Council Study Session

December 17, 2018

Agenda Item	Affordable Housing Program: Revise Maximum Resale Price Formula?	
From	Linda Reid	Housing Program Specialist
Contact	reidl@ashland.or.us 541-552-2043	
Item Type	Requested by Council ☐ Update ☒ Request for Direction ☐ Presentation ☐	

SUMMARY

Staff is requesting that the City Council provide direction on analyzing and potentially amending the City's affordable housing resale formula.

Affordable Housing Programs strive to strike a balance between protecting affordability over time and encouraging asset building for homeowners. The resale formula is the tool communities use to help ensure this balance. It is important to periodically review the performance of the formula to make sure it is indeed preserving affordability while allowing homeowners to realize some return on their investment. Effective resale formulas are able to offer home buyers meaningful and safe asset-building opportunities while also preserving a sustainable stock of homes that remains affordable for future generations. The City's Affordable Housing Program has been in effect for over 25 years. In that time the City has twice updated the formula by which the City calculates the resale price of units covered by the program. Each update was predicated on maintaining affordable resale prices, while still offering enough of a return on investment for homebuyers to make the City's program viable.

It has recently become evident that homes which are covered by the affordable housing program and which are located in developments with Home Owners Associations (HOA's) may not be able maintain this balance over time because of rising HOA fees. In one recent example, a current homeowner ("Homeowner A") has had to bear an extreme cost burden (the term "cost burden" is defined by HUD to be when a household pays more than 30 percent of its income toward housing costs) as a direct result of HOA fees having been increased by 95 percent from $256 to $500 a month in the past two years. The City's affordable housing program criteria and the structure of the maximum resale price formula may interact so as to severely limit Homeowner A's chances of finding a buyer within the targeted income range, below 80% of Area Median Income, for his unit.

Currently, the only way for Homeowner A to avoid this squeeze is to sell the property at a price low enough to allow a potential buyer to avoid becoming "cost burdened." This, of course, benefits the buyer, who would be able to have an affordable monthly payment and perhaps offset the cost of the HOA fees. But the seller would then be taking a considerable loss. This outcome would be counter to the goals of the Affordable Housing Program.

The homeowner currently stuck in this situation (Homeowner A) is asking the City to consider removing the deed restrictions from the unit and allow him to sell the unit at market rate to a willing buyer. The homeowner would take a percentage of the resale value and the rest of the sale proceeds

would be placed in the Affordable Housing Trust Fund. Staff does not recommend this as the City's response could well set a precedent for the other eight units covered by the Affordable Housing Program which also reference Resolution 2006-13 and have HOA fees assessed against them and would reduce the City's affordable housing stock.

Increasing HOA fees and their impact on maximum sale price has been a growing concern over the past few years. With a goal of alleviating the current squeeze on sellers of affordable housing units while still retaining affordability limits on resales of units in the program, staff believes it is time to reevaluate the City's affordable housing resale formula.

Staff is proposing two options for partially addressing Homeowner A's problem, while also maintaining the long-term efficacy of the City's Housing Program.

Option #1: Increase the targeted income limit from 80 percent AMI to 120 percent AMI. Increasing the income limits will allow the formula calculation and the household to absorb a higher maximum monthly cost. One hundred percent AMI will not offset the higher HOA fees and would still pose a cost burden to all households at that income level.
Pros:

- Maintains the current stock of affordable housing
- Allows the homeowner to access a larger pool of potential purchasers
- Targets a household income level that is currently underserved

Cons:

- Has the potential to impact eight other deed restricted units
- May require staff time and resources to amend resale restriction covenants on existing units

Option #2: Remove the Resale Restriction Covenant and allow the homeowner to sell the unit at market rate and re-capture a percentage of the proceeds to be placed in the Affordable Housing Trust Fund for the future development of affordable housing. Similarly, this has the potential to impact eight additional units.
Pros:

- Impacts fewer homes overall
- Provides an additional revenue source for the Affordable Housing Trust Fund

Cons:

- Loss of long term affordable housing stock
- May require staff time and resources to amend resale restriction covenants
- Requires a determination of the percentage/amount of recapture

Community Development Staff is requesting that Council direct staff to undertake an evaluation of the affordable housing program resolution with a goal of balancing long term affordability while allowing a reasonable rate of return for homeowners and developers. Staff is also looking for direction regarding which option to move forward with to resolve Homeowner A's issue. The affordable housing units within this particular development are affordable due to a standard within the land use ordinance that requires affordability upon conversion of existing rental units to condominium units. Any change to that condition would need to be decided by the Council, and may also require public land use notice of the intent to change provided to those within 200 feet of the site.

Similarly, any changes authorized for this unit could impact other units under similar RRC's. There are a total of 8 units which could be impacted by a proposed change.

POLICIES, PLANS & GOALS SUPPORTED

The 2015-2019 Consolidated Plan for the Use of CDBG funds: Creation and Retention of Affordable Housing.
Comprehensive Plan Goal 6.10: Ensure a variety of dwelling types and provide housing opportunities for the total cross-section of Ashland's population, consistent with preserving the character and appearance of the city.

