) deposits capital in a bank at a below-market interest rate, most often in the form of a certificate of deposit. The bank invests the capital at market rate, resulting in a profit for the bank. The bank then uses the profit to lower the interest rates on loans it makes to potential affordable housing developers. In turn, developers apply for loans on land acquisition, site development, construction and rehabilitation pertaining to affordable units. The strategy is similar to community development linked deposits and economic development linked deposits, but with a focus on funding for housing.

History of the strategy

Housing-linked deposits were used at least as early as 1989, in Ohio.

Target population

- Oklahoma: For multifamily and single-family rental units, qualifying families must have income at or below 110 percent of the area median for the county in which the project is located. For single-family home ownership, the sales price must not exceed the Oklahoma Housing Finance Agency's Mortgage Revenue Bond price limit.
- Ohio Community Development Finance Fund: Qualifying units must be affordable for low-income residents, defined as those with income below 80 percent of area median.
- Generally targets low- and moderate-income renters and homebuyers.

How the strategy is administered

Linked deposit programs can be administered at the state level (as in Oklahoma), the county level (as in Montgomery County, Ohio and Loudoun County, Virginia) or through a non-profit (for example, the Ohio Community Development Finance Fund).

How the strategy is funded

The capital for initial certificates of deposit is provided by the authorizing government agency or a non-profit organization.

Extent of use of the strategy

Use is limited to a handful of places.

Examples of locations where the strategy is being used

- Oklahoma operates an affordable housing linked deposit program that offers savings to developers of up to three percentage points on financing for qualified single-family and multifamily housing. A total of \$25 million is available for reduced interest rate loans.
- Montgomery County, Ohio's linked deposit program also offers loans at three percentage points below the market interest rate. Loans may be used for new construction of housing or major rehabilitation.
- The Ohio Community Development Finance Fund is a public/private partnership that provides below-market interest rate loans to community-based non-profit developers for permanent or construction financing. The linked deposit program is funded from both public and private sources of capital.
- Loudoun County, Virginia deposits funds with banks that agree to provide affordable mortgage products, homeownership seminars, and home mortgage loans for low-income households.

Strategy results

The Ohio Community Development Finance Fund's linked deposit fund has made investments totaling \$24 million in 125 projects, creating 3,841 units of new or rehabilitated housing.¹²²

Pros and cons to using the strategy

Pros:

- Creates meaningful public/private partnerships that could potentially bring other lending services to low-income communities.
- If implemented properly, the investor stands to break even.

Cons:

- The program is dependent on investors continuing to make low-rate deposits at the lender organizations. A lack of additional investments for further linked deposits could cut off funding for additional housing development.

Sources of information about the strategy

- Oklahoma state website, Linked Deposit Programs, www.ok.gov/~sto/rblink.html.
- Montgomery County, Ohio website, www.co.montgomery.oh.us/montcnty/LD/images/housing_info.pdf
- Finance Fund website, www.financefund.org/linkeddepositfund.asp.
- Article about the Ohio Community Development Finance Fund on the St. Louis Federal Reserve's website: <http://stlouisfed.org/publications/br/2007/b/pages/3-article.html>

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Linkage Fees

Strategy description

In many urban areas, commercial development outpaces the construction of affordable housing. This can create a jobs-housing imbalance in that there is not enough housing to support the area's workforce. Linkage fees, which are a type of impact fee, aim to correct this imbalance by linking commercial development to affordable housing development. Developers of commercial properties are charged a fee, usually assessed per square foot. The fees are used to construct affordable housing and address other community needs. In some cases, developers may have the option of building the affordable housing units themselves. In exchange for payment of the linkage fee, the developer receives a building permit. The fee typically applies to some combination of office, retail, hotel, and industrial development. Smaller developments are often exempted.

History of the strategy

Linkage fees were first used in the central business districts of metropolitan areas in the 1970s and early 1980s in San Francisco, and later in Boston and Seattle. In the mid 1980s their use and scope expanded beyond the central business districts to the rest of the city, including retail and hotel properties.¹²³

Target population

Linkage fees target low- and moderate-income homebuyers and renters.

How the strategy is administered

Once a linkage fee law or ordinance is passed, administration consists of enforcing the ordinance. Linkage fees are usually assessed per square foot of nonresidential, job-generating construction.

How the strategy is funded

No funding is necessary other than costs for administering the program. The funds generated from nonresidential and market-rate residential development in linkage fee districts are placed in trust funds for affordable housing.

Extent of use of the strategy

- Use is limited to larger cities such as Boston, Seattle, and San Francisco, and a few smaller municipalities including Watsonville, CA and Winter Park, FL.
- California has the highest concentration of linkage programs; in 2004 there were 20.

Examples of locations where the strategy is being used

- Florida's Development of Regional Impact statute includes a combination of a linkage fee and an inclusionary zoning ordinance that applies to the jurisdiction in which the large commercial development is located.
- The Chicago region is developing a regional linkage program in which fees are paid by municipalities rather than developers and are calculated based on increasing commercial tax bases.
- In California, programs have been implemented in Berkeley, Sacramento, San Diego, San Francisco, and other cities.
- In Massachusetts, Boston's linkage fee applies to commercial and institutional developments with more than 100,000 square feet; Cambridge's fee applies to commercial and institutional developments with more than 30,000 square feet.¹²⁴
- New Jersey's linkage fee uses a formula linked to the number of employees that will occupy the new development. The formula assesses one affordable housing unit for every 25 employees added to the community. New Jersey is the only state with a mandated program for all municipalities.

Strategy results

Revenues vary widely. San Francisco has generated more than \$60 million, San Diego \$54 million and Sacramento more than \$12 million. Smaller markets generate much less; Winter Park has generated less than \$2 million. Others include Sacramento, \$11 million (city), \$15 million (county); Cambridge, \$750,000, with \$2.5 in pipeline; Berkeley, \$1.93 million; Boston, \$45 million.¹²⁵

Pros and cons to using the strategy

Pros:

- Linkage fees can provide a new, local income stream for affordable housing projects.
- The link between job growth and affordable housing helps to avoid a housing-jobs imbalance.
-

Cons:

- Funds may go to general revenues rather than to a housing trust fund, leaving affordable housing problems unaddressed.
- Linkage fees can have negative impacts on small, local businesses if they are not exempted.
- The nexus between the new development and the need for affordable housing must be established in order to withstand legal challenges. In addition, the fee must be proportional to the impact of the new development on the community.

- The higher cost of commercial and other space that results from a linkage fee may discourage employers from locating in the city.
- It is difficult to get support from developers to impose such a fee.
- Fee levels and the effectiveness of the strategy are dependent on the strength of the real estate market. Fees vary from a high of \$14.96 per square foot for office space in San Francisco to a low of \$0.35 for commercial and industrial in Watsonville, California. Winter Park, Florida is increasing their linkage fee from \$0.30 to \$.50 per square foot.¹²⁶

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CAMBRIDGE, MASSACHUSETTS

LINKAGE FEES

An important challenge for cities with a growing commercial sector is housing the new workers who move in as employment increases. In many places, the result of strong job growth is increasingly unaffordable housing—for both low- and moderate-income households—as competition for the existing housing heats up. Cambridge uses linkage fees to help balance job growth with housing growth, along with a number of other strategies to fund affordable housing.

- ✓ Linkage fees
- ✓ Expedited permitting and review policies
- ✓ Affordable housing trust fund

The linkage fee, called the incentive zoning ordinance in Cambridge, was implemented in 1988. The ordinance requires developers of certain non-residential projects to mitigate the impact of their development by contributing \$4.25 per square foot to the city's affordable housing trust fund. Office developers who request increases in density or intensity of use are assessed the fee. Since 1988, the fee has generated \$2.8 million for housing.

Susan Glazer, deputy director of Cambridge Community Development, says there has been little opposition to the incentive zoning ordinance, perhaps because the city is efficient in processing applications for commercial construction. Another factor is likely to be the city's commercial tax rates, which are low in comparison with surrounding towns and cities.¹²⁷

"We have a fairly expeditious permit process," said Glazer. "We try not to hold developers up too much – that's worth something to developers."

The city works with developers prior to planning board meetings to resolve substantive issues. "We try to iron out problems ahead of time," said Glazer. "We can anticipate a lot of the planning board's questions, so we work with developers to refine their presentation materials."

Because of this preparation, Glazer says developers often get approval for their project the night of the hearing. She said that even if the application is not approved the night of the planning board hearing, problems that prevent approval are typically resolved very quickly so developers' applications are approved at the next meeting, a delay of only two weeks.

Glazer said the entire permit application process in Cambridge takes three to five months for a typical commercial project involving a single building. After the application is submitted, she said it takes about a month to schedule a hearing. The planning board writes up its decision, and after a 20-day appeal period, the

"We're trying to get more housing to accommodate all those people."

-Susan Glazer

application is usually finalized. She noted that an application for a planned unit development (PUD) takes longer, because it requires two hearings, and developers are more likely to be seeking flexibility in such areas as the allowable floor-area ratio.

Glazer said the city's incentive zoning ordinance is working. "It's creating development and a source of funding for housing. We're attracting more and more businesses, and they bring jobs," she said. "We're trying to get more housing to accommodate all those people."

In addition to the incentive zoning ordinance, Cambridge's affordable housing trust fund has several other sources of revenue. One of these is tax revenue collected under the Massachusetts Community Preservation Act (CPA). Under the CPA, towns and cities in Massachusetts can choose to adopt the act, levying up to a 3 percent surcharge on taxable property.¹²⁸ The local tax revenue is matched by state funds, which can be used for open space, historic preservation, community housing initiatives, and recreation.¹²⁹

In the 2006 fiscal year alone, the Cambridge City Council appropriated \$9.6 million generated from the CPA to the trust fund. In addition to these funding sources, the trust fund also receives private contributions. Since it was established in 1988, the trust fund has financed the creation and preservation of more than 1,800 affordable housing units in the city.¹³⁰

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Tax Increment Financing

Strategy description

Tax increment financing (TIF) is a tool used to raise revenue for community redevelopment, including the production of affordable housing. Communities use TIF to pay for projects with the increased property tax revenues that these projects are expected to produce. A community designates a tax increment district and estimates future tax revenues based on the assumption that the district would not grow in the absence of redevelopment activity. Revenues above this estimate are used to fund redevelopment projects in the district. In some instances, jurisdictions borrow against expected tax increment revenues.

History of the strategy

California was the first state to use tax increment financing, implementing the first TIF district in 1952. Every other state except Arizona has since followed suit, motivated by declines in other funding sources. In particular, reduced federal funding for redevelopment-related activities beginning in the 1970s, state-imposed caps on municipal property tax collections, and limits on other sources of city revenue have led local governments to adopt TIF.¹³¹

Target population

- Affordable housing created as part of redevelopment using TIF is targeted to low- and moderate-income renters and owners.
- TIF benefits the community generally by financing redevelopment that the community otherwise might not be able to pay for. Once the development is paid for, the incremental revenues can be used to fund affordable housing and meet other community needs such as roads and schools.

How the strategy is administered

- State authorizing legislation generally is required to implement tax increment financing. Legislation often allocates a certain percentage of the revenues for specific uses, such as affordable housing.
- Local redevelopment authorities can have significant roles in the administration of tax increment financing statutes, such as in California.

How the strategy is funded

Needed funding is limited to the cost of administration.

Extent of use of the strategy

Widely used: Forty-nine states and the District of Columbia have enacted statutes permitting the use of tax increment financing to help local governments finance redevelopment. Few states

require funding to be set aside for affordable housing as part of their tax increment financing statutes, however.

Examples of locations where the strategy is being used

- In Utah, the Limited Purpose Local Government Entities – Community Development and Renewal Agencies Act authorizes local governments to use tax increment financing for redevelopment activities, including a minimum of 20 percent to affordable housing.
- California’s redevelopment law requires local redevelopment agencies to set aside 20 percent of revenues from tax increment districts for a separate low- and moderate-income housing fund.
- Maine allows TIF districts to be established specifically for affordable housing.
- Chicago has over 100 TIFs.

Strategy results

- In Utah, approximately \$127 million has become available to fund affordable housing under TIF legislation. Two of the major affordable housing efforts conducted using TIF include Bluffdale, a community near Salt Lake City where 85 affordable units have been constructed; and Sandy City, also near Salt Lake City, which is using TIF money for infrastructure support for housing development.¹³²
- The TIF revenues placed into housing trust funds by California’s redevelopment agencies a major source of funding for affordable housing in California. For example, in the 2004-2005 fiscal year, this funding amounted to more than \$1.2 billion. This funding was used to help nearly 20,500 low- and moderate-income households obtain affordable housing.¹³³
- In Maine, four affordable housing tax increment financing districts have been created since 2004. These districts will create over 200 units of affordable housing.

Pros and cons to using the strategy

Pros:

- Can provide a stream of funding for affordable housing development without an increase in municipal taxes.
- Developers can use the affordable housing TIF revenue to make a project feasible and rely less on the dwindling supply of traditional federal and state housing subsidies.
- Can improve communities, as revenue can be used for roads, schools, and other basic infrastructure needs in addition to affordable housing.
- TIF debt typically doesn’t count against a municipality’s debt limits.
- Individual TIF plans are generally controlled at the local level; they do not require state approval.

- TIF districts that have the greatest amount of the most vacant land before projects begin experience the greatest tax increment growth.

Cons:

- The high degree of competition for tax increment revenues can mean affordable housing is overlooked, unless legislation is passed designating a specific percentage of the revenues toward affordable housing.
- Redevelopment projects using TIF can lead to gentrification and displacement of low- and moderate-income households.
- Overuse of TIF, including districts that retain their designation as TIF districts for lengthy periods of time, can lead to higher than needed property taxes.
- TIF projections can be overly optimistic, leading to collecting insufficient revenue to pay debt service
- Investment in a TIF district almost always requires more municipal services such as police, fire, education, and transportation.
- TIF debt is more risky than general obligation debt and therefore commands a higher interest rate.

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MAINE

TAX INCREMENT FINANCING

Tax increment financing (TIF) is an innovative tool to fund community development, but one rarely used to support the production of affordable housing. The state of Maine has become one of the first places to do this.

✓ Tax increment financing

As in many states, Maine has experienced uneven growth in housing prices and income. Between 2001 and 2005 home prices increased by 55 percent while incomes rose only 6 percent. The Maine State Housing Authority (MaineHousing) estimates a need for an additional 23,000 affordable rental housing units in the state to meet current demand. However, finding resources to meet the increasing need for affordable housing is difficult, especially with limited federal funding options and tightening state budgets.

In 2003, the state of Maine authorized tax increment financing districts, which are traditionally used for economic development projects, to be used to fund affordable housing. In doing so, the State sought to provide municipalities with a flexible tool to promote affordable housing in their communities while maintaining local control.

Maine's Affordable Housing Tax Increment Financing Program allows municipalities to capture new property tax revenue generated by the housing constructed in an identified Affordable Housing Tax Increment Financing (AHTIF) district and to use all or a portion of that revenue to support affordable housing. Communities may designate up to 2 percent of their land to each AHTIF district, for up to 5 percent of municipal land. They must then develop an associated Affordable Housing Development Program (AHDP) that establishes development plans for the districts given the projected tax increment revenues and other funding sources to cover project costs. Once approved by MaineHousing, any new property tax revenue a district generates can be used for up to 30 years.

The program also requires that a development be primarily residential and address an identified community housing need. In addition, at least one-third of project

housing units must be affordable to households earning less than 120 percent of the area median income (AMI), with rental units remaining affordable for at least 30 years and homeownership units remaining affordable for at least 10 years.

TIF revenues may be used for housing-related costs within or outside of the AHTIF district. Within the district, eligible costs include capital



costs, financing costs, project operating costs, professional service costs, administrative and start-up expenses, as well as the costs of recreational and child care facilities. Outside of the district, TIF revenues may pay for infrastructure and public safety improvements, mitigate adverse community impacts such as costs to local schools, or contribute to a fund for permanent housing development.

Since the program was implemented in 2004, MaineHousing has approved four affordable housing TIF districts. These districts are expected to generate 218 units of affordable housing, including 204 rental units and 14 single-family home units. The flexibility of the program allows municipalities to tailor projects to their needs, resulting in projects that range in size, purpose, and affordability.

Projects can serve lower-income households, such as a conversion project in the South Portland AHTIF district that will fill a subsidy gap in a federal Low Income Housing Tax Credit project by generating \$14 million over 25 years in new property tax revenue. A smaller TIF project will help build a subdivision in Fairfield with 40 percent of the units limited to households earning 120 percent of AMI or less.

Maine's AHTIF program is often used in conjunction with other subsidy programs, allowing developers to deepen affordability levels or increase the percentage of affordable units within the project.

"It is unlikely that TIF alone would be enough to build a project."

-Julie Hashem

According to Julie Hashem, communications and planning manager at MaineHousing, "It is unlikely that TIF alone would be enough to build a project.

But if a project needs just that little bit more [funding], TIF makes it feasible. The real benefit of AHTIF is that it's very flexible. It's natural to try to pair it with other types of financing."

With most of the projects still under development, the main impact of Maine's AHTIF program has been to introduce a reliable source of funding for developers interested in building affordable housing that does not require additional state or federal subsidies or an increase in state or local taxes.

Looking back on the first few years of implementation, Hashem advises those considering a tax increment financing program to keep program requirements as simple and straightforward as possible and to proactively work with municipalities as they develop their proposals. MaineHousing is currently working to revise their AHTIF program to simplify their annual reporting and application requirements so the structure of the program is clearer and easier for municipalities to use.

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Profit-Sharing

Strategy description

Developers using public assistance for a project, such as tax-increment financing or a housing trust fund, may enter into an agreement with the city to share a percentage of any profits earned on the project above an agreed-upon level. Profit-sharing arrangements are more likely to be used in mixed-use or mixed-income projects than in developments containing only affordable housing, which are unlikely to generate excess profits; however, developments receiving public assistance may be required to include affordable housing units. The profits returned to the city can be reinvested in future affordable housing projects or to meet other community needs.

Target population

Affordable housing included in developments with profit-sharing arrangements are targeted to low- and moderate-income renters.

