Legislation Details (With Text)

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Resolution to Set Revised Fee in Lieu of Affordable Housing Formula and Adopt 2019 Annual Fee in Lieu Rate

In the City of Ann Arbor's Unified Development Code, there is a provision within the Planned Unit Development Zoning District to require Affordable Housing for Lower Income Households or a payment of an Affordable Housing Contribution in lieu of constructing affordable units consistent with the formula adopted by annual resolution of City Council as part of the Planned Unit Development zoning district. For example, in Chapter 55 Unified Development Code Article V: Administrative Bodies and Procedures, Section 5.29.10 Planned Unit Development (PUD) Zoning District, F. Standards for PUD Zoning District Review (5) (b) notes the following (staff emphasis):

> Affordable Housing for 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 by a combination of affordable housing Development and contributions.

The previous calculation of the affordable housing contribution has been amended by resolution twice, in 2004 and 2006, and is due for an update. OCED and City staff 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 = **20th 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 = 40th 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 = **43rd 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

Recent Analysis of Formula (2017)

- Utilizing same formula with updated 2015 residential sales data; 80% AMI Household of 4 X2 = $131,400
- Use of 20th percentile: $165,000 - $131,400 = $33,600/unit
- Use of 40th percentile: $220,000 - $131,400 = $88,600/unit
- Use of 43rd 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 don't accurately 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. In 2018 the price was $300,000

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 was: $108,000. In 2018 analysis is $116,250

Formula: A - B = Affordability gap - 2016 - $119,500. In 2018 - $183,750

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 was 1,354 sf. Resulting in a per square foot price of $88
   In 2018, the size is 1,455.5 sf, resulting in a per square foot price of $126.

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.

With 2018 numbers, the fee for a unit of 700 sf would be $88,200.

The Housing and Human Services Advisory Board begin the discussion in 2016, picking it up again in the spring of 2019. On April 4, 2019, the HHSAB passed a resolution recommending that City Council approve the new formula, and to adopt the 2019 Affordable Housing Contribution of $126 per square foot.
Prepared by: Teresa Gillotti, Director of Office of Community and Economic Development

Reviewed by: Derek Delacourt, Community Services Area Administrator
Approved by: Howard S. Lazarus, City Administrator
Whereas, The previous formula for calculating an Affordable Housing Contribution had not been revised since 2006;

Whereas, While the city code requires an annual calculation of the Affordable Housing Contribution, which has long lapsed;

Whereas, The Housing and Human Services Advisory Board worked with staff to review multiple approaches to this calculation;

Whereas, The HHSAB agreed on a formula that focuses on the “affordability gap” of a given development; and

Whereas, The HHSAB passed a resolution on April 4, 2019 adopting a new formula and new amount for the 2019 Affordable Housing Contribution;

RESOLVED, That City Council adopt the revised formula for the Affordable Housing Contribution as attached in the above memo; and

RESOLVED, That City Council adopts the 2019 Affordable Housing Contribution rate of $126.00 per square foot.