BACKGROUND AND ADDITIONAL INFORMATION

The City's affordable housing program has evolved over the years. With Resolution 1993-39, the City established rental and purchase cost levels for deed-restricted units that received a deferral of system development charges in exchange for agreeing to maintain affordability for a predetermined period of time. The resolution set a formula for calculating the maximum rent and resale cost of those deed-restricted units. The formula set a base unit value based on the number of bedrooms and indexed the resale price to the HUD income guideline's Area Median Income.

The City amended Resolution 1993-39 with Resolution 2005-46 to address cost burden created by HOA fees in complexes with deed-restricted units. Resolution 2005-46 attempted to address this issue by exempting units which were part of a homeowner's association from paying HOA fees.

The City then amended Resolution 2005-46 when the State ruled that it was unlawful to exempt homeowners from paying HOA dues. The formula set forth in replacement Resolution 2006-13 took into account HOA dues as well as interest rates, taxes and insurance when calculating maximum sale price levels, and used a percentage of income calculation which allowed the city to calculate maximum sales prices for a variety of income ranges as the annexation ordinance allows for a range of target incomes for resale (beyond 80% area median income). This formula contains assumptions which included interest rate (indexed to the Oregon Bond Rate Advantage interest rate) and a down payment (10%) as well as tax and insurance costs.

The formula in Resolution 2006-13 is cumbersome to administer and difficult to explain to homeowners when providing them with updated resale prices. Because HOA dues, interest rates, and area median income can change (sometimes drastically and in opposite directions), the impact on resale prices can be dramatic. Some homeowners have complained about the formula over the years, and, as time has passed and HOA dues have increased, it has come to staff's attention that the formula needs to be re-evaluated and likely amended for the program to continue to be viable.

In general, there are three types of resale formulas used to maintain affordability in affordable housing programs: Fixed Rate formulas, which offer a fixed rate of return over time based on length of ownership, Index Based formulas, which peg increases to a measure such as Area Median Income or Consumer Price Index, and Appraisal Based formulas, which take into account the market increase in a housing unit and then provide the homeowners with a percentage of that increase.

Staff is requesting direction from Council regarding undertaking an evaluation of the Affordable Housing program with the intent of coming back to council with recommendations for updating the affordable

housing formula to better address the changing housing environment while maintaining a balanced program that best meets the needs of the community.

FISCAL IMPACTS
Staff time and recording fees.

DISCUSSION QUESTIONS
N/A

SUGGESTED NEXT STEPS
Direct staff to undertake a re-evaluation of the Affordable Housing Program formula contained in resolution 2006-13 and come back to Council with options for revision.

REFERENCES & ATTACHMENTS
Attachment 1: Letter from homeowner
Attachment 2: Resolution 1993-39
Attachment 3: Resolution 2005-46
Attachment 4: Resolution 2006-13
Attachment 5: The Balancing Act, Resale Formula Options handout

Date: May 23, 2018

Subject: Request to Remove a Condominium from the City of Ashland Affordable Housing Program

Dear Ms Reid,

Thank you for meeting with me to hear our concerns. I really appreciated our in depth discussion about the difficulties in applying the affordable housing program to the HOA model.

We purchased our condo unit in May of 2016. As I mentioned, since then our HOA fees and special assessments have increased to a point where we are in a serious financial situation with our limited retirement income from social security only. In less than two years the aggregate of our monthly HOA costs have increased from $256.00 per month to approximately $500.00 (a 95% increase).

This increase is mainly due to special assessments of about $2000.00 per year added to our monthly HOA dues to shore up a grossly under funded Reserve account. The association is pushing to reach a $160,000.00 Reserve Fund in ten years from now in response to an overdue Reserve Study conducted in the fall of 2016. The Reserve account was only about $17,000.00 in 2016 with some major system maintenance and replacements upcoming in the next few years. This means we will be facing at least 10 years of special assessments of $2000.00 per year in addition to significant increases in our monthly HOA dues.

Unfortunately, when we purchased our condo (on a sale by owner) from the former Board of Directors President she did not disclose the critical situation with the Reserve Fund and that significant special assessments were planned by the HOA. So, this situation has really taken us by surprise. We have also discovered that 50% of the units are now rented and one or two other owners are planning to move out and rent their units in the near future.

On the issue of percentage of rental units, during purchase negotiations with our seller (then the HOA Board of Directors President) told us that she was in the process of passing an amendment to the HOA bylaws that would limit the rental unit percentage to less than 50%, but we should not be concerned because at that time less than 50% units were rented. However, she failed to put the amendment to a member vote before selling out and resigning the Board.

We understand that in qualifying for an affordable housing unit there are limits on income and other factors. We also are aware that lenders require that less than 50% of condo units be rented. We feel that under the current burdensome conditions of ownership here and the affordable

housing requirements it will be next to impossible for us to sell our unit, even at a loss, which is our only resolution to not being able to afford to live here anymore.

Based on the above explanation we respectfully request that our affordable housing unit be removed from your program to give us relief from the unsustainable situation that we find ourselves in.

RESOLUTION NO. 93-39

A RESOLUTION ESTABLISHING AFFORDABLE HOUSING INCOME LEVELS AND RENTAL AND PURCHASED COST LEVELS AND REPEALING RESOLUTION 91-32

RECITALS:

A. The City of Ashland desires to provide affordable housing for its citizens; and

B. The Land Use Ordinance has been amended to provide density bonuses for providing affordable housing; and

C. The Land Use Ordinance requires the City Council to adopt a resolution to establish affordability standards to implement the affordable housing density bonuses.

