



City of Medford

# REGULATORY BARRIERS TO AFFORDABLE HOUSING

January 2009

HUD'S NATIONAL CALL TO ACTION

City of Medford Regulatory Barriers to  
Affordable Housing Task Force





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## **EXECUTIVE SUMMARY**

This report of the Regulatory Barriers to Affordable Housing Task Force is in response to the Housing and Urban Development's National Call to Action, a campaign designed to enlist states, local communities and affordable housing advocacy groups across the nation to commit to producing affordable housing through public participation in a national network for regulatory reform.

Studies have shown that regulatory barriers can increase housing costs anywhere from 10 to 35 percent, and in many cases, can even prevent the construction of affordable housing. A regulatory barrier to affordable housing is defined by HUD as a public or regulatory requirement, payment, or process that significantly impede the development or availability of affordable housing without providing a commensurate health and/or safety benefit.

Regulatory reform is just one piece of the puzzle of affordable housing development. Yet, it has been found that communities that develop solutions on the regulatory front not only produce more affordable housing but are also more likely to develop other innovative solutions to address the lack of affordable housing.

The City of Medford has been working to address the problem of affordable housing development through the work of its Housing and Community Development Commission. Since its inception in 2002, the Commission has been exploring ways to support the preservation of existing affordable housing resources and the creation of additional affordable housing to meet the needs of its lower income citizens. The City of Medford was a major sponsor and organizer of the Southern Oregon Workforce Housing Summit held in 2006 and attended by more than 200 people. A Regulatory Barriers Committee was first established as a result of this housing summit.

Mayor Gary Wheeler, on behalf of the City of Medford, joined the HUD National Call to Action in 2007. Medford became one of four cities in Oregon to create a task force to look at regulatory barriers to affordable housing and determine strategies to deal with such barriers. The task force created included members of the Housing and Community Development Commission, Planning Commission, Site Plan and Architectural Review Commission as well as nonprofit and private developers and real estate brokers. The task force met for the past year to research possible barriers and to develop recommendations supporting affordable housing. In general, the task force found that the City of Medford did not have a lot of barriers to affordable housing. There were several codes and ordinances as well as practices that added time and complication to the overall development process which impacted all developers, especially affordable housing developers since they operate on a much closer financial margin.

The task force also found that the City of Medford has some strong tools in place to assist in the development of housing through its Accessory Dwelling Unit (ADU) ordinance and its innovative Planned Unit Development (PUD) ordinance. It was determined that the task force would recommend some possible incentives that the City of Medford could adopt to make affordable housing development more attractive to both the private and the nonprofit developer.

# City of Medford

## Regulatory Barriers to Affordable Housing

### Introduction

In response to the United States Department of Housing and Urban Development's *National Call to Action; American's Affordable Communities Initiative*, the City of Medford established a Regulatory Barriers to Affordable Housing Task Force in fall 2007. Task Force members included representatives from the Housing and Community Development Commission, the Planning Commission, the banking community and the local nonprofit and private development community. The Task Force met monthly for over a year and interviewed non-profit and private developers and development consultants to assess possible barriers and brainstorm solutions.

#### ***What is a Regulatory Barrier?***

Regulatory barriers exist at all levels; federal, state and local. A policy, rule, process, or procedure is considered a barrier when it prohibits, discourages, or excessively increases the cost of new or rehabilitated affordable housing without compensating public benefits. It is important to evaluate the tools within the City of Medford's control to promote the development of needed affordable housing.

These tools include the City's regulatory power, taxing authority and direct financial support through Community Development Block Grant as well as other funding sources. The Task Force reviewed barriers to affordable housing as well as possible incentives to help develop more affordable housing in our city. Offering specific incentives to the development community to provide needed housing types can be an effective means of helping the City of Medford fulfill its Goal 10 requirements. Goal 10 of Oregon's Statewide Planning Goals and Guidelines is "To provide for the housing needs of the citizens of the state." (Appendix 21-A)

#### ***Why is Affordable Housing Important?***

A community that does not have adequate affordable housing for its workforce is setting itself up for negative long-term consequences that may not be visible today. At the heart of it, the development of workforce housing is really community building. The provision of housing, particularly housing affordable to young families, fosters the development of strong schools, a strong economy, and ultimately ensures a healthy and sustainable community at large. When people can't afford to live where they work, the entire community is impacted by increased traffic congestion, lack of community participation and involvement, increased response time for emergencies, and difficulty for businesses to recruit and retain qualified employees.

A diverse and capable workforce is essential to retain the economic vitality and prosperity of the city. High housing costs limit the diversification of the workforce as workers

in high demand professions can choose to move to less expensive markets to buy or rent more house for the money. This puts the region at a competitive disadvantage in recruitment. The availability of affordable housing within a reasonable commuting distance is a key factor for business location decisions, especially given skyrocketing gas prices.

