

## **LOW AND MODERATE INCOME HOUSING**

June 20, 2023

### **BACKGROUND:**

City Councils from across the country have been searching for a solution to the challenge of creating “affordable housing” in their communities. With the recent increases in construction costs, supply chain issues, labor shortage, and rising interest rates; this affordable housing issue have become more acute. Local government is not typically a provider or owner of housing directly. However, through application of zoning, creation of development standards, and the use of incentives; cities have attempted to influence housing production for prioritized low income households. Many communities have approached the need for expanded low income housing choices as a critical issue to their community for both social equity as well as economic development reasons. Each community has different resources and constraints which requires local planning to address housing issues.

**The City Council adopted a Council Goal in 2022 of Valuing Diverse Housing Options with a task directed to staff for recommendations regarding a Low and Moderate Income Housing Strategy. The focus of the task is:**

- 1) What standardized incentives to offer,**
- 2) Address code impediments, and**
- 3) Acquisition of land or existing housing.**

**It must be emphasized, therefore, that the purpose of this report and the Council discussion on June 20th is to focus of increasing the number of residential units available for our low and moderate income citizens. The discussion regarding increasing the number of residential units for other income groups, for workforce housing to the high-end homes, will occur at a later time.**

**The purpose of this task is to address issues that may go beyond the annual programming of our federal entitlement funds of Community Development Block Grants (CDBG) and HOME. These programs require a five-year consolidated plan with a housing assessment and annual program budgeting that are not addressed in this report. Information about our federally assisted housing programs is on the [City's Housing Division website](#). Note that new five year Consolidated Plan is scheduled to be completed in 2024.**

### **HOUSING INVENTORY**

The most recent census data is from the 2021 American Community Survey (ACS). The ACS provides multiple census products for statistics with varying degrees of margin of error between a 1-yr snapshot and a 5-yr averaging survey. Data from the ACS includes

population, age, race and importantly to this study, housing, and income characteristics. The Census also provides information based upon two types of living arrangements, a household and a family.

A “Household” within the census data is defined as an individual or group of people living together within a dwelling, regardless of their relationship. A family is defined as a two or more related people living together within a dwelling. A family is a subset of households. People living in group quarters, such as a dormitory, are not considered a household and are excluded from housing data, but included in general population information.

According to the American Community Survey 2021 1-yr data, there are approximately 25,901 occupied housing units out of a total of 27,594 housing units. There are 9,329 family households and 16,572 non-family households. Statistics based upon households and families are considerably different with families typically having higher incomes due to the general age of families, additional people within a family, potentially multiple incomes, and little influence of full-time student demographics. **The median household income is \$64,569 (independent of size) and the median family income is \$105,822, while the non-family household is \$35,673 for the Ames MSA.** Average incomes are much higher than median incomes. Nationally, median household income is \$69,717 and family income is \$85,806. Based upon ACS data, Ames household income has increased by about 41% over the past ten years and family income by about 45%.

The City does not directly own or operate any housing. The existing income restricted units in Ames are participants in state and federal housing programs, such as Low Income Housing Tax Credits (LIHTC). Income restricted units are a mix of workforce and senior housing units, with a mix of “project based” directly subsidized units and rent subsidized units through other programs. There is an estimated 501 income restricted units within the City distributed across six projects. This is 501 units out of a total of census estimate of 14,763 rental housing units within the City.

**INCOME LEVELS:**

Although we are not focused on federal housing programs, the City of Ames relies upon federal Housing and Urban Development (HUD) definitions of low and moderate income households related to Area Median Income (AMI) of Ames. Generally, household incomes are categorized as Extremely Low Income at 30% of AMI, Very Low Income at 50% of AMI, Low Income below 60% of AMI, and Moderate Income below 80% of AMI.

