City of Raleigh
North Carolina
Housing and Neighborhoods Department

Draft Affordable Housing Plan
Draft Affordable Location Policy

City of Raleigh
North Carolina

Inter-Office Memorandum

DATE: June 12, 2015

TO: Mayor Nancy McFarlane and Members of City Council

CC: Ruffin Hall, City Manager

FROM: Larry M. Jarvis, AICP, Director
Housing and Neighborhoods Department

SUBJECT: Draft Affordable Housing Location Policy
Draft Affordable Housing Plan

Currently, the Scattered Site Housing Policy revision and the proposal for an updated Affordable Housing Plan policy are pending in Council's Budget and Economic Development Committee. During recent discussions, Council has expressed interest in staff's upcoming proposals. The Department will present preliminary policy ideas and options on the topics of scattered site and affordable housing at the Council's June 16 work session. In preparation for the work session, this memorandum transmits the initial drafts of the Affordable Housing Location Policy and Affordable Housing Plan. The draft Affordable Housing Location Policy is intended to replace the existing Scattered Site Policy which was initially crafted in the 1970's. In many respects, the existing Policy is internally inconsistent, confusing and likely based on outdated data. The new proposed policy is simple, straightforward and affirmatively sets forth desired outcomes relative to the creation of affordable rental housing. It is based on the premise that the City should not cause further concentrations of low income and minority populations or subsidized housing and should instead encourage the development of new affordable rental housing in priority areas which include underserved parts of the City and sites near transit, downtown and other employment centers.

The focus and aim of the draft Affordable Housing Plan is twofold: To achieve the objectives of the proposed Affordable Housing Location Policy and to significantly increase the number of affordable housing units which are created or preserved. The draft Plan outlines numerous implementation options that would help to achieve both. Most of those options reflect policies and recommended actions in the adopted 2030 Comprehensive Plan that were never further advanced. All of the identified options are realistic and achievable.

We look forward to discussing our ideas with City Council and the larger community and receiving thoughtful feedback as to how those ideas can be improved upon even more.

City of Raleigh Housing & Neighborhoods Department
Draft Affordable Housing Improvement Plan FY 2016-FY 2020

The City of Raleigh has an established track record in supporting the creation of affordable housing and the expansion of housing choices for owners and renters at all income levels. In addition to targeting HUD entitlement funding towards affordable housing production and neighborhood revitalization, the City has issued local affordable housing bonds to provide additional resources with the most recent being $16 million in bond authority approved by the voters in 2011. Increasing the supply of affordable housing and neighborhood revitalization are major objectives of the adopted Strategic Plan.

Despite these efforts, the percentage of Raleigh's households who are "cost burdened" has continued to increase. With Raleigh being tagged with multiple accolades as a "Best City," millennials, baby boomers and residents from other parts of the country are relocating to Raleigh, creating a high demand for housing in and around downtown and in other areas of the City. Housing once considered affordable is increasingly being acquired and renovated for higher income occupancy or redeveloped to suit these higher income individuals and families.

Definition of Affordable Housing

Affordable housing is a key factor in community vitality and continued economic growth.[1] . Affordable housing provides stability for families, improves opportunities for education and career advancement, and reduces the risk of homelessness for households that are dependent on low wages or fixed incomes.

Different people and organizations define affordable housing in different ways. For this plan, the definition of affordable housing is total housing cost (rent or mortgage and utilities) that is no more than 30% of a household's income.

In North Carolina, an affordable housing "project" is one where at least 20% of the units are affordable to and occupied by households with incomes at or below 80% of the area median income. Local units of government may subsidize residential development for the public purpose of affordable housing as long as this minimum threshold is met.

Creation of Affordable Rental Housing

The most frequently used and most cost-effective mechanism for the creation of affordable rental housing is the Low Income Housing Tax Credit (LIHTC) program of the Internal Revenue Service. In North Carolina, that program is administered by the North Carolina Housing Finance Agency (NCHFA) and is governed by the Qualified Allocation Plan (QAP) which is subject to modification and review annually. Based on a formula, the state is allocated a lump sum of available credits each year. Through the QAP, the credits available for new construction are then allocated to four geographic regions: West (16%), Central (24%), East (23%) and Metro (37%). The Metro region is comprised of the seven most populous counties in the state. Each of those metro counties is then "allocated' a percentage of available credits based on population. In the current QAP, Wake County is allocated 26.13% of the total available Metro credits. With intense

[1] City of Raleigh Comprehensive Plan 2030

competition, Wake's allocation is typically awarded in full. Generally speaking, what that means is that Wake could receive more credits and thus more affordable units only if the allocation to another Metro county was not fully requested.

In years past, local units of government were able to exert considerable influence over which projects were awarded tax credits. Points were awarded for site donation, the amount of local subsidy per unit and for being a part of a community revitalization effort such as HOPE VI. About three years ago, the QAP was changed to eliminate those opportunities for local government influence and to eliminate "subjective" site score considerations.

Under the current QAP, all proposed Wake County projects must essentially earn a perfect site score and not have points deducted for per unit cost to have a chance of being awarded credits. (In most instances, the QAP limits construction costs per unit at the time of application to $66,000). In the event two or more projects earn the same score, the first "tiebreaker" used by NCHFA is the least amount of tax credits requested on a per unit basis.

Because of the need to earn a perfect site score, projects located in challenged downtown neighborhoods are competitive only for a "redevelopment project set aside" that was created by NCHFA to restore some local government ability to incorporate such projects in neighborhood revitalization efforts. The current QAP guarantees three such projects in the state. Under the set aside, the local unit of government must have adopted a revitalization plan and must commit at least $750,000 to the project. As it looks to redeveloping the Washington Terrace site using 9% LIHTC, DHIC will need to compete within this set aside. It is for this reason that a Neighborhood Revitalization Strategy Area (NRSA) plan and designation is proposed for the East College Park area. Looking ahead to South Park and portions of the Garner Road redevelopment area, the NRSA designation (or another formally adopted local plan) will be a prerequisite to LIHTC developments in those downtown locations.