The Mayor and City Council of the City of Ashland, Oregon resolve as follows:

1. RENTAL HOUSING. Units designated for affordable rental housing in developments which have qualified for density bonuses under the City's Land Use Ordinance (LUO) shall be rented to individuals or families whose annual income does not exceed 80% of the median income for families in the Medford-Ashland Metropolitan Statistical Area (MSA). This figure shall be known as the "qualifying family income" and shall be determined by the City's Department of Community Development in May of each year from the annual family incomes published by the U.S. Department of Housing and Urban Development (HUD).

The rent charged for such affordable rental housing shall not exceed 23% of the qualifying monthly income (qualifying family income divided by twelve) as provided in the following formulas:

Studio Apartment	**23% of the average of 1 & 2 person qualifying monthly incomes**
1 Bedroom	**23% of the average of 2 & 3 person qualifying monthly incomes**
2 Bedroom	**23% of the average of 3,4, & 5 person qualifying monthly incomes**
3 Bedroom	**23% of the average of 4,5,6, & 7 person qualifying monthly incomes**
4 Bedroom	**23% of the average of 5,6,7, & 8 person qualifying monthly incomes**

The City's Department of Community Development shall maintain a table of maximum rent levels permitted under these formulas and shall annually update the table in May of each year.

The owner of the affordable rental housing shall sign a 20-year agreement with the City of Ashland that guarantees these rent levels will not be exceeded and that the owner will rent only to families meeting the income limits. The agreement shall bind subsequent owners who purchase the rental housing during the 20-year period. The

agreement shall also require the owner to rent to HUD Section 8 qualified applicants and agree to accept rent vouchers for all of the affordable units where applicable.

2. PURCHASED HOUSING. Units designated for affordable housing available for purchase in developments which have qualified for density bonuses under LUO, shall

2.1. Only be sold to individuals or families whose:

2.1.1. Annual income does not exceed 130% of the median income for families in the MSA.

2.1.2. Net assets, excluding pension plans and IRA's and excluding the down payment (to a maximum of 20 percent of the purchase price) and closing costs, do not exceed $20,000 for a family or $130,000 if one family member is 65 years or older.

2.2. Have a purchase price not exceeding the following amounts:

Type of Unit	Purchase Price (revised annually)
Studio	**$75,985**
1 Bedroom	**$86,718**
2 Bedroom	**$97,665**
3 Bedroom	**$108,396**
4 Bedroom	**$117,028**

The purchase price shall be annually revised in May of each year by the City's Department of Community Development. The annual revision shall be calculated by multiplying the current purchase price by the annual percentage change in median family income as published by HUD for the MSA.

2.3. Be assured to remain affordable as follows:

2.3.1. *FARMER'S HOME ADMINISTRATION (FmHA)* - For housing financed by the FmHA, affordability will be assured by the recapture provisions required by FmHA which requires sellers' to repay FmHA for all the subsidies accrued during the period that they resided in the housing.

In addition, FmHA financed housing shall be subject to a covenant that for the first five years after the initial purchase, resale can only be to individuals from the same income category as the original purchasers.

2.3.2. *ALL OTHER DEVELOPMENTS* - For all other developments obtaining density bonuses for the provision of affordable housing, affordability will be assured by requiring that the purchasers of the affordable housing units

agree to the **City of Ashland Affordable Housing Resale Restriction Agreement** prior to the issuance of building permits for the units.

3. **REPEAL OF RESOLUTION 91-32.** Resolution 91-32 is repealed.

The foregoing resolution was READ and DULY ADOPTED at the regular meeting of the Ashland City Council on the 19th day of October, 1993.

Russell E. Chadick, Jr.
Russell E. Chadick, Jr.
Acting City Recorder

SIGNED and APPROVED this 20th day of October, 1993.

Catherine M. Golden
Catherine M. Golden
Mayor

Approved as to form:

Paul Nolte
Paul Nolte
City Attorney

City of Ashland
Affordable Housing
Income and Rental Cost Levels
October 19, 1993

Qualifying Incomes for RENTAL HOUSING (as of May 5, 1993)

Family Size	Annual Income Level (80% of median income)
1	$19,700
2	$22,550
3	$25,350
4	$28,150
5	$30,400
6	$32,650
7	$34,900
8	$37,150

RENTS for affordable units shall not exceed the following:

Apartment Type	Maximum Rent Level
Studio	$405/month
1 Bedroom	$459/month
2 Bedroom	$536/month
3 Bedroom	$604/month
4 Bedroom	$647/month

RESOLUTION NO. 2005- 46

A RESOLUTION AMENDING RESOLUTION 1993-39 TO INCLUDE HOMEOWNER ASSOCIATION OR MAINTENANCE FEES IN ANY AFFORDABILITY CALCULATIONS

Recitals:

A. In 1993, the City of Ashland passed resolution no. 1993-39, establishing affordable housing income levels and rental and purchased cost levels.

B. Resolution 1993-39 did not contain provisions to include any homeowner association or maintenance fees in the affordability calculations.

