

Policy, Planning and Financial Tools for Creating Diverse Housing Options to Meet Community Needs¹

FACT SHEET

Municipal “Toolbox” for Affordable Housing Development

Producing a unit of affordable housing – either through new construction or through rehabilitation of existing units or through federally-financed project-based subsidies – requires partnership between municipalities, counties, states and federal agencies. In nearly every affordable housing project, there can be between 7 to 12 sources of financing and partnership.

While municipalities often play a smaller role in financing affordable housing (than either state or federal governments), they play an essential role in the affordable housing process through their planning, land use and other development tools. Municipal contributions for affordable housing finance are often in the form of “gap” financing to make projects work. Municipalities also play an important role in educating citizens and officials about affordable housing needs, supporting funding applications to county, state and federal sources, and negotiating partnership arrangements with developers and non-profits. Given the declining state and federal resources for affordable housing, municipalities must get creative and leverage the limited monies they have available.

Following are some of the tools municipalities can use (in conjunction with Dane County and other agencies) to promote, facilitate and encourage partnerships to meet the housing needs of households within their jurisdiction. We categorize these as planning tools, educational and outreach tools, land use and development tools, and financial tools.

Planning Tools

Housing elements of comprehensive plans. Under Wisconsin law, municipalities which exercise any land use powers (zoning, land division ordinances, official mapping, etc.) are required to have an adopted “Comprehensive Plan” and exercise their land use powers consistent with the comprehensive plan. These plans are required to have “housing elements” and are required to: “provide an adequate housing supply that meets existing and forecasted housing demand ... and provide a range of housing choices that meet the needs of persons of all income levels and of all age groups and persons with special needs, ... and promote the availability of land for the development or redevelopment of low-income and moderate-income housing ...” (Wis. Stat. § 66.1001(2)(b)).

As municipalities revise and update their comprehensive plans, they can use the more detailed information in the Housing Needs Assessment report to understand how their housing needs relate to the supply of housing in the municipality. The data in this report is more detailed than can usually be acquired through the Census or other public sources alone, and can help municipalities perform an assessment of housing supply. Specifically, the information in Section 5 (housing supply) can help

¹ Excerpted from Housing Needs Assessment, Dane County and Municipalities, by Kurt Paulsen, PhD, Urban and Regional Planning Dept, UW Madison, pp 63-66, 2015.

municipalities evaluate how they are doing relative to the county housing market in providing an adequate housing supply and the “range of housing choices.”

The information contained in Sections 3 of the report (household income) and 7 (cost-burdened renter households) can help municipalities evaluate how they are doing relative to the county housing market in providing housing to “meet the needs of persons of all income levels.”

Moreover, municipalities can review their plans and zoning and other development ordinances to monitor whether there is adequate land available for the “development or redevelopment of low-income and moderate-income housing.”

When municipalities review and update their plans and land development policies, citizens and elected officials can work together to update and strengthen language and policies promoting affordable housing opportunities. Municipalities can make clear their vision and commitment to expanding housing opportunities for all households in their planning documents and reports. Integration of affordable housing concerns into local comprehensive plans also allows municipalities to identify those areas most suitable to some affordable units, such as access to public transportation, grocery stores, schools, health facilities, etc.

Decision Making Infrastructure: Housing Committees

Municipalities could consider appointing a working group, task force, or special housing committee to review affordable housing supply and demand issues in the municipality and recommend additional policies or strategies for housing development.

Best practice from around the country indicates these committees could include a wide range of stakeholders, including elected officials, representatives of school districts, realtors, developers, bankers, advocates, neighborhoods, employers, community development authorities, etc. As examples, Middleton has the Workforce Housing Committee and Madison has the Housing Strategy Committee as standing city committees.

Educational and Outreach Tools

Municipalities could undertake outreach efforts to local and regional banks to learn about the types of projects banks might be willing to finance or which types of projects would be most feasible for their community. Many banks have special programs for affordable community investments and may be willing to provide below-cost financing to affordable housing programs in furtherance of their CRA interests. (Reference See <http://www.occ.gov/topics/community-affairs/publications/insights/insights-low-income-housing-tax-credits.pdf>)

Municipalities could also undertake outreach efforts to recruit developers who have experience developing affordable housing in the area. Outreach and pre-negotiation with developers can help a municipality understand the types of projects which might be feasible for their municipality and can help facilitate developers’ applications for tax-credits or other sources of funding.

