



## City of Ann Arbor request to review and propose update Fee-In-Lieu of Affordable housing calculation

The City of Ann Arbor has requested the HHSAB review the \ Fee in Lieu of Affordable Housing calculation as denoted in the zoning ordinance related to Planned Unit Development proposed D1 & D2 ordinance changes. They have further requested that the calculation be changed from a per-unit fee to a fee per square foot, and a means for the calculations to be automatically updated annually.

Previous contributions to the Ann Arbor Housing Fund through the use of the PUD ordinance include: Berkshire Creek, 1310 S. Main and Plymouth-Green (3 separate years),

### Background

Several places in the City of Ann Arbor's zoning ordinance provide developers and option to provide affordable housing or a fee-in-lieu of providing affordable housing including the section on Planned Unit Development, as well as the D1 and D2 zoning downtown. For example, Sec. 5:80. - PUD planned unit development regulations and standards for approval. (6) (e) (ii) notes the following (staff emphasis):

Dwelling units affordable to lower income households shall be provided by the development of units on-site, or **payment of an affordable housing contribution in lieu of units consistent with the formula adopted by annual resolution of City Council**, or any combination thereof.

The previous resolution has been amended twice, in 2004 and 2006, and is due for an update. OCED and City staff have looked into best practices for calculating the fee-in-lieu of affordable units and has found two main strategies for calculating the amount.

- 1- One strategy is calculating the actual cost of constructing a unit. The means of determining this amount is often through a nexus study usually done annually by affordable housing consultants. It is often used in states that enable local units to require additional affordable units or fee in lieu of units for new commercial/office and related development, noting that most commercial and office will require lower-wage employees as part of the developments. Michigan state law does not enable this sort of nexus requirement. Since we aren't allowed to require affordable units through a nexus study, and the cost of an annual consultant study is not feasible, staff has ruled out this method.
- 2- The second method is to identify an "affordability gap." The idea of affordability gap is not to charge the developer the full costs of construction, but to calculate the difference between the cost of the affordable and market rate unit over the lifetime of the unit. Construction costs are the same. The affordability gap is the difference between the market purchase price or rent of a dwelling unit and the amount affordable to a household earning the 60% of the Area Median Income. The fee in lieu amount then should be calculated to represent that gap, and be provided to developers to cover the difference in rehabbing or developing new affordable units in the City of Ann Arbor. This method is in-line with previous methods employed, and staff feels that a proxy can be used annually to calculate the gap.



## Previous calculations

### August 2004, Resolution R-365-8-04

- City Council establishes formula, fund and per-unit contribution amount for Affordable Housing Contributions for PUD Districts
- Formula adopted: (Moderately Priced Housing Unit)-(Sales price of unit affordable to a lower income household) = Per-unit housing contribution
- Moderately Priced Housing Unit = **20<sup>th</sup> percentile** of residential sales between February and April of previous year
- Sales price of unit affordable to a lower income household = 2 times the income of a family of four at 80% Area Median Income
- Per Unit Contribution = \$60,000

### January 2006, Resolution R-19-1-06

- City Council update to formula and per-unit affordable housing contribution
- Same formula as 2004
- Moderately Priced Housing Unit = 40<sup>th</sup> percentile of residential sales between February and April of previous year
- Sales price of unit affordable to a lower income household = 2 times the income of a family of four at 80% Area Median Income
- Per Unit Contribution = \$89,000

### September 2007

- City Council update to formula and per-unit affordable housing contribution
- Same formula as 2004
- Moderately Priced Housing Unit = **43<sup>rd</sup> percentile** of residential sales between February and April of previous year
- Sales price of unit affordable to a lower income household = 2 times the income of a family of four at 80% Area Median Income
- Per Unit Contribution = \$93,300

### Current Analysis of Formula (2017)

- Utilizing same formula with updated 2015 residential sales data; 80% AMI Household of 4 X2 = \$131,400
- Use of 20<sup>th</sup> percentile: \$165,000 - \$131,400 = \$33,600/unit
- Use of 40<sup>th</sup> percentile: \$220,000 - \$131,400 = \$88,600/unit
- Use of 43<sup>rd</sup> percentile: \$230,000 - \$131,400 = \$98,600/unit

### Strengths and weaknesses of this strategy

One strength is that the data is readily available to create the calculation. The weakness is that the deciding metrics are fairly arbitrary, and don't really represent the "affordability gap" as described above.



## Staff Proposed Fee in Lieu Calculation

Staff is proposing refining the fee in lieu calculation using the affordability gap model, with the ability to easily review and update the Fee in Lieu amount annually. The formula utilizes the previous year's sales data, the median housing size, and Area Median Income, to build in the ability for the fee in lieu to fluctuate up and down with the market.

The calculation has two components, and is based on the difference between the two:

- A. The median market rate price for single-family dwelling units of 2,000 or fewer square feet. This will be determined by using the assessor's data from the previous year. This price in 2016 was \$227,500.
- B. The Amount Affordable to a 3-person household at 50% of the Area Median Income (AMI) as defined by HUD annually and includes the standard costs of ownership such as principal, interest, taxes and insurance. The formula for calculating the price shall be published and also assumes 5% down payment and interest rate of 4%. The 2016 analysis of this is: \$108,000

**Formula:  $A - B = \text{Affordability gap} - \$119,500$**

- C. To determine the per square foot price, the Affordability gap is divided by the median square footage for houses sold in the previous year. In 2016, that is 1,354 sf. Resulting in a per square foot price of \$88

City and County staff then can easily calculate the fee in lieu price for a developer utilizing the PUD. For example, a developer who is looking to pay a fee in lieu of affordable units where the units would be required to be 700 square feet, would pay \$61,600 per unit.