C. The City desires that any said fees or assessments be included in the affordability calculations

THE CITY OF ASHLAND RESOLVES AS FOLLOWS:

SECTION 1. Resolution No. 1993-39 shall be amended to read as follows:

1. RENTAL HOUSING. Units designated for affordable rental housing in developments which have qualified for density bonuses under the City's Land Use Ordinance (LUO) shall be rented to individuals or families whose annual income does not exceed 80% of the median income for families in the Medford-Ashland Metropolitan Statistical Area (MSA). This figure shall be known as the "qualifying family income" and shall be determined by the City's Department of Community Development in May of each year from the annual family incomes published by the U.S. Department of Housing and Urban Development (HUD).

The rent charged for such affordable rental housing, including any home-owners association or maintenance fees, shall not exceed 23% of the qualifying monthly income (qualifying family income divided by twelve) as provided in the following formulas:

Studio Apartment	23% of the average of 1 & 2 person qualifying monthly incomes
1 Bedroom	23% of the average of 2 & 3 person qualifying monthly incomes
2 Bedroom,	23% of the average of 3,4, & 5 person qualifying monthly incomes
3 Bedroom	23% of the average of 4,5,6, & 7 person qualifying monthly incomes
4 Bedroom	23% of the average of 5,6,7, & 8 person qualifying monthly incomes

The City's Department of Community Development shall maintain a table of maximum rent levels permitted under these formulas and shall annually update the table in May of each year.

The owner of the affordable rental housing shall sign a 20-year agreement with the City of Ashland that guarantees these rent levels will not be exceeded and that the owner will rent only to families meeting the income limits. The agreement shall bind subsequent owners who purchase the rental housing during the 20-year period. The agreement shall also require the owner to rent to HUD Section 8 qualified applicants and agree to accept rent vouchers for all of the affordable units where applicable.

2. PURCHASED HOUSING. Units designated for affordable housing available for purchase in developments which have qualified for density bonuses under LUO, shall

2.1. Only be sold to individuals or families whose:

2.1.1. Annual income does not exceed 130% of the median income for families in the MSA.

2.1.2. Net assets, excluding pension plans and IRA's and excluding the down payment and closing costs, do not exceed $20,000 for a family or $130,000 if one family member is 65 years or older.

2.2. Have a purchase price not exceeding the following amounts:

Type of Unit

Purchase Price

(revised annually)

The purchase price shall be annually revised in May of each year by the City's Department of Community Development. The annual revision shall be calculated by multiplying the current purchase price by the annual percentage change in median family income as published by HUD for the MSA.

2.2.1 The purchaser of a unit designated for affordable housing shall not be assessed any home-owners association or maintenance fees in addition to the maximum purchase price.

2.3. Be assured to remain affordable as follows:

2.3.1. FARMER'S HOME ADMINISTRATION (FmHA) - For housing financed by the FmHA, affordability will be assured by the recapture provisions required by FmHA which requires sellers' to repay FmHA for all the subsidies accrued during the period that they resided in the housing.

In addition, FmHA financed housing shall be subject to a covenant that for the first five years after the initial purchase, resale can only be to individuals from the same income category as the original purchasers.

2.3.2. ALL OTHER DEVELOPMENTS - For all other developments in which the planning action approval includes the provision of affordable housing, affordability will be assured by requiring that the purchasers of the affordable housing units agree to the City of Ashland Affordable Housing Resale Restriction Agreement prior to the issuance of building permits for the units.

SECTION 2. This resolution takes effect upon signing by the Mayor.

This resolution was read by title only in accordance with Ashland Municipal Code §2.04.090 duly PASSED and ADOPTED this 6 day of December, 2005.

Barbara Christensen

Barbara Christensen, City Recorder

SIGNED and APPROVED this 7 day of December, 2005.

John W. Morrison

John W. Morrison, Mayor

Reviewed as to form:

Micheal M. Reeder, Assistant City Attorney

RESOLUTION NO. 2006- 13

A RESOLUTION AMENDING AND RESOLUTION 2005-46

RECITALS:

A. WHEREAS, in 1993, the City of Ashland passed Resolution no. 1993-39 which established affordable housing income levels and rental and purchased cost levels.

B. WHEREAS, in 2005, the City of Ashland passed Resolution 2005-46 which required provisions for homeowner and maintenance fees to be included in the affordability calculations for its affordable housing program.

C. WHEREAS, neither resolution contained provisions establishing rent levels or purchase price levels for households earning 60%, 80% 100% or 120% of the area median income (AMI).

D. WHEREAS, neither resolution required Principal, Interest, Taxes and Insurance (PITI) to be included in the maximum housing costs of eligible households in the affordability calculations for the purchasing part of its affordable housing program.

E. WHEREAS both resolutions used "not-to-exceed purchase price" as a qualifying criterion for purchasing housing units, which criterion requires annual revision, and the current resolution seeks to replace the "not-to-exceed purchase price" with a "percent of household income" criterion which does not require annual revision.

F. WHEREAS, the City considers that a range of qualifying incomes maximizes the potential for success of its affordable housing program.

G. WHEREAS, the City desires that PITI be included in the affordability calculations for the various income levels of qualified households and that the "percent of household income" criterion be used in place of the "not-to-exceed purchase price" criterion.

NOW THEREFORE, THE CITY OF ASHLAND RESOLVES AS FOLLOWS:

Resolutions 1993-39 and 2005-46 are hereby amended in their entirety as follows:

SECTION 1. GENERAL ELIGIBILITY – RENTAL AND PURCHASED HOUSING

1.1 All qualifying ownership or rental units required to be affordable through density bonuses, annexation, zone change, condominium conversion, or other land use approval under the Ashland Land Use Ordinance (ALUO) shall not be eligible to receive a waiver of the Community Development and Engineering Services fees associated with the development of said affordable units unless a waiver is approved by the Ashland City Council.