For purposes of developing affordable homeownership programs, municipalities could consider supporting and partnering with existing homebuyer education programs (Dane County Housing

Authority, City of Madison). Most affordable homeownership programs require participants to undergo homebuyer education or counseling. Municipalities could also partner together to create educational/informational materials for residents which outline the range of financing options for affordable homeownership, including FHA loans, VA loans, and the WHEDA Advantage loan program.

Land Use and Development Tools

Community zoning ordinances and other ordinances determine what types of housing units (density, size, configuration, etc.) can be built in a municipality and affect the costs of the housing units built. Municipalities could review their development regulations and review processes to see whether affordable rental or ownership units could be constructed in their community. In order to promote more affordable ownership and rental housing, municipalities could consider more flexible or reduced design requirements (setbacks, lot sizes, etc.) for affordable housing. For example, communities could examine whether they allow affordably-priced smaller family homes (1,000 to 1,600 square feet) to be constructed on smaller lot sizes (from 6,000 to 8,000 square feet lots).

Municipalities already utilize density bonuses within their zoning ordinances as incentives to developers to provide additional public benefits and amenities. Municipalities could consider utilizing density bonuses to incentivize developers to provide some units of affordable housing in developments. Not all affordable housing units need to be/should be in affordable-only buildings, and encouraging mixed-income developments can increase community buy-in to expanded housing opportunity in the community.

Municipalities could also consider allowing ADU (accessory dwelling units) as a use in some zoning districts. ADUs allow homeowners to create an additional housing unit (often called a “granny flat” or “mother-in-law” suite) which could provide affordable housing while generating some income for the homeowner.

Financial Tools

Municipal financial tools to encourage affordable housing development are often limited, and often amount to efforts to provide “gap” funding or special project funding in order to leverage and secure additional investments from county sources (CDBG/HOME), housing authorities (DCHA), state sources (WHEDA), and national or federal sources (Fannie Mae, Freddie Mac, Federal Home Loan Bank, HUD, etc.). In this section, I briefly outline the main sources for municipalities for funding affordable projects and then I outline the main uses of those funds.

TIF Funds

In 2009, Wisconsin’s TIF law was amended to allow municipalities to keep a TID open for an additional year (once all project costs have been paid), and to allocate additional increment from the TID to affordable housing.

What is helpful about the law is that the additional increments from any particular TID can be used to benefit affordable housing anywhere in the city or village, not limited to the TID which generated the increment. Seventy-five percent of additional increments under the “affordable housing extension” must be used within the city or village to benefit affordable housing, with the remainder not limited to “affordable housing” but only to improving the city’s housing stock. TIF funds can presumably be

used flexibly and creatively in promoting and benefiting affordable housing because there are few specific restrictions in the law.

General Revenue and Debt

Municipalities may also utilize general purpose revenues and general obligation debt to fund affordable housing programs and projects. The advantage of general revenues and debt is the flexibility and creativity which municipalities can use to meet the needs of particular projects. The disadvantage is that affordable housing projects would compete with other important community infrastructure and service needs for limited funding.

Impact Fee Exemption

Municipalities may also provide a reduction or exemption from impact fees for “low-cost housing.”

Use of Funds

Municipal funds can and have been used for providing low-interest or no-interest loans to affordable housing developers, low-interest or no-interest loans to non-profits for land acquisition, site acquisition and remediation costs, infrastructure and site remediation costs (intersections, water/sewer, etc.), down-payment assistance programs, gap financing for LIHTC (low income housing tax credit) projects, on-site supportive social or health services, job training assistance, direct rental or project subsidies, etc. Municipalities should evaluate which financial incentives are necessary to make projects viable or to increase the affordability of projects (deep vs. shallow subsidies) and which projects are most likely to leverage additional outside resources. For example, increased financial participation from a city/village and the county could increase the probability that a project receives a credit allocation (LIHTC) from WHEDA.

Summary

Financing affordable housing projects is a complicated process involving multiple sources of funding and a myriad of state, federal, and local programs. Municipalities often play a coordinating or facilitating role, supporting a non-profit or for-profit affordable housing developer in their applications for additional funds. Municipal financing can focus on infrastructure and site improvements, and gap financing to leverage outside sources.

In-depth Housing Focus Report

One way municipalities could further their understanding of the housing issues in their community would be to undertake a more detailed housing conditions and needs assessment. As a model, the City of Fitchburg recently undertook a detailed housing assessment, available at:

<http://www.fitchburgwi.gov/documentcenter/view/9210>