DRAFT Affordable Housing Strategy

Prepared for the City of Tempe, Arizona

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bae urban economics

CONTENTS

LIST OF ABBREVIATIONS 5

EXECUTIVE SUMMARY AND IMPLEMENTATION GUIDE 6

Priority Recommendations 7

Implement Affordable Housing Impact Statement (Strategy E-1) 7

Expand Use of "Incentives" such as Fee Waivers, Reimbursements, Abatements, etc. (Strategy B-1) 7

Dedicate Initial Seed Funding to Affordable Housing Trust Fund (Strategy A-2) 8

I. INTRODUCTION 10

Purpose of the Affordable Housing Strategy 10

Methodology 10

Relationship to Other Planning Efforts 11

II. HOUSING AND AFFORDABILITY IN TEMPE 12

Definition of Affordable Housing 12

The Need for Affordable Housing in Tempe 14

Student Population 15

Policies and Programs to Address Affordability 16

Federal Funding Sources 16

Low-Income Housing Tax Credits 16

III. AFFORDABLE HOUSING STRATEGY 18

A. Increase Resources to Support Production of Affordable Housing 20

Strategy A1: Annual Affordable Housing Production Goals 20

Strategy A2: Annual Funding Allocations to the Affordable Housing Trust Fund 23

B. Incentivize Inclusion of Affordable Units in Private Development 27

Strategy B1: Fee Waivers 27

Strategy B2: Inclusionary Housing Policies 28

Considerations for Tempe: Voluntary Inclusionary Housing Policy 30

C. Encourage Development of a Variety of Housing Types 32

Strategy C1: Accessory Dwelling Units 32

Strategy C2: Micro Units 33

Strategy C3: Tiny Houses 35

Strategy C4: Missing Middle Housing 37

Strategy C5: Co-Housing 40

Strategy C6: Community Land Trusts 41

DRAFT

D. Improve the Quality and Maintain the Current Inventory of Affordable Housing..... 42
Strategy D1: Preserve Existing Affordable Housing Stock 42
Strategy D2: Marketing for Section 8 Participation..... 44
Strategy D3: Single Family and Multifamily Housing Improvement Programs 45
E. Be Proactive about Community Concerns, Displacement, and Gentrification..... 46
Strategy E1: Affordable Housing Impact Statements..... 47
Strategy E2: Community Inclusion Framework..... 47
IV. PERFORMANCE MEASURES 49
V. APPENDICES.....50
Appendix A: Affordable Housing Impact Statement Summary Memorandum 50
Appendix B: Community Meetings and Stakeholder Interviews..... 63
Appendix C: Case Studies..... 64
Strategy B1: Fee Waivers..... 64
Strategy C1: Accessory Dwelling Units 72
Strategy C2: Micro Units..... 73
Strategy C3: Tiny Houses 76
Strategy C4: Missing Middle Housing..... 78
Strategy C5: Co-Housing 79
Strategy C6: Community Land Trusts..... 81
Strategy D2: Marketing for Section 8 Participation..... 83
Strategy E2: Community Inclusion Framework..... 85
Appendix C: Pro Forma Analysis..... 87

DRAFT

TABLE OF TABLES

Table 1: Income Limits, Phoenix-Mesa-Scottsdale MSA, Fiscal Year 2018 13
Table 2: Proportion of Cost-Burden Households within Income Groups 14
Table 3: Summary of Affordable Housing Strategy Elements 19
Table 4: Projected Housing Demand in Tempe through 2040 by AMI Level 21
Table 5: New Affordable Housing Units by Funding Scenario 23
Table 6: Typical Preservation Sources of Funds at Different Levels of Rehabilitation 43
Table 7: Summary of AHIS Policy Elements 59
Table 8: Incentive Policy for Affordable Housing Fees Eligibility List 65
Table 9: Incentive Policy for Affordable Housing Waiver and Reimbursement Scale 66
Table 10: Summary of Inclusionary Housing Requirements in the City of Detroit 68
Table 11: Summary of Voluntary Development Incentive Programs in the City of Austin 69
Table 12: Austin Density Bonus Affordable Housing Outcomes (Total Units by Median Family Income Level), August 2016 71
Table 13: Santa Cruz ADU Development Program Components 73
Table 14: Sample Resale Value Calculation, OPAL Community Land Trust 82
Table 15: King County Community Acceptance Framework 86

DRAFT

TABLE OF FIGURES

Figure 1: Sample Households at Various AMI Levels 13
Figure 2: Proportion of Tempe Households that are Cost-Burdened (a), 2010 – 2014 Five Year Data 15
Figure 3: Inclusionary Housing Programs Across the Continental U.S. 29
Figure 4: Types of Accessory Dwelling Units 32
Figure 5: University House on East Veterans Way, Tempe 34
Figure 6: Tiny Houses 36
Figure 7: Tempe Micro Estates 37
Figure 8: Missing Middle Housing 38
Figure 9: Missing Middle Housing Typologies 39
Figure 10: Proportion of Households that are Cost Burdened, AHIS Cities, 2010-2014 52
Figure 11: Proportion of Households that are Cost-Burdened, Valley Cities, 2010-2014 53
Figure 12: Density Bonus Areas in Austin 70
Figure 13: Austin Density Bonus Affordable Housing Outcomes (Total Units by Program), August 2016 71
Figure 14: Seattle Micro Unit Policy Changes, 2014 - 2016 75
Figure 15: Seattle Micro Unit Production, 2010 - 2015 76
Figure 16: Sample Site Plan for a Pocket Neighborhood 77
Figure 17: Downtown Mesa and Temple/Pioneer Park Neighborhoods Regulating Plan 79
Figure 18: Aerial View of Manzanita Village 80
Figure 19: Pro Forma Analysis for Hypothetical 2.5-acre City-Owned site 87

DRAFT

LIST OF ABBREVIATIONS

ADU	Accessory Dwelling Unit
AHS	Affordable Housing Strategy
AHIS	Affordable Housing Impact Statement
AHTF	Affordable Housing Trust Fund
AMI	Area Median Income
ASU	Arizona State University
CDBG	Community Development Block Grant
CHAS	Comprehensive Housing Affordability Strategy
CLT	Community Land Trust
FAR	Floor Area Ratio
FY	Fiscal Year
GPLET	Government Property Lease Excise Tax
HIP	Housing Improvement Program (Tempe)
HUD	U.S. Department of Housing and Urban Development
IDA	Industrial Development Authority
LIHTC	Low Income Housing Tax Credit
LISC	Local Initiatives Support Corporation
MAG	Maricopa Association of Governments
MSA	Metropolitan Statistical Area
NOFA	Notice of Funding Availability
QAP	Qualified Application Program
RFP	Request for Proposals
SEDU	Small Efficiency Dwelling Unit
TBRA	Tenant Based Rental Assistance
TOD	Transportation Overlay District
TOT	Transient Occupancy Tax
UCMP	Urban Core Master Plan
VA	Veterans Affairs

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EXECUTIVE SUMMARY AND IMPLEMENTATION GUIDE

This Affordable Housing Strategy (AHS) document is designed to guide future decision-making on the production and preservation of affordable housing in the City of Tempe. The AHS helps establish the City's goals and objectives for improving the availability of quality housing for residents of different income levels, and lays out strategies to achieve housing affordability. This initiative is based on the Housing Element of the General Plan 2040 as ratified by voters in 2014.

Like many vibrant cities, the City of Tempe faces increasing challenges related affordable housing. Over 25,000 households in Tempe, representing nearly 37 percent of all households, pay at least 30 percent of their income on housing each month. The City's housing issues are also related to factors such as the lack of affordable housing near places of employment, and workers' choices of where they want to live.

Recognizing that there is no "one size fits all" approach to addressing affordability, the AHS examines over twenty possible strategies to expand local housing options and preserve affordability within Tempe. While some strategies require public subsidy, other strategies are focused on market-based solutions that do not require the outlay of public funds.

Prioritizing the AHS Approach:
This Executive Summary and Implementation Guide highlight those key affordable housing strategies that could be recommended for **immediate** Citywide implementation. Criteria for these strategies include the following:

- Affordable housing strategies that were already being considered for citywide approval at the time of this Report (e.g., Affordable Housing Impact Statement). Preliminary AHIS program implementation has been in effect since February 5, 2019 and full implementation can be targeted by year's end.

- Strategies that don't require immediate financial outlay or dedicated funding sources (fee waivers, reimbursements and abatements).

- Strategies that can leverage existing tools (such as the city's existing Affordable Housing Trust Fund), with a demonstrated commitment to identify a dedicated source of funding by a specified date.

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Priority Recommendations

Implement Affordable Housing Impact Statement (Strategy E-1)

For built-out cities such as Tempe, the construction of new, higher density housing can potentially displace existing residents via demolition of units that may be already be "naturally affordable". When these displaced residents are forced pay more for housing elsewhere, citywide cost burdens can be exacerbated even further.

To this end, the implementation of an Affordable Housing Impact Statement on new development projects can help alert policy-makers to the potential loss or gain of existing affordable units, as well as provide real-time, up-to-date data that can be periodically reviewed to quantify any deficit that can be recaptured. The intended benefits of an AHIS policy include:

- Elevating the visibility of housing affordability in the public discourse by ensuring it is "part of the conversation" when discussing land use policies and projects;
- Informing city decisions with accurate, real-time data about project impacts on housing;
- Helping cities track changes to the housing supply and measure the efficacy of housing initiatives; and
- Providing data that could make jurisdictions more competitive in applications for funding.

On September 21, 2018, the Tempe City Council requested City staff begin implementing the AHIS form for new development applicants, with further detail fleshed out during a public outreach event in early 2019. Preliminary implementation for the AHIS program was in effect as of February 5, 2019.

<u>Recommended Action Items:</u>

- Target August 2019 for full implementation of the AHIS, to be fully integrated with the formal development application process.
- Establish a reporting date of approximately 12 months after final AHIS implementation, as well as an annual reporting schedule to be determined in advance. Data reported during each cycle could include, at the very least, number of residential unit applications filed, number of demolished residential units, and number of affordable units gained/lost.

Expand Use of "Incentives" such as Fee Waivers, Reimbursements, Abatements, etc. (Strategy B-1)

Many jurisdictions offer reduced fees and/or shortened review timelines to incentivize the inclusion of affordable units in market-rate projects. Per the Zoning and Development Code,

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the City of Tempe may currently grant fee waivers within the Apache Boulevard Redevelopment Area equaling up to 50 percent of development fees for projects that include Workforce Housing, defined as housing sold or leased to households with income between 80 to 120 percent of AMI.

The fee waiver policy, however, does not specify how to memorialize the affordability in a covenant or other recorded document. This could potentially present challenges for enforcement and require ongoing availability of City resources to ensure compliance over time. The fee waiver policy also does not specify the duration of the affordability as requirement to receive a fee waiver, potentially resulting in an ad hoc negotiation for each waiver application.

Over the short term, the City could consider the following:

- Expanding eligibility of the fee waiver policy to include projects with units for households under 80 percent of AMI, which is where the majority of the city's affordable housing deficit lies.
- Expanding eligibility of the development fee waiver program beyond the Apache Boulevard Redevelopment Area to include eligible projects citywide.
- Requiring that the qualifying level of affordability be documented in a covenant that is recorded on the property, with a fixed term of at least 30 years in alignment with federal tax credit funding requirements.

<u>Recommended Action Items:</u>

- Working with Community Development, Human Services, and other relevant departments, begin to create a formalized "Incentives Menu" with consistent eligibility criteria and a transparent application process that is easily accessible online.
- Target August 2019 for implementation, whereby new development applicants can "opt in" to a voluntary dedication of affordable units in exchange for fee adjustment, bonus increase, or other incentive such as streamlined application.

Dedicate Initial Seed Funding to Affordable Housing Trust Fund (Strategy A-2)

While the City of Tempe has an Affordable Housing Trust Fund (AHTF), the fund does not yet have a locally-dedicated source of revenue. Channeling existing resources to the AHTF, however, would require forgoing critical housing programs currently in operation, such as the Housing Choice Voucher program. Instead, there are a variety of sources the City could use to seed the AHTF, described in further detail in the report.

Over the short term, this Strategy recommends that Tempe determine an annual Trust Fund Contribution that does not adversely impact current programming during Phase One, with a gradual ramp up over the near term in Phase Two.

<u>Recommended Action Items:</u>

- Consider a one-time allocation of General Funds for initial seeding of the Affordable Housing Trust Fund (Phase One), with a dedicated revenue source to be agreed upon in the near term (Phase Two).
- Commit to the Trust Fund a portion of proceeds from citywide ground leases, sales, and development agreements.

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I. INTRODUCTION

Purpose of the Affordable Housing Strategy

This document on Affordable Housing Strategies (AHS) is designed to guide future decision-making regarding affordable housing in the City of Tempe. The AHS establishes the City's goals and objectives for improving the availability of quality housing for residents of a variety of income levels and lays out strategies to be implemented to achieve civic objectives for housing affordability.

The proposed goal of the AHS is to provide quality housing that is affordable to households at all income levels, with specific focus on lower-income (or cost-burdened) households. This goal aligns closely with the goal of the Housing Element in the adopted General Plan. The AHS includes strategies for both rental and for-sale housing. While some strategies require public subsidy, other strategies are focused on market-based solutions that do not require the outlay of public funds. Strategies are subject to a final, full legal review. The five objectives and their supporting strategies are described below. Each strategy includes recommendations for implementation in Tempe, a discussion of considerations in the local context, and examples of implementation in other jurisdictions where appropriate.

Methodology

The objectives and strategies presented in this document are grounded in the findings of the Market Study that BAE completed in early 2018. The Market Study includes a demographic analysis, a real estate market conditions analysis, and projections for future development and population growth. The Market Study also includes an overview of Tempe's affordable housing context, which consists of an analysis of housing cost burdens among Tempe households, current and future affordable housing needs, and existing policies and programs that address housing affordability. The Market Study includes data from the following sources:

- The U.S. Census American Community Survey
- The U.S. Census Longitudinal Employer Household Dynamics program
- The U.S. Department of Housing and Urban Development (HUD) Comprehensive Housing Affordability Strategy (CHAS)
- Esri, a third-party vendor that develops algorithms and uses proprietary spatial information to update and verify demographic statistics against Census data
- CoreLogic, a third-party vendor of property data
- CoStar, a third-party commercial real estate research firm with a wide-reaching, comprehensive database of commercial and multifamily real estate data
- Maricopa Association of Governments (MAG) 2016 Socioeconomic Projections

BAE received valuable input from stakeholders, including ongoing consultation with City staff, guidance from City Council in public meetings, interviews with affordable housing and social service advocates and funders, members of the non-profit and for-profit development

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communities, business community representatives, and from the public in a series of community meetings held with the consultant team. A summary of this outreach is described in further detail in Appendix B.

To provide additional context for the strategies recommended in this report, some strategies include case studies that illustrate how jurisdictions with parallels to Tempe have implemented these tools, programs, and policies. BAE compiled information for these case studies through a literature review process and interviews. Each strategy also includes a section relating it to the local context in Tempe.

Relationship to Other Planning Efforts

As part of the concurrent Urban Core Master Plan (UCMP) and Transportation Overlay District (TOD), the Affordable Housing Strategy (AHS) builds and expands upon a broad foundation of coordinated citywide planning efforts.

The AHS is informed in part by the findings of BAE's Affordable Housing Context and Market Analysis (prepared in February 2018), which helped augment a prior Housing Inventory and Affordability Analysis commissioned by the City of Tempe from BBC Research & Consulting (August 2017). The AHS also incorporates the direction received from Council during the Issue Review Session (March 2018) and Council Retreat (September 2018).

Over the last twenty years, public infrastructure investments and dedicated planning efforts have helped consolidate and enhance Tempe's role as a key node of economic and recreational activity for residents, workers, and visitors in the Valley. To this end, it is essential that city departments, agencies, and stakeholders coordinate with one another to ensure the AHS can fulfill its mission.

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II. HOUSING AND AFFORDABILITY IN TEMPE

The following section provides context for the AHS, including information as to how affordable housing is defined, Tempe's existing and future affordable housing needs, the impact of market conditions in Tempe on housing affordability, and an overview of Tempe's affordable housing ecosystem and resources.

Definition of Affordable Housing

Affordable housing is defined by the U.S Department of Housing and Urban Development (HUD) as housing that does not require a household to spend more than 30 percent of its gross monthly income on housing costs.[1] For rental housing, these costs include monthly rent and utility payments; for owner-occupied housing, these costs include mortgage payments and additional expenses associated with homeownership.[2] A household that spends more than 30 percent of its gross monthly income on housing costs is considered "cost-burdened."

Many households are able to attain housing that is "naturally affordable," meaning that those households are able to find market-rate housing that meets this criterion. Examples of such naturally affordable housing might include an older, class B and/or C multifamily property, or a mobile home park.[3] Nonetheless, for many households—especially low- and moderate-income households—finding affordable housing in the private market can be difficult. To help identify the income groups that are disproportionately affected by high housing cost burdens, HUD and local jurisdictions use Area Median Income (AMI) levels. Table 1 below summarizes AMI levels in the Phoenix-Mesa-Scottsdale MSA for Fiscal Year 2018.

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[1] U.S. Department of Housing and Urban Development (HUD) Resources Glossary
[2] Additional costs associated with homeownership include property insurance, property taxes, mortgage insurance, and HOA fees.
[3] https://urbanland.uli.org/economy-markets-trends/new-costar-data-reveal-vast-national-inventory-naturally-occurring-affordable-housing-untapped-opportunity/

Table 1: Income Limits, Phoenix-Mesa-Scottsdale MSA, Fiscal Year 2018

Household of One - Median Income:		$48,400
Income Level	**AMI**	**Max. Income**
Extremely Low (a)	0% to 30%	$14,550
Very Low	30% to 50%	$24,200
Low	50% to 80%	$38,720
Moderate	80% to 120%	$58,080
Above Moderate	120% and Above	N/A

Household of Two - Median Income:		$55,300
Income Level	**AMI**	**Max. Income**
Extremely Low (a)	0% to 30%	$16,600
Very Low	30% to 50%	$27,650
Low	50% to 80%	$44,240
Moderate	80% to 120%	$66,360
Above Moderate	120% and Above	N/A

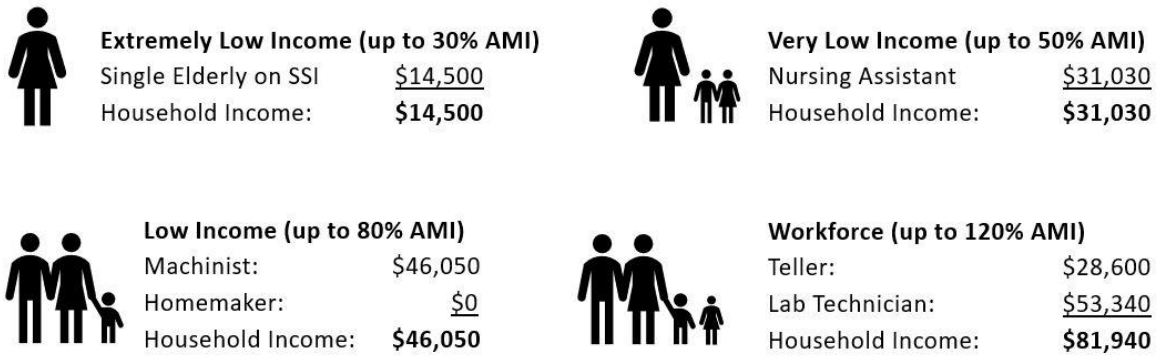
Household of Three - Median Income		$62,200
Income Level	**AMI**	**Max. Income**
Extremely Low (a)	0% to 30%	$20,780
Very Low	30% to 50%	$31,100
Low	50% to 80%	$49,760
Moderate	80% to 120%	$74,640
Above Moderate	120% and Above	N/A

Household of Four - Median Income:		$69,100
Income Level	**AMI**	**Max. Income**
Extremely Low (a)	0% to 30%	$25,100
Very Low	30% to 50%	$34,550
Low	50% to 80%	$55,300
Moderate	80% to 120%	$82,920
Above Moderate	120% and Above	N/A

Notes:
Information derived from HUD Income Limits for Phoenix-Mesa-Scottsdale, AZ MSA for FY 2018.
(a) The maximum income for the Extremely Low Income category is not equal to exactly 30% of median income as the FY 2014 Consolidated Appropriations Act changed the definition of extremely low-income to be the greater of 60 percent of the Section 8 very low-income limit or the poverty guideline as established by the Department of Health and Human Services, provided that this amount is not greater than the Section 8 very low-income limit.
Sources: HUD, 2018; BAE, 2018.

Figure 1 provides some samples of household types earning up to 30, 50, 80, and 120 percent of AMI. For example, an extremely low-income household of one (up to 30 percent of AMI) might be comprised of a single elderly person living on Supplemental Security Income (SSI). A very low-income household of three (up to 50 percent of AMI) might be comprised of a nursing assistant and her two children. A low-income household of three (up to 80 percent of AMI) might be comprised of a machinist, a homemaker, and a child. And finally, a moderate-income household (up to 120 percent of AMI) might include a bank teller, a lab technician, and two children. Housing that is made affordable specifically for this group (households earning between 80 percent and 120 percent of AMI) is also known as "workforce housing."

Figure 1: Sample Households at Various AMI Levels



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The Need for Affordable Housing in Tempe

Housing Affordability becomes an issue when there is a deficit of housing units that can accommodate a city's households at costs that are proportionate to their incomes. According to HUD standards, households paying more than 30 percent of their gross income for housing costs are considered "cost-burdened." Per HUD's 2011-2014 Comprehensive Housing Affordability Strategy (CHAS) data, 36.8 percent of Tempe households are considered cost-burdened (46.2 percent of renter households and 24.2 percent of owner households).

Current Need

Table 2 shows the number and percentage of Tempe households within each income level that are cost-burdened. In total, 25,645 Tempe households are cost-burdened, including 9,025 extremely low-income households, 5,845 very low-income households, 6,100 low-income households, and 3,108 moderate-income households. Nearly 94 percent of extremely low-income households, 86.3 percent of very low-income households, 60.4 percent of low-income households, and 26.8 percent of moderate-income households are cost-burdened.

