

November 16, 2004

Affordable Housing, Housing Trust Fund and Housing Commission

Background

On May 6, 1997 the Pima County Board of Supervisors unanimously approved Ordinance 1997-35, adopting the 1997 Bond Improvement Plan and establishing the Pima County Housing Trust Fund (HTF), subject to obtaining legal authority for the County to establish a Housing Trust Fund. The purpose of the Housing Trust Fund was “to facilitate housing repair and investment patterned after the State Housing Trust Fund.” On May 20, 1997, these bonds were endorsed by Pima County voters; and in 2000, the Arizona legislature approved legislation which became A.R.S. 11-381, authorizing counties to establish Housing Trust Funds.

On May 18, 2004, the voters of Pima County approved an additional \$10,000,000 for affordable housing programs. These two bond authorizations, while providing significant progress for improved and expanded housing, are not enough. Moreover, under Arizona law, bond proceeds are limited to the construction of public buildings and infrastructure and cannot be used for projects which provide equity to individual homeowners or for projects which are joint ventures with for-profit developers.

It is now necessary to recommend to the Board of Supervisors a strategy for affordable housing to utilize the Pima County Housing Trust Fund, established in May 1997, to address the growing affordability gap in housing for lower income citizens in Pima County.

The Growing Affordable Housing Problem

Nationally, there is growing testimony that the private housing development market is not producing housing affordable to families in the bottom half of the income strata. The latest evidence is in two reports released on July 20, 2004, one from the National Association of Counties and the second from the Center for Housing Policy, respectively titled *Paycheck to Paycheck: Wages and Cost of Housing in Counties* and *Paycheck to Paycheck: Wages and Cost of Housing in America*. These documents report that many basic and critical service persons, such as school teachers, construction workers, sales persons, and public safety officials, must pay “an excessive portion of their income for rent.” They also report that nationally, 85 percent of county officials surveyed believe that “most new housing in their county is geared to middle and upper-income households, not working families.”

Locally, the increasing gap between household incomes and housing prices is clear. In August the year-to-year increase in median sales price for new homes was \$21,000 (12.3 percent) from \$169,229 in 2003 to \$190,093 in 2004, and the year-to-year average (mean) price increased by \$24,600 or 13 percent from \$190,064 to \$214,664 (*Tucson Housing Market Letter, September 20, 2004*). The year-over-year increase in mean resale prices was \$20,000, from \$169,782 in 2003 to \$189,925 in 2004. In August 2004 only 3.7 percent of new housing sales were priced at less than \$120,000; and only 1.3 percent cost less than \$90,000. At today’s interest rates, the \$20,000, 12.3 percent increase in median new housing price equals \$120 more per month in mortgage payments.

Meanwhile, median household income for Pima County, as reported by the United States Department of Housing and Urban Development (HUD), rose only 2.4 percent, from \$49,200 to \$50,400, for the same 2003-2004 period. Therefore, the gaps between income increase and housing cost increase is widening at a substantial rate. Clearly, the increase in family incomes in Pima County does not match the increase in market price for housing; and the gap between income and housing cost is growing rapidly.

Table 1 illustrates the effect of this gap. The table shows housing purchase prices that are affordable to lower-income families in Pima County, at three different mortgage interest rates. The computations assume the standard HUD and industry recommendation that a family should not spend more than 28 percent of its gross income for housing principal and interest (PI) costs, not including insurance, taxes and utilities. The computations reflect ideal situations, i.e. purchases by households without unusual medical or other non-housing debt burdens. Given the rapid, concurrent rise of medical and medical insurance premium costs, and in consumer credit fees and penalties, there are few lower income families that fit this ideal.

Table 1

**Housing Cost Affordable at Selected Interest Rates
 (28 Percent Gross Income) in Pima County
 (from "Interest.com" mortgage calculator)**

Above or		Affordable Maximum Price at Indicated Interest Rates		
<u>Below Median</u>	<u>Family Income</u>	<u>6%</u>	<u>6.5%</u>	<u>7%</u>
120%	\$60,480	\$190,000	\$180,000	\$171,000
100%	\$50,400	\$150,000	\$143,000	\$135,000
80%	\$40,320	\$111,000	\$105,000	\$100,000
60%	\$30,240	\$72,000	\$68,000	\$65,000
50%	\$25,200	\$53,000	\$50,000	\$47,000

Table 1 indicates that, with mortgage interest rates at 6.5 percent, a family with income at 100 percent could afford to purchase only 18.8 percent of the new houses sold by the Pima County private market in August 2004. Families at or below 80 percent of median income could afford only 2.5 percent of August's new houses and only about 23 percent of resale houses. Families making 60 percent or less of median are largely excluded from the comparative private sector housing market.

