

COUNCIL MINUTES

The City Council of the City of Raleigh met in a lunch work session at 11:30 a.m. on Tuesday, February 21, 2017 in Room 305 of the Raleigh Municipal Building, Avery C. Upchurch Government Complex, 222 West Hargett Street, Raleigh, North Carolina, with the following present:

Mayor Nancy McFarlane
Mayor Pro Tem Kay Crowder
Councilor Mary-Ann Baldwin
Councilor Corey D. Branch
Councilor David N. Cox
Councilor Bonner Gaylord
Councilor Russ Stephenson
Councilor Richard A. "Dickie" Thompson

These are summary minutes unless otherwise indicated.

Mayor McFarlane called the meeting to order at 11:39 a.m.

DISCUSSION OF ADDITIONAL AFFORDABLE HOUSING TOOLS AND PRODUCTION GOALS – INFORMATION RECEIVED

The following information was contained in the agenda packet:

Housing and Neighborhoods staff will present affordable housing production goals based on existing available resources and additional tools that City Council might consider. Affordable housing strategies currently being utilized in Chapel Hill and Asheville will be reviewed. Additionally, proposed parameters associated with voluntary zoning conditions to provide affordable housing will be presented.

Housing and Neighborhoods Director (HND) Larry Jarvis, Assistant Housing and Neighborhoods Director (AHND) Niki Jones, and City Planning Director (CPD) Kenneth Bowers presented this item with the assistance of a PowerPoint presentation titled "Goal Setting and Additional Affordable Housing Tools." Slides during this part of the presentation included the following information that they explained further.

Two Part Presentation

- Goal Setting:
 - Who are we targeting?
 - How are we reaching them?
 - Low Income Housing Tax Credit Project 101.
 - Housing and Neighborhoods Production.
- Additional Affordable Housing Tools:
 - Land disposition;
 - Conditional zoning;

- Chapel Hill model; and
- Asheville model.

Affordable Housing Improvement Plan

- Top Priority: Affordable rental production.
- Other programmatic offerings:
 - Owner-occupied home rehabilitation;
 - Down payment assistance; and
 - Homeownership unit creation.

Cost Burdened Low to Moderate Income (LMI) Renters

| 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 |

AMI: Area Median Income

Map: Renters Spending over 30% of Income on Rent

Typical Occupations by Income Range

| | <30% AMI \$16,600 | 30 – 50% AMI \$16,601-\$27,600 | 50 – 80% AMI \$27,601-\$44,150 | % Total |
|--------------------------------------|---------------------------------|---|---|----------------|
| Examples of Employment types: | Retail staff, Home health aides | Daycare, Grocery workers | Nursing Aide, EMT, Teacher | |
| Raleigh | 22,790 | 19,395 | 29,415 | 71,600 |
| Cary | 3,015 | 3,145 | 2,850 | 9,010 |
| Holly Springs | 440 | 375 | 1,195 | 2,010 |
| Wake County | 9,975 | 11,585 | 22,250 | 43,810 |
| Total | 36,220 | 34,500 | 55,710 | 126,430 |

Total Households in Wake County: 357,684

Source: American Community Survey (ACS), 2012. ACS, 2014, total households = 370,061.

How are Affordable Rental Units Created?

Most affordable rental units in the United States are created through the Low Income Housing Tax Credit (LIHTC) program.

A tax credit developer submits an application to the North Carolina Housing Finance Agency (NCFHA) for a project where the land will cost \$500,000 and development costs are \$10,000,000

- NCHFA awards credits: $\$10,000,000 \times 9\% = \$900,000$.
- Each year for 10 years: $10 \times \$900,000 = \$9,000,000$.
- Represents a dollar for dollar credit on corporate income tax liability to the IRS.
- Credits only available to project owners.
- Tax Credit Developer (General Partner): “If I build it, who wants to own it with me?”
- Sherwin Williams or other corporations (Limited Partner): “I will own it with you because I want the tax credits.”
 - Partnership agreement executed.
 - Developer borrows \$10,500,000 and completes project.