**HUD 2023 Income Limits for HOME**

	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person
30%	\$ 22,350	\$ 25,550	\$ 28,750	\$ 31,900	\$ 34,500	\$ 37,050
50%	\$ 37,250	\$ 42,600	\$ 47,900	\$ 53,200	\$ 57,500	\$ 61,750
60%	\$ 44,700	\$ 51,120	\$ 57,480	\$ 63,840	\$ 69,000	\$ 74,100
80%	\$ 59,600	\$ 68,100	\$ 76,600	\$ 85,100	\$ 91,950	\$ 98,750

The calculated income levels are supplied by HUD and are what are the required income limits for our federal programs. Note, these figures may differ from census data that is based upon households from census related surveys and there can be variation between census data of the City of Ames only vs. the Ames MSA which is larger area equal to Story County.

Typically, incomes at 80% or greater than AMI are able to “attain housing” within market conditions without extraordinary household expense or difficulties related to income. Attain housing means either rental or ownership housing. Household incomes greater than 80% are not addressed by federal housing programs, except for potentially home buyer assistance in some circumstances.

Households earning less than 30% of AMI typically require substantial assistance for housing expenses with federal programs of support, including the Section 8 voucher rental assistance program. The Central Iowa Regional Housing Authority (CIRHA) is the administer of the Section 8 Voucher program with approximately 1,000 vouchers in their program to serve six counties. However, there are not adequate vouchers available to meet the quantity need for these income levels. Within the City of Ames, there are currently 309 vouchers, which is a substantial increase from 2021 levels. There remains a constraint on using vouchers in Ames as most landlords will not accept Section 8 vouchers. State law preempts a City from requiring landlords to accept vouchers.

**Affordability of housing is most commonly evaluated as a percentage of income used for housing costs as 30% of household income.** In some situations, metrics that attempt to account for reduced transportation costs when households have easy access to public transportation or lower vehicle ownership rates will consider a combined ratio of housing plus transportation costs at 45% of income. **For this report we are focused on the traditional metric of 30%.** The ACS provides information about housing costs as a percentage of income, often referred to as housing cost burden, for both rental and ownership households. Although some households may make a choice to spend a higher percentage discretionarily income on housing to realize other benefits of housing choice and location, when it is not discretionary, and a disproportionate amount of income is used for housing it can cause insecurity related to other household needs.

**Fundamentally, this is the public policy issue related to affordable and quality housing. Housing overall is not just a social issue, but also an economic driver of the community in order to support employment opportunities that benefit the overall general welfare of the community. The intersection of these issues are why the City’s Comprehensive Plan devotes specific polices to these issues and does not just think of housing as a land use development issue.**

Housing burden statistics (>30% of income) are substantially different between rental housing and ownership housing. For rental households this is estimated at 51% of households and for ownership households at 28%. The age range of the household also has a significant impact on housing burden calculations. **Within Ames, the student demographic (viewed as temporary housing condition seeking a higher education)**