How the strategy is administered

Typically, community development departments of towns and cities negotiate profit-sharing arrangements in conjunction with agreements to provide public funding for developments.

How the strategy is funded

Funding comes from the profits generated by a development.

Extent of use of the strategy

The strategy does not appear to be widely implemented for affordable housing.

Examples of locations where the strategy is being used

- Minnetonka, Minn. negotiated with a developer using TIF for a mixed-use redevelopment a requirement for sharing profits above a developer profit of 12 percent.
- Los Angeles, Calif. Community Redevelopment Agency has profit-sharing arrangements with some of the developers to which it lends.

Pros and cons to using the strategy

Pros:

- Income generated by the strategy can help to offset the cost of other affordable housing strategies or meet other community needs.

Cons:

- Could be a disincentive to developers.

Sources of information about the strategy

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www.lacity.org/ctr/audits/FollowupCRA.pdf

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General Obligation Bonds

Strategy description

In order to develop or help preserve housing for vulnerable populations such as the homeless and those in danger of becoming homeless, veterans, seniors, people with disabilities, first-time homebuyers, and low-income working families, states and cities across the country issue general obligation bonds. While the dollar amounts raised and specific uses of the money generated from the sale of the bonds may differ from place to place (examples include rental assistance, downpayment assistance, loans to private and nonprofit entities to rehabilitate housing developments), the process through which the bonds are bought and sold is similar. The debt service on general obligation bonds is paid from additional tax revenues. In the case of a locality, funds to repay the bonds typically are based on the property taxes assessed on all taxable property within the jurisdiction.

History of the strategy

States and localities (cities and counties) have been issuing general obligation bonds for many years. The funds are used for a range of activities such as infrastructure development and construction of schools and municipal buildings, as well as rental and ownership housing.

Target population

Bond proceeds can be used to support construction of rental housing for low- and moderate-income families, for rental assistance programs, for down-payment assistance programs for low-income or first time homebuyers, or to support development or preservation of housing for other vulnerable populations.

How the strategy is administered

Funds raised are often deposited in an affordable housing trust fund, where they are allocated for various uses including rental vouchers, housing production, homeless shelters, and others. Allocations of funds are often made on a competitive basis: those seeking grants submit applications for funding.

How the strategy is funded

The strategy is funded through the proceeds of the sale of bonds. The issuing entity repays the bonds over time using revenues from property taxes (in the case of a locality) or other sources of revenue.

Extent of use of the strategy

Widely used.

Examples of locations where the strategy is being used

- At least 26 states, including, Connecticut, New York, Massachusetts, Arizona, Rhode Island, and California, have issued general obligation bonds for affordable housing.
- In 2006, Rhode Island voters passed a bond bill making \$50 million available over four years. The Rhode Island Housing Resources Commission administers the funds, which in 2007 were used primarily for constructing affordable housing units.

Strategy results

- Voters in California passed Proposition 46, a \$2.1 billion affordable housing bond issuance, in 2002. The funding was projected to assist more than 40,000 families achieve homeownership, create more than 40,000 new affordable rental units, and add 276,000 jobs to the economy.¹³⁴
- Of the bond issuance approved in Rhode Island in 2006, the \$10 million allocated in 2007 is expected to help produce 250 affordable units. Altogether, the \$50 million is expected to leverage \$450 million from other funding sources, helping to produce up to 2,000 affordable apartments and houses.¹³⁵

Pros and cons to using the strategy

Pros:

- Creates a funding source for affordable housing projects.
- Use of funds is highly flexible and can address a range of affordable housing needs.

Cons:

- Creates an obligation for the state or locality to repay debt, which may result in tax increases.
- Requires the approval of voters in some states.

Sources of information about the strategy

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- State of Connecticut Long Range State Housing Plan 2005-2009. Department of Economic and Community Development, p. 136.
- Edgar, Randal, "20 Projects Win Affordable Housing Grants," *Providence Journal*, July 28, 2007.

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“Double Bottom Line” Private Equity Funds

Strategy description

Double bottom line private equity funds are equity funds that are designed to attract private investment for affordable housing, while providing acceptable rates of return for investors. Investors such as pension funds, insurance companies, banks, foundations and high-worth individuals invest in these private equity funds. While the investors typically receive a risk-adjusted market rate of return (they first bottom line) they forgo a higher potential return in exchange for the knowledge that they are producing positive social returns (the second bottom line). Social returns generally include economic development, social equity, and environmental impact. These equity funds invest in projects such as affordable housing, urban development, transit-oriented development, and job and wealth creating opportunities for low-income residents. State and local governments sometimes invest pension funds in such socially motivated funds.

History of the strategy

Double bottom line private equity funds started operating in the early part of the 2000s, primarily in California. Fund investments have since spread throughout the country, and by 2005 over \$3 billion had been invested through these funds.

Target population

The immediate target population for double bottom line private equity funds consists of the investors in the funds. The ultimate beneficiaries are the residents of the communities in which the funds invest.

How the strategy is administered

Private investment firms that specialize in them administer double bottom line private equity funds.

How the strategy is funded

When the double bottom line private equity funds obtain the funds from their investors, they in turn invest the funds in a range of affordable housing, urban development, transit-oriented development, and job and wealth creating projects in the target communities.

Extent of use of the strategy

The strategy is now widely used across the country.

Examples of locations where the strategy is being used

The strategy was first used in California in the early part of this decade. Since then funds have been investing in communities across the country including Maine, Massachusetts, New York, Florida, Missouri, and Oregon.

Strategy results

Within the past five years alone, more than \$3 billion has been invested by double bottom line private equity funds in projects across the country.

Pros and cons to using the strategy

Pros:

- Brings additional private sector funding into the affordable housing and community development sector.
- Private equity investors are motivated to identify the public projects most likely to produce positive results, minimizing the changes of “wasting” public (or private) investment funds.

Cons

- Requires experienced Fund managers who can attract investors and manage the Fund to ensure that both bottom lines are met.
- Affordable housing projects with little chance of an economic return are unlikely to attract funding from double bottom line funds. Projects for the lowest-income households, requiring the largest subsidies, are unlikely to be the target of investments.

Sources of information about the strategy

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SAN DIEGO CAPITAL COLLABORATIVE

DOUBLE BOTTOM-LINE PRIVATE EQUITY FUND

San Diego has found establishing a double bottom-line private equity fund to be a complex process, but as a financial tool that can make millions of dollars in capital available for affordable and workforce housing, one worth taking the time to understand.

- ✓ Double bottom-line private equity fund
- ✓ Creative public-private collaborations
- ✓ For profit-nonprofit partnerships
- ✓ Tax increment financing
- ✓ Infill development

The San Diego Capital Collaborative is a non-profit organization chartered by the San Diego City-County Reinvestment Task Force, which secured \$200,000 from banks to study how an equity fund for affordable housing in the county could be created. The primary purpose of the Collaborative is to initiate and administer private equity funds.

“The idea behind creating the San Diego Capital Collaborative was to facilitate private investment of capital in low- and moderate-income communities,” said Barry Schultz, chief executive officer of the Collaborative. Although the Collaborative’s primary focus is more on community revitalization than creating housing, the organization’s efforts will result in hundreds of new units of workforce housing.

The Collaborative raised \$90 million in 2005 for its first private equity fund, the San Diego Smart Growth Fund. Investors included the California Public Employees Retirement System (CalPERS), Washington Mutual, and Northwestern Mutual Life Insurance. The San Diego Smart Growth Fund is the first of a “family of funds” that the Collaborative intends to launch.

In general, a private equity fund raises capital from investors, invests the capital in profit-making ventures, and earns a return on its investment. Funds are established for a period of time, often seven years. The capital raised is invested within the first two to three years of the life of the fund, and money is returned to investors by the end of the seventh year.

The San Diego Smart Growth Fund is different from other private equity funds in only one respect, according to Schultz, and that is its mission of social responsibility. To achieve this mission, the fund targets its investments to underserved communities.

Although the Fund is intended to earn market rates of return, “All investment is evaluated based on social criteria,” said Schultz. These criteria include creating workforce housing (housing affordable to households earning from 80 to 150 percent of the area median income), increasing homeownership in the targeted communities, creating jobs, and creating opportunities for entrepreneurship.

“All investment is evaluated based on social criteria.”

-Barry Schultz

The Fund, which is managed by Phoenix Realty Group, LLC, invests in projects primarily by private-sector, for-profit developers. Schultz says developers can get financing to fund 75 percent of the cost of the project, but need equity to cover the remaining 25 percent. The Fund’s investment in the project provides most of the equity requirement (about 90 percent); the developer’s own capital provides the rest.

Schultz stresses that the Fund’s investments don’t come with onerous restrictions. All aspects of the social goals of the project are voluntary. “We work with the developer to identify some goals – we do a project enhancement plan – and develop a strategy to meet the goals and then we bring the resources to the table to meet the goals,” he said.

For example, in a project with inclusionary housing requirements, the Collaborative encourages the developer to build the affordable units on site rather than paying an in-lieu contribution, and works with the developer to make that financially feasible.

The San Diego Smart Growth Fund fills a void in low- and moderate-income communities, where Schultz says traditional forms of capital are often not available. “There are perceptions that these communities are not a good investment,” said Schultz. The communities lack a track record, or comparable forms of new development that can be used by a traditional lender to appraise the project. “From an investor standpoint, they perceive them to be high risk,” he said.



“Truthfully, there are challenges that exist in these communities,” said Schultz. The Collaborative tries to address these challenges by working with stakeholders to improve the environment. For example, the Collaborative may help develop a community revitalization strategy that will

create amenities buyers of workforce housing want, such as access to shopping and employment.

Because the Fund’s investments are in distressed communities, projects blend the Fund’s market-rate capital with some public funds, typically tax increment financing revenues, to achieve the social goals of the project. Schultz said the Collaborative is also working to find ways to use federal Community Development Block Grant (CDBG) funding in the projects. In addition, the Collaborative is working to raise below-market rate funds from foundations.

The Collaborative focuses on workforce housing because it sees a void in this segment of the market. “From our standpoint, if [a community] needs affordable housing, they have LIHTC. The market takes care of the higher end, what’s missing is the middle.”

To date, the Fund has invested \$30 million of its \$90 million in capital. The first project is a 75-unit condominium near San Diego State University. Condos will range from one to three bedrooms and for an average price of \$400,000. The development, which replaces a vacant, dilapidated hotel, will also include 3,000 square feet of retail space.

The Fund recently invested in a similar mixed-use project that will include townhomes. Schultz is working to encourage employers to participate in the project using an employer-assisted housing strategy. “We’re talking with educational and medical institutions about buying some of these units,” he said. He noted that large local employers are having difficulty attracting and retaining professionals because of the high cost of the area’s housing.

The third project is an office condo development in Chula Vista, which Shultz said he hopes will help small businesses to develop, creating wealth in the community. “There’s been a lot of residential, not commercial, development in that area,” he said, “so we’re bringing jobs to where people are.” The commercial development also helps to balance the Smart Growth Fund’s investments in residential projects.

Schultz advises other communities considering launching a private equity fund: “You have to be very clear on the ultimate goal.” He said a focus on investment to promote community revitalization is more complicated than funds with an ultimate goal of simply creating workforce housing units. “Ours is a more complicated process,” he said. “You have to establish relationships with stakeholders and you have to get buy-in.”

According to Schultz, the right market conditions are important for a community revitalization strategy to work. “The reason it will be successful here is there is a convergence of trends,” Schultz said. He noted that San Diego is largely built out, and developers realize they have to do urban projects rather than the greenfield development they are more accustomed to.

“We have people around the table looking for solutions as opposed to being dragged in,” he said. “It’s a whole different game,” Schultz said. “We bring the money and the expertise.”

Schultz stresses that the process is complicated and requires careful relationship building. “It’s taken the cooperation of everyone – that’s why we’re the Collaborative,” he said.

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Use of Housing Finance Agency Reserves for Affordable Housing

Strategy description

State housing finance agencies generally support their jurisdiction's goals for developing affordable housing through their administration of the Low Income Housing Tax Credit, and through issuance of bonds that generate funds for affordable housing. The housing finance agencies generate revenues through fees they charge on outstanding bonds, as well as from the spreads between their cost of funds and the rates they charge borrowers. These revenues are used to build reserves as well as to support ongoing program operations.

State and local efforts to support affordable housing can ensure that a portion of housing finance agency reserves greater than the required minimum be used for purposes related to affordable housing. For example, 13 state housing finance agencies that reported in 2004 that some of their reserves were used by the state for activities unrelated to housing.¹³⁶

Target population

The beneficiaries are the low-income residents who benefit from the additional affordable housing generated.

How the strategy is administered

The funds are co-mingled with other sources to preserve existing affordable units and develop additional units.

How the strategy is funded

The strategy uses reserves from housing finance agencies

Extent of use of the strategy

Widely used.

Examples of locations where the strategy is being used

- New York City (see below)
- The California Housing Finance Agency lends some of its earnings and reserves for affordable housing development in addition to lending bond funds.

Strategy results

As part of New York City's 10 year, \$7.5 billion plan to preserve 73,000 affordable units, and develop an additional 92,000 affordable units, the City is tapping into a range of resources,

including \$540 million in reserves from the New York City Housing Development Corporation, a City housing finance agency.¹³⁷

Pros and cons to using the strategy

Pros:

- This strategy can be effective in a market with a large, active housing finance agency that generates significant reserves.

Cons:

- The strategy cannot be used where reserves are low.
- Limiting reserves for other uses may ultimately either increase taxes or constrain government spending for other purposes.

Sources of information about the strategy

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Live Near Your Work Programs

Strategy description

The cost of transportation is a significant factor in the total cost of living that often places a considerable burden on homeowners or renters of affordable housing. Therefore, transportation should be considered when making decisions on location and financing for affordable housing. State-sponsored “Live-near-your-work” programs encourage renters and homeowners to reduce their transportation costs by living near their place of employment. They may help to improve targeted neighborhoods as well. The programs offer financial incentives, including tax breaks, grants, loans, and downpayment and closing cost assistance for people who qualify.

Target population

The target population for this strategy is home purchasers in the target communities.

How the strategy is administered

Live near your work programs can be implemented in a number of ways. The location-efficient mortgage developed by the Center for Neighborhood Technology and Fannie Mae considers household savings in transportation costs associated with living near public transit in calculating housing affordability, enabling potential homebuyers to qualify for higher mortgages, making more housing affordable.¹³⁸

Programs in Maryland, Chicago and Arlington, VA encourage employees of local businesses and institutions to buy homes near their workplace by providing loans to homebuyers that become forgivable if the homeowner lives in the home for a minimum length of time.

How the strategy is funded

In several locations, the strategy is funded by a combination of state funds and matching funds provided by participating employers. In others the funds are provided entirely by the participating employers.

Extent of use of the strategy

Live near work programs are used in a wide range of communities across the country.

Examples of locations where the strategy is being used

- As noted above, examples of locations that have implemented live near work programs include Maryland, Chicago and Arlington, VA.
- The State of Illinois awards “Live Near Work” points in the Low Income Housing Tax Credit application process for projects with employers within five miles (for non-rural

projects) or 10 miles (for rural projects) with difficulty attracting a qualified workforce due to the lack of affordable housing.

- The City of Baltimore's Live Near Your Work Program is a partnership between employers and the City of Baltimore. The program provides a minimum \$2,000 grant or conditional grant to employees for settlement and closing costs to purchase homes in targeted neighborhoods near their employers. Baltimore City contributes \$1,000 per employee, which is matched by the participating employer.

Strategy results

In the Chicago program, more than 600 employees have received assistance to buy homes closer to work through the Metropolitan Planning Council's EAH initiative. The program, which started in 2000, had more than 60 participating employers by 2005. In 2005 alone, regional employers invested more than \$1.3 million to help their workers purchase homes.

Pros and cons to using the strategy

Pros:

- Live near work strategies promote multiple goals with a single program (environmental, affordable housing, and neighborhood stabilization).

Cons:

- Some live near work programs use public resources for people who do not necessarily have low or moderate incomes.

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BALTIMORE, MARYLAND

LIVE NEAR YOUR WORK

Once a declining city, Baltimore is in the midst of a transformation that includes a rising population, substantial investment in infrastructure, and strong overall community-

building efforts that have once again made it an attractive place to live and work. One significant driving force to this change has been the city's strategies that promote employer-assisted housing.

- ✓ Employer-assisted housing
- ✓ Live near your work

One of the city's most successful strategies has been its Live Near Your Work (LNYW) program. LNYW is designed to promote private sector participation in meeting the housing needs of employees. LNYW also attempts to reduce commuting burdens and city congestion, and revitalize communities by providing incentives for participants to live near their place of work.

The LNYW program is a partnership between the City of Baltimore and participating employers, which together provide a minimum \$2,000 forgivable or conditional grant to employees toward a first-time purchase of a home within the Baltimore city limits. The city provides a maximum grant of \$1,000 in cash, which the employer must at least match.¹³⁹ The city currently has an annual \$100,000 cap on funding for the program, which, according to Debra Braxton of the City of Baltimore's Home Ownership Institute, is often depleted by the end of each fiscal year.

As an additional bonus, LNYW has partnered with the local transit authority in offering participating employees a free one-time, one-month Maryland Transit Authority pass, which can be used for any of the city's public transportation services.

The city's grant is provided with no income restrictions, and it is rare for employers to impose one. Currently only two of the nearly 85 participating employers include income restrictions. The property may be located anywhere in the city of Baltimore, and the employer must have a minimum of five employees participating at any



Buying into Baltimore

given time to be eligible. Once the employer's human resources department deems the employee eligible, the application, along

with the lending institution's home loan documentation are passed off to the city for final approval. The city requires that the paperwork be submitted at least 15 days prior to sale closure to allow for any problems to be resolved. Braxton notes that including such a cushion period is crucial, as setbacks and other snafus will inevitably occur during the application and approval process.

LNYW was first initiated in 1998 as partnership between the state, employers, and various county and city jurisdictions, including Baltimore. At the time, employees received a total of at least \$3,000 in funding, \$1,000 each from the state and local municipality, and an additional \$1,000 or more from the employer. The state's funding was depleted by 2002, and all programs except that of Baltimore were phased out soon thereafter.

