

APPENDIX A.

Components to Affordable Housing/Best Practices

This appendix provides an overview of how other communities are addressing their affordable housing needs. It is meant to answer the question of: What do other communities do to address their affordable housing needs? This appendix also contains a review of zoning ordinances and land use policies that are commonly used to promote and develop affordable housing.

Key Components of Land Use Regulations

There are several key zoning and land use policies that are generally necessary to facilitate the development of affordable housing. These include:

- **Smaller lot sizes, setbacks.** Often referred to as “new urbanist” approaches to development, zoning codes that allow for a wide range of residential development options—including high density development—are very important for creating affordable and mixed-income housing. Reducing lot sizes (3,000 to 5,000 square feet), allowing smaller units and reducing setbacks are all appropriate strategies and are used widely to create affordable housing. Good design and the integration of public spaces into these developments creates a neighborhood feel and maintains the sense of open space within and around these development types.
- **Mixed use development.** Allowing for residential and commercial mixes of development—e.g., condominiums or rentals on top of commercial development—also creates more opportunities for affordable housing, and is an efficient and productive use of land where land is limited.
- **Density bonuses and building variances.** One of the keys to building affordable housing is lowering land costs, which is usually achieved by increasing density. For example, a developer would be able to build more units than entitled by current zoning if he/she included affordable housing as part of the development plan. Other ways to decrease development costs are to grant building variances—for example, allowing fewer parking spaces than would otherwise be required by zoning ordinances to allow more land for development. Many cities give developers the right to increase densities in their developments or grant variances from building codes in exchange for incorporating affordable housing. If a developer can add units or reduce costs of a development through height variances, reduced parking requirements, reduced setbacks and landscaping or design requirements, they can better afford to add affordable housing to the overall development plan.
- **Fee waivers.** Waiving fees that cities/towns/counties charge for development helps lower development costs and reduces the price of housing. Some communities offer fee waivers that are proportionate to the level of affordability in a project (e.g., the more affordable the housing, the higher the fee waiver).
- **Expedited review process.** Also called “fast track approval,” developments with an affordable component go to the top of the development review pile, and the review process is guaranteed to occur within a number of days and be transparent as possible. Expedited review works best in communities where the review process is lengthy.

Several other tools are also employed to facilitate affordable housing creation, but these tools are generally more controversial:

- **Accessory apartments.** Accessory dwelling units (ADUs) are housing units that are constructed above a garage or in the backyard of a residential unit. Under some ordinances, ADUs are required to be rented to workers at affordable rates.

Allowing accessory dwelling units that could be used as rentals is likely to increase the number of affordable rentals in Arapahoe and Douglas Counties—but only minimally. A recent study on the use of accessory units based on a national survey of the use of accessory units in 47 communities reported that cities with “favorable” zoning can expect to produce only one accessory unit per 1,000 single family homes per year. As an example, the City of Boulder, Colorado has produced 145 accessory units through its program during its 22-year existence, averaging six units per year. (Not all of Boulder’s units may be used for affordable housing, since the City does not require that or track if units are developed for such use).

- **Inclusionary zoning.** Inclusionary zoning ordinances require that new residential (and sometimes commercial) developments include a certain proportion of affordable housing units. Percentage requirements vary from 10 to 60 percent, depending upon the community, and are most common in the 10 to 20 percent range. This housing can be integrated into the new development or built off site on other available land, depending upon the ordinance. Some ordinances allow fulfillment of the requirement through fees paid to a municipality or land trust (“cash-in-lieu” policies) or acquisition and redevelopment of existing properties. In general, the housing that is produced through inclusionary zoning ordinances has restrictions on resale amounts, so that the affordability of the product is preserved. These restrictions usually take the form of a cap on the amount of appreciation the seller can realize per year (e.g., three percent) plus the value of any improvements made.
- **Community Land Trust.** Finally, a tool to reduce land costs that is growing in use, is a Community Land Trust. A community land trust is used to set aside, or “bank,” land to preserve it for future affordable housing development. Sometimes the land is sold and the proceeds are used to produce affordable housing in other areas of the community. In other cases, affordable housing is developed on the land, and the land is held in a long-term lease to reduce housing costs. Buyers of properties in land trusts purchase the housing structures they occupy and lease the land under the units. When sold, the buyer of the housing is able to realize their equity gain from price appreciation on their housing unit. The land stays in the lease to reduce housing costs (which are often more closely tied to land appreciation).

Community Land Trusts must be initially seeded with funding to purchase land or receive land donations. The land trusts must also be administered by local government or nonprofit organizations that can manage the marketing, sales, and legal transactions associated with the trust and affordable housing development.

Density and Affordable Housing Examples

This section contains examples of successful affordable housing products that have been developed using density bonuses, mixed-income and mixed-unit housing and land preservation.

Highlands Garden Village. Highlands' Garden Village (HGV) is located in northwest Denver. The community sits on 27 acres of land that housed the former Elitch Gardens amusement park and contains 291 homes, as well as 200,000 square feet of commercial and live/work space, while still preserving and restoring 140,000 square feet of open space. HGV contains elements of mixed-use communities and includes a variety of mixed-income residential homes including for-sale single-family homes, town home and co-housing, and senior and multi-family affordable and market-rate rental apartments. The community also includes a school, cultural amenities, open space, and shopping options.

Residential housing. Highlands' Garden Village offers a variety of housing types. From for-sale, single-family homes, market and affordable rentals for families and seniors, to the unique co-housing community. Mixed-incomes and inter-generational living is a goal of the community. All of the residential buildings are built with recycled or recyclable materials and the homes are built with energy-efficient mechanical systems and construction, achieving the Colorado's Built Green Program, E-star rating standards.