***Definition of Affordable Housing in Medford***

The task force determined that housing is affordable only when a household earning equal to or less than the area median income



(AMI) spends thirty percent or less of their income on housing. This criterion varies subject to household size. The Task Force further defined affordable as 80% or less of AMI for rentals and as 120% or less of AMI for homeowners, based on the definition being used by the Oregon State Legislature. This definition is being used in state legislation relating to affordable housing covenants, creating new provisions and amending ORS 94.504 and 197.309 ( House Bill 3485 effective January 1, 2008).

The median household income in Medford in

2008 is \$50,500. If a household earning the median income budgets 30 percent of its income for housing, the household would be able to afford a monthly mortgage or rent payment of not more than \$1,263 ( Home ownership includes principal, interest, taxes and insurance. Rent includes the monthly rental payment plus utilities.) By contrast, a household earning \$42,300, or 80 percent of

Median Income Amounts for a 4 Person Household-	
80%/low income	\$42,300
100% (median)	\$50,500
120%	\$60,600
<i>Medford, OR MSA- FY 2008</i>	

the median income – e.g., two minimum-wage workers, each working 2,040 hours annually, and sharing housing costs – would be approximately \$750 per month.

*This report is divided into two sections. Section I explores the barriers to affordable housing. The first eight barriers are linked to the City of Medford and the last two are barriers through the State of Oregon. Section II recommends possible incentives to assist in the creation of affordable housing in the City of Medford.*

**SECTION I**

***Barriers to Affordable Housing***

The Task Force reviewed the current development situation for affordable housing in Medford to identify possible regulatory

barriers. It found that there were not very many barriers to affordable housing and that many of the barriers impacted housing development in general. These barriers would have a greater impact on affordable housing development because of additional funding constraints under which affordable housing developers work. The Task Force determined that the City of Medford had several excellent tools in place to assist with the development of affordable housing such as its Accessory Dwelling Unit (ADU) ordinance and its PUD ordinance. It was further determined that some of the existing tools could be tweaked to be more effective for affordable housing development, especially in infill situations. The Task Force also looked at why more affordable housing wasn't being built within the city limits and determined that the city should create additional incentives to make the development of affordable housing more attractive to developers.

**Barrier #1: There is confusion about the standards for the development of infill projects and the definition of neighborhood compatibility.**

There is a lack of design standards or guidelines for infill development on vacant land including partially developed parcels and redevelopable properties identified in the recent Buildable Lands Inventory adopted by the Medford City Council on February 21, 2008.

**Recommendation:** The City of Medford should adopt clear and objective design standards or guidelines for infill and high density housing to promote greater compatibility between new development and

established neighborhoods and to provide predictability to developers (See Incentive #9). At a minimum, the following should be addressed: parking requirements, setbacks, lot coverage, roof lines, window and door fenestration, acceptable siding material and landscape elements. This would enhance the development of more creative higher density projects such as cottage or cluster housing (See Incentive #10).

Design guidelines for new construction, including additions to historic properties and minor exterior alterations, have been developed for the Downtown Medford Historic District. The guidelines, adopted by the Landmarks and Historic Commission in June 2008, will assist applicants with the design of compatible new commercial, mixed use or multi-family residential construction and major additions within Medford's downtown commercial core.

**Barrier #2: Minimum parking space requirements can significantly increase the cost of housing.**

Requiring a substantial number of parking spaces per affordable unit requires dedication of land area. Parking standards often do not relate to the number of cars or trips generated by a particular use. A small apartment may be required to supply the same number of parking spaces as a large single family home.

**Recommendation:** Evaluate the city's parking requirements to determine whether a reduction in minimum parking requirements for multi-family units or for affordable housing developments in the proximity of public transportation such as in a Transit

Oriented Development (TOD) would be feasible. Further standards can be examined to see if dimensions of required parking spaces can be reduced (i.e. a percentage of compact spaces).

**Barrier #3: Height limitations unnecessarily limit one of the dimensions where additional housing could be built without adding to the cost of land acquisition.**

*Recommendation:* The city should consider increasing the height limit above 35 feet in multi-family residential zones, provided adequate setback and buffering requirements are considered.