One significant change the city made in 2002 was to expand the area of eligible homes for purchase from a five-mile radius of the employee's workplace to encompass the entire City of Baltimore.

*"I have employers
practically begging me for
applications."*

-Debra Braxton

Since the program began in 1998, over 1600 employees have received funding assistance statewide. Annually, Baltimore's LNYW program supports from between 150-200 employees from a wide variety of employers, including Johns

Hopkins, Catholic Charities, the Annie E. Casey Foundation, and many others. Braxton says that with each passing year, the program's popularity seems to grow. "I have employers practically begging me for applications."

Braxton has had to decline applications from a number of organizations because they did not have at least five employees, which is the minimum required for participation. Braxton attributes the success of the program to the fact that for many people, a small grant can make the difference in "pushing them over the top" to afford homeownership.

A similar version of the LNYW program that the city uses for its own employees is the Baltimore City Employee Homeownership

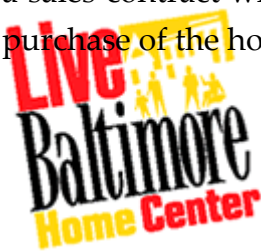


Live Near Your Work

Program. The city annually assists nearly 190 employees through this program. Eligible employees must be full-time, and employed for a minimum of six months. City employees are offered a \$3,000 forgivable loan, provided they maintain ownership of the same property over a five-year period. The loan is reduced by 20 percent (\$750) for each year of occupancy. There is no income requirement, and the property may be purchased anywhere within the Baltimore City limits, with the exception of 26 restricted high-end neighborhoods.

Through an extension program called the Healthy Neighborhood Initiative, the city offers an additional \$750 grant to employees who purchase properties in targeted neighborhoods.

In order to further promote homeownership within Baltimore, the city offers the Trolley Tours program, which can be used in conjunction with either LNYW or the Baltimore City Employee Homeownership Program. The first 50 participants who take a trolley tour of one of two neighborhoods in Baltimore (one in East Baltimore, one in West Baltimore) are eligible for a \$3,000 forgivable five-year loan for downpayment or closing costs for the purchase of a home in any designated area of Baltimore City. Tours are offered twice a year – once in the fall and once in the spring. There are no income restrictions to qualify; however, the buyer must execute a sales contract within 90 days of the tour and contribute at least \$1,000 toward the purchase of the home.



The program is administered through a partnership between the City of Baltimore, and Live Baltimore Home Center.

Braxton notes that the program was intended to encourage people to “step outside their norm,” and expose themselves to a part of the city they likely otherwise would not venture into. She said the tour also attracts residents of Washington D.C. and other areas outside the city limits.

The city’s programs are often used in combination with the federally funded American Dream Downpayment Initiative (ADDI). ADDI offers low-income

homebuyers assistance of \$10,000 or 6 percent of the purchase price of a home – whichever is greater. “For individuals and families who don’t meet the median income, this is a blessing,” Braxton said.

Braxton says that these programs have achieved significant success in a number of areas. The combination of outreach and direct financial assistance has led to an increase in homeownership throughout Baltimore, particularly for moderate-income populations for whom combined grants of \$10,000, \$3,000, or even \$2,000 in aid can make a big difference. Additionally, the employer-assisted housing programs have generated strong public-private relationships between employers and city agencies, and have aided employers’ ability to recruit and retain employees.

As an additional benefit, Braxton reports that one impact of the employer-assisted housing programs is reduced traffic and congestion in the city and hence commuting time for local employees. She says public transportation is being used more frequently, and the streets are often more crowded with walking commuters.

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Shared Equity

Strategy description

Many affordable housing units built with subsidies are made permanently affordable by restricting the share of the house value appreciation that accrues to the owner. The equity is shared between the owner and the next buyer, who pays a below-market price for the unit. Subsidies for the initial purchase may include charitable donations, public grants, or mandated concessions from a private developer. Equity may accrue to the owner at a flat rate (for example, 1 percent appreciation per year) or be a proportion of the actual appreciation of the unit over the period of ownership (for example, 50 percent of total house price appreciation). Shared-equity owner-occupants share with some external administrative entity control over how their property may be used, improved, financed, and conveyed.

Occasionally, resale-restricted affordable housing units do not allow owners to accrue any equity; sharing the equity allows the owner to capture some of the financial benefits of homeownership.

History of the strategy

Shared equity is often enforced using deed covenants or deed restrictions. These have been used to ensure long-term affordability of housing for about the past 30 years.

Target population

Shared equity is a strategy used to ensure long-term affordability of ownership units targeted to low- to moderate-income homebuyers.

How the strategy is administered

- *Deed-restricted homes* achieve affordability as well as shared equity through the use of a restrictive covenant attached to the owner's deed. This covenant typically requires the owner-occupant to use the property primarily for residential purposes and to occupy the property as his or her primary residence. It also requires the owner to resell the property to an income-qualified buyer at a formula-determined price. The covenant may also give a nonprofit organization or a public agency the first right to repurchase the property at the formula-determined price. Deed restrictions may be monitored by a city or town agency, or by a third party such as a community land trust.
- *Limited equity housing cooperatives* also allow for shared equity. Under this structure, residents own a share of the housing (typically a multifamily dwelling) without an individual mortgage on their own unit. Every month, shareholders pay an amount that covers their share of the expense of operating the entire cooperative, which typically includes mortgage payments, property taxes, management, maintenance, insurance, utilities, and contributions to reserve funds.

- A corporation, made up of all residents, administers the cooperative. Residents own shares of stock in the corporation, which entitles each tenant/owner to a long-term lease on a unit and a vote in corporate governance. Individual share prices are inexpensive, and tenants/owners are never evicted unless they violate their lease. When residents leave, they sell their shares of stock rather than their unit. Limited equity co-ops ensure that the housing co-op remains affordable for current and future residents by restricting the sale price for shares of stock, at the same time allowing owners to earn some appreciation on their investment.
- A *community land trust* (CLT) also allows for shared equity. A CLT divides ownership of property; the CLT holds the deed to the land and another party holds the deed to a residential building located on the land. The CLT is usually a nonprofit corporation leasing the land to the residential building owner. CLTs use this lease to ensure that the residential housing on its land remains affordable. This ground lease often requires the residential building owner to resell the property to an income-qualified buyer at a formula-determined price or give the CLT the first right to repurchase the residential building at that price.

How the strategy is funded

Housing trust funds, community land trusts, state and local general revenues, and other sources may fund affordable housing units built. Administration of shared equity requires little additional funding.

Extent of use of the strategy

Widely used.

Examples of locations where the strategy is being used

Numerous, but specific examples include:

- Burlington, VT
- Santa Fe, NM
- Eastern King County, WA
- Boulder, CO
- Springfield, MA
- Albuquerque, NM
- Syracuse, NY
- Washington, DC
- Chicago, IL
- Concord, NH

Strategy results

- About 425,000 units are contained in limited equity or zero-equity cooperatives in the U.S. ¹⁴⁰

- Several hundred thousand units in the U.S. are deed-restricted, including 30,000 to 50,000 in New Jersey and California alone.¹⁴¹

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

In a market where home prices are declining, shared equity arrangements may mean that owners of affordable units share in the losses sustained.

Pros:

- Increases affordability for potential homebuyers by reducing the initial cost of purchasing a home and the monthly costs of financing a home.
- Enables future homebuyers the same opportunity to buy affordable housing as the first generation of homebuyers.
- Benefits accrued to first-time homebuyers are balanced against benefits offered to homebuyers in the future.

Cons:

- Shared equity limits the ability of low-income households to build wealth.
- Buyers must be carefully educated about the limits of the home price appreciation they can achieve with the purchase of their subsidized home.

Sources of information about the strategy

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OTHER STRATEGIES FOR ENCOURAGING AFFORDABLE HOUSING

MANY STRATEGIES for improving housing affordability do not fit neatly into either a land-use or financing category; however, this makes them no less effective. One of the most powerful strategies for encouraging communities to accept the responsibility to host housing that is affordable to low- and moderate-income households is **State Legislation**, such as laws that provide an appeals process to developers whose proposals to build affordable housing are rejected. These laws typically set a goal of the share of each community's housing stock that should be affordable; developers in communities that have not reached their goal have the option of appealing the community's permit application denial.

Several approaches are **Informational Strategies** that provide information to stakeholders that facilitate affordable housing. These include databases of affordable housing information, vacant building registries, and efforts to improve the energy efficiency of housing and thus the expense of utilities. Educating homebuyers about the process of buying, financing, and maintaining a home has been shown to have an important impact on their ability to maintain homeownership. Two strategies reduce the tendency for neighbors of proposed housing developments to oppose them. Media campaigns such as television ads, radio ads, and billboards can help improve acceptance of affordable housing among a community generally; and advocacy efforts for particular affordable housing developments can address neighbors' specific concerns about a proposed development.

Efforts to organize programs that encourage affordable housing require the participation of a lot of people. The section on **Organizational Strategies** describes six different ways groups can be organized to build or promote affordable housing, including task forces on affordable housing, community land trusts, and partnerships between for profit and nonprofit organizations and between public and private organizations.

Last, the section on **Reforming Development, Construction, and Building Codes** describes some of the most broadly applicable and useful strategies for reducing the cost of housing. Building code changes to promote rehabilitation and reforming construction standards and building codes are efforts that have been underway in some places for decades. Communities have also looked for ways to expedite permitting processes; a case study of Oregon's new e-Permitting system demonstrates that this can be a state-level strategy, leveraging state resources, expertise, and the ability to organize diverse stakeholders.

STATE LEGISLATION

State-Level Fair Share and Remedy Programs

Strategy description

Several states provide an appeals process for developers whose development proposals are rejected at the local level. Proposals must include affordable housing, and the locality must have less than a specified number of affordable units in its housing inventory. The required number of affordable units in each locality is established based on a “fair share” mandate, which requires that every community in the jurisdiction must contribute equally toward meeting the affordable housing needs of that region, county or state.

History of the strategy

Massachusetts’ Comprehensive Permit Law, adopted in 1969, may have been the first to require that each community in the state contribute its fair share of affordable housing. The law provides for an appeal at the state level to override local zoning ordinances if the proposed development will include affordable housing units and the community has not met its statutorily mandated number of affordable housing units.

The same concept was introduced in New Jersey in 1975 by the New Jersey Supreme Court’s decision in the *Mount Laurel* case. This decision required communities to use zoning to provide opportunities for the production of affordable housing and was followed by passage in 1985 of the state’s Fair Housing Act that created an agency to set affordable housing requirements for each community.

Target population

Affordable housing units produced under state-level appeals and fair share programs are targeted to low- and moderate-income renters and homebuyers.

How the strategy is administered

Fair share housing mandates and the appeals processes used to enforce them are the result of legislation enacted at the state level. A formula determines each jurisdiction’s fair share of affordable housing based on factors such as available land and the current and projected affordability of the housing stock. State-level mandates often require that local jurisdictions prepare plans that demonstrate how they will meet their housing goals. A state agency or board hears appeals of local zoning decisions for developers whose permit applications are rejected by a local jurisdiction, if the proposed developments include affordable housing and the jurisdiction has not met its fair share goal.

How the strategy is funded

Besides costs associated with ensuring compliance, no additional funds are needed.

Extent of use of the strategy

Moderate use.

Examples of locations where the strategy is being used

- Rhode Island's Low and Moderate Income Housing Act (LMIHA) requires that all jurisdictions in the state must submit an affordable housing plan that lays out a strategy for meeting the law's requirement that 10 percent of housing in each community be affordable. The State Housing Appeals Board can overturn local zoning decisions for communities that are not in compliance with the law.
- Massachusetts' Comprehensive Permit Law, called 40B, sets affordable housing requirements for each community in the state. The statute allows local zoning ordinances to be overridden if the community has not achieved its affordable housing requirement and if the development proposal includes affordable housing.
- Connecticut has an Affordable Housing Appeals Procedure, established in 1989, that provides a judicial appeals process for developers whose affordable housing projects are denied. Under the law, zoning decisions based on insubstantial or inappropriate reasons that exclude affordable housing can be overturned. Developers building housing using the appeals process must set aside at least 30 percent of the units as affordable. Towns that have made significant progress in providing new affordable housing are not subject to the law.
- Since the 1980s, municipalities in California have been required by law to plan for their fair share of affordable housing. The regional council of governments allocates to each city and county a number of new housing units for which it must plan, broken down into four income categories from "very low" to "above moderate." Cities and counties are required to establish housing programs and policies that encourage affordable housing; demonstrate that they have enough land zoned for multifamily housing to build all of the homes needed for lower-income families; reduce obstacles to housing development; and describe how they will use available funding for affordable housing.
- In response to the 1975 Mount Laurel ruling, New Jersey required all communities to meet their fair share of affordable housing needs in their regions. Each community must submit a plan indicating how it will meet its fair share through means such as inclusionary zoning and development fees on market rate units that are used to subsidize affordable housing.

Strategy results

- A third of all affordable housing units constructed in Massachusetts since 1969 have been built using comprehensive permits, which bypass local zoning ordinances, under the 40B law. A total of 30,000 units have been built.
- In New Jersey, nearly 29,000 low- and moderate-income housing units were completed or under construction by 2001, and 11,000 units occupied by low-income households had been

up to code.¹⁴² In addition, more than \$200 million has been transferred to urban areas to pay for housing and redevelopment under “Regional Contribution Agreements,” in which suburbs pay urban areas to satisfy their affordable housing obligations.¹⁴³

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Requires each jurisdiction to contribute to meeting affordable housing needs.
- Provides incentives for all jurisdictions to consider new strategies toward meeting affordable housing needs.
- Does not necessarily require direct public subsidies for affordable housing.

Cons:

- In New Jersey, jurisdictions can pay other jurisdictions to create their “fair share.” As a result, poverty may become increasingly concentrated in poorer jurisdictions that lack job and education opportunities.
- Local jurisdictions are likely to resist any loss of control over development in their community.

Sources of information about the strategy

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RHODE ISLAND

FAIR SHARE AND REMEDY PROGRAMS

Several states, including Rhode Island, have passed “fair share” housing laws that mandate that every jurisdiction in a state or locality contributes their “fair share” toward meeting local affordable housing needs.

- ✓ State-level fair-share and remedy programs
- ✓ State mandates and guidance for local planning

An evolving fair share housing law

In 1991 Rhode Island passed its first fair share housing law, titled the Low and Moderate Income Housing Act (LMIHA). The law applies to jurisdictions where less than 10 percent of the housing stock is affordable. Developers can seek comprehensive permits from the State Housing Appeals Board that bypass local zoning regulations and fees in exchange for including a percentage of affordable units (initially set at 20 percent) in new developments.¹⁴⁴

In 2002, LMIHA was expanded to allow for-profit developers to use comprehensive permits for ownership as well as rental housing developments. This change, combined with a housing boom in Rhode Island, resulted in an unanticipated influx of development proposals that overwhelmed local capacity to review them. Many municipalities complained that the law was offering developers a way to bypass local zoning controls and expressed concern about the repercussions of rapid development. In response, the state passed the Comprehensive Housing Production and Rehabilitation Act of 2004, which issued several changes to the structure of LMIHA to strengthen the state’s commitment to its affordable housing goals while focusing on smart and controlled growth.

The LMIHA revisions required 29 impact jurisdictions, communities that had not met the 10 percent fair share housing affordability goal, to submit affordable housing plans specifying how they would meet the 10 percent goal. The communities are required to provide annual updates on their progress. In addition, the state developed a five-year strategic housing plan for meeting the state’s 10 percent affordability goal by 2010.

In exchange for local planning, the revisions granted localities restrictions on the comprehensive permit process. Jurisdictions with approved affordable housing plans are allowed to limit comprehensive permits to for-profit developers to one percent of the permits issued annually. In addition, the share of affordable units required to qualify for a comprehensive permit increased from 20 percent to 25 percent.

As of 2006, eight percent of RI's housing stock was considered affordable, but that number varied geographically with 10.3 percent of housing affordable in urban communities and only 4.9 percent in suburban and rural areas.¹⁴⁵ The new law aims to eventually equalize the distribution of affordable housing across the state.

Results

In the 29 communities with affordable housing plans, eight communities have completed 123 low- and moderate-income homes with 1,498 more homes pending throughout the state. These homes meet 32 percent of the state's goal of 5,000 affordable units by 2010.¹⁴⁶

Many jurisdictions are pursuing local housing ordinances that will help them achieve their affordability goal. Zoning changes are the major strategy local governments proposed in their affordable housing plans, including density bonuses and inclusionary zoning, which has been proposed in 26 of 29 communities.¹⁴⁷ New zoning laws have also helped communities achieve other goals such as preserving open space and natural resources, creating workforce housing in proximity to jobs or transportation, and creating more socio-economically diverse communities – all goals outlined in RI's five-year strategic housing plan.

Amy Rainone, who works in the Policy Division of Rhode Island Housing, cites the changed nature of interactions between developers and towns as the most important

"We really saw a lot of activity that was collaborative."

-Amy Rainone

outcome of the LMIHA revisions. The law has facilitated increased collaboration and fostered more affordable housing production.

Rainone recalls that before the 2004 changes, almost all comprehensive permits were adversarial. Since then, "We really saw a lot of activity that was collaborative. Rather than making a

developer run through all the hoops, we are working with them to make comprehensive permits a tool to achieve what they wanted to achieve.” Since 2004, there has been a significant increase in the number of developers using the comprehensive permit process. The 29 impact communities have applied “friendly” comprehensive permits to 35 of 79 pending development projects.¹⁴⁸

Lessons learned

Initial progress was slow in the first reporting year after affordable housing plans were submitted. While the RI Housing Resources Commission attributes this to basic land and construction costs and local regulatory and political barriers, other factors may also have been at work. Chris Hannifan of the Housing Network of Rhode Island expressed concern that progress might be slow because the law lacks a formal enforcement mechanism. While the Housing Resources Commission is tasked with reviewing annual progress reports for each impact community, there is no established penalty or reward for municipalities building affordable housing.

In looking back at the development of the updated fair share housing law, Rainone advises that the formation of a task force was critical to gain all perspectives around the table in a collaborative process. The Low and Moderate Income Task Force was assembled in 2004 to study problems with the old law and make recommendations to remedy it.

