

TO: City Council for October 17, 2016  
FROM: Paul Bilotta, Community Development Director   
DATE: October 11, 2016  
THROUGH: Mark W. Shepard, P.E., City Manager   
SUBJECT: Housing Development Task Force Final Recommendations



Action Requested:

Staff request that the City Council accept the Housing Development Task Force's (HDTF) final development concept recommendation package and confirm direction to staff to prepare an ordinance to adopt a Construction Excise Tax. Staff also request that the Council consider the Task Force's recommendation that it be dissolved and that continued work on recommended development concepts be moved to the City's Housing and Community Development Advisory Board.

Discussion:

The HDTF has been meeting since June 2015 to address the City Council's Housing Development Goal:

**Housing Development Goal**

The City will analyze policy and programmatic tools suggested by the 2014 ECONorthwest Housing Policy Options Study, including funding/resource requirements, and by December 2016, select and implement strategies to facilitate creation of additional transitional, low-income, and workforce housing. In addition, the City will develop strategies to sustain or increase service levels in order to continue the programs currently in place to build and maintain affordable housing.

The Task Force's work has included:

- A review of the policy and program concepts presented to the City Council in the 2014 ECONorthwest Housing Policy Options study.
- Receiving input on policies and programs from market rate housing developers, affordable housing developers, housing assistance agencies, City planners, and community members.
- Reviewing policy options and developing a preliminary, prioritized list for further investigation. This information was presented to the City Council during a work session on March 8, 2016.
- Conducting further research on top priority policy concepts, and adding Inclusionary Zoning and a Construction Excise Tax to the near-term priority list.
- Finalizing the prioritized list of policy options, formulating specific action recommendations related to that prioritized list, adding a supplemental list of policy suggestions for future consideration, and determining that the work of the Task Force has been completed. The list of policy and action recommendations is attached as Exhibit 1.

The HDTF brought draft recommendations to the City Council during a September 7 work session. During that session's discussion Council members generally expressed support for the package of recommendations, but noted a concern related to Development Concept #2. That recommendation includes removing a Land Development Code (LDC) requirement that if an Accessory Dwelling Unit (ADU) is added to a developed residential lot, one of the resulting units must be owner occupied (the Task Force has recommended removing the owner occupancy requirement). The expressed concern was related to parking impacts if both units on a lot are renter-occupied but no additional parking is required to serve the ADU, as is the case in current LDC standards. Because changes in that LDC provision would require a LDC Text Amendment process, both the Planning Commission and City Council would hold public hearings prior to an amendment's adoption by ordinance. Following its last meeting on September 22, the HDTF decided to let its recommendation for Development Concept #2 stand as previously written with the understanding

that a thorough public review process would be applied if the Council moves the owner occupancy question forward as a LDC Text Amendment.

One element of Concept Recommendation #3 addresses waiving System Development Charges (SDCs) for affordable housing projects; this element was not discussed directly by the Council on September 7. The other element, which recommends the next SDC calculation methodology review process consider ways to make allowances for affordable housing waivers, was generally supported. The HDTF chose to leave its SDC recommendation as written but understands that the immediate SDC waiver element will not be adopted.

On September 7 the City Council also requested that the Task Force note and send forward any ideas for development concepts that are not included in the more formal set of recommendations. A list of those ideas has been compiled, and is included as Exhibit 1 to the final recommendations document.

Finally, during its September 22 meeting, the HDTF determined it has accomplished the charge established for it by the City Council, and has no need to meet further. As part of its discussion of this determination the Task Force reaffirmed its recommendation that the work to move forward in the near term with program and policy development under Concept Recommendations #1 through #5 be taken up by the City's Housing and Community Development Advisory Board.

#### Recommendation:

- As forwarded by the Housing Development Task Force, staff recommend that the City Council accept the HDTF Policy Concept recommendations with the understanding that the SDC waiver contemplated in Concept #3 will not be moved forward by the Council at this time.
- If the Council supports moving forward with the implementation of a Construction Excise Tax, staff also recommend Council direction to develop an ordinance for consideration during a November 7 City Council public hearing.
- Finally, staff recommend that the Council deem the work of the Housing Development Task Force to be complete, and that future policy and program development work be taken up by the Housing and Community Development Advisory Board.

#### Budget Impact:

The five policy concepts the HDTF is recommending for near-term implementation will have positive, neutral, and negative budget impacts, as described below.

##### *Concept 1: Inclusionary Zoning and Construction Excise Tax*

The implementation of a Construction Excise Tax (CET) is expected to generate between \$350,000 and \$500,000 annually to support City housing efforts. As noted in the attached Exhibit 1, after deducting four percent to cover collection costs, 15 percent of the remaining revenue derived from residential construction must be passed through to the Oregon Housing and Community Services Department. Some of the remaining revenues must be used in specific ways under an Inclusionary Zoning or housing assistance umbrella, and others carry greater flexibility.

##### *Concept 2: Accessory Dwelling Unit Incentives*

The HDTF recommendation is that System Development Charges (SDCs) for Accessory Dwelling Units (ADUs) be deferred, or that CET revenues be used to front the costs of SDCs. If the SDCs are deferred, the SDC funds would see less short-term revenue and less overall revenue; if SDCs are funded with CET revenues, this activity would be revenue neutral. As CET-based loans are repaid to the City, a revolving fund could continue to support this and other housing-related activities.

