

March 16, 2021

To: Mayor and Members of City Council
From: Paula Boggs Muething, City Manager
Subject: Affordable Housing: Recommendations

REFERENCE DOCUMENT #202100478

Economic Growth and Zoning Committee at its meeting on February 3, 2021 referred the following item for review and report:

WE MOVE that the City Administration produce a report on affordable housing within the City of Cincinnati that includes, but is not limited to: Identification of building inventory currently in the Port Authority's Land Bank which may be suited for affordable housing. Methods for inclusion/equity in the transfer of property from the Land Bank to any individual or developer. Accounting of all current funds in the Affordable Housing Trust and identification of potential sources of additional funds.

Summary and Context

This report provides an overview of the role of the City in the production of affordable housing, information on the City's current activities, and recommendations on how the City can facilitate preserving and increasing the supply of affordable housing.

The term "affordable housing" encompasses a broad array of housing products—from lower cost housing primarily created by market forces to publicly funded or even publicly owned housing units. This term encompasses both single-family housing or multi-family housing and either rental or owner-occupied. The degree of affordability of a particular housing option is relative to an individual's or household's income—the general standard of affordability is that no more than thirty percent of a household's gross income should be committed to housing expenses.¹

¹ For renters, expenses include both rent and utilities. For homeowners, expenses include mortgage payments, property taxes, utilities, homeowner's insurance, and maintenance expenses.

The price of housing in a particular market is driven by the basic economic forces of supply and demand.² Real estate prices are particularly affected by the cost of producing additional supply since housing development is resource-intensive, high-risk, and requires extensive, time consuming planning. There is a long history of local, state, and federal government intervention in the private housing market to achieve public policy goals, such as affordability; these steps have had mixed success.

Current market conditions in the City of Cincinnati regarding affordability are ever evolving and have been studied in-depth by multiple external groups. This report is not intended as a statement on current market conditions or a description of all City activities or policies that assist lower income households with housing, such as eviction prevention or job training programs. The purpose of this report is to contextualize current City activities in the housing market to facilitate production of new affordable housing and to recommend strategies for preserving and increasing housing affordability throughout the City.

City's Role in New Affordable Housing Production and Current Programs

The City is not a developer and does not directly develop housing; therefore, all housing production in the City and all City efforts in this area are dependent upon a willing developer to invest resources in creating new units or rehabilitating existing housing units. These developers are primarily for-profit private parties, supplemented in our region by the activities of several non-profit developers and quasi-governmental entities, such as the Port of Greater Cincinnati Development Authority and the Cincinnati Metropolitan Housing Authority.

The City generally plays two roles in direct housing production: (1) regulatory and (2) providing incentives.

The City's regulatory function includes its role in administering and enforcing the State of Ohio building code and, as a home-rule municipality, in passing and enforcing a zoning code.

The current City programs that incentivize housing production focus on: (1) decreasing the costs of creating or operating housing, primarily through property tax exemptions, or (2) providing direct funding to subsidize the cost of producing new housing.

Current Programs

The City Administration has previously reported and presented on current City programs that facilitate new affordable housing production. Accordingly, this section is a high-level overview of existing programs.

² Glaeser, Edward and Gyourko, Joseph. 2018. "The Economic Implications of Housing Supply" *Journal of Economic Perspectives* 32(1): 3-30.

The City's activities to encourage and support affordable homeownership are detailed in a recent report dated 12/16/2020 (Item #202002025), filed in response to a motion from Councilmember Kearney. These activities include offering tax incentives or direct funding, with funding programs focused primarily on subsidizing repairs for homeowners, down-payment assistance for first-time homebuyers with an income at or below 80% of the area median income, or subsidizing projects developing single-family homes.

The City's primary program to fund affordable multi-family housing production is through NOFA – Notice of Funding Availability. Through this competitive program the City deploys available local and federal funding to developers in the form of loans or grants. This includes the deployment of available HOME and CDBG funding and any City capital funds appropriated for these purposes. In 2019 and 2020, this program facilitated the creation of over 700 units of affordable housing. The effectiveness of the NOFA program in creating new housing units is largely tied to the ability of developers to integrate and leverage the City's funding with other subsidy programs (such as the federal Low-Income Housing Tax Credits, state or federal New Markets Tax Credits, or state or federal historic tax credits). NOFA is cyclical and typically deploys funding through two application cycles each calendar year.

Recommendations

Over the past seven months, the City Manager's office has reviewed financing options, engaged City partners, and benchmarked programs in other cities. As a result, we have developed the following recommendations for preserving and increasing housing affordability within the City.