Table 2: Proportion of Cost-Burden Households within Income Groups

Income Level	AMI	# Cost-Burdened Households	Proportion of HHs within Income Level that are Cost-Burdened
Extremely Low	0% to 30%	9,025	93.9%
Very Low	30% to 50%	5,845	86.3%
Low	50% to 80%	6,100	60.4%
Moderate	80% to 120%	3,108	26.8%
Above Moderate	120% and Above	1,567	6.2%
		25,645	

Sources: U.S. Department of Housing and Urban Development, 2010-2014 Comprehensive Housing Affordability Strategy.
(CHAS) data; BAE, 2018.

Figure 2 compares housing cost burden levels in Tempe and the Urban Core with those in seven other Arizona cities. Tempe's overall incidence of housing cost burden (36.8 percent of all households) was second-highest among the eight jurisdictions examined in Arizona (second only to Glendale, where 37.0 percent of households are cost-burdened, per 2011-2014 Comprehensive Housing Affordability Strategy (CHAS) data.

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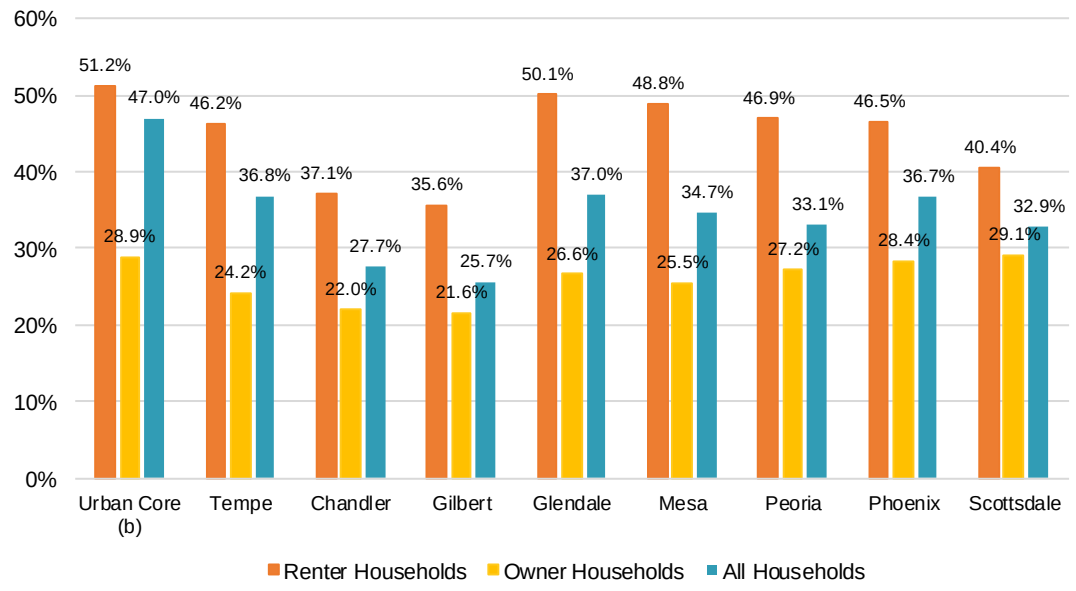
Figure 2: Proportion of Tempe Households that are Cost-Burdened (a), 2010 – 2014 Five Year Data



Notes:
(a) Cost-burdened households are defined as those who spend more than 30 percent of household income on housing costs. Households with no or negative income are not included here.
(b) The Urban Core is defined here as the 11 Census Tracts that intersect with the Urban Core boundary as defined by The City of Tempe.
Sources: U.S. Department of Housing and Urban Development, 2010-2014 Comprehensive Housing Affordability Strategy (CHAS) data; BAE, 2017.Sources: U.S. Department of Housing and Urban Development, 2010-2014 Comprehensive Housing Affordability Strategy (CHAS) data; BAE, 2017.

Student Population

Tempe has a similar share of cost burdened renters as Durham, North Carolina and Provo, Utah—two college towns identified as "peer communities" by BBC Research & Consulting.

Although it can be difficult to ascertain the precise impacts of the student population on housing affordability, the prior Market Study identifies that approximately 40 percent of lower-income households earning less than 80 percent of AMI contain at least one resident student enrolled in a public or private institution of higher learning.[4] From a policy perspective, it may be reasonable to assume that public subsidy is best focused on assisting households that are low-income due to circumstances other than temporary student status. Citywide, however, it should be noted that there are significantly more non-student households classified as lower-income (approximately 60 percent) than student households.

[4] Note that a lower-income student household can consist of a group of traditional students, a family with an enrolled student who lives at home, or a single parent attending classes in the evening.

Policies and Programs to Address Affordability

Tempe has long supported policies and programs to engender the provision of a range of housing units that are affordable to low-income households. The Tempe Human Services Department's Housing Services Division administers multiple types of housing assistance, providing just over $10 million a year in direct housing assistance to the residents of Tempe.

Recent city efforts to roll out new affordable housing programs are numerous: These include the HUD-VASH program a collaboration between HUD and the Department of Veterans Affairs that provides housing assistance for VA eligible Veterans. The HOME Tenant Based Rental Assistance (TBRA) program, meanwhile, utilizes some of the HOME Investment Partnership funds received from HUD to provide housing subsidies for individuals who are homeless, or will be homeless due to Domestic Violence. The Mainstream program is a HUD program designed specifically to assist non-elderly persons with disabilities who are transitioning out of institutional or other segregated settings, at serious risk of institutionalization, homeless, or at risk of becoming homeless.

The City has also recently focused on new solutions to help the homeless. This includes a pilot program that partners with a local employment agency to screen homeless applicants and train them for local jobs. Another local nonprofit, meanwhile, will help find housing for those who successfully participate in the program.

Federal Funding Sources

The Housing Choice Voucher Program provides tenant-based rental assistance to low-income households. For the 1,090 tenant-based vouchers allotted to the City on an annual basis, the Housing Services Division authorizes payments to participating landlords that make up the difference between the market rent and the affordable rent for the household that doesn't exceed 30 percent of the household's adjusted gross income. Approximately 3,000 eligible households are currently on a waiting list.

The City also receives approximately $300,000 in HOME Investment Partnerships Program (HOME) funds each year, which are used for down-payment assistance and the HOME-TBRA (Tenant-Based Rental Assistance) program. Additionally, Tempe receives roughly $1.5 million in Community Development Block Grant (CDBG) funding annually, which has been used to fund housing and rehabilitation programs such as a single-family housing emergency repair program, and to redevelop/develop affordable housing for low- and moderate-income households.

Low-Income Housing Tax Credits

Authorized in the 1986 Tax Reform Act, Low-Income Housing Tax Credits (LIHTC) are a dollar-for-dollar federal tax credit for investments in affordable housing projects, including new

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construction and rehabilitation. The successful program has engendered an entire ecosystem of affordable housing development, and has funded the development of over 2.4 million affordable housing units nationwide, and over 27,100 affordable units in Arizona.

Although less utilized in prior years, Tempe projects have been competitive for LIHTC funding since 2012, with several recent projects developed, including Gracie's Village, Apache ASL trails, Encore on Farmer, Desert Willow Apartments, and Meridian @ 101. LIHTC funding is not allocated to the local jurisdictions but rather to the state, which administers funds on a competitive basis through a Notice of Funding Availability under the guidelines of a Qualified Application Plan (QAP) published annually with a scoring system threshold and underwriting tests. Although some location-based variables, such as proximity to transit and services, may be factored in the QAP, there are no geographic formulas or quotas for distribution of tax credits.

The state's most recent QAP adjusted the scoring system to de-emphasize the importance of proximity to transit and services and rather emphasizes the number of units produced through the tax credit investment. This generally is expected to make Tempe projects, subject to relatively high land costs, somewhat less competitive without additional local financial assistance.

Local Funding Sources. There is no locally-dedicated source of annual funding for affordable housing in Tempe. The City established an Affordable Housing Trust Fund in 2010 to act as a repository of funds restricted exclusively for use in creating affordable housing opportunities. No annual funding was provided from the General Fund or other sources. Deposits are intended to derive from in-lieu fees and negotiated proceeds from development agreements. To date, one payment of $50,000 was deposited in the Affordable Housing Trust Fund. Fund proceeds are currently planned to help fund the housing component of the TempeWorks pilot program and the Emergency Housing Demonstration Pilot.

Existing and Potential Solutions. Tempe has developed several programs and policies to provide affordable housing for low-income households, yet funding is very limited, and some policy options, such as mandatory inclusionary zoning or impact fees for affordable housing, are proscribed by statewide legislation.

There are a variety of tools available to local governments to increase access to affordable housing for low- and moderate-income households. The following section explores potential strategies for increasing low- and middle-income housing stock and makes recommendations that are appropriate to the challenges faced by Tempe.

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III. AFFORDABLE HOUSING STRATEGY

The goal of the AHS is to provide quality housing that is affordable to Tempe households at all income levels, with a specific focus on providing affordable housing to cost-burdened households in greatest need.

This goal is adapted from the Housing Element of the General Plan 2040 as ratified by voters in 2014.

To achieve this goal, approaches are necessary to address the Tempe's diverse housing needs. For example, although the greatest need for affordable housing is evident in lower-income rental households, the strategy should also encourage development of housing for all income levels, and for ownership and rental. Housing shortages force residents to compete for limited housing, which bids up home prices and rents. Increasing the City's total inventory of housing – including market-rate housing – will help to lessen the pressure on Tempe's tight housing market and will have the general effect of lowering housing costs overall.[5]

The five objectives described here are informed by the needs and understanding of the affordable housing landscape, a survey of approaches used around the country, as adapted to the local context, and with input from staff, elected officials, and community stakeholders.

A. Increase Resources to Support Production of Affordable Housing
B. Incentivize Inclusion of Affordable Units in Private Development
C. Encourage Development of a Variety of Housing Types
D. Improve the Quality and Maintain the Current Inventory of Affordable Housing
E. Continue to be Proactive about Community Concerns, Displacement, and Gentrification

Each objective is supported by strategy elements, policies or programs that can be enacted to help achieve the goal and objectives.

Table 3 summarizes these approaches and indicates whether the approach is best suited to for-sale housing or rental housing, whether it requires subsidies or is considered a market-based solution, and the household income levels served by the approach. The objectives and approaches are discussed in detail on the following pages. Each subsection includes a general description of the approach and its suitability for the City of Tempe. Most subsections are supplemented with case studies that provide insights into what the approaches look like in action once established.

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[5] See the following reports for more information on the relationship between housing supply and housing costs: *California's High Housing Costs*, California Legislative Analyst's Office, March 17, 2015; *The Economic Implications of Housing Supply*, Edward Glaeser and Joseph Gyourko, Journal of Economic Perspectives—Volume 32, Number 1—Winter 2018—Pages 3–30, 2018; *Strategies for Increasing Housing Supply in High-Cost Cities*, The Urban Institute, August 2016.

Table 3: Summary of Affordable Housing Strategy Elements

					Affordability Levels Targeted				
	Tenure		Funding		Ext. Low	Very Low	Low	Moderate	> Mod.
Objectives / Strategies	**For Sale**	**Rental**	**Public Subsidy**	**Market-Based**	**< 30% AMI**	**30-50% AMI**	**50-80% AMI**	**80-120% AMI**	**> 120% AMI**
A. Increase Resources to Support Production of Affordable Housing									
1. Annual Affordable Housing Production Goal	X	X	X	X	X	X	X	X	X
2. Annual Allocation to AH Trust Fund	X	X	X		X	X	X		
B. Incentivize Affordable Units in Private Development									
1. Fee Waivers and Expedited Processing	X	X	X	X	X	X	X		
2. Voluntary Inclusionary Policies	X	X	X	X	X	X	X		
Density Bonuses in Upzoned Areas	X	X		X	X	X	X	X	
C. Facilitate Variety in Housing Production									
1. Accessory Dwelling Units		X		X			X	X	
2. Micro Units		X		X				X	X
3. Tiny Houses	X			X				X	X
4. Missing Middle Housing	X	X		X			X	X	X
5. Co-Housing	X			X			X	X	X
6. Community Land Trusts	X	X	X			X	X	X	
7. Limited Equity Cooperatives	X		X				X	X	
D. Maintain Existing Affordable Inventory									
1. Preserve Existing Affordable Housing Stock		X			X	X			
2. Marketing for Section 8 Participation		X	X		X	X			
3. Housing Improvement Programs	X	X	X	X	X	X	X		
E. Active Engagement on Affordability Issues									
1. Affordable Housing Impact Statements	X	X	n/a	n/a	X	X	X		
2. Community Inclusion Framework	X	X	n/a	n/a	X	X	X	X	X

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A. Increase Resources to Support Production of Affordable Housing

The majority of Tempe's cost-burdened households are renters in the extremely low- or very low-Income categories. The most prevalent methods to provide affordable housing for such households involve public subsidy, much of which flows from federal and state governments. Some of these sources are entitlement program grants to local jurisdictions by formula, while others are competitive and discretionary. Because these sources are insufficient to address Tempe's existing and future affordability needs, the strategy elements under this Objective focus on growing the pool of resources available to subsidize affordable units and leveraging these resources to address the most critical needs.

For example, in a 100 percent affordable housing project using a 9 percent LIHTC, there will still be a funding gap. This underscores the need for other financing gap even in the best-case scenario

Strategy A1: Annual Affordable Housing Production Goals

Affordable housing production and preservation goals are increasingly common in the United States, even in jurisdictions that prohibit mandatory inclusionary zoning. They can be adopted as non-binding city policy (as in Portland, Oregon[6]), prescribed in the Housing Element of a city's General Plan or Comprehensive Plan (such as in Housing Elements required in municipalities in California[7], Florida[8], and Minnesota[9] and are completed voluntarily by many cities in other states), or described in a stand-alone affordable housing action plan (as in Detroit[10] and Arlington, Virginia[11], among others). The state of Massachusetts incentivizes municipalities to create Housing Production Plans that state the number of affordable units that each city aims to create as well as the affordability levels, typologies, and target locations of units to be created.[12]

Anticipated Need

As Tempe continues to grow, demand for affordable units in Tempe will increase with growth in the number of households. One approach to addressing this future need is to quantify reasonable annual production goals, beginning with the number of new units that need to be constructed to accommodate the growth in the number of households through a given time horizon (e.g., 2040), and distributed across present levels of household income.

Projections from the Maricopa Association of Governments (MAG) indicate that approximately 97,507 households will live in the City of Tempe by 2040, up from 71,710 currently). As

[6] https://www.portlandoregon.gov/citycode/article/36799
[7] http://www.hcd.ca.gov/community-development/housing-element/index.shtml
[8] http://www.flhousing.org/wp-content/uploads/2015/09/CLT-Primer-Housing-Element.pdf
[9] https://www.revisor.mn.gov/statutes/?id=473.859
[10] http://detroitmi.gov/Portals/0/docs/SOTC/Detroit_Multifamily_Affordable_Housing_Strategy_2018.pdf
[11] https://housing.arlingtonva.us/affordable-housing-master-plan/
[12] https://www.mass.gov/files/documents/2017/12/22/hppguidelines.pdf

shown in Table 4, approximately 21,324 additional affordable housing units will be needed through year 2040. Data from the 2010-2014 Comprehensive Affordable Housing Strategy (CHAS) show the percentage of Tempe households that currently fall under each of the income categories used by HUD to determine housing affordability. Assuming these ratios remain constant, this shows a need for 3,228 new units for households earning below 30 percent AMI; 2,273 units for 30 to 50 percent AMI households, and 3,389 units for 50 to 80 percent AMI.

Table 4: Projected Housing Demand in Tempe through 2040 by AMI Level

Income Category (a)	Percent	Housing Units Needed
Extremely Low (below 30% AMI)	15.1%	3,228
Very Low (30 to 50% AMI)	10.7%	2,273
Low (50 to 80% AMI)	15.9%	3,389
Moderate (80 to 100% AMI)	9.2%	1,954
Above Moderate (100 to 120% AMI)	9.1%	1,933
Above 120% AMI	40.1%	8,548
	100.0%	**21,324**

Notes:
(a) Income categories derived from 2010-2014 Comprehensive Affordable Housing Strategy (CHAS); data is for the City of Tempe.

Based on this range, the City can choose to prioritize unit production and preservation for specific types of housing and for specific household income levels. For example, production of units at the higher affordability levels (e.g., with incomes close to or exceeding the AMI) can be expected to be satisfied by market-driven private development without any public assistance. At the lower income levels below 80% of AMI, the biggest current inventory deficits are for units for extremely low (below 30% AMI)- and very low-income households (below 50% AMI), while for the low-income households earning 50 to 80% of AMI, there are surplus units available for rent at an affordable rate.[13]

Public subsidy may not be required to produce all needed affordable units. Although subsidy will likely be required for many affordable units, especially at the lowest income levels, other strategies included in the AHS, such as a voluntary inclusionary policy or density bonus program, may allow for production of some units without a financial subsidy from public programs.

[13] BBC Research and Consulting, 2017.

Finally, production targets can be set to be both scalable and reasonably achievable. Tempe is starting with a baseline level of funding available from federal sources, and can plan to increase funding over time as local sources are identified and utilized.

Considerations for Tempe: Sample Production Targets by Scenario
In consideration of the above, three scenarios are presented below with different methodologies to set affordable housing preservation and production targets. Assumptions for the three scenarios include the following:

- Each scenario proposes a specific level of annual funding, and a projection of the number of affordable units that would be provided over the term in relation to need.
- To address differences within the student population (e.g. a single parent with a job and going to school compared to an entering freshman), total need in each scenario has been reduced by 20 percent.
- Each scenario assumes that annual funding begins in Year One (Phase One) with a $250,000 initial seeding of the Affordable Housing Trust Fund from either the General Fund, or other funding sources to be determined by City Council. Contributions would remain steady during Phase One as a permanent source of revenue is identified.
- Starting in Year Four (Phase Two), each scenario assumes a $1 million annual contribution, with an annual increase in funding ranging from 3.5 percent per year (Scenario One) to 19.5 percent (Scenario Two).
- Based on previously completed LITHC projects and other unit buy downs, the City's average cost to subsidize an affordable unit is estimated to be approximately $75,000. This represents a conservative estimate, as the maximum amount for down-payment assistance via the Community Assisted Mortgage Program is $35,000, and recent City assistance to the creation of affordable rental units has been around $25,000.

Descriptions of these scenarios are given below. Table 5 provides a comparative summary of these scenarios.

Scenario One

Scenario One assumes that beginning in Phase Two, dedicated funds for the Affordable Housing Trust Fund would increase by a modest 3.5 percent per year. By year 2040, annual dedicated funding would reach approximately $1,900,000, contributing to approximately 340 new affordable units funded over the study period. This would meet approximately 4.8 percent of new need through 2040. This is the most conservative scenario, starting with a modest level of funding that increases at a rate twice that of inflation.

Scenario Two

Scenario Two takes the most ambitious approach, which considers the amount of funding that would be required to meet the City's full annual production goal (339 affordable units) in the year 2040. To do so, dedicated annual funding to the Affordable Housing Trust Fund would

have to increase by approximately 20.4 percent per year in Phase Two, reaching the amount of $28.2 million per year by 2040. This is the most aggressive scenario, in which the City would be providing enough subsidy to address the entire annual need by 2040.

Scenario Three

Scenario Three recalibrates the City's future affordable housing need by isolating only those household income levels currently facing an actual deficit in available housing—those earning 50% AMI and below. This approach lowers the City's need from 339 affordable units per year to 210. Assuming a slightly more robust annual increase in dedicated Trust Funds than Scenario One (7.5 percent versus 3.5 percent), this approach would help fund nearly 500 units over the study period. This represents meeting approximately 11.3 percent of total future need, and 21.1 percent of the annual need in 2040 (see Table 5).

Table 5: New Affordable Housing Units by Funding Scenario

	Phase 2 Annual Funding Increase (%)	Anticipated Funding (Year 5)	Anticipated Funding (Year 22)	Total Units Needed by 2040 (#)	Total Units Funded by 2040 (#)	Total Need Met through 2040 (%) (a)	Annual Need Met in 2040 (%) (b)
Scenario 1	3.5%	$1,035,000	$1,857,489	7,111	339	4.8%	6.6%
Scenario 2	20.4%	$1,204,000	$28,266,808	7,111	1,997	28.1%	100.2%
Scenario 3	7.5%	$1,075,000	$3,675,804	4,400	499	11.3%	21.1%

Notes:
(a) Total Affordable Housing Need through 2040 calculated at 7,111 units for Scenarios 1 and 2 and 4,400 units for Scenario 3
(b) Annual Need in 2040 calculated at 339 units for Scenarios 1 and 2 and 210 units for Scenario 3

Source: City of Tempe; BAE, 2019.

Strategy A2: Annual Funding Allocations to the Affordable Housing Trust Fund

In an environment with growing affordable housing needs and stagnant or declining amounts of federal and state resources, local funding resources are needed to supplement the amount of funding available for affordable housing. In addition, local funding can make City's request for federal and state funding more competitive, possibly resulting in an increase in external resources invested locally. For these reasons, many jurisdictions create an Affordable Housing Trust Fund dedicated to subsidizing affordable housing. Contributions to the trust fund can come from a variety of sources, including from federal entitlement grants, general fund, proceeds from land sales, in-lieu and impact fees, and taxes or assessments levied specifically for this purpose.

With a fixed annual contribution to the Trust Fund, many jurisdictions issue an annual Notice of Funding Availability (NOFA) to solicit developers to compete for funds available to subsidize affordable units and make local projects more competitive for allocations of federal and state funds with more dollars available to leverage. NOFA guidelines can be adjusted on an annual basis to target specific types of units, or specific affordability levels, and can reward projects

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that maximize the use of other funding sources, leveraging the local investment to maximize production of affordable units. An annual NOFA bolsters the community of affordable housing developers, and it can ideally result in a predicable pipeline of development of affordable housing.

A fixed annual Trust Fund contribution allows City staff to incrementally build capacity for affordable housing programs, signals the City's commitment to affordability, and helps foster a community of affordable housing partners.