Wellington Neighborhood. The Wellington Neighborhood in Breckenridge, Colorado, is one of the best examples of a master-planned, workforce housing community in a resort area. The neighborhood was created by a private developer who had a vision to create affordable, attractive mountain housing. The biggest challenge, according to the developer, was the Town's "land use regulations...which prohibited some of the design elements that give the neighborhood its charm: setbacks, alley widths and road widths, to name a few."¹

Purpose. Wellington was designed to provide affordable, for-sale housing for the workforce in Breckenridge and Summit County, Colorado. The majority of the homes—98 of the 122 total—are deed-restricted. Twenty-four (20 percent) are market rate. The homes are only available to full-time residents who work at least 30 hours per week in Summit County. The Wellington Neighborhood is governed by the Wellington Homeowners Association, which includes a design review committee.

Home sizes and prices. Homes range in size from 1,000 to 2,000 square feet. They include detached single-family homes and townhomes. Pricing ranges from \$220,000 for deed-restricted homes to more than \$480,000 for market rate homes.

Lot sizes vary from approximately 3,800 square feet to 5,800 square feet, with most being around 4,000 square feet.

The deed restriction limits the amount of appreciation an owner can realize upon sale of the home. This ensures that the units are affordable to the next buyer. Price appreciation is limited to three percent per year, or the percentage increase in the area median income (AMI), whichever is greater.

¹ *Cottage Living*, http://www.poplarhouse.com/awardsPress_print.htm.

Development challenges and successes. One of the largest barriers to developing workforce housing in Breckenridge is the high cost of land. The development team kept costs down by acquiring property in unincorporated Summit County, contiguous to the Town of Breckenridge.

The County's zoning ended up being the largest barrier to development. The zoning on the site only allowed four homes. After years of public debate about the project, the Town of Breckenridge agreed to annex the property and permit a total of 122 units. Town leaders also accepted the developer's vision of a dense, new urbanist design. And, the Town provided important subsidies worth about \$1 million by waiving of inspection, annexation, and development-review fees worth about \$7,500 per unit, and of a one percent transfer tax worth approximately \$2,500 per unit.

Third Street Cottages². This Langley, Washington development was built in 1998. Langley is located in a small town on Whidbey Island in the Puget Sound, and is home to approximately 1,000 people.

Before the development was created, rural zoning in the area allowed one dwelling unit per five acres, in an attempt to preserve the rural nature of the community. However, this zoning had the effect of fragmenting the landscape and increasing public service and infrastructure costs. Within town boundaries, zoning allowed for four to six dwelling units per acre (roughly 7,300 to 11,000 square foot lots).

The town adopted a "Cottage Housing Development" ordinance to expand housing options in the town and surrounding area. The CHD ordinance doubled the allowable density to 12 homes per acre, basically letting developers build detached single family homes at densities previously allowed only for duplexes. The homes built under the ordinance are small—they cannot be more than 975 square feet (650 on the first floor) and lower in height than homes on full-size lots. The homes are designed with high ceilings, large windows and skylights to let in plenty of natural light; the homes also contain walk-in closets, attics, built in shelves and porches for storage space. In addition, the homes are adjacent to a common area and have parking spaces hidden from the street; there are 1.25 parking spaces required per unit.

The cottages initially sold for between \$140,000 and \$150,000.

Land Donation Examples

Casa del Maestro. Casa del Maestro (literally translated as "house of the teacher") is a 40-unit apartment complex developed in Santa Clara, California, which is rented exclusively to teachers in the Santa Clara Unified School District. The school district built and owns the development to provide affordable housing to its teachers.

Although this program contains rental units only, it is a model that could be easily employed to create for-sale housing or a mix of housing tenure. It also demonstrates a unique partnership between the school district and a private-sector developer, who was in the business of developing luxury housing in the area.

² *Creating Great Neighborhoods: Density in Your Community.* Local Government Commission, EPA, National Association of Realtors. September 2003.

The program arose due to the school district’s difficulty in attracting and retaining teachers. In the late 1990s, the school district was experiencing five-year attrition rates of more than 300 percent. Leadership within the district determined that the cost of attrition was higher than the cost of providing affordable housing to teachers.

The site and development process. The school district owned a 2.16-acre surplus site adjacent to an existing school. The school district decided to dedicate this site to the development of Casa del Maestro. Owning the land was a huge factor in keeping development costs down and keeping the apartments affordable. Apartment complexes surrounding the site served as the design guideline for the developer of the property.

The developer of Casa del Maestro was a regional provider of luxury housing. The developer agreed to trade a lower return for the satisfaction and public acknowledgement of having provided a community service in the form of affordable housing. The developer proposed to act as the project developer in return for reimbursement costs of project management—but not additional fees or profit. The primary “return” to the developer was a strengthened relationship with the school district and the City and County of Santa Clara.

Development funding and operations. The project was funded through bonds issued by the school district. Rents were set at the minimum amount that would be required to cover actual operating costs, debt service on the bonds, and a small reserve fund. This resulted in rental rates for a one-bedroom unit of \$650 to \$730, about half the regional average for one-bedroom rents. The rental contract is contingent upon employment with the school district, and the maximum length of time tenants are allowed to live in the units is five years. It is hoped that within this timeframe, teachers will be able to build savings and purchase a home. Renters have access to homebuyer counseling and assistance programs provided through the City government.

Lessons learned. Several lessons were learned from this unique project that can be employed in other cities:

- Land dedication by the school district was crucial to building the affordable housing. Many municipalities, school districts, and other agencies have surplus parcels of land that could be used for developing all types of affordable housing.
- This housing model—called constituent group housing—could be employed to other members of the local workforce, including police officers, firefighters, and municipal employees.
- Professional workforce housing must replicate the amenities, location, and quality of market-rate housing. Highly trained professionals demand (and deserve) a high quality of life from their homes.
- In cases where an agency owns housing that is rented to its employees, a third party property manager should handle the leasing and upkeep of the property. This ensures that the owner/employer is kept at an “arm’s length” from the tenant/employee.