Housing Trust Fund, the Affordable Housing Strategy

The purpose of an affordable housing strategy is to use the Pima County Housing Trust Fund to address the growing home ownership affordability gap. The goal is to increase home ownership in

Pima County among lower income households, defined as households at or below 80 percent of median household income, and to provide those households with the opportunity to accumulate housing equity and begin the process of building wealth.

To achieve this goal, Housing Trust Fund objectives are: a) to increase the number of new housing units produced in Pima County that are affordable to households making less than 80 percent of median; b) to improve access of lower income households to affordable financing; c) to conserve existing affordable housing units and neighborhoods; and d) to assist lower income households, when necessary, to maintain their home ownership, their financing, and their equity.

Specifically, the Housing Trust Fund should be used in three general program areas:

A. Down Payment and Other Direct Assistance Programs

Forgivable loans and other up-front assistance for first-time homebuyer households with incomes at and below 80 percent median household income (MHI). The program should require pre-purchase financial counseling and homeowner education for all buyers. The down payment assistance program may be combined with other complementary program initiatives which provide additional assistance to the home buyer, and which lower the income level at which a household might consider homeownership. Some complementary programs with which the down-payment assistance program may be combined are:

- Employer Assistance Programs for Workforce Housing
- Mortgage Revenue Bonds
- Secondary Market (Fannie Mae/Freddie Mac) Initiatives

Staff will detail the availability of these programs to Pima County residents and report their funding within 60 days to the Board.

B. Qualified Non-Profit Agency (NPA)

Loan, grant and infrastructure assistance to housing development and production programs that are sponsored by non-profit agencies and are affordable to households at and below 80 percent median household income. Particular attention should be paid to funding projects where there is active involvement and collaboration between the NPA and for-profit builders and developers.

The objective is not to replace the for-profit builder, but to encourage and facilitate for-profit developers and builders to be active producers of housing affordable to all income levels.

This program has been the most used to assist builders to reduce the cost of housing.

C. Housing Conservation and Rehabilitation Programs

Assistance provided to programs that conserve existing homes and existing neighborhoods for homeowners and purchasers who are at or below 80 percent of median household income. The program should include purchase-rehabilitation-resale projects, emergency repair and emergency rent and mortgage assistance programs, targeted programs for elderly and disabled home owners, and projects that rehabilitate rental units and guarantee sustained affordability for households at and below 65 percent median household income.

Need for Affirmative and Direct Action

The housing affordability gap is a serious problem in Pima County. Further, the development community appears ready to participate in solving this problem. Because of this, I am recommending that the Board of Supervisors consider the following action.

Direct staff to develop an affordable housing strategy that includes a program of financial contributions to a Housing Trust Fund. The scale for contributions are progressive, with no contribution expected for houses costing less than \$135,000 and significantly larger contributions from the increasing number of houses costing in excess of \$500,000. The table below is my recommended list of contributions, together with an estimate of the maximum annual contribution which this schedule might generate. This estimate is extremely optimistic, because it is based on the total number of permits expected to be issued in unincorporated Pima County in calendar year 2004. However, this number includes permits which are issued on existing entitlements. The number of permits which require a development plan, and consequently the number of contributions, will be far lower than the estimates in Table 2.

Table 2

Fee Generated Revenues
 (Computed on average number rooftops for 2003 and 2004, full year, only)

<u>Estimated Rooftop Value (000's), Structure Only</u>	<u>Estimated New Rooftops (Unincorporated)</u>	<u>Contribution Factor</u>	<u>Contribution per Rooftop</u>	<u>Estimated Annual Revenue Generated</u>
<135	281	0.0%	\$ 0	\$ 0
135-185	524	0.2%	\$ 320	\$ 167,680
185-250	1250	0.4%	\$ 870	\$ 1,087,500

250-350	626	0.6%	\$ 1,800	\$1,126,800
350-500	142	0.8%	\$ 3,400	\$ 482,800
500-1,000	18	1.0%	\$ 7,500	\$ 135,000
>1,000	<u>10</u>	1.5%	\$15,000	<u>\$ 150,000</u>
Total New Housing	2,851			\$3,149,780

In summary, the contribution requirement is as follows.

