

Council Study Session

July 20, 2020

Agenda Item	Affordable Housing Standards Update	
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SUMMARY

The City's Affordable Housing Program has been in effect for over 25 years. It is important to periodically review the performance of the housing program in consideration of changes in market conditions, demographic changes, and the effectiveness of the program in enabling low- and moderate-income families to afford quality housing.

During the 2018 and 2019 calendar years the Housing and Human Services Commission, Planning Commission, and staff, have been working on potential amendments to Ashland's Affordable Housing Program intended to make the program easier to understand, increase predictability for those that will participate in the program including households, non-profit and market rate developers, grant funders, and lenders. Several of the potential revisions presented for consideration increase the effectiveness and efficiency of program administration on the part of the City's Housing Program Specialist.

The revisions put forth for consideration address changing conditions and a summary of such amendments (Exhibit A) is being presented to the City Council for discussion at this Study Session in advance of preparing ordinance amendments and a resolution to be reviewed through a formal public hearing process.

POLICIES, PLANS & GOALS SUPPORTED

Comprehensive Plan Housing Element:

Support the creation and preservation of housing that is affordable to low- and moderate-income households and that is commensurate with the incomes of Ashland's workforce.

Council Goals Resolution 2019-27:

Value Services

Tier 2. Moderate Priority (B.c): Housing Needs

BACKGROUND AND ADDITIONAL INFORMATION

At a study session held on [December 17, 2018](#), the City Council directed staff to undertake an evaluation of the affordable housing program with a goal of balancing long-term affordability while allowing a reasonable rate of return for homeowners and developers. Staff undertook a review of affordability program best practices and evaluated a range of options. Through that evaluation process staff identified a number of changes to Affordable Housing Program [resolution 2006-13](#) to be considered. As the resolution references land use code requirements, it will also be necessary to alter/revise some of the land use requirements to keep them consistent with any changes made to the

resolution. A summary of potential revisions to the affordable housing standards is attached to this Council Communication as ‘Exhibit A’.

Evaluation of the affordable housing standards within the Land Use Code provides an opportunity to address inconsistencies in the code and to explore additional changes based on feedback from affordable housing and market rate developers regarding barriers to development of affordable housing. To that end staff is presenting several key items to consider for inclusion in a revision to the affordable housing resolution, resale restriction agreements, and the Ashland Land Use Ordinance relating to requirements for affordable housing.

The Planning Commission held a study session to review the items in ‘Exhibit A’ on [March 10, 2020](#). The previously scheduled review at a study session by the Housing and Human Services Commission was delayed due to restrictions on public meetings due to the COVID-19 pandemic but has been rescheduled for July 23, 2020.

Following the study sessions with each Commission, and the City Council, Staff will again engage non-profit and for-profit housing developers to solicit additional feedback on the potential land use ordinance amendments and changes to the Affordable Housing Program to further inform the preparation of draft ordinance amendments, and a resolution, to be presented at public hearings before each Commission and the City Council for consideration.

FISCAL IMPACTS

Preparation of ordinance amendments and a corresponding Affordable Housing Program Resolution will be completed by Community Development Department staff and no consultant services will be required. Revisions to Ashland’s Affordable Housing Standards will not have a direct impact on the City of Ashland’s budget as the City does not directly develop, own, or maintain affordable housing. Increased efficiency in program administration by Housing Program Staff, which could be realized by several proposed revisions, would enable the program to continue to absorb additional covered affordable units into the program without necessitating additional staff resources to administer the program.

Changes to qualifying incomes and occupancy requirements for covered housing units, terms of affordability, and affordable housing development standards may have a financial impact to the project proformas of affordable housing developments. Additionally, changes in how affordable rents and purchase prices are calculated for qualified affordable units would result in a decrease in the maximum rent for some households, and an increase in rent or sale prices for some households, dependent upon household size, unit size, and qualifying household incomes.

DISCUSSION QUESTIONS

Does the Council have questions or comments for Staff regarding the potential revisions outlined in Exhibit A that were not addressed in Staff’s presentation?

SUGGESTED NEXT STEPS

Planning and Housing Program Staff will present the potential amendments to the affordable housing standards to the Housing and Human Services Commission at a study session on July 23, 2020. Non-profit affordable housing providers and private developers will be invited to provide comments on the proposed ordinance amendments, and formal public hearings will be scheduled before the Housing and Human Services Commission, Planning Commission and City Council. Staff anticipates the formal legislative process for review and approval of proposed amendments to begin in September of this year.

