

Tax Increment Financing District Affordable Housing Funds

A Briefing to the
Housing Committee

October 15, 2007



Key Focus Area: Economic Development

Purpose

Recommend the use of \$620,566 from the City Center Tax Increment Financing (TIF) District Affordable Housing Program set-aside and amend the current program statement for the Affordable Housing Cost Participation Program

Background

□ City Center TIF

- On December 11, 2002, the City Council authorized the use of City Center TIF District funds to provide funding for affordable housing
 - In order to use TIF funds, assistance must take the form of a separate program, such as a cost participation in the development of affordable housing by the City

Background: City Center TIF (Cont'd)

- ❑ Incentives to developers and homebuilders were funded from the tax increment fund to pay the costs of providing affordable housing in or out of the TIF District
- ❑ Funding was made available outside the TIF since cost of land within the City Center TIF is prohibitively expensive
- ❑ Funding development outside the TIF boundaries maximizes the public benefit created by new affordable housing
- ❑ TIF funding provided the City's Community Housing Development Organizations (CHDOs) with incentives to build inner-city housing

Background: Affordable Housing Cost Participation

- ❑ Affordable Housing Cost Participation Program (AHCP)
 - ❑ TIF allows the AHCP to provide financial incentives through construction cost savings for construction of new single-family homes
 - The AHCP was last funded by the TIF in the amount of \$500,000 in FY 2003-04 to cover cost for building inspection permit fees, site plan review fees, water service installation charges, water connection fees and wastewater connection charges
 - Prior to October 2002, the Developer Fee Rebate Program paid for the same development fees and charges
 - Developer Fee Rebate was funded by General Funds

Affordable Housing Cost Participation Program (Cont'd)

- ❑ The AHCP funding provides an amount not to exceed the lesser of 30% of the actual cost or \$2500 in the cost of construction of a single-family dwelling and related public infrastructure built and sold to homebuyers with a household income at or below 80% of the area median family income
- ❑ Additionally, the AHCP provides up to the lesser of 30% of the actual cost or \$4,442 to Substandard Housing Assistance Repair Program (SHARE) and Replacement Housing Programs

Affordable Housing Cost Participation Program (Cont'd)

- ❑ TIF funding has not been requested for the AHCP since FY 2004-05 due to insufficient TIF revenues; and

- ❑ Providing AHCP incentives to Subdivision homebuilders was no longer required due to substantial single-family housing production increases in the City's Southern Sector
 - 80% of the AHCP reimbursements were going to subdivision development; and

 - The City continues to provide down-payment and closing costs assistance through its Mortgage Assistance Program

Rationale for Program Changes

Construction Cost Participation Component

- Nonprofit inner-city developers that build on in-fill lots or on scattered-sites incur added costs:
 - Constructing on single parcels increases the cost of doing business due to the distance between sites
 - In-fill development requires upgrading outdated water and sewer lines
 - Installation of new fire hydrants increases the costs of development

Rationale for Program Changes (Cont'd)

- Providing nonprofit developers incentives of up to \$5,000 for Neighborhood Investment Program (NIP) projects, Land Bank sites and in-fill lot development will encourage inner-city redevelopment
 - A modest AHCP funding incentive up to \$5,000 will defray costs* in meeting City requirements for:
 - Fire Hydrants \$8,000-\$12,000
 - Sewer Tap \$2,615
 - Water Tap \$2,810
 - Building Permits \$900-\$1300
 - *approximate costs
 - The cost of installation of fire hydrants as required by the City is an added expense for infill development and tap and permit fees have increased 20% since 2002

Rationale for Program Changes (Cont'd)

New Green Building Initiative Component

- Inclusion of sustainable development or green building focuses up to \$4,000 on the building design and constructing landscape costs in a manner that minimizes environmental impacts
 - The City is currently developing a sustainable building policy and guidelines
 - Concurrently, the Housing Department proposes to implement a Green Building Initiative to provide incentives to nonprofit developers for affordable green housing development

Rationale for Program Changes (Cont'd)

- Green Building Initiative will require energy efficient construction upgrades from the International Energy Conservation Code and International Residential Code (IECC/IRC) to “Energy Star”
 - Energy Star requires at least 15% more energy efficiency than the IECC/IRC
 - During construction of a home, increasing energy efficiency can be achieved through upgrading of systems, materials and appliances
- The following table gives examples of the types of upgrades that can be included to achieve an additional 15% energy efficiency with an incentive of up to \$4,000

Rationale for Program Changes (Cont'd)

SYSTEM OR APPLIANCE	UPGRADE COSTS
Appliances	\$50-\$200
Insulation Upgrade	\$100
Upgraded Windows and Doors	\$400-\$500
Duct Insulation	\$350
Increased Heater Efficiency	\$500
House Wrap	\$300
Roof Decking Shield	\$175
Spray-in Insulation	\$375
Tankless Water Heater (gas/electric)	\$650/1750
HVAC Ducts in Insulated Space	\$325

Green Building Benefits to Homeowners

- ❑ Properly installed insulation prevents heat loss in winter and heat gain in summer, reducing utility bills year round
- ❑ Energy Star qualified windows can block 70% or more of solar heat gain in the summer and reflect radiant heat indoors during winter
- ❑ Tightly sealed and well-insulated heating and cooling ducts can reduce annual utility bills by \$150 or more
- ❑ Energy Star qualified heating systems lower utility bills, reduce risk of carbon monoxide exposure and have a longer equipment life compared to standard models
- ❑ Energy Star cooling equipment can save homeowners living in hot and humid climates up to \$700 over the life of the equipment
- ❑ Energy Star qualified appliances can save up to \$100 a year in energy costs compared to standard appliances

AHCP Program Recommendations

- Amend the existing Program Statement for the AHCP to:
 - Provide these incentives to nonprofits and CHDOs developing affordable housing and/or participating in green building; and
 - Limit incentives to the City's NIP areas, Urban Land Bank properties and infill lot development
 - Include fire hydrants if required by the City

- Recommend the use of \$620,566 from the City Center TIF District Fund for the AHCP:
 - Nonprofit developer incentive of up to \$5,000 for City fees and other City requirements
 - Green Building incentive for nonprofit developers of up to \$4,000 for upgrades needed to meet Energy Star certification

Next Steps

- ❑ November 12, 2007 - Council consideration of approval of amended Affordable Housing Cost Participation Program Statement and appropriation of TIF funds to AHCP
- ❑ End of November – Announcement of fund availability to developers
- ❑ January 2008– Begin AHCP program implementation
- ❑ January to Fall 2008 – Start of construction of 50 homes with Energy Star rating