Recommendation: Create a Structure to Encourage Informed Public Discourse on Affordable Housing Development and the Strategic Deployment and Oversight of Available Public Funding

At present, there are many perspectives in the public discourse about the best way to address the issue of affordable housing within the City. In order to promote a more formalized and informed public discussion of this issue and to generate a comprehensive strategy with public and private support, the City Administration recommends appointing a Housing Advisory Board pursuant to Cincinnati Municipal Code Chapter 209 and Ohio Revised Code Chapter 176. Under state and local law, this board is intended, among other purposes, to review and advise upon comprehensive plans for the preservation and development of affordable housing in the City. At present, the City of Cincinnati relies on the Community Development Advisory Board, known as CDAB, to serve as the City's housing advisory board for use as both the housing advisory board required for federal sources and as required under Ohio Revised Chapter 176.

The City Administration recommends separating the state law-based housing advisory board into a distinct board that would be solely focused on developing, in cooperation with the City Administration, comprehensive priorities for the

development and maintenance of affordable housing within the boundaries of the City and deployment of funding described herein. This separate board will have expertise in issues affecting housing development and affordability and can consider the broad range of resources and solutions available to address these issues as it develops priorities to meet the challenge. Once finalized, these priorities will be submitted to Council for approval and will inform the implementation of the programs described below.

The Housing Advisory Board is appointed by the Mayor with consent from Council, and, as set forth in state law and in the municipal code, would include representation from the following groups:

- Institutions that lend money for housing;
- Nonprofit builders and developers of housing;
- For-profit builders and developers of housing;
- For-profit builders and developers of rental housing;
- Real estate brokers licensed under Ohio Revised Code Chapter 4735;
- Other persons with professional knowledge regarding local housing needs and fair housing issues;
- Residents of Cincinnati that could receive housing assistance from the City;
- The Cincinnati Metropolitan Housing Authority;
- City Councilmembers;
- Additional groups or individuals that are necessary to provide balanced advice on housing plans and programs.

Recommendation: Formalize Finance and Development Partnerships into Structured Programming

Urban redevelopment projects face many challenges. Large urban development sites are often difficult to assemble and costly to acquire; intensive site work, demolition, or environmental remediation may be required; developers must navigate complex regulatory frameworks and approval processes; and some projects will face community opposition. These factors result in higher development costs. To be financially feasible, a project's revenue must support the higher costs of development. Accordingly, in the City of Cincinnati, many market-rate development projects are not financially feasible without some level of subsidy.

Lowering rents or sale prices in order to increase housing affordability reduces the amount of revenue that a project produces. This introduces a further challenge to developing an affordable housing product. To make affordable housing projects financially feasible, this reduced revenue must be accounted for with additional equity or debt financing to subsidize the development costs. Given these conditions, addressing today's affordable housing needs requires government intervention and subsidy.

The two industry professional groups most critical for improving housing production are financiers and developers. Many effective partner organizations already exist in our region in these areas—including but not limited to the Cincinnati Development Fund, LISC, and the Port of Greater Cincinnati Development Authority. The City Administration recommends formalizing partnerships with existing organizations and creating programming to achieve two goals: (1) to increase available financing tools to encourage the production of new housing units and the preservation of existing affordable housing units and (2) to increase capacity within the development industry for production of housing units.

From the financing perspective, the City Administration recommends establishing a partnership with a local CDFI³ for deployment of the funding described below. The program structure would focus on providing low-cost financing and direct subsidy to facilitate the development of affordable housing.

- 1) Section 108 Loan Pool – The City would pursue a Section 108 Loan from the United States Department of Housing and Urban Redevelopment under the Community Development Block Grant program in a minimum amount of \$20 million to fund a loan pool for financing the acquisition and rehabilitation costs of residential properties where the developer/borrower will make between 51% and 100% of the units available to low to moderate income individuals. The loan pool would be structured to provide loans with favorable interest rates to encourage the private market, non-profit or for-profit organizations, to utilize this financing to acquire, rehabilitate, and preserve already existing housing units. As a requirement of the loan, a restrictive covenant would be placed on the property securing the long-term maintenance of the units as affordable.

- 2) Affordable Housing Trust Fund – The City would pursue consolidation of all local funding currently earmarked for affordable housing into a fund that will be utilized to provide loans—including, when feasible and appropriate, forgivable loans—to provide for flexible local financing and subsidy for affordable housing projects. To increase overall impact, program parameters would ensure that the fund could leverage other sources of funding for affordable housing projects, including private funding, federal and state tax credit programs, etc. Any principal repaid on the primary loans will be recycled for new projects. The forgivable loans would be similar to grants, but would provide enhanced accountability and would only be forgiven once certain affordability benchmarks are satisfied. City funding sources would include all funds that have been committed to the Affordable Housing Trust Fund and any additional sources appropriated by Council for this purpose. As described below, this local public investment would be utilized to raise as much private funding as possible to supplement and leverage public resources.

