

Memorandum

3/22/21

Community & Economic Development

Heather Carrington, Community & Economic Development Officer
hcarrington@winooski.vt.gov

To: Housing Commissioners

RE: March Housing Commission Meeting

Family Housing Incentives

At the December meeting, the Housing Commission looked at how Winooski rentals compare to other towns in terms of the number of bedrooms being provided. Winooski has a much larger proportion of 0- and 1-bedroom rentals making up 56% of all rentals, with a much smaller share of 2- or 3-bedroom rentals that are better suited for families. The construction bedroom counts provided in the January memo further demonstrated the lack of new family rental housing production in Winooski. Developers have reported that units with more bedrooms are less financially feasible to build. In order to incentivize the construction of more family-sized rentals, it is essential to establish policies that close that financial gap.

At our January meeting we began to discuss some policy approaches to incentivizing family housing construction. No single policy listed here will, in isolation, fully close the financial gap. However, a combination of several possible policy approaches used as a suite of incentives may positively impact family housing development. The approaches we discussed at January's meeting are listed at the end of this memo, with the full descriptions provided from the January memo.

In preparation for the March meeting, Commission members are asked to utilize the Grounded Solutions Inclusionary Housing Calculator to model the impacts of various incentives for housing affordability. The calculator is available at: <https://inclusionaryhousing.org/calculator/>. This tool allows the user to add and remove incentives to see the financial impact to the project feasibility reflected. The incentives include all of the approaches that we are discussing, and serves as an excellent modeling tool for quantifying the financial impact of possible approaches. We have previously used this tool to evaluate changes to parking minimum requirements on the feasibility of a real construction project in Winooski.



A Winooski developer was willing to provide the financials associated with a housing development that was constructed in Winooski over the last few years. Staff has populated the inclusionary housing calculator with the real world numbers. Please feel free to use the numbers provided in the guide below to establish baseline project financing for your use in evaluating the impact of various potential housing incentives. The top right of the page will display the cost, profit and feasibility of the project. These numbers will adjust based on any shifts to incentives, costs, or project parameters.

Click on the "More" button to expand the panel to include further project specifics under each category heading.

The screenshot shows the 'Inclusionary Housing Calculator' web application. At the top, it displays the 'GROUNDED SOLUTIONS NETWORK' logo and the project name 'East Allen Street'. The user is logged in as 'Hello, Heather'. Key financial metrics are shown: **FEASIBLE** (with a green checkmark), **COST \$4.90 M**, **PROFIT \$626.6 K**, and **PROJECT VALUE \$5.53 M**. A circular gauge indicates a **12.8%** profit margin.

The main section is titled 'PROJECT' and includes the following data:

- Units per acre: 109.09
- Total square feet: 16,641
- Total parking spaces: 30
- DESCRIPTION: East Allen Street
- BASE UNITS: 24
- SITE AREA: 0.22 acres
- PARKING RATIO: 1.25 (spaces per unit)
- COMMON AREA %: 12%
- COMMERCIAL SPACE (sq ft): 0
- COMMERCIAL RENT (per sq ft, per month): \$0.00
- OTHER RENTAL INCOME (per month): \$0.00

The 'UNIT MIX' section features a donut chart showing 81% 1BR and 19% Studio units. Below it is a table of 'UNIT SPECIFICATIONS':

	# units	avg. size (sq. ft)	approx. rent
<input checked="" type="checkbox"/> Studio	4	466	\$1,100
<input checked="" type="checkbox"/> 1BR	20	639	\$1,403
<input type="checkbox"/> 2BR	0	1114	\$0.00

On the right side, there are two panels, each titled '24 base Market Rate units', showing a grid of unit layouts with '4 stu' and '20 1br' labels.



GROUND SOLUTIONS NETWORK Inclusionary Housing Calculator

Projects: **East Allen Street** [Sign In] [Create Account]

Autosave Save As... Revert to defaults

AFFORDABILITY

Total affordable units: **0** Total affordable housing fee: **\$0.00**

AFFORDABLE UNITS AS % OF TOTAL UNITS **0%** AFFORDABLE HOUSING FEE **\$0.00**

AMI: AREA MEDIAN INCOME for a family of 4 **\$84.3 K**

AFFORDABILITY STANDARD **30%** 33% 35%

Affordable units breakdown: **100%**

AFFORDABILITY LEVELS: A 100% of AMI, B 80% of AMI, C 60% of AMI

This development doesn't contain any affordable units. Adjust "AFFORDABLE UNITS" at the top of the page to add some affordable units to your development.

