



## DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

*Grants Management Division*

### **m e m o r a n d u m**

**TO:** Bruce K. Walden, Chief Administrative Office

**FROM:** Elizabeth H. Tyler, AICP, City Planner/Director

**DATE:** October 6, 2005

**SUBJECT: INCLUSIONARY HOUSING MODEL**

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### **Description**

Councilmember Roberts has provided some background information regarding inclusionary housing programs for discussion at the October 10, 2005 Committee meeting. The program is presented as a possible means of providing additional affordable housing in Urbana and of achieving a more balanced concentration of this housing. Mr. Roberts suggests formation of a committee to study this approach further.

### **Issues**

As applied in other locations, inclusionary housing models require developers to set aside a certain percentage (e.g., 10%) of newly constructed rental or home ownership dwelling units to be affordable to low or moderate income residents. This requirement is often found in locations that are growing fast, where housing supply is not keeping up with job creation, where housing costs are inflated to the point where they may not even be affordable to moderate income households, and where housing costs produce enough profit to make it financially feasible for developers to pay the additional cost of providing inclusionary housing. Inclusionary housing requirements are typically applied as a part of special use permits or as required by environmental impact reports. The costs for the affordable units are generally not subsidized and are incorporated into the overall pro forma for the project. Typical locations where inclusionary housing requirements are applied include metropolitan areas of California or fast growing communities where housing supply is not keeping pace with demand and service workers are unable to find housing (e.g., tourist areas in Mountain States).

A number of communities in the Chicagoland area have recently been identified as not meeting the affordable housing requirements of the Illinois Affordable Housing and Appeal Act and have been required by the State of Illinois to prepare an Affordable Housing Plan. Some of these communities may choose to apply inclusionary housing principles to help make up for their shortfall in affordable housing.

Fortunately, Urbana does not have the characteristics found in other locations where inclusionary housing programs have been found to be necessary as a means of creating affordable housing opportunities. The Champaign-Urbana area is one of the more affordable housing markets in the

United States. The Housing Opportunity Index (HOI) of the National Association of Home Builders for Champaign-Urbana is currently 79.6 (National HOI is 66.2), with a national ranking of 28<sup>th</sup> in affordability (of 158 communities ranked). (See attached summary information). In recent years, local area developers have provided a good range of housing prices to meet demand. In addition, both communities provide a wide range of assistance to help low to moderate income households purchase homes and to provide rental assistance for low income residents.

A 2004 report prepared by the Building Research Council to determine which communities in Illinois were in compliance with the Affordable Housing and Appeal Act found that 8,549 of 14,952 total housing units in Urbana, or 57.2%, were deemed to be affordable. For home ownership, the affordable price was determined to be \$95,377 and there were a total of 2,987 affordable ownership units. An affordable monthly rent was determined to be \$567 and there were 5,562 affordable rental units. (Table from report and background information on the Act are attached).

As discussed in the Consolidated Plan, while Urbana has an affordable home ownership market, it is nonetheless difficult for many lower income renters to afford housing costs. Local rental costs are skewed by the presence of the University of Illinois and the large student rental market. Consequently, a number of programs are administered by the communities and by local providers to assist low-income renters with housing costs. These programs include public housing, Section 8 vouchers, tenant based rent assistance, shelter plus care, low income tax credits, etc. (see pages 27 to 42 of the Consolidated Plan for further discussion, copy of excerpt attached).

While the City promotes affordable housing through a variety of initiatives and programs, there is also a need to discourage the concentration of lower income residents in certain areas or specific apartment complexes. This is consistent with Objective 40.3 of the Urbana Comprehensive Plan, which states:

*Work to distribute affordable housing opportunities throughout the community to avoid the effects of concentrated poverty (excerpt attached)*

To address this concern, the City should continue to encourage the distribution of affordable housing throughout the community and should work with apartment owners/managers and with the Housing Authority to encourage the dispersal of Section 8 voucher recipients.

Requiring inclusionary housing as part of new subdivisions and smaller apartment buildings may be particularly difficult to achieve, depending upon the economics of the specific project. Also, depending upon the specifics of the program and incentives to be provided, application of inclusionary housing requirements in Urbana could result in a significant impact on the local private housing development market. Unless a similar requirement were made in neighboring communities (Champaign, Savoy, Rantoul, St. Joseph, and Mahomet), there could be a chill placed on new housing construction in Urbana alone, with a possible loss of construction activity and growth of equalized assessed valuation. If Urbana were perceived to have an “uneven”

playing field with respect to the costs of constructing new housing (due to incorporation of additional costs for affordable units), inclusionary housing requirements could even be counterproductive in reducing new housing opportunities for all income levels within the City. To avoid this effect, any program for inclusionary housing should provide sufficient incentives and flexibility to the developer to maintain Urbana as an attractive and competitive housing market. Prior to adoption of the Build Urbana tax rebate program in 2001, single family home starts in Urbana averaged in the low 30's each year and lagged well behind other communities. Since 2001, Urbana has had healthy new home construction numbers of around 150 new homes each year. Given the recent historic construction numbers, it is not hard to imagine a slowing of this rate if Urbana is perceived by developers to be a relatively more costly community in which to build.