Considerations for Tempe: Affordable Housing Trust Fund

Tempe has an operative Affordable Housing Trust Fund (AHTF), created in 2010 to act as a repository of funds for use in creating affordable housing opportunities. To date, one contribution has been made to the fund as a condition of a development agreement, and there is no annual contribution to the account. Dedicating existing resources to the AHTF would require forgoing critical affordable housing programs that currently exist. Instead, there are a variety of alternative sources the City could use to supplement the available federal funding to augment the City's Housing Trust Fund for preservation and development of affordable housing, including:

- **General Fund.** Tempe can contribute directly to the Affordable Housing Trust Fund with discretionary general fund appropriations.
- **Ground Lease Proceeds**. When City-owned land is leased to a private developer, a portion of the proceeds could be dedicated to the Trust Fund.
- **One-time Sale Proceeds.** When City-owned land is sold to a private owner, a portion of the proceeds could be dedicated to the Trust Fund, as is done in Boston, MA and Ann Arbor, MI.
- **Transient Occupancy Tax**. The City could commit a percentage of its Transient Occupancy Tax (TOT) to the Trust Fund. Many cities in California augment their Affordable Housing Trust Funds this way, including Long Beach, San Francisco, Oakland, and Anaheim.[14]
- **Sales Tax**. The City could consider increasing sales tax rates to help support affordable housing and transferring the additional sales tax revenue to the Trust Fund. Examples of jurisdictions that have increased sales tax rates to supplement funding for affordable housing include Los Angeles County; Salt Lake City, Utah; and Lawrenceville, Kansas.[15] [16] [17]
- **In-lieu Fees.** If the City adopts a density bonus program, allowing developers to increase development density in return for a portion of the new units being restricted

[14] https://housingtrustfundproject.org/wp-content/uploads/2018/04/City-htfund-revenue-sources-2018.pdf
[15] http://homeless.lacounty.gov/
[16] http://kuer.org/post/slc-council-votes-enact-half-percent-sales-tax#stream/0
[17] https://housingtrustfundproject.org/voters-in-lawrence-kansas-approve-10-million-for-affordable-housing-trust/

for affordable households, an in-lieu fee offers the developer the option of paying into to Trust Fund rather than including the units on site.

- **General Obligation (G.O.) Bonds.** G.O. Bonds are municipal bonds backed by the general taxation power and credit of the issuing jurisdiction (as opposed to the future revenue from a specified project). In Tempe, $254 million in G.O. Bonds backed by secondary property taxes are being used to implement an aggressive capital improvements program that includes water and sewer improvements, street improvements/storm drains, public safety, park improvements/community services, and municipal infrastructure preservation.[18] [19] Tempe voters approved these bond measures in 2016. Some cities use G.O Bonds to fund affordable housing projects. In 2015, San Francisco voters approved Proposition A, a $310 million Affordable Housing G.O. Bond.[20] In 2016, Los Angeles voters approved the Proposition HHH Supportive Housing Loan Program, which is funded by a $1.2 billion G.O. bond backed by a $0.348 per square foot property tax.[21]

In addition to the sources described above which are directly under the City's control, there are other local sources that could be pursued to leverage Trust Fund, including:

- **IDA Bonds.** Local Industrial Development Authorities (IDA) are authorized to issue tax-exempt bonds to fund the development of projects, including affordable housing projects.
- **Sustainable Communities TOD Fund.** Tempe could strengthen its partnership with the Sustainable Communities Transit Oriented Development Fund, which was established by the local chapter of Local Initiatives Support Corporation (LISC) and Raza Development Fund.
- **Arizona Housing Trust Fund.** This statewide fund, composed of proceeds from sale of unclaimed probate real and personal property, is available to local projects by application on a competitive basis. It should be noted, however, that funding from this source is limited and must be distributed throughout the State of Arizona.
- **Charitable Contributions**. Philanthropic contributions from foundations, private sector organization, and major local employers could be accepted into the Trust Fund.

Over the short term, this Strategy recommends that Tempe determine an annual Trust Fund Contribution that does not adversely impact current programming, and also commit to the Trust Fund a portion of proceeds from ground leases, sales, and development agreements. Additionally, the City should issue Notice of Funding Availability (NOFA) through which eligible affordable housing projects can be evaluated for receiving portion of the Trust Fund monies. A

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[18] https://www.tempe.gov/Home/ShowDocument?id=45994
[19] https://www.tempe.gov/home/showdocument?id=42127
[20] http://sfmohcd.org/sites/default/files/Documents/MOH/Prop%20A%20General%20Obligation%20Bond/General%20Obligation%20Bond%20Report.pdf
[21] http://hcidla.lacity.org/prop-hhh

predictable source of public funding can provide leverage and help make Tempe applications more attractive when seeking federal sources such as Low-Income Housing Tax Credits (LIHTC).

Through leverage, even a modest amount of seed money could help the City make significant progress towards achieving its affordable housing production goals. A 100-unit, LIHTC-financed project that served families at 30, 60, and 80 percent AMI, for example, would face an estimated financing gap of approximately $22,000 per unit based on a high level pro forma analysis (Appendix).[22] This underscores the importance of having additional funding layers at the City's disposal to help move crucial projects forward.

In addition, to achieve the more ambitious affordability goals, the City will need to consider the viability of new, dedicated sources of revenue, such as transient occupancy taxes or sales taxes.

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[22] Based on a hypothetical, City-owned site in the Transit Overlay District with 2.5 acres.

B. Incentivize Inclusion of Affordable Units in Private Development

The amount of funding available to subsidize housing affordability is rarely sufficient to satisfy the needs. Accordingly, jurisdictions explore ways to utilize the strength and resources of the private development community to produce affordable units. Common tools include fee waivers and expedited permit processing for projects that contain a specified portion of affordable units for a specified term, or, if possible, in perpetuity. Another common approach is an inclusionary policy, which requires that new developments incorporate affordable units into otherwise market-rate projects or provide a comparable in-lieu payment or land for development for affordable housing.

Although mechanisms such as inclusionary zoning are generally precluded by Arizona statute, this Objective explores the ways such approaches could be modified and adapted. This Objective also focuses on voluntary incentives that provide additional development rights and value, in return for a portion of units to be deed-restricted for affordable households, and fee waivers and expedited processing as incentives to developers.

Strategy B1: Fee Waivers

The public fees associated with development, and the time it takes for applications and plans to be reviewed and processed, add considerable costs to construction projects. Many jurisdictions offer developers reduced fees and shortened review timelines to incentivize the inclusion of affordable units in market-rate projects.

<u>Considerations for Tempe: Fee Waivers</u>

Per the Zoning and Development Code, the City of Tempe may grant fee waivers within the Apache Boulevard Redevelopment Area equaling up to 50 percent of development fees for projects that include Workforce Housing, defined as housing sold or leased to households with income between 80 to 120 percent of AMI. More specifically, a project is eligible for a waiver if it provides 15 percent of units for households earning between 100 and 120 percent of AMI, or 10 percent of units for households with annual incomes between 80 and 100 percent of AMI. Such waivers can be authorized by the Community Development Director.

The fee waiver policy does not specify how to memorialize the affordability in a covenant or other recorded document. This could potentially present challenges for enforcement and require ongoing City resources to ensure compliance over time. The fee waiver policy also does not specify the duration of the affordability required to be eligible for a fee waiver, potentially resulting in an ad hoc negotiation in each waiver application.

The Redevelopment Area fee waiver policy also does not extend to projects that provide affordability for households at lower income levels, such as the extremely low, very low, and low-income households served by tax credit and other traditional affordable housing projects.

Over the short term, the City should consider the following:

- Expanding eligibility of the development fee waiver program beyond the Apache Boulevard Redevelopment Area to include eligible projects citywide.
- Requiring that the qualifying level of affordability be documented in a covenant that is recorded on the property, with a fixed term of 30 years in alignment with federal tax credit funding requirements. Alternatively, the City may consider requiring that units remain affordable in perpetuity. In this case, a smaller proportion of affordable units would be required than if the policy only required 30 years of affordability.
- Expanding eligibility of the fee waiver policy to include projects with units for households under 80 percent of AMI.

Over the long term, the City should consider exploring a tiered system of fee waivers that allow the city to offer greater incentives to projects that align with city goals, such as specific income levels or geographic areas.

Strategy B2: Inclusionary Housing Policies

The state of Arizona expressly prohibits mandatory inclusionary housing policies that as a condition of project approval mandate developers to provide affordable housing units in their development. However, voluntary inclusionary programs are acceptable. The two examples of voluntary inclusionary programs are provided as illustrative case studies in the Appendix; these examples were chosen because they are in states that also have laws prohibiting mandatory inclusionary policies (Michigan and Texas).

Inclusionary housing policies require or incentivize the creation of affordable housing when new development occurs. By tying affordable housing creation to market-rate development, inclusionary housing policies draw on the economic gains from rising real estate values to create housing opportunities for low- and moderate-income households.[23] As of 2016, at least 886 jurisdictions in 25 states had inclusionary housing programs.[24]

Some inclusionary housing programs require or encourage developers to develop affordable housing units on-site, while others require that developers pay linkage fees or impact fees that are used by cities to fund affordable housing. In some jurisdictions, affordable housing development and/or the payment of impact fees for affordable housing development is mandatory. In other places, it is optional but incentivized through public subsidies or discretionary land use approvals. By-right density bonus programs are voluntary programs that grant developers additional Floor Area Ratio (FAR), building height allowances, reduced parking ratios, reduced setbacks, or other concessions that have the potential to increase a developer's economic return, in exchange for the provision of a specific number of restricted

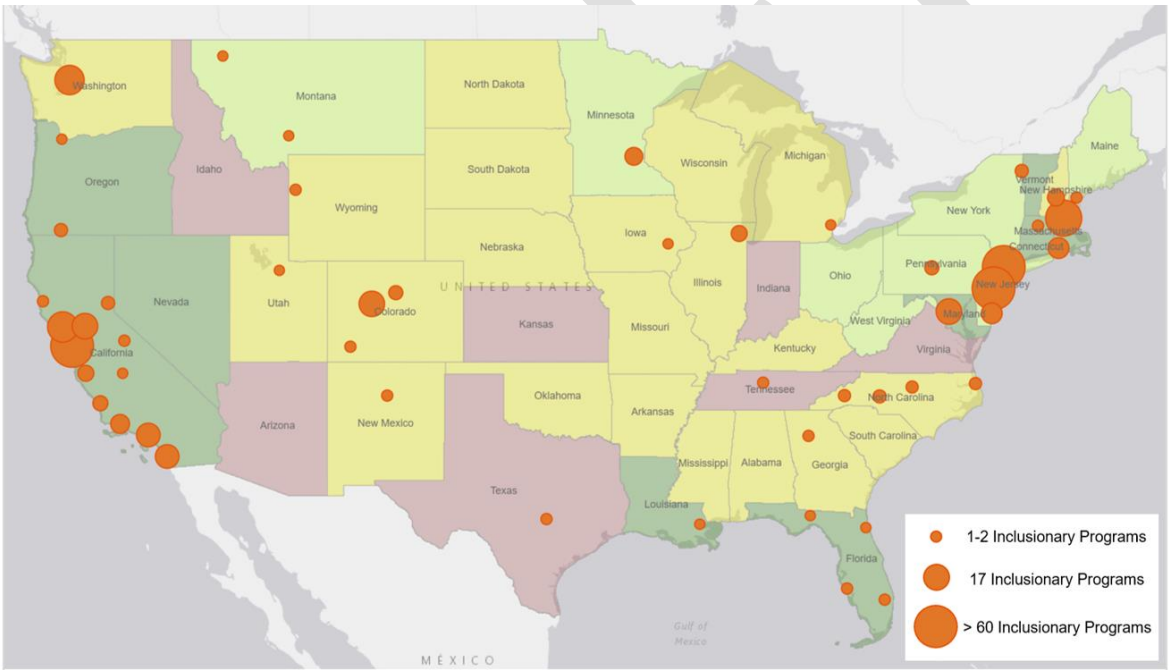
[23] Inclusionary Housing: Creating and Maintaining Equitable Communities. Lincoln Institute of Land Policy, Policy Focus Report, 2015.
[24] Inclusionary Housing in the United States: Prevalence, Impact, and Practices, Working Paper WP17ET1. September 2017. Lincoln Institute of Land Policy.

affordable units. A program like this can be included in Tempe Transportation Overlay District code.

For some jurisdictions, in addition to increasing the amount of available affordable units, the mix of households at a variety of income levels in a single development is, itself, a policy goal. The resulting "mixed-income" communities can help alleviate the potential issues related to concentrating low-income households in single building or neighborhood, and instead distribute affordable housing more equitably throughout the city.

Figure 3 illustrates the locations of inclusionary housing programs across the continental U.S. and categorizes states based on whether state laws allow, impede, or outright prohibit mandatory inclusionary housing. As the figure shows, even in states in which mandatory inclusionary housing is prohibited, voluntary programs are accepted.

Figure 3: Inclusionary Housing Programs Across the Continental U.S.



- IH permitted: All types of inclusionary housing policies are explicitly permitted by legislation.
- No barriers to IH: The state is a "home rule" state and rent control is not prohibited nor are there other potential sources of risk under state law.
- Barriers may exist to IH: Legal barriers may exist to local inclusionary housing policies (particularly mandatory policies that do not allow developers to "opt out" of the program), e.g. state law limits local rent control provisions or the state is a "Dillon's Rule" state and no statute expressly authorizes inclusionary housing measures.
- IH prohibited: At least some form of local inclusionary housing policies (typically mandatory policies) are clearly prohibited for both ownership and rental housing, either by statute or by court decision,

Note: The Grounded Solutions Inclusionary Housing Database Map only has one inclusionary program recorded for Austin, Texas; however, additional research conducted by BAE, as discussed in a case study below, revealed that Austin has ten inclusionary programs.
Source: Grounded Solutions Network Inclusionary Housing Database Map, 2018.

A full list of case studies can be found in the Appendix that explore voluntary inclusionary housing policies and programs implemented in states with similar restrictions as in Arizona

Considerations for Tempe: Voluntary Inclusionary Housing Policy

Arizona state law effectively prohibits jurisdictions from imposing mandatory inclusionary policies (AZ Rev Stat § 9-461.16, 2016). However, the City can require affordability as a condition of providing a subsidy to a development entity. Subsidies can include conveyance of public land at a discounted price, abatements of sales tax, or effective abatement of property tax through a Government Property Lease Excise Tax (GPLET) agreement. Similarly, an affordability component could be a condition of a discretionary land use action such as a zoning change that increases the development potential of a property, and therefore its value. In such cases, the City already engages developers in ad hoc negotiations to achieve community benefits such as restricted workforce units.

Within the bounds of state restrictions on inclusionary zoning requirements, the City should adopt an opt-in, voluntary inclusionary policy, in which the City requires a portion of units to be affordable for the maximum allowable period when granting to land-owners and developers discretionary approvals that increase development opportunity and land value. For example, when the City conveys public land for private development, provides a property or sales tax rebate, or approves rezoning request to accommodate additional development, the resulting projects would be required to include a portion of units as affordable housing.

When approving an application for rezoning a site for higher density development, the City should establish a density bonus program in which projects must include a specified percentage of dwelling units as affordable units to achieve maximum densities. For example, if an area is rezoned to allow structures up to 15 stories tall, a density bonus program would allow up to 12 stories without any affordability but would require a portion of units be affordable to achieve the full 15 stories. Further study would be necessary to identify the appropriate percentage of affordable units to ensure the incentive results in a feasible project. The Transportation Overlay District (TOD) being updated currently (2019) is proposing affordable housing bonus to developers who provide affordable housing units in their developments. The bonus will allow a certain percentage increase in height and density commensurate with the percentage of affordable units provided in the development. Similarly, the draft Urban Core Masterplan proposes to provide affordable housing incentives to obtain additional building heights.

The affordability requirements set by these programs should be reasonable and proportionate and must be calibrated to not impair the feasibility of the development. In effect, the additional value created by the City's subsidy or land use action would be split between helping make the project feasible and generating community benefits.

The adoption of a Voluntary Inclusionary Policy would establish a "floor" requirement for affordability, which does not preclude the City from negotiating for more or additional community benefits, depending on the magnitude of the City subsidy or grant of entitlements. For participating projects, the policy can require that units be produced on site and integrated into a mixed-income development. The policy could also provide for alternatives other than including units on site. One such alternative is an in-lieu fee, in an amount sufficient to facilitate the development of the affordable units elsewhere. The in-lieu fee proceeds could be received into the Affordable Housing Trust Fund and then disbursed to a non-profit developer to make units feasible.

For another alternative, a participating developer could dedicate land elsewhere in Tempe to produce affordable units. With this option, the City can require a staff review of and establish standards for the land proposed for dedication to ensure it is appropriate for housing, is located within the same community as the site, has sufficient access to transit and services, or aligns with other city policy goals for housing.

The size and character of the incentive would need to be carefully crafted to provide sufficient motivation for willing developers, while remaining true to the community's expectations for future development. To the degree possible, such a policy would strive to make such bonuses by right, conforming with the General Plan, and not trigger higher levels of environmental review.

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C. Encourage Development of a Variety of Housing Types

This objective focuses on allowing private land owners and developers to innovate to create low cost units that can be called naturally affordable units. Rather than focusing specifically on traditional affordable units that are income restricted by covenants, naturally affordable units are more affordable because of lower unit costs achieved through smaller unit size, efficient use of land and materials, and economic construction techniques that can provide opportunities in the low- and moderate-income ranges, both for rental and for sale. In general, the more opportunities a city offers to expand housing supply, the less likely inventory constraints are likely to be a factor in lack of affordability.

Strategy C1: Accessory Dwelling Units

An accessory dwelling unit (ADU) is a self-contained housing unit located on the property of a single-family home. An ADU has its own separate kitchen, bathroom, and sleeping quarters. As shown in Figure 4, an ADU may be attached to the primary residence (for example, in a basement or above a garage), or it may be a separate structure (for example, a backyard cottage).[25] ADUs are also sometimes called "in-law units," "secondary units," and "granny flats."

Figure 4: Types of Accessory Dwelling Units

Source: City of Saint Paul, 2018.

Developers and housing advocates have promoted ADUs as a solution to a variety of societal challenges. ADUs can help seniors to age in place, allowing them to have their own private spaces while remaining near family members and caretakers who can provide support as needed. As the average household size in the U.S. continues to shrink, ADUs are an effective way to accommodate smaller household sizes. ADUs also help reduce sprawl through urban infill and help mitigate the environmental impact of larger developments. Further, ADUs provide housing that is affordable for a wider range of households than most typical housing typologies.[26] ADUs can help increase a city's housing stock, which is especially important in built-out cities that lack vacant land.

[25] http://furmancenter.org/files/NYUFurmanCenter_RespondingtoChangingHouseholds_2014_1.pdf
[26] http://furmancenter.org/files/NYUFurmanCenter_RespondingtoChangingHouseholds_2014_1.pdf

Because of these perceived benefits, some cities have made regulatory changes to permit or even actively encourage the construction of ADUs. [27]

Considerations for Tempe: Accessory Dwelling Units

In Fall of 2017, the Tempe City Council declined to pass an ordinance allowing ADUs measuring between 220 and 600 square feet in multifamily districts (R-2, R-3, R-4, and R-5) that contain single family uses.[28] Prior to the vote, the public input was collected through a survey. Approximately 47.2 percent of responders indicated support for the ordinance, while approximately 38.9 percent did not (13.9 percent were not sure).

The City may want to consider re-introducing the concept to make headway on its affordable housing goals. It should be noted that the proposal only describes the legalization of ADUs as guest quarters and does not propose any incentivization initiatives.

Cities in Arizona that have passed ADU or guesthouse ordinances include Flagstaff and Mesa. [29, 30] ADUs have been explicitly permitted in Flagstaff since 2011, when the City adopted a new form-based zoning code. According to Flagstaff Housing Section representatives, ADUs are a "smart growth" tool used by the City to increase residential density in single-family neighborhoods. Additionally, because a large portion of Flagstaff's population is comprised of university students in need of rental housing, ADUs are viewed as an effective alternative to large student housing developments. In 2017, the City of Flagstaff issued 14 permits for ADUs, double the number in 2016 and more than triple the number in 2015.[31]

Strategy C2: Micro Units

Micro units are one-person apartments that are smaller than typical studios. While definitions vary by jurisdiction, they are generally smaller than 300 square feet. They convey affordability by enabling tenants to pay for less space, which translates into lower rents.

Standard micro units, also known as "small efficiency dwelling units" (SEDUs), contain full kitchens and bathrooms. There are also alternative micro unit products that are smaller than SEDUs known as "congregate micro units." Congregate micro units generally offer "sleeping rooms" with shared amenities. In some cases, the sleeping rooms contain small kitchenettes; however, the full kitchen and other shared amenities are located in a common area shared by the larger suite, floor, or building. Congregate micro units are attractive to individuals who are willing to downsize more intensely in exchange for lower monthly rents.

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[27] http://furmancenter.org/files/NYUFurmanCenter_RespondingtoChangingHouseholds_2014_1.pdf
[28] https://www.tempe.gov/Home/ShowDocument?id=55691
[29] https://www.flagstaff.az.gov/DocumentCenter/View/14508/10-40?bidId=
[30] https://www.mesaaz.gov/home/showdocument?id=12540
[31] https://www.flagstaff.az.gov/DocumentCenter/View/58398/2017AnnualReport_Final

Micro units have become more popular in recent years in dense, high-cost housing markets. They are often marketed to single millennials and students, as members of this demographic are more likely to be open to unconventional living arrangements and are often more willing to compromise space for proximity to urban amenities.

Considerations for Tempe: Micro Units

In Tempe, some buildings targeting students already offer what could be considered congregate micro units. For example, University House on East Veterans Way, shown in Figure 5, offers five-bedroom suites, the smallest of which measures 1,490 square feet (298 square feet per person, including the shared kitchen and living area). The 17-story building has 269 units ranging from studios to five-person-suites and offers extensive shared amenities including indoor and outdoor study areas, a swimming pool, and a fitness center.

Figure 5: University House on East Veterans Way, Tempe

The building exterior. A bedroom interior. Living area in a five-bedroom suite.

Five-bedroom suite floorplan.

Source: University House, 2018.