Pitkin County, Colorado. In this very high-cost area—where Aspen is located—teachers find it almost impossible to purchase or rent housing without substantial assistance. The City of Aspen and the school district have partnered to create housing opportunities for teachers and school district workers. The school district’s financial contribution to the developments—e.g., land donation—entitles the district to a proportionate share of the rental and/or for-sale housing developed on the site. The Aspen/Pitkin County Housing Authority oversees and administers the housing program for the district, in addition to a number of programs for employees of the City and County. The Housing Authority’s well-developed guidelines of program administration can be found online at <http://www.aspenhousingoffice.com/sitepages/pid4.php>.

Employer Assisted Housing Example

Marshall Parkway. To address labor shortages, a nonprofit development organization joined with a large local employer—Schwan’s Food Company—to develop affordable housing for company employees and encourage the retention of workers.

Marshall is a small community (population of 12,735) located in southwest Minnesota. Schwan’s Food Company is the largest employer in the area, having 2,500 employees. In the late 1990s, Schwan’s and other employers in Marshall were having difficulty recruiting employees and had labor shortages.

Organization and administration. At the same time, the Marshall Area Plan was being developed. The committee tasked with overseeing the plan identified the lack of affordable housing as a key barrier to sustainable economic development in Marshall. A subsequent study of housing needs confirmed the shortage of residential housing, and concluded that the local workforce was being priced out of the market. The Marshall Economic Development Agency (MEDA) began examining strategies for developing housing that would be affordable to families earning between 50 to 80 percent of the median income. MEDA found and engaged an existing nonprofit housing developer—the Southwest Minnesota Housing Partnership or SWMHP—to develop a plan for housing development.

Design and development. MEDA and SWMHP began evaluating potential development sites in 2000. They located an appropriate site near downtown Marshall. The City purchased the land with funds derived from a tax increment financing (TIF) bond issue. Construction was planned in two phases, with sales from housing developed in the first phase helping to fund the second. Phase one consisted of 42 single-family lots and 18 rental townhomes. The overall design of the development called for a mix of housing: 78 single-family units, three duplex lots and two multifamily buildings (one 18-unit, one 30-unit). Homes had different looks, ranging from ranch, neocolonial, and split-level, some with front porches. The affordable units had slightly lower square footage and less expensive finishings inside. The site plan was designed to integrate into the surrounding neighborhood with the goal of stimulating more residential development.

The program’s success has prompted the City to develop another phase, Marshall Parkway II.

Financing. MEDA’s involvement in the project meant that funding could be leveraged from several sources, including the Minnesota Housing Finance Agency and Schwan’s Food Company. Funds from these organizations were used for construction. (As stated above, the City purchased the land using TIF). SWMHP’s role was to find and market financing products (e.g., downpayment assistance and low-interest mortgages) that would enable homeowners to purchase units in the development.

The units were marketed through “word of mouth” and with open houses. In addition, Schwan’s sent out information about the development in employees’ paycheck envelopes.

Lessons learned. Several lessons were learned from this unique project that can be employed in other cities:

- Employer-assisted housing is feasible—and is probably a better fit—in smaller towns, because of the close relationships between employers, local governments, and citizens. There is also a potentially greater need for companies to play a role in providing affordable housing in smaller markets because fewer inexpensive housing options are available there.
- TIF bonds that were used to purchase the land for the development, helped reduce the cost of land acquisition, a savings which was passed on to homebuyers.
- Town officials realized that they did not have the institutional capacity to develop a successful affordable housing strategy on their own, and therefore, partnered with SWMHP.

The involvement of a major employer was critical to the process. Besides contributing financially to the project, Schwan’s involvement added credibility and helped legitimize the concept of affordable/workforce housing development in the community.

Example City Programs

Boulder, Colorado. The City of Boulder has a fairly broad but typical menu of affordable housing resources. The biggest difference between Boulder and the other peer cities in this section is that most of the City’s programs were adopted very early, prior to 2000.

The City’s menu of resources includes:

- Annual general fund support (about \$400,000 per year);
- A housing trust fund (\$1.5 million per year for affordable housing);
- Inclusionary zoning (has generated about 280 units since adopted in 1999);
- Special downpayment assistance programs;
- Owner occupied rehab, including mobile homes; and
- Use of Federal block grant funds for affordable housing activities, including affordable housing development, property acquisition, owner-occupied rehab, and public services (\$950,000 in CDBG annually and \$1 million in HOME).

In 1990, the City of Boulder set a goal of having five percent of its housing stock be permanently affordable. Two years later after adopting this goal, the City established a housing trust fund. In 1995, the City revised its goal of permanently affordable housing stock to 10 percent. The City currently has 2,800 permanently affordable properties and has another 1,700 to go before reaching its goal (4,500).

In addition to the resources discussed below, Boulder has a handful of nonprofit development partners and a local housing authority that produce much of the City's affordable housing. The City works closely with these housing providers and developers

General fund contributions. The City supports affordable housing activities with a General Fund contribution of approximately \$400,000 each year. The funds are allocated as follows: \$95,000 for reimbursement of development fee waivers; five percent for administration; the balance for acquisition and rehab and new construction of affordable homes.

Housing trust fund. Boulder's Community Housing Assistance Fund Program (CHAP) is funded by property taxes. The CHAP receives 0.8 mills of a property tax level, equivalent to about \$19 per year on a \$300,000 home. Additionally, the City levies an excise tax on all new non-residential and residential development of:

- \$.0092 per square foot of floor area for new, annexed or additional non-residential area;
- \$73.92 for new and annexing detached residential units; and
- \$50.10 for new and annexing attached residential units or mobile homes.

These funding sources mill levy generates about \$1.5 million annually for affordable housing activities.

CHAP funds have helped create 186 affordable homeownership units since 1991, making the CHAP the second most productive homeownership affordable housing program in the City (inclusionary zoning is first at 241 units). CHAP contributed \$2.7 million in subsidies to affordable homeownership in the City.