Inputs at Closing

- Developer sells 99.9% of ownership interest (standard).
- Current equity pricing: \$0.90 per \$1.00 (affected by corporate tax rates and other factors).
- $\$9,000,000 \times 99.9\% \times \$0.90 = \$8,091,900$.
- Original amount borrowed: \$10,500,000.
- Less purchase of tax credits by Sherwin Williams: (\$8,091,900).
- Final first mortgage amount: \$2,408,100.

LIHTC

- Typical 9% LIHTC project.
- Gap financing from the City in the \$10,000 to \$15,000 per unit range.
- Each City dollar leverages another \$10+ dollars.
- Equity represents 60%+ of total project cost.
- Total equity and soft funds per unit of \$120,000+.
- Affordable for 30+ years.
- 9% LIHTC limited by formula.
- 4% LIHTC/bond unlimited.

Conventional Multi-family Development

- 2012 Urban Land Institute (ULI) Panel.
- Each \$100 reduction in rent represents a \$17,500 reduction in debt capacity.

Chart: LIHTC Units in the Pipeline

Councilor Stephenson expressed the need for statistics relating to historical unit losses, as an appropriate goal cannot be set unless all information is considered. Mayor Pro Tem Crowder agreed. HND Jarvis stated that data could be pulled from demolition permits

Referencing new construction, Councilor Cox asked if there is currently a program that converts existing housing into affordable units. HND Jarvis responded that it is possible, and it is always cheaper to utilize existing properties.

Total Affordable Unit Production

| | FY 2015 (Actual) | FY 2016 (Actual) | FY 2017 (Projected) | FY 2018 (Projected) |
|--|-----------------------------|-----------------------------|--------------------------------|--------------------------------|
| Affordable Rental Units Created | 190 | 163 | 368 | 464 |
| Homeownership Units Created | 43 | 46 | 63 | 129 |
| Homebuyer Loans Closed | 85 | 66 | 38 | 40 |
| Homeowner Rehabilitations Completed | 47 | 42 | 40 | 48 |

FY: Fiscal Year

LIHTC Projections

- Maximum utilization of available funding (including one cent) could yield annually:
 - 9% program: 150 units.
 - 4% program: 400 units.
 - Total: 550 units or 5,500 units over 10 years.

Annual Average Affordable Housing Projections

- Rental Units = 550.
- Home Rehabilitation = 50.
- Homeownership Units = 20.
- Homebuyer Assistance = 50.
- TOTAL = 670 Affordable Units per year.
- Ten Year Projection = 670 x 10 = 6,700 units.
- Affordable Housing Goal from 2017-2027 = 6,700 Affordable Units over a 10 year period.

City Council Goal Setting

- **Conservative Goal** = 4,700 affordable units.
- **Aspirational Goal** = 6,700 affordable units.
- Does City Council want to set a higher goal, understanding that this could require additional resources?
- The selected goal will be incorporated into the City’s Strategic Plan.

Councilor Stephenson reiterated his request to study statistics regarding loses. Councilor Branch added that the City should aspire for greatness and aim high, recommending for the City to follow an aspirational goal.

Councilor Cox requested more information, specifically about individuals that earn less than the median income. He referenced the PowerPoint slide on cost burdened LMI renters.

Councilor Stephenson commented that Raleigh should benchmark its sales against peer cities, adding that the City will not know whether its aspirational goal is producing net units. He stated that in order to make a decision he needs this information. Councilor Thompson added that it would be helpful to know how these numbers have changed in the last six to seven years, including how Raleigh compares to other cities. HND Jarvis replied that Raleigh is within a typical range.

CPD Bowers stated that the overall rental market needs to be measured, adding that rent could become unaffordable due to new construction. The trend of new construction sets a ripple effect throughout the market. He agreed with Councilor Stephenson that looking at loss statistics is relevant, citing the Washington Terrace project as an example. He added that since the rental market is dynamic, there must be a way to measure and benchmark. When asked by Councilor Stephenson if there are private entities that track rental prices, CPD Bowers replied that they do exist, and that the City has utilized them in the past.