It is important to weigh the benefits and drawbacks of micro units when planning for future development. Buildings like University House offer a specific target group a tailored housing solution (small rooms, amenities such as study rooms, and leases on a per-semester basis). When students choose this option, this ensures that they are not occupying Tempe's single-family housing stock, which could instead be serving families with children. However, it is critical to ensure that the City's housing stock remains balanced and diverse. Because micro

unit developments tend to produce relatively high investor returns on a per-square-foot basis, there should be adequate oversight and regulations in place to ensure that the market does not produce too much of this type of housing. The City of Tempe should monitor the number of micro units produced and consider implementing regulatory changes as necessary.

Strategy C3: Tiny Houses

Tiny houses are small stand-alone single-family homes. As with micro units, tiny house definitions vary. Generally, a tiny house has floor space measuring 500 square feet or less. Tiny homes have gained popularity in recent years, becoming trendy for people looking to downsize (including seniors and empty-nesters), people committed to save the environment, and households that face financial constraints but are interested in becoming homeowners. Additionally, some homelessness advocates have embraced tiny houses as a practical solution to homelessness.

Despite the growing enthusiasm for tiny homes, in most U.S. cities, zoning and building codes make it difficult to develop them for full-time use. Building codes typically mandate minimum room sizes (for example, 70 square feet), while zoning codes typically require minimum total floor area measurements (for example, 1,000 square feet for a single-family home).[32]

There are two types of tiny houses: those with wheels and those built on foundations. Both are pictured in Figure 6. Owners of tiny houses on wheels often register their homes as recreational vehicles (RVs), even if they plan to stay in one place. While most states prohibit RVs as full-time residences outside of RV parks, such rules are not consistently enforced. Owners of tiny houses on foundations often overcome the zoning and building code constraints by registering their homes as accessory dwelling units (ADUs). For this reason, it is common for the units in a tiny house community to be situated around a single larger structure. Cities in Colorado, Florida, Massachusetts, Oregon, Texas, and California have all passed ordinances relaxing ADU regulations specifically for enabling tiny house development.[33]

[32] https://www.curbed.com/2016/9/22/13002832/tiny-house-zoning-laws-regulations
[33] https://www.curbed.com/2016/9/22/13002832/tiny-house-zoning-laws-regulations

Figure 6: Tiny Houses

A tiny house on a foundation in Austin, Texas.

A tiny house on wheels outside of Portland, Oregon.

Source: Curbed.com, 2016.

Local Case Study: Tempe Micro Estates

Plans are already underway for Tempe's first tiny house project. In October of 2014, Councilmember Corey Woods brought forward the concept of a City-led tiny house project. Initially, the project was thought of as a way to improve Tempe's RV and trailer parks, many of which are out of compliance with city codes. Many of the residents in these communities may not believe that they are able to afford a home outside of an RV park, and tiny houses were thought to be an affordable housing solution for this group.[34]

The city enlisted the help of Arizona State University's EPICS group (Engineering Projects in Community Service). The students researched tiny house projects in other cities and developed design concepts for a tiny house community on city-owned land on South Rita Lane in Tempe's Jen Tilly Terrace neighborhood. Over time, the concept shifted from tiny houses to what some have dubbed "humble homes," due to their slightly larger size (they are 600 square feet each, which is bigger than the 300 square-foot tiny houses that have been portrayed in the media).[35]

The City released an RFP for the project and selected the Tempe-based Newtown Community Development Corporation to complete the project. The twelve homes are expected to sell for approximately $130,000 each so that they are accessible to low- and moderate-income households who work in Tempe but otherwise would not be able to afford to purchase a home there.[36] The City will transfer ownership of the land to the Newtown Community Land Trust, which will ensure that the homes remain affordable for at least 99 years per the terms of the land lease.

[34] http://documents.tempe.gov/sirepub/cache/1207/j1l3a534mykobvzwn1uk04el/22802838042620181146152 89.PDF
[35] http://documents.tempe.gov/sirepub/cache/1207/j1l3a534mykobvzwn1uk04el/22802838042620181146152 89.PDF
[36] https://www.azcentral.com/story/news/local/tempe/2018/04/03/tiny-homes-tempe-aim-tackle-big-affordable-housing-problems/469792002/

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The units, pictured in the renderings in Figure 7, will be lofted, and will each contain one bedroom, one bathroom, and a full-size kitchen. Each home will have a small private yard, and a small front porch that overlooks a community garden and landscaped common grounds. Owners will share a 900-square-foot common house with a laundry room, a community kitchen, and a rainwater harvesting cistern.[37]

The City will help facilitate the rezoning of the South Rita Lane property to R1-PAD (Single Family Residential Planned Area Development) and will allow flexible design standards.[38]

Figure 7: Tempe Micro Estates

Rendering of the community garden and two home exteriors.

Cross-section of a home.

Source: Newtown Community Development Corporation, 2018.

Considerations for Tempe: Tiny Houses

In Tempe, Tiny Houses could be a suitable replacement for RVs, and could also be used as "starter homes" opportunity for households for whom homeownership would otherwise be out-of-reach. Depending on the success of the Tempe Micro Estates project, the City may want to consider modifying Tempe's zoning regulations so that tiny home communities are permitted in certain target areas, as well as creating uniform tiny house standards. Doing so may encourage other developers to take on similar projects.

Strategy C4: Missing Middle Housing

As housing affordability issues intensify in urban and suburban areas across the country, many cities are looking for new ways to increase their housing stocks and diversify their housing options to better serve a variety of incomes and household sizes. At the same time, Americans' preferences are changing, shifting away from the traditional car-centric suburban lifestyle. Many people prefer to live in walkable communities, where residents can reach

[37] http://www.newtowncdc.org/tempe-micro-estates/
[38] http://documents.tempe.gov/sirepub/cache/1207/j1l3a534mykobvzwn1uk04el/19783294042620181144574 76.PDF

retail, entertainment, and dining options by foot. Missing Middle housing typologies address both needs.[39]

Tempe should consider being more proactive in promoting this typology as consumer preferences continue to shift. The urban architecture firm Opticos Design, which introduced the concept of Missing Middle housing in 2010, defines it as "a range of housing types compatible in scale with single-family homes that help meet the growing demand for walkable urban living."[40] As illustrated in Figure 8, these housing types employ densities that are between those of detached single-family homes and mid-rise multifamily apartments.

Figure 8: Missing Middle Housing

Source: Opticos Design, Inc.

Missing Middle housing includes the following typologies, each of which is illustrated in Figure 9:

- **Duplex:** A small- to medium-sized structure that consists of two dwelling units, either stacked or side-by-side. Both units face the street.
- **Bungalow Court:** A series of small, detached structures, providing multiple units situated around a shared court.
- **Carriage House:** An accessory structure providing space for a small residential, which can be above a garage or on the ground floor.
- **Fourplex:** A medium-sized structure with four units. Typically, there are two on the ground floor and two above with a shared entry.
- **Multiplex:** A medium-sized structure with approximately 10 side-by-side or stacked dwelling units. Units can share one common entry or individual entries along the front.
- **Townhouse:** A small- to medium-sized structure with two to eight attached single-family homes placed side by side.

[39] http://missingmiddlehousing.com/
[40] http://missingmiddlehousing.com/

- **Live/Work:** A small- to medium-sized structure with one residential unit above or behind a flexible ground floor space for residential, service, or retail uses. Both the primary ground-floor flex space and the second unit are owned by one entity.
- **Courtyard Apartments:** A medium- to large-sized structure with side-by-side or stacked units accessed from one or more courtyards. Each unit may have its own individual entry, or up to three units may share a common entry. [41]

Figure 9: Missing Middle Housing Typologies

Source: Opticos Design, Inc., 2018.

Planning for Missing Middle housing requires addressing the zoning challenges that often prevent these housing types from being built. Conventional density-based zoning generally cannot be used to facilitate the development of Missing Middle housing, because these housing types have densities that are too high for single-family residential zoning, and they have small building footprints and lower building heights that do not meet the requirements of multifamily residential zoning. Furthermore, traditional density-based zoning disregards unit size when calculating requirements for parking and open space, which discourages smaller units.[42]

Form-based code has proven to be an effective way to encourage the development of Missing Middle housing. A form-based code is a land development regulation, adopted into law, that uses physical form rather than separation of land uses as its organizing principle.[43]

[41] http://missingmiddlehousing.com/
[42] http://missingmiddlehousing.com/
[43] https://formbasedcodes.org

At least 387 jurisdictions in the US have adopted form-based codes. While the first form-based codes appeared in the early 1980s, 88 percent of the cumulative total of codes were adopted in 2003 or later.[44] Cities that have adopted form-based codes include Miami, Nashville, Buffalo, Dallas, Denver, Albuquerque, Baltimore, Tulsa, Portland, Cincinnati, Los Angeles, and San Diego.[45] In Arizona, form-based codes have been adopted in parts of the cities of Phoenix, Mesa, and Flagstaff, among others.

Strategy C5: Co-Housing

Co-housing is an intentional clustering of private homes around a shared space. Its design aims to foster resident interaction, the development of meaningful relationships, and the pooling of resources. Many co-housing communities are deliberately "intergenerational," which means that people of all ages and household compositions live side-by-side, including seniors, couples, and families with children.

Co-housing can take many forms, including a cluster of single-family or attached homes or a condominium building. While each home is wholly contained with its own amenities, including a kitchen and bathrooms, there are extensive shared spaces. These include outdoor recreational spaces (e.g., community gardens) and a common house, which typically has a large kitchen and dining area, laundry facilities, guest quarters, and recreational rooms, providing space for both planned and spontaneous get-togethers. Cars are parked at a distance, often around the perimeter of the property, to facilitate a pedestrian-friendly atmosphere.[46] The physical layout of co-housing is meant to encourage resident engagement without sacrificing private individual space.[47]

Generally, co-housing developments form when a group purchases land (with or without the help of a developer) and plans the development of the facility at every stage, from design to construction to financing to defining the rules that will govern the community.[48] The planning and development process can take five to seven years on average. Cohousing communities can also form through acquisition and assemblage of individual parcels, but this is challenging to replicate on a large scale.

Although some co-housing communities are organized as limited equity cooperatives, most new co-housing projects are structured as condominiums or planned unit developments. Cohousing participants typically own their lot, and jointly own the common property and facilities.

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[44] http://www.placemakers.com/how-we-teach/codes-study/
[45] http://www.placemakers.com/how-we-teach/codes-study/
[46] http://www.aarp.org/home-garden/housing/info-03-2011/intergenerational-co-housing-for-all-ages.html
[47] Affordable Cohousing: Challenges and Opportunities for Supportive Relational Networks in Mixed-Income Housing. Jerome L. Garciano. Vol. 20, No. 2 (Winter 2011), pp. 169-192.
[48] http://www.aarp.org/home-garden/housing/info-03-2011/intergenerational-cohousing-for-all-ages.html

Decisions in co-housing communities are typically made via consensus rather than majority voting.[49] Consensus decision-making seeks the agreement of all or most participants and aims to resolve or lessen objections from opposing residents. The most critical element of co-housing is the residents' commitment to a collaborative lifestyle and the ability to get along with each other. It is common for co-housing developments to have committees that are responsible for community financial management, marketing, common house events, and supplies/procurement. Committees discuss relevant issues with residents at routine resident meetings.

Most co-housing developments are market-rate, and do not serve restricted AMI levels. Co-housing is typically developed only after a group of individuals gets together and commits their resources to a project. Because of this, co-housing generally requires equity up front.

Considerations for Tempe: Co-housing

For seniors, one of the primary benefits of co-housing is that it enables independent aging with community-based support rather than paid-for assistance. In Tempe, the fastest-growing age group consists of residents over the age of 65. As of 2017, over 17 percent of the City's population was over the age of 55. For some aging Tempe residents, the co-housing model could be a suitable alternative to a retirement home.

Strategy C6: Community Land Trusts

One the largest and most rapidly rising cost components of new housing development in many U.S. cities is land. This is true in Tempe, where, as discussed in the Market Study, average land costs are significantly higher than in surrounding cities in Arizona.

In response to issues of rising land costs and land scarcity, some communities have organized community land trusts (CLTs). CLTs purchase land (or receive donated land) and hold this land in trust for the community, enabling the use of their land through the provision of long-term ground leases. The ground leases are structured with the goal of preserving the long-term affordability of the land for the benefit of the community.

A CLT is typically a nonprofit organization that is structured as a community membership corporation governed by a board, which may consist of residents in CLT homes, dues-paying community members living in the CLT's service area, and public representatives.[50]

CLT's use their land to meet a variety of community needs, including affordable rental housing, homeownership, commercial space and neighborhood services. Some CLTs also dedicate a

[49] http://www.cohousing.org/cm/article/whyconsensus
[50] http://cltnetwork.org/wp-content/uploads/2015/11/2015-Member-Report-final-11-30-15.pdf

portion of their land to income-generating activities — such as cafés or farmers markets — that support the CLT's operations.

D. Improve the Quality and Maintain the Current Inventory of Affordable Housing

This objective focuses on maintaining and improving the quality of the City's existing inventory of affordable units. Strategies concern both traditional, subsidized affordable units, as well as units that are naturally affordable due to market perceptions of relative quality and desirability.

Strategy D1: Preserve Existing Affordable Housing Stock

As discussed in the market study, Tempe has existing affordable housing units that are funded by a variety of sources. Most of these units are funded by Federal sources such as Low-Income Housing Tax Credits (LIHTC), Section 8, the HOME Investment Partnerships Program (HOME), and the Community Development Block Grant program (CDBG). As the funding periods for these units expire, the City should have a plan for preserving these units so that they are not lost to the private market.

According to HUD, affordable housing preservation addresses three main goals:

- **Safeguard** affordable rents for current and future generations;
- **Improve** and modernize properties; and
- **Stabilize** the financial footing of properties.[51]

Recapitalization is a preservation transaction that involves obtaining new funds — from Federal, state, or local sources — that extend the affordability covenants of a rent-restricted residential development while also tending to the property's long-term capital needs. Depending on the capital needs of a building, as well as its operating costs, subsidies, and the structuring of its rents, recapitalization may or may not be necessary for successful preservation.

To determine the best preservation strategy, a property owner should first determine the preservation goals specific to the building. This entails understanding the short- and long-term repair needs of the property, the extension options offered by the current funding sources (in many cases, owners can renew their Section 8 contracts for longer terms), as well as any regulatory options (for example, HUD Tenant Protection Vouchers, which are meant to prevent the displacement of low-income residents as a result of the loss of subsidy assistance).[52]

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[51] https://www.hudexchange.info/resources/documents/Recapitalization-HUD-Preservation-Workbook.pdf
[52] https://www.hudexchange.info/course-content/hud-multifamily-affordable-housing-preservation-clinics/Preservation-Clinic-Tenant-Protection-Vouchers.pdf

If recapitalization is necessary for the preservation of the property, the owner must estimate the cost of recapitalization and determine the financing sources that will be used. Table 6 illustrates funding scenarios for four types of preservation projects, ranging from "light rehab" to "gut rehab."

Table 6: Typical Preservation Sources of Funds at Different Levels of Rehabilitation

Sources of Funds	Light Rehab	Moderate Rehab	Intensive Rehab	"Gut" Rehab
New first mortgage	$15,000	$15,000	$15,000	$15,000
9% tax credit equity	$0	$0	$0	$136,000
4% tax credit equity	$0	$12,000	$26,000	$0
HOME funds	$0	$12,500	$22,500	$12,500
Community Development Block Grants (CDBGs)	$4,500	$0	$0	$0
State Housing Trust Funds	$0	$0	$20,000	$0
Deferred developer fee	$200	$2,000	$3,000	$5,900
TOTAL SOURCES OF FUNDS	$19,700	$41,500	$86,500	$169,400
TOTAL USES OF FUNDS	$19,700	$41,500	$86,500	$169,400
Higher cost transactions require more complex financing approaches.				

**Dollars per unit*

Source: HUD Preservation Workbook: Successful Stewardship of Multifamily Recapitalization, U.S. Department of Housing and Urban Development Office of Recapitalization, August 2017.

Considerations for Tempe: Preserve Existing Affordable Housing Stock

The City of Tempe should adopt uniform standards for how to memorialize affordability restrictions, which should be a minimum term of 30 years. This will protect residents of affordable housing developments from rising rents and displacement and ensure long-term impact. For existing affordable units that are not subject to these uniform standards, the City of Tempe can use the following approaches[53] to ensure that owners are able to preserve affordable units:

- **Continue to catalog existing affordable properties.** Include information about populations and income levels served, and the expiration dates of their funding sources.

[53] https://kresge.org/sites/default/files/Preserving-affordable-housing-policy-tools-April-2015.pdf

- **Prioritize properties.** The City should develop a way to prioritize properties based on the timing of subsidy expirations, the capital needs of the properties, and the intentions of the owners. City representatives should maintain contact with landlords to ensure property information is accurate and up-to-date.
- **Target resources.** Based on the identified needs of at-risk buildings, the City should work with owners to help them assemble the financing necessary for preservation. City-controlled resources (for example, CDBG and HOME funds) can be leveraged to attract additional federal and state funding. Other financial incentives (for example, property tax abatements) can also help owners to achieve preservation. Additionally, City representatives should assist owners with other preservation options as applicable, including Section 8 extensions and regulatory measures such as Tenant Protection Vouchers.
- **Facilitate transfers to new owners.** In some cases, at-risk properties may not be owned by mission-driven landlords. In cases in which owners are not interested in extending affordability covenants, the City should consider facilitating the transfer of affordable properties to mission-driven non-profit organizations. Some jurisdictions have "first right of refusal" policies that grant qualified nonprofit organizations, government agencies, and/or a building's tenants the opportunity purchase a subsidized rental property if the owner decides to stop participating in the subsidy program. While this is not the case for any complexes in Tempe currently, this policy could be considered as a stipulation in future Development Agreements going forward.[54]

Strategy D2: Marketing for Section 8 Participation

In many cities, Housing Choice Voucher program participants have a difficult time finding landlords who will accept their vouchers. In Tempe, there has been a decline in the number of landlords who are willing to accept vouchers, a trend that threatens the viability of one of Tempe's most reliable tools for housing affordability.

Landlords are not legally required to participate in Section 8 programs, and many landlords may assume that voucher holders will not be reliable tenants. Some landlords fear that the bureaucracy involved in becoming a Section 8 landlord will be burdensome, as landlords must undergo home inspections and set rental rates according to area averages. Additionally, since Section 8 landlords receive rent from two sources—the tenant and the administering government authority—managing payments is more complex than for standard rentals. In neighborhoods with low rental vacancy rates and rapidly increasing rents, landlords may not feel that it is necessary to become Section 8-eligible and may also assume that the voucher values will not keep pace with market-rate rents.

[54] https://kresge.org/sites/default/files/Preserving-affordable-housing-policy-tools-April-2015.pdf

There are, however, benefits to becoming a Section 8 landlord. A significant portion of monthly rental payments are guaranteed to arrive on time each month, which may not be the case in the non-subsidized market. Furthermore, Section 8 landlords have access to an entirely new market of renters. Because many Section 8 tenants cannot afford to rent non-subsidized housing, being a Section 8-approved landlord increases the total pool of potential tenants.

Many cities and local housing authorities have begun marketing programs to inform landlords of these benefits, create additional incentives, simplify the landlord approval process, and correcting misconceptions that landlords may have about the voucher program. These programs aim to ensure that there are enough overall units accepting vouchers, and also to widen the geographic dispersion of voucher-eligible units. In many cities, voucher households tend to be concentrated in certain neighborhoods. Increasing the total number of neighborhoods with voucher-eligible units—including high-opportunity neighborhoods—can facilitate economic integration and increase opportunities for voucher recipient households.

Considerations for Tempe: Marketing for Section 8 Participation

The City of Tempe should employ a marketing campaign to reverse participation declines and encourage property owners to participate in the Section 8 Housing Choice Voucher program. City efforts to simplify the landlord approval process and emphasize the benefits of being a Section 8 landlord could reverse the current trend and support a stable Section 8 program. Recently, the City filled a housing navigator position to advance this objective. And has been participating in local and regional Landlord outreach activities to engage landlords.

Strategy D3: Single Family and Multifamily Housing Improvement Programs

Many jurisdictions in the U.S. employ housing improvement programs to preserve the quality of housing of low- and moderate-income households who otherwise may not have the incentive or means to maintain their property. Such programs provide qualifying property owners with grants that can be used for rehabilitation and upkeep.

Considerations for Tempe: Housing Improvement Programs

Until it was suspended in the aftermath of the 2008 recession, Tempe's Housing Improvement Program (HIP) provided financial assistance to low and moderate-income homeowners and multifamily rental property owners to rehabilitate existing housing units.[55] HIP funding assisted owners in correcting health and safety deficiencies, and generally removing blighting conditions and improving the overall conditions of housing stock. Assistance was targeted for units occupied by lower-income households, and prioritized correcting health and building

[55] The former HIP program is distinct from the current Home Improvement Planning Program (HIPP), which assists homeowners in planning home remodeling or expansions.

code violations. Assistance was available to owner-occupants of single-family dwellings, and to owners of rental single-family or residential units. Based on the financial capacity of the participant, funding could take the form of a grant, a deferred loan, or an amortized loan.

For occupying homeowners earning up to 80% AMI, HIP funding assistance opportunities included:

- Grants up to $10,000 to make emergency repairs.
- For households unable to assume an additional payment, deferred loans up to $35,000 were available to make health, safety, and other improvements. The HIP loan was secured by a lien placed on property, and was due without interest to the City upon conveyance or refinance.
- For households able to assume an additional payment, amortized loans up to $35,000 were available to make improvements. HIP amortized loans had low interest rates and affordable payments, and were secured with a lien on the property. As with the deferred loans, payment of principal and interest was due upon conveyance or refinancing.

For owners of rental properties, the HIP Rental Reinvestment Program funding was available to make improvements in rental units, up to $15,000 per unit, prioritized to correct building and health code violations.

- Eligible rental units must be occupied by a household with income not exceeding 60 percent of AMI.
- Subsidized rehabilitated units are subject to rent restriction for 5 years, limited to HUD Fair Market Rents.
- Owners are required to contribute a portion of the rehabilitation cost.
- The funding is documented as a no-interest loan with no monthly payments, secured by a lien placed on the property, and repayment due upon conveyance or refinance.