CHAP had produced more affordable rental units than any other program at 510 since 1990 (HOME is second with 480 units). CHAP has contributed more than \$6.6 million in subsidies to affordable rental units since its inception. CHAP has also been used to create 39 shelter beds/group home units.

Inclusionary zoning. Boulder's IZ ordinance requires that 20 percent of a residential development be affordable. All sizes of residential developments are included. The 20 percent requirement can be met by onsite or offsite development, land donation, or cash-in-lieu payments. For-sale developments must provide at least half of the requirement onsite. Rental projects may fulfill the requirement through for sale units only, onsite, or offsite development.³

The sales prices for the affordable units are set by the City on a quarterly basis. The units must be affordable to low-income households as defined by HUD.

³ This is due to Colorado law, which inhibits the creation of rental units under IZ programs due to a prohibition of rent-controlled units. Developers do have an option of forming not-for-profit corporations to develop and manage rental units in satisfaction of their IZ requirement.

A developer who wishes to fulfill their IZ requirement “offsite” has a number of options:

- Contribute to the City’s affordable housing fund through a cash-in-lieu payment;
- Dedicate land within the City of Boulder boundary to the City. The value of the land must be equivalent to the cash-in-lieu payment plus an additional 50 percent (to cover the carrying costs associated with the land) or of equivalent value to the land upon which the units would have otherwise been constructed to satisfy the IZ requirement.
- Restrict existing dwelling units as affordable. The units must be equivalent to the units that would have otherwise been constructed to satisfy the IZ requirement.

Detached IZ units must be equal to 48 percent of the average size of the market rate units, up to a maximum average of 1,200 sq. ft. per affordable unit. Attached IZ units must be equal to 80 percent of the average size of the market rate units, up to a maximum average of 1,200 sq. ft. per affordable unit. The type of IZ units must resemble the distribution of market rate units (e.g., if all of the market rate units are single family detached, all of the IZ units must be single family detached).

To keep the units affordable, the IZ units are deed-restricted in appreciation, the amount of which is determined by the City. Sellers of IZ units must make a good faith effort to select another low-income household to purchase the unit. The City maintains a list of eligible households if needed by the seller.

Downpayment assistance. In addition to programs offered by the state housing finance authority, the City of Boulder offers its own downpayment assistance programs. These include:

- The City’s **First Home** program provides a grant of up to 20 percent of the purchase price of market rate homes located in the City. The maximum grant is \$56,000, although household of three persons or more purchasing a home with three or more bedrooms the grant can extend to 30% or a maximum grant of \$90,000. Homes become permanently affordable and are deed-restricted in future resale.
- Boulder also partners with a local CDFI called Funding Partners to offer a deferred loan program (H2O) of up to 15 percent of the purchase price of a home. The loan is repaid after 10 years, upon refinancing, or when the home is sold. The loan accrues interest at a fixed rate of three percent for the first two years and then is indexed to appreciation in housing prices. There is no price ceiling or deed restriction when the homebuyer sells the home.
- Finally, the City offers an alternative downpayment program for households that do not qualify for programs offered through the local housing finance authority. This program, called the “3% Solution,” is offered in conjunction with the H2O program or through the City nonprofit’s land trust program. To qualify, the purchaser must first be denied a loan through the state housing finance authority and have less than \$12,500 in assets. Homes become permanently affordable and are deed-restricted in future resale.

Housing rehab. Through Longs Peak Energy Conservation of Boulder County, Boulder residents can get low interest loans (one to three percent) for health, safety, code repairs, and energy conservation subject to a maximum of \$25,000.

The City also offers a Mobile Home Rehab Program which provides health and safety repairs and energy conservation to mobile homes within Boulder City limits. This is a 2-year forgivable loan limited to \$7,500 in repair work.

Fort Collins, Colorado. Fort Collins combines Federal block grant funds with a handful of progressive programs to address its affordable housing needs. These include significant developer incentives, a housing trust fund and a land banking program. The trust fund and land banking programs are not as productive as they might be if they were more aggressively used, but the City has the structure in place to make use of these tools when/if funding increases.

The City's core programs funded by CDBG and HOME include:

- Homebuyer downpayment loan program—A loan to eligible households to cover downpayment and closing costs up to a maximum of six percent of the sales price. The assistance is in the form of a loan which is paid back when the house is either sold, transferred out of the buyer's name, rented, or if buyer seeks another second lien (like a home equity loan) on the property. A simple interest charge of five percent of the loan amount will be added to the payment which is also due at sale, rental, or transfer.
- Housing rehabilitation and accessibility improvements for nonprofit housing providers.
- Lot acquisition for affordable housing development.
- Occasionally provide tenant based rental assistance through the local housing authority.

Developer incentives. When asked to describe the City's primary housing programs, staff first cited the "bunch of incentives for developers." Developers of affordable housing in the City receive:

- Reduced planning application fees (reduced by the proportion of affordability, so a development that is 100 percent affordable pays nothing for entitlement fees).
- Priority processing—reduced City staff turnaround time (project goes to top of workload).
- Once entitlement is achieved and the development is in the building permit process, the City delays development impact fees until certificate of occupancy. The City does not waive these fees, although CDBG and HOME are available for eligible developers to pay impact fees.
- Density bonus in one of the City's residential zones—for example, if the current zoning maximum is eight units/acre, an affordable development would be allowed 12 units/acre.
- Reduced landscaping requirements (e.g., gallon sized shrubs v. three gallons).

The City does not have an inclusionary zoning ordinance. The City considered adopting an ordinance, but was dissuaded by Colorado's prohibition from including rental units as part of IZ.

Housing trust fund (sort of). The City has a housing trust program that is funded through general fund contributions. The "City budget" is the trust's sole source of revenue. Because of budget cuts, the annual contributions have dropped from \$875,000 to \$285,000 currently. The trust fund dollars are used to supplement Federal grants (CDBG and HOME).

