

Fee Reimbursement Pilot: Developer Feedback

HOUSING, SAFETY & COMMUNITY COMMITTEE

FEBRUARY 6, 2023

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Today's Discussion

- ◀ Policy Question & Committee Charge
- ◀ Overview of Developer Feedback
- ◀ Committee Discussion

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Policy Referral: Supporting Affordable Housing Development

Policy Question:

Are there options available for the city to implement in terms of lessening the financial burden that development fees place on affordable housing developments?

Committee Discussion:

- ◀ Policy item referred to Committee on June 6, 2022
- ◀ On October 3, 2022, Committee received an overview of the various development fees associated with land development and discussed the implications and options for affordable housing development
- ◀ On November 7, 2022, Committee discussed a draft proposal for a fee reimbursement pilot program

Development Fee Reimbursement Pilot Program Recommendation

- ◀ **Purpose:** Support the production of affordable housing developments throughout the city and incentivize the inclusion of affordable units in market-rate developments.
- ◀ **Pilot Program:** Provide a grant to reimburse eligible land development and infrastructure fees for qualifying projects that incorporate affordable housing units.

Program Design: Project Qualifications

◀Baseline Qualifications:

- 20% of the units in a development must be affordable to households at 60% Area Median Income (AMI) or below
- Affordability period of 30 years
- Minimum of 5 affordable units
- May be rental units or for-sale
- Applies to new construction, acquisition, and rehabilitation projects
- Applies to projects not receiving other city financial investment (e.g., Housing Trust Fund, HOME, CDBG)

◀Percentage of fees reimbursed based on tiered qualifications

Developer Feedback

◀3 meetings - 19 people representing 10 developers

◀Conducted in partnership with Greater Charlotte Apartment Association and REBIC

◀General:

- Fee reimbursement works well for small-to-medium for-sale projects (affordable or mixed-income)
- Welcome but insufficient tool for market-rate multi-family projects
- Emphasized the importance of a suite of tools and incentives and the importance of public-private partnership

Homeownership Example

Works Well

◀ Development Profile:

- 30 affordable homeownership units
- 3-bedroom townhomes
- Sales price = \$300,000
- Eligible for House Charlotte homeownership assistance
- 20% of units at 60% AMI = 6 units
- One-time Development Fees of \$350,000

	Household AMI	
	80%	60%
Bedrooms	3	3
Household Income	\$ 75,350	\$ 56,520
Front End Ratio	28%	28%
Loan Interest Rate*	5.75%	5.75%
Estimated Insurance	\$ 1,500	\$ 1,500
Estimated Tax	\$ 2,316	\$ 2,316
Affordable Loan Amount	\$ 246,784	\$ 171,495
Monthly Payment	\$ 1,440	\$ 1,001
Sales Price	\$ 300,000	\$ 300,000
Gap per Unit	\$ 53,216	\$ 128,505
Fee Reimbursement per Unit		\$ 58,333.00
Homeownership Assistance Needed	\$ 53,216	\$ 70,172

Multi-Family Example

Welcome but Insufficient

◀ Development Profile:

- 250 units
- Mix of 1, 2 & 3 bedrooms
- 60% AMI Rents
 - \$954
 - \$1,145
 - \$1,323
- 20% of units at 60% AMI = 50 units
- One-time Development Fees of \$350,000

	Market	60% AMI
Average Unit SF	1,038	1,038
Monthly Avg. Rent per Unit	1,972	1,095
\$/SF	1.90	1.06
Rental Revenue per Unit	23,666	13,146
Other Income per Unit	1,183	657
Vacancy / Bad Debt per Unit	(1,183)	(657)
Net Revenue per Unit	26,033	14,460
Operating Expenses per Unit	9,278	9,278
Expense Ratio per Unit	36%	64%
NOI per Unit	16,755	5,182
Cap Rate	5.25%	5.25%
Market Value per Unit	319,149	98,713
Market Gap per Unit		220,436
Total Gap		11,021,824

Developer Ideas & Recommendations

(To be evaluated by staff)

◀ Funding-Related:

- A new property tax incentive tool for mixed-income multi-family projects - a time-limited, graduating property tax reimbursement (City and County)
- Fund for subordinate debt/bridge lending - private/philanthropic partnership

◀ Process- and Time-Related:

- Offer concierge service to all projects that include affordable units (not just Housing Trust Fund)
- Dedicated rezoning queue/prioritization for projects that include affordable units
- Add capacity for rezoning cases each month
- More clarity and predictability in process
- On for-sale projects, for non-financial tools, broaden the definition of affordable to match House Charlotte parameters (UDO development incentives)

◀ State-level advocacy:

- Amend definition of affordable in state law (20% at 60% is too restrictive)
- Expand eligibility for Homestead Act (tax relief)
- Establish state Low-Income Housing Tax Credit program
- Address challenges with state building code for commercial to residential conversion

Program Recommendation

- ◀ Allocate up to \$1.5 million investment of ARPA funds for pilot program
- ◀ Estimate 3-4 projects at that funding level
- ◀ Periodic updates to City Council
- ◀ Evaluate after one year or at time of full allocation of pilot funding, whichever is earlier

Discussion

Appendix: Program Design November HSC Committee

Program Design: Project Qualifications

◀ **Baseline Qualifications:**

- 20% of the units in a development must be affordable to households at 60% Area Median Income (AMI) or below
- Affordability period of 30 years
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◀ **Percentage of fees reimbursed based on tiered qualifications**

Program Design: Reimbursement Tiers

◀ **50% Reimbursement:**

- Meet baseline qualifications
- Affordable housing projects receiving non-city public financial investment (e.g., 4% tax credits/bond allocation, NC Housing Finance Agency HOME funds)

◀ **75% Reimbursement:**

- Meet baseline qualifications
- No other public financial investment

◀ **100% Reimbursement:**

- Meet 75% requirements, plus
- Projects that prioritize units for voucher/subsidy holders and accept placements from city's contracted partners
- Projects that establish partnerships that promote upward mobility or provide on-site support services to residents

Program Design: Eligible Fees

◀ Land Development, including:

- Plan Review Fees
- Grading Review & Inspection
- Tree Ordinance Review & Inspection
- Detention Review & Inspection
- Rezoning Fees
- Tree Mitigation Fees

◀ Infrastructure (Charlotte Water), including:

- Water and Wastewater Service Connection
- Water & Wastewater System Development Fees
- Waste Permit Fees
- Project Initiation, Review & Inspection

◀ NOT Eligible

- Revision to approved plans, reinspection and resubmittal fees
- Fees charged by non-city entities/organizations (e.g., Mecklenburg County building permit fees)
- Fees associated with appeals and variances
- Fees for enhanced/expedited review

Program Design: Additional Benefits

◀ Eligible for the development allowances in UDO 16.4:

- Allowances for heritage tree mitigation
- Use of Tier 1 Green Area credits
- Sidewalk cost reimbursement
- Potential waiver of new street requirements

◀ Qualifying projects receive affordable housing “concierge service” through plan review and permitting process

Program Design: Other Considerations

◀Source of Income Protections

- Under recently adopted Council policy, Source of Income protections would apply to developments participating in fee reimbursement pilot program

◀Reimbursement

- All required fees paid 100% at time due – fees reimbursed for approved projects upon verification

◀Monitoring and Compliance

- Developments monitored as part of housing asset management portfolio with annual reporting requirements

Program Design: Funding & Timeframe

◀Allocate up to \$1.5 million investment of ARPA funds for pilot program

◀Estimate 3-4 projects at that funding level

◀Periodic updates to City Council

◀Evaluate after one year or at time of full allocation of pilot funding, whichever is earlier