A revival of the City's former Housing Improvement Program (HIP) could help improve the quality and conditions of the City's inventory of naturally occurring affordable units. City should also explore potentially expanding the program to encourage improvements in Tempe's large inventory of low-cost apartments, in exchange for a period of affordability on improved units for a defined period. HIP funds can be structured as a match for owner investments and should encourage improvements to the safety and quality of multi-family stock while achieving some documented affordability.

E. Be Proactive about Community Concerns, Displacement, and Gentrification

This objective focuses on continuing and expanding Tempe's current efforts to identify and address concerns related to the increasing unaffordability of housing.

Strategy E1: Affordable Housing Impact Statements

Affordable Housing Impact Statements (AHIS) are intended to provide City decision-makers with a comprehensive understanding of the impact that policies or development projects may have on the availability of affordable housing in a community. AHIS provide real time data on the gain and loss of affordable housing units in the city.

The benefits of an AHIS policy for Tempe would include:

- Elevating the visibility of housing affordability in the public discourse by ensuring it is "part of the conversation" when discussing land use policies and projects;
- Informing city decisions with accurate, real-time data about project impacts on housing;
- Helping cities track changes to the housing supply and measure the efficacy of housing initiatives; and
- Providing data that could make jurisdictions more competitive in applications for funding.

If designed to be implemented incrementally and with minimal burden on applicants and City staff, an Impact Statement policy is likely to yield benefits for the protection and provision of affordable housing.

<u>Case Studies: Affordable Housing Impact Statements in Some Jurisdictions</u>

Jurisdictions that have adopted AHIS policies in recent years include Atlanta, GA, Austin, TX, Montgomery County, MD, New Orleans, LA, and San Diego, CA. These are generally growing cities with housing-cost burden rates that exceed the national average. The Affordable Housing Impact Statement Summary (Appendix A) includes a review of these cities with such policies, an analysis of their common elements, and an assessment of their potential utility for Tempe as part of the larger Affordable Housing Strategy.

Strategy E2: Community Inclusion Framework

A common hurdle faced by cities aiming to increase density and/or the supply of affordable housing is opposition from some stakeholder groups. Also known as NIMBYism (an acronym for "Not in My Back Yard"), such opposition can arise when residents do not understand the housing goals set forth by their jurisdictions and the reasoning behind those goals. Misconceptions about the impacts of affordable housing and the potential for increased density on neighborhoods can fuel fears that make it difficult or even impossible to move forward with housing projects that would benefit the community.

While Tempe has not yet experienced severe levels of community opposition to affordable housing development, this may change in the future. Now would be an opportune time to

build a constituency of stakeholders that supports the City's affordable housing goals. This can be done through a Community Inclusion Framework.

Considerations for Tempe: Community Inclusion Framework

It should be expected that the rapid pace of recent change and projections for continued growth may result in anti-development sentiment in some sections of the population. There is some discomfort with the expansion of ASU, and with the perceived increase in the number of developments catering exclusively to students. Residents in Tempe's historic neighborhoods near Downtown have also effectively mobilized around several issues that they see as threatening their community's character. Accordingly, a community inclusion framework would include these constituents as well as practitioners in the development area, social service providers, and advocates working around pedestrian, environmental, and equity issues.

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IV. PERFORMANCE MEASURES

Outcomes from implementation of the AHS will be measured as part of the City's Strategic Management System. Presently, City Council Priority #4 – Sustainable Growth and Development includes a placeholder for measures related to affordable housing. Performance measures to help define and track affordable housing objectives have been summarized below.

Performance Measure: Achieve a Housing Inventory Ratio for Affordable, Workforce, and Market-rate housing categories that meets or exceeds recommendations made for a three-person household in the most recent study.

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V. APPENDICES

Appendix A: Affordable Housing Impact Statement Summary Memorandum

To: Ambika Adhikari,
Principal Planner, City of Tempe

From: Josh Rohmer, Principal

Date: January 26, 2018

Re: Urban Core Masterplan (Transportation Overlay District, Affordable Housing Strategy, and Downtown/Urban Core Master Planning) - Affordable Housing Impact Statement Summary

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As part of the downtown Tempe Urban Core Masterplan study, the consultant team is working with the City of Tempe to develop an Affordable Housing Strategy to address affordable housing needs that currently exist citywide as well as needs to be accommodated in the future as the city grows. One element of the Strategy under consideration is an Affordable Housing Impact Statement ("AHIS" or "Impact Statement") policy. As adopted by several jurisdictions across the country, AHIS policies are intended to provide City decision-makers with a comprehensive understanding of the impact that policies or development projects may have on the availability of affordable housing in a community. Ultimately, AHIS policies share the goal of preventing the loss of existing affordable housing units, and encouraging the development of more affordable housing inventory in the future.

This report provides a summary of AHIS policies across the country, with a focus on key goals, elements, and methods of implementation. Because few AHIS policies have yet been implemented for significant lengths of time and each policy is crafted for local conditions and context, it is difficult to make definitive conclusions about outcomes and the effectiveness of Impacts Statements. Although in isolation an Impact Statement policy will not create affordable housing units, it is part of strategy for housing affordability and a basis upon which other supportive policies can be developed. If designed to be easily implementable and to impose minimal burden for applicants and staff, this report recommends that Impact Statements are a useful informational tool that can elevate the issue of housing affordability

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so that it is "part of the conversation," and ensure that discretionary decisions are made with full information about potential impacts on housing affordability.

Why Cities Consider Impact Statement Policies

On the national scale, housing affordability has been a growing challenge for many metropolitan areas since the 2007 recession, during which over 9.3 million households lost their homes to foreclosure, and home prices dropped precipitously.[56] During the recession homeownership levels dropped from an all-time high of 69.2 percent in 2004 to 62.9 percent in 2016, the lowest level since the Census Bureau began measuring it in 1965.57 Changes in housing tenure patterns following the recession were not easily reversed, as many foreclosed units were purchased by investors and removed from the for-sale market, and many households that experienced foreclosure entered the rental market. During the post-recession recovery, housing costs for both owners and renters have been rising faster than wages: home values across the country appreciated 13 times faster than wage growth during this time period[58], and increases in market rents have also dramatically outpaced wage growth for renters.[59] The result, as housing prices have increased to match or surpass pre-recession levels, is a growing gap between what households can afford to pay for housing, and the actual costs to rent or own a housing unit.

There is variation in how these national trends were experienced in local markets across the country, with some metropolitan areas impacted more than others. Several cities with a perceived affordability problem have considered adoption of AHIS policies, following the example of two early-adopter cities that developed policies to address affordability issues that predated the recession. Cities that have adopted AHIS policies are motivated by an understanding that the availability of affordable housing contributes to equity and quality of life issues. Beyond fulfilling basic needs for shelter, the availability of affordable housing can be an indicator of the wellbeing of householders, measured in positive outcomes for physical and mental health, educational attainment, and financial stability. Affordable housing also supports the economic vitality of communities, is a critical factor in how employers attract and retain employees, and supports local efforts to plan for sustainable futures where populations can live, work, and access services in a multimodal, pedestrian environment.[60]

Jurisdictions that have adopted AHIS policies, including Atlanta, GA, Austin, TX, Montgomery County, MD, New Orleans, LA, and San Diego, CA, ("AHIS cities") are generally growing cities with housing-cost burden rates that exceed the national average. The "housing-cost burden," a measure of the portion of a household's income that is spent on housing costs such as a

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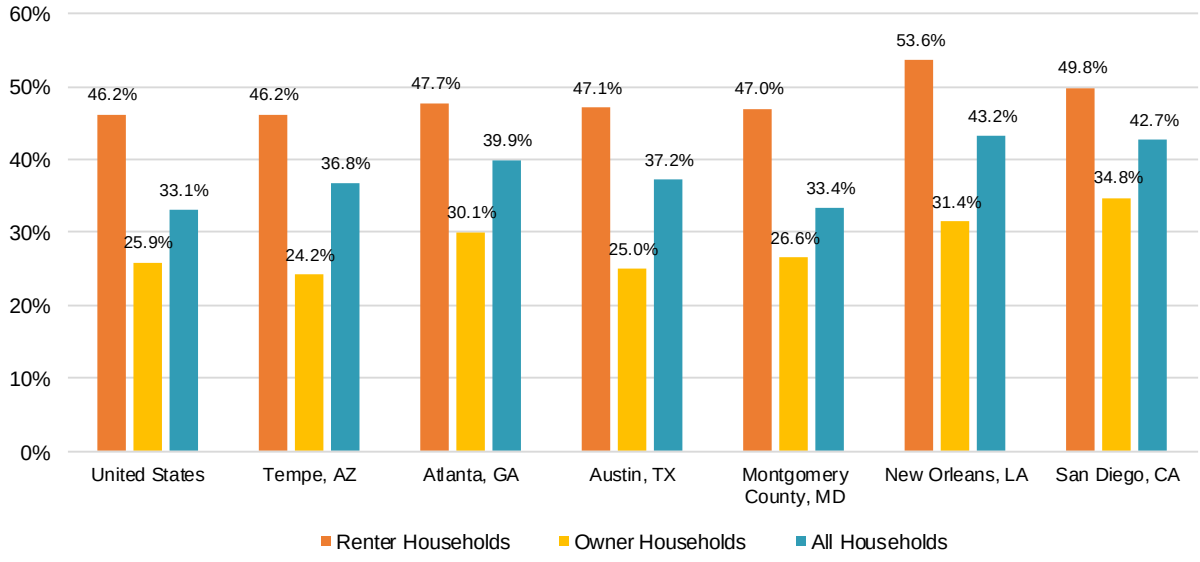
[56] L. Kusisto. "Many Who Lost Home to Foreclosure in Last Decade Won't Return - National Association of Realtors." *Wall Street Journal*. April 20, 2015.
[57] US Census Bureau. "Quarterly Residential Vacancies and Homeownership, Third Quarter 2017." 2017
[58] RealtyTrac. "Home Price Appreciation Outpaces Wage Growth." 2015.
[59] Enterprise Community Partners and Harvard Joint Center for Housing Studies. "Projecting Trends in Severely Cost-Burdened Renters." 2015.
[60] Housing Virginia. "Why is Affordable Housing Important?"

mortgage, rent, and utilities, is the conventional public policy indicator of housing affordability used by the U.S Census Bureau and other federal agencies since the National Housing Act of 1937. A "burdened" household is one where owners or renters pay more than 30 percent of monthly household income on housing costs.[61] Housing costs that range between 30 percent to 50 percent of household income are described as a moderate burden, while housing costs that equal or exceed 50 percent of household income are called severely cost burdened. In each of the AHIS cities, the percentage of households that are cost burdened exceeds the national rate of 33.1 percent (Figure 10).

Figure 10: Proportion of Households that are Cost Burdened, AHIS Cities, 2010-2014



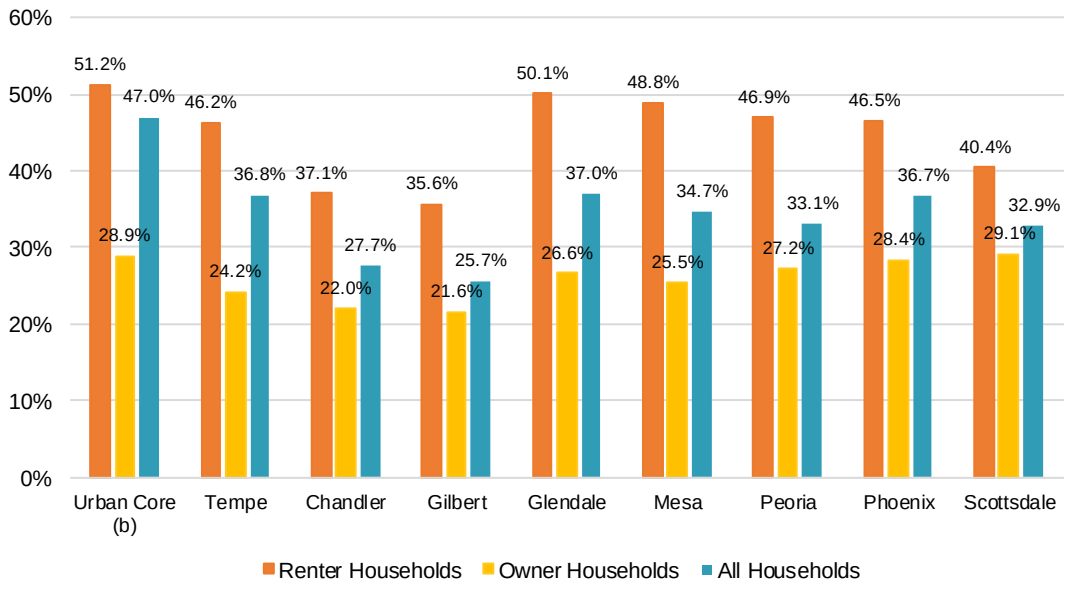
Notes:
(a) Cost-burdened households are defined as those who spend more than 30 percent of household income on housing costs. Households with no or negative income are not included here.
Sources: U.S. Department of Housing and Urban Development, 2010-2014 Comprehensive Housing Affordability Strategy (CHAS) data; BAE, 2017.Sources: U.S. Department of Housing and Urban Development, 2010-2014 Comprehensive Housing Affordability Strategy (CHAS) data; BAE, 2017.

In the City of Tempe, 46.2 percent of renter households and 24.2 percent of owner households are moderately or severely cost-burdened (Figure 10). In sum, 36.8 percent of Tempe households are cost-burdened, a higher rate than both Maricopa County (33.8 percent) and the nation (33.1 percent).

Even though Tempe's housing stock is generally older and smaller when compared to other Valley cities including Phoenix, Mesa, Scottsdale, Gilbert, Chandler, Glendale, and Peoria, Tempe's cost-burdened rate is among the highest in the Valley.

[61] M. Schwartz and E. Wilson. "Who Can Afford to Live in a Home?" US Census Bureau. 2008.

Figure 11: Proportion of Households that are Cost-Burdened, Valley Cities, 2010-2014



Notes:
(a) Cost-burdened households are defined as those who spend more than 30 percent of household income on housing costs. Households with no or negative income are not included here.
(b) The Urban Core is defined here as the 11 Census Tracts that intersect with the Urban Core boundary as defined by The City of Tempe.
Sources: U.S. Department of Housing and Urban Development, 2010-2014 Comprehensive Housing Affordability Strategy (CHAS) data; BAE, 2017.Sources: U.S. Department of Housing and Urban Development, 2010-2014 Comprehensive Housing Affordability Strategy (CHAS) data; BAE, 2017.

Potential Benefits and Consequences of Impact Statements

By adopting an AHIS policy, a jurisdiction makes access to affordable housing a priority by ensuring that city decisions are made with a full understanding of impacts on the supply of and demand for affordable housing units available in the local market. The intended benefits of an AHIS policy include:

- Elevating the visibility of housing affordability in the public discourse by ensuring it is "part of the conversation" when discussing land use policies and projects;
- Informing city decisions with accurate, real-time data about project impacts on housing;
- Helping cities track changes to the housing supply and measure the efficacy of housing initiatives; and
- Providing data that could make jurisdictions more competitive in applications for funding.

In cities that have considered AHIS policies, some stakeholders have advocated against adoption. The most common concern is that an AHIS policy will impose an administrative burden on developers that may deter local investment and instead push development to nearby cities without such requirements. In addition to the time and resources a developer may expend on complying with an AHIS, opponents are also wary that a quantitative evaluation of impacts may ultimately lead to more onerous policies, such as impact fees or inclusionary requirements. Opponents also question whether AHIS reports will provide any utility or new information that isn't already available. Arguments against AHIS policies include:

- Not providing any new information that is not already available;
- Imposing a greater burden on small developers;
- Setting up the costs of an AHIS to be passed on to renters; and
- Potential to lead to additional requirements that will be a significant burden on developers.

Summary of Adopted AHIS Policies

The five jurisdictions across the country that have adopted AHIS policies are Atlanta, GA, Austin, TX, Montgomery County, MD, New Orleans, LA, and San Diego, CA. This section provides a summary of their various policies and key provisions, and context regarding related affordable housing policies in each jurisdiction.

Atlanta, Georgia

Atlanta, Georgia adopted one of the more recent Affordable Housing Impact Statement policies in November 2015, going into effect on July 1, 2016. Atlanta's version of the AHIS is not project-based, but is designed to keep policies such as ordinances, regulations and fees from having a negative impact on housing affordability. Specifically, an AHIS is required for any legislation including ordinances and resolutions that come before the Community Development/Human Resources Committee of the City Council of Atlanta that, if enacted, would have an impact on the affordable housing stock of Atlanta, including but not limited to:

- Land use elements in the City's Comprehensive Development Plan;
- Acceptance of public (i.e., State and Federal) or private grants for construction and/or rehabilitation of affordable housing units;
- Abandoned and blighted property determinations;
- Changes to building permit fees;
- Millage rates for blighted properties; and
- Changes to demolition policies.

The policy requires that any legislation proposed by a Councilmember or Department be submitted in draft form to the City's Office of Housing prior to its introduction to City Council. The Office of Housing will then prepare an Affordable Housing Impact Statement that provides numeric estimates of impacts, quantifying numbers of units impacted at certain levels of affordability over the thirty-year period following the enactment of the legislation; and a

qualitative narrative section to provide an explanation of the analyses that led to the estimates.

The quantitative portion of Atlanta's AHIS statements is derived from a model ordinance developed by State and Municipal Actions for Results Today (SMART), a national advocacy organization for affordable housing, and includes the following model "scorecard" to assess impacts on affordable housing:

> "This legislation, if enacted, is estimated to have a project impact upon the affordable housing stock of the City of Atlanta by:
>
> Adding ____ or decreasing ____ units affordable to 30 or below percent of the City of Atlanta Area Median Income (AMI); and
>
> Adding ____ or decreasing ____ units affordable at between 30.01 and 50 percent of AMI;
>
> Adding ____ or decreasing ____ units affordable at between 50.01 and 80 percent of AMI; and
>
> Adding ____ or decreasing ____ units affordable at over 80 percent of AMI."

Atlanta differs from other communities with AHIS requirements in that it only recently has begun adopting comprehensive policies to address affordable housing. Atlanta's Affordable Housing Impact Statement requirement is part of a current focus on addressing housing affordability issues in the community. It should be noted that since the legislation requiring Impact Statements went into effect July 2016, it is still too early to judge how well this new program works.

Austin, Texas

Austin began requiring Affordability Impact Statements in 2007 as part of an update to the City's Safe, Mixed-Income, Accessible, Reasonably-Priced, Transit-Oriented (S.M.A.R.T.) Housing Program. Austin's Affordability Impact Statements are not focused on development projects, but rather just on city policies. Affordability Impact Statements are required if:

- A City department proposes a change to an ordinance, rule, or process that impacts housing affordability; or
- A City board, commission or subcommittee makes recommendations that affect housing affordability.

Specifically, city staff prepares an Affordability Impact Statement to evaluate whether a legislative proposal will have an increase, decrease or no impact on the following items:

- Regulatory barriers to housing development;
- Land use/zoning opportunities for affordable housing development;
- Cost of development; and
- Production of affordable housing.

If it is determined that proposed changes to law or policy would have a negative impact on affordability, the department or other City entity must receive the approval of the City Manager to go forward with the change.

In addition to the Impact Statement policy, Austin's S.M.A.R.T housing program encourages the development of affordable housing by providing land use and building permit fee waivers for units affordable to a family at 80% of Area Median Income. Fee waivers range from a 25% fee waiver for providing 10% affordable units in a development, up to a 100% fee waiver for providing 40% affordable units in a development.

Montgomery County, Maryland

Montgomery County, Maryland, instituted an Affordable Housing Impact Statement pilot program in 2004. Under the pilot, an AHIS was required for various land use applications including preliminary site plans and rezoning applications. Applicants were required to provide information outlining the impact of their proposals on affordable housing to staff of the Montgomery County Department of Parks and Planning. Staff would then prepare the Affordable Housing Impact Statement as part of the Planning Board staff report. The AHIS was a pilot project intended to be in use for a three-year period.

Per the program design, any property owner or developer submitting a development application would provide information on the total number of housing units that would be proposed or demolished, as well as the number of affordable housing units that would be created as part of the development. Additionally, commercial projects were required to estimate of the number of jobs associated with the new development to determine any future demand for housing resulting from the project. Data collected for the Impact Statement would be transmitted to the Montgomery County Planning Board for use in their decision making.

An affluent suburb north of the District of Columbia, Montgomery County has a long history of supporting the development of affordable housing. Its Moderate Priced Dwelling Unit Program (MPDU) was first established in 1973 and is a national model for such programs. The MPDU program is an inclusionary zoning requirement whereby 15% of dwelling units in developments with 20 units or more are required to be designated as moderate cost units. In addition, in central business district and transit station zoning districts, 10% of dwelling units are required to be set aside as affordable workforce housing. To offset the loss of income on these affordable workforce units, Montgomery County provides density bonuses up to 22%. The

MPDU Program has flourished since its inception—more than 15,000 affordable housing units were created between 1973 and 2016.

After consultation with County staff, it appears that the AHIS program was adopted but never fully implemented. Although materials describing the program remain on the County website, staff is generally unfamiliar with the program and it is not actively enforced. More recent policies have been adopted to require affordable housing assessments for County capital improvement projects, or projects (excluding parks and schools) on County land, but this does not apply to private development projects.

New Orleans, Louisiana

New Orleans' AHIS policy was adopted by Council in April 2017, making it the most recent such policy in the country. Housing affordability is seen as an increasingly acute issue in New Orleans, where over 70 percent of the population is cost-burdened by the city's measure. A community-led housing advocacy organization estimates that 33,600 new and rehabilitated housing units will be needed over the next 10 years, and the City has developed a strategy to provide 5,000 new affordable units by 2021, to be facilitated by new revenue sources, an inclusionary housing policy, and partnership with non-profit entities.