1.2 All qualifying ownership or rental units required to be affordable through density bonuses, annexation, zone change, condominium conversion, or other land use approval under the ALUO shall be eligible to receive a deferral of the System Development Charges associated with the development of said affordable units.

1.3 All qualifying ownership or rental units voluntarily provided as affordable to low income households, consistent with section 1.1 and 1.2, above, shall be eligible for a System Development Charge, Engineering Service, and Community Development Fee deferral or waiver without obtaining approval from the Ashland City Council.

1.4 Affordable Housing Units covered under this Resolution can only be sold or rented to occupant households from the same income category as the original purchasers or renters for a period of not less than 30 years, or as required through the condition of approval for a unit required to be affordable through a land use approval.

1.5 System Development Charges, Engineering Services, and Community Development Fees may be deferred or waived when units are sold or rented to low-income persons. For purposes of this subsection, "low-income persons" means:

a. With regard to rental housing, persons with an income at or below 60 percent of the area median income as determined by the State Housing Council based on information from the United States Department of Housing and Urban Development; and

b. With regard to home ownership housing and lease to purchase home ownership housing, persons with an income at or below 80 percent of the area median income as determined by the State Housing Council based on information from the United States Department of Housing and Urban Development.

2. RENTAL HOUSING -. Units designated for affordable rental housing in developments which have qualified for density bonuses, annexation, zone change, condominium conversion , or other land use approval under the ALUO shall be rented to individuals or households-whose annual income is consistent with the target income identified in the planning approval. Incomes shall be qualified at the 60% or 80% median income levels for households in the Medford-Ashland Metropolitan Statistical Area (MSA). This figure shall be known as the "qualifying household income" and shall be determined by the City's Department of Community Development in May of each year from the annual family incomes published by the U.S. Department of Housing and Urban Development (HUD) for the Medford-Ashland Metropolitan Service Area (MSA).

2.1 **Area Median Income – 80%.** The rent charged for such affordable rental housing benefiting households earning 80% Area Median Income or greater, including any home-owners association or maintenance fees, shall not exceed 23% of the qualifying monthly income (qualifying family income divided by twelve) as provided in the following formulas:

Studio Apartment	23% of the average of 1 & 2 person qualifying monthly incomes
1 Bedroom	23% of the average of 2 & 3 person qualifying monthly incomes
2 Bedroom	23% of the average of 3, 4, & 5 person qualifying monthly incomes
3 Bedroom	23% of the average of 4, 5, 6, & 7 person qualifying monthly incomes
4 Bedroom	23% of the average of 5, 6, 7, & 8 person qualifying monthly incomes

The City's Department of Community Development shall maintain a table of maximum rent levels permitted under these formulas and shall annually update the table in May of each year.

2.2 **Area Median Income – 60% *or* lower.** The rent charged for such affordable rental housing benefiting households earning 60% Area Median Income or less, including any home-owners association or maintenance fees, shall comply with the maximum rents established by the State of Oregon HOME Program based on the target income qualification as adjusted annually by the Department of Housing and Urban Development for the Medford-Ashland Metropolitan Service Area. The HOME program indexed allowable rents are adjusted annually by the State of Oregon Housing and Community Services Department (OHCS).

2.3. **Owner's Obligation.** The owner of the affordable rental housing shall sign a 30-year agreement, or longer depending on the period of affordability established through the ALUO, with the City of Ashland that guarantees these rent levels will not be exceeded and that the owner will rent only to households meeting the income limits. The agreement shall bind subsequent owners who purchase the rental housing during the established period of affordability. The agreement shall also require the owner to allow the unit to be rented to HUD Section 8 qualified applicants and agree to accept rent vouchers for all of the affordable units when applicable. The City shall file the agreement for recordation in the County Clerk deed records, Jackson County, Oregon.

2.3.1. **Certification of qualifying occupants.** The owner of record, or the designated agent of the record, owner, shall annually file with the City of Ashland a signed certificate stating the occupants of the record owner's rental housing units continue to be qualified households, or are a household that qualified at its initial occupancy, within the meaning of this Resolution, and any amendment made to it. The City of Ashland shall provide the record owner or the record owner's agent with access to a form to complete and sign to comply with this provision.

3. PURCHASED HOUSES - QUALIFYING. Units designated for affordable housing available for purchase in developments which have qualified for density

bonuses annexation, zone change, condominium conversion , or other land use approval under the ALUO must satisfy two criteria.

1. They shall only be sold to occupant households whose:

   a. Annual income is consistent with the target income identified in the planning approval for the development. Incomes shall be qualified at the applicable 60%, 80%, 100% or 120% median income levels for households based on number of people per household as adjusted annually by the Department of Housing and Urban Development for the Medford-Ashland Metropolitan Service Area.

      i. The maximum monthly payment for a covered unit shall be established to not exceed the affordability limits, established above, indicated in following table:

         Studio = 1 person household income for the designated income level
         1 Bedroom = 2 person household income for the designated income level
         2 Bedroom = 4 person household income for the designated income level
         3 Bedroom = 6 person household income for the designated income level
         4 Bedroom = 7 person household income for the designated income level
         Households with a greater or lesser number of occupants shall remain eligible for covered units but the sale price shall not be adjusted due to household size above the limits established above.

   b. Net assets, excluding pension plans and IRA's and excluding the down payment and closing costs, do not exceed $20,000 for a household or $130,000 if one household member is 65 years or older.

   c. Mortgage payment does not exceed more than 30% of the monthly income for the target income level indicated in 3.1(a)(i) on total housing costs which includes PITI and any homeowners or regular maintenance fees.

   d. The maximum monthly payment for a covered unit shall be calculated by utilizing the interest rate for the Oregon Bond Loan RateAdvantage as updated by the State of Oregon Housing and Community Services Department.