With the LIHTC program, a significant portion of the total project cost is covered by tax credit equity. For the two family projects recommended for funding in the spring of 2015, equity accounted for 64.66% and 74.38% of the total cost or an average of $103,296.50 per unit. This latter figure represents the minimum amount the City would have to invest in the form of a grant or non-amortizing loan on a per unit basis to create comparable affordable rental housing in the absence of the LIHTC program. The combined $2,650,000 in City and County funds committed to these two projects will result in the leverage of $20,962,513 in other funding or just over $7.91 in other funding for each public dollar invested.

NCHFA also offers a 4% LIHTC that is combined with low interest bonds which is discussed in more detail later in this document. The most recent such project locally is the Bluffs at Walnut Creek which was approved by Council this past fall.

The other rental program administered by NCHFA is the Supportive Housing Development Program which serves persons with special needs who require supportive services. The maximum funding per project is $500,000 in the form of 0% matching loans. CASA's recently completed second phase of Hull's Landing on Sunnybrook Road is an example of this type of project.

HUD entitlement funds received by the City and proceeds from voter approved bonds have been and continue to be used to support the creation of affordable rental housing. Often HUD HOME or local bond funds are used to provide the "soft" loans to LIHTC projects to close the final financial gap.

National and State Perspectives

Affordable housing has long been an issue throughout the nation. There are many different models and differences in state laws. A few examples are provided below.

Montgomery County, MD: Montgomery County, MD (population: 1 million +) was one of the first communities to adopt mandatory inclusionary zoning in 1976. In the simplest of terms, new developments above a certain unit count threshold must include a percentage of affordable housing or a fee in lieu payment is required. Since its inception, the Montgomery County ordinance has produced an annual average of 252 homeownership and 118 rental units through the end of 2013. In its 2008 Affordable Housing Plan, the County focused on both affordable housing preservation and creation. With respect to preservation, the plan called for a property acquisition fund to purchase the acquisition of at-risk affordable rental properties and the creation of a revolving equity fund, supplemented by housing bonds, to provide long-term permanent financing for the acquisition, preservation or construction of affordable housing units. To increase the creation of more affordable units above the required minimum, the plan called for developer incentives including design flexibility, an expedited review process, density bonuses, fee waivers and reduced parking requirements.

Denver: Many other communities, primarily in high cost markets, followed Montgomery County's lead. In many instances however, developers have increasingly chosen the fee in lieu option which has led to more aggressive steps to actually create affordable housing. In response to an inclusionary zoning ordinance which failed to produce a significant number of units, the City of Denver amended its ordinance in January 2015 to provide developer incentives that include funds to acquire land or property and finance construction. Denver also offers cash incentives for the creation of affordable housing in priority areas in addition to offering density bonuses and reductions in parking requirements.

(Note: Except for the towns of Chapel Hill, Davidson and Manteo which obtained special enabling legislation through the state legislature, mandatory inclusionary zoning is not allowed in North Carolina. In all three locations, the ordinance is applicable only to homeownership units and developers have the fee in lieu payment option which they frequently choose.)

Atlanta: Another frequently mentioned tool for the creation of affordable housing is Tax Increment Financing. In the Southeast, one of the most ambitious applications of this tool is the Atlanta Beltline project. The Beltline project includes the introduction of a 22-mile transit system, a 33-mile trail network, 2,000 acres of new or restored open space, historic preservation and 28,000 new residential units. The project is funded in part with bonds issued in anticipation of the new development that would occur, generating increased property taxes from which an increment would be captured for debt service. Atlanta's goal is to create 5,600 affordable housing units over a 25-year period using 15% of the bond proceeds dedicated to an affordable housing trust fund. The trust fund is used to create and preserve both owner occupied and rental housing and provide direct assistance to homebuyers and incentives to affordable housing developers.

(<u>Note:</u> While Tax Increment Financing (TIF) is allowed in North Carolina, there are significant limitations on its use. In its true form, a TIF can only be used to fund infrastructure improvements within the TIF district. Because of that restriction, one or more variations of a "Synthetic TIF" is most frequently utilized in the state on a project specific basis and usually for economic development. An example of a "Synthetic TIF" is when property tax revenue paid by a specific development is partially returned for some period of time as an Economic Development Grant)

<u>Seattle:</u> In 2009, Seattle voters approved a seven year property tax levy with the goal of generating $145 million to "provide, produce and/or preserve" affordable housing. With the exception of 6.2% of the funds which are used to provide deferred loans to first time homebuyers and 9.0% of funding used for administration, the focus of the program is the production or preservation of affordable rental housing with the majority of the funding targeted to households with incomes at or below 30% of the area median income (AMI). The remaining rental development funds may serve households with incomes up to 80% AMI. Included in the plan was short term funding to allow strategic acquisition of sites for affordable housing.

Since Seattle's Rental Production & Preservation Program fund is so heavily weighted towards serving households with incomes at or below 30% AMI through funding construction or rehabilitation, a separate program, Operating and Maintenance, was created to make that viable. Through that program, Seattle has committed to provide operating subsidies to the owners of such properties for a period of 20 years to supplement the limited rental income received. In the current year, $1,757,750 (9.9% of total funding) is budgeted for this purpose.

About 2.9% of Seattle's levy is used to provide rental assistance to households with incomes at or below 50% AMI who are homeless or at risk of becoming homeless because of inadequate financial resources. Assistance is limited to a maximum of six months.

Seattle also has the highest number of "micro-dwellings" in the country. A micro-dwelling is an efficiency unit as small as 220 square feet.

<u>Charlotte:</u> Closer to home and with the goal of creating 5,000 affordable housing units, the City of Charlotte adopted a plan to issue housing bonds of $15 million each in 2014, 2016, 2018 and 2020. That City's Housing Diversity program consists of six supporting programs intended to address a continuum of housing needs from homelessness to homeownership. In brief, those programs are as follows:

- **Housing Locational Policy Acquisition Program** to support the development of affordable multi-family units in permissible areas as defined by the City's revised affordable housing location policy.
- **Tax Credit Set Aside Program** to provide funds to developers under the LIHTC program.