The New Orleans policy applies both to development projects and City-initiated policies. For projects, an Impact Statement is required for any building permit that adds, modifies, or subtracts housing units. Land use applications that request a development bonus (in height limit, density, floor area ratio, Planned Development rights, etc.) for providing affordable housing also require preparation of an Impact Statement. Impact Statements are also required for the approval of any development project that receives funds from the City, regardless of the original source of the funds (federal, state, or local). For all such projects, applicants provide information regarding the number of units, rent/sale prices, bedroom mix, and AMI levels for staff to evaluate in a quantitative Impact Statement.

For City-initiated policies–including master plan amendments, special studies, neighborhood plans, changes in the zoning ordinance or building codes, changes in federal, state or local funding, and disposition of City-owned properties–staff will prepare a qualitative Impact Statement.

San Diego, California

San Diego adopted the country's first Affordable Housing Impact Statement requirement in 1999, building upon similar policies in place since the early 1990s. The requirement was established through a Memorandum issued to the Planning and Development Services Departments in October 1999, with further guidance issued in February 2002 that expanded the focus beyond just the supply of affordable units to also include calculating demand for housing induced by non-residential development. The 2002 guidance was informed by a widely-discussed housing crisis in the city, at a time when housing prices had risen to levels at

which a majority of San Diegans could not afford to purchase the median home. During this time, homeownership rates were 10 percent lower than the national average, while rental vacancy rates were less than 2 percent.

San Diego has a comprehensive housing policy including a General Plan Housing Element, a Task Force on Affordable Housing, and a Comprehensive Affordable Housing Strategy Collaborative. There are also multiple City-supported agencies and nonprofits charged with providing affordable housing. San Diego's Housing Impact Statement policy is part of this comprehensive effort, and aims to identify and analyze housing impacts early and throughout the regulatory review process for project approvals, as well as throughout the formulation of land use policy.

Development projects subject to the Impact Statement policy include all building permits that add, modify, or subtract housing units, as well as commercial and industrial developments that could increase demand for housing. City-initiated policy actions—including community plan rezoning, changes in development fees, and modifications to code provisions or regulations for processing for residential development—also trigger preparation of an Impact Statement.

The Housing Impact Statement is a required element of all staff reports to the San Diego Planning Commission and City Council for land use and development projects that propose the following:

- Building new housing;
- Removing, demolishing or rehabilitating existing housing;
- Rezoning and/or re-designating land in a community plan that would decrease the availability of affordable housing;
- Commercial and industrial developments that could increase demand for housing;
- Increasing or decreasing development fees; and
- Modifying development processing regulations or Land Development Code provisions related to residential development.

City staff prepare Housing Impact Statements for inclusion in all reports to Planning Commission and City Council, based on data collected from developer applications (for projects). The Housing Impact Statement also provides information on compliance with the City's Inclusionary Housing Ordinance and any development incentives (i.e., density or FAR bonuses) associated with a proposal.

Key Elements of Impact Statement Policies

This section of the report provides an analysis of the key provisions that characterize and differentiate various AHIS policies. Table 7 summarizes key elements of the policies discussed above.

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Table 7: Summary of AHIS Policy Elements

	Applies to:		Impacts on:		Type of Analysis	
Jurisdiction	**Policies**	**Projects**	**Supply**	**Demand**	**Qualitative**	**Quantitative**
Austin, TX	Any city proposal to change an ordinance, rule, budget regulation, or process that affects housing affordability	No	Yes	No	Yes	No
Atlanta, GA	Comprehensive plan land use changes Public, private grants for affordable housing Blighted property determinations and millage rates Changes to building permit fees Changes to demolition policies	No	Yes	No	Yes	Yes
Montgomery County, MD	No	Any preliminary site plan or preliminary zoning application for private development	Yes	Yes	No	Yes
New Orleans, LA	Master plan amendments, special studies, and neighborhood plans City funding (of federal, state, or local source) for affordable housing Sale or lease of City-owned property for development Other policy actions at Council request	All building permits to add, modify, or subtract housing units Land use applications participating in density bonus program	Yes	No	Yes, for policies	Yes, for projects
San Diego, CA	Community plan rezoning or redesignation that results on decrease in affordable housing Changes in development fees Modifications to code provisions or processing regulations for residential development	All building permits to add, modify, or subtract housing units Commercial and industrial developments that increase demand for housing	Yes	Yes	Yes	Yes

Source: BAE review of jurisdiction staff reports; 2018.

Policies and Projects

AHIS policies can apply to any discretionary City actions, including both policy adoption and project approvals, that may have an impact on the current or future inventory of affordable housing units.

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Policy changes initiated by a city with potential affordability impacts can be broadly defined, but generally focus on:

- Changes in land use plans and development rights;
- Funding for affordable housing;
- Changes in development fees; and
- Changes to building code requirements.

Impact Statements can also apply to approvals of development projects through the entitlement and permitting process. Where Impact Statement policies apply to projects, any proposal that adds to, changes, or subtracts from the supply housing units is subject to evaluation through an Impact Statement. Where policies also look at changes in induced demand, development proposals for commercial, office, industrial, retail, and other land uses may also require an Impact Statement.

Impacts on Supply, or Both Supply and Demand

AHIS policies differ with respect to whether the impacts are measured solely on the supply of affordable housing, or on both supply *and* demand for affordable housing.

All policies adopted nationwide consider the impacts on supply. Such policies evaluate proposed policies and/or projects with respect to potential changes in the number of available housing units through demolition or new construction of units, as well as rehabilitations or conversions that would otherwise add or remove affordable residential units from the market.

Policies and projects can also have impacts on demand – or the number of households that need affordable housing units. Consider, for example, a proposed project that includes the construction of new office and retail space. The completed project will be populated by workers, some of whom will earn incomes that qualify as low- or moderate-income per HUD AMI schedules. When these new workers cannot find affordable housing, they can be subject to commuting long distances, paying more than 30 percent of household income for housing, or doubling up in overcrowded units. Similarly, a market-rate residential development will bring new households whose spending on local commercial services will increase employment levels, some portion of which will earn wages at low- and moderate-income levels, creating new demand for affordable housing units.

Measuring such "induced demand" can be challenging. Cities with inclusionary zoning policies such as San Diego have generally prepared a citywide nexus study that quantifies the impacts of different development types to assess their impacts on affordable housing demand. Otherwise, measuring induced demand for affordable housing for an ad-hoc project through a nexus study can be labor-intensive and require the assistance of consultant support.

Qualitative and Quantitative Reports

AHIS policies commonly prescribe the type of analysis required for an Impact Statement. For example, an evaluation of impacts from a policy, ordinance, comprehensive plan, regulation, or new fee generally use a qualitative analysis that describes the parameters and order of magnitude of the potential impact, to the degree possible given the nature of the policy and readily available data.

An Impact Statement for a development project can generally be more precise, and therefore a quantitative analysis is more suitable for measuring how many affordable housing units are added or subtracted at various income levels when a specific development is proposed.

Some cities utilize a blended approach that uses both a quantitative and qualitative analysis. The Atlanta "scorecard", for example, provides a template for a streamlined quantitative measurement of the impacts of policy changes, to be populated either with measurements from existing studies, or estimates made by planning staff. New Orleans's AHIS policy requires a qualitative analysis for policy changes, as well as a quantitative analysis for development projects.

Go / No-Go Provision

AHIS policies are informational in nature – they intend to provide relevant data regarding affordable housing impacts to guide and inform city decision-making. Austin's policy uniquely includes a Go/No-Go provision, in which a policy that is determined to have a negative impact on affordable housing cannot be implemented without the approval of the City Manager.

Definition of Affordability

Impact Statements measure affordability impacts based on geographically-specific household income categories established by the federal Department of Housing and Urban Development (HUD), relative to the Area Median Income (AMI). For example, a HUD "low-income" household has an annual income over 50 percent and up to 80 percent of the median income within Maricopa County, and a "very low-income" household earns over 30 percent up to 50 percent. For any unit that is proposed to be added or removed from inventory, Impact Statements determine whether the units are affordable, per HUD standards, to households within those income categories.

Responsibility to Provide Information and Prepare Impact Statement

Impact Statements are prepared by city staff, using information provided by the project applicant and verified to the degree possible by city staff.

To minimize any burden on applicants and streamline the vetting and preparation process for staff, it is critical to thoughtfully incorporate AHIS data requirements into the application for entitlement and permitting processes.

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Where a nexus study is required to evaluate induced demand, there are several scenarios to delineate which parties are responsible to hire, manage, and pay for consultant work. Some scenarios include:

- Staff performs the work;
- Staff hires, manages, and pays for a consultant to perform the study;
- Staff hires and manages a consultant to perform the study, to be paid for by the applicant through a funding agreement; or
- Through a Request for Qualifications, staff certifies a list of qualified consultant firms an applicant can engage to prepare the necessary study.

Costs

No additional costs for developers are associated with the adoption of an Impact Statement policy. Developers provide pertinent information on the initial permit application, for City staff to verify and evaluate. Depending on the scope and focus of the Impact Statement policy, the staff time required to prepare the required documentation should be minimal.

Assessment of Existing AHIS Policies

It is difficult to provide a systematic assessment of the effectiveness of AHIS policies for several reasons. Most important is the small sample size: of the five policies discussed here, one was never implemented, and two were adopted so recently that there is little information available regarding outcomes. In addition, the two more established policies are very different in focus and application, and neither has published measurements on the impacts of their policies.

Because each AHIS policy is uniquely crafted to the host city's challenges and political landscape, the distinctions and comparisons described above can nonetheless help frame Tempe's ongoing consideration of a potential Impact Statement policy. If designed to be implemented incrementally and with minimal burden on applicants and City staff, an Impact Statement policy is likely to yield benefits for the protection and provision of affordable housing.

Throughout the development of the Urban Core Masterplan and Affordable Housing Strategy, feedback from Tempe officials and staff and other community and affordable housing stakeholders will help define the City's goals and assist the consultant team in crafting an Impact Statement that is appropriate to meet Tempe's goals.

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Appendix B: Community Meetings and Stakeholder Interviews

BAE received valuable input from stakeholders, including ongoing consultation with City staff, guidance from City Council in public meetings, interviews with affordable housing and social service advocates and funders, members of the non-profit and for-profit development communities, business community representatives, and from the public in a series of community meetings held with the consultant team.

A summary of this outreach is described below:

Meetings:

Two public meetings: February 28, 2018
City Council Issue Review Session: March 1, 2018
Urban Core Master Plan and Affordable Housing Focus Group: June 27, 2018
City Council Retreat: September 21, 2018

Stakeholder Interviews:

Joseph Bocanegra, VP of Customer Success, ZipRecruiter
David Crummey, Real Estate Development Manager, Newtown CDC
Ryan Edwards, Director of Sales, Silicon Valley Bank
Val Iverson, Arizona Housing Coalition
Scott Kaufmann, Partner, Lucid Agency
Dan Klocke, Executive Director, Downtown Phoenix Partnership
Steve Langstaff, Director of Property Development, Save the Family
Jim McPherson, Executive Director, Sustainable Communities Collaborative
Todd Marshall, Principal, Urban Development Group
Izma Miller, Board of Directors, Downtown Tempe Authority
Beau Nelson, Head of Technology, Entertainment Partners
Jeanne Redondo, Arizona Department of Housing
Shannon Scutari, Sustainable Communities Collaborative
Jacob Shope, Arizona Department of Housing
Cindy Stotler, Housing Director, City of Phoenix
Lisa Weide, Chief Program Officer, Habitat for Humanity

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Appendix C: Case Studies

Strategy B1: Fee Waivers

Case Study: Flagstaff Incentive Policy for Affordable Housing (Flagstaff, AZ)

Nearly one-third of the City of Flagstaff's 70,000 residents are students at Northern Arizona University.[62] This large student population proportion places a strain on the low end of the housing market in Flagstaff. Middle-income families find it difficult to find quality housing within their budgets, causing them to stay in place, even when they would like to upgrade. This results in very little unit turnover, further tightening the housing supply. According to a 2016 study commissioned by the Economic Collaborative of Northern Arizona (ECoNA), 60 percent of renter households and 23 percent of homeowner households in Flagstaff are cost-burdened. Local employers are concerned about their ability to attract and retain a high-quality workforce due to high housing costs that are not aligned with wages.[63]

In 2009, the City of Flagstaff's Incentive Policy for Affordable Housing (IPAH) was created to alleviate these issues. The policy aims to increase the amount of workforce housing by offering developers who include affordable housing in their projects fee reductions and waivers, and expedited review throughout the post-entitlement planning process.

Developers who permanently set aside at least ten percent of rental units for households earning 100 percent of AMI or less, or at least ten percent of for-sale units for households earning 150 percent of AMI or less, qualify for the fee waivers and reimbursements listed in Table 8 below. Rental units must be affordable for a minimum of 30 years, while for-sale units must subject to a 99-year deed restriction. As shown in Table 9Table 8, the sizes of the fee waivers and reimbursements are subject to a sliding scale based on the AMI level groups served by the developer and the percentage of units that are affordable.

[62] Flagstaff's population is 69,270 according to 2016 ACS Five-Year Estimates. The University of Norther Arizona has 28,383 students according to Spring 2018 enrollment numbers as reported by the university; according to the Arizona Center for Investigative Reporting, 22,000 of these students live within Flagstaff City Limits.
[63] http://econa-az.com/wp-content/uploads/2018/01/FINAL-Flagstaff-Workforce-Housing-Attainability-Report.pdf

Table 8: Incentive Policy for Affordable Housing Fees Eligibility List

	City Department / Fee Category	Fee Type	Reimbursement / Waiver (a)
Community Development	Zoning Fees	Rezoning Application Fees	25% Reimbursement
		General Plan Amendment Fees	25% Reimbursement
	Subdivision Fees	Developer Master Plan Fees	50% Reimbursement
		DRB Concept Plan Submittal Fees	Reimbursement
		Preliminary Plan Submittal Fees	Waiver/Reimbursement
		Final Plan Submittal Fees	Waiver
	Site Plan Fees	DRB Site Plan (Formal) Submittal Fees	Waiver
		Concept Plan Fees	Reimbursement
		P&Z Review/Approval Fees	Waiver
	Building Plan Review, Permit, and Inspection Fees	Building Permit Deposit Fees	Excluded
		Building Permit Fees	Waiver
		Plan Check Fees	Waiver
		Public Improvement Permit Fees	Waiver
		Plan Review Engineering	Waiver
		Over-the-Counter Permit Fees	Excluded
		Development Impact Fees	Reimbursement
Utilities	Utilities Dept. Fees	Development Impact Fees	Reimbursement

Notes:
(a) Fee waivers and reimbursements are subject to a sliding scale based on the AMI level served by the developer and percentage of affordable units. Rezoning Application Fees, General Plan Amendment Fees, and Developer Master Plan Fees have maximum reimbursement rates as indicated above and are therefore not 100% reimbursable.
Source: Incentive Policy for Affordable Housing Prepared by the City of Flagstaff's Community Development Division, October 2009; BAE, 2018.

Table 9: Incentive Policy for Affordable Housing Waiver and Reimbursement Scale

AMI Served	% Waived or Reimbursed (a)
For projects providing between 10 - 20% affordable housing	
60% AMI or below	100%
61 – 80% AMI	75%
81 – 125% AMI	25%
For projects providing greater than 20% affordable housing	
Below 80% AMI	100%
80 – 125% AMI	75%
126 – 150% AMI	25%

Notes:
(a) Rezoning Application Fees, General Plan Amendment Fees, and Developer Master Plan Fees have maximum reimbursement rates.
Source: Incentive Policy for Affordable Housing Prepared by the City of Flagstaff's Community Development Division, October 2009; BAE, 2018.

According to the IPAH, developments that meet IPAH's affordability requirements are also eligible for expedited review processes. However, Flagstaff City staff reported that this portion of the policy has been difficult to implement. This is due to a combination of factors. Firstly, Flagstaff's hilly topography creates additional challenges for engineers that often result in their plans being denied after the first submission (many developers use engineering firms from outside of the City that are not familiar with Flagstaff's topography and development environment). Additionally, all Arizona municipalities must comply with an Arizona statute that requires specific actions with regards to the development planning timeline, making adapting this timeline on a project-by-project basis difficult.[64, 65]

Case Study: Detroit Inclusionary Housing Ordinance

In 2016, the City of Detroit commissioned an Inclusionary Housing Plan and Market Study. The study revealed that despite the City's well-known economic challenges, the multifamily development market had improved. Since 2008, the multifamily vacancy rate has continuously fallen, and absorption rates have been positive. Since 2009, rents have steadily risen, and as of 2014, multifamily building permits had surpassed their pre-recession peak. The study also found that as of 2014, 59 percent of Detroit's renter households were cost-burdened, a slight increase as compared to 2009.[66]

[64] Regulatory Bill of Rights as codified in Title 9, Chapter 7, Article 4 of the Arizona Revised Statutes
[65] Interview with representative from the City of Flagstaff Housing Program, December 2018.
[66] Detroit Inclusionary Housing Plan and Market Study Prepared for the City of Detroit Housing and Revitalization Department by HR&A Advisors, November 2016.

Noting the recent surge in development in some pockets of Detroit and the increasing rents and renter cost burden rates, the City decided to take a proactive step in ensuring that Detroit's neighborhoods remain economically diverse and that households of all income levels have housing options.

The City chose to pursue a voluntary, subsidy-based inclusionary policy for several reasons. Firstly, in the state of Michigan, mandatory inclusionary housing is not legally permissible due to a state law prohibiting rent control.[67] Secondly, the 2016 Inclusionary Housing Plan and Market Study showed that even in Detroit's strongest real estate submarkets, affordable housing unit production—even when paired with market-rate development—is not feasible without subsidies.

The resulting inclusionary housing policy, which was passed in 2017, is summarized in Table 10. Under the policy, any residential project that receives city-owned land at less than market value must provide 20 percent affordable housing to households earning 80 percent of median income or less. Projects that receive city funding totaling at least $500,000 are also subject to these same affordability requirements. Additionally, projects that receive City-controlled Federal funds of at least $500,000 from the CDBG and HOME programs must provide 15 percent affordable housing to households earning less than 60 percent of AMI and five percent to households earning less than 50 percent of AMI.

DRAFT

[67] http://www.legislature.mi.gov/(S(igxoydad1om4sz1zhg0mjrqk))/mileg.aspx?page=getobject&objectname=mcl-123-411

Table 10: Summary of Inclusionary Housing Requirements in the City of Detroit

Transaction Type	Affordability Requirement	Minimum Duration
Type 1: The sale or transfer of City-owned real property at less than true cash value which is intended to be developed for a 20+ unit residential project	20% of units affordable to 80% of AMI or less	Units must remain affordable to the defined AMI group for a minimum of **30 years** after the time of the issuance of the certificate of occupancy for those units
Type 2: Direct monetary support from the City of at least $500,000 adjusted annually based on changes in the CPI for a 20+ unit residential project		
Type 3: Commitment of CDBG funds of HUD controlled by the City of at least $500,000 adjusted annually based on changes in the CPI for a 20+ unit residential project	15% of units affordable to 60% of AMI or less; 5% of units affordable to 50% of AMI or less	
Type 4: Commitment of HOME Investment Partnership Program funds of HUD controlled by the City of at least $500,000 adjusted annually based on changes in the CPI for a 20+ residential project		
Type 5: Commitment of funds of at least $500,000 through an as yet unidentified State of Michigan or Federal housing development program	Affordability criteria set by the applicable State or Federal regulations of the relevant funding program	

Sources: Chapter 14 of the 1984 Detroit City Code, Community Development; Article XII, Inclusionary Housing Requirements, Sections 14-12-1 through 14-12-16, 2017; BAE, 2018.

<u>Case Study: Development Incentive Programs in Austin, Texas (By-right Density Bonuses)</u>

The City of Austin, Texas is experiencing rapid population growth. The City's economic development strategy, which focuses heavily on bolstering the local technology industry, has succeeded in attracting many new businesses, which has in turn spurred a major population influx.[68] These changes have impacted property values, shrinking the supply of housing that is affordable to low- and moderate-income households.

Today, the City has 907,779 residents.[69] It is the home of the University of Texas at Austin, a nationally ranked public university with 51,331 students, as well as several smaller community colleges and private universities. The City's large student population has applied additional pressure to the housing market.

Texas state law explicitly prohibits jurisdictions from imposing mandatory inclusionary housing ordinances.[70] To encourage developers to produce affordable housing, the City of Austin has created ten different voluntary Developer Incentive Programs, each of which is regulated by a different City ordinance. The programs were introduced over time between 2004 and 2014.

[68] https://www.urban.org/sites/default/files/publication/93781/austin_lmi_housing.pdf
[69] U.S. Census Bureau American Community Survey 2016 Five-Year Estimates
[70] http://www.statutes.legis.state.tx.us/Docs/LG/htm/LG.214.htm

Six out of the ten programs offer a full or partial fee-in-lieu option, which means that developers can opt to pay a fee to the City instead of building the full amount of required affordable units on-site. In-lieu fees are calculated differently for each program, generally ranging from $0.50 to $11.00 per square foot of bonus floor area. In-lieu fees are passed on to non-profit affordable housing developers in the form of grants.

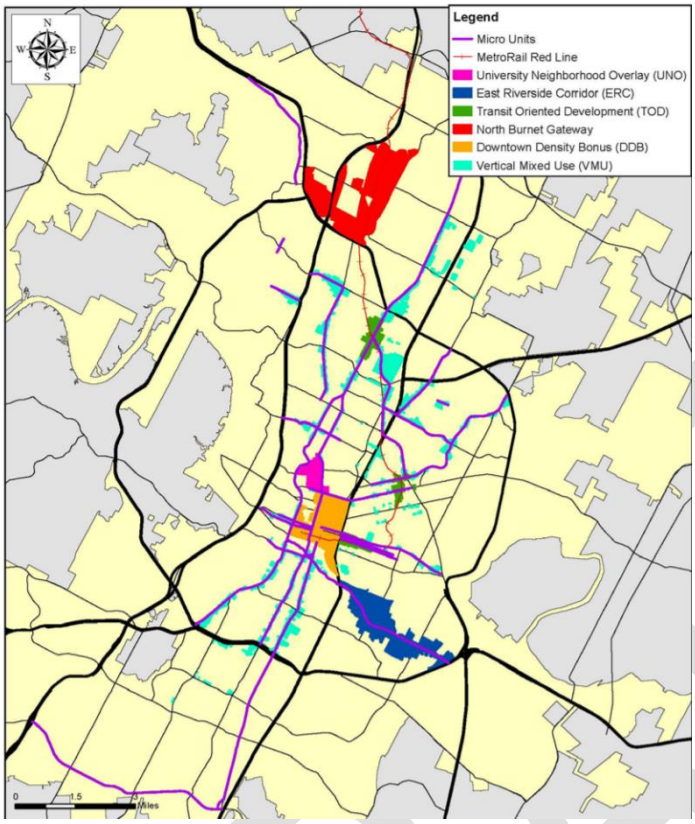
Table 11 summarizes these programs and provides information about the geographies, zoning districts, and housing typologies that are eligible for each program. It also describes the incentives that developers can receive (for example, increased FAR or decreased parking requirements) as well as the affordability requirements of each program. Figure 12: Density Bonus Areas in AustinFigure 12illustrates the boundaries of the affected geographies for each program, when applicable.