Councilor Stephenson expressed his interest in trends overtime. HND Jarvis replied that staff will need to look back 30 to 40 years in order to consider fundamental economic shifts in the economy. He added that mental health reform is also important, which has gradually occurred over time, leading to a national crisis. HND Jarvis mentioned that compared to other cities, such as Seattle, Raleigh is very affordable. Speaking briefly of other markets, he reiterated that Raleigh is in good shape.

Councilor Thompson pointed out that due to the Wake County Transit Plan, more citizens may live outside of the City. HND Jarvis reminded the Council that there is a task force dedicated to this issue.

Councilor Baldwin spoke of her recent trip to Denver, Colorado, where the increase in transit has increased the value of the land and the cost of housing. Moving forward, Councilor Baldwin wants to consider how the City positions land and affordable housing around transit. She added that she cannot set a goal without considering and understanding all options.

Other Tools to Increase Production Goals

1. Downtown Land Disposition.
2. Proposed Voluntary Conditional Zoning for Affordable Housing.
3. Chapel Hill Tools.
4. Asheville Tools.

Statutory Authority for Conveying Real Property to Private Entity

North Carolina law requires real property be disposed through one of three competitive bidding procedures—
 Sealed Bid (G.S. 160A-268), Upset Bid (G.S. 160A-269), or Public Auction (G.S. 160A-270)—*unless another method of conveyance is specifically authorized.*

| Authority for Conveyance | Competitive Bidding Sale | Private Sale for Fair Market Value | Private Sale - Non-Monetary Consideration | Allowable Covenants/ Conditions | Notes |
|--|--------------------------|-------------------------------------|---|---|--|
| Economic Development G.S. 158-7.1 | ✓ | ✓ | ✓ | Construct w/in 5 yrs or reverts to local gov't, plus any other desired conditions | G.S. 158-7.1(d2) allows next 10 years of local government revenue to count as consideration toward purchase provided the purchaser creates "substantial number of jobs" paying above average wage. |
| Urban Redevelopment Law G.S. 160-514(c) Boards exercise powers directly: G.S. 160A-456, G.S. 153A-376 | ✓ | | | As Redevelop. Comm'n deems necessary | Within designated redevelopment area, conveyance must comply with Art. 12 competitive bidding procedures. |
| Disposition for redevelopment by private developer G.S. 160A-457 (cities) G.S. 153A-377 (counties) | ✓ | ✓ (cities only, in CD area only) | | Covenants and restrictions allowed for cities only in CD area | Acquire/convey blighted or inappropriately developed property. Cities: private sale only in commun. develop.(CD) areas, price no less than "appraised value." |
| Housing Authorities Law G.S. 157-9 Boards exercise powers directly: G.S. 160A-456, G.S. 153A-376 | ✓ | ✓ | ✓ | Covenants and restrictions to ensure housing serves LMI persons | Exempt from disposition rules, but disposal must fit within statutory authority and serve constitutional public purpose (housing project for low and moderate income (LMI) persons, G.S. 157-3(12)). |
| Conveyance to Historic Preservation Organizations G.S. 160A-266(b) | ✓ | ✓ | | Historic covenants, limits on further sale | Historic covenants affect appraised value, but does not allow for conveyance at less than appraised value. |
| Conveyance to Entities Carrying Out Public Purpose G.S. 160A-279 (cities and counties only) | ✓ | ✓ | ✓ | Ensure recipient puts property to public use, no subsequent sale | City or county must be authorized to appropriate funds to entity. |
| Downtown Dev Projects (DDP) G.S. 160A-458.3 P3 for construction G.S. 143-128.1C | ✓ | ✓ | | Any | Public facility part of priv. developmnt. Private sale if pub facility <50% total project cost/financ. P3: Must use RFQ. |

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Land Disposition Process

- With the upset bid process, the objective is obtaining the highest sales price for the property.
- When the objective is to achieve a public purpose such as affordable housing, a Request for Proposal (RFP) process is often used.