Rainone also expressed the importance of including allowances for local control when implementing a state mandate. “Requiring an affordable housing plan gave municipalities a feeling of control over their community and what it would look like while getting them to think about and do something about increasing the supply of affordable housing. Before that requirement municipalities felt like they had lost control and that developers building affordable units could do whatever they wanted.”

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State Programs to Preserve Manufactured Home Parks

Strategy description

In addition to encouraging new use of manufactured housing, states and cities can preserve existing manufactured, or mobile home, parks. Increases in land values over the last ten years have made these parks prime targets for more profitable types of development, resulting in the loss of an important source of affordable housing in many communities. States have preserved manufactured home parks by providing a right of first refusal for purchase of parks by residents associations, offering low-interest loans for park tenants who want to buy their lots, giving local governments authority to approve or reject park conversions, and outright purchase of parks.

History of the strategy

Efforts to help residents of manufactured housing (mobile home) parks buy their parks or otherwise preserve the use of land for manufactured housing have gained attention since about the mid-1990s, when locally owned and operated parks were purchased in large numbers by a few national companies.¹⁴⁹ Since then, rising land values have further increased the prominence of the issue.

Target population

Targets residents of mobile home parks, most of who are low-income.

How the strategy is administered

Giving tenants the right of first refusal, requiring notification of sale of a park, or limiting park conversions requires going through the legislative process at the state level. State-level programs providing grants or loans to park residents to buy their lots are typically administered through state agencies.

How the strategy is funded

State legislation requiring notification of an offer to purchase a mobile home park, giving tenants' associations the right of first refusal, or creating authority to reject park conversions requires no additional funding. Programs that provide grants or loans for tenant purchases of parks are funded with state revenues.

Extent of use of the strategy

Moderate use.

Examples of locations where the strategy is being used

- At least 13 states have laws that protect residents of manufactured home parks by requiring notice of sale and providing an opportunity for residents to purchase the park: California,

Connecticut, Florida, Maine, Massachusetts, Minnesota, Nevada, New Hampshire, New Jersey, Oregon, Rhode Island, Vermont, and Washington.

- California's Mobile Home Park Resident Ownership Program (MPROP) is a state-administered fund that helps low-income residents purchase their park or their space in the park. The program offers loans at 3 percent interest; loan amounts are determined on a sliding scale.
- Vermont acquires manufactured home parks directly in order to preserve them as affordable housing.
- The New Hampshire Community Loan Fund finances resident purchases of parks.
- Pima County, Ariz.'s I'M HOME program provides down-payment assistance and help with relocation expenses to low-income owners of older mobile homes who want to buy a new manufactured home. Residents can qualify for up to \$15,000 in assistance.¹⁵⁰

Strategy results

San Pablo, Calif. bought a mobile home park for \$17 million as part of an 18-acre land assembly strategy. The Redevelopment Agency will develop about 200 units of manufactured housing on the parcel. Manufactured home owners who will be displaced during the redevelopment will be offered relocation benefits and replacement housing.¹⁵¹

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Manufactured homes are an important source of unsubsidized affordable housing for low-income households, so actions to preserve manufactured home parks ensure the availability of this housing option in the future.
- Legislation protecting residents of parks requires little or no public funding, but can have an important impact on the availability of affordable housing.

Cons:

- Legislation that protects park residents limits the rights of property owners and prevents redevelopment of the land for other uses.
- Programs that provide loans for low-income residents of manufactured home parks to buy their lots may not provide enough subsidies to make purchase affordable for the lowest income residents.

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INFORMATIONAL STRATEGIES

Centralized Data Systems on Affordable Housing

Strategy description

Centralized data reporting systems that contain information on housing activity, vacant land, homeownership funds, housing needs, zoning ordinances, and other types of affordable housing data can help developers, renters, homebuyers, lenders, and municipal planners, and government housing officials in their efforts to provide and preserve affordable housing.

Target population

The direct users of the centralized data systems are local planners, advocates, and developers who are trying to anticipate and address housing needs in their jurisdictions. The ultimate beneficiaries are the households in the community that may have increased access to suitable, affordable housing because better-planned activities result from improved access to information.

How the strategy is administered

Vermont Housing Data is maintained by a collaborative of Vermont's housing community. The Florida clearinghouse is maintained by the Shimberg Center for Affordable Housing at the University of Florida.

How the strategy is funded

The Florida Housing Data Clearinghouse is jointly funded by the Florida Housing Finance Corporation (Florida Housing Trust Fund) and the Shimberg Center for Affordable Housing at the University of Florida. Other centralized data reporting systems are funded by local or state government agencies.

Extent of use of the strategy

Limited use.

Examples of locations where the strategy is being used

- Vermont Housing Data is a public website that contains an abundance of housing-related information, including: housing profiles for all of Vermont's towns, villages, cities, and other municipalities; a directory of all types of affordable rental housing; a home mortgage calculator; an affordable housing needs assessment guide; rural development property information; and links to important players in the Vermont housing market.
- The Florida clearinghouse provides data on housing supply, affordable housing needs, assisted housing, special needs housing, workforce housing, population and demographics, as well as planning tools that communities and researchers can use to assess local needs and evaluate housing options.

- The Miami-Dade County Department of Planning and Zoning housing data website provides listings of government-assisted housing including federal, state, and local programs.
- A rental housing data clearinghouse is underway for Cook County, IL. Led by the Real Estate Center at DePaul University, the clearinghouse will include data on rental housing preservation needs, periodic reports on the rental market, and a risk assessment model that will determine neighborhood vulnerability to affordable rental housing losses.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Assists many parties in the housing market in achieving their missions. Information facilitates improved planning, may help developers identify buildable lots and locate markets with housing demand, assist renters and homebuyers in locating assistance programs and available units, and help affordable housing organizations reach their target populations.

Cons:

- The strategy does not directly produce or preserve units of affordable housing.

Sources of information about the strategy

- Vermont Housing Data V2 website: <http://www.housingdata.org/index.php>
- Florida Housing Data Clearinghouse website:
http://flhousingdata.shimberg.ufl.edu/AHI_introduction.html
- Miami-Dade County Department of Planning and Zoning, “Housing Data” website:
http://www.miamidade.gov/planzone/hdc_home.asp
- “The Preservation Compact: A Rental Housing Strategy For Cook County,” available at:
<http://www.macfound.org/atf/cf/%7BB0386CE3-8B29-4162-8098-E466FB856794%7D/BROCHURE.PDF>

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Media Campaigns for General Support of Affordable and High Density Housing

Strategy description

Community opposition to affordable housing, known as NIMBYism (“not in my backyard”), is very often a major barrier to the creation of affordable housing. Media campaigns and marketing strategies that promote affordable housing--or high density housing that is likely to include affordable units--can be effective methods for convincing community members that the creation of affordable housing in their communities is necessary and can be beneficial for the entire community.

Specific media campaigns and marketing approaches differ from community to community, depending on such factors as the characteristics of the population and the community’s geographic makeup. These efforts often begin by creating a coalition of affordable housing advocates and other community stakeholders in order to pool resources for a more effective campaign.

Target population

While the exact target population depends on the specific strategy being used, overall this strategy seeks to benefit those seeking affordable housing. This is accomplished through targeting a variety of stakeholders in a given community who might otherwise be opposed to the creation of affordable housing in their community.

How the strategy is administered

Specific strategies can be administered by different bodies, including state or local government, nonprofit organizations, businesses, coalitions of volunteers, universities and other educational institutions, individuals, or any combination of these. Often, various cross-sector stakeholders (for example, a public-private partnership) will join to create a coalition that works to address these issues.

Marketing strategies used by affordable housing coalitions throughout the country include: flyers encouraging people to get involved in promoting affordable housing; fact sheets; rallies; articles and sermons for organizing efforts within religious communities; symposia; reports; websites; research and news; and links to voter registration information and contact information for elected officials.

How the strategy is funded

Funding can come from a number of sources, including local or state government, individual private donors, nonprofits and foundations, and corporations and other businesses. Some strategies do not need a dedicated source of funding, while others need a significant amount.

Extent of use of the strategy

Moderate.

Examples of locations where the strategy is being used

- Housing Illinois' Community Acceptance Strategy uses television, radio, and print advertising to encourage citizens to support affordable housing. These communications materials were developed on the basis of a survey of 1,000 residents of the Chicago area about their awareness and opinions of affordable housing, as well as 10 focus groups. Other initiatives that support their core advertising strategies include rallies, workshops, and speakers.
- Seven organizations joined to form Housing Minnesota to conduct a media campaign from 1999-2003. The campaign was a statewide effort that included advertising, public relations, and grassroots outreach. The campaign was funded in part by the Minneapolis Foundation.
- In Minneapolis, the Minneapolis Housing Partnership worked with the Family Housing Fund, the Greater Minnesota Housing Fund, and the state housing finance agency to obtain the services of a professional marketing firm to develop a practicable outreach campaign aimed at reducing NIMBYism in Minnesota.
- In Phoenix, the city launched an outreach campaign to raise awareness that those who need affordable housing include people from all economic strata. The outreach campaign was funded through HUD's Community Development Block Grant and local sponsors.
- A non-profit in Ithaca, New York, Better Housing for Tompkins County, Inc., ran a media campaign to promote affordable housing in 2006. The campaign included newspaper print ads, an ad on the back of a bus, public service announcements that ran on radio, a billboard, and a series of op-eds in the local newspaper.

Pros and cons to using the strategy

Pros:

- Contributes toward reducing negative stigma and misconceptions about affordable housing.
- Promotes partnership and coalition building among various stakeholders.

Cons:

- Does nothing to directly generate affordable housing units.
- Campaigns that involve TV ads can be expensive.
- The strategy can be challenging to justify, because it is can be difficult to identify specific results.

Sources of information about the strategy

- Newport Partners & Abt Associates, Inc. “Strategies for Overcoming Regulatory Barriers, Reconnaissance Report.” Prepared for the U.S. Department of Housing and Urban Development. 2006.
- Housing Illinois homepage: www.housingillinois.org
- Halbach, Chip, “Affordable Housing ... On Billboards: A Grassroots Coalition Shapes a Media Campaign on the Value of Affordable Housing,” *Shelterforce*, National Housing Institute, Issue #122, Mar/April 2002. Available at: <http://www.nhi.org/online/issues/122/organize.html>
- “Media Campaign,” Better Housing for Tompkins County, Inc. website: http://www.betterhousingtc.org/bet2_media.html

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Advocacy Efforts to Reduce NIMBYism

Strategy description

In an effort to balance the views of neighbors who oppose affordable housing, and to represent the views of those who support it but who tend to be less vocal, some local governments and non-profits advocate for specific housing development proposals. Generally, affordable housing development proposals must meet established criteria that include the number of units in the development that will be affordable to low- and moderate-income households. Advocacy efforts may include proactively meeting with community groups to address concerns and attending planning board meetings to explain the benefits of the project.

Target population

Advocacy efforts target new developments for low- and moderate-income renters and homebuyers.

How the strategy is administered

Advocacy efforts can include local government officials or non-profit housing organizations proactively meeting with neighbors of proposed developments to address concerns and attending planning board meetings to speak in favor of new developments. Groups of people who support affordable housing are also sometimes organized to attend planning board meetings to balance NIMBYs.

How the strategy is funded

Funding sources vary; local government efforts are funded by agency budgets; foundations, grants from government sources, or other fundraising efforts may help fund nonprofit and public/private partnership efforts.

Extent of use of the strategy

Widely used.

Locations where the strategy is being used

- In Austin, the S.M.A.R.T. (Safe, Mixed Income, Accessible, Reasonably-priced, Transit-oriented) Housing Policy Initiative assists in resolving development related issues with other City departments. In addition, S.M.A.R.T. Housing has gained success by identifying the legitimate interests of affected neighborhoods and working with the community to address concerns and find mutually accepted solutions.
- In Washington, the Low Income Housing Institute communicates with government officials, the media, and the general public to create awareness of housing issues. LHI sponsors educational activities to raise public awareness and to confront and dispel fear, ignorance

and prejudice that may arise from prospective affordable housing construction in some neighborhoods and communities.

Pros and cons to using the strategy

Pros:

- Can play an important role in obtaining approval for development proposals.
- Provides a collective voice supporting the construction of affordable housing.

Sources of information about the strategy

- Austin's S.M.A.R.T. Housing Program website, <http://www.ci.austin.tx.us/ahfc/smart.htm>
- Low Income Housing Institute website, <http://www.lihi.org/>
- Affordable Housing Design Advisor website, www.designadvisor.org

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AUSTIN, TEXAS

S.M.A.R.T. HOUSING™

Austin's S.M.A.R.T. Housing™ program achieves a range of goals by providing developers with incentives to voluntarily produce housing that is affordable to low-income households.

The program was motivated in part by Austin's plans to implement Smart Growth principles while successfully addressing affordable housing needs.

"We realized we could succeed on Smart Growth but totally fail on affordable housing," said Stuart Hersh, a housing coordinator with the City of Austin.

- ✓ Transit-oriented development
- ✓ Expedited permitting processes
- ✓ Making housing more affordable by reducing utilities consumption
- ✓ Advocacy efforts to reduce NIMBYism
- ✓ Evaluation of the impact of legislation on housing
- ✓ Impact fee waivers and reductions

The S.M.A.R.T. Housing™ program, administered by the Austin Housing Finance Corporation, achieves Smart Growth goals by being transit-oriented and energy efficient. S.M.A.R.T. (Safe, Mixed-Income, Accessible, Reasonably-priced, Transit-oriented) Housing™ developments must be located within one-quarter mile of public transportation, and units must meet defined energy standards.

The program is voluntary, so it is designed to meet the community's affordable housing needs by offering developers a package of incentives to produce S.M.A.R.T. Housing™. Incentives include fee waivers, advocacy, and expedited permitting procedures.

Fee waivers save developers on affordable and market-rate units

Developments that include "reasonably priced" qualify for fee waivers on a graduated basis:¹⁵²

- ❖ A development in which 10 percent of units are reasonably priced receives a 25 percent fee waiver;

- ❖ A development where 20 percent of units are reasonably priced receives a 50 percent fee waiver;
- ❖ A development where 40 percent or more units are reasonably priced qualifies for a 100 percent fee waiver.

The fee waiver schedule, which awards the same fee waiver to developments regardless of whether 40 percent or 100 percent of units are reasonably priced, is designed to provide incentives for developers to mix affordable and market-rate housing. Hersh notes that one goal of the program was to encourage development of market-rate housing within Austin city limits. “Most of this is happening in the ‘burbs,” he said.

Fee waivers save developers an average of \$2000 per single family home; developers building multifamily homes save an average of \$1000 since water and sewer fees are smaller for multifamily units. Fee waivers are limited and allocated on a first come, first-serve basis. Currently, the city budgets for fee waivers on about 1500 units annually.

Advocacy efforts are critical to successful development proposals

S.M.A.R.T. Housing™ program staff also work as advocates for S.M.A.R.T. Housing™ developments. Staff work with other city staff as well as neighborhoods to speed the process and improve acceptance of the project. “If our partner has a

“We have overwhelming success ... in working with zoning and NIMBYs.”

-Stuart Hersh

problem, we visit other city staff,” said Hersh. “We’re the unpaid advocates.” He noted this is particularly helpful when a zoning change is needed.

Hersh said efforts to conduct outreach with residents of the neighborhood are also critical. “We have overwhelming success – over 90 percent – in working with zoning and NIMBYs,” he said.

The City Council’s support is also critical to approve requested zoning changes. Hersh noted that program staff work with neighbors to resolve parking, congestion, and other legitimate concerns. If objections remain after these issues are addressed, he said the City Council generally supports the S.M.A.R.T. Housing™ development.

“When it becomes clear that the issue is that people don’t want poor people – their concerns are not legitimate – then the City Council approves the change,” he said.

Developers also appreciate these advocacy efforts. Harry Savio, the Executive Vice President of the Home Builders Association of Greater Austin, notes that “Having a team of city employees advocating for you helps.”

Expedited processing cuts permitting time by 40 percent

The program also offers expedited processing for all S.M.A.R.T. Housing™ projects. As Hersh explains, “The program’s approach to the review process is different [than the city’s typical approach to a development proposal]; we walk applicants through major issues early and identify ‘gotcha’ issues.” Typically, the review team reviews plans within 14 working days, and the applicant is required to submit revised plans within 14 working days as well.

The S.M.A.R.T. Housing™ review team then reviews corrected plans within seven working days, and the applicant is required to submit revisions for rejected plans within seven working days. According to Hersh, fast track permitting offers approximately 40 percent faster cycle time than conventional permitting.

In addition to the S.M.A.R.T. Housing™ program, the City of Austin considers the impact on affordable housing of every policy change. Affordability impact statements are required for all policy changes potentially impacting affordable housing. These affordability impact statements, prepared by S.M.A.R.T. Housing™ program staff, often show how the policy could be modified to have a positive or neutral impact on affordable housing while achieving the policy’s primary goals.

Voluntary incentives get big results

Incentives for participating in the S.M.A.R.T. Housing™ program are relatively shallow, as are affordability requirements. Single-family homes that receive no federal assistance must remain affordable for only one year; multifamily units must remain affordable for five years. Developments that combine S.M.A.R.T. Housing™ incentives and the federal Low Income Housing Tax Credit or other programs follow the longer affordability requirements of the other funding sources.

Despite the limited incentives offered, the program generates significant numbers of affordable housing units each year. When the S.M.A.R.T. Housing™ Initiative was adopted in 2000, the City of Austin expected applications for 600 units in the first year. Instead, the program averages nearly 1,500 units per year, and by 2007, the 10,000th S.M.A.R.T. Housing™ unit had been built.

To maintain its success, the City is continually working to improve the program. Hersh stresses the importance of constantly adjusting the program to meet changing market demands. The City of Austin is considering additional incentives, such as density bonuses, for builders participating in the S.M.A.R.T. Housing™ Initiative. According to Hersh, no single strategy will create a successful affordable housing program. “You have to do a series of things all at once, then test and adjust and anticipate where the market is going,” he said.