Land banking. Fort Collins established its land banking program five years ago, with a general fund contribution of \$1 million. The City’s program is specifically designed to acquire property for development of affordable housing units—it is basically a hedge against rising land costs. Under the program, the City acquires property and holds it long-term (a minimum of five years, but more likely in the realm of 7-10 years). After a holding period, the City issues an RFP for property development. However, the City is not permitted to use the land bank as an investment vehicle (e.g., to generate monies to fund affordable housing development).

As of 2008, no units have been produced as a result of the program. According to City officials, when properties are sold they will be sold for more than the City paid for the land—enabling the City to realize a small profit—but for less than market value.

Albuquerque, New Mexico. Albuquerque’s primary focus on workforce and affordable housing has been on the approval of the public to use general obligation (GO) bonds for housing activities. The bond issue has the potential to provide \$25 million of funding for affordable housing activities in the City.

Another significant source of funding in the City is CDBG (\$4.7 million annually) and HOME (about \$2.5 million). The City uses its CDBG and HOME funds for a wide variety of activities, including:

- Owner-occupied rehabilitation;
- Affordable housing development, including rental acquisition and rehab and transitional housing;
- Public services;
- Downpayment assistance; and
- Affordable homeownership development.

Albuquerque is also a direct recipient of the Federal Emergency Shelter Grant (ESG).

Albuquerque also has an active community land trust. The City is exploring a land banking and rental rehabilitation program, as well as how to preserve the affordability of mobile home parks.

The City does not have an inclusionary zoning program. However, the annexation of Mesa del Sol—a new planned development community in Albuquerque—did include provisions for a percentage of the developed units to be affordable.

Workforce Housing Opportunity Act (Housing Trust Fund). In 2006, the City Council in Albuquerque passed a bill that authorized a set aside of up to \$10 million in general obligation bonds issued by the City to be used for affordable housing activities. The set aside was required by the bill to be presented as a separate bond question for Capital Improvement Program (CIP) bond issues; the bill was approved by voters in 2007. The set aside expires in six years unless reauthorized by council.

The enabling legislation contains a number of requirements, which include:

- A housing needs assessment be conducted and updated every five years to demonstrate the City's housing needs.
- An Affordable Housing Committee is established to serve as the advisory committee for development of the housing needs assessment and conduct an annual review of the progress of meeting housing needs.
- Affordable housing should be integrated throughout the City and are evaluated on design and location criteria that include access to transportation, jobs, community services and schools, and incorporation of Universal Design features.
- Housing that is developed should contain resale restrictions to preserve affordability.

The housing plan should be linked to the City's growth management plan.

Land trust. The Sawmill Community Land Trust was formed as a community development effort to protect low-income residents living in a downtown Albuquerque neighborhood as well as to strengthen their role in redevelopment of the area. The stated vision of the organization is to “be a New Mexico and national model of revitalization.”

According to the organization's mission statement, the Sawmill Land Trust is a “community-based development corporation whose principal purpose is to promote community ownership, long-term affordability, and economic opportunity through the community land trust model.”

The cornerstone of the Land Trust's efforts is Arbolera de Vida, a mixed-use, master planned community in the center of the Sawmill neighborhood. This 27-acre parcel was purchased by the City of Albuquerque in 1995, and rezoned for mixed, compatible uses, including affordable housing, community amenities, open space, and commercial/retail space. The Sawmill Advisory Council (SAC)—which is a neighborhood advisory group—assisted with the development vision for the parcel.

Parcels are deeded from the City to the Land Trust as each phase of the development is built. The City sells the land to the Land Trust for \$1.05 per square foot (well below market value. Total cost of the 27-acre parcel at \$1.05 per square feet will be approximately \$1.2 million).

Homebuyers. People who purchase homes rent the land from Sawmill Community Land Trust. The fee for homeownership units is \$19 per month (the ownership units are basically on the same size lots). The Trust reports that demand for the homeownership units is high, but that it is difficult for residents to qualify for purchasing the units. The Land Trust has a relationship with several local financial institutions who underwrite the loans for homebuyers. Buyers of the Land Trust units are restricted on how much appreciation they can gain when they sell the unit. The gain is pro-rated according to how long they have occupied the unit, and is capped at 30 percent of the total appreciation.

Renters. All of the rentals are live/work units; residents of these units earn between 40 and 60 percent of AMI. The units are in high demand and have a waiting list.

The Arbolera de Vida development has developed a Property Owners Association (POA), which represents the homeowners and manages the common areas in the community. Residents pay \$31 per month for POA activities, including upkeep of common properties. Three representatives of the POA serve on the Sawmill Land Trust's Board of Directors, and the Land Trust appoints representatives to the POA Board.

Funding for the project has been contributed by the City of Albuquerque and the State of New Mexico, in addition to Federal CDBG and HOME monies.

In addition to its role developing Arbolera de Vida, the Sawmill Land Trust has been working with the Wells Park community, located near the Arbolera de Vida project, to revitalize the neighborhood. Specifically, the Land Trust plans to acquire and rehabilitate 30 scattered site homes for low- and moderate-income homebuyers and renters. The Land Trust has also taken a lead role in working with the City and residents on a master redevelopment plan for Sawmill area neighborhoods.

Mesa del Sol. During the next 30 years, as many as 38,000 housing units will be developed in Albuquerque on a parcel of land owned by the New Mexico State Land Board. As many as 7,600 of these units could be affordable.

Mesa del Sol is a future master planned community that is a partnership between the State Land Board, the University of New Mexico, and the City of Albuquerque. The State Land Board will receive payment for the cost of the land upon, which Mesa del Sol is built, in addition to a 14 percent return on the land value.

This mixed-use community is projected to produce 60,000 jobs. Businesses have been attracted to the development by the state's economic development incentive programs. Mesa del Sol is unique in that the developer focused first on luring businesses to locate within the development and will build the housing later.