- **Supportive Services Housing Program** to provide funds for developments which further the goals of the Ten Year Plan to End and Prevent Homelessness.
- **Incentive-Based Inclusionary Housing Program** to encourage development of affordable housing by the private sector.
- **Single-Family Foreclosure/Blighted Acquisition and Rehabilitation Program** to assist non-profit developers with the acquisition and rehabilitation of foreclosed or blighted single-family properties.
- **Multi-Family Rehabilitation and Acquisition Program** to provide funds to acquire and renovate housing units in areas having high vacancy rates or financial distress.

Affordable Rental Housing and Construction Cost Considerations

As noted in the preceding section, NCHFA establishes maximum per unit construction costs assumptions in the LIHTC application process. At the same time however, the QAP also is very specific about requiring quality, energy-efficiency and appealing design and architectural elements in the housing built under that program. Put simply, the objective is to ensure that "affordable housing" looks no different from market rate development. What these requirements essentially dictate is low-rise stick-built construction, most always with surface parking. Using an automobile analogy, NCHFA is looking to fund a Chevy: it's safe, reliable, has room for family members and is economical to maintain.

Moving up the construction cost continuum to stick-built construction incorporating structured parking changes the automobile to a Mercedes. Because of styling, performance, comfort or any number of reasons, some consumers choose to pay more to drive a Mercedes although a Chevy would have met their basic transportation needs. As a practical matter, the development type referenced here typically occurs in areas of high land costs because of the need to spread that cost over as many units as possible.

When building height dictates concrete and steel construction, the automobile becomes a Maserati. This car is not built for the masses and only a few buyers can afford it. Buying a Maserati is a lifestyle and financial choice that some consumers make knowing fully well that a Chevy would have met their basic transportation needs.

This overly simplified automobile analogy is offered to provide additional perspective in the larger policy consideration of affordable housing at the higher end of the construction cost continuum, i.e., mid to high rise buildings in downtown or other locations. Few would argue that subsidizing ownership of a Maserati for low to moderate income households would be good public policy from any perspective. One could argue however that subsidizing land acquisition costs for affordable housing in targeted locations (including parts of downtown) where conventional stick-built construction is consistent with the Comprehensive Plan and other local goals is good public policy.

Housing and Neighborhood Need

The chart below depicts low to moderate-income renter and homeowner households by income group who are cost burdened. For the period depicted, Raleigh had approximately 84,072 homeownership units and 70,605 rental units in total. The data clearly points to affordable rental units as being the most significant of housing needs. Approximately 45% of the City's rental stock was occupied by low to moderate-income households who were paying more than 30% of income towards housing expenses and approximately 23% of those households were paying more than 50% of income for housing expenses. Elderly households account for approximately 11% of the cost burdened renters. Not surprisingly, renter households with incomes at or below 50% of the area median income account for 82% of all cost-burdened households.

In contrast, only about 15% of the City's homeownership units were occupied by low to moderate income households who were cost-burdened. Although not shown in the chart below, the elderly account for approximately 25% of the cost burdened homeowners.

Cost Burdened Renters by Income	**Housing Expense Exceeds 30% of Income**	**Housing Expense Exceeds 50% of Income**
Income <= 30% AMI	14,290	12,300
Income >30% to <=50% AMI	11,830	3,640
Income >50% to <=80% AMI	5,789	489
Total	31,909	16,429
Cost Burdened Homeowners by Income	**Housing Expense Exceeds 30% of Income**	**Housing Expense Exceeds 50% of Income**
Income <= 30% AMI	3,003	2,473
Income >30% to <=50% AMI	3,448	1,888
Income >50% to <=80% AMI	6,486	1,884
Total	12,937	6,245

Source: 2006-2010 CHAS

Although Raleigh is relatively affluent compared to most North Carolina communities, many households have not shared in that prosperity. According to the 2009-2013 5-year estimate of the American Community Survey, 11.8% of households and 16.2% of persons living in the City of Raleigh were living in poverty. In addition, the annual Point-In-Time Count revealed 1,170 persons that were homeless in 2014.

Despite past investments by the City in former redevelopment areas and private investment in formerly challenged neighborhoods near downtown, much work remains to achieve the desired objective of creating walkable, mixed-use and mixed-income neighborhoods. A significant number of privately held blighted properties remain standing and a substantial amount of City-owned property acquired and cleared in years past still awaits redevelopment. Immediate priorities are East College Park and South Park/Garner Road. However, there are challenged neighborhoods in Southwest Raleigh and in other parts of the City where intervention might be required to reverse current market trends.

Recent Production by the City of Raleigh

The City of Raleigh has operated affordable housing programs since it became an entitlement community in the 1980s. The City has funded programs supporting the entire continuum of housing from assisting households experiencing homelessness and at-risk of homelessness, to the development of affordable rental housing and homeownership assistance. The Community Development Division (CD) of the Housing and Neighborhoods Department administers both federal and local funds to promote the preservation and production of affordable housing, and to address homelessness and other community needs of low- and moderate-income residents of the City. Most of the funding for these programs is from the U.S. Department of Housing and Urban Development (HUD): Community Development Block Grant (CDBG), HOME Investment Partnership (HOME), and Emergency Solutions Grant (ESG). The City also spends affordable housing bond funds for several of these programs. Raleigh's current programmatic offerings are as follows:

Loans to Developers of Affordable Housing

CD offers a variety of opportunities for non-profit and for-profit developers to receive financing at below-market rates to provide affordable rental or ownership housing for low-and moderate-income residents. These opportunities include an annual Request for Proposals for the production of new affordable apartments or rehabilitation of existing apartments. CD maintains an "apply at will" application process for special needs housing (such as for those emerging from homelessness).

Neighborhood Revitalization Activities

Raleigh has several former redevelopment areas near its downtown area that contain significant numbers of blighted rental housing. In past years, CD has spent an annual average of $1 million acquiring/demolishing such units and relocating any tenants to standard quality housing of their choosing. The City's investments in revitalizing these areas have also typically included infrastructure improvements such as new water, sewer, and stormwater systems, streets and sidewalks. Sources of funds annually include Community Development Block Grant (CDBG) and the city's affordable housing bond.