REFERENCES & ATTACHMENTS

Exhibit A: Affordable Housing Standards Update, Summary of Potential Revisions

[Resolution 2006-13](#)

[Council Minutes December 17, 2018](#)

[Planning Commission Minutes March 10, 2020](#)

Exhibit A: Affordable Housing Standards Update

The potential revisions outlined below will provide a means of simplifying the affordable housing program to be more readily understood by affordable housing developers and owners of affordable housing units. Several revisions aim to increase the effectiveness and efficiency of the program administration which will make the program more readily understood by affordable housing developers, and participating households.

The Community Development Department continues to receive occasional requests to bring affordable housing deed restriction releases to City Council for consideration to address changing conditions such as increasing Homeowner Association (HOA) dues and the impact on allowable purchase prices for covered affordable units. These requests cannot be dealt with in a single council action because of widely varying terms among the different projects within the affordable housing program as have developed over the last 30 years. Through amending the City's underlying affordable housing standards within the land use code, and updating the affordable housing resolution, the City can offer the opportunity for existing homeowners in covered units to voluntarily execute revised resale restriction covenants consistent with new program requirements approved by Council. This opportunity would enable homeowners of covered affordable units to have certainty regarding the resale price of their units, and no longer be subject to wide fluctuations in price due to changes in median incomes, interest rates, and HOA dues.

The following provides a summary of potential revisions to the Affordable Housing Standards within Ashland's Land Use Ordinance that should be considered in order to address changes in market conditions, inconsistencies in the land use code, and housing program adjustments to better enable low- and moderate-income families to afford quality housing.

Summary of Potential Revisions:

- Change the method by which the maximum sale price is calculated from the formula referenced in Resolution 2006-13 to a fixed rate formula. Staff is suggesting a fixed rate formula calculation for establishing the maximum resale price at a monthly increase of 0.125% calculated for each full month of ownership based on the homeowner's initial purchase price, for an annual appreciation rate of 1.5%. The current variable calculation method which incorporates lending interest rates, taxes, and homeowner association (HOA) dues would still be utilized to calculate the initial sale price when an affordable unit enters the program. Thereafter the 1.5% annual increase in the maximum purchase price would provide for a more predictable resale price for homeowners within the affordable housing program. Further this new method of calculating resale price would ensure homeowners are not faced with a stagnant home value due to increasing HOA dues or increasing interest rates.

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 affordable housing programs can choose any interest rate, the most common are between 1% – 2% per year. Currently market rate

appreciation in Ashland is 2-3% annually, Staff suggests an interest rate of 1.5% a year, so not the lowest, but not market rate either.

- Establishing a fixed rate method of valuation increase for the purposes of establishing the allowable resale price will allow homeowners to calculate their future return on investment in a predictable manner. Currently determining the resale price of a covered unit employs the use of a complex formula which considers current interest rates, median incomes by household size, changes in HOA dues, and ultimately requires consultation with City Housing Program Staff to derive the resulting maximum purchase price on an annual basis. A fixed-rate formula increase eliminates such complexity and will thus increase the efficiency of the City Housing Program Specialist's administration of the program.
- Amend the provisions of the Ashland Land Use Ordinance relating to the monthly rental amounts used in the affordable housing program (18.2.5.050.B.1). Instead of utilizing the existing table outlining rental charges for affordable rental housing (Table 18.2.5.050.B) staff suggests referencing the maximum rents established by U.S. Department of Housing and Urban Development (HUD) for the HOME program for the corresponding bedroom size. These rents are adjusted annually by HUD based on the median incomes in the Medford-Ashland Metropolitan Service area.
 - Correlating Ashland's maximum rental amounts with the HUD Low-rent and High-rent limits for our area will allow our program to better align with affordable housing proposals that utilize state or federal funding for their projects. As many affordable housing providers are already subject to the HUD established HOME program rent limits due to their sources of funding, making our program consistent with those limits will simplify the application processes for affordable housing providers seeking State grant funding. Further, as the State of Oregon maintain and adjust these HOME program limits each year, the City of Ashland will no longer be responsible to annually calculate and maintain a unique maximum rental amount table for use only for covered units within the City of Ashland.
- Amend the provisions within the Ashland Land Use Ordinance relating to the base density calculation used for determining the number of required affordable housing (18.5.8.050.G.1). Amending this section would clarify that the base density of the property shall be calculated using the area to be developed, excluding any portions of the property containing undevelopable areas such as wetlands, floodplain corridor lands, slopes greater than 35 percent, or land dedicated as a public park.
 - Presently the affordable housing requirements are based on the entire lot size, indiscriminate of any reductions of buildable area due to natural areas to be preserved. The way this standard is presently written differs from other Land Use provisions which otherwise allow the density of a development to be reduced in consideration of the unbuildable natural areas to be preserved. Not providing for a corresponding reduction in the density of affordable housing required can have the unintended consequence of effectively increasing the proportion of required affordable housing as a proportion of the housing units actually developed. This discrepancy can result in a scenario where the number of affordable housing units required for an annexation or zone change could

exceed the number of market rate units that could otherwise be developed, thereby making a residential housing project no longer financially viable without substantial governmental subsidy.