Table 2a

Affordable Housing New Sales Contribution

<u>Estimated Residential Structure Value</u>	<u>Contribution Factor</u>
\$0 to \$135,000	0.0%
\$135,001 to \$184,999	0.2%
\$185,000 to \$249,999	0.4%
\$250,000 to \$349,999	0.6%
\$350,000 to \$499,999	0.8%
\$500,000 to \$999,999	1.0%
>\$1,000,000	1.5%

These contributions would be a one-time contribution paid at the time a new house is permitted.

There has been some discussion regarding how to capture contributions from the resale housing market. Again, capturing these contributions is not presently allowed by law. I considered proposing a resale contribution to the Housing Trust Fund. However, I have decided against this because of the administrative cost to Pima County and the undue burden on the real estate community.

Accountability and Transparency

In order to assure the highest accountability to the voters for use of bond funds approved for housing and to promote effective collaboration between the County, the non-profit and for-profit development community, an eleven-member Pima County Housing Commission will be formed. Two Commission members will be appointed by each of the members of the Pima County Board of Supervisors and one by the County Administrator. The purpose of the Commission will be to provide oversight and monitoring of all Housing Trust Fund and Affordable Housing Strategy issues that are placed before the Board of Supervisors for consideration. The Commission will be provided a budget sufficient to carry out this work and to fund an annual, independent audit of all financial transactions and records

of the Commission and of the Housing Trust Fund, which will be made public. The Commission will be monitoring the implementation of the Housing Trust Fund and the overall Affordable Housing Strategy, including the program and schedule of contributions to the Housing Trust Fund. The Commission shall hold public meetings as necessary, but no less than four times each year, and will submit an annual report to the Board of Supervisors.

Funding allocations to specific Housing Trust Fund projects will occur only after a public hearing is held by the Board of Supervisors. The Board shall take into consideration review and comments made at the public hearing when selecting specific projects to fund.

Recommendations

It is recommended that the Board of Supervisors:

1. Adopt the Affordable Housing Policy goal of increasing home ownership of those persons with or households at or below 80 percent of the median income by 10 percent before the end of this decade.
2. Adopt the Affordable Housing Strategies of a) down payment or other direct assistance programs, b) implementation through a qualified non-profit agency and/or partnership between a non-profit and for-profit entity, and c) implementation of housing conservation and rehabilitation programs.
3. Forego the concept of inclusionary zoning and amending the Zoning Code to require specific affordable housing units set aside for each rezoning and/or residential development approved in Pima County. Inclusionary housing zoning has often led to and created identifiable economic segregation within residential communities and such should be avoided.
4. Initiate an amendment of the County Comprehensive Plan to include the affordable housing policy and strategies in the County Comprehensive Land Use Plan.
5. Adopt the initial contribution guidelines in concept for new housing identified on Page 5 to generate resources sufficient to implement the affordable housing strategies identified in this memorandum. Ask the newly appointed Housing Commission to hold a public hearing on the conceptual contribution guidelines and report findings and recommendations, and whether the contribution guidelines should be modified or permanently adopted. The report of the Commission to the Board should occur no later than May 10, 2005.
6. Authorize the creation of a Housing Commission. I will appoint the Executive Vice President of the Southern Arizona Home Builders Association to the Commission.
7. Request that all new rezoning or specific plans for residential development before the Board for legislative consideration comply with the Affordable Housing Policy and implementation of

strategies, including the contribution schedule. Further, that the required contribution be collected at the time of the issuance of building permits for the approved rezoning and/or specific plan.

8. Direct that compliance of this policy for all new rezoning or specific plans approved by the Board be carried out through a development agreement to be entered into between the property owner and Pima County.

Respectfully submitted,

C.H. Huckelberry
County Administrator

CHH/jj (October 21, 2004)