Land Disposition

- An affordable housing project is defined as having at least 20% of units reserved for those that are 80% AMI or below.
- Tax credits and additional City subsidy would likely be required.
- If the development concept involves structured parking or something other than stick built construction, selling at market value and reinvesting proceeds into affordable housing may be the better option. The ultimate issue is the per unit cost.

City Council's January 3, 2017 Request of Staff

- Requested a report for the consideration of affordable housing zoning conditions before proceeding with a text change.
- Asked staff to consider the enforcement impacts and potential costs.

Pros and Cons of Voluntary Affordable Housing Zoning Conditions

- Pros:
 - Could increase the affordable housing stock.
 - No direct investment by the City is required.
 - Encourages mixed-income development.
- Cons:
 - Difficult to enforce.
 - Potential budgetary effect with staffing.
 - Economically viable to the developer in limited instances.

Councilor Branch asked why voluntary affordable housing zoning conditions are difficult to enforce. HND Jarvis responded that the City needs to monitor compliance closely and has a risk of losing the loan or incurring steep fines. CPD Bowers added that most zoning deals with the physical characteristics of a property. With this, there are potential ongoing compliance issues relating to appropriate rent and income-qualified tenants. The only enforcement option for the City is to give fines.

Suggested Considerations

- At least 20% of total units affordable.
- Defined as not exceeding Fair Market Rent (FMR – adjusted annually) as determined by Housing and Urban Development (HUD).
- Household income not to exceed 80% of the AMI adjusted by size.
- Units must remain affordable for not less than 20 years.
- Compliance monitored by Housing & Neighborhoods staff.
- Non-compliance to be a zoning violation and subject to fines.

2016 Raleigh Metropolitan Statistical Area (MSA) Income Limits

2016 AMI: \$76,600 for a family of four

Official City of Raleigh use date: June 6, 2016 for AMI rates, June 6, 2016 for HOME Investment Partnerships Program (HOME) rent limits.

| For CDBG, HOME & Section 8. | | Family Size | | | | | | | |
|-----------------------------------|----------|-------------|----------|----------|----------|----------|----------|----------|------|
| Required use date 6/6/16 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| Percent of AMI | | | | | | | | | |
| 10% | \$5,370 | \$6,130 | \$6,900 | \$7,660 | \$8,280 | \$8,890 | \$9,500 | \$10,120 | est. |
| 20% | \$10,740 | \$12,260 | \$13,800 | \$15,320 | \$16,560 | \$17,780 | \$19,000 | \$20,240 | est. |
| Extremely Low - 30% | \$16,100 | \$18,400 | \$20,700 | \$23,000 | \$24,850 | \$26,700 | \$28,550 | \$30,400 | HUD |
| 40% | \$21,480 | \$24,520 | \$27,600 | \$30,640 | \$33,120 | \$35,560 | \$38,000 | \$40,480 | est. |
| Low - 50% | \$26,850 | \$30,650 | \$34,500 | \$38,300 | \$41,400 | \$44,450 | \$47,500 | \$50,600 | HUD |
| 60% | \$32,220 | \$36,780 | \$41,400 | \$45,960 | \$49,680 | \$53,340 | \$57,000 | \$60,720 | HUD |
| 65% | \$34,905 | \$39,845 | \$44,850 | \$49,790 | \$53,820 | \$57,785 | \$61,750 | \$65,780 | est. |

| | | | | | | | | | |
|-----------------------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------------|
| 70% | \$37,590 | \$42,910 | \$48,300 | \$53,620 | \$57,960 | \$62,230 | \$66,500 | \$70,840 | est. |
| Moderate - 80% | \$42,950 | \$49,050 | \$55,200 | \$61,300 | \$66,250 | \$71,150 | \$76,050 | \$80,950 | HUD |
| 90% | \$48,330 | \$55,170 | \$62,100 | \$68,940 | \$74,520 | \$80,010 | \$85,500 | \$91,080 | est. |
| 100% | \$53,700 | \$61,300 | \$69,000 | \$76,600 | \$82,800 | \$88,900 | \$95,000 | \$101,200 | est.- median |