- Amend the provisions within the Ashland Land Use Ordinance establishing equivalence values for affordable housing to newly allow rental to households earning 80% Area Median Income (AMI) to qualify as 1.25 units for the purposes of calculating the affordable housing unit requirement (18.5.8.050.G.1.c).
 - Rental units affordable to households earning 80% AMI or less are not currently being provided by the market at the rates needed, allowing such to qualify as part of an annexation/zone change request could incentivize the creation of more rental units. Presently the market rents in Ashland exceed what households earning 80% AMI can afford without being cost burdened. Amending this standard for annexations and zone changes would help address this disparity and allow developers to provide units benefiting households earning up to 80% AMI while providing rental units that satisfy the affordable housing requirements.
- Remove the provisions within the Ashland Land Use Ordinance that allow newly constructed affordable homeownership and rental units to be targeted to households earning 60% AMI (18.5.8.050.G.1.d) for required affordable housing in annexation, zone changes, and condo-conversions.
 - Removing the 60% AMI target for ownership households, and instead focusing on households earning 80% AMI, 100% AMI, or 120% AMI, is necessary in Staff's assessment as there are no longer lending packages for the 60% AMI income bracket and units are therefore difficult to finance at change of ownership. Affordable housing providers (e.g. Habitat for Humanity) have indicated that households earning 60% AMI and below often do not qualify for loans (both subsidized and conventional) and thus such units can be difficult to develop or resale once completed. Raising the qualifying incomes to 80% AMI or below for the lowest income bracket would not preclude a household earning 60% AMI from purchasing a qualified ownership unit, but it would enable households earning up to 80% AMI to qualify.
 - Allowing for rental units targeted to households earning 80% AMI will help ensure rentals developed by the private market are financially viable. Due to the existing availability of the 60% AMI rental option, private developers select the 60% rental option simply to provide fewer affordable units, however the difficulty of developing and administering affordable units at this income level is often not fully considered. Non-Profit affordable housing providers (e.g. Housing Authority of Jackson County) will still be able to develop rental units reserved for households earning 60% AMI as such units will still qualify as meeting the "less than the 80% AMI" target.
- Amend the affordable housing household "occupancy basis" as described Table 18.2.5.050.C of the Land Use Ordinance. Potential changes include removing the 4-bedroom /7-person option; revising the 3-bedroom unit occupancy basis from 6 to 5 persons; revising the and 2-bedroom units occupancy basis from 4 to 2 persons. Households with a greater or lesser number of occupants shall remain eligible for covered units but the sale price shall not be adjusted based on the median incomes of the larger household sizes.

Table 18.2.5.050.C. Occupancy Basis for Affordable Rental Housing

Unit Type		Occupancy
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 <u>3 person</u> household income for the designated income level
3 Bedroom	=	6 person <u>5 person</u> household income for the designated income level
4 Bedroom	=	7 person household income for the designated income level

- Given Ashland’s average persons per household number (2.0 pph), the larger household sizes indicated in the table are not typically realized in covered affordable units. As the maximum sale price of a unit is based on household incomes, these large household sizes setting the occupancy basis within the existing table have the unintended effect of increasing the purchase price beyond the means of the more typical, smaller, household sizes.
- Amend the provisions within the Ashland Land Use Ordinance that establish the timing of the development of affordable units (18.2.5.050.G.4) to clarify that dedication of land through transfer of title to a non-profit affordable housing provider will satisfy these requirements and there would be no further timing obligation for the market rate units. There has been concern raised by private developers that they have no control over the timing of the development of affordable units after the property is transferred to an affordable housing partner.

At their study session on March 10, 2020, Planning Commission requested further options to evaluate regarding the timing of the development of affordable housing should a developer transfer property to a non-profit affordable housing provider. Specifically, the Commission will consider options and discuss how best to ensure the required affordable housing is built in a timely manner.