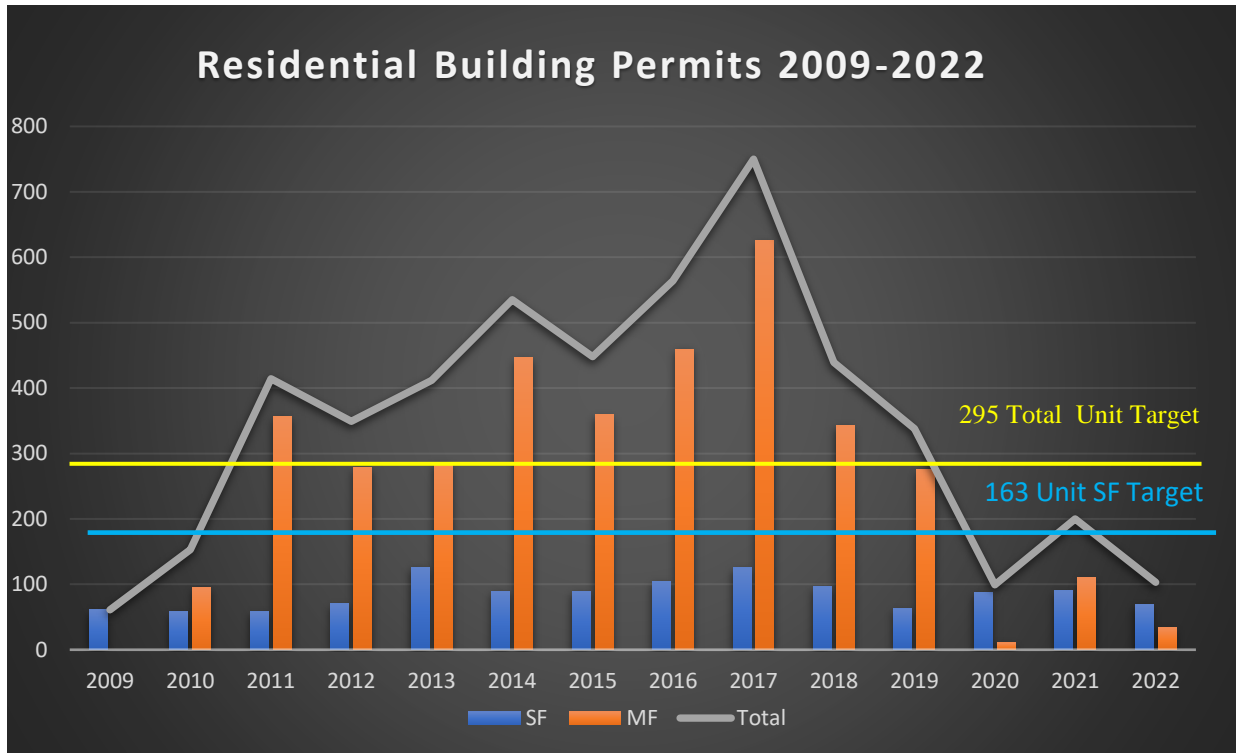
**distorts both poverty and housing burden calculations. Relying on age based or family-based statistics minimizes some of the influence of student demographic on housing issues focuses on workforce and non-transient households.**

**The priority focus of this report is then for the low- and moderate-income households as the area most likely to be impacted by local actions.** The general focus for affordability programs at the local level is between 30-60% AMI for rental households and 50%-80% AMI for home ownership.

### **HOUSING TARGETS:**

Ames Plan 2040 includes a Neighborhood, Housing, and Sub-area Element that uses 2017 census data as a snapshot of housing needs for the City correlated to our growth projection of 15,000 people through 2040. This snapshot assessment does not address unmet existing demand.

Plan 2040 identified 2020-2030 annual housing production target of 295 units, with an overall average of 317 units through 2040 related to the 1.5 % growth used for planning purposes. Actual population growth is often well below the 1.5% assumption. The unit projections are divided between ownership and rental housing. The City currently has approximately 60% rental households and 40% ownership households. Plan 2040 identifies a target of 55% of ownership housing and 45% rental housing for new construction. However, this should be understood as target number of units produced rather than division of the actual units built in year. Ownership can be either detached or attached housing. A significant multi-family component is needed as well to meet general housing needs, but not at the same proportions as the current make up of housing stock due to no planned substantial increases in enrollment at ISU.



Household income categories are also described within this Housing Element snapshot and support policies of action related to affordable housing correlated to types of housing produced and to consider incentives for priority types of affordable housing. **The Affordable Housing Strategy is an implementation step of the Plan 2040 Housing Policies. Typically, due to construction costs, addressing low and moderate income housing is divided between creation of affordable rental housing compared to ownership opportunities. The greatest need measured by attainability and availability is directed to rental housing. A secondary need is for ownership housing affordable to low and moderate incomes due to the substantial lift needed to attain this goal for an individual family.**

**CODE IMPEDIMENTS:**

One common strategy to support affordable housing is to consider the impact or regulations on the production of housing, specifically unique obstacles related to low income housing. Building and Zoning Codes are designed to manage development of housing in safe and desirable manner that is compatible with the community. Developers incorporate development costs and construction costs into their project pro forma and build projects when the rent or sales price provides an expected level of profit over costs.