Mesa del Sol received tax increment financing (TIF), a condition of which was the development of workforce and affordable housing within the community. The agreed upon Workforce Housing Plan for Mesa del Sol contains the following:

- Fifteen percent of the units in Mesa del Sol will be "affordable workforce units." These units are affordable to households earning 80 percent of the AMI and less.
- Five percent of the units will be "mid-range housing units." These units are affordable to households earning between 80 and 130 percent of the AMI.

The price ranges of these units will be:

- Two percent of the units affordable to households earning less than 50 percent of the AMI;
- Three percent affordable to 50-60 percent of the AMI;
- Five percent affordable to 60-70 percent of the AMI;
- Five percent affordable to 70-80 percent of the AMI; and
- Five percent affordable to 80-130 percent of the AMI.

The Workforce Housing Plan specifies how the affordable units will be phased in to the overall development. It also specifies how the affordable units should be integrated into the overall development—in general, the affordable developments must contain 15 percent market rate units, or, if they are multifamily products with 100 percent affordable units, must be located within market rate neighborhoods.

The developer receives a one-for-one density bonus for the affordable units. That is, for each affordable unit that is developed, the developer is allowed one additional market rate unit.

Santa Fe, New Mexico. In May 2008, Santa Fe completed a Five-Year Strategic Plan for housing. This plan describes the City's current programs, sets goals for the number of households to assist in the future and estimates what it will cost to address the City's housing needs.

Currently, the City's housing resources include:

- CDBG (Community Development Block Grant) of about \$575,000 annually;
- HOME through Santa Fe County of \$2.4 million countywide (allocated from the State Mortgage Finance Authority–MFA);
- The Housing Opportunity Program (old inclusionary zoning ordinance);
- Santa Fe Homes (new inclusionary zoning ordinance);
- Recently adopted Affordable Housing Trust Fund;
- Fee waivers and providing water for affordable homes; and
- General fund support for affordable housing (\$570,000 in 2008).

The City's proposal for a real estate transfer tax (RETT) to support its Housing Trust Fund has met with opposition. (Currently the fund is supported by cash-in-lieu contributions by developers for compliance with the City's inclusionary zoning ordinance). Staff will also explore the possibility of other tax initiatives including a property tax for rentals and a gross receipts tax for homeownership production. A special tax on second and third home buyers using an occupancy test will be reviewed, as well as a tax on larger homes. In the reverse, tax waivers and/or reductions for production of rental housing will be explored.

The City's core programs include the following:

- **Homebuyer training.** Described as one of the most successful programs that the City has funded (based on the almost negligible foreclosure rate among homebuyers and attendees of the program), this program teaches credit counseling, the responsibilities of homeownership, and post purchase counseling and education. The City projects that nearly 900 individuals have attended the program at an average cost of about \$450 per attendee.
- **Workforce housing development.** The City uses a variety of resources to support rental and homeownership development. A recent, innovative program is the proposed Caretaker Housing in City Parks rental housing program. Under this program, seven homes will be constructed on five City parks. These homes will be used to recruit and retain municipal employees with an initial emphasis on police officers, especially new recruits. The construction cost of this program is estimated \$1.4 million. A combination of resources will be used for the initial phase of this project, including a one-time allocation of general funds, and support from the MFA under Housing Trust Fund, as well as a potential workforce housing grant from the MFA.
- **Home rehabilitation.** The City uses HOME dollars from the State MFA for home rehabilitation activities, which include major renovations (\$25,000 per home) as well as smaller, weatherization projects and accessibility improvements (averaging \$800 per home).

Other major initiatives that are used in the City to produce affordable housing are described in detail below.

Tierra Contenta. Tierra Contenta is a nonprofit that owns and master plans land for the Tierra Contenta (TC) development. The organization was formed by Santa Fe City Council in the early 1990s. City Council at that time was very proactive about wanting to address its affordable housing crisis.

TC is not subsidized by Federal or local sources. The “subsidy” in the development is in the form of the land that was obtained by the City when land was less expensive and sold to TC with a zero interest loan.

The City obtained the land for TC from the local electric utility company during the Savings & Loan crisis. Because of the state anti-donation law, the land was sold to Tierra Contenta Corporation at the appraised price. The City carries a zero-interest mortgage on all of the developable acres. The mortgage states that TC must pay back the City the appraised price / developable acres, or for \$10,600 per developable acre.

TC was able to obtain an interest-free mortgage as a condition for developing as an affordable project. (This was a test of anti-donation clause, and it survived).

TC currently contains 2,300 homes, 1,000 of which are affordable. Staff at TC report that it has the highest percentage of affordable housing of any master planned community in the United States. The site is made up of 1,000 acres, 36 percent of which are developable. Much of the land contains huge arroyos and/or elevation constraints; this land has been deeded to the City as open space.

TC works like this: TC develops a phase of property and goes through the approval process with the City. After the phase is approved, TC finds builders, establishes pricing goals and the number of affordable units and sells the land to the private sector builders. TC has its own design standards which staff believe are streamlined and easy to follow, enabling builders to get through development process faster. With each lot sale, TC pays the City back for the land.

TC has defined for pricing tiers for developers, three of which are affordable:

- Under 65 percent of AMI;
- 65 to 80 percent of AMI;
- 80 to 120 percent of AMI; and
- Market rate (anything above 120 percent).

Buyers must take a non-amortizing, zero interest soft second mortgage held by TC for the difference between 90 percent of the appraised value of the unit at the time of sale and the purchase price. This must be paid upon resale.

The units are not deed restricted, and therefore do not maintain permanent affordability. However, this pricing structure allows families to build wealth and move up to more expensive housing units in the City if they desire.

Housing trust fund (attempt). Santa Fe has established a trust fund, but it is lacking an ongoing source of revenue. In June 2008, the Santa Fe City Council passed an ordinance that proposed to fund affordable housing programs by levying a one percent tax on the portion of any home purchase in excess of \$750,000. (For example, a home that sold for \$1 million would be subject to a \$2,500 tax). Voters were asked to approve the measure in a special election in March 2009, and did not approve the tax.