- Remove the provision within the Ashland Land Use Ordinance that requires affordable units be distributed throughout the project (18.2.5.050.G.5).
 - The City has approved numerous exceptions to this standard in finding that the efficient development of affordable housing often necessitates clustering the units together. Further, given the small scale of developments within Ashland, the concern intended to be addressed by this standard, that affordable units would be segregated and stigmatized within an area, has not been evident in recent developments.
 - Removing this requirement would provide developers more flexibility regarding the location of affordable housing units within a project. This is often requested as a condition of partnering with non-profit housing developers to complete the affordable housing units. Affordable housing providers can benefit from consolidating their affordable housing units into a contiguous area as it provides for efficiency in the initial building process, and further simplifies management of the affordable units over time.
- Amend the provisions of the Ashland Land Use Ordinance relating to the comparable building materials used for required affordable housing units (18.2.5.050.G.6) to newly allow different

housing types. By adding allowances for different “housing types”, the provision would be amended to newly permit affordable units which are of a different housing type than the market rate units. For example, in a new subdivision of detached single-family homes, the affordable units could be attached-SFR, cottages, or apartments and still comply with this standard provided they retain a comparable number of bedrooms to the market rate units. Essentially if a proposal included an affordable housing provider or private developer that wanted to provide apartments or cottages, of a compatible bedroom mix, that could be newly allowable.

- The Affordable Housing Standards as established do presently require affordable units to be comparable in bedroom size, if all the market rate units are 3 bedrooms, then so to should be the affordable units. Staff believes the City could consider allowing different housing types that still provide the commensurate number of bedrooms required. The City has identified a need for rental housing, and for smaller ownership units (e.g cottages/townhomes). By clarifying within the ordinance that alternative housing types are permissible, proposals for annexation and zone changes could more readily provide for a mix of housing needs by providing apartments, cottages, or townhomes within what is otherwise proposed as a detached single-family subdivision.
- Amend the provisions of the Ashland Land Use Ordinance relating to the maximum net assets for households in the affordable housing program (18.2.5.050.C.1.c) to adjust the limits for consumer price index changes since 2005. The current \$20,000 asset limitation, or \$130,000 for retired households purchasing an affordable unit has been unchanged since Resolution 2006-13 was approved. Adjusting these figures to \$25,000 and \$175,000 respectively at this time will update the amounts to the 2020 equivalents. Furthermore, staff would suggest an annual CPI adjustment be included in the final ordinance and resolution language to account for changes over time.
- Amend the provisions of the Ashland Land Use Ordinance requiring a 60-year term of affordability for covered affordable units through annexation or zone changes (18.2.5.050.G.8).
 - Although 60 years of affordability is of benefit to the City in providing affordable housing for longer, there have been concerns raised regarding the maintenance costs of covered rental units at the conclusion of the 30-year period. Essentially affordable rental housing providers have raised the issue that at the 30-year mark refinancing is often necessary to use equity to replace failing building components that have reached their life expectancy (new roof, heating cooling systems, etc.). Additionally, conventional lenders can be reluctant to loan on a property where a deed restriction has a term of affordability that extends beyond the typical 30-year term of a mortgage. For these reasons Staff suggests further evaluating this requirement as part of this update of the affordable housing standards.

The Planning Commission discussed the reduction of the term of affordability from 60 years to 30 years and wished to further examine potential equity recapture opportunities that could be considered through resale restrictions imposed on covered affordable housing units.

- Remove the provision of the Ashland Land Use Ordinance that limit the density bonus allowable for affordable housing provided as part of an annexation to 25% (18.2.5.050.G.8). This limit is

less than is otherwise allowable through Performance Standards ordinance provisions which allow for 35% maximum density bonus for affordable housing ([18.3.9.050.B.4](#)) and a cumulative bonus of up to 60%, and as such is inconsistent with other density bonus allowances.

- Amending this section of the ordinance is a good example of creating consistency within the code to eliminate inconsistencies and therefore simplify the application and approval process for annexations. Specifically, this change will enable affordable housing developers to provide as many affordable housing units on a development requiring annexation as could otherwise be achieved upon a property already within the City limits. This promotes the creation of more needed affordable housing within the community.
- Amend the provisions of the Ashland Land Use Ordinance that relate to residential annexations requiring there be less than a five-year supply of vacant or redevelopable land in the current City Limits (18.2.5.050.H.1).
 - Removal of this requirement was a recommendation of the Ashland Housing Strategy Implementation Plan which was presented to the City Council in May of 2019:
 - *“Revise the City’s annexation policies to eliminate the requirement to demonstrate less than a five-year supply of land. Existing policies were intended to help ensure orderly growth; however, this is the role of the City’s Urban Growth Boundary (UGB). Creating obstacles to annexing land within the UGB for housing contributes to higher land costs and makes it difficult to find land for larger housing developments.”*