Even without these additional incentives, the S.M.A.R.T. Housing™ Initiative has won the support of local developers. As Savio states, “It is an incredibly effective and good program that shows what can happen when the public sector decides to work with the private sector. I don’t know how to do it better.”

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Vacant Building Registry

Strategy description

Many cities require owners of vacant buildings to register their vacant property within an established time frame from the date that the property becomes vacant and periodically thereafter. Some cities require that owners also implement a maintenance plan for vacant buildings in order to remedy any public nuisance problems and prevent further deterioration. Owners also may be required to pay a periodic fee for each vacant building that they have registered. The fee acts as an incentive for owners to sell their vacant buildings or to maintain and occupy them.

Owners may be offered education on measures they can take to prevent deterioration and to ensure that their vacant or abandoned buildings are safe and secure. Owners may also be referred to developers who might be interested in buying their property or to agencies that may be able to offer funds to stabilize and rehabilitate properties.

History of the strategy

Albany, NY may have been the first city to implement a vacant building registry, in 2000.

Target population

Direct impact: Provides incentives for building owners to maintain or sell vacant properties.

Indirect impact: Increases the housing stock for renters and homeowners, as building owners are encouraged to sell or fill vacant properties to avoid future vacant building registration costs.

How the strategy is administered

- Local governmental bodies pass legislation that requires owners to register their vacant buildings. The registry is administered by a governmental agency. For example, In Albany, NY, the Vacant Building Committee is led by the Fire Department's Deputy Chief for Buildings and Codes and also includes representatives from numerous city offices.¹⁵³
- Some cities establish a committee to proactively enforce the vacant building registry. This committee identifies and catalogs all vacant properties to ensure compliance with the vacant building registry.

How the strategy is funded

- Vacant building registries require little public funding. In addition, the fees and fines associated with registering and vacant properties generate funds for the locality. For example, in Pittsburgh, PA, failure to comply with the vacant building registry could result in fines up to \$300 per day, and in Burlington VT the fee is \$500 per quarter.¹⁵⁴

- In some cities, in addition to requiring registration and levying fees, the city targets CDBG funds for the renovation (or in some cases demolition) of these properties.

Extent of use of the strategy

This strategy is widely used in cities across the country.

Examples of locations where the strategy is being used

- Several cities in New York including Albany, Geneva, and Kingston have implemented a vacant building registry.
- Richmond, VA¹⁵⁵
- Pittsburgh, PA
- Burlington, VT
- Boston, MA
- Chicago, IL
- Baltimore, MD (see below)
- Wilmington, DE (see below)

Strategy results

- In Wilmington, DE, within a year of implementing a vacant property registration fee program, the program collected over \$400,000 in fees. Of the 1,528 buildings initially registered as vacant, 380 became occupied, 217 were sold to new owners, and 16 were demolished.
- In Baltimore MD, when the program started in 2002, the city had more than 15,000 vacant and abandoned houses and more than 10,000 problem lots, many with significant tax arrearages. Between 2002 and 2006 over 6,000 abandoned properties with clear title have been acquired, 1,000 properties have been returned to private ownership, 2,000 more properties have been reprogrammed for a specific development outcome, and taxes and fees collected have totaled over \$1.8 million.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Some cities do not have significant numbers of vacant buildings; the strategy is most likely to be effective in cities that have experienced population losses and economic declines.

Pros:

- Provides incentives for building owners to maintain or sell vacant properties to avoid future vacant building registration costs.
- Encourages owners of vacant properties to prevent deterioration and ensure the safety of their buildings.
- May increase the number of properties made available for developing affordable housing.

Cons:

- Owners of vacant properties may be difficult to locate.

Sources of information about the strategy

- “Combating Problems of Vacant and Abandoned Properties: Best Practices in 27 Cities,” The United States Conference of Mayors, June 2006, p. 10. (Available at: <http://content.knowledgeplex.org/kp2/cache/documents/1911/191145.pdf>)

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Making Housing More Affordable by Reducing Utilities Consumption

Strategy description

Utilities are an increasingly burdensome cost to homeowners and renters as energy prices for gas, oil, and electricity continue to rise. One way to reduce the utility cost burden is to encourage the design and construction of more energy-efficient homes. State and local governments can provide information to developers and property owners on weatherization (in which buildings are retrofitted for better insulation, natural lighting, and reduced electricity, gas, and water consumption), smaller buildings that minimize open and wasted space, and other "green" building techniques that save on energy consumption, including use of energy-efficient materials and construction technologies.

Once a building is constructed, financial mechanisms that take into account energy-efficiency can also be helpful in reducing the cost to the homeowner or renter. Resource-efficient mortgages, for example, consider utility cost savings in energy-efficient homes in the calculation of homeowner affordability.

History of the strategy

Energy-efficient development has been promoted for more than 20 years, and the push for energy efficiency in affordable housing has been increasing over the past few years.

Target population

The direct targets of this strategy are developers of affordable housing who are encouraged to consider energy efficient features in their units. The ultimate beneficiaries are the low-income homebuyers and renters who benefit from reduced utility costs on the homes.

How the strategy is administered

Administration varies widely depending on the specific strategy. State-level programs are typically established by legislative action and administered by a state agency.

How the strategy is funded

Developers are provided with education, grants, or loans to include energy efficient features in the units. Some of the sources of funding are state programs, fees on utility bills, and grants from foundations.

Homebuyers can often obtain energy-efficient mortgages that take into account the resulting reduced utility costs, thus enabling the buyer to obtain a higher mortgage.

Extent of use of the strategy

Widely used.

Locations where the strategy is being used

- Under the Energy Efficient Affordable Housing Construction Program, the state provides grants to Illinois-based non-profit housing developers to include energy efficient building practices in the rehabilitation or new construction of housing units that are affordable.
- The Massachusetts Technology Collaborative, a state agency, has allocated \$25 million to green affordable housing. In total, the funds will affect between 1,500-2,500 affordable housing units. The units will be built to construction standards equivalent to or better than Energy Star. Some developments will incorporate renewable sources of energy such as solar panels.¹⁵⁶
- The E-Star program in Colorado provides below-market-rate energy mortgages to help improve the affordability of energy-efficient homes. Homes are rated for home energy performance and assigned a score. Purchasers of homes with high ratings can qualify more easily for Energy Efficient Mortgages (EEM) than for conventional mortgages. Purchasers of homes with low ratings may qualify for an Energy Improvement Mortgage to finance recommended improvements.
- Across the country, low-income housing is being developed that incorporates energy efficiency measures such as installation of energy efficient appliances, maximum use of natural lighting, on-site water catchment, use of locally available materials; use of durable, non-toxic building materials; and job-site materials recycling.

Strategy results

- Average energy savings achieved in units built under the Energy Efficient Affordable Housing Construction Program in Illinois range from 50 to 75 percent compared with standard utilities costs per unit. Between 2002 and 2006 the program provided more than \$3 million in funding, which has led to the development of nearly 1,800 units of energy efficient housing across the state.¹⁵⁷
- Over a six-month period, affordable housing groups in Colorado constructed more than 70 housing units that were approximately 25 percent more energy efficient than conventional homes.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- The strategy promotes long-term affordability through reduced energy costs.

Cons:

- In the short term, development costs may be higher, if the costs of the energy efficiency features are higher than traditional construction costs.

- The impact on affordability may be relatively minor; energy efficiency often will need to be combined with other subsidies to help low- and moderate-income households achieve homeownership.

Sources of information about the strategy

- A collection of resources is available at the Smart Communities Network website, <http://www.smartcommunities.ncat.org/buildings/affhousing.shtml>
- Arigoni, Danielle, “Affordable Housing and Smart Growth: Making the Connection,” Smart Growth Network Subgroup on Affordable Housing, Washington, D.C., 2001. Available at: http://www.epa.gov/smartgrowth/pdf/epa_ah_sg.pdf

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Homeownership Education and Counseling

Strategy description

Homeownership education courses offer prospective homebuyers instruction on understanding the home purchase process, credit, financing, and even maintenance aspects of homeownership. The training is intended both to reduce uncertainty about the home buying process and to improve buyers' ability to sustain homeownership over the long term. Courses are often offered as a requirement of below-market financing for a home purchase, or for qualifying for a particular mortgage product. In addition to courses, homeownership education can also be provided through one-on-one counseling.

History of the strategy

A variety of organizations have offered homeownership education for several decades. HUD first authorized a housing counseling program in 1968, and began regularly funding housing counseling agencies in 1977. Not all organizations providing homeownership education are HUD-sponsored: others include state housing finance agencies, lenders, mortgage insurers, and national and local non-profit organizations.

Target population

Moderate- and low-income homebuyers.

How the strategy is administered

Most providers of homeownership education and counseling are non-profit organizations. They typically partner with lenders (or may themselves be financial institutions) to provide training to prospective homebuyers. Education can consist of anything from classroom-style courses offered over a period of several weeks to a one-time counseling session or even a telephone session.

How the strategy is funded

HUD provides funding for over 400 housing counseling agencies (funding totaled \$44 million in 2007); grants from state and local governments, grants from foundations, and fees for services are also sources of funding.¹⁵⁸

Extent of use of the strategy

Widely used.

Locations where the strategy is being used

Homeownership education and counseling is offered in every state in the country.

Strategy results

According to one study, borrowers who received any form of pre-purchase counseling as part of a Freddie Mac lending program had a 19 percent lower delinquency rate than those who received no counseling. Borrowers who received one-on-one counseling had a 34 percent lower delinquency rate.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Homebuyer education and counseling reduces the likelihood that a borrower will become delinquent on his or her mortgage.
- Pre-purchase training increases prospective homebuyers' knowledge about the process, which can lead to better financial terms for their mortgage and better-informed selection of a home.

Cons:

- Homebuyer education and counseling sometimes requires buyers to postpone their home purchase for several weeks. If training is required for below-market financing, buyers may choose subprime financing that does not carry education requirements instead, foregoing the below-market loan, to avoid postponing the purchase.

Sources of information about the strategy

- Hirad, Abdighani, and Peter Zorn, "A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling," May 22, 2001. Available at: http://www.chicagofed.org/cedric/files/2003_conf_paper_session1_zorn.pdf
- HUD Approved Housing Counseling Agencies, HUD website. Available at: <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>

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ORGANIZATIONAL STRATEGIES

Task Forces on Affordable Housing

Strategy description

Local task forces can help pave the way for new affordable housing by studying the problem, assessing options, and making formal recommendations. A task force can bring together disparate interests and perspectives to identify opportunities for new housing as well as regulatory barriers. Importantly, the task force also engages local citizens in forging a consensus for encouraging affordable housing. Task forces may address broad affordable housing issues or focus on specific needs, such as affordable housing units in need of rehabilitation.

History of the strategy

Task forces to promote affordable housing have existed for several decades. HUD's America's Affordable Communities Initiative, created in 2003, has recently provided an impetus for these efforts. The Initiative is designed to encourage state and local governments to create task forces to help address regulatory barriers to affordable housing opportunities.

Target population

Target populations depend greatly on the specific goals the task force seeks to achieve. Generally, affordable housing task forces target low- and moderate-income renters and homebuyers.

How the strategy is administered

Establishing a task force can be done in a variety of ways and by a variety of different stakeholders, depending on the community and specific goals it seeks to achieve. Participants may be nominated by a committee or by the governing body or be self-nominated, while still others forgo a nomination process altogether and partner on a more informal basis. Task forces are normally composed of representatives from various community and/or state interests, including academia, the housing sector, the environmental sector, business, the government, the nonprofit sector, and a host of others.

Once the task force is established, it typically sets goals to achieve and a timeframe within which it would like to meet those goals. Specific administrative actions and tasks that task forces take once established vary widely.

How the strategy is funded

Funding depends greatly on the type of task force, its size, scope, and the players involved. Sometimes a nonprofit organization sponsors the task force and receives funding from a variety of sources including local business, foundation grants, and state or local government. Government-based task forces are typically funded from agency budgets.

Extent of use of the strategy

Widely used.

Locations where the strategy is being used

- Focus-St. Louis, a community nonprofit, recently created the Affordable-Workforce Housing Task Force. Through their study of the shortage of workforce and affordable housing in the area, the task force became aware that regulatory barriers were a contributing factor, particularly to factory-built housing. The task force completed a study of the region's housing problems and plans to conduct a public awareness campaign. Focus-St. Louis eventually plans to approach local leaders to get support for affordable housing and to further identify local regulatory barriers.
- The Commonwealth Housing Task Force, established in 2002 in Massachusetts, approached regulatory barriers to affordable housing by advocating for financial incentives to communities where affordable housing is built. The CHTF is an ad hoc group organized by the Boston Foundation. The Task Force includes business and civic leaders, foundation leadership, affordable housing advocates, the environmental community, organized labor, real estate developers, elected and appointed officials at both the state and local levels, and academics. The CHTF provided research and recommendations for a program that became Chapter 40R, which provides housing incentive payments to communities that encourage housing production that is aligned with the principles of "smart growth." These Smart Growth Zoning Districts must include 20 percent affordable housing and be located in areas that are accessible by mass transit or in areas of concentrated development.
- The City of San Diego Task Force on Affordable Housing was established in 2003. It is comprised of 20 members representing a wide range of community interests, including community organization members, planning board members, environmental advocates, academics, charitable organizations, developers, realtors, business, labor, and many others. The task force's principal goal is to identify strategies that might lead to the increase in the affordable housing stock.
- Hillsborough County, FL's task force consists of 24 members representing each jurisdiction in Hillsborough County and various other interests within the affordable housing arena. Its mission is to reduce barriers and find effective ways to provide more affordable housing in the county.

Strategy results

The legislation advocated for by the Commonwealth Housing Task Force in Massachusetts has led to commitments by cities around the state to build almost 6,000 affordable housing units.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Gathers a broad-based coalition of people and interests around one common issue.
- Creates a wide knowledge base given the diversity of interests and industries represented.

Cons:

- Does not directly generate affordable housing.
- Can be difficult to gather needed support and sustain stakeholder participation.
- Funding can be difficult to find and maintain.

Sources of information about the strategy

- “Creating a Task Force on Regulatory Barriers to Affordable Housing,” prepared by the U.S. Department of Housing and Urban Development, 2007. Available at: <http://www.huduser.org/rbc/nca/doc/HUDsGuideToCreatingTaskForce.pdf>
- St. Louis, MO: Focus-St. Louis Affordable Workforce Housing Task Force home page. Available at: <http://www.focus-stl.org/prog/initiatives/infr-awhtf.cfm>
- Boston, MA: The Commonwealth Housing Task Force home page. Available at: <http://www.tbf.org/tbfgn1.asp?id=1986>
- The City of San Diego Task Force on Affordable Housing home page. Available at: <http://www.sandiego.gov/affordablehousing/index.shtml>
- Hillsborough County, FL Government – Affordable Housing Task Force website. Available at: <http://www.hillsboroughcounty.org/affordablehousing/>
- The City of Burlington, VT Community & Economic Development Office: Affordable Housing Task Force page. Available at: http://www.cedoburlington.org/housing/affordable_housing/affhousing_taskforce.htm

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Workforce Housing Collaborations

Strategy description

Collaborations of business and civic leaders can support the development of housing affordable for employees of local businesses using a number of strategies. Business leaders can provide resources and aid in generating community support for affordable housing. Strategies used by collaborations include backing legislative changes, conducting community outreach, and mobilizing support for specific development proposals to counteract NIMBYism.

History of the strategy

Efforts focusing specifically on workforce housing have gained momentum in recent years as housing prices have risen sharply in some parts of the country.

Target population

Workforce housing collaborations typically target moderate-income renters and homebuyers, particularly employees unable to afford the cost of housing near their workplace.

How the strategy is administered

Workforce housing collaborations can be administered in a variety of ways. Some collaborations consist of a partnership solely among employers, while others include government agencies and other stakeholders. Collaborations also range in size from small, informal groups to those consisting of tens of partners. Larger collaborations may have a board of directors.

How the strategy is funded

Collaborations consisting of employers are funded by the participating employers; those that include non-profits are often funded by foundations and grants from state and local governments.

Extent of use of the strategy

Moderate use.

Locations where the strategy is being used

- The Workforce Housing Partnership of Saratoga County (in New York) includes business and community leaders, developers, and concerned citizens who are working together to promote affordable workforce housing by building community and political support, providing county-wide planning, increasing financial access for rental and homeownership opportunities, attracting and supporting development solutions, and improving transportation opportunities for employees in the county.

- The Silicon Valley Leadership Group (SVLG) is a partnership of more than 200 employers, primarily in Santa Clara County, CA, that are actively involved in policy issues including housing. In addition to supporting legislative changes and conducting community outreach, the SVLG endorses specific home development proposals and mobilizes support for these proposals at city council meetings to overcome local NIMBYism.
- The Coastal Housing Partnership (CHP) in Santa Barbara, CA provides financial assistance programs and educational services to help employees of specific companies become homeowners in the local community. CHP employer members recognize that, when employees live locally, it benefits the company as well as the employee. Employers have collaborated to offer employees a housing benefits package that addresses common obstacles to purchasing a home and includes down payment assistance, closing cost assistance, and information about the home buying process.

Strategy results

- In 2004, the Silicon Valley Leadership Group endorsed nine development proposals that were subsequently approved, representing 5,711 new homes. In 2006, SLVG endorsed 17 developments representing 3,277 homes.
- In 2006, the State of California passed Proposition 1C, allowing the State of California to sell \$2.9 billion in general obligation bonds to fund housing for lower- income residents and development in urban areas near public transportation. The SLVG lobbied to put Proposition 1C on the ballot while co-chairing a statewide campaign to support the proposition.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Workforce housing collaborations may result in reduced employer costs related to turnover, recruitment, relocation, and training.
- Workforce housing collaborations create a collective voice, often composed of business and civic leaders, to raise awareness of the need for affordable housing while counteracting NIMBYism.

Cons:

- Employers tend not to be interested in assisting in providing housing for workers unless they view high housing costs as a barrier to recruitment and retention of workers.
- Small employers may not find it cost-effective to participate in a workforce housing collaboration.

Sources of information about the strategy

- Workforce Housing Partnership of Saratoga County website <http://www.whpsaratoga.org/>.
- Silicon Valley Leadership Group website: <http://www.svlg.net/>.

