

**CITY COUNCIL
COMMUNICATION:**

03-497

AGENDA:

OCTOBER 6, 2003

SUBJECT:

AFFORDABLE
HOUSING POLICY FOR
REVIEWING LOW-
INCOME HOUSING TAX
CREDIT PROJECTS

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

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DEPUTY CITY
MANAGER

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

SYNOPSIS —

Summary and background of the City Council's criteria to review Low-Income Housing Tax Credit (LIHTC) applications administered through the Iowa Finance Authority (IFA).

FISCAL IMPACT —

NA.

RECOMMENDATION —

Continue to use the existing policy and practices for review of LIHTC applications, but include additional criteria consistent with City Council approved goals:

- **Support of downtown housing that result in a mixture of affordable and market rate rental units, as well as owner-occupied units of varying prices.**
- **Preservation of architecturally significant buildings when economically feasible to do so.**
- **Support of a neighborhood plan's goals.**
- **Support of projects for which City Council has entered into development agreements or has authorized staff to begin negotiations including sale of land or commitment of funding.**
- **Support of projects where the development team exhibits the resources and capability necessary to complete the project.**
- **Support of projects for which the developer has demonstrated the market and economic feasibility.**

Continue to limit support to applications that total the maximum amount of tax credits available to the Des Moines Metropolitan Statistical Area (MSA), plus units included in special set aside categories, in accordance with the IFA Qualified Action Plan.

BACKGROUND —

On the City Council agenda of October 20, 2003, will be applications from several developers to the IFA requesting LIHTCs. The LIHTC is one tool to encourage developers to build and renovate low-income rental housing. It has become an extremely competitive process in Des Moines and Iowa

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because it offers access to capitol and equity funds for housing development. Persons and families served by the program are those below 60 percent of the median income, although additional points are rewarded for those housing projects that serve lower income households. There are also restrictions on the amount of rent that can be charged.

City's Role in Review

The LIHTC applications are scored on a point basis by the IFA. The developer receives ten points if the project receives a resolution of support from the City. If the Council chooses to not support the project, the project receives no points in that category. Based on its total score, an application may receive tax credits even if the City does not support the project. There have been several projects within the city that have received a tax credit allocation without receiving a resolution of support from the City Council.

The IFA application process also requires the developer to ask the City for proof of zoning, proof of utilities, and proof of any local government contribution such as tax abatement or a commitment of HOME dollars. Staff provides that information to City Council as a part of the review packet on the Council agenda.

IFA Limit for Des Moines Metropolitan Statistical Area (MSA)

IFA reserves the right to limit the reservation of tax credits to 144 units in the Des Moines MSA (Warren, Polk and Dallas Counties). IFA may allocate additional units in the MSA if the project qualifies in one of the following set aside categories: nonprofit developers, preservation, service enriched or assisted housing. In the past five years, the City Council has adhered to a policy that limits its support to projects that add up to the cap for the MSA (144 units) as set by IFA plus units that fall under the set aside categories.

Affordable Housing Policy included in Comprehensive Plan

In 1994, the City Council amended the City's Comprehensive Plan to institute guidelines for reviewing LIHTC projects or any other programs that provide new construction money for rental housing designed for persons under 80 percent of the median income. The overall goal for affordable housing is that it be spread equally throughout the community and not concentrated in any one area of the city. City staff has always provided information on the income of the census tract in which the project is located, and Council has attempted to support projects that are located in non-low-/moderate-income census tract. The IFA scoring system is complex and multi-faceted, but its location criteria are different than the City's goals. IFA awards extra points if a project is located within a U.S. Department of Housing and Urban Development (HUD) enterprise community, Iowa Department of Economic Development (IDED) Enterprise Zone, Qualified Census Tract, or attendance district of a Section 1113(3)(A) elementary school. In the Des Moines MSA, these are all located within the central city of Des Moines.

The comprehensive plan also includes the following criteria with which to evaluate proposals:

- The development's design should be sensitive to and compatible with the character of the surrounding neighborhood;
- The management services must be adequate and responsive to the needs of low-income tenants;
- Appropriate amenities, including storage facilities for toys and other large items, are provided; and
- A recognized neighborhood organization has been given the opportunity to comment on the project's design, management services, and amenities.

(The full policy is attached.)

Recommended Additional Criteria for Review

Simply put, a project located in the City of Des Moines receives ten points if it has a resolution of support from the City Council and receives no points if it does not have such a resolution. Since the tax credits are so competitive, the ten points can make a difference in what projects receive a reservation of tax credits. When evaluating the applications in the 2004 round, staff recommends that the City Council consider support of tax applications that support Council stated goals in addition to that review criteria included in the Affordable Housing Policy. This criteria includes:

- Support of downtown housing that results in a mixture of affordable and market rate rental units, as well as owner-occupied units of varying prices.
- Preservation of architecturally significant buildings when economically feasible to do so.
- Support of a neighborhood plan's goals.
- Support of projects for which City Council has entered into development agreements or has authorized staff to begin negotiations including sale of land or commitment of funding.
- Support of projects where the development team exhibits the resources and capability necessary to complete the project.
- Support of projects for which the developer has demonstrated the market and economic feasibility.

Land Use and Zoning

In the past five years, the Community Development Department has recommended supporting a project only if it had the proper land use and zoning classifications in place. Projects that are well in process have generally had a chance to request any rezonings or variances that are

necessary for development. The Plan and Zoning Commission and City Council are placed in a difficult position when asked to support a project that does not have proper zoning. The Plan and Zoning Commission and Council Members have not had time to consider City departments' comments or neighborhood concerns about the rezonings. Staff will continue this policy in making a recommendation on a project to City Council. Council may choose to support a project that requires a rezoning if members believe the project would benefit the neighborhood and has the support of the neighborhood organization. The resolution of support should contain language that support is withdrawn if the rezoning is not approved.