Affordable Infill Housing

After a critical mass of lots are assembled and needed site improvements are completed, requests for proposals are issued to sell the lots to one or more affordable housing builder. In past years, 20 or more lots have typically been sold as sites for affordable infill housing occupied by low- and moderate-income families. In summer 2015, CD expects to make 39 lots available for sale for affordable single-family housing to be occupied by low- and moderate-income owners. (Note: On a relatively infrequent occasion, lots are sold for purposes other than affordable housing. One recent example was a downtown lot that was essentially an outparcel in an otherwise privately-owned assemblage slated for higher density development. Another example was a lot whose dimensions could not accommodate a traditionally designed single family home. Lots are also sometimes sold in conjunction with historic preservation efforts.)

First Time Homeownership/Second Mortgage Loans/Education

Eligible first time moderate-income families may purchase a house in Raleigh with a low-interest loan for up to $20,000 for downpayment and closing cost assistance. The interest rate is 0% for the first five years, then 4% for the remaining 25 years. Private lending institutions provide the first mortgages to each borrower. HOME and housing bond funds are used for these programs. CDBG is used to support homebuyer education through a HUD-certified training entity.

Housing Rehabilitation Loans
CD has a variety of assistance available to low- and moderate-income persons needing to make repairs to their home. This assistance includes limited repair loans, loans for major repairs for elderly households repaid only when the unit is sold (no monthly payments), and low-interest rate rehab loans and rehab/purchase combined loans. The interest rates range from 0% to 3%. HOME and bond funds are used for these programs.

Community Enhancement Grants and Job Training Assistance
CD annually offers up to $175,000 CDBG public services funding to local nonprofit organizations through the Community Enhancement Grant RFP process. Community Enhancement Grants are awarded to nonprofit organizations for public and human services in low- and moderate-income areas of the City or to meet the needs of specific populations. Applications are reviewed and scored based on the soundness of the program proposal, fiscal responsibility of the organization, the mission and track record of the organization, and other program requirements. CD also helps fund a construction trades apprenticeship program, providing job skills for low-income youth.

Affordable Rental Opportunities
CD maintains a portfolio of up to 200 housing units available at affordable rents for families at or below 50% of the area median income. The City's uses a private management company to select tenants and manage and maintain the units, which are scattered across the City. Mostly bond funds are used to administer this program.

Emergency Solutions Grant
The City of Raleigh annually receives from HUD a grant of over $200,000 for addressing the needs of its homeless population. In recent years CD has distributed these funds to local nonprofit organizations through an RFP process. Nonprofits use the funds to for rapid re-housing, homelessness prevention, and emergency shelter activities.

The chart below depicts annual average accomplishments over the past five years by the City's programmatic offerings. A homeless "household" can be a single individual or one or more parents with children.

Programmatic Tool ***Homelessness to Homeownership Continuum***	**5 year annual average**
Homeless households assisted with rapid re-housing	59 households
Households at-risk of homelessness assisted with homelessness prevention	51 households
Homeless persons assisted with emergency shelter	1,544 persons
Emergency shelter development	21 beds*
Permanent supportive housing	14 units
Affordable rental development	137 units
Limited repair homeowner loans	35 households
Homeowner rehabilitation/replacement loans	15 households
Second mortgages for homeownership	60 homebuyers
Homeownership development	7 units

*Shelter beds added past two years

Future Goals

The recently adopted Consolidated Plan identified three priorities for the upcoming five-year period:

- Affordable Housing
- Enhancement of the Homeless to Housing Continuum
- Neighborhood Revitalization

Given those priorities and the documented need for easing cost burden, the Housing and Neighborhoods Department proposes to focus on two of the programmatic areas to significantly boost production over the next five years. Much of that production would be components of neighborhood revitalization initiatives. (Production levels in all other programmatic areas would remain relatively constant.) Achieving a boost in production requires providing new tools or programmatic offerings and modifying some existing ones based on best practices from other areas and local needs and opportunities.

As noted above, the average annual production of affordable rental housing has been 137 units and for homeownership development, the annual average production has been only 7 units. Depending on whether at least some if not all of the implementation options proposed in this draft plan are made operational, it would be possible to increase homeownership production by a significant multiple and to increase the number of affordable rental units by a substantial percentage.

Of equal importance to the number of new rental or homeownership units created is the location of those units. Policies and programs that facilitate locations near future transit improvements and in close proximity to downtown are fundamental components of this plan.

Draft Implementation Option 1: Replace the Scattered Site Policy

The City's existing Scattered Site Policy is an internally inconsistent and confusing document, much of which is likely based on outdated data. As a replacement tool, the Department proposes a new Affordable Housing Location Policy to "affirmatively set forth desired outcomes relative to the creation or preservation of affordable multi-family rental housing". Specific objectives of the Policy, which is an attachment, include the following:

- To increase the supply of affordable housing in underserved locations near employment and commercial areas;
- To encourage the development of affordable housing near existing and proposed transit services;
- To provide for affordable housing in and near downtown Raleigh and in neighborhoods having approved revitalization plans;
- To prevent further concentrations of minority and low-income persons and subsidized housing; and
- To affirmative further fair housing choice for all residents.

The Policy would apply only to newly constructed housing developments consisting of greater than 24 residential units. Projects serving the elderly or the disabled would be exempt. Put simply, the Policy states that newly constructed subsidized multi-family housing developments will not be allowed in census tracts having a concentration of minority or low income persons or subsidized rental housing.

Within the City as a whole, approximately 7.3% of the rental housing stock is subsidized. Under the Policy, any census tract where more than 8% of the rental units (excluding units for the elderly or disabled) are subsidized would be considered to have a concentration. Included in the subsidized count are rental units occupied by residents having Section 8 vouchers.

The percentage of Raleigh residents who are non-white is 42.5% according to the 2010 Census. For purposes of the Policy, census tracts having more than 50% minority are considered to have a concentration.