**Raleigh Affordable Rents
 use as of June 6, 2016 (updated 5/13/16)**

| Number of Bedrooms | Efficiency- | | | | | | |
|------------------------------|---|--------------|--------------|----------------|----------------|----------------|----------------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| LOW HOME RENT LIMIT | \$644 | \$750 | \$900 | \$1,038 | \$1,158 | \$1,278 | \$1,398 |
| HIGH HOME RENT LIMIT | \$644 | \$818 | \$947 | \$1,228 | \$1,513 | \$1,671 | \$1,810 |
| FAIR MARKET RENT | \$644 | \$818 | \$947 | \$1,228 | \$1,513 | \$1,740 | \$1,967 |
| 50 % Maximum Housing Expense | \$700 | \$750 | \$900 | \$1,038 | \$1,158 | \$1,278 | \$1,398 |
| 65 % Maximum Housing Expense | \$939 | \$1,007 | \$1,211 | \$1,390 | \$1,531 | \$1,671 | \$1,810 |
| CITY UTILITY ALLOWANCES | must be determined for each individual apartment or identical apartments in a project | | | | | | |

**For all HOME projects, the maximum allowable rent is the HUD calculated High HOME Rent limit and/or Low HOME rent limit.*

Chapel Hill, North Carolina Model

- Inclusionary Zoning was established in 2010.
- Mandates that in developments of 5 or more units, 15% of all units must be affordable.
- In lieu of actual construction of affordable units, a fee in lieu may be paid to the municipality.
- Pros:
 - It does increase the supply of affordable housing.
 - Does not require the expenditure of local funds.
 - It does generate fees in lieu that can be invested into other affordable housing initiatives.
- Cons:
 - Explicit authority not given in NC General Statutes.
 - Focus on homeownership.
 - Very modest rental production with shallow income targeting (80% AMI).

Councilor Cox asked if the developments in Chapel Hill are rental units. HND Jarvis responded that they are primarily for homeownership with a small percentage of renters. Councilor Cox and HND Jarvis briefly discussed rent control and compliance.

Table: Town of Chapel Hill Affordable Housing as Components of New Development.

Councilor Gaylord pointed out that based off of Chapel Hill's rate, Raleigh is already far exceeding in the amount of units. Councilor Stephenson agreed and stated that the City should not compare raw numbers, but rather a percentage based off of the overall population. Councilor Gaylord replied that Raleigh's program is roughly five times more effective than Chapel Hill and the City is roughly seven times larger.

Asheville, North Carolina Model

- Housing Trust Fund (similar to Raleigh's one cent).
- Land Use Incentive Grant.
- Fee and Permit Rebate Program.
- Conditional Zoning.

Land Use Incentive Grant

- Land Use Incentive Grant (no units completed yet).
- Rebate of the post development vs. pre-development incremental property tax increase.
- Number of years depends on percentage of units that are affordable.
- Smith Mill Place – 36 of 72 units affordable (proposed).
 - \$520,000 Housing Trust Fund.
 - \$456,518 Land Use Incentive Grant for 9.5 years.
 - \$27,126 subsidy per affordable unit.
- Simpson Street – 70 of 70 units affordable (proposed).
 - \$300,000 Housing Trust Fund.
 - \$296,460 Land Use Incentive Grant.
 - Other funding sources not determined.

Mayor Pro Tem Crowder asked about the age of the land incentive program. HND Jarvis responded that it was first used in FY 2014-2015.

Councilor Stephenson questioned why this presentation did not use the term "Synthetic TIF", as he heard used from staff in October of 2016. HND Jarvis replied that City staff prefers to describe the grant as what it is. City Manager (CM) Ruffin Hall added that the synthetic TIF label has received criticism since it is not financing, but an actual grant.

Chart: City of Asheville Evaluation

Councilor Branch asked about the difference between affordable housing and workforce housing. HND Jarvis responded that the City does not define workforce housing; however, HUD does.