Prioritizing Projects

City staff has asked IFA staff if it would help a project's score if the City Council prioritized projects. The Council does prioritize by supporting some projects and not supporting others up to the MSA limit. IFA would only consider the Council's prioritization among projects it supports if there were a tie between projects located within a city.

Property Tax Assessment Changes

In 2001, the State Legislature passed legislation that changed the tax assessment on Section 42 housing from a market approach to an income approach. Section 441.21, Subsection 2 of the Iowa Code was amended to instruct the assessor to use the productive and earning capacity of the project from the actual rents received as a method of appraisal and to take into account the extent to which that use and limitation reduces the market value of the property. For existing projects, the assessor gives the project an assessed value based on income and expense data for up to three previous years. For just completed projects, the assessor will review the cash flow projections.

In Des Moines, LIHTC projects declined in assessed values an average of 22 percent from 2001 to 2003 (calculated on both new construction and rehabilitation of projects that are eight units or larger). Projects ranged in the modification of their assessment from 40 percent on the Bloomsbury Apartments on East Grand to a zero percent reduction at the Good Samaritan units at 2010 - 6th Avenue (see attached spreadsheet).

Length of Commitment to Low-Income Housing

A LIHTC project receives additional points if it commits to a longer time period of affordability. Many of the applications will commit to a 50-year period of affordability. To ensure the affordability, IFA will file a Land Use Restrictive Agreement with the land title that ensures that a project will remain low income for the full time that the developer has selected on the application. By supporting a project, City Council is committing to a project with the same land use and income structure until 2054.

Other Changes to the Low Income Housing Tax Credit Program

IFA is awarding additional points for better-designed developments, for example using brick or better windows, and requiring minimum set asides

for annual maintenance.

IFA will require an on-site inspection of properties every three years.

IFA now charges the developer and hires a market study completed to ensure a market exists for the proposed development.

IFA awards additional points for the number of units that serve below 40 percent of area median gross income.

Attachments

Amendment to Year 2000 Comprehensive Housing Plan

HOUSING OPPORTUNITIES

GOAL: INCREASE THE HOUSING ALTERNATIVES FOR LOW- AND MODERATE-INCOME HOUSEHOLDS

Objective 3: Locations for assisted housing should guarantee a variety of housing opportunities in all areas and not overly concentrate assisted housing in a few locations.

Policies

The term “assisted housing” is defined for the purposes of this objective as that rental family housing that is wholly or partially financed with funds that require occupation by persons under 80% of median income for over five years or longer. This definition is limited to new construction and includes any municipal housing projects as well as low-income housing tax-credit projects and Iowa Finance Authority programs. This definition excludes elderly projects.

Prior to City Council action on a project that involves new construction of assisted rental housing, a developer shall submit to the City documentation demonstrating how the development meets the following criteria:

- The development’s design is sensitive to and compatible with the character of the surrounding neighborhood;
- Management services are adequate and responsive to the needs of low-income tenants;
- The appropriate amenities, including storage of large items such as bicycles and children’s riding toys, are provided; and
- A general neighborhood meeting was held in the affected neighborhood. If the neighborhood has a recognized neighborhood organization, the organization should have the opportunity to comment on the project’s ability to address design, management services, and amenities. A ten-day notice of the time and place of the meeting should be provided to the Community Development Department, neighborhood organization, and property owners adjoining the proposed site prior to the meeting.

All locations shall be evaluated on the basis of the availability of public facilities and services necessary to serve the residents of the proposed projects. This shall include such things as availability of utilities, adequacy of the size of the site, the slope, and soil

conditions. In addition, accessibility to schools, shopping, jobs, parks, medical facilities, and public transit should be reviewed.

Projects in Low Density Neighborhoods

Multiple duplexes or single-family units concentrated in a low-density area can have more impact on a neighborhood than a larger project in a high-density area. Therefore, in addition to the previous criteria, when a development involves the construction of new housing units in an area developed predominately with single-family or two-family dwellings the locations of existing assisted housing projects should be reviewed and the following requirements generally satisfied. If additional management or design efforts are made, the City Council could consider varying from these standards after review and recommendations on the project by both the Neighborhood Advisory Board (NAB) and the Plan and Zoning Commission.

- Assisted housing cannot exceed 20% of all units on both sides of the respective block face or assisted housing cannot exceed 20% of all the units in the immediate area. (Immediate area is defined as units on the entire block and the three closest adjacent blocks.)
- Assisted one- and two-family units placed in a continuous cluster or row on a platted street shall not exceed 12 units (i.e., six duplexes).
- In those census tracts where the median income is below 50% of Polk County median, the City Council may vary the policy regarding the percentage of assisted units on a block or in the immediate area to 10% after consultation with the neighborhood organization.
- If the land near the proposed assisted unit(s) is undeveloped, the assumption shall be that the undeveloped area can be developed to the maximum number of units under current zoning. If an adjacent block is a commercial or industrial zoning classification, the assumption shall be that it could be developed at an R-3 zoning classification density.

In areas where there are substantial numbers of vacant lots, plans for a balanced approach to infill development, that includes both assisted and market-rate units, should be developed and reviewed by the neighborhood organization prior to construction of more than a nominal number of assisted units.

Adopted by Des Moines City Council – Roll Call No. 94-838 on March 7, 1994