For purposes of determining which census tracts have a concentration of low income persons, the Department could have chosen to define a concentration as having more than 51% of households with incomes at or below 80% of the area median income. However, to some degree that would have simply measured where there were concentrations of low wage earners. A more important measure, the Department believes, is extreme poverty. In the City as a whole, 11.96% of households live below the poverty level and the Policy would define a concentration of poverty as a census tract where more than 30% of the households are in poverty. In testing a lower concentration of 20% as the threshold, the Department found census tracts that are by all means considered affluent, most likely as a result of a large number of elderly residents who have limited incomes but accrued assets and wealth.

There are three exceptions to the “concentrations” prohibition:

- Developments located within a one-half mile radius of a proposed rail or bus rapid transit station;
- Developments located within the boundaries of the Downtown Element in the Comprehensive Plan; or
- Developments which are implementing elements of a mixed-income neighborhood revitalization plan approved and funded by City Council.

With respect to the transit station exception, there are numerous reasons why this is proposed. First, while housing cost burden alone is most frequently assessed, increasingly the combined housing and transportation cost burden is measured. A frequently cited metric is that combined housing and transportation costs should not exceed 45% of household income. As a matter of equity, lower wealth residents should have access to transit improvements to reduce that burden. Second, building the housing now in locations relatively well served by bus transit helps to build ridership. Third, as the prospect of rail becomes closer to a reality, land costs in close proximity are expected to increase substantially. In some instances, it may be prudent to acquire sites now for future development.

Downtown is a major employment center employing workers from a broad range of incomes. Encouraging affordable housing in appropriate downtown locations to reduce the housing/transportation cost burden of lower wealth workers and to promote diversity are worthy public policy objectives.

With the ever growing preference among major demographic groups for downtown and near-downtown living in walkable, mixed-use settings, market forces have begun to reverse decades of disinvestment and that trend will continue. As revitalization plans take shape in East College Park, South Park and other near-downtown neighborhoods, it is important to ensure an element of long term affordability in these areas. It should be noted that the exception applies only to implementing elements of revitalization plans approved by Council.

It is important to note that certain desired locations will be competitive for LIHTC awards only if they are implementing elements of an approved neighborhood revitalization plan.

Draft Implementation Option 2: Expand the use of the 4% Tax Credit

The affordable rental development production depicted above largely reflects Low Income Housing Tax Credit (LIHTC) projects that have been completed in the City. In North Carolina, the distribution of LIHTC is governed by the Qualified Allocation Plan (QAP) of the North Carolina Housing Finance Agency (NCHFA). Given that Wake County's pro rata share of credits is typically awarded in full, the 9% LIHTC program does not represent an option for increasing production above past levels. However, the 4% tax credit which is coupled with housing bonds is a separate program administered by NCHFA which is rarely fully utilized.

The recently approved Bluffs at Walnut Creek is an example of the 4% credit, bond opportunity. That 198 unit project has a total estimated development cost of $30,051,605. Project financing consists of $19,550,000 in low interest tax exempt bonds and $7,558,664 in tax credit equity with the balance ($2,942,941) coming in one form or another from the developers. Reasons such projects are not undertaken more often include the high cost of bond issuance and the gap which the developer's must cover. The 4% tax credit program allows up to 200 units per project and most developers undertake projects towards the maximum allowed unit range in order to be able to spread issuance and other related costs over as many units as possible. Shortfalls of the program include limitations on deep income targeting (most units are at the 60% AMI rent level) and the inability to include market rate units. On the plus side however, the 4% credit does bring with it equity making the moderate affordability possible. For the Bluffs at Walnut Creek, the equity was $38,175 per unit.

Raleigh has not historically sought to attract developer interest in the program by offering an application process through which developers could seek assistance in covering some portion of the permanent financing not covered by equity and bonds. NCHFA typically holds two application cycles annually. This plan proposes an open application window for requesting City assistance.

Draft Implementation Option 3: Site Acquisition Assistance for Affordable Rental Development

By its very nature, the Low Income Housing Tax Credit program encourages developers to seek out land which is as inexpensive as possible while still meeting the program's basic site requirements. Given that it is a priority to locate affordable housing near future transit improvements, downtown neighborhoods and parts of the City that are underserved, assistance will be required in some cases to write-down land acquisition costs. The proposal is to include as a part of the application process for gap financing associated with tax credit projects (whether 9% or 4%) the opportunity to also request a full or partial acquisition cost write-down in the form of a grant. In the application, developers would have to substantiate the “were it not for” case. Only projects also subject to City secondary construction to permanent financing loans would be eligible for site acquisition grant.

In some instances, it would also be prudent for the City to acquire and land bank sites for future development, particularly near future transit improvements.

Draft Implementation Option 4: Infill Homeownership Development Program

This program would provide experienced non-profit and for profit developers the funding to acquire vacant infill sites or existing vacant and deteriorated properties for affordable homeownership development serving households with incomes at or below 80% AMI. With respect to existing deteriorated properties, either rehabilitation or demolition/new construction may be proposed unless the property is located within a local or national historic district. In such districts, only rehabilitation in accordance with appropriate standards governing exteriors would be allowed.

Assistance would be in the form of a 0% loan which could be partially or fully forgiven upon the sale of the home to a new owner depending on the sales price and appraisal. To request funding, applicants must demonstrate that the total cost of acquisition, demolition and new construction exceeds the anticipated sales price because of market conditions in the proposed location. Write-downs may not be used to subsidize the sales price below that of comparable units. The maximum sales price will be the HUD HOME Program purchase price limit which is currently $202,000.

It is anticipated that Habitat for Humanity of Wake County to be a primary user of this program.

Draft Implementation Option 5: Affordable Rental Preservation/Creation

This program would provide gap financing in the form of 0% forgivable loans for the acquisition and rehabilitation/preservation of existing rental units for mixed-income occupancy. Non-profit or for profit developers may also request funding for new construction on vacant infill lots or on sites currently having dilapidated structures not feasible for rehabilitation. The intent of providing City funds in the form of a forgivable loan and allowing for mixed-income is to maximize the leveraging of private investment. At least 40% of the units would be reserved for tenants with incomes at or below 50% AMI with rents governed by the “Low” HOME rent limits. The remaining tenants could have incomes up to 80% AMI with maximum rents not exceeding the “High” Home rent limits. A minimum leverage ratio of 1:1 would be required, i.e., one dollar of private investment for each dollar of public investment. Preference would be given to properties that have begun to deteriorate but remain structurally sound or to those at risk of demolition/redevelopment given their location and market conditions.