The budget impacts related to 1) removing the requirement that owners occupy either the primary or accessory unit when an ADU exists, and/or 2) that multiple ADUs be allowed on a single property,

would in the near term be reflected in the costs for staff efforts to amend the City's Land Development Code.

*Concept 3: System Development Charge Waivers*

The budget impacts of modifying SDC calculation methodologies to provide waivers or incentives for affordable housing development would be evaluated at a future time when methodology reviews take place.

*Concept 4: Convene Potential Partners for a Non-profit Donation Recipient Entity*

Other than staff time, no direct budget impacts are anticipated with this concept.

*Concept 5: Add Affordable Housing Planning*

Personnel and related costs for dedicated affordable housing planning and program administration would be funded with revenues from the CET, so this concept would be revenue neutral.

As mid- and longer-term policy and program concepts are brought forward in the future for City Council consideration, budget impacts will be assessed and described at that time.

VPB:prj

Attachments: 1 – Housing Development Task Force Final Policy/Program Recommendations

## **Corvallis Housing Development Task Force**

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### **Final Task Force Recommendations – October 17, 2016**

#### **NEAR-TERM RECOMMENDATIONS FOR IMPLEMENTATION IN FY 16-17:**

##### **Concept 1: Implement Inclusionary Zoning and a Construction Excise Tax (CET)**

###### ***Task Force Recommendations:***

1. The Housing Development Task Force (HDTF) recommends the City Council direct staff to bring forward an ordinance to establish a CET with the following characteristics:
  - a. A CET for residential construction to be set at one percent of valuation as required by SB 1533.
  - b. A CET for commercial and industrial construction to be set at one and one-half percent of valuation.
  - c. Four percent of CET revenues will be allocated to the costs of collecting and administering the CET.
  - d. After the four percent allocation, 15 percent of the CET collected for residential development will be transferred to the Oregon Housing and Community Services Department as required by SB 1533.
  - e. After the four percent allocation, 50 percent of the CET collected for residential development will be allocated for use as financial incentives for a voluntary inclusionary housing program.
  - f. After the four percent allocation, 35 percent of the CET collected for residential development will be allocated for use to provide affordable housing incentives, including those provided under a voluntary inclusionary housing program, and to affordable housing planning and program administration.
  - g. After the four percent allocation, 100 percent of the CET collected for commercial and industrial development will be allocated to affordable housing incentives, including those provided under a voluntary inclusionary housing program, and to affordable housing planning and program administration.
  - h. Exemptions: all as required under SB 1533, and in addition, new residential or commercial development receiving assistance through the City's HOME Investment Partnerships and Community Development Block Grant programs, and residential improvements valued at less than \$25,000.
  - i. Hold a public hearing prior to adopting an ordinance to implement a Construction Excise Tax.
2. The HDTF also recommends the City Council direct staff to develop an inclusionary zoning (IZ) program with the following characteristics:
  - a. The development of affordable units should be voluntary rather than mandatory.
  - b. Set affordability for assisted development at 80 percent of Area Median Income (AMI) or below for home ownership projects, and at 60 percent AMI or below for rental projects.
  - c. Establish a minimum period of affordability at 60 years for rental projects and 20 years for home ownership projects.
  - d. Utilize CET resources to provide financial incentives under the voluntary IZ program.
  - e. Require that rental units be maintained to the U.S. Department of Housing and Urban Development's Housing Quality Standards.
  - f. Consider providing incentives for other specific development types, i.e., Accessory Dwelling Units (Concept 2 below).

**Concept 2: Loosen Accessory Dwelling Unit development restrictions.**

***Task Force Recommendations:***

1. Recognizing that Accessory Dwelling Units (ADUs) provide opportunities to increase density with relatively low impact, may offer affordable housing options, and may discourage demolition of existing single family homes, the HDTF recommends the City Council approve the provision of financial incentives for the development of ADUs. Incentives would include:
  - a. Temporarily waive System Development Charges (SDCs) for the development of ADUs guaranteed to be affordable and to be rented to households with a specified low income level as described in recommendation 2 in Concept 3 below.
  - b. Temporarily offer a low-interest or interest-free SDC payment deferral option, with full payment due to the SDC funds within ten years, to developers of ADUs who do not intend to guarantee affordable rents.
2. Amend the Land Development Code Section 4.9.40 to remove the requirement that a property's owner must occupy either the primary residence on a lot with an ADU, or the ADU.
3. Amend the Land Development Code to allow for the creation of more than one ADU on a single lot.
4. Evaluate the impacts of these ADU incentives annually, and consider altering or eliminating them based on the productivity level achieved and/or on unanticipated community impacts.