³ Community Development Finance Institution.

As described above, all housing development that occurs in the City is dependent upon a willing and effective developer. To make a material impact on housing affordability, our City needs increased capacity in both for-profit and non-profit housing developers. To begin this process, the City Administration recommends establishing a program with the Port of Greater Cincinnati Development Authority, including its affiliated organizations the Landbank and the Homestead Urban Redevelopment Corporation. This program would focus on the goal of building development capacity in community development corporations and similar community-based development organizations.

These community-based development entities play a critical role in both completing development projects in their neighborhood but also facilitating larger development projects being undertaken by other developers, providing a bridge between for-profit developers and residents. These organizations also function to balance community concerns and feedback with project viability, creating successful projects with community support. All City neighborhoods deserve the benefits provided by a community-based development organization, so this program will work to provide those benefits where organizations do not currently exist. In areas where we already have excellent community-based development organizations, this program will seek to increase capacity.

The City Administration recommends development of additional programming in this area to address targeted housing development capacity needs, based on feedback and input from the Housing Advisory Board.

Throughout these proposed programs, there will be an emphasis on participation by minority-owned and women-owned business enterprises to increase capacity and access to opportunity for these organizations.

Recommendation: Leverage City Investment to Fundraise from Private Parties

While government subsidy is critical to addressing affordable housing needs, government alone cannot solve this societal issue. To increase overall funding, the City Administration recommends a strategy of consolidating all available City funding in order to leverage the public investment to attract private funding. The consolidated fund would be deployed, as described above, through the Affordable Housing Trust Fund programmatic structure for provision of loans to provide flexible local financing and subsidy for affordable housing projects.

To accomplish this purpose, the City Administration recommends formalizing a fundraising campaign with financing partner(s), members of the Housing Advisory Board, and other key public and private organizations.

Recommendation: Legislatively Streamline Housing Production

Regulatory costs increase the overall cost of housing development and can often serve as a barrier to market entry for small or less-experienced developers—in both

instances constraining the production of additional housing supply. Over the years, regulations have been enacted on a one-off basis and often without providing the legislative body with a clear picture of the impacts on overall development costs. Given the increasing need for all housing products, the City Administration recommends a concentrated effort to reduce portions of the regulatory framework that can serve as an impediment to housing production. This process would include amendments to the zoning code to streamline approvals, re-alignment of staff involved in regulation of housing production, and removal of other barriers to housing development. This focused realignment of the City's regulatory functions would reduce costs and the timelines associated with producing additional housing supply.

The City Administration does not recommend as a strategy for production of affordable housing the maintenance of existing or creation of new regulatory barriers to housing production—such as inclusionary zoning regulations. Research shows that, even in the strongest of markets, inclusionary zoning is ineffective at producing material amounts of affordable housing. Some evidence suggests that it may contribute to higher overall housing prices and reduced construction of new units.⁴ Cincinnati is not a leading housing market and city officials must be cognizant of regulations that will suppress market participation. Reducing regulatory barriers to development while providing additional resources to proactively assist the development of affordable housing, as described above, balances the local market realities with housing needs to materially increase affordable housing units.

The City Administration will present legislation and internal updates to implement this recommendation, including but not limited to legislation focused on lifting parking requirements and density restrictions in targeted areas; amending the administrative code to realign development focused city staff and improve operations; allowing more as-of-right housing development options, including accessory dwelling units; clarifying variance standards; pre-approvals of certain affordable housing incentives, such as CRA incentives for projects that meet certain affordable housing benchmarks; and adjustments to clarify and streamline other development regulations, including hillside overlays and setback regulations.

Conclusion

The production of housing is a complex and expensive undertaking; however, increased production of all housing, affordable projects to market-rate, is critical to addressing the need for increased housing affordability. To facilitate increased supply, the City Administration is recommending a multi-pronged approach that focuses on building a cohesive strategy to be executed through partnerships and structured programs. Public investment will be utilized to attract private investment in order to expand impact and the City will take steps to streamline the regulatory framework that constricts supply. Deploying these recommendations will leverage

⁴ Freeman, Lance and Schuetz, Jenny. 2017. "Producing Affordable Housing in Rising Markets: What Works?" *Cityscape: A Journal of Policy Development and Research* 19(1): 225-227.

limited public resources and encourage private investment, meaningfully advancing the goal of materially increasing housing affordability throughout Cincinnati.