In lieu of preserving existing units, affordability may be maintained through redevelopment (i.e., the Washington Terrace model) when existing units have become functionally obsolete and the Comprehensive Plan calls for higher densities. In such instances, the redevelopment would occur as a public/private partnership governed by a development plan approved by City Council.

Draft Implementation Option 6: Downtown Neighborhoods Revitalization Plans

The initial phase of this strategy involves the completion of individual plans for East College Park and Washington Terrace and then combining plan elements into one Neighborhood Revitalization Strategy Area (NRSA) plan for HUD approval no later than December 2015. Build out of the two sites is expected to create approximately 600 mixed-income rental and homeownership units. The NRSA plan will also include rehabilitation and repair assistance tailored to the needs of existing East College Park homeowners.

The second phase of the strategy will focus on South Park and portions of the Garner Road redevelopment area for the development of a NRSA plan in that location. The City has significant land holdings in the Garner Road area and additional acquisition needs remain. Mixed-income homeownership and rental development are contemplated.

Draft Implementation Option 7: Homeless Coordinated Intake Center and Expansion of Housing Supply

The City of Raleigh, Wake County and the Raleigh/Wake Partnership to End and Prevent Homelessness have envisioned the development of a coordinated intake center to serve the homeless and those at risk. A facility of approximately 17,000 square feet is needed based on a space needs study commissioned by the City and County. Completion by 2018 is projected.

To expand the supply of permanent supportive housing, the City will more aggressively solicit development proposals from local non-profits that serve formerly homeless populations. In addition to providing permanent financing, typically combined with funding from Wake County and NCHFA, funding in the form of a grant or partial cost write-down to acquire desirable sites near transit options and services may be requested as a part of the revised application process.

A proposed new initiative is to conduct a feasibility study on the development of a 24-40 unit studio apartment project in or near downtown. A major aspect of the study will be determining how to structure the project financially. The NCHFA Supportive Housing Development program typically funds smaller projects of 12 or fewer units and provides a maximum of $500,000 per project. Under the QAP, a downtown LIHTC project would not be competitive; therefore determining whether and how to develop a “revitalization plan” that would satisfy the requirements of the redevelopment project set aside would be a major work element.

Draft Implementation Option 8: Development Community Communication and Standardized Application Processes

In order for the non-profit and for profit development community to respond to the expanded programmatic offerings, the City’s desired outcomes must be clearly communicated. It is anticipated that one or more publicly advertised workshop(s) will be held where production goals and priorities will be presented and guidelines governing the new programs will be explained. Prior to the workshops, input meetings with the development community will be held to vet the guidelines, scoring and other project selection factors.

Currently, the City’s application/RFP processes do not take place at the same time. In implementing this plan, a regularly scheduled and combined application process for HUD entitlement and local funding will be conducted each fall. The purpose of the fall application "window" is to (1) align with NCHFA's application schedule for LIHTC and Permanent Supportive Housing and (2) align with the preparation of the Annual Action Plan in the spring. Programs subject to a set application schedule include the following:

- CDBG Community Enhancement Grants
- Emergency Solutions Grant
- Joint Venture Rental for 9% LIHTC (including site acquisition assistance)
- Permanent Supportive Housing (including site acquisition assistance)
- Infill Homeownership Development Program

Programs that would be subject to an "open" application schedule because of the need to respond quickly to opportunities or because of project complexity would include:

- Joint Venture Rental for 4% LIHTC/Bond (including site acquisition assistance)
- Affordable Rental Preservation/Creation

Draft Implementation Option 9: Permanent Affordable Housing Funding Source

Currently, there is sufficient funding in place from the previous affordable housing bond in 2011 to initiate the new programmatic offerings. To sustain them over time however, a sustaining source of funding will be required. What this plan proposes is to use the first two years of implementation to assess what works well, what efforts should be expanded and what, if any, new tools might be desirable to achieve desired outcomes. In conjunction with this assessment, the plan proposes a thorough evaluation of future funding sources. Essentially there are three primary options that might be considered individually or combined:

- <u>Synthetic TIF District:</u> Alternative one would involve the creation of a synthetic Tax Increment Financing District covering the downtown area where some portion of the incremental increase in tax revenue associated with new development is captured for an affordable housing fund.
- <u>General Fund Allocation:</u> Alternative two would involve an allocation of general funds for affordable housing. (Durham created a dedicated housing fund to which an amount equal to one cent on the tax rate is contributed annually.)
- <u>Scheduled Bond Issuances:</u> Alternative three would be affordable housing bond issuances on a set schedule as Charlotte has done.

Draft Implementation Option 10: Flexibility and Continuous Evaluation and Improvement

Although most of the new programmatic offerings outlined in this plan have been implemented in other communities, what works well elsewhere may not be as effective in Raleigh. For that reason, receiving continuous feedback from development partners on how the programs can work better in achieving desired outcomes is essential.

Concluding Note

The Housing and Neighborhoods Department looks forward to the discussion of this draft list of ideas. In addition to continued work at the Council Committee level, options for community input include posting the plan for public review and comment, an affordable housing developer roundtable, presentation to RCAC and perhaps one or more town hall meetings.

Draft City of Raleigh Affordable Housing Location Policy

Objectives

The purpose of the Affordable Housing Location Policy is to affirmatively set forth desired outcomes relative to the creation or preservation of affordable multi-family rental housing. Specific objectives of the Policy include the following:

- To increase the supply of affordable housing in underserved locations near employment and commercial centers;
- To encourage the development of affordable housing near existing and proposed transit services;
- To provide for affordable housing in and near downtown Raleigh and in neighborhoods having approved revitalization plans;
- To prevent further concentrations of minority and low-income persons and subsidized housing; and
- To affirmatively further fair housing choice for all residents.