24 base Market Rate units

For the baseline financial feasibility of the project, it's helpful to start with 0% affordable units. The Area Median Income used for the purpose of this exercise was the median for a family of 4 at the time this development was constructed. Keeping that number in place ensures that the costs and potential revenues continue to align. If we were to update the AMI, we would also need to update all of the construction costs for the formula to work correctly. This exercise is reflective of a specific point in time.




The screenshot displays the 'Incentives' section of the 'Inclusionary Housing Calculator' software. The interface is divided into several sections:

- AVAILABLE INCENTIVES**: A grid of seven incentive options, each with a brief description:
 - Density Bonus**: An allowance for additional bonus units.
 - Parking Reduction**: The developer is required to build fewer parking spaces.
 - Streamlined Processing**: The process of applications, permitting etc. is expedited.
 - Fee Reduction**: A reduction in fee, based on the number of units.
 - Tax Abatement**: The developer is incentivized with a reduction in taxes.
 - Grant (per unit)**: A developer grant based on the number of units.
 - Annual Operating Grant**: Any annual grant or operating subsidy incl. any rent subsidies.
- MY INCENTIVES**: A list of selected incentives with checkboxes and input fields:
 - PARKING REDUCTION: 0% fewer spaces
 - STREAMLINED PROCESSING: 0.00 months
 - FEE REDUCTION: \$0.00 per unit
 - TAX ABATEMENT: \$0.00 per unit, Term (yrs): 10
 - GRANT: \$0.00 per unit
- Summary**: Units per acre: 109.09, Total Square Feet: 16,641, Total Parking Spaces: 30.
- Preview**: Two panels on the right showing '24 base Market Rate units'.

The incentives section allows you to click on the incentives boxes to add them to the “My Incentives” section for consideration as part of the project financials. The only incentive that has not been discussed by the Housing Commission is the Annual Operating Grant, so all of the others have been added. The incentive numbers can be set and then turned on and off using the check boxes. This allows the user to see the financial impact of any combination of incentives on the project feasibility.

The numbers for the remainder of the sections (next page) were provided directly by the developer. Please note that the impact fees listed do not include the proposed new Winooski transportation impact fee. Should the new impact fee be approved, this number would change depending upon any exemptions included in the fee ordinance.





GROUNDING SOLUTIONS NETWORK

Inclusionary Housing Calculator

Projects: **East Allen Street**

Save | Sign In | Create Account

Autosave | Save As... | Revert to defaults

DEVELOPMENT COST

Total Development Costs per square foot: **\$294** Development cost per unit: **\$204.1 K**

<p>CONSTRUCTION COSTS per square foot</p> <p>\$158 [Progress Bar]</p>	<p>LAND COST total cost</p> <p>\$300.0 K [Progress Bar]</p>
<p>COST PER PARKING SPACE</p> <p>\$25.0 K [Progress Bar]</p>	<p>SALES AND MARKETING COSTS</p> <p>2% [Progress Bar]</p>
<p>SOFT COSTS (as % of hard costs)</p> <p>20% [Progress Bar]</p>	<p>OTHER DEVELOPMENT COSTS (total)</p> <p>\$100.0 K</p>
<p>RESIDENTIAL IMPACT FEES</p> <p>\$2,000 [Progress Bar]</p>	

Less ^

OPERATING COST

Net Operating Income: **\$296.0 K**

<p>RENTAL VACANCY RATE</p> <p>5% [Progress Bar]</p>	<p>RENTAL OPERATING COST</p> <p>20% [Progress Bar]</p>
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FINANCING

Construction Loan Amount: **\$3.60 M** Development Costs per Unit: **\$204.1 K**

<p>CONSTRUCTION LOAN INTEREST RATE</p> <p>5% [Progress Bar]</p>	<p>LOAN TO COST RATIO</p> <p>80% [Progress Bar]</p>
<p>PERIOD OF INITIAL LOAN (months)</p> <p>36 [Progress Bar]</p>	<p>INITIAL CONSTRUCTION LOAN FEE (points)</p> <p>2% [Progress Bar]</p>
<p>AVERAGE OUTSTANDING BALANCE</p> <p>60% [Progress Bar]</p>	

PROFITABILITY

Total Profit: **\$626.6 K**

<p>MEASURE OF PROFITABILITY</p> <p>Profit as a % of Development cost Yield on Cost Residual Land Value</p>	<p>REQUIRED PROFIT (% of development costs)</p> <p>12% [Progress Bar]</p>
<p>CAP RATE</p> <p>5.25% [Progress Bar]</p>	

24 base Market Rate units

4 stu
20 1br

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4 stu
20 1br

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Municipal Fees

In order to weigh the potential impacts of the approaches under discussion, the Commission requested further information to understand what the dollar amounts of various municipal fees would be. The specific fees that were raised included: building and zoning permit fees, water and wastewater allocation fees, and impact fees (not yet in place). These fees are set by municipal ordinance following a formula, and the fee chapter of the Winooski Municipal Code is included as an attachment in your packet.