Low income housing has a different model where the revenue side of the equation is capped to meet a targeted level, i.e. income restrictions. However, most communities have taken a strategic approach to Zoning and Building Code changes to not dilute the quality of housing and to ensure it is of the same equitable quality as other housing in a

neighborhood. **In fact, many subsidy programs will require higher quality elements with affordable housing to ensure there is a high quality living environment.**

**Staff believes the most common code impediments related to the construction of new housing include:**

1. Parking Requirements
2. Lot sizes/density limits
3. Limits on apartment building size within medium density areas (no limit in high density zoning districts)
4. Architectural design requirements

**Additionally, staff believes the lack of available zoned land for housing is as significant of an impediment as any of the above specific regulations on the cost or production of affordable housing.**

Staff has identified these constraints based upon development project review with Home Allies, Bridge, and LIHTC developers, as well as national commentary on affordable housing constraints.

#### **OPTIONS:**

##### **Option .1 - Evaluate parking reductions**

Of the four issues listed above, parking is a uniquely positioned issue related to low-income households. Statistically car ownership rates are lower for lower income households regardless of the costs of housing. This is most pronounced for household likely earning less than 50% of AMI. Parking regulations in Ames are based upon bedroom counts per apartment, which are predominantly occupied by student households with multiple cars. Additionally, ideal locations for affordable housing are centrally located transit accessible and walkable neighborhoods that are not as vehicle dependent. **This means projects within the core of the City are likely to need even less parking than for low-income housing projects in periphery areas of the City.**

Parking is applied universally regardless of income levels of an apartment development. This approach has been the basic policy of the City to ensure that regardless of long-term occupancy of the units that parking would be adequate to meet needs and not impact the surroundings. **This approach allows for versatility of use of a property over time, but it does hamper initial construction of low-income housing.** A standard surface parking lot has a per space cost of construction of \$4,000 to \$5,000, which does not account for potential loss of developable land for parking spaces.

The PUD ordinance allows for Council to approve as few as 1.5 parking spaces per unit vs. the standards requirement of 1 per bedroom. **The key question is really if projects that are not part of a PUD Overlay could take advantage of the parking reduction**

**for sites less than 2 acres or if it could be approved for any residentially zoned site even if it is not in a PUD Overlay.**

**Council could direct staff to proceed with parking code changes related to affordable housing development subject to land use and affordability restrictions.** Staff's experience is that these restrictions are for upwards of 30 years. After 30 years the property may become a market-based project, if that occurs no additional parking would be provided.

**If City Council is interested in additional parking reductions, Council would need to direct staff under this option on whether to consider it a by-right allowance for all zoning districts or if it a discretionary process as defined with the PUD Overlay.**

#### Option #2 - Lot Size and Density Limits

Lot size can be viewed as cost component of a home or in relation to allowed density of a project. Commonly for single family development a rule of thumb is a lot is approximately 20% of the cost of a home and that the house itself will be 3 to 4 times the cost of the lot. Therefore, a smaller lot could have marginal change in the overall cost of a home if a large home is still constructed, or if smaller homes are built on smaller lots it could have much greater reduction of cost related to a lot.

Fortunately, in Ames there is a strong land use ethic for efficient and smart growth and, therefore, there currently exists reasonably high maximum density allowances as a result. Upper density limits are rarely an issue for a project as they be in other cities. However, Minimum lot size regardless of overall density could be a constraint for smaller houses that may or may not have lower prices. This issue is fundamentally related to ownership or single-family building types. This issue was discussed two years ago the time of adoption of the PUD ordinance. The decision at that time was that = the City wanted to see an overall plan before approving smaller lots and to require higher architectural design requirements within a PUD to address negative impacts to aesthetics.