Exemptions

This policy shall apply to any multi-family rental development that is funded in whole or in part by the City of Raleigh or requires the approval of City Council with the following exemptions:

- The rehabilitation of existing units.
- Developments serving elderly or disabled populations.
- The replacement of affordable rental units lost to demolition or conversion subject to a determination by the Housing and Neighborhoods Department and subsequent approval by City Council that the proposed replacement housing will serve the same market area or neighborhood.

Geographic Applicability and Exceptions

As a means of implementing this policy, newly constructed subsidized multi-family housing developments will not be allowed in census tracts having a concentration of minority or low-income persons or subsidized rental housing unless the proposed project qualifies for one or more of the following exceptions:

- Developments located within a one-half mile radius of a proposed rail or bus rapid transit station;
- Developments located within the boundaries of the Downtown Element in the Comprehensive Plan; or
- Developments which are implementing elements of a mixed-income neighborhood revitalization plan approved and funded by City Council.

Waiver Process
City Council has the authority to grant waivers on a case-by-case basis. Developers seeking a waiver shall submit a written request to the Housing and Neighborhoods Department. Department staff will evaluate the request and submit an analysis and recommendation to Council.

Definitions
For purposes of this policy, the following definitions apply:

1. **Multi-Family Housing** – Housing developments consisting of greater than 24 residential units.
2. **Subsidized Multi-Family Housing** – Any multi-family housing development consisting of greater than 24 residential units financed in whole or in part with local, state or federal financial assistance where the subsidized housing units are restricted to serve households earning 60% or less of the area median income (AMI).
3. **Disabled** – Having a physical or mental disability that substantially limits one or more major life activities, having a record of such impairment or being regarded as having such an impairment.
4. **Elderly** – Housing occupied by one person who is 55 or older in at least 80% of the occupied units.
5. **Concentration of Minority and Low Income Persons** – Census tracts in which the percentage of minority residents equals or exceeds 50% and/or census tracts where the percentage of households living in poverty equals or exceeds 30%.
6. **Concentration of Subsidized Rental Housing** - Census tracts in which subsidized multi-family housing and rental units occupied by households with tenant-based Section 8 vouchers* equals or exceeds 8% of the total rental stock, excluding housing for the elderly or disabled.

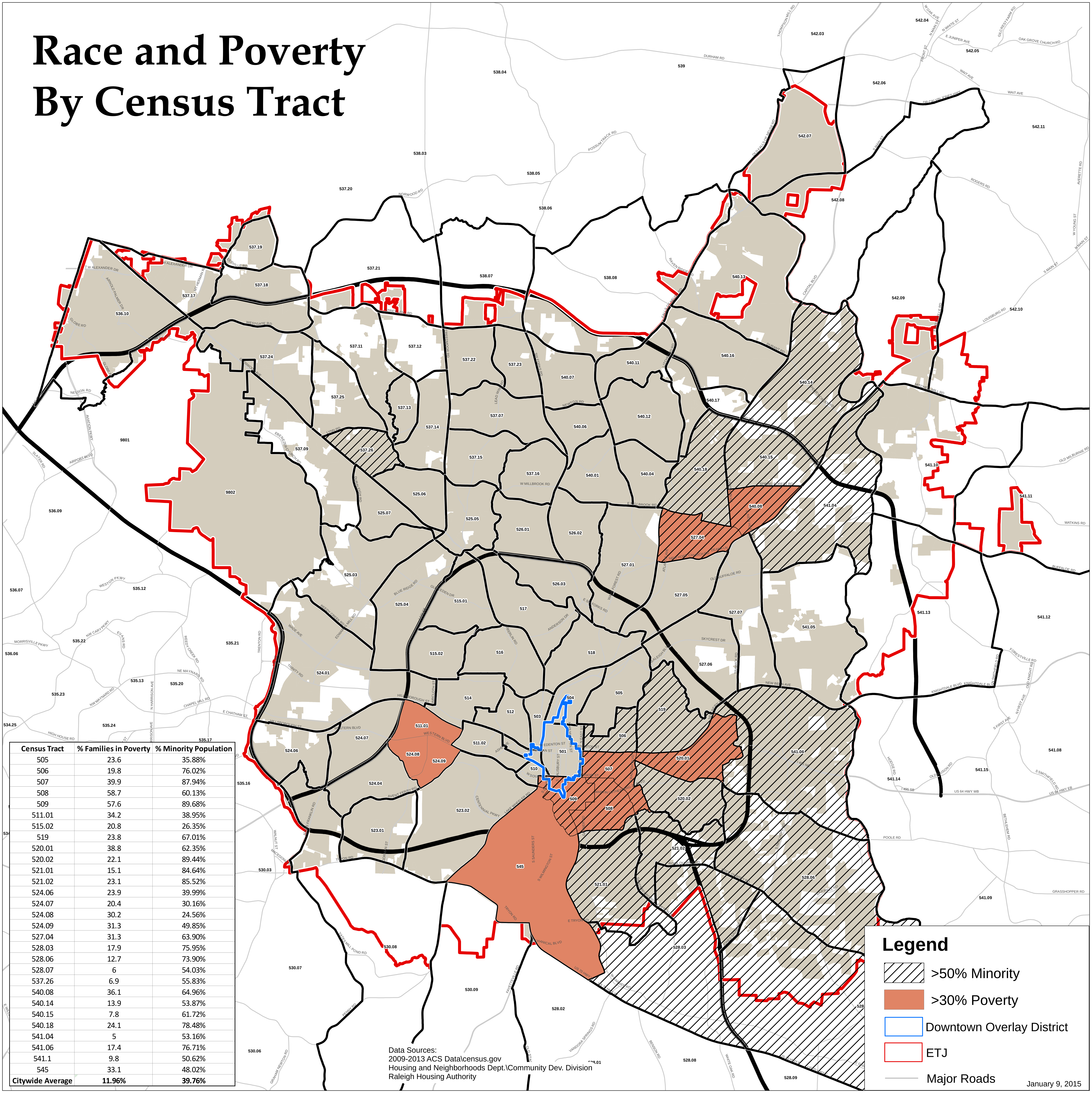
   *Data provided by RHA in 2014.