- Regional Employer-Assisted Collaboration for Housing website <http://www.reachillinois.org/>.
- Coastal Housing Partnership website <http://www.coastalhousing.org/>.

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Community Land Trusts

Strategy description

A community land trust (CLT) is a private, nonprofit corporation created to provide access to secure, affordable housing for community members. Community land trusts improve housing affordability by separating the ownership of land and housing. The CLT has permanent ownership of the land, which is leased to low- and moderate-income households. The land may also be used for affordable rental housing and other purposes. Members of the CLT board can include both residents who occupy CLT housing and other local residents who have an interest in the CLT's activities, such as neighbors or citizens concerned about the availability of affordable housing in the community.

History of the strategy

Founders of the Institute for Community Economics developed the Community Land Trust model in the 1960s. The first CLT in the United States, New Communities, Inc. was established in 1968 in Georgia.

Target population

CLTs target low- and moderate-income renters and homebuyers.

How the strategy is administered

- CLTs are generally member organizations with a board of directors elected by the members. Members can include any community member with an interest in the housing needs of the community.
- CLTs vary widely in their geographic scope. Some serve entire metropolitan areas, often including surrounding suburbs; others serve particular neighborhoods.
- CLTs often purchase the property that is held in the land trust on the open market. As tax-exempt organizations, they also sometimes receive gifts of property from individuals or corporations and acquire city or county-owned property from local governments.
- CLTs sometimes construct the housing units held in the land trust.
- CLTs rent property, often with renewable 99-year-leases, and either rent or sell the buildings to low- and moderate-income families. When a purchaser sells the property, the buildings are either sold back to the CLT or to another low- or moderate-income family, at a price determined by the CLT. In establishing a resale price, CLTs often use "appraisal-based" formulas that set the maximum price as the sum of what the seller paid for the home plus a percentage of any increase in market value as measured by the appraisals. The formula may also reflect part or all of the value of improvements made by the homeowner.

- Several organizations, including the Institute for Community Economics, the National Community Land Trust Network, and the Champlain Housing Trust provide technical assistance to communities establishing a CLT.

How the strategy is funded

CLTs are funded with grants from government programs, contributions of property from both public and private sources, volunteer labor, and loans.

Extent of use of the strategy

- CLTs are widely used in all types of communities throughout the country. The Community Land Trust Network, established in 1999, is a coalition of more than 100 CLTs and other grassroots organizations that work collaboratively to advocate and to advance the CLT movement nationwide.
- As of 2006, at least 185 CLTs nationwide had been created.

Examples of locations where the strategy is being used¹⁵⁹

Examples of the numerous community land trusts include:

- The Champlain Housing Trust in Burlington, VT, created in 1984, is the largest in the nation.
- The Durham Community Land Trust, in Durham, NC, was organized in 1987 by residents of a low-income, predominantly minority neighborhood next to Duke University as part of an effort to rehabilitate their neighborhood.
- In 1997, the Sawmill Community Land Trust in Albuquerque, NM formed to buy 27 acres from a particle-board factory and develop it as a 99-home neighborhood, the latest phase of which includes artist loft apartments.
- Started in 1995, the Bahama Conch Community Land Trust of Key West is Florida's oldest community land trust.
- Other locations include Portland, OR, Cleveland, OH, Boulder, CO, Rochester, MN, Southwest Washington Community Land Trust, the Orange CLT in NC, the Dakota Land Trust in the Black Hills in South Dakota, and other locations in Florida, including the Florida Keys, Sarasota County, and Hannibal Square.

Strategy results¹⁶⁰

- One estimate puts the number of units in CLTs at about 10,000 nationwide.¹⁶¹
- Burlington's CLT has built more than 270 apartments and 370 condos and owner-occupied houses since its inception in 1984.
- The Durham CLT has built or rehabilitated more than 100 homes since 1987.

- The Bahama Conch Community Land Trust of Key West has restored and sold seven homes, and converted another into a rental property, in the city's predominantly minority Bahama Village neighborhood.
- Established in 2000, the Middle Keys Community Land Trust in Marathon, FL has acquired a 14-apartment building and built and sold four houses and four town houses.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Can help create partnerships by bringing together various members of the community, including developers, affordable housing advocates, government officials, and low- and moderate-income households.
- CLT staff can provide expertise on financial resources for affordable housing to city planners and private developers.
- Provides for long-term affordable housing needs, as the CLT owns the land and keeps the housing affordable long-term, often in perpetuity.
- Can counter neighborhood disinvestment by introducing resident control over land.
- CLTs often work in conjunction with other local strategies, such as a housing trust fund, demolition taxes, or inclusionary zoning ordinances, creating a synergistic and multifaceted approach to affordable strategies.

Cons:

- It can be challenging to align political forces, secure financing, and develop organizational capacity.
- Community land trusts may face organized resistance from various political or ideological perspectives.
- Recruiting potential homeowners and educating them about the special features of the CLT model can be challenging.
- Dual ownership leases can create a disincentive for investment.
- It can be difficult and/or expensive to acquire developable land, particularly in gentrifying areas.
- CLTs generally cannot offer a sufficiently deep subsidy to allow low-income families to purchase homes.

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- Equitable Development Toolkit: Community Land Trusts. A publication of *PolicyLink*. Available at: <http://www.policylink.org/EDTK/CLT/>

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- Sawmill Community Land Trust website, www.sawmillclt.org
- Bahama Conch Community Land Trust website, <http://bcclt.blogspot.com/>
- Middle Keys Community Land Trust website, www.mkclt.org
- Institute for Community Economics website, www.iceclt.org

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ORANGE COUNTY, NORTH CAROLINA

COMMUNITY LAND TRUST

Before the Orange Community Housing and Land Trust (OCHLT) was created in the North Carolina county that includes Chapel Hill, the County's affordable housing efforts had no long-term guarantee for affordability. Without any resale price restrictions in an area with high land and housing prices, subsidies were lost when home prices increased beyond levels affordable to households with incomes of 80 percent of the area median income.

- ✓ Community land trust
- ✓ Shared equity
- ✓ Creative public-private collaborations

As OCHLT Executive Director Robert Dowling said, "The first buyer walked away with \$10,000 to \$15,000 in their pocket but took all the appreciation with them. This was good for them but not good for the community." The County needed an alternative that would keep housing affordable for a longer period of time.

To address long-term affordability as well as high housing costs in the County, the OCHLT was converted from a community development corporation with local government funding to a non-profit affordable housing developer. A community land trust (CLT) is a private, nonprofit corporation created to provide secure, affordable access to land and housing for local community members. Community land trusts' distinctive approach to homeownership separates ownership of a house from the land it is built on. Unlike many publicly subsidized affordable housing strategies, a CLT guarantees long-term affordability by restricting price appreciation to keep it within the reach of low-and moderate-income buyers.

Residents eligible to purchase CLT homes must live or work in Orange County and be first-time homebuyers with incomes less than 80 percent of the area median income.^{162,163} Because NC law forbids separating the title of a house and land, the OCHLT gives owners a "leasehold estate" that allows owners to own leasehold interest in the land and the house.

Buyers typically pay 50-60 percent of the actual value of a home upon purchase and can earn about 25 percent of the appreciation on their home, based on a resale

formula. The resale formula recently switched from an appraisal-based methodology to a flat 1.5 percent annual appreciation rate, after the OCHLT director experienced inconsistencies in local appraisals. The restrictions on home appreciation allow homes to remain affordable over time.

The OCHLT acquires property from a variety of sources. For example, the Trust acquires land and builds homes on it and acquires and rehabilitates existing homes. Following a recent trend among community land trusts, OCHLT acquires about half of its properties through the town of Chapel Hill's inclusionary zoning ordinance.



OCHLT home in Chapel Hill, NC

While builders work with the OCHLT to establish an affordable price for the inclusionary zoning units, the OCHLT usually must seek additional public subsidies to make the homes truly affordable. Dowling considers this an appropriate partnership between the private and public sectors.

Some CLTs have experienced resistance from groups who criticize a homeownership model that separates land from a house. Dowling found this to

be especially true in a southern town with a rural history, where residents are historically very attached to their land. However, for families who cannot afford to buy a home and its land together, there are clear benefits to purchasing a CLT home including increased stability, earned equity, and homeownership tax benefits.

The OCHLT has helped more than 130 low- and moderate-income homeowners purchase Trust houses since 2001. Trust houses have served as a stepping stone into the unrestricted private market: most of the 25 OCHLT households who moved out

of their OCHLT homes have purchased unsubsidized homes, usually in Durham County where prices are lower.

In addition to expanding homeownership opportunities for low and moderate-income residents and employees, the OCHLT has been successful at promoting

“If you’re just driving down the street not paying attention, you wouldn’t even realize they were affordable.”

—Robert Dowling

mixed-income communities. One neighborhood has 13 affordable homes selling at \$110,000 to \$140,000 among 70 market-rate homes selling at \$500,000 to \$700,000. The same developer built them all.

Dowling says, “If you’re just driving down the street not paying attention, you wouldn’t even realize they were affordable.” The local inclusionary zoning requirements have helped facilitate these mixed-income neighborhoods, but more than half of the homes OCLT acquired without inclusionary zoning are in other higher-income neighborhoods, where developers agreed to donate land.

Frank Thomas, director of government relations at the Home Builders Association of Durham, Orange and Chatham Counties, believes the CLT’s ability to solve the county’s affordability problems is limited. Thomas notes that the houses are hard to qualify for and that, with less than 200 homes, the Trust barely touches on local need for affordable housing.

From Thomas’ perspective, the high land and housing costs in Orange County are driven by local restrictions on development, and the housing market in Orange County will suffer from a lack of affordable housing as long as local officials restrict the supply of developable land.

In 1987, the county implemented a “rural buffer” of land that was to “remain rural, contain low-density residential uses, and not require urban services.”¹⁶⁴ This boundary restricts the supply of land for housing development. According to Thomas, permits have decreased by half over the last four to five years and now stand at about 200 permits per year.

Even if community land trusts are limited in scale, they are becoming a popular strategy for state and local governments to expand the supply of affordable housing. Many community and CLT leaders offer expert advice, especially from the more established CLTs such as in Burlington, VT.

Dowling emphasizes the importance of tailoring a CLT model to a community. He says, “The CLT is a very good tool for preserving long-term affordability, but it’s complicated. You have to understand what you’re getting into.”

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Creative Public-Private Collaborations

Strategy description

Collaborations between developers and public agencies on specific projects can be effective in creating high-quality affordable housing. Large developments, in particular, are likely to require area-wide zoning changes (as opposed to site-specific changes) and assistance in obtaining access to public funding sources. In some collaborations, public agencies become official partners in the project, retaining an equity interest. They may also contribute by revising development standards or by supplying land or infrastructure as well.

Target population

Public-private collaborations on development projects typically target low- and moderate-income renters and homebuyers.

How the strategy is administered

Administration varies widely; a private developer may approach the local government or a housing authority to collaborate or vice versa. Collaborations are typically temporary, enduring through project development. In some instances, the public partner may retain a long-term financial interest, which extends the duration of the collaboration.

How the strategy is funded

Development projects that result from public/private collaborations usually include a mix of sources of financing that may include federal Low Income Housing Tax Credits, loans or grants from a local affordable housing trust fund, tax increment financing, tax-exempt bond financing, and developer equity.

Extent of use of the strategy

Moderate use.

Locations where the strategy is being used

- The Leewood Real Estate Group in New Jersey partnered with city, state, and federal governments to construct affordable homes in Trenton, NJ. Home purchasers are eligible for 100 percent financing and receive five-year real estate tax abatement.¹⁶⁵
- In Washington, D.C. several government agencies and an alliance of major property holders collaborated on a plan for redeveloping the Mount Vernon Triangle neighborhood. The city created a retail overlay zone to increase activity in the neighborhood; allotted \$4.7 million in capital improvement project funds to the neighborhood; and jointly developed publicly owned parcels to complement and attract adjacent private development. Uses for public sites include affordable housing and cultural, recreation, and community facilities. Private

property owners created a community improvement district to promote the area and maintain the area's streetscapes, parks, and plazas. When completely built out, the neighborhood is expected to include nearly 5,000 new housing units and add \$50 million a year in tax revenue.¹⁶⁶

- The Chicago Housing Authority partnered with the private sector to convert some of its older public housing projects into Park Boulevard, a mixed-income community. The Authority leased the former sites of public housing projects to a development partnership for \$1 per year for a 100-year renewable lease and will get 4 percent of gross sales proceeds from all market-rate units. CHA is partnering with Kimball Hill Homes and its subsidiary, Kimball Hill Urban Centers, which contributes both capital and expertise. In addition to housing, the sites include retail space. In addition to CHA's land and federal Low Income Housing Tax Credits for the rental housing component of the development, the public sector is also providing the difference between the affordable prices the buyer pays and the market value from the city's affordable housing trust fund, which is recaptured on sale of the unit to be returned to the trust fund.

Strategy results

The public-private collaboration in Chicago will include a total of 880 units, located on 33 acres four miles south of downtown Chicago. Another 436 units are planned for adjacent sites. About one-third of the units will be public housing; one-third will be affordable rental and for-sale units; and one third will be market-rate units.¹⁶⁷

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Private partners bring experience with large projects to a development collaboration, as well as equity. Public partners can access sources of financing, such as tax-exempt bond financing, that may not be available to private developers. In addition, local government involvement in the project may make large-scale development possible that might not otherwise. Local government may help change zoning, speed the permitting process, provide tax abatements or tax credits, and contribute land, funds, or infrastructure.

Cons:

- Private/public collaborations tend to be highly specific to a particular set of organizations and conditions and may have limited ability to be replicated in other cities.
- Because collaborations are highly specific, each one requires the organizations involved to make a significant investment in time and education to understand the processes involved.
- Smaller organizations may not be able to attract the talent necessary to organize large-scale private/public collaboration.

Sources of information about the strategy

- Mount Vernon Triangle Community Improvement District website:
<http://mountvernontriangle.org/>.
- Shashaty, Andre, "Home Sales Fill Funding Gap for Mixed-Income Redevelopments," *Affordable Housing Finance*, March 2007. Available at:
<http://www.housingfinance.com/ahf/articles/2007/mar/MIXEDINCOME0307.htm>.
- Chicago Housing Authority website, <http://www.thecha.org/>.

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THE HOUSING PARTNERSHIP

FOR PROFIT-NONPROFIT PARTNERSHIPS

The concepts of cottages, bungalows, and other housing designs are not new, but are gaining traction in the Seattle area as developers, local governments, and housing advocates experiment with creative solutions to provide high-density housing to fit a broad range of needs.

- ✓ For profit-nonprofit partnerships
- ✓ Advocacy efforts to reduce NIMBYism
- ✓ Changes in zoning to encourage affordable housing
- ✓ Creative public-private collaborations
- ✓ Infill development

The Housing Partnership is a nonprofit (also known as the King County Housing Alliance) whose mission is to generate and disseminate ideas for alternative housing types. According to Michael Luis, executive director of The Housing Partnership, the organization targets cottage housing as well as other alternative housing types.

Innovative housing types include:

- ❖ Cottage and bungalow clusters: Clusters of four to 12 units built around common open space. Cottage and bungalow clusters often incorporate an auto court, which clusters garage entrances around a central court.
- ❖ Cottages with carriage units: Cottage cluster projects with carriage units built over the separate, detached garages
- ❖ Small lot detached units: Single-family homes on lots less than 4,500 square feet, which necessitates different site planning, design of streets, sidewalks, and parks to adapt to a more compact layout.
- ❖ Detached accessory units: Small apartments that are an accessory to a main house, but built as stand-alone cottages.
- ❖ Small multiplexes: Multifamily structures with two to four units with a design and scale that allows them to fit into neighborhoods.
- ❖ Adaptive reuse: Old commercial buildings that can no longer serve their original purpose that are adapted to accommodate housing.
- ❖ Townhouses

“There’s a whole market of people who don’t want to live in big houses, but local zoning and codes don’t allow it,” said Luis.

Innovative housing types can be more affordable than conventional new housing

Although the cottage, bungalow, and townhome housing types promoted by The Housing Partnership are unsubsidized, they are more affordable than typical new single-family homes because of their small size. Compared with a new single family home, which averaged over 2,300 square feet in 2002, cottages can be as small as 650 square feet.

Luis says it’s taken some experimentation to identify the market for small homes. “Cottages have evolved,” he said. “They started out at 650 square feet. They sold, but there’s a very limited market.” Since then, he said cottages have increased in size to up to 1200 square feet, typically with two stories and a one-car garage. “They’re pretty compact,” said Luis.



Danielson Grove

Luis says most people want to live in detached housing. “People want to see light on three or four sides,” he said. “But they don’t care how detached – another home six feet away is OK.”

Among other things, The Housing Partnership works with developers to advocate for cottage housing developments and resolve the concerns of NIMBYs who fear the high-density housing being proposed. “Some object for legitimate reasons – I try to work with them,” to resolve their concerns, said Luis.

The Housing Partnership also works with local governments, who Luis sees as lacking an understanding of the housing market. Luis says that to deal with the state’s Growth Management Act (GMA), local governments plan very high-density housing.

“The original idea ... is that we’d encourage all density in urban centers,” said Luis. He said in Puget Sound area, there are 25 designated growth centers, but only three actually experiencing growth. “You can only build stacked flat condos with underground parking [in a growth center]. No one wants to live in that. [The local government] plans for density are not what the market wants.”

In contrast, Luis said people are interested in cottage and bungalow housing. “The market does want this,” he said. “It’s more appealing, but lower density.”

Eric Campbell, president of CamWest Development, Inc., a major builder in Puget Sound, agrees. “With the aging of the market, people are looking more at quality than quantity, so it’s a natural trend,” he said. “The market has become more niche – there are more different buyer types and more different needs.”

Local governments are collaborating with developers to build innovative housing

Now that the Housing Partnership’s primary mission of generating ideas for innovative housing is done, the organization is winding down. However, Luis recently worked with the city of Kirkland to evaluate two innovative housing demonstration projects.