To give one example of a recent mixed use project with 27 housing units, the associated fees were roughly as follows:

Combined Building/Zoning Permit Application - \$8,145

Water Allocation Fee: \$26,227

Wastewater Allocation Fee: \$46,150

These are not the only municipal fees, but reflect the fees we have discussed to date. The impact fee ordinance has not yet been adopted. Based on the current language and formulas, the impact fee for the housing component of the example above would be roughly \$27,000. In total, the fees discussed would cost the project \$107,522.

Waivers or discounts on these fees could contribute to incentivizing development of family housing, but would not provide adequate incentive without significant additional approaches.

Review of Potential Incentives from January 2021 Meeting Memo

Density bonuses:

The Form Based Code for the Winooski Gateways already contains a density bonus through a bonus story incentive which allows for an additional building story when affordable housing is part of a project. However, this has not been an effective approach for Winooski to date. One reason for this is that once a 5th story is added to a building it requires a more expensive steel frame construction rather than timber construction, thus does not properly function to make construction less expensive.

An example of a municipal density bonus program to incentivize family housing can be found at:

<https://gqwash.org/view/37492/dc-proposes-an-incentive-for-three-bedroom-apartments>



Tax incentives:

Tax incentives can be used to stimulate specific desired types of development. For a primer on tax incentives, please see the following weblink:

<https://www.localhousingsolutions.org/act/housing-policy-library/tax-incentives-for-new-construction-and-substantial-rehabilitation-overview/tax-incentives-for-new-construction-and-substantial-rehabilitation/>

As delineated by Local Housing Solutions, tax incentives are generally established as either tax abatements or tax exemptions:

"*Tax abatements* reduce the total amount of tax owed, generally for a fixed period of time, such as five or 10 years. When used as an incentive to stimulate new development, owners typically receive a discount on their tax bill for the duration of the abatement. The discount may be all or part of a particular taxing jurisdiction's share of total property tax revenue. Alternatively, an abatement could be used to spur rehabilitation, with the tax reduction sized based on the amount of work done."

"*Tax exemptions* adjust the value of the property subject to taxation; the resulting assessed value is then used to calculate the total amount of tax owed. For example, local jurisdictions wishing to stimulate new development on vacant lots can exempt the value of any improvements on the lot (such as a new building) for a defined period of time when calculating property tax liability. Tax exemptions can also be used to provide an incentive for the rehabilitation of aging housing developments. Typically, the property continues to be assessed at the pre-renovation value for the duration of the exemption."

Tax incentives have not been used in Winooski over the last fifteen years at least. Building the political will to utilize tax incentives would be a time and process intensive undertaking.

Municipal and State Fee Exemptions or Discounted Rates:

The City could reduce the cost of developing family housing by exempting family housing projects from a variety of municipal development-related fees including:

- zoning application fee
- water/wastewater allocation fees
- impact fees (if instated)

It would also reduce development expenses if the City advocated for discounts or exemptions at the state level particularly for Act 250 fees. The Act 250 fees would have a far more significant financial impact than all of the municipal fees combined.



Housing Trust Fund Priority and/or Increased Loan Maximum:

The Housing Trust Fund scoring criteria could be adapted to give highest priority to affordable family housing projects. In addition, family housing projects could be eligible for a higher maximum loan amount.

Reduced Parking Minimum Requirement:

The Housing Commission has previously recommended that the Planning Commission should reduce the required minimum parking spaces for new affordable housing development. Construction of parking spaces for new housing comes at a cost, which is then passed along to the households who occupy the new units. These costs can be a significant portion of the overall cost of new housing construction. Based on the Housing Commission literature review, the cost of new parking spaces is roughly \$5,000 - \$10,000 per space for surface parking and \$25,000 - \$40,000 per space for structured parking. Specifically reducing, exempting or waiving a percentage of the requirement for family housing could quickly provide big savings.