Review Procedures
The Housing and Neighborhoods Department shall be responsible for reviewing all proposals for the development of subsidized multi-family housing to determine compliance with this Policy.

Policy Updates
Maps depicting areas of concentration will be updated not less than every five years in conjunction with updates or revisions to the Housing Element of the Comprehensive Plan.

Attachments
Race and Poverty by Census Tract (Map)
Concentrations of Subsidized Rental Housing by Census Tract (Map)

Race and Poverty By Census Tract

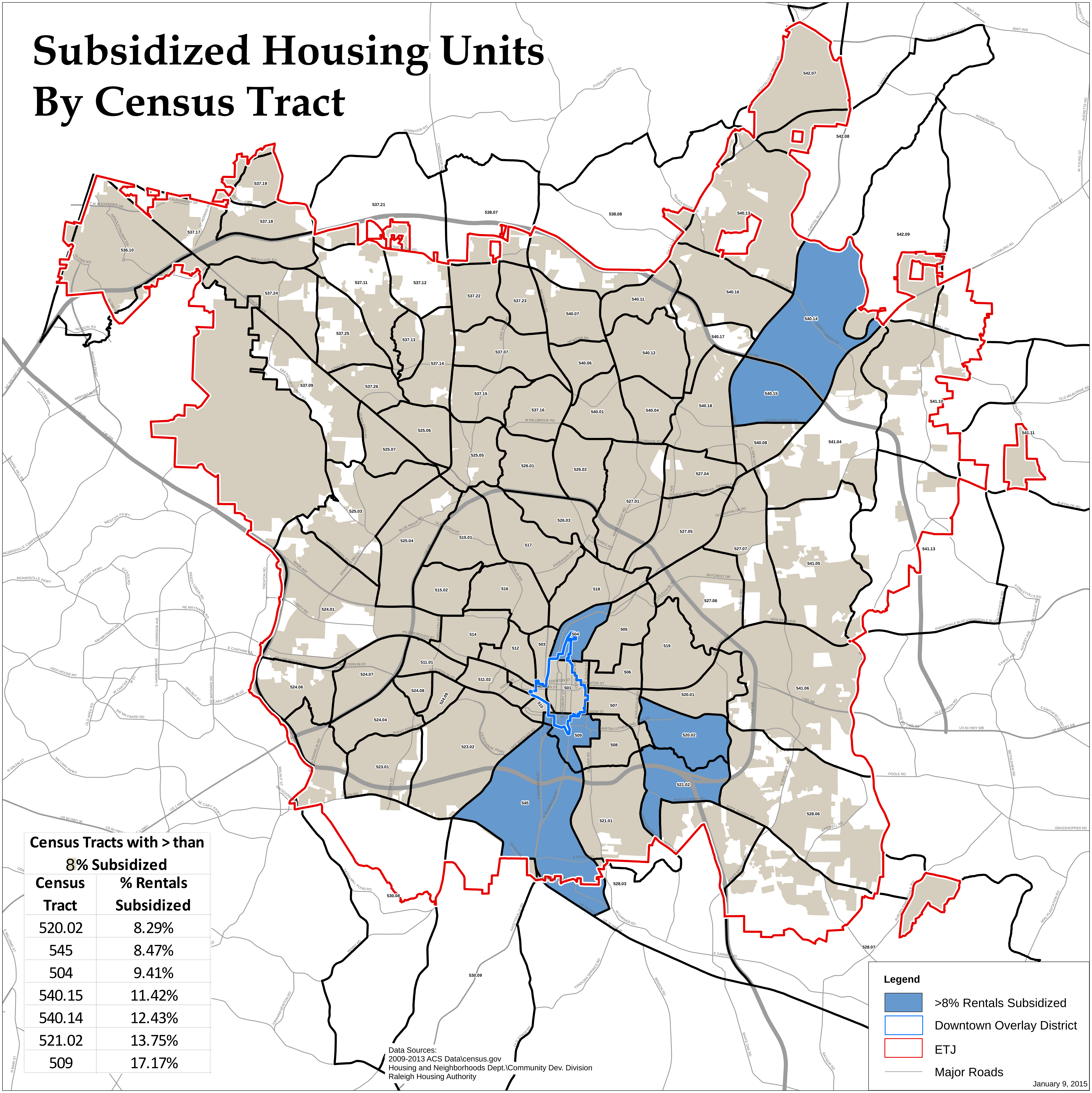


Census Tract	% Families in Poverty	% Minority Population
505	23.6	35.88%
506	19.8	76.02%
507	39.9	87.94%
508	58.7	60.13%
509	57.6	89.68%
511.01	34.2	38.95%
515.02	20.8	26.35%
519	23.8	67.01%
520.01	38.8	62.35%
520.02	22.1	89.44%
521.01	15.1	84.64%
521.02	23.1	85.52%
524.06	23.9	39.99%
524.07	20.4	30.16%
524.08	30.2	24.56%
524.09	31.3	49.85%
527.04	31.3	63.90%
528.03	17.9	75.95%
528.06	12.7	73.90%
528.07	6	54.03%
537.26	6.9	55.83%
540.08	36.1	64.96%
540.14	13.9	53.87%
540.15	7.8	61.72%
540.18	24.1	78.48%
541.04	5	53.16%
541.06	17.4	76.71%
541.1	9.8	50.62%
545	33.1	48.02%
Citywide Average	**11.96%**	**39.76%**

Data Sources:
2009-2013 ACS Data\census.gov
Housing and Neighborhoods Dept.\Community Dev. Division
Raleigh Housing Authority

January 9, 2015

Subsidized Housing Units By Census Tract



Census Tracts with > than 8% Subsidized

Census Tract	% Rentals Subsidized
520.02	8.29%
545	8.47%
504	9.41%
540.15	11.42%
540.14	12.43%
521.02	13.75%
509	17.17%

Data Sources:
2009-2013 ACS Data\census.gov
Housing and Neighborhoods Dept.\Community Dev. Division
Raleigh Housing Authority

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