STAFF REPORT

To: Housing and Community Development Committee Date: June 16, 2015
Planning and Economic Development Committee

From: Jeff Staudinger, Assistant Community & Economic Development Director
Alan Glines, Interim Planning Director

Subject: Revised Land Use Incentive Program Policy

Summary Statement: Staff seeks guidance as it works to propose revisions to the Land Use Incentive Program, known as the Land Use Incentive Grant (LUIG).

Review:

The Land Use Incentive Program (known as the Land Use Incentive Grant, or LUIG) was originally adopted by the City in November 2010; it was amended in March 2011, in 2012 to expand the eligible geographic area, and in 2014 to align more directly with statute and to remove a grantee contingent liability to hold the City harmless if the policy was challenged.

The LUIG was minimally applied for in its first three years; but since 2014 two additional applications have been approved, a third will be reviewed the HCD Committee this month, and more applications are expected. The interest of Council members in potentially expanding and evaluating the effectiveness of the City's financial investments in affordable housing has led to an assessment of the policy and its goals.

In May of this year, the HCD Committee reviewed the policy and provided insight for staff into some of the structural elements of the policy. Briefly, this included:

- Discretionary or Entitlement: Generally, the Committee felt the policy should have clear guidelines that guided Council's decision;
- Specific or General Eligibility Requirements: Members felt that eligibility requirements should allow an applicant to address 'Locational efficiency" in a number of ways
- Focus on Affordable Housing: It was agreed that affordable housing should be the primary evaluative and scoring criteria;
- Period of Affordability: The current requirement is 10 years. The sense from the Committee was that 10 years is not sufficient.

Staff also has discussed the program with the Affordable Housing Advisory Committee, developers, advocates and has viewed comments on social media. Not surprisingly, a consensus viewpoint on the questions above and other issues related to the program was not found. However, staff has considered all of these viewpoints in the attached revised policy.

Key proposed revisions include:

- Less Council discretion on eligibility and scoring: The proposed policy does not allow waiver of eligibility requirements. While still giving Council leeway on awarding points, the language is strengthened to provide more guidance to both applicants and decision makers.
- Removal of limitation on length of years for which a grant can be awarded: Formerly limited to 10 years, the proposed change would allow a longer grant benefit if the project score warrants it.
- Increase to 15 years minimum affordability, and requirement that units be leased to income eligible households.
- Flexibility on defining an eligible location: The proposed policy removes the .25 distance to a named corridor as a threshold, and instead suggests a definition for location and allows for a case to be made if the applicant wishes to deviate from that definition.
- Significant increase in points for affordable housing: As many as 100 points could be awarded for affordable housing

- Retention of workforce housing, with limited points.
- Elimination of eligibility requirement and points for energy efficiency and green building.
- Elimination of points for mixed-use developments.
- Elimination of points for brownfield developments, but statement of flexibility in grant payment when used in conjunction with State Brownfield grants.
- Additional points for "superior" locations.
- Additional points for longer term affordability.
- Clarity regarding rent increases (only in line with City's published affordable and workforce rents).

Some questions remain for staff. These include:

- Should additional points be available for developments that are affordable to very low income (e.g. households earning less than 60% AMI)?
- Should the workforce income be defined as 100% AMI (or conversely, 140% AMI)?
- Should the policy specifically encourage affordable housing for families needing two-bedroom, three-bedroom or larger units?
- Should greater emphasis be put onto locating in existing commercial and urban corridors?
- Should number of units be a factor in scoring?
- Should the benefit be available for one or two unit rental developments?

To illuminate the proposed scoring system, consider the following example:

- Proposed 100 unit rental development, of which 20% is affordable and 30% is workforce, the remainder being market rate.
- The location is within one mile of Mission Hospital.
- The commitment to affordability is 15 years.

The project would score:

- 30 points for affordable
- 10 points for workforce (because a combined 50% would be below workforce rents)
- 5 points for superior location.
- Total points, 45. Staff would recommend 4.5 years of a LUIG.

Another project:

- 100% affordable.
- 30 years affordability.
- Located within .25 mile of a half-mile transit stop.

The project would score:

- 100 points for affordable
- 20 points for longer term of affordability
- 10 points for superior location
- Total points: 130. Staff would recommend 13 years of a LUIG.

<u>Pros:</u>

- The proposed changes would significantly increase the incentive to create affordable housing;
- The scoring process becomes much simpler;
- If Council accepts less discretion in making awards, the process becomes easier for staff to administer and for applicants to understand.

<u>Cons:</u>

- Private developers may find the incentive less attractive because:
    - Rental income and investment value will both be less due to the increased time required for affordability;
    - While more predictable, the opportunity to negotiate points is reduced.

- Projects earning more points will pay fewer taxes, having an impact on funds available for the general fund.

Council Strategic Goals: The proposed revised LUIG policy supports Council Strategic goals in both Economic Growth and Sustainability and Affordability and Economic Mobility. It will create community development opportunities through partnerships; it supports practices of sustainability; and it will help expand Asheville's supply of affordable housing

Fiscal Impact: The nature of the fiscal impact is twofold: first, it supports affordable housing development by delaying the availability of new taxes created by that development, and therefore delaying the general fund benefit of the growth in the City's taxable property base. Secondly, the rebate of fees would result in a decrease of fee revenue in the year the project received its certificate of occupancy.

Action requested: Staff requests that the HCD and PED Committees authorize staff to bring forward a revised LUIG for Council consideration.