Table 11: Summary of Voluntary Development Incentive Programs in the City of Austin

Program *(year introduced)*	Applicability	Incentive	Required Affordable Housing	Max. AMI (a) Ownership	Max. AMI (a) Rental
Downtown Density Bonus *(2013)*	Eligible properties within Downtown	Increased height and FAR limits	10 bonus SF for each SF of on-site affordable space	120%	80%
East Riverside Corridor *(2013)*	Within the East Riverside Corridor (ERC) zoning district	Increased FAR, height up to 160' in some locations	4 bonus SF for each SF of on-site affordable space	80%	60%
Micro-Unit Density Bonus *(2014)*	Multifamily use in TOD corridor for units 500 SF or less	No min. site area, min. off-street parking 0.25/unit	10% of units	80%	50%
North Burnet Gateway *(2009)*	NB/G district developments that utilize a density bonus	Increased FAR, height up to 240'	10% of bonus area	80%	60%
PUD (Planned Unit Development) *(2008)*	PUD developments that utilize a density bonus	Increased height, FAR, building coverage	10% of rental units, 5% of owner-occupied units	80%	60%
Rainey Street *(2009)*	Rainey Street District near downtown	Increased FAR (8:1)	5% of units	80%	80%
S.M.A.R.T. Housing *(2000)*	Within city limits	Eligible for fee waivers, expedited review	10% of units	80%	80%
S.M.A.R.T. Housing Single-Family ("Greenfield") Density Bonus *(2008)*	Single family residence standard lot (SF-2) or family residence (SF-3)	SF-4A standards apply if the development is on 3+ acres of unsubdivided land and is S.M.A.R.T. Housing certified	10% of units	80%	80%
S.M.A.R.T. Housing Multifamily ("Greenfield") Density Bonus *(2008)*	Undeveloped land zoned MF-2 through MF-5	MF-6 standards apply (setbacks, impervious cover, unlimited FAR, etc.), height limited to 60'	10% of rental units, 5% of owner-occupied units	80% / 100%	80%
TOD (Transit Oriented Development) *(2009)*	Within designated TODs in city limits	Increased building height, FAR, building coverage	10 – 15% of total square footage	80%	60% / 50%
UNO (University Neighborhood Overlay) *(2004)*	West Campus UNO district	Flexible standards available for height, setbacks, impervious cover, building coverage, FAR, compatibility, parking	10% of units	50% / 60%	50% / 60%
VMU (Vertical Mixed Use) *(2010)*	VMU developments that utilize the "dimensional and parking exemptions"	Relaxed site area requirements, FAR, building / impervious cover, setbacks, parking	10% of rental units, 5% of owner-occupied units	80% / 100%	80% (b)

Notes:
(a) The City of Austin uses MFI (median family income) to describe levels of affordability for rent- or deed-restricted housing. MFI is comparable to AMI; for purposes of consistency, BAE uses the term AMI throughout this report.
(b) May be reduced to 60% with Council approval.
Sources: City of Austin, April 2017; BAE, 2018.

Figure 12: Density Bonus Areas in Austin



Source: City of Austin Density Bonus Policy, Report and Recommendations on the Density Bonus Fee-In-Lieu of onsite affordable housing units, Resolution No. 20151015-038, August 2016.

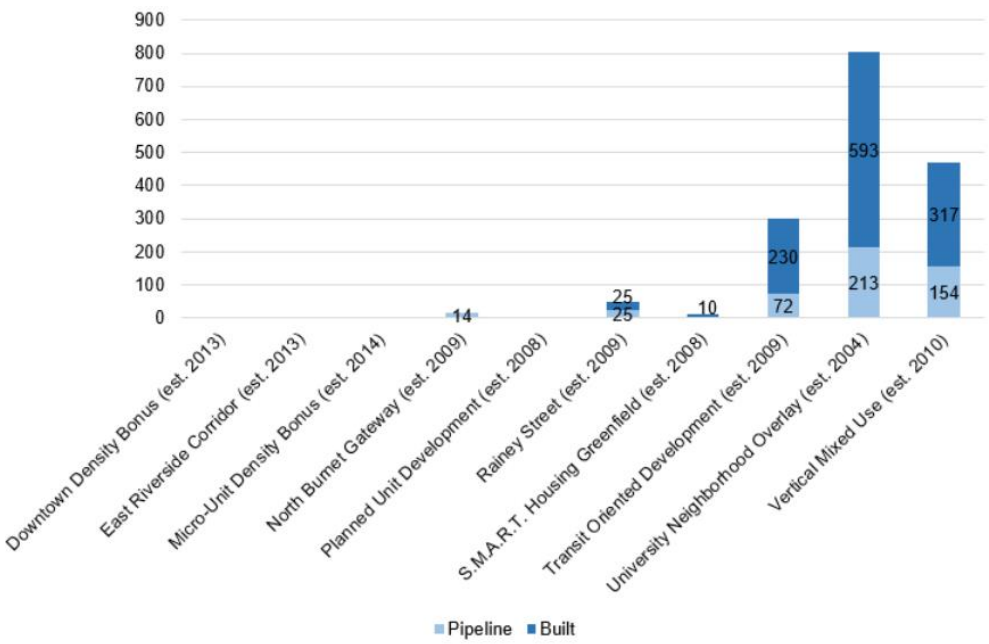
As of August, 2016, Austin's Development Incentive Programs had resulted in a total of 1,653 planned or constructed affordable units. Additionally, the City had secured approximately $4.8 million in in-lieu fees. Table 12 provides an overview of the affordability levels of the units. As Figure 13 shows, the number of units produced under each program varies substantially. Most of the units were created under the University Neighborhood Overlay program (806 units), the Vertical Mixed-Use program (471 units), and the Transit-Oriented Development program (302 units). The differences in program outcomes are likely partially attributable to the varying market strengths of the geographic areas covered by each program (the areas covered by the three most successful programs are within some of the City's most robust real estate markets). It should also be noted that because these programs began in different years, their outcomes cannot necessarily be directly compared. For example, the University Neighborhood Overlay—which has produced the most units as compared to the other programs in Figure 13—was established in 2004, making it the City's oldest density bonus program for which outcomes are illustrated below.

Table 12: Austin Density Bonus Affordable Housing Outcomes (Total Units by Median Family Income Level), August 2016

	AMI Level (a)							
	30%	50%	60%	65%	80%	100%	120%	Total
Built Units	15	217	220	9	714	0	0	**1,175**
Anticipated Units	0	29	313	0	136	0	0	**478**
Total	**15**	**246**	**533**	**9**	**850**	**0**	**0**	**1,653**

Note:
(a) The City of Austin uses MFI (median family income) to describe levels of affordability for rent- or deed-restricted housing. MFI is comparable to AMI; for purposes of consistency, BAE uses the term AMI throughout this report.
Source: DRAFT Report and Recommendations on the Density Bonus Fee-In-Lieu of onsite affordable housing units, City of Austin Neighborhood Housing and Community Development Office, June 2016; BAE, 2018.

Figure 13: Austin Density Bonus Affordable Housing Outcomes (Total Units by Program), August 2016



Additionally, in-lieu fees totaling **$4,831,364** have been secured.

Note:
Outcomes not available for the S.M.A.R.T. Housing program, which began in year 2000.
Source: City of Austin Density Bonus Policy, Report and Recommendations on the Density Bonus Fee-In-Lieu of onsite affordable housing units, Resolution No. 20151015-038, August 2016.

A 2016 report by the Austin Neighborhood Housing and Community Development Office analyzed the City's Developer Incentive Programs. The report determined that having ten

different programs may be confusing developers and hurting the effectiveness of the programs and recommended that the City standardize its policies.

Strategy C1: Accessory Dwelling Units

Case Study: ADU Development Program in Santa Cruz, CA

Like many cities in California, Santa Cruz has struggled with housing affordability challenges for years. With 63,000 residents[71] and a university that has more than 18,000 students,[72] Santa Cruz city officials are also familiar with the ways in which a large student population can exacerbate an already tight housing market. It is considered one of the least affordable cities in the United States in terms of housing costs. According to City data, only 6.9 percent of Santa Cruz residents can easily afford to buy a median-priced home.[73]

In 2002, after completing a study of expanded housing options for the City,[74] the City of Santa Cruz decided to aggressively pursue allowing ADUs as a strategy for increasing the City's affordable rental housing stock, making homeownership more affordable for existing homeowners, improving building standards in existing illegal ADUs, and preventing sprawl. The City approved a series of regulatory changes that legalized and even encouraged ADU development. In 2003, the City passed a law making the review of ADUs ministerial, meaning that the an ADU cannot be prohibited if it meets development standards.

A summary of the City of Santa Cruz's ADU Development Program is presented in Table 13. At the launch of the program in 2003, the City secured a three-year grant from the California Pollution Control Financing Authority, which funded grants and technical assistance workshops for prospective ADU owners. Because the grant period has ended, these incentives are no longer offered to owners. For the first few years following the launch of the program, the City also partnered with a local credit union to offer low-interest loans to ADU owners who kept their units affordable to low-income households earning 80 percent of AMI or less. The City no longer offers this incentive. The other program components, including fee waivers, parking waives for qualifying units, and design permit waivers, still exist. Additionally, the City has made a design guide featuring seven ADU prototypes as well as an ADU development manual available to the public.

When the program was launched in 2003, the City stated that its three-year goal was to increase the number of legal ADUs that receive building permits to an average of 30-35 per

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[71] U.S. Census Bureau American Community Survey Five Year Estimates, 2016
[72] UC Santa Cruz 2016-2017 enrollment numbers
[73] http://www.cityofsantacruz.com/government/city-departments/planning-and-community-development/programs/accessory-dwelling-unit-development-program
[74] http://www.cityofsantacruz.com/home/showdocument?id=8873

year.[75] From 2003 through 2013, more than 220 ADUs were built (an average of 22 ADUs per year), with a peak of 36 units constructed in 2007.[76]

Table 13: Santa Cruz ADU Development Program Components

Design Guide	The City created an ADU Plan Sets Book containing seven ADU prototype concepts designed by local and regional architects.
Technical Assistance (a)	From approximately 2003-2006, the City provided technical assistance grants and workshops to prospective ADU owners and also made ADU development videos available. Today, a written guide is still available on the City's website.
ADU Loan Program (b)	From approximately 2003-2006, owners who agreed to keep their units affordable could qualify for low-interest loans made possible by a partnership between the City and a local credit union (up to $70,000 at 4.5%).
Fee Waivers	Owners who agree to keep their units affordable can have fees waived (e.g. application fees, building permit fees, sewer and water connection fees).
Parking Requirements Waivers	Units that meet certain criteria can waive parking requirements (e.g. located near a Metro Station, a Car-Sharing location, or in a historic district).
Design Permit Waivers	Standard-sized lots (4,500 SF or more) are not required to obtain design permits.

(a) Some of the technical assistance activities were funded by a three-year City of Santa Cruz Sustainable Communities Grant from the California Pollution Control Financing Authority, and are no longer offered as part of Santa Cruz's ADU program.
(b) These low-interest loans were provided in partnership with a local credit union. While some local financial institutions may still offer loan products for ADUs, this specific product is no longer offered.

Sources: City of Santa Cruz, 2018; City of Santa Cruz's application for the Sustainable Communities Grant from the California Pollution Control Financing Authority, 2002; BAE, 2018.

Strategy C2: Micro Units

Micro Unit Policy Case Study: Seattle, WA

In many high-cost markets, micro units are a "win-win" for developers and tenants alike: developers can maximize profits by earning more revenue per square foot, while tenants are able to lower their overall monthly housing costs by paying for a smaller space. However, for this two-way incentive to exist, local municipalities must craft policies that make micro unit production feasible for developers. Additionally, municipalities should ensure that they are able to manage the amount, location, and type of units being built, so that micro unit development helps the City to accomplish its housing goals. Below is a case study about micro unit development in Seattle from 2009 to 2016. The purpose of this case study is to extract

[75] http://www.cityofsantacruz.com/home/showdocument?id=8872
[76] https://www.smartgrowthamerica.org/app/legacy/documents/Accessory_Dwelling_Santa_Cruz_Ordinance.pdf

lessons that can help the City of Tempe to effectively encourage micro unit production in targeted areas.

2009: Seattle's Micro Unit Boom Begins. Seattle's first micro unit developments appeared in 2009. aPodment Suites at Avenida and aPodment Suites at Videré were both congregate micro units with dormlike sleeping rooms (averaging 140 square feet) with common kitchens.[77] The developer found a loophole in Seattle's building regulations, which allowed up to eight unrelated people to live in one "dwelling" with a shared kitchen. The developer created rentable "sleeping rooms" as small as 100 square feet with private baths and shared with up to seven others renters.[78] Construction quickly surged for this product type, giving Seattle more congregate micounits than any other city in the country. In 2013 alone, 1,800 micro units were built (nearly one-quarter of all new dwellings built that year).[79] The vast majority were congregate micro units.

2013: Micro Unit Opposition Gains Steam. Publicity surrounding these micro unit developments began to spur public reaction. In 2013, Seattle City Council Members expressed concern that micro unit buildings were able to bypass the design review. Citizens at public hearings voiced concerns about micro units threatening the character of Seattle's neighborhoods and expressed fears about the develpments attracting transient, non-family populations.[80]

2014 – 2016: New Regulations Curb Micro Unit Production. From 2014 to 2016, in an effort to increase oversight of micro unit production and mollify public concern, city and county agencies implemented the policies outlined in Figure 14.[81]

[77] https://apodment.com/capitol-hill-apodments/videre/
[78] http://www.seattletimes.com/pacific-nw-magazine/seattles-micro-housing-boom-offers-an-affordable-alternative/
[79] http://www.sightline.org/2016/09/06/how-seattle-killed-micro-housing/
[80] https://www.seattlemet.com/articles/2013/4/18/the-pitchforks-come-out-at-apodment-hearing-april-2013
[81] http://www.sightline.org/2016/09/06/how-seattle-killed-micro-housing/

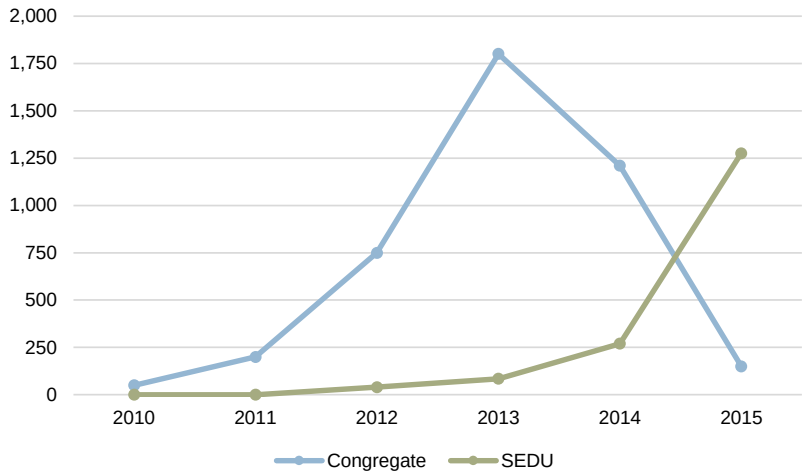
Figure 14: Seattle Micro Unit Policy Changes, 2014 - 2016

Zoning limits on congregate housing developments	The development of congregate housing is now prohibited in places zoned for neighborhood commercial centers and for low-rise multi-family buildings. This restriction has caused congregate micro units to virtually disappear from the development pipeline. In its place, the City has encouraged small efficiency dwelling units (SEDUs) (with a required minimum of 220 square feet) as a replacement for congregate micro units.
Mandatory design review processes	Projects are now required to go through a design review process that involves meetings with community members and a citizen panel.
Parking requirements	Some sites that had been exempt from minimum parking requirements are no longer exempt. The City narrowed its definition of "frequent transit network," which exempts developers from waiving parking when building near transit.
Affordable housing subsidy changes	The City Council also changed the multi-family tax exemption (MFTE) on new multifamily buildings given to developers in in exchange for setting aside a portion of the homes as income- and rent-restricted. Under the new rules, 25 percent of units in a microunit development must be set aside for individuals earning 40 percent of AMI in order to qualify for the exemption (in the past, microunit developers had obtained MFTE benefits for setting aside only 20 percent of units for individuals earning 65 - 90 percent of AMI).
Minimum floor space requirements	The City adopted the "70-7" rule, which requires that each dwelling unit has at least 70 square feet of clear floor space.

Sources: Sightline Institute, 2016; City of Seattle, 2017; BAE, 2018.

Figure 15 illustrates the effects of these policy changes. Restrictions on congregate micro units have greatly reduced their popularity. However, developers have been switching to SEDUs. While congregate micro units were all but eliminated after the new rule changes, SEDU production increased rapidly, from 250 units in 2014 to over 1,250 in 2015. This shows that public policy is instrumental in shaping outcomes. Today, demand for micro units in Seattle persists, and the City is on pace to add more micounits to the City's housing stock.

Figure 15: Seattle Micro Unit Production, 2010 - 2015



Sources: Sightline Institute; City of Seattle Office of Planning and Community Development; BAE, 2017

Strategy C3: Tiny Houses

Case Study: Rockledge, Florida

Rockledge, Florida is a coastal community with a population of approximately 26,000.[82] Located an hour southeast of Orlando, it is situated on central Florida's east coast between Daytona Beach and Palm Bay.

In late 2014, Rockledge resident René Hardee decided that her family's 2,000-square-foot home was unnecessarily large and difficult to manage. She began making plans to build a tiny house, but soon discovered that local zoning regulations required a minimum floor area of 1,200 square feet for a single-family home.

Research led Hardee and Rockledge City Planning staff to the idea of "pocket neighborhoods," a concept pioneered by Washington-based architect Ross Chapin. According to Chapin, pocket neighborhoods are clustered groups of neighboring houses or apartments gathered around a shared open space, "all of which have a clear sense of territory and shared stewardship."[83] (Pocket neighborhood principles can also be applied to a variety of other housing formats, including cohousing.) As shown in Figure 16, the homes in a pocket neighborhood are generally not directly accessible from the street. Instead, the street leads to a shared parking lot and the neighborhood's common spaces, from which walkways extend, leading to the individual residences. While most U.S. cities' zoning regulations do not permit the

[82] U.S. Census Bureau American Community Survey Five Year Estimates, 2016.
[83] http://www.pocket-neighborhoods.net/whatisaPN.html

development of such communities, some city planners have championed pocket neighborhoods as a way of increasing housing options and density while preserving the character of existing neighborhoods.[84]

Figure 16: Sample Site Plan for a Pocket Neighborhood

Source: Ross Chapin Architects, 2018.

In 2015, Rockledge City Council adopted an ordinance that allows the development of tiny houses in pocket neighborhoods in two zoning districts: Redevelopment Mixed Use districts (RMU) and Planned Unit Development districts (PUD). The ordinance defines a tiny house as a principal dwelling unit measuring between 170 and 1,100 square feet. It includes detailed requirements for the minimum gross floor area per unit (170 square feet for the first occupant and 100 square feet for each additional occupant), minimum square footage per sleeping room (70 square feet), minimum ceiling heights (seven feet), and specifications related to the required water and electrical hookups. Pocket neighborhoods must have between four and 12 dwelling units. Up to 25 percent of tiny houses in a pocket neighborhood may be on wheels, while the remaining homes must be built on foundations. The ordinance also stipulates that the centralized common area include at least four hundred square feet of space per dwelling unit.[85]

Rockledge has a large population of young people in need of affordable starter homes and retirees who are looking for opportunities to downsize. Tiny house pocket neighborhoods provide a solution for both groups, bringing them together in a community environment. The tiny house ordinance also extends beyond addressing the City's housing needs. Allowing pocket neighborhoods in RMU districts is part of the City's revitalization and economic development strategy. The City hopes that blighted properties within walking distance to stores and restaurants will be redeveloped by tiny house enthusiasts looking to create walkable communities for minimal cost.[86]

[84] http://www.pocket-neighborhoods.net/whatisaPN.html
[85] http://americantinyhouseassociation.org/wp-content/uploads/2015/08/Ordinance-No.-1680-2015.pdf
[86] http://tinyhouseblog.com/tiny-house/a-tale-of-zoning/

Rockledge's first tiny house pocket neighborhood is currently in the preconstruction phase.