In June, the Santa Fe Association of Realtors, along with four homeowners, filed a lawsuit challenging the proposed tax, claiming the tax is “unlawful and unenforceable.” The lawsuit was dismissed by the Judge hearing the case in March 2009.

During the state legislative session in 2008, the state association of Realtors promoted a bill that would have prohibited municipalities from imposing such taxes. The bill passed the Senate, but failed to make it out of the House of Representatives.

Land trust. The Santa Fe Community Housing Trust was formed in 1991. The organization started as a land trust and over time, has evolved into a certified Community Housing Development Organization (CHDO) and recently became a Community Development Financial Institution (CDFI).

The Santa Fe Housing Trust typically uses the land trust model to integrate for-sale units affordable to very low-income homebuyers (50 percent of the area median income and less) into its mixed-income developments. The organization has developed 95 land trust units within the City and County, which is equivalent to about 19 percent of the 500 units developed by the Santa Fe Housing Trust.

Staff of the Trust said that although the land trust component to their developments has been very important in getting very low-income buyers into homes, it is not without its challenges. These include:

- There has been a stigma with some of the Trust homes, particularly when they are grouped together. The Housing Trust has faced some upkeep issues with residents, which has had a negative effect in the neighborhood. Since the Santa Fe Housing Trust owns the land upon which the homes are placed, it has a strong incentive to ensure that the units are well maintained. The Housing Trust has a policy that they will only do land trusts with homes they build themselves.
- Some appraisers and lenders do not understand the land trust model and require education to be comfortable with the program.
- People who occupy the trust homes sometimes forget they do not own the land and that there is a lien against their home (e.g., they are surprised when they apply for a home equity loan that they have an outstanding lien).

The biggest issue with the land trust model, however, is that it “ties up resources...the subsidy is in the ground and you can’t get it back.” The Housing Trust prefers to use second mortgages to reduce the cost of housing for low-income homebuyers. With a second mortgage, when the home is sold and/or the loan is paid off, the “subsidy” comes back to the Housing Trust in cash, which can be reinvested in other housing programs as needed. Land trusts are less flexible than a revolving loan program.

That said, the Santa Fe Housing Trust recently used a land trust on a rural project that was an “ideal use” of the land trust model. Two affordable homes were built on an existing large parcel of land with a residential home and a historic working farm. The land was subdivided and two additional homes were built on the farm as land trust properties. This achieved higher density and preserved the farm as well as adding some conservation easements for wildlife.

The Santa Fe Housing Trust is unique in that it has a broader role than just a trust fund: the organization was founded, in part, to be an umbrella organization to bring together parties to obtain land, raise funds and facilitate more affordable housing production in Santa Fe.

Homewise, Inc. Homewise is a nonprofit, Community Development Financial Institution in Santa Fe, dedicated to helping New Mexicans become homeowners by offering home purchase, home improvement and educational programs. Through a partnership with the Santa Fe School District called Teacherwise, Homewise offers a special program designed to help teachers and other school employees buy or repair homes in Santa Fe, through downpayment assistance and low-interest mortgage loans. Homewise also operates as a housing developer and recently developed an 80-unit affordable homeownership development in Santa Fe.

Inclusionary zoning. Santa Fe’s inclusionary zoning program, established in 2005, is called Santa Fe Homes. It requires that 30 percent of housing units developed as part of a new residential development be affordable. The program applies to all residential subdivisions with 10 or more lots. Fifteen percent of the units developed must be rental units.

Pricing of the constructed homes and manufactured home lots developed through Santa Fe Homes must be as follows:

- Ten percent of the total units or lots must be sold at a price of between \$74,500 and \$122,000 per unit, depending upon family size, or \$27,250 per lot (pricing at the time the ordinance was created);
- Ten percent must be sold at a price of between \$100,500 to \$158,000 per unit or \$35,500 per lot; and
- Ten percent must be sold at a price of between \$125,500 and \$194,000 per unit, or \$43,750 per lot.

Santa Fe’s ordinance also specifies the minimum number of bathrooms and square feet by unit size (e.g., studios must have at least 750 square feet and one bathroom). Twenty-five percent of the units must be studios, one or two bedroom units; 50 percent must be three bedroom units; and 25 percent must be four bedroom units.

The ordinance also provides pricing for rental units and minimum sizes per unit type.

Preserving affordability. Units created through the inclusionary requirement of Santa Fe Homes are deed-restricted for affordability. Santa Fe Homes uses a shared equity approach when the deed-restricted units are sold. The City’s share of appreciation is equal to the proportion of subsidy (difference between market and affordable price) divided by the initial market value. Proceeds from the sale of the home are placed in a housing trust fund.

Development incentives. Developers are provided with a number of options to offset the cost of the program, including:

- Density bonuses—15 percent over allowable density in a district;
- Fee waivers—Development review and building permit fees are reduced proportionate to the number of Santa Fe Home units developed; and
- Nonprofit developers may also request waivers from impact fees and utility expansion charges (private sector developers can request reimbursements).

Other specifications. Units that are exempt from the program include those that were agreed to before the adoption of Santa Fe Homes in 2005 and dwelling units or manufactured home lots that are used exclusively by employees of a school, hospital, or similar institution.

In the case of an annexation, the City and entity proposing the annexation negotiate the number and type of affordable units, which are included in the annexation agreement. The annexation must contain at least the same number of units or cash-in-lieu amount required under Santa Fe Homes.

Prior to enacting the Santa Fe Homes program, the City had a program called the Housing Opportunity Program (HOP). The HOP used a more complex formula than Santa Fe Homes to determine the inclusionary requirement; the Santa Fe Homes legislation is much more transparent. According to the City, Santa Fe Homes was adopted because the City felt that HOP had “limited effectiveness in stemming the growing affordable housing crisis” in the City.

Tucson, Arizona. Tucson’s General Plan (Comprehensive Plan) has a goal that 10 percent of units in the City should be affordable. The City monitors this through an annual production report.