Other issues to be considered in providing incentives for inclusionary housing are compliance with HUD regulations and consistency with the City's Consolidated Plan and Annual Action Plan. Certain funds may be applicable only in the City's Target Area and/or must be administered by certified Community Housing Development Organizations (CHDO's). The City's allocation of CDBG and HOME funds tend to be fully allocated each year to our existing programs (e.g., housing rehabilitation grants, emergency grants, access grants, transitional housing, first time homebuyer programs, etc.) special projects in the community (e.g., Frances Nelson Health Center, Center for Women in Transition, Development Services Center, Urban League Lease Purchase Program, etc.), or specific affordable housing projects (e.g., Eads Street Development, Kerr Street Property, Lakeside Terrace Redevelopment, Crestwood Manor). It is anticipated that providing replacement housing for Lakeside Terrace will require a significant portion of the City's grant allocation for a number of years (see Lakeside Redevelopment Plan, adopted June 3, 2004). Until the Lakeside and Kerr Street projects are completed, there will be limited funds for other programs. It should be noted, however, that these projects could be designed so as to help to meet the goals of an inclusionary housing program.

Also to be considered is staff support for an inclusionary housing program. Administration of such a program will require additional staff time for set up, training, administration and monitoring. Due to recent turnover and short staffing in the grants division, staff are working at capacity simply to respond to a backlog of HUD reporting requirements and monitoring issues. It is anticipated that an additional 6 to 8 months will be necessary to catch up on the existing administrative backlog. Once staff have been operating at full capacity and have achieved necessary training objectives, we will be in a better position to consider undertaking new programs.

## **Background**

Policies regarding affordable housing are identified in the City's Consolidated Plan (adopted in July 2005, see pages 41 and 42, in particular) and the Urbana Comprehensive Plan (adopted in April 2005, see page 50). Annual programs funded by the City's entitlement funds are addressed in the Annual Action Plan, subject to approval by the U.S. Department of Housing and Urban Development. The Champaign County Housing Authority is the local public housing

authority (PHA) and produces a plan each year. The City of Urbana is required to review this

plan on an annual basis to determine its consistency with the City's Consolidated Plan.

The City's Community Development Commission is charged with providing affordable housing policy recommendations to the City Council. The Commission reviews the Consolidated Plan and makes recommendations for funding allocations under the Annual Action Plan each year. The Community Development Commission conducts outreach on affordable housing policies in the City. It assisted in preparation of the Analysis of Impediments to Fair Housing Report and conducted a number of affordable housing strategy sessions in 2002. The Community Development Commission meets at 7:00 p.m. on the fourth Tuesday of each month. Councilmembers are provided with copies of the commission packets and are encouraged to attend or view the commission meetings.

## **Fiscal Impacts**

Fiscal impacts of an inclusionary housing program would occur due to the costs of such a program as well as the staff time necessary to administer it. It is not possible to project these costs until the specifics of the program are known. As noted above, some costs could be borne by the City's entitlement funds through the annual action plan, subject to HUD approval. Other projects or programs may need to be discontinued or delayed to accommodate this program. Local economic impacts could also occur if the program were to affect the local housing construction market.

## **Recommendations**

Due to staffing limitations, the demands of existing programs, and the number of other Council goals that have been identified, staff recommends that Council determine if this concept should be pursued as a high priority item at this time. If Council is interested in pursuing this concept as a high priority along with other Council goals, Staff recommends that the Community Development Commission (with the assistance of staff) be requested to investigate approaches to achieving additional affordable housing stock distributed in such a manner as to avoid concentration of poverty through inclusionary housing requirements or other means and to report back to the City Council with specific recommendations. As necessary, these recommendations can then be incorporated into the City's Consolidated Plan and Annual Action Plan, subject to approval by HUD. If a task force is formed, it is suggested that the Community Development Commission be consulted as an additional City resource with expertise in affordable housing. It is also suggested that input be sought from representatives of the local housing development community via the Urbana Business Association (UBA), Developer's Roundtable Group, Champaign County Apartment Association, or other affiliations.

### **Attachments:**

Information on Housing Opportunity Index

Information on Affordable Housing Planning and Appeal Act

Excerpt from FY 2005-2009 Consolidated Plan

Excerpt from 2005 Comprehensive Plan