**Concept 3: System Development Charge waivers, offsets, reductions; changes in calculation methodology to scale SDCs to the size of the home being constructed.**

***Task Force Recommendations:***

1. The HDTF recommends that when the City next undertakes full reviews of its SDC calculation methodologies, alternative approaches that provide incentives for small/affordable unit construction, or that allow for waivers of SDCs without negatively impacting SDC funds, should be considered.
2. Until the full SDC calculation methodology reviews are completed, but for a period of no longer than four years, the HDTF recommends the City provide SDC waivers for affordable rental housing projects that meet the following requirements:
  - a. Set affordability requirements for assisted development at 60 percent AMI or below.
  - b. Establish a minimum period of affordability at 60 years.
  - c. Require rental units be maintained to the U.S. Department of Housing and Urban Development's Housing Quality Standards.
  - d. Require that waived SDCs be repaid in full if the affordability requirements are not met through the entire 60-year period of affordability.
  - e. Align the percentage of SDCs waived with the percentage of affordable units constructed.
3. Until the full SDC calculation methodology reviews are completed, but for a period of no longer than four years, the HDTF recommends the City provide SDC waivers for affordable homeowner unit construction that meets the following requirements:
  - a. Set affordability requirements for assisted development at 80 percent AMI or below.
  - b. Establish a minimum period of affordability at 20 years.
  - c. If the home is sold within the period of affordability, require repayment of the waived SDC amount unless the purchasing household is also at 80 percent AMI or below.

**Concept 4: Accept donations of property and/or money to be dedicated to affordable housing activities; create a partnership of affordable housing organizations to oversee the use of the donated resources.**

***Task Force Recommendation:***

1. The HDTF recommends the City act as a convener of meetings of public and private affordable housing interests, financial planners, and foundation representatives to consider and form a non-profit entity to receive and distribute donations of land and money earmarked for affordable housing.

**Concept 5: Provide and better integrate housing planning with the City's land use planning program in order to more aggressively and effectively address the restricted supply of affordable and workforce housing.**

***Task Force Recommendations:***

1. The HDTF recommends City Council approval of the expansion of Community Development staff capacity for affordable housing planning and for investigation and development of the policy concepts outlined below that are proposed for consideration in FY 17-18 and beyond. This expansion would be achieved through the addition of a staff position dedicated to affordable housing and program development work.
2. Fund the expanded staff capacity in the Community Development Department's Housing and Neighborhood Services Division and/or the CD Planning Division.
3. Dedicate a portion of the revenues from the Construction Excise Tax to cover the costs of the expanded planning and program development capacity.

**MEDIUM TERM CONCEPTS FOR FUTURE INVESTIGATION (CONSIDER IN FY 17-18 & FY 18-19)**

- Concept M1: Implement property tax incentive programs.**
- Concept M2: Implement City-sponsored/initiated annexations (on hold subject to future**
- Concept M3: Utilize development agreements to be applied in conjunction with other options, e.g., City-sponsored annexations or urban renewal for infrastructure.**
- Concept M4: Redesignate/rezone land for housing.**
- Concept M5: Examine mixed use zones that allow residential development to determine why so little interest has been shown in that type of development.**
- Concept M6: Urban renewal to pay for infrastructure extension to highly developable/ redevelopable areas, or to be used in other eligible ways to support the creation of housing.**
- Concept M7: Encourage cottage/clustered housing.**
- Concept M8: Review allowable densities and create density bonuses for affordable housing, small homes, and housing in certain locations (transit corridors, major neighborhood centers, adjacent to parks).**
- Concept M9: Reduce parking requirements for low income or special needs housing.**

**LONGER-TERM CONCEPTS FOR FUTURE INVESTIGATION (FY 18-19 AND BEYOND)**

- Concept L1: Parcel assembly/land banking, which could include banking of developed properties for rehabilitation and/or resale.**
- Concept L2: Facilitate and support community land trusts as an affordable housing tool.**
- Concept L3: Small/tiny homes for homeless transitional housing.**

Attachment: Exhibit 1 – Additional Policy Concepts for Future Consideration

## **Corvallis Housing Development Task Force**

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### ***Final Task Force Recommendations – October 17, 2016 – Exhibit 1***

#### **CONCEPTS IDENTIFIED BY THE TASK FORCE BUT NOT REVIEWED/EVALUATED**

The housing policy concepts that follow were mentioned but discussed only briefly during the 2015-2016 meetings of the City Council-appointed Housing Development Task Force. At the request of the Council, these items are being attached to the more specific recommendations for consideration in the future as opportunities arise.

1. The City Council should take action to increase the supply of developable residential land inside the City limits.
2. Work proactively with Oregon State University on plans, policies, and practices related to on-campus student housing, including making close-in OSU lands available for the private development of student-faculty-staff housing.
3. Consider initiatives to incentivize off-campus student-oriented housing at specified locations.
4. Simplify and clean up the housing-related elements of the Land Development Code; allow staff to play a more direct role in the initiation of such changes.
5. Develop strategies to incentivize the development of homes affordable to the “missing middle” (between 80 percent and 120 percent of the Area Median Income, or “AMI”), without competing for the financial resources being provided to incentivize the development of housing for those with low incomes (below 80 percent of AMI).
6. Develop strategies to improve transitional housing options for non-homeless populations, e.g., people with disabilities, ex-offenders, people leaving alcohol and drug treatment programs, etc.