Both projects created “compact single family” housing (units of about 1500 square feet), and were allowed a 50 percent density bonus. The outcome of the demonstration was positive, with both residents and neighbors of the

developments virtually all in support of the compact projects. Focus group members expressed a strong preference for the compact single-family developments over the alternative of large single-family homes built in existing neighborhoods of primarily modest-sized homes.¹⁶⁸

Based on the results of the demonstration program, the Kirkland City Council has decided to allow innovative housing types in the city on a permanent basis. Since then, the Planning Commission has drafted zoning regulations for cottage, carriage house, and multiplex (multifamily buildings containing two, three, or four units) housing. The regulations would allow density of double that allowed in the underlying zoning. It would also require developers to include one affordable unit in a development with 10 to 19 units, and would require two affordable units in developments with 20 units or more.¹⁶⁹

CamWest Development was one of the builders of the demonstration developments. According to Campbell, bungalows like those built as part of the demonstration project can be as profitable for builders as conventional housing types, but there are two major constraints. The first is a lack of land zoned for higher-density single-family housing; the second is a lack of suitable locations. “They have to be near transit,” he said.

Campbell doesn’t believe the limited parking (typically one car) associated with bungalow, cottage, and other innovative housing types is a barrier. “People are willing to trade off cars for retail, transportation, and access to jobs,” he said.

However, cottage housing and other alternative housing types are something local governments are also still experimenting with. “They’re still trying to figure out how to allow them to flourish,” said Luis. He notes that smaller-size housing must be built on a much larger scale than it has been to date in order to improve housing affordability.

“A lot of builders won’t take the risk. It’s not an off-the-shelf product.”

-Eric Campbell

Luis notes that with few builders having experience in building smaller-size housing, such a project is a risk, and they need encouragement to try it. “Local governments need to provide an alternative [to building large new houses] and make it at least as profitable as the standard. You need to provide an incentive,” he said.

“A lot of builders won’t take the risk,” said Campbell. “It’s not an off-the-shelf product.”

A demonstration project can allow local governments to ‘dip a toe in the water’

Luis advises cities considering innovative housing types to start with a demonstration, which involve little risk. “It’s a way to dip a toe in the water,” he said. In addition, “Because it’s a demonstration, local government can have a lot of control.”

He suggests getting builders involved during the demonstration planning process. “Attract builders who are interested in doing something different,” he said.

“Once the project is on the ground, people can see it. It gives people something to focus on,” said Luis.

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For Profit-Nonprofit Partnerships

Strategy description

Affordable housing units in mixed-income or mixed-use developments often are created by partnerships between for-profit and non-profit organizations. Non-profits can sometimes access sources of funding not available to for-profits, such as HOME and LIHTC nonprofit set-asides. For-profits may provide expertise needed for large-scale development projects. In other types of profit-nonprofit partnerships, nonprofit developers partner with for-profit financial institutions to provide below-market capital.

History of the strategy

For profit-nonprofit partnerships to develop affordable and workforce housing have become increasingly common as federal and state sources of funding for construction of affordable housing is targeted to nonprofits.

Target population

Housing developments built by for-profit-nonprofit partnerships often include a mix of housing types. Affordable units included in the developments are targeted to low- and moderate-income renters and homebuyers; market rate units are often also included.

How the strategy is administered

Partnerships tend to form on a project basis, often without any local or state government involvement. However, partnerships may form in response to notices of funding availability for federal or state sources of funding, and a local government agency may become one of the partners.

How the strategy is funded

No funding is necessary to form a partnership.

Extent of use of the strategy

Widely used.

Examples of locations where the strategy is being used

- The Bluestone Organization, in Brooklyn, NY, is a building company in its third generation of operation. The for-profit company has partnered with city and non-profit organizations to build affordable, subsidized housing and middle-income rental apartments. In addition, Bluestone Organization shares the benefit of its 70 years of experience by acting as general contractor for non-profits.¹⁷⁰

- HomeSight, in Seattle, WA, partnered with the Buchanan General Contracting Company to build Stellina Condominiums, 34 one- and two-bedroom homes affordable to low- and moderate-income households.
- Arlington Partnership for Affordable Housing (APAH) in Arlington County, VA is a private nonprofit that purchases and renovates apartment buildings to preserve them as affordable housing and improve the condition of the property and its neighborhood. The mixed-use, mixed-income development projects are undertaken in partnership with local government, other nonprofits, commercial developers such as Paradigm Companies, and property owners.

Strategy results

The Bluestone Organization has built over 1,700 units in Queens, Brooklyn, and Manhattan in partnership with the New York City Department of Housing Preservation Development, the New York City Housing Development Corporation, and other organizations.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- For-profit and nonprofit organizations often bring unique qualifications to a project. Nonprofit organizations may have good relations with funding sources, qualify for sources of funding that are not available to for-profits, and have strong ties to the community where the project is being built which may help to improve acceptance of the project. For-profits are more likely to have experience constructing larger developments and may add financial strength that improves financing options.

Sources of information about the strategy

- NAHB's Innovations in Workforce Housing Awards recognize communities where the majority of homes were sold at or below the averaged-priced home in the area or county. Many of these communities are developed by for profit-nonprofit partnerships. See www.nahb.org/.
- Developer or builder websites: www.homesightwa.org; www.bluestoneorg.com/; www.paradigmcos.com/; and www.apah.org.

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EDEN HOUSING, HAYWARD, CALIFORNIA

FOR PROFIT-NONPROFIT PARTNERSHIPS

Eden Housing, a 40-year-old nonprofit developer in Hayward, CA, is finding its partnerships with private developers of market-rate housing to be a cost-effective strategy for producing affordable housing. Eden Housing has partnered with several private developers in the San Francisco Bay Area to build and maintain affordable housing projects.

- ✓ For profit-nonprofit partnerships
- ✓ Inclusionary zoning

One important motivation for partnerships between for-profit and nonprofit developers is the inclusionary housing ordinances passed recently in many communities in Northern California.

Eden Housing had been collaborating with for-profit development companies long before Hayward passed its inclusionary housing ordinance. However, the new requirements have brought a new focus to this type of collaboration. As a non-profit developer, Eden Housing has access to a variety of financing sources that decrease the cost of building affordable housing, such as the federal Low-Income Housing Tax Credit program, Section 202 for seniors, and Section 811 for people with disabilities.

Two of Eden Housing's current projects illustrate the innovation and impact this type of development partnership can provide. In 2004, the City of Hayward passed an inclusionary ordinance requiring developers to set aside 15 percent of units in new developments of 20 units or more to the City's affordable housing stock.¹⁷¹ With plans to develop 179 units of market-rate, single-family homes, Hayward's inclusionary ordinance would have required the DeSilva Group to include 26 units of affordable housing on site.

Instead, the City allowed DeSilva to instead satisfy its inclusionary requirements by buying the site of an old pickle plant and selling it to Eden Housing for \$1 while providing demolition, environmental cleanup, and perimeter improvements. Eden Housing is now working with La Vista, LLC, an affiliate of the DeSilva Group, and

the City of Hayward to build 78 units of rental housing affordable to low- and very low-income families earning between \$14,000 and \$52,000. The project is the first new housing project subject to Hayward's inclusionary housing policy that includes a collaboration of this type.

The combination of Eden Housing's access to tax credits and tax credit financing for affordable housing; the use of lower-cost land; and the revenue DeSilva earned from selling extra affordability credits to other developers in Hayward allowed DeSilva to spend the same amount of money and make a much larger impact on the production of affordable housing in Hayward. Jim Summers, president of the DeSilva Group commented, "The real benefit for everybody is that the City ends up getting three times the number of affordable units and at a much lower affordability level."



In a second project, Eden Housing is partnering with Citation Homes of Santa Clara on the Cannery Place development. In 2005, Citation Homes won initial approval by the Hayward City Council to develop 628 new condominiums. To fulfill local inclusionary housing laws for the new development, Citation will include 57 moderately priced units on site that will be sold to families earning 110 percent of AMI.

In addition, Citation is tearing down a nearby abandoned Hunt-Wesson potato cannery in downtown Hayward and selling the three-acre site to Eden Housing for \$1. Eden will build 60 units of rental housing for very-low-income seniors and new office space for Eden Housing on the ground floor.¹⁷² The project will provide the first new housing development in Hayward specifically designed for low-income seniors since the 1980s.

Because the Eden Housing development allowed Citation to exceed the inclusionary requirements for the first development by 23 units at deeper affordability levels, the City allowed Citation to use that surplus as a credit toward future development. Citation now has a long-term option to build an additional 170 townhomes on another piece of land, with requirements to include 16 moderately priced units on site.

Linda Mandolini, executive director of Eden Housing, estimates that their collaborations with market-rate developers have produced about 1,100 affordable units. Between the two projects described above, the City of Hayward has met 78 percent of its Housing Element requirement. Mandolini explains, “The bang for the buck for cities to do this is huge. Cities don’t have to put in a dollar.”

Developers have also welcomed the partnership as a more cost-effective way to meet affordability requirements. Mandolini explains, “With building costs at well over \$300,000 on top of high land acquisition costs, getting the subsidy to sell housing to very low-income households is just not possible.”

“The bang for the buck for cities to do this is huge.”

-Linda Mandolini

According to Summers’ calculations, “The sale price for the ordinance-required moderate income homes would have been in the mid \$300,000’s. But the market cost would be in the \$800,000-plus range. That’s \$13 million for 26 units of moderately affordable housing. We were able to take that same money and leverage it into 78 units of very low- and low-income affordable housing.”

All three of the players in the Hayward collaborations – Eden Housing, the market-rate developers, and the City – have faced their own challenges. Mandolini found that a successful collaboration with for-profit developers required first gaining their trust. “Even though we have a good reputation, they didn’t know how we worked. They were quite surprised. We have very sophisticated staff and rocket science financing. They’re now figuring out that we can deliver and we can help them.”

Now, after working on more than 20 projects in Hayward, Mandolini thinks Eden’s local reputation has become an asset to developers politically as they try to get their projects through the City Council approvals process.

Summers notes that for developers, a key challenge to a successful collaboration is finding a piece of property at a price that makes the numbers work. In Northern California, where land prices are soaring, he believes developers will not always be able to find that.

Finally, all developers have had to convince the City to allow inclusionary affordable housing off site. “It’s a tradeoff between getting [an affordable] development site and breaking down economic barriers,” Mandolini says. However, the City has agreed to provide Council approval if developers can clearly demonstrate the affordability benefits of off-site development.

Looking back, Mandolini’s advice to communities considering policies that encourage collaboration between market-rate and affordable housing developers is to have a flexible inclusionary housing ordinance. “In looking at policies, think about how a policy can realize a greater benefit. We were very fortunate that the City Manager in Hayward and the City Council understood how much benefit they were getting,” said Mandolini.

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Employer-Assisted Housing

Strategy description

Under employer-assisted housing strategies, employers finance or otherwise assist in the provision of affordable homes for their employees in the community where their business operates. Employer assistance can include funds for a portion of the down payment, closing costs, a soft second mortgage,¹⁷³ or a permanent interest rate buy-down on the employee's first mortgage; subsidized homeownership or rental counseling; and developing and managing rental properties for employees.

States and communities have adopted a number of strategies to encourage employers to increase the affordability of their employees' housing. States may provide income tax credits for employers who invest in affordable housing; communities may work to enlist local nonprofits to manage employee benefit programs related to affordable housing.

History of the strategy

Employer-assisted housing has a long history, going at least as far back as the 1880s with Pullman-founded company towns. More recently, in the 1960s, the University of Pennsylvania began offering an EAH program for its staff. Other employers followed suit. The 1990s greatly expanded the use of EAH programs, as nonprofits became involved and as local governments began offering incentives for the programs.¹⁷⁴

Target population

This strategy is targeted at current or potential employees in need of greater access to affordable housing, either through financial assistance or through increased supply.

How the strategy is administered

There are many different ways in which this strategy can be implemented, and therefore numerous ways in which it can be administered.

- States, cities, districts, or other municipalities can establish and administer housing funds and/or tax credits to employers that provide EAH. They can do this either independently or as a joint venture.
- Specific employers can develop and administer their own, independent program or they can partner with other employers to create a shared program.

How the strategy is funded

Funding varies widely, depending on the specific program. Some employers fund their programs directly; states and local governments often help fund them through matching funds, tax credits, direct financing, loans, or a combination of these. Fannie Mae works with employers

interested in offering an employer-assisted housing benefit to create an EAH plan and identify lenders and other partners. Employees who receive the benefit (such as a forgivable, deferred, or repayable second loan, a grant, or homebuyer education) and are approved for a mortgage by the lender obtain a mortgage with terms specified by Fannie Mae's Employer Assisted Housing mortgage product.

Extent of use of the strategy

Moderate use.

Examples of locations where the strategy is being used

- The State of Florida recently appropriated \$50 million to encourage innovative workforce housing development. Grants will be awarded to teams that include a developer, an elected official creating regulatory or financial relief, and an employer providing support for the development.¹⁷⁵
- In Connecticut, the Employer Assisted Housing Revolving Loan Fund, created in 1994, provides for business tax credits in exchange for employer contributions to revolving loan funds for employer- assisted housing.¹⁷⁶
- The City of Santa Barbara, CA collaborated with a local financial institution to provide special mortgage financing for employees of participating companies. The Housing Trust Fund of Santa Barbara County is also working to provide tools for employers to offer employer-assisted housing as a benefit to their workers (see case study).
- In Minnesota, the Greater Minnesota Housing Fund has developed an EAH program that matches employer contributions for the development of affordable housing in their communities.
- Illinois provides employers a state tax credit equal to 50 percent of the employer's qualified investments into affordable homes.
- New Jersey's Casino Reinvestment Development Authority established a program in 1994, Home Ownership for Performing Employees (HOPE), designed to help employees of Caesars Entertainment and Resorts Atlantic City Casino Hotel obtain low-interest mortgages to purchase homes in Atlantic City. The program offers 100 percent financing with no mortgage insurance.¹⁷⁷
- The Regional Employer-Assisted Collaboration for Housing (REACH) is a partnership consisting of Community Development Corporations (CDCs) and other organizations that provide home-ownership counseling and oversee program administration for companies offering Employer-Assisted Housing. REACH recruits and serves multiple employers in the six-county Chicago metropolitan region.
- The City of Alexandria, VA operates a homeownership program for its own employees. The program provides zero-percent deferred payment loans of up to \$5,000 to employees who buy homes in the city.¹⁷⁸

Strategy results

Employers in Rochester, MN, including the Mayo Clinic, with 26,000 employees in the city, contributed a total of \$10 million for a regional affordable housing strategy. Combined with \$1 million from local foundations, \$3 million from the Minnesota Housing Finance Agency and \$5.5 million in financing from the Greater Minnesota Housing Fund, the project raised \$19.5 million. By the end of 2006, the effort produced 486 affordable single-family homes and 313 affordable multifamily homes.¹⁷⁹

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- May directly contribute to the number of affordable housing units in an area.
- Improves recruitment and retention of employees.
- Reduces employees' commuting/transportation burden, as programs often encourage employees to live closer to work, and encourages employers to invest in affordable housing close to their place of business.
- Can increase a community's tax base through an increase in the amount of housing.
- May be a community revitalization tool, increasing stability in a neighborhood.
- The costs of providing and administering EAH plans are minimized or offset by the savings to the employer from reductions in turnover, recruitment/relocation, and training.¹⁸⁰

Cons:

- Employers tend not to be interested in providing affordable housing for workers unless they view high housing costs as a barrier to recruitment and retention of workers.
- Small employers may not find it cost-effective to manage an EAH program.

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SANTA BARBARA COUNTY

EMPLOYER-ASSISTED HOUSING

Santa Barbara has the dubious distinction of vying with San Luis Obispo as the most expensive housing market in the country. The Housing Trust Fund of Santa Barbara County (HTF) is taking steps to get employers involved in helping to solve the problem with an employer-assisted housing strategy.

The HTF, a private-nonprofit partnership striving to improve affordable housing opportunities, spent the past year researching employer-assisted housing best practices from across the country. From that, they have developed a hybrid approach that engages employers, developers, local governments, financial institutions, and others.

- ✓ Employer-assisted housing
- ✓ Housing trust fund
- ✓ For profit-nonprofit partnership
- ✓ Creative public-private collaboration
- ✓ Advocacy efforts to reduce NIMBYism
- ✓ Impact fee waivers or reductions
- ✓ Density bonus programs
- ✓ Expedited permitting processes

Santa Barbara faces significant housing cost and production barriers

The development of this strategy comes at a crucial time for current and hopeful residents of Santa Barbara County. Throughout coastal California, and particularly in Santa Barbara County, the affordability gap between median incomes and housing prices has steadily risen since 1998. Housing production has been virtually stagnant over the last 20 years, despite an increasing population. Exacerbating the problem, a typical project in the county can take up to four to five years to be approved, driving up holding costs for developers and further adding to the price of a home.

According to HTF Coordinator Jennifer McGovern, who has spearheaded the EAH effort, the average family or employee can no longer afford to buy into the market in Santa Barbara. “If they don’t already own a home, they simply cannot afford to buy a home here anymore,” she says.

As the current resident population ages and begins to retire, Santa Barbara County will likely face a dwindling workforce; workers who replace them may be forced to commute from farther and farther away, affecting local services. Evidence of this phenomenon has already surfaced, as local sheriffs have invested significant time and money in hiring new recruits, only to have them leave after completing training because of the cost of the county's housing.

Toolkit of techniques for employers is the first major approach

The first of the hybrid of strategies in the HTF's employer-assisted housing effort targets employers. The HTF has developed a toolkit of employer-assisted housing techniques for employers to make it easy to offer employees a housing benefit.

Employers can choose to offer financial assistance options including:

- ❖ A mortgage interest rate buy-down, in which the employer provides a one-time upfront payment to lower the mortgage interest rate;
- ❖ Downpayment and secondary financing loans;
- ❖ An equity-sharing arrangement, in which the employer and employee co-invest to purchase the home; and
- ❖ Mortgage assistance payments.

The HTF will match employer benefits using a capital fund currently being developed. The fund will be supplied by local government contributions (primarily from in-lieu fees paid by developers under inclusionary zoning ordinances), private philanthropy, foundation program-related investments (PRIs), and other sources.