Tucson largely relies on federal block grant programs to fund its affordable housing activities. The City recently established a trust fund; however, funding is limited at this point. The City’s primary resources for affordable housing currently include:

- \$6.3 million in CDBG funds;
- \$4 million per year in HOME funds as part of a county consortium (most of which are spent within the City); and
- \$475,000 from a new housing trust fund.

The City is also a direct recipient of the Emergency Shelter Grant (ESG) and Housing Opportunities for Persons with Aids (HOPWA).

The City has been constrained by lack of support locally and at the state level for resources such as inclusionary zoning and real estate taxes to fund the City’s new housing trust.

The City had planned to seek approval from City Council to establish a land trust in fall 2008; because of budget issues, this has been deferred. The plan is for the City to “nurture” the land trust for a few years and then evaluate if the trust should be converted into a nonprofit. The City may use administrative money from the national Housing Recovery Act to get the fund up and running. A land trust might also be supported by a state effort to stimulate trust funds in Arizona communities.

The City has not explored inclusionary zoning with much effort because the state legislature has tried to make such programs illegal in the state twice (both efforts met with vetos by the governor). In the future, the City will likely explore case-by-case negotiations as part of subdivision agreements—e.g., requiring developers to dedicate a portion of each sale of market rate units to the trust fund.

Housing trust fund. Tucson’s mayor and council unanimously approved establishment of a trust fund in fall 2006. A committee was formed to recommend revenue sources and implement the fund. According to staff, the City established the trust fund to bring in “local creativity” and local sources of funding.

The trust fund was originally funded with a multifamily conversion fee (conversion of rental to homeownership product) and unexpended funds from the Utility Services Low Income Assistance Program. Funds were to be targeted as follows: approximately 1/3 for home repair; 1/3 for homeownership and 1/3 to rental programs.

The trust fund also gets revenue through development agreements: When the City agrees to development agreements where a developer asks for City land or infrastructure assistance, Tucson is negotiating arrangements where in return for City assistance, the developer provides one percent of the sales price to the trust fund.

As of January 1, 2008, the trust fund had a balance of approximately \$475,000. The conversion fee is the only dedicated source of revenue for the fund. The fund's oversight committee has determined that the original sources of funding are "not sufficient to support an ongoing meaningful effort to address housing issues in Tucson." The City is still trying to identify additional sources of funds.

The trust fund enabled the City to start an employer-assisted housing program for downpayment assistance and to provide assistance to households earning up to 100 percent of AMI (higher than what Federal programs allow).

Tucson is the only municipality in Arizona with a housing trust fund.

Programs for homeowners. The City operates a variety of homeowner repair loan and grant programs, has a downpayment assistance program and funds affordable housing development.

Home repair. Tucson's Community Services Department operates several home rehab programs, which target different populations and neighborhoods. About \$2 million of the City's CDBG allocation is spent on home rehabilitation. Together these programs assist approximately 200 families annually, and provide reinvestment in some of the community's most needy neighborhoods.

- Below Market Interest Rate program—Low or zero percent loans for owner occupied properties, including modular/mobile homes if affixed to land. Households must earn less than 80 percent of AMI and cannot have more than \$20,000 in liquid assets. Minimum loan amount is \$5,000; highest is \$40,000.
- Lead Hazard Control program—A program to remove lead from homes occupied by eligible low-income households with children under six years old. Testing for the children is also provided if lead is detected in the home.
- Repair/demolition—This program specifically addresses low-income homeowners who have been cited by code enforcement. Up to \$30,000 in grant funds can be used to make substantial repairs (e.g., water line, sewer line, roof) or demolish a home. A maximum of four homeowners can be assisted each year.
- Elderly home repair program—Up to \$4,000 in grant funds are provided for low-income elderly. Repairs are for health and safety hazards and to improve accessibility (this is not a full rehab program).
- Deferred loan program—A 10-year deferred, forgivable loan for low-income homeowners to make needed repairs. The loan is required to be repaid if the property is sold within a 10-year period. The loan is amortized at 10 percent per year and requires no interest or periodic payments. Minimum loan amount is \$2,000; maximum is \$15,000. After rehab, the property must meet local building codes and zoning ordinances. Households must earn less than 80 percent of AMI and cannot have more than \$20,000 in liquid assets.

- Emergency assistance—This program is specific to homeowners in a certain geographic area (downtown) who have urgent repair needs. Assistance ranges from \$500 to \$9,000. Households must earn less than 80 percent of AMI and cannot have more than \$10,000 in liquid assets. Homeowners are referred to the program through local housing and service providers.
- Citywide sustainability—This emergency repair program is available to all homeowners and contains two components: a \$7,500 grant with no repayment required and a \$7,500 deferred loan with two percent interest. Households must earn less than 80 percent of AMI and cannot have more than \$20,000 in liquid assets.

Property tax relief. The City has a concerted effort to redevelop its downtown area. To help existing homeowners in downtown manage potential increases in property taxes as a result of the development, the City offers a limited number of refunds to qualifying owners. The average refund is \$35 per household; 11 households received refunds in 2007.

Downpayment assistance. The City provides downpayment assistance through its Industrial Revenue Development Authority bonding capacity with Pima County. In this program, up to seven percent of the first mortgage amount is available as a second lien mortgage loan and can serve as downpayment. About 200 households are assisted per year.

Affordable housing development. The City's affordable housing development is mostly funded by HOME dollars. In 2008, the City allocated \$1.2 million to rental housing development and preservation, \$550,000 to develop affordable homeownership units, and \$400,000 to its El Portal program.

The City's Community Development Department is also the housing authority. As such, the City manages its share of the Section 8 program and owns and operates public housing.

The City also owns and rents affordable properties separate from its public housing authority. This is called the El Portal program. Units are acquired through direct purchase by the City through various funding mechanisms as they become available, including HOME. The City uses a private management firm to rent and manage the properties. The City's portfolio of non-PHA properties is between 200 and 300 units.