**City Council could direct staff to propose minimum lot size changes.** In isolation of design requirements and an overall plan review, staff has some general reservations about eliminating minimum lot sizes, even though lot size itself is not an important issue to staff.

#### Option #3 - Limits on Building Sizes

The building size limit is blunt standard that limits efficiency to address overall massing and height of structures outside of actual design guidelines and architectural standards. Currently, this standard has not been a constrain to affordable housing as it only applies in medium density areas and does not apply in high density areas. However, if we strive for a mix of affordable housing in our growth areas with FS-RM zoning, this standard could impact a future project.

**Council could direct staff to propose eliminating this building size standard in certain zoning districts and determine if any replacement standards would be more appropriate.**

Option #4 - Evaluate Architectural Design Requirements

City Council could direct staff to evaluate in greater detail specific zoning regulations and related development costs compared to design quality and then consider additional text amendments. **Staff does have general reservations about substantial changes to design standards or impacts to future infill design requirements that could make project less accepted within neighborhoods.** Having acceptance of projects, even with higher costs, is more desirable in staff's eyes than having projects not be accepted.

Option #5 - Identify Other Code Impediments

**Can the City Council identify other development issues for review by staff?**

**INCENTIVES:**

Affordable housing is most commonly developed with the assistance of federal or state funding programs. However, at times there can still be a financial gap for the viability of a project and the City may receive a request assistance. The two most recent instances are the Baker Subdivision 9% LIHTC project where we are providing land for free and use of federal HOME program dollars and the other project was a request from the Annex Group for a property tax abatement in support of their development site Hayden's Preserve along 190<sup>th</sup> Street a 4% LIHTC project. The Annex Group project did not proceed and was one of the initial reasons to pursue a housing strategy related to incentives.

Staff believes there two main components of the incentive discussion.

1. Types of Funding, and how much funding
2. Prerequisites for funding.

Some of the financial incentives that have been offered to developers by other cities to entice them to build multi-family or single-family homes have included:

1. Tax Increment Financing (TIF) for infrastructure construction
2. TIF as a developer rebate for building a project
3. Property Tax Abatement (full or partial)
4. Waiver of fees
5. Low or no cost land donation
6. Development grants/Housing Trust Fund
7. Homebuyer down payment assistance
8. Low interest or forgivable loans
9. Federal CDBG and HOME funds



Tax abatement can lower operating costs helping a property owner carry their loan payments and other expenses. Tax Increment Financing can be used as a rebate to a developer for their investment in a project or to fund public infrastructure that lowers costs of development. Using TIF to fund public infrastructure requires a setaside of approximately 45% of the TIF proceeds to be used for affordable housing and is counted against a city's debt limit, while TIF rebates don't have these same issues. Fee waivers for building permits or connection districts would only come at the time of actual development and result in a city foregoing revenue which lowers the initial costs of development.

Direct grants to a developer will require a funding source which may be difficult under the current restrictions placed upon cities in Iowa for generating additional revenues. Further exploration will be needed to identify the appropriate funding sources.

**It should be noted that each of these incentives have different value and order of magnitude, meaning there are variable cost to the city and benefit to a developer, home buyer, or operator of affordable housing.**

**PREREQUISITES:**

Staff believes that if the City provides financial assistance, the city's priorities should also be addressed within a development. Provided below are multiple interests that could guide use of local incentives:

1. Affordability levels at or below 50% of AMI
2. Affordability restrictions of at least 30 years
3. Participation with another agency for oversight, such as Iowa Finance Authority
4. Operational Support or Initial Capital Support
5. Cost per unit produced
6. Types of units for workforce and family, minimum of 10-15% family units
7. Acceptance of Section 8 Vouchers, set aside for Section 8 voucher holders
8. Project based Section 8 Units committed by CIRHA
9. Location Preferences
  - o Availability of services
  - o Transit access for very low-income households
  - o Housing choice and dispersal throughout the city

Staff believes Location Preference is an important issue on this list that is not financially based. As described earlier, development in the core of the City is often beneficial for support of residents of low and moderate income housing and likely the best solution if available. The difficulty in staff's view arises from two concerns. The first is availability of land and if it is available the higher cost for acquisition and development which likely then requires a greater financial incentive.