2. They shall remain affordable as follows:

   a. The purchasers of the affordable housing units shall agree to the City of Ashland Affordable Housing Resale Restriction Agreement establishing a period of affordability of not less than 30 years. In no event will a purchaser be required to sell the unit subject to the aforementioned

Agreement for less than his or her original purchase price, plus any applicable closing costs and realtor fees.

b. For housing financed by Farmer's Home Administration (FmHA), the affordability shall be assured by the FmHA's recapture provisions FmHA which require sellers to repay FmHA for all the subsidies accrued during the period the sellers resided in the housing unit.

SECTION 2. EFFECTIVE DATE. This Resolution takes effect upon signing by the Mayor.

This resolution was read by title only in accordance with Ashland Municipal Code §2.04.090 duly PASSED and ADOPTED this 21 day of June, 2006.

Barbara Christensen

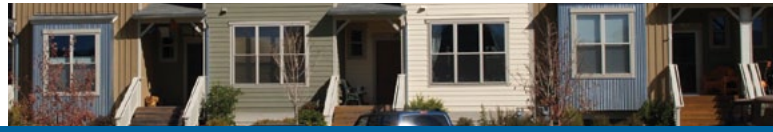
Barbara Christensen, City Recorder

SIGNED and APPROVED this 21 day of June, 2006.

Alex Amarotico, Council Chair

Review as to form:

Michael W. Franell, City Attorney



The Balancing Act

Resale Formula Options for Long-Term Affordable Homeownership Programs

Cornerstone Partnership promotes strong, integrated communities where all people can afford a decent place to live and thrive. We provide expertise on policy and practice. We support a peer network for homeownership and inclusionary housing programs that preserve long-term affordability and community stability. Our members are practitioners, policy makers, advocates, consultants, and other housing professionals dedicated to helping families build assets while keeping communities affordable. Since our launch in October 2010, we have grown to over 1,000 members, including 18 national outreach partners. Cornerstone Partnership is a program of Capital Impact Partners. Learn more at ***affordableownership.org***.

Capital Impact Partners transforms underserved communities into strong, vibrant places of opportunity. A leading nonprofit Community Development Financial Institution, Capital Impact Partners delivers strategic financing, incubates social innovation programs, and supports capacity building and policy reforms that create social change and deliver financial impact nationwide. Over its 30-year history, Capital Impact Partners has disbursed more than $2 billion to help ensure access to quality health care and education, healthy foods, affordable housing, cooperative development, and the ability to age independently. Learn more at ***capitalimpact.org***.

Since April 2012, the Cornerstone Homeownership Innovation Program (CHIP) has awarded grants to organizations to build capacity and scale in the long-term affordable homeownership sector. Grantees received technical assistance, developed stewardship work plans, and participated in training to strengthen their individual programs, with the ultimate goal of building evidence and creating replicable models for the field. CHIP grantees contribute to an evaluation study that will, in the long, run increase the level of evidence associated with this approach to affordable homeownership. CHIP is funded by the Corporation for National and Community Service's Social Innovation Fund and the Ford Foundation. Learn more at ***affordableownership.org/chip***.

Thanks to Julie Brunner & the National Community Land Trust Network for authoring this report, & thanks to the CHIP grantees & OPAL Community Land Trust for contributing their experiences. **2015 CHIP**

The Balancing Act

Introduction

In many communities, as the price of housing has increased, the amount of subsidy needed to help families buy their own homes have increased as well. Where programs once had to provide only a small amount of assistance to help families find the cash necessary to purchase a home, they now must invest significant subsidies to fill the gap between what families can afford and the price of market rate housing.

As public subsidies have increased and inclusionary housing has become a more common tool in developing affordable units, policy makers and practitioners want to make sure the money invested in affordable housing benefits more than one family. Many are turning to resale restrictions as a means to that end.

Resale restricted homeownership has existed for a long time, so many experienced programs across the country have used different formulas over the years. Today, the following three types of formulas are most common, and pass the test in terms of being both easy to understand and administer:

- Fixed rate resale formulas
- Index based resale formulas
- Appraisal based resale formulas

This document provides a basic overview of these three formulas, the technical language, and a numeric example for each formula, as well as some of the advantages and disadvantages of each. It features examples from organizations implementing long-term affordable homeownership programs across the country, many of which are Cornerstone Homeownership Innovation Program (CHIP) grantees.

It is important to note that the formulas represented in this report calculate the "formula price" for a resale restricted home. However, most resale restrictions also state that the purchase option price is the "lesser of" the formula price, and some other measure of market value, such as the current market value of the home. In falling markets, it is this other measure that ends up determining the maximum price for which a homeowner may sell their resale restricted home.