Income eligibility for assistance may vary depending on the type of assistance, but McGovern notes that even households with incomes of over 200 percent of the area median need assistance to purchase a home in Santa Barbara. In addition to income eligibility, assistance is also conditional on the buyer being a qualified employee of a participating company. Due to the expected high demand for employer assistance, both the employer and the HTF will give preference to those who live closest to their place of work in order to better serve people who live and work in their own community.

Second major approach engages developers and others

The second major piece of the hybrid EAH strategy engages the development community by building partnerships between builders, employers, financial institutions, and the HTF. For example, the HTF is encouraging the use of pre-sales agreements, in which employers purchase a certain number of units prior to construction of the property for employees. Developers save on marketing costs, reducing the cost of the housing, and employers save time and resources on searching for available units.

The HTF is also developing pre- and post-entitlement partnerships with developers, in which the HTF will facilitate financing for construction either before the developer has obtained permits (pre-entitlement) or after (post-entitlement). The financing will be provided primarily by a consortium of employers with matching funds from the HTF. Financing offered by the consortium would provide savings to developers from the high interest rates typically charged on pre-development loans, reducing the cost of the housing units. These savings are passed on to employees in the form of lower house prices.

McGovern said the HTF may also develop a land trust with employer involvement in acquiring and holding land. She noted that holding costs on property in Santa Barbara County can be very expensive, particularly with an approval process that can take five or six years. Savings on property holding costs would be passed on to the employees of participating employers in the form of reduced housing costs.

The HTF already has commitment from several developers to participate, and is working to connect them with local employers, including three who have already committed. McGovern expects the first project, a 275-unit townhome/condo project, to be approved by the city of Goleta shortly. Using the development agreement fee required by the city and matching contributions provided by employers, the HTF will assist the city with providing homebuyer assistance.



The employer match will enable the city to double the number of households who will receive homebuyer assistance. In addition, the HTF will help with pre-sales of units, reducing marketing costs for the developer. Employees of the contributing employers will be given a preference in qualifying for the homebuyer assistance.

Over the next several years, the HTF aims to facilitate another five to seven major projects, and in doing so, increase significantly the size and scope of its employer-assisted housing strategy.

Employers have several other options for participating in EAH

In addition to these two major efforts to encourage employer-assisted housing, the HTF is also encouraging employers to help reduce the price of housing generally by providing direct development assistance; entering joint venture and financing partnerships; making direct land contributions or investments in the HTF for workforce housing purposes; and participating in a master lease program for rental housing.

The HTF is also encouraging employers to assist employees with rental housing. The HTF plans to assist employers in identifying potential affordable rental unit options for their employees, many of which will likely be units that have been built using HTF's well-established revolving loan fund.

McGovern believes that the relationships employers will develop with the local government, the development community, and their employees through their participation are likely to create even more positive externalities beyond just their bottom line.

Among other things, the HTF hopes employers will gain an effective recruitment and retention tool, reduce their hiring and training costs, and reduce employee absences from work, all of which will contribute toward improved employee morale and productivity.

According to McGovern, the incentives overall serve a fairly simple purpose. “We want employers to understand that it is expensive to do business in this area,” she said.

A challenge the HTF faces that is crucial to the success of the program is employer participation and commitment. The HTF has made significant efforts to demonstrate to employers how participation in the program can be cost effective through the program’s strategic and incremental methods.

“We want employers to understand that it is expensive to do business in this area.”

-Jennifer McGovern

The HTF has taken a number of steps to address some of these challenges, including substantial public education and advocacy efforts that both promote awareness of the affordable housing issues Santa Barbara County faces, and discuss specific steps that can be taken to help solve the crisis including participation in employer-assisted housing.

EAH strategy is still in development stage

The EAH program is in year one of a three-year pilot phase, in which the HTF hopes to build the foundation of the program and establish the relationships between employers, employees, developers, and the local government that will facilitate its

long-term viability. The direct involvement of all key stakeholders is one element that makes the Santa Barbara County EAH strategy particularly unique, and that McGovern hopes will enable it to achieve much greater success.



The Goleta Valley Chamber of Commerce, for example, is currently working on changes to the general plan to improve the city’s workforce housing potential. They, and other local organizations and governments, will play a critical role in facilitating and

encouraging participation in the EAH effort by developing policies that align with EAH goals. For example, the HTF hopes that local governments will offer incentives for affordable housing to developers such as fee waivers or deferrals, density bonuses, and expedited permitting.

Lessons for other communities: solicit input, have patience!

McGovern says that obtaining as much employer input prior to the formal design and implementation of the program is crucial to its success. Many employers have common concerns and needs, including how to select which employees will qualify and how to address the lack of capital and/or approval from national headquarters in the case of nationally affiliated nonprofit organizations.

McGovern suggests using focus groups and one-on-one stakeholder interviews to help solve some of these issues, and to get a better understanding of the employers' perspective.

Patience is also an important virtue when attempting to implement an employer-assisted housing strategy. There are many players involved - each of whom has different needs and priorities - and many pieces that need to fall into place to achieve success. While the Santa Barbara HTF received very positive initial response to the strategy from many community members, the timing of the various pieces since then has not always fallen in the order the HTF hoped it would, making it difficult to maintain interest and commitment among important stakeholders.

The HTF and McGovern are nevertheless doing their best to maintain and emphasize the long term vision of this strategy, recognizing that such an effort will take several years to fully develop and achieve measurable results.

"We think our idea is sound, it's just a matter of getting all the pieces together," McGovern said. The HTF has a very long-term vision – we don't anticipate housing problems to go away, they will only get worse."

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REFORMING DEVELOPMENT, CONSTRUCTION, AND BUILDING CODES

Building Code Changes to Promote Rehabilitation

Strategy description

In many communities, older homes that undergo rehabilitation must also comply with current building codes that can add significantly to the cost of rehab. This creates a disincentive for updating existing housing units, which often are more affordable than newer housing. As a result, the homes continue to deteriorate and may ultimately be demolished and replaced by more expensive homes. Many communities have solved this problem by adopting special building codes designed to facilitate moderate rehabilitation while maintaining safety.

Additionally, some communities encourage the rehab of older structures by allowing building inspectors to work with owners and developers to implement safe, reasonable solutions that make the projects feasible.¹⁸¹

History of the strategy

The strategy has been used since at least the mid-1970s; New Jersey's Rehabilitation Subcode, implemented in 1997, is viewed as a national model for facilitating urban redevelopment efforts. It formed the basis for the Nationally Applicable Recommended Rehabilitation Provisions (NARRP) distributed by the U.S. Department of Housing and Urban Development.

Target population

This strategy seeks to aid low-income homebuyers and renters by helping to preserve existing affordable housing.

How the strategy is administered

Building codes are administered by state and local governments that employ building inspectors who work in conjunction with developers and owners. The New Jersey Department of Community Affairs offers a continuing education program for all state-licensed code officials, which is followed by Rehabilitation Subcode training.

How the strategy is funded

Building permit fees generally fund code enforcement.

Extent of use of the strategy

Moderate use: About seven states and cities in at least five additional states have adopted rehabilitation codes.

Examples of locations where the strategy is being used

- New Jersey adopted a new building subcode designed to facilitate rehabilitation of older homes in 1997. The rules provide a sliding scale for determining when buildings must be

updated to current building codes. The more extensive the rehabilitation in terms of structural, mechanical, plumbing, electrical, or fire protection work, the greater the requirements to update to current building codes. The Rehabilitation Subcode bases requirements on the nature of the work rather than the cost of the work to be performed.

- States adopting similar codes include Maryland, North Carolina, Pennsylvania, Michigan, Florida, and Rhode Island, in addition to cities (such as Wilmington, DE) in several other states.
- Jurisdictions can adopt the International Existing Building Code, which was issued in 2003.

Strategy results

After New Jersey's rehabilitation subcode was adopted in 1997, rehabilitation work in New Jersey's five largest cities increased by 60 percent within the first year of the code's implementation. In contrast, the year before the code's implementation, rehabilitation in these cities increased by only 1.6 percent.¹⁸² Cost savings of 10-40 percent of the cost of redeveloping older buildings are typical.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Reduces costs of rehabilitating old housing for homeowners and landlords, reducing the cost of housing generally.
- Increases the supply of affordable housing by encouraging property maintenance.
- Improves safety of affordable housing by encouraging rehabilitation that otherwise would not have taken place.
- Preserves existing open space and makes efficient use of resources by encouraging reuse of old buildings.
- Facilitates relationship building between building inspectors, developers, and owners, promoting positive cooperation rather than penalizing building owners for noncompliance.
- Encourages new investment in existing neighborhoods.
- Particularly important strategy for communities with a large stock of older housing units.

Cons:

- Requires adopting a separate set of construction codes specifically for use in rehabilitation projects.
- Training is required for code officials to implement and enforce the new rehabilitation codes.
- Other barriers to rehabilitating old buildings remain, including shortages of skilled trades people and historic preservation requirements.

- Home-rule states, which give localities autonomy in adopting and amending building codes and zoning ordinances, may be left with a patchwork of rehabilitation codes despite efforts at the state level to adopt rehabilitation subcodes. In these states, incentives to municipalities for adopting the code may improve its use.

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Expedited Permitting Processes

Strategy description

Several tools for improving regulatory policies and processes have been used to speed-up, simplify or automate elements of the permitting process. These include: establishing tracking systems to record the permitting process and evaluate its performance; simplifying requirements for discretionary relief for affordable housing projects, including those that require rezoning from industrial to residential use; making small-scale affordable housing projects eligible for an accelerated review process; and automating elements of the process via the internet to provide quick access to general forms and information.

Expedited permitting processes improve efficiency by cutting time and expenses for developers. Reducing the costs incurred during the development review process makes affordable housing projects more feasible and reduces the cost of housing generally.

Target population

Direct Impact: Expedited permitting processes reduce time and expenses for developers building affordable housing. If permitting processes are streamlined for all residential development, the strategy also improves the affordability of housing generally.

Indirect Impact: Creating an incentive for developers to build affordable housing increases the amount of affordable housing for renters and homeowners.

How the strategy is administered

Local and state governments streamline or expedite permitting and review policies either generally or for housing that meets an affordability standard.

How the strategy is funded

Streamlining and fast-tracking review and permitting of affordable housing projects reduces developer costs at no cost to local jurisdictions.

Extent of use of the strategy

Widely used throughout the country.

Examples of locations where the strategy is being used

- Developers of projects certified by Austin, TX's S.M.A.R.T. Housing Initiative receive an expedited review that cuts processing time in about half. To be certified, projects must include "reasonably priced" homes. (See case study.)

- In the 1990s, Santa Fe, NM accelerated the processing of housing developments that include at least 25 percent affordably priced homes.
- Oregon is in the process of implementing e-permitting, which will allow development proposals to be submitted electronically.
- Massachusetts' state statute Chapter 40B provides streamlined processing for projects that include affordable housing.
- Los Angeles, Calif. implemented an online permit system that reduced staff time to process permits as well as customer wait time.

Strategy results

- In Santa Fe, NM, expedited permitting, along with fee waivers or reductions for affordable housing units and zoning and planning tools, has increased the number of new affordable homes built. Nearly 16 percent of new homes built in the city over the last decade are affordable for working families.¹⁸³
- Los Angeles' online permit system reduced staff time to process permits from one hour to five minutes.¹⁸⁴

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Streamlining the permitting process can result in direct cost savings for the local government.
- Expediting the permitting process decreases costs to investors, causing investors to increase their likelihood to build affordable housing. According to PricewaterhouseCoopers, "shortening the permitting process by 3 months on a 22-month project cycle could make the difference in the decision whether or not to undertake a project."¹⁸⁵
- Faster and easier navigation of the permitting process reduces development costs. These savings can be passed on to renters and buyers.
- Accelerating permit processes provides a temporary acceleration of property tax collections. According to PricewaterhouseCoopers, these property tax increases could be 16.5 percent over a 5-year period.¹⁸⁶

Cons:

- Communities that want to discourage growth may have a complex and lengthy permitting process in place in an effort to slow development.
- Expediting the permitting process may put public safety at risk by reducing scrutiny of the safety aspects of building plans.

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OREGON

E-PERMITTING

Obtaining a building permit is a complex and slow process that can discourage development of any kind, but particularly affordable housing development. The State of Oregon is working to ease the approval process and encourage development by establishing a statewide e-permitting program that provides access to a full range of electronic building permit services through a one-stop website.

✓ Expedited permitting processes

The e-permitting system, called eBuildingPermits, coordinates information and data with other jurisdictions. It also allows permit applicants to submit applications, buy permits from multiple building departments in one transaction, make payments, and schedule inspections through the e-permitting website. Once fully implemented, the e-permitting program will also allow applicants to track the progress of the project through the entire development process from initial plan intake and review to the final sign off.

Implementation of the system started with a pilot program, Quick Permits. Quick Permits allows developers to obtain a permit on-line for projects that do not require plan review. About 20 jurisdictions in the state have adopted Quick Permits to date, including Portland and some of the state's most populous counties including Washington and Clackamas. These jurisdictions cover more than half of the addresses in the state.

Based on the success of Quick Permits, the Oregon state legislature passed House Bill 2405, the e-building permit bill, in 2007. Passage of this bill started Oregon on the path to becoming the first state in the nation to offer contractors statewide electronic one-stop services. The law is part of Governor Kulongoski's regulatory streamlining initiative.

When the e-permitting system is fully implemented, the system will allow complete on-line processing for all projects including those that require plan review. It will be rolled out by the first half of 2009.

Patrick Allen, the deputy administrator of Building Codes Administration, says this system simplifies the permitting process in several important ways. First, it includes a portal that assembles a universal address database and determines what jurisdictions are involved in an application, and what fees are charged in each jurisdiction. “Figuring this out is one of the hardest parts,” said Allen. It also eliminates excessive paperwork and travel to and from permitting offices, which is especially onerous in rural areas.

The state estimates the cost of successfully implementing a statewide e-permitting program is approximately \$46 million over a 10-year period. The system is an off-the-shelf product, rather than one developed from scratch for the state, which allows the state to use the system on a trial basis. According to Allen, the state limits the risk of its investment by purchasing the program in two-year intervals. If the state finds that jurisdictions aren’t adopting the system, or this system is not improving the permitting process for developers, the state can discontinue use of the system at a cost well below the \$46 million.

Since the e-permitting program depends on the buy-in of state jurisdictions, the state has taken pains to ensure that the system is configurable for each jurisdiction. In planning for the implementation of the Oregon E-Permitting System, the Department of Consumer and Business Services (DCBS) distributed two surveys to jurisdictions throughout the state and conducted four town hall style meetings, a vendor market scan, and an interview with DCBS IT staff. The DCBS used information taken from these activities to address the needs and concerns of jurisdiction representatives in implementing the statewide e-permitting program.



One of the state's goals is for all jurisdictions to adopt Quick Permits by June 30, 2009. In addition, the state has been working to standardize business practices across all jurisdictions, a step that both makes implementation of e-permitting easier and simplifies the permitting process for contractors working in multiple jurisdictions.

Oregon expects that the e-permitting program will have a positive impact on the construction of affordable housing. "The time value of the permitting delay can be huge," said Allen. "This will take a lot of the delay and cost out of the picture. This will make a meaningful contribution to reducing construction costs."

The e-permitting program is funded by a 4 percent surcharge on building permit fees. Allen advises state and local governments planning to implement similar e-permitting programs to emphasize communication with local developers and contractors. Allen points out that articulating e-permitting benefits is critical since builders not only help move the program through legislature, but they also fund the program.

Oregon seems to have had success on this point. "Developers are very pleased with it," said Allen.

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Reforming Construction Standards and Building Codes

Strategy description

Reforming construction standards and building codes can improve housing affordability by eliminating unnecessary codes and requirements, permitting cost-saving materials that pose no safety risk, eliminating variation in building codes, eliminating excessive fees, and increasing the efficiency of building code inspectors. State or local jurisdictions can either amend existing codes piecemeal or adopt a universal set of codes.

History of the strategy

The strategy has been encouraged since at least the 1970s. Starting in the mid 1990s, there has been a trend for states and local jurisdictions to adopt one of two universal codes, the International Building Codes established by the International Code Council (ICC) and the NFPA 5000 developed by the National Fire Protection Association. States and local jurisdictions view the adoption of the International codes or the NFPA 5000 as a step toward a more appropriate and rational system of codes. At present, most cities, counties, and states that adopt codes choose the International codes.

Target population

The direct targets of this strategy are the developers in the jurisdiction, but indirectly homebuyers and renters may benefit from lower prices because the costs of construction are reduced.

How the strategy is administered

Uniform building codes can be adopted at the state or local level. In states that adopt a uniform code, some properties are not subject to the state building code, and state codes may not be binding on local jurisdictions. Only in states where building codes are specified to be a maximum requirement are local jurisdictions prevented from deviating from state codes.

How the strategy is funded

No funding needed other than the public funds needed for reforming construction standards and building codes, as well as the training that may be required for building code inspectors.

Extent of use of the strategy

Widely used.

Locations where the strategy is being used

- According to ICC, the *International Building Code* is used at the state or local level in 47 states plus Washington, D.C. The newer NFPA 5000 is used in a smaller number of communities.

However, in a number of these states, localities have the authority to enforce stricter requirements.

- White Plains, New York undertook an effort to modify building codes, described as being previously “archaic and Byzantine,” in order to reduce construction costs.¹⁸⁷
- Minnesota has a uniform building code that every county and community within the Minneapolis-St. Paul metropolitan region is required to use. Outside this region, any community or county that adopts a building code must use the state code.
- The Louisiana legislature has enacted laws providing for a uniform construction code. The Louisiana State Uniform Construction Code Council, charged with reviewing and adopting the code, also has worked to streamline the code enforcement process by developing a plan for the effective use of information technology in the building departments established to implement the code.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Reduces time and money spent by developers.
- Reduces barriers to national builders who are unaccustomed to local building codes.
- Eliminates unnecessary codes.
- Simplifies code enforcement and makes it more consistent.
- Reduces confusion and unpredictability over building and safety requirements.

Cons:

- Local jurisdictions may resist adopting universal codes because of the loss of local control.

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ENDNOTES

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