Secondly, diversity of housing choice would support providing affordable housing in multiple areas of the City as we grow, this includes the to the north, south, east, and west, but in many cases there are limited services available at this time and site are likely more vehicle dependent. It is possible that some types of housing will only be eligible for other program money within the core areas of the City, known as Qualified Census Tracts. However, development of LIHTC with 4% tax credits is not competitive and could be accomplished within any area of the City. The question is not if an affordable project should be developed on the periphery of the City, it is if we would use financial incentives to support it.

**City Council would need to provide guidance on priorities for issues from the above list so that staff will be able to formulate guidelines that can be communicated to future developers.** Staff believes the greatest needs are at the lower end of the household income ranges and we should require that included deeper levels of affordability than minimum requirements of LIHTC and expect that Section 8 Voucher holders would be able to use a voucher in these projects.

### **PROPERTY ACQUISITION:**

One specific action that could be identified within the housing strategy is a property acquisition plan. This acquisition plan will help guide long-term thinking for acquisition, development strategies of larger projects, and potential dispersal of affordable housing. There has been a 20-year gap between the City's west Ames Bentwood affordable housing subdivision and the Baker Subdivision project. **A more intentional program about either buying land within new development for a future project or to buy individual lots within new or existing subdivisions will allow the City to take advantage of opportunities as they arise.**

#### **Subdivision Development**

**As a landowner, the City will be able to solicit opportunities for partner developers and pursue local low income housing subdivision development on a more regular basis.** In a land market as tight as Ames, it may be necessary for the City to land bank sites to eventually realize greater production of housing.

#### **Individual Lot Development**

**An alternative to larger site acquisition could be lot acquisition in both existing and newly developed subdivisions.** Typically, our lot acquisitions in existing areas are to remove blight and, if possible, make them available as affordable housing. The same strategy and likely costs could be applied to buying an individual lot for a house builder, such as Habitat for Humanity. **Staff believes this strategy allows for small steps toward housing availability, dispersal of housing throughout the city, and is one of the few means of providing for ownership housing options.**

**As is the case with funding for incentives to the developers highlighted previously, a financial mechanism for this subdivision/single lot acquisition strategy would**

**need to be defined which, hopefully, could provide a means to recoup the investment for reuse over time.**

**STAFF COMMENTS:**

In summary, Staff supports the following next steps:

1) Developing a Low and Moderate Income Housing Strategy that includes the individual development incentives that that the City Council identifies for possible support.

- The use of TIF for public infrastructure or tax abatement would be the most appropriate incentive mechanisms. These mechanisms allow the City to offer an incentive without having to budget for them on an annual basis.

- Depending on which incentive the Council chooses to pursue, further study will be needed to determine viable funding sources.

- A maximum duration for the incentive or a percentage cap on the assistance should be included in the incentive policy to ensure that projects are financially viable and efficient in their development plan.

2) Developing a Low and Moderate Income Housing Strategy that includes a property acquisition strategy that will promote development of multi-family and/or single-family housing.

3) Developing a Low and Moderate Income Housing Strategy that includes a multi-year financing plan with one pot of money to accomplish the first two items listed above.

4) In addition to the Council's recent action to reduce required parking in a PUD, reduce parking requirements in other zoning districts for future low and moderate income housing projects.

5) Developing incentive criteria that provide for greater incentives for projects within the Core of the city recognizing inherent value of the location and higher development costs, but also supports diversity of housing choice in expanding areas of the City, but with a lower incentive.

It should be noted that with the initial implementation of the components included within this strategy, it is unlikely that additional staff would be needed for this activity. If the City takes on a more significant role developing property, administering affordability requirements, or monitoring compliance; over time additional staff support could be need.