Additional resources related to resale formulas, program implementation, and much more are available in Cornerstone Partnership's online **Document Library:** ***www.affordableownership.org/document-library***

Fixed Rate Resale Formula

Fixed Rate Formula Summary

In a fixed rate formula, the homeowner's initial affordable price (what they paid to buy their home – or the "base price" in the formula language) is increased over time by a fixed annual percentage of either simple or compound interest. While programs can choose any interest rate, the most common are between 1% – 2% per year.

Fixed Rate Formula Language

The formula price shall be equal to:

A The amount of homeowner's base price (which the program and homeowner agree is $_____) plus

B The base price times _____% simple (or compound) interest X the number of years in the home.

Example

A Base price = **$150,000**

B Simple interest of 2%/year X 8 years = **16%**

C Base price X 1.16 = $150,000 X 1.16 = **$174,000**

Advantages

1. Extremely easy to administer.
2. May be calculated at any time and can easily be projected.
3. Allows for slow and steady increase in value.
4. May be compounded or stepped to encourage long-term tenure, etc.

Disadvantages

1. There is no relationship between the condition of the home and the price.
2. Simple interest fixed rate formulas do not reward long-term tenure.
3. Depending on market conditions, in weak markets, fixed rate formulas may provide a greater than market rate increase in price.

Fixed Rate Resale Formula

In the Field: Fixed Rate Resale Formula at Work

The Woods at Parley's Lane, an MCHT ground lease development, helps homebuyers attain homes for nearly $100,000 below market-rate prices.

Mountainlands Community Housing Trust

www.housinghelp.org

Park City, UT

MOUNTAINLANDS COMMUNITY HOUSING TRUST

Mountainlands Community Housing Trust (MCHT) has been developing and selling resale restricted homes since 1993 using the fixed rate formula. Park City is a resort town with housing prices rising by nearly 60% over the past 15 years and incomes increasing by 43% (average 2.9% per year) during the same time period.

MCHT's resale formula allows sellers to sell their homes for the price that they paid, plus 3% simple interest each year, plus any applicable capital improvement credits.

Because MCHT offers simple interest that is approximately the same as the annual increase in wages, their homes should remain affordable to approximately the same target income over time. However, since they also offer credits for capital improvements, this may not always be the case. In the down market a few years ago, sellers were not always able to find buyers willing to pay the formula price, so they dropped their prices to sell their homes more quickly, which also improved affordability.

Index Based Resale Formula

Index Based Formula Summary

In an index based formula, the homeowner's initial affordable price (what they paid to buy their home – or the "base price" in the formula language) is increased over time by the percent change in a published index.

The most common index used is the Area Median Income (AMI). Since programs often strive to make their homes affordable to buyers earning the same percentage of median income over time, tying the resale price to the AMI may help achieve that goal.

Another index used by some Programs is the Consumer Price Index (CPI). In some markets, CPI is tied more closely to wages (as opposed to investment income, for instance, that ends up in the AMI figures) and generally changes more steadily than does AMI.

Index Based Formula Language

The formula price shall be equal to:

A The amount of homeowner's base price (which the program and homeowner agree is $_____) plus

B An amount equal to the homeowner's base price multiplied by the total percentage of increase, since the date this agreement was signed, in the _____ Index, as determined and published by the _____ or such successor agency as may publish such index.

C In no event may the average annual increase exceed ____%.

D The parties agree that when the agreement was signed, the _____ Index number (the original number) was _____. To determine the percentage of increase in the Index, the original number shall be subtracted from the most recently published Index number, and the remainder shall then be divided by the original number.

Example

A Base Price = **$150,000**

B AMI for a HH of 4 at the time of Initial Purchase = **$48,000**

C AMI for a HH of 4 at the time of resale = **$56,000**

D % change in AMI = (56,000 – 48,000)/48,000 = **16.67%**

E Capped at an average of 3% per year = 16.67/8 years = **2.1%/year** (therefore use change in index)

F Base Price X 1+change in index = $150,000 X 1.167 = **Formula Price of $175,050**

Advantages

1. Assuming interest rates are stable and the program uses the AMI index, this formula ties price to changes in median income, which keeps the home theoretically affordable.
2. May be calculated at any time.
3. Easy to administer.

Disadvantages

1. Figures are released periodically and the timeframe for release may vary.
2. There is no relationship between the condition of the home and the price.
3. In weak markets, increases in index may outstrip increases in housing market values.
4. Changes in the way the index is calculated can mean spikes/dips in the index.
5. The AMI index tends to be erratic, remaining flat for several years and then increasing substantially in other years.

Index Based Resale Formula

In the Field: Index Based Resale Formula at Work

OPAL Community Land Trust celebrating 25 years of good neighbors and permanently affordable homeownership.

OPAL Community Land Trust*

www.opalclt.org

Orcas Island, WA

OPAL Community Land Trust has been developing and selling resale restricted homes since 1993. OPAL's resale formula has evolved over the years, but has always been an index based resale formula. Orcas Island is an attractive vacation and retirement destination located in the Pacific Northwest.

OPAL's resale formula allows sellers to increase the price that they paid for their OPAL home by the percentage change in the Consumer Price Index for the Seattle metropolitan area, capped at an average of 4% per year, plus any applicable capital improvement credits.