Fee and Permit Rebate Program

- Up to 50% of the total cost of permits and fees.
- Used in conjunction with other tools.
- Primarily homeownership units, particularly Habitat for Humanity.
- In FY 2014-2015 \$50,323.08 was rebated, and in FY 2015-2016 \$53,694.30 was rebated.

- Eligible Fees or Permits to be Rebated:
 - Building, Plumbing, and Mechanical;
 - Grading/Erosion Control;
 - Water and Sewer;
 - Zoning; and
 - Driveway Access.

Conditional Zoning

- Higher production levels when coupled with Land Use Incentive Grant (LUIG) and Housing Trust Fund (HTF).
- Can include density bonus and development standard concessions.
- Has completed 59 rental units over past five years.

Conditional Zoning Process

- 12 corridors or zoning districts are eligible for density bonuses through conditions that allow for affordable housing and development standards concessions.
- 20% or more of the units must be for households with incomes of 80% AMI or below.
- Conditions are negotiated between staff and the developer. Then taken to Planning and Zoning and City Council.

HND Jarvis pointed out that the City's current plan produces more affordable units than Chapel Hill and Asheville combined. Rather than changing the plan completely, he suggested considering other ways to supplement what the City already has in place.

Councilor Gaylord pointed out that ultimately, the Council needs to dedicate more funds to affordable housing. He recognized that there will always be cost burdened people in the City due to unemployment.

Councilor Stephenson acknowledged the success of the City's current plan; however, reiterated the need to set goals. Councilor Gaylord agreed, stating that he wanted to see benchmark data of cities with similar economics. Mayor McFarlane commented that it will be hard to compare Raleigh to places like Austin, Texas, where the price per square foot for downtown property is much higher. Councilor Gaylord clarified that the Council should not directly compare programs but rather the overall effectiveness and affordability.

Councilor Baldwin asked staff to return to the Council with an aspirational goal, including several options on how to reach it. She pointed out that staff should research how to keep property affordable, including opportunities for the City to purchase property. HND Jarvis responded that as the City looks at locations for train stations, it is also scouting for locations that can be acquired. Councilor Branch reminded staff that as the City researches property to purchase, other developers are as well.

Councilor Baldwin asked how the City could voluntarily incentivize affordable housing. Councilor Stephenson commented that the City of Durham has Hired Karen Lado, an affordable housing consultant, to develop a density bonus corridor. He recommended looking at Durham's

approach for ideas. A handout was distributed to Council Members and staff that included slides from a presentation at the 2016 North Carolina Affordable Housing Conference. The information from the handout is listed below.

Durham Density Bonus Program
By Durham Affordable Housing Consultant Karen Lado

Background

- Problem: Durham is experiencing rapid population growth, rising housing prices and escalating loss of existing naturally occurring affordable housing.
- Challenge: Can we take advantage of strong market to incent market-rate developers to provide affordable units?
- Opportunity: Create an enhanced density bonus in areas that would otherwise be legislatively upzoned.

Enhanced Density Bonus Concept

- Bonus would allow developer to go from existing permitted density (2-20 units per acre) to 'market' density (50-60 units per acre).
- Bonus would be provided to developers who agree to set aside a specified percentage of units as affordable housing.
- Program would be voluntary and predictable. Developers could choose to build at existing permitted density, or to use bonus to gain additional density in return for providing specified affordability levels.
- Projects must adhere to zoning requirements for design districts.

Councilor Baldwin reminded the Committee that GoTriangle has formed a committee to look at land use and transit. After questions from Councilor Gaylord regarding development along transit corridors in Durham, he pointed out that there may be potential downsides.

Key Questions

- Would Council like staff to pursue any of the other affordable housing tools described today?
- If so, what parameters would you like us to consider (transit, corridors, etc...)?
- Any other tools you may wish to consider?

ADJOURNMENT

There being no further business before the City Council, Mayor McFarlane announced the meeting adjourned at 12:49 p.m.

Cassidy R. Pritchard
Assistant Deputy Clerk