Strategy C4: Missing Middle Housing

Case Study: City of Mesa Form-Based Code (Mesa, AZ)

The City of Mesa engaged Opticos Design to create a form-based code for the City, with the goal ensuring that future development reinforces an urban environment and active streetscape by focusing denser development around transit stations reinforcing existing historic neighborhoods adjacent to downtown.[87] [88]

Based on the City's existing character and future development goals, the City used the model Rural-to-Urban Transect illustrated in Figure 17 to define the following transect zones for the City of Mesa's Downtown and Temple/Pioneer Park neighborhoods:

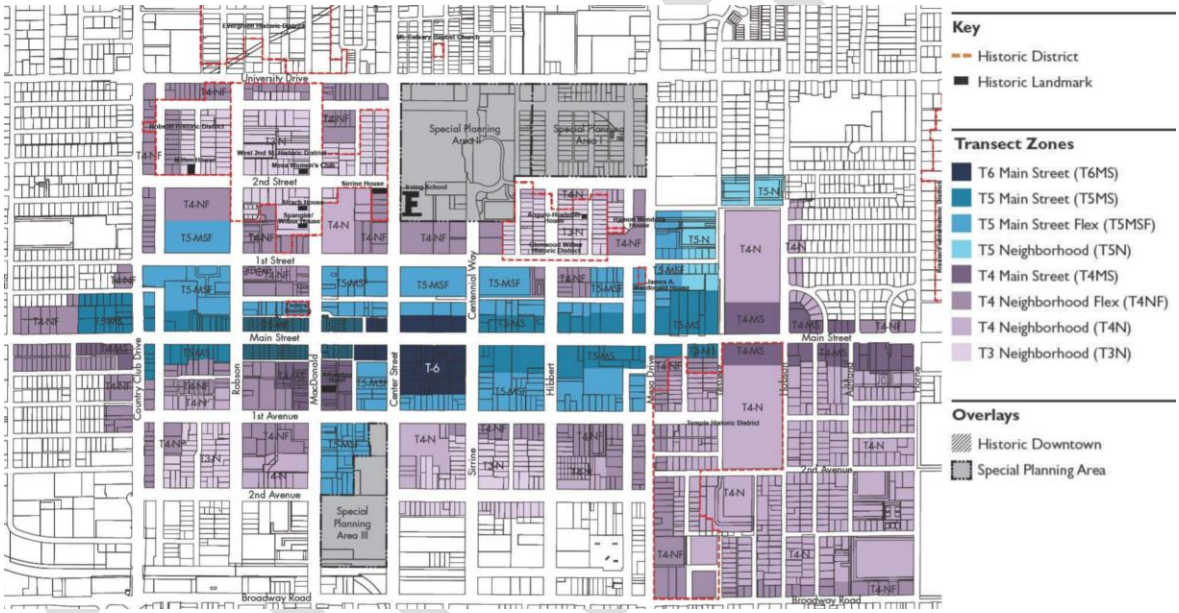
- T3 Neighborhood: Walkable, single-family home neighborhood that integrates multifamily housing types such as **duplexes**, **mansion apartments**, and **bungalow courts** within walking distance to transit and commercial areas.
- T4 Neighborhood: High-quality, medium-sized residential building types such as **townhouses**, **small courtyard housing**, **mansion apartments**, **duplexes**, or **fourplexes** within walking distance to transit and commercial amenities.
- T4 Neighborhood Flex: A flexible area that can accommodate smaller, neighborhood-serving commercial uses in a main street form that allows for interim uses such as live/work and ground floor residential until the commercial corridor matures.
- T4 Main Street: Vibrant main street commercial and retail environments integrated into residential neighborhoods, providing access to daily amenities within walking distance, creating potential for a transit stop, and serving as a focal point for the neighborhood.
- T5 Neighborhood: Medium- to high-density residential building types such as **apartment houses**, **courtyard buildings**, and **mid-rise buildings** that transition from lower density surrounding residential neighborhoods to the higher-density mixed-use neighborhoods.
- T5 Main Street Flex: A flexible area that can transition from a residential district to a commercial district by allowing a mixture of ground floor uses including **live/work** and ground floor residential that could transition to commercial space when the commercial corridor matures.
- T5 Main Street: Medium-density vertical mixed use that can appropriately transition into the adjacent neighborhoods in central Mesa, near transit stops, or other pedestrian-oriented urban areas.

[87] https://opticosdesign.com/work/downtown-plan-and-form-based-code/
[88] http://www.mesaaz.gov/home/showdocument?id=11829

- <u>T6 Main Street</u>: Higher density mixed use development that supports transit and provides a vibrant urban area.

The City then assigned transect zones to each part of the Downtown and Temple/Pioneer Park neighborhoods. As shown in Figure 17, the T3 and T4 transect zones, which allow numerous Missing Middle housing typologies such as duplexes, bungalow courts, townhouses, and courtyard housing, surround the more commercial downtown core area.

Figure 17: Downtown Mesa and Temple/Pioneer Park Neighborhoods Regulating Plan



Source: City of Mesa Zoning Ordinance, Article 6: Form Based Code.

Strategy C5: Co-Housing

Case Study: Manzanita Village (Prescott, Arizona)

Manzanita Village is a co-housing community in Prescott, Arizona. It was established in 2007 and is located approximately one mile east of the City's downtown area. The community's stated mission is "to sustain and promote a thriving, cohousing community whose members develop and participate in an inter-generational, intentional community which nurtures creativity, neighborliness, collaboration, consensus governance, environmental stewardship and global awareness." The Manzanita Village website notes that the community's "small town lifestyle is ideal for working from home, telecommuting, or retirement." [89]

[89] http://www.manzanitavillage.com/

Manzanita Village provides residents of all ages with a supportive and engaging living environment. Senior residents can remain socially active by taking part in group activities and relying on the support of other community members when they need help.

In the Village, homes are clustered along a pedestrian way, as shown in Figure 18. A parking lot containing both covered and uncovered sparking spots is located along the periphery of the village. Maintaining a car-free pedestrian zone ensures a quiet environment that encourages resident interaction and provides a safe environment for children.

Figure 18: Aerial View of Manzanita Village

Source: Google Earth Pro, 2018; BAE, 2018.

Manzanita Village holds monthly general meetings to discuss issues of community-wide interest. The steering committee sets the agenda for these meetings, and decisions are made based on the consensus of all residents.

The community also has *standing committees* that oversee specific issues including finance, procurement, marketing, and records. The mandate of each committee is first determined by consensus at a general meeting, after which each committee operates independently and makes decisions within its area of responsibility. The community's *steering committee* consists of one member of each of the standing committees.

Manzanita Village contains 36 residential lots, most of which have completed homes on them. Three homes, all of which were built in 2007, are advertised for resale on Manzanita Village's website. Asking prices range from $259,000 to $412,000 ($156 to $173 per square foot). This is consistent with home sale prices for the City of Prescott as a whole, where the median list price is approximately $352,000. The sizes of the three for-sale homes range from 1,500

to 2,500 square feet. On a per-square-foot basis, these homes are slightly less expensive than homes for sale in Prescott as a whole, where the median list price per square foot is $198.[90]

Two empty lots are for sale with asking prices ranging from $67,000 to $98,000. These prices include "Common House Allocations" ($16,000 for two adults) and $7,000 for site prep costs and set of professional preliminary custom home drawings.

According to its website, after more than 20 years of operation, Manzanita Village "has survived the growing pains of learning how to make decisions by consensus." The Village maintains a strong financial position and a has robust capital reserve fund.[91]

Strategy C6: Community Land Trusts

Case Study: OPAL Community Land Trust (Orcas Island, WA)

Orcas Island, a small island with 5,400 residents, is located northwest of the mainland Washington state. The island experienced rapid growth in the 1970s and 1980s, causing land prices to sharply increase. Open land became scarce, and housing prices became increasingly unaffordable to middle-income households. Additionally, some residents felt that the island was beginning to lose its "community feel." [92]

In 1988, three residents founded OPAL ("Of People and Land") Community Land Trust, one of the first CLTs in the western United States. In 1989, after months of public meetings, OPAL was officially established as a non-profit corporation. Nearly a year later, the organization received a $300,000 grant from the Washington State Housing Trust Fund, $80,000 in Community Development Block Grant (CDBG) funds, and the offer of a seven-acre piece of land at a written-down price. [93]

Before it could build its first project, OPAL determined that to offer affordable homeownership opportunities to moderate-income households, it needed to also offer affordable financing options. At the time, mortgage interest rates in the private market were approximately 7.5 percent. OPAL successfully applied for a grant from the U.S. Department of Agriculture (USDA) Farmer's Home Loan Program, which enabled the organization to offer mortgages with interest rates as low as one percent. In 1993, OPAL began building Opal Commons, its first project. Opal Commons, which contains 18 single-family homes, was completed in approxinately one year.

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[90] https://www.zillow.com/prescott-az/home-values/
[91] http://www.manzanitavillage.com/
[92] https://www.opalclt.org
[93] https://www.opalclt.org

Since its inception, OPAL has grown from a group of volunteers to a professional organization with six paid staff and ten board members. The organization continues to receive federal and state grant funds and low-interest mortgage funding from the USDA, as well as private cash donations and land donations. Today, OPAL's properties house 128 families. Its projects range from clustered homes in small neighborhoods to scattered individual properties, an apartment complex, and a small mixed-use development containing residential units and office space.

Because OPAL owns the land under the homes, effectively removing the land from the speculative market, it can deliver new units at a significantly lower cost. On average, land represents only 11.3 percent of costs. In the private market, it is common for land to constitute thirty to fifty percent of the host of a home.

Each unit's ground lease with OPAL contains a formula that determines the home's resale price. Table 14 shows an example of a resale price calculation for an OPAL home in its Bonnie Brae neighborhood, which was constructed in 1999. The average home in the Bonnie Brae neighborhood cost $130,000 to develop. OPAL secured $25,000 per unit in public grants, enabling OPAL to set the average sale price per home at $105,000.

Between 1999 and 2012, the consumer price index in the Seattle-Bremerton area increased by 38.1 percent. If an original owner decided to sell their home in 2012, the sale price for the home would be $142,800 ($105,000 + ($105,000 x 38.1%)). In comparison, the assessed value of real property on Orcas Island from 1999 to 2012 increased by 93.3 percent. In the private market, this same house, originally valued at $130,000, would have sold in 2012 for approximately $251,290.[94]

Table 14: Sample Resale Value Calculation, OPAL Community Land Trust

Original Purchase Price:

Cost to Construct	$130,000
Minus grant funding for land & infrastructure	- 25,000
Equals the Original Purchase Price	$105,000

Change in value for resale:

% increase in consumer price index during period	38.1%
Appreciation over 13 years (Purchase Price x .381)	$40,021
Sales Price (Original Purchase Price + Appreciation)	$145,021

Source: Opal Community Land Trust, 2018.

Considerations for Tempe: Community Land Trusts

[94] https://www.opalclt.org

Tempe benefits from the activity of a local community land trust: Newtown CDC. Formed by the City of Tempe in 1994 as the Northwest Tempe Neighborhoods Community Development Corporation (CDC), Newtown CDC today is an independent 501 (c)(3) non-profit and community land trust that operates in Tempe and neighboring Valley cities. Using CDBG and HOME funds for below-market or no-cost acquisitions of public land, Newtown purchases and rehabilitates single-family homes for resale to qualified low-income households that earn up to 80 percent of AMI. Newtown retains ownership of the land, and sells only the built improvements, resulting in a lower sale price that omits the land costs. Units are covenanted with restrictions on resale: owners that opt to move can either sell the improvements back to the land trust, or sell the improvements to another qualifying household with the covenant intact.

Newtown has utilized public funds to acquire and rehabilitate existing single-family homes and has used publicly-owned properties acquired by the City in prior decades for slum and blight abatement. As land prices increase, Newtown is now looking to move into new construction of slightly denser housing typologies including town homes, courtyard homes, and small multiunit buildings such as duplexes and fourplexes.

A necessary ingredient for the successful establishment or expansion of a Community Land Trust is affordable land. Many existing CLTs were formed in the 1980s, 1990s and early 2000s, when land prices in many urban areas were significantly lower than today. In high-cost markets today, CLTs are more easily formed when land has been donated or substantially written down. The City of Tempe should consider exploring the Community Land Trust model if it identifies surplus City-owned land that can be used for this purpose. Additionally, if land prices sharply decline during future points in the market cycle, the City should take advantage of this and purchase land for the use of CLTs.

Strategy D2: Marketing for Section 8 Participation

Case Study: HACP Preferred Owners Program (Pittsburgh, PA)

Since 2015, the Housing Authority of the City of Pittsburgh (HACP) has had a Preferred Owners Program that aims to increase the number of Section 8 landlords in Pittsburgh's high-opportunity neighborhoods as well as promote and improve the quality of Section 8 properties. The program provides Preferred Owners with benefits that include:

- **Inspection Incentives.** Priority inspection scheduling, inspections every two years (rather than annually), and acceptance of prior inspections conducted less than 60 days ago for vacated units.
- **Vacancy Payments.** Landlords may receive up to two months of HCAP rent payments if a unit is empty between two Section 8 tenants.

- **Priority Property Listings.** Preferred Owners' properties are placed at the top of HACP's property listing webpage.[95]

To become a Preferred Owner, a landlord must already be a Section 8 landlord and must have passed the annual unit inspection on the first try for the past three consecutive years. Landlords who meet these criteria must complete an application form and agree to participate in an annual training. Training sessions focus on a variety of topics, including tenant screening (background checks, references, and the Fair Housing laws), the magistrate process (including the legal recourse landlords may take if they feel their tenant has broken his or her lease), and mental health first aid training.[96]

Because only existing Section 8 landlords are eligible for the Preferred Owners Program, HCAP also conducts outreach to landlords who do not yet accept vouchers. HACP's Landlord Outreach Coordinators meet regularly with real estate associations to promote the Housing Choice Voucher Program. In a 2015 article by WHYY, a public media organization in Pennsylvania, one HCAP employee commented that "many landlords don't realize that most of Section 8 participants are stable, long-term tenants," and that many also don't realize that they can deny the applications of prospective tenants who don't pass the screening tests. She also noted that some property owners have expressed an interest in working with veterans, which helps to bring landlords into the Section 8 program. Many of those same landlords eventually open their doors to non-veteran Section 8 recipients, too.[97]

HACP plans to release an evaluation of the Preferred Owners Program in its 2017 Annual Report, which has not yet been published.[98]

<u>Other Approaches in Maryland and Oregon</u>

There are many other approaches that public agencies and advocacy organizations use to increase the number of landlords who accept Section 8 Vouchers. The Community Development Network of Maryland launched a campaign called "Consider the Person" that aims to dispel stereotypes about voucher households and educate landlords and the wider community about the Housing Choice Voucher program.

Oregon Housing and Community Services created a Landlord Guarantee Assistance Program, which is a risk-reduction program to ease fears that landlords may have about property damage and cost recovery. Landlords throughout Oregon can be reimbursed up to $5,000 if a Section 8 tenant damages his or her property.[99]

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[95] http://www.hacp.org/business-opportunities/landlord-resources/hcv-preferred-owners
[96] https://www.hud.gov/sites/documents/PITTSBURGH17PLAN.PDF
[97] https://whyy.org/articles/ideas-worth-stealing-how-to-recruit-more-landlords-to-work-with-section-8-tenants/
[98] https://www.hud.gov/sites/documents/PITTSBURGH17PLAN.PDF
[99] http://www.oregon.gov/ohcs/Pages/housing-choice-landlord-guarantee-assistance.aspx

Strategy E2: Community Inclusion Framework

In 2000, as part of the Regional Housing Project funded by the Washington State Office of Community Development, the Growth Management Planning Council of King County engaged BAE to create an Affordable Housing Acceptance Best Practices report. The report was intended to serve as a resource for local jurisdictions, the King County Growth Management Planning Council, and housing organizations throughout county seeking to gain community support for affordable housing policies and projects.

As the foundation of the project, BAE and King County created a Community Acceptance Framework. The central themes in the framework came from fourteen community focus groups that were held with the goal of learning more about community housing values, the housing development concerns of existing residents, and suggestions for improved implementation of local and regional housing policies. These themes are:

- Citizens have a grasp of basic housing issues and are concerned about decreasing affordability.
- Citizens are concerned by the lack of certainty about future land uses and do not like being "surprised" by housing development proposals in areas where they did not realize new development is permitted.
- Citizens want increased community input in decision-making processes about projects.
- Citizens want better design and construction quality.
- Citizens are concerned about traffic congestion and want transportation capacity to be increased before new housing is developed.
- Citizens are willing to accept density under certain conditions and with certain building types.

The resulting Community Acceptance Framework, which sought to synthesize the focus group feedback and reconcile the views of the community with those of the practitioners, is below in Table 15:

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Table 15: King County Community Acceptance Framework

Community Themes	Practitioner Themes	Community Acceptance Strategy & Best Practice Options
Increase Community Input into Decision-Making	Better Communicate with Public	#1: Build Community Partnerships Citizens' Regional Housing Advisory Committee; Encourage Developer Interest & Expand Developer Capacity; Engage King County Business Leaders in Housing Discussion
Lack of Land Use Certainty	Land Use Entitlement Uncertainty	#2: Plan for Land Use Certainty Regional Housing Strategy; Housing Opportunity Sites; Specific Plan; Programmatic EIS
Better Design and Construction Quality	Unpredictability of Project Review	#3: Promote Quality Design & Development Promote "Good" Design Through Public; Education and Awards; Encourage Development Standards; Consistent with Regional and Local Planning Goals; "New Urbanist" Zoning Codes; Develop Clear Design Guidelines
Traffic Congestion	Infrastructure Challenges	#4: Ensure Adequate Infrastructure Conduct Regional Concurrency; Assessment; Regional Financing Pools
Willingness to Accept Density Under Certain Conditions	Lack of Community Acceptance of Density	#5: Focus on Urban Centers & In-Fill Locations Location Efficient Mortgages; Transfer of Development Credits; Expand Minimum Density Standards; Encourage In-Fill Development on Underutilized Sites; Target Infrastructure Improvements to Support Development in Urban Areas
Concern About Affordability	Rising Development Costs	#6: Meet Affordable Housing Needs Explore Broader Implementation of Incentive Based Programs; Establish a Regional Senior Housing Task Force; Regional Homeownership Partnership

Sources: Gaining Community Acceptance of Housing: Best Practice Options for King County, Growth Management Planning Council of King County, 2000; BAE, 2018.

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Appendix C: Pro Forma Analysis

Figure 19: Pro Forma Analysis for Hypothetical 2.5-acre City-Owned site

Development Program Assumptions

Site Size - acres / square feet	2.50	108,900
Building Height (# of Floors, incl. podium)		4
Total Project SF (excluding parking)		95,060
Ground Floor Commercial Space		0
Commercial Space Net Leasable		0
Community Room (sf)		2,000
Open Space - % required / total sf	10%	10,890
Dwelling units (du) - number / average size	100	846
30% AMI 1 bedroom - number / average size	10	650
30% AMI 2 bedroom - number / average size	10	850
30% AMI 3 bedroom - number / average size	10	1,050
60% AMI 1 bedroom - number / average size	10	650
60% AMI 2 bedroom - number / average size	10	850
60% AMI 3 bedroom - number / average size	10	1,050
80% AMI 1 bedroom - number / average size	14	650
80% AMI 2 bedroom - number / average size	14	850
80% AMI 3 bedroom - number / average size	12	1,050
Net Residential Space, Sq.Ft.		84,600
Circulation - % / SF	10%	8,460
Total Residential (gross sf)		93,060
Required Parking (a)		
1 BR - # spaces per unit / total spaces	1.50	51
2 BR # spaces per unit / total spaces	2.0	68
3 BR # spaces per unit / total spaces	2.5	80
Total Required Parking Spaces		199
Affordable Housing Allowable Reduction	10%	20
Total Included Parking Spaces (surface)		**179**

Cost and Income Assumptions

Construction	
Site prep cost (per site sq. ft.)	$10
Open Space cost (per site sq. ft.)	$10
Construction hard costs psf, Residential (b)	$146
Construction hard costs psf, Retail	$150
Construction hard costs psf, Community Room	$146
Surface parking cost, per space	$5,000
Soft costs, % of hard costs	20%
Operations	
Residential rental rate per du/mo (c)	
30% AMI 1 bedroom	$388
30% AMI 2 bedroom	$466
30% AMI 3 bedroom	$539
60% AMI 1 bedroom	$648
60% AMI 2 bedroom	$777
60% AMI 3 bedroom	$898
80% AMI 1 bedroom	$1,037
80% AMI 2 bedroom	$1,243
80% AMI 3 bedroom	$1,437
Annual op. cost - per du (d)	$6,500
Vacancy Rate, Residential	3%
Financing	
Construction Loan	
Construction Loan to Cost Ratio	70%
Loan Fees (points)	2.0%
Interest rate	6.5%
Construction Period	18
Drawdown Factor	60%
Total Hard + Soft Construction Costs	$21,165,992
Total Loan Amount	$14,816,194
Permanent Loan	
Debt-Service Coverage Ratio	1.15
Interest rate	6.0%
Loan Term (years)	30
LIHTC Equity	
LIHTC Basis (100% of residential dev costs)	$19,165,992
Tax Credit Term (years)	10
Tax Credit Rate	9%
Tax Credit Price	$0.92
Equity Partner Share	99.99%

Development Cost Analysis

Site Prep Cost	$1,089,000
Community Room	$292,000
Open Space	$108,900
Residential	
Residential Hard Costs	$13,586,760
Parking Costs	$895,000
Soft Costs	$3,194,332
Subtotal	**$19,165,992**
Retail	
Commercial Hard Costs	N/A
Parking Costs	N/A
Soft Costs	N/A
Impact Fees	N/A
Subtotal	N/A
Developer Fee - % Costs	10%
Developer Fee - Total	**$2,000,000**
Total Costs pre Financing	**$21,165,992**
Financing Costs	
Interest	$866,747
Fees/Points	$296,324
Subtotal	**$1,163,071**
Total Project Costs	**$22,329,063**

Feasibility Analysis

Residential	
Gross scheduled rents	$1,035,859
Less vacancy	($31,076)
Less operating expenses	($650,000)
Net operating income (NOI)	$354,783
Retail	
Gross scheduled rents	N/A
Less vacancy	N/A
Net operating income (NOI)	N/A
Total Net Operating Income	**$354,783**
Feasibility	
Total Development Costs	**$22,329,063**
Sources	
LIHTC Tax Credit Equity	$15,867,854
Supportable Private Debt	$4,246,551
Total Funding Sources	**$20,114,406**
Gap to Fund from Other Sources	$2,214,658
Funding Gap per Unit	***$22,147***

Notes:
(a) Per City of Tempe Parking Ratios,Table 4-603E
(b) Per RS Means, 4-7 story apartment with Tempe Location factor.
(c) Allowable Rents per Arizona Department of Housing, Maricopa County effective 4/1/2018
(d) Estimate based on similar affordable housing projects in Arizona; inlcudes operating expenses but not resident services

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