HomeKeeper's Social Impact Report analyzed 100 initial sales and 46 resales of OPAL's program to evaluate the effectiveness of its resale formula, among other indicators. The data revealed that 53% of OPAL resold homes were sold at prices that were affordable to people earning approximately the same percentage of area median income as the initial sale. Twenty-nine percent were slightly more affordable at resale, and 18% were slightly less affordable.

*OPAL Community Land Trust is not a CHIP grantee; however, it provides an important example of an index-based resale formula.

Appraisal Based Resale Formula

Appraisal Based Formula Summary

In an appraisal based formula, the homeowner's initial affordable price (what they paid to buy their home – or the "base price" in the formula language) is increased over time by adding to it a specified percentage of the increase in the home's market value. The increase in market value is measured by market appraisals at the time of initial purchase and the time of resale. While programs can choose any percentage to allocate to the homeowner's price at resale, the most common percentage is 25%.

Appraisal Based Formula Language

The formula price shall be equal to:

A The amount of the homeowner's base price as stated below, plus ____% of the increase in appraised market value.

B Program and homeowner agree that the base price is $____.

C The increase in appraised market value is calculated as:

1 The appraised market value at the time of resale, minus

2 The appraised market value at the time of initial purchase, which the program and the homeowner agree was _____.

Example

A Base Price = **$150,000**

B Appraised Value at the time of Sale = **$300,000**

C Initial Appraised Value = **$215,000**

D Increase in appraised market value = **$85,000**

E Homeowners share of Increase = **$85,000 X 25% = $21,250**

F Base price of $150,000 + homeowner's share of increase of $21,250 = **Formula price of $171,250**

Note: The language above refers to "increases" in appraised market value. Some programs specify a different formula that is used if market values fall.

Advantages

1 Allows homeowners to realize a modest percentage of the increase in market value of their specific home.

2 Provides a modest reward for improvements.

3 Provides a modest penalty or reward for condition.

4 Depending on how the formula is written, an appraisal based resale formula can protect the program against losses in falling markets.

Disadvantages

1 Inconsistent appraisals can make program hard to implement and create conflict.

2 Cannot calculate price without commissioning an appraisal.

3 In hot markets, may not adequately protect affordability.

Appraisal Based Resale Formula

In the Field: Appraisal Based Resale Formula at Work

CHT, joined by Vermont Governor Peter Shumlin and partners celebrate the ribbon cutting at a new affordable community in Shelburne, Vermont which includes multifamily rentals, senior housing, and Habitat for Humanity homes.

Champlain Housing Trust

www.getahome.org

Burlington, VT

Champlain Housing Trust (CHT) has been developing and selling resale restricted homes since 1984. CHT's resale formula has evolved over the years, but has always been an appraisal based resale formula. Burlington is a university town, and both incomes and housing prices have roughly doubled in the last 25 years.

CHT's resale formula allows sellers to sell their homes for the price that they paid, plus 25% of the increase in the appraised value (or 100% of the depreciation in value), plus any applicable capital improvement credits.

A 2010 study of the effectiveness of CHT's program reviewed all the initial sales and the more than 200 resales to evaluate the effectiveness of CHT's resale formula, among other indicators. The data revealed that 74% of CHT's resold homes were sold at prices that were affordable to people earning approximately the same percentage of area median income as the initial sale. Eleven percent were slightly more affordable at resale, and 15% were slightly less affordable.

When a Resale Formula Doesn't Deliver

Changing Course to Optimize Resales and Affordability. In some cases, a program will try one resale formula only to discover it doesn't work as expected in its particular market. Here are two examples of when a resale formula didn't live up to expectations, and how the program changed it to make it work.

City First Homes

www.cfhomes.org
Washington, D.C.

City First Homes (CFH) in Washington, D.C. started selling resale restricted homes in 2010 using an appraisal based formula modeled after that of the Champlain Housing Trust.

CFH's resale formula allowed sellers to sell their homes for the price that they paid, plus 25% of the increase in the appraised value, plus any applicable capital improvement credits.

Despite its attractive inventory and affordable prices, CFH found it difficult to market and sell their units, concluding that part of the problem was the challenge of selling the resale formula. So rather than focusing on what the seller is not getting (the other 75% of the increase in appraised value), they began researching alternative formulas.

After modeling several different options, CFH found that a fixed 1.5% formula that is compounded annually produces a very similar return to their appraisal based formula, but might improve marketability as the formula is easy to understand and emphasizes what the seller will get without highlighting the market at all. CFH is in the final stages of reviewing this new formula with its Board of Directors. Stay tuned!

Homestead Community Land Trust

www.homesteadclt.org
Seattle, WA

Homestead Community Land Trust in Seattle started selling resale restricted homes in 2002 and, like City First Homes, it modeled its initial resale formula after Champlain Housing Trust's.

Homestead's original resale formula allowed sellers to sell their homes for the price that they paid, plus 25% of the increase in appraised value, plus any applicable capital improvement credits.

But Seattle's housing market was extremely hot in the mid-2000s, and when Homestead was faced with its first resale, staff quickly realized that if their goal was to maintain affordability, they would need to change their resale formula. Otherwise, their restricted prices would outpace increases in income and become unaffordable to their target market.

After considering different options, Homestead decided on a fixed 1.5% formula that is compounded annually. Although Homestead has been using the new formula for several years now, they have not had it in place long enough to evaluate its effectiveness.