**Barrier #4: Density maximums limit the number of units buildable on a given parcel of land, thereby increasing the land acquisition cost attributable to each unit built.**

*Recommendation:* The city should continue to promote mixed use development and PUD developments which allow for a 20% density bonus for a 5 acre minimum parcel. The city should consider establishing a density bonus for non-PUD affordable housing on less than five acres based on the model currently being used by other jurisdictions, such as Ashland.  
( See Incentive #4)

**Barrier # 5: Unfamiliarity with the city’s development process leads to confusion and expensive delays as plans are deemed incomplete and returned to the developer for changes.**

*Recommendation:* Develop a Consolidated Guide to Development which lists all the

necessary steps, including the pre application process. A guide such as this could be similar to the flow charts developed by the City of Bend. (Appendix 1-A)

**Barrier #6: Lack of uniformity among land use ordinances, including lack of consistency in the interpretation of these ordinances adds time, and therefore, increases the overall costs to developers.**

The Medford Land Development Code is intended to provide clear and objective standards in development to protect developers and adjoining residents alike. Unclear policies create barriers for thoughtful planned development. The codes for various jurisdictions should be considered in the review of the current code. An example of a conflict in the code is the city standard for street width being in conflict with the State Fire Code for clear travel lanes.

*Recommendation:* The City of Medford should continue to review its land use ordinances with the intention of ensuring that these ordinances are clear and free of conflicting provisions and that staff continue to be trained to provide consistent interpretations of these ordinances.

**Barrier #7: The difficulty of doing a mixed use development using the current land development code.**

The promotion of mixed use development is a stated objective of the City of Medford Comprehensive Plan and the Medford Land Development Code, however, a mixed use development creates significant issues for a developer. Developers have been typically

either commercial or residential and providing both in a single project is a significant increase in risk, as expertise and success in one area of development does not assure success in the other sector. Currently the only incentive for mixed use development is a trip reduction of 10% provided the development is within a transit oriented Overlay District (or a transit route).

The incentive of a 10% reduction in traffic impacts is negated by the significantly higher impacts of commercial development over a residential development. System Development Charges (SDC) are typically higher on a per square foot basis than a similar sized residential development.

The current language in the proposed West Medford TOD Code amendments will create significant barriers for redevelopment in proximity of transit nodes. An incentive must be provided, in terms of significantly reduced development costs or significantly reduced standards, such as typical traffic impacts, to reduce the barrier.

Additionally, the Planned Unit Development (PUD) sections of the MLDC provide for flexibility in the application to promote mixed use development. In application, a mixed use development will typically be a commercial use in a residential zoning district. A commercial use is a non permitted use in the residential zoning districts and a developer must then comply with the additional criteria in the Conditional Use sections of the Code. Allowances are made for the Conditional Use criteria when the non- permitted use is no closer than 200 feet from the exterior of the PUD, and most PUDs are not large enough to provide a 200

foot buffer.

**Recommendation:** The City of Medford needs to create significant incentives to promote mixed use development, and not create barriers through more stringent standards or higher fees, especially if there is a desire to promote this kind of development in transit oriented districts. The establishment of a mixed use zone category would be helpful.

**Barrier #8: The State of Oregon (ORS-197.309) prohibits inclusionary zoning as a mandatory requirement for the development of affordable housing.**

Inclusionary zoning requires developers to include a number of affordable homes in new residential developments over a certain size. The number of affordable units to be included is based on a percentage of the total number of units in the development. The cost of providing the affordable units is generally offset with a density bonus. The affordability level of the designated units can be targeted to one income group, such as households earning 80% of the median income or below, or may serve a range of incomes. Additionally, the resale price of the affordable units may be restricted.

**Recommendation:** The city should work with other jurisdictions and affordable housing organizations, such as the Housing Alliance, to lobby for a change in the prohibition against inclusionary zoning in the state. The city should further develop an incentive based inclusionary housing ordinance to aid in the development of affordable housing. (See Incentive #4 )

**Barrier #9: There is considerable confusion over when Prevailing Wage Rates apply to mixed use commercial/residential projects.**

This is a statewide barrier, which should have been clarified with the passage of HB 2140 in the 2007 legislative session. However, the intent of exempting any residential affordable housing from commercial wage rates was not captured accurately and as a result, the overall affordability of a project is still in jeopardy. Currently, the interpretation of the rule is that BOLI commercial wage rates will prevail on any residential project which includes any commercial space. This has a huge impact on the overall affordability of a project, increasing project costs by 40% in labor costs. As labor is generally 50% of the overall project costs, this policy adds 20% more to the entire project cost.

**Recommendation:** The City of Medford should support the original intent and the new "fix" for the 2009 legislative session which is to 1) redefine "residential project" as a project that includes no more than one floor of commercial space with up to five floors of residential construction above the commercial construction; 2) exempt from Prevailing Wage Rates commercial space on the first floor of a building that is ancillary to affordable housing or when the occupant of the first floor is a nonprofit organization; 3) exempt the affordable housing portion of a mixed-use project, even if the commercial occupant is for-profit and public funding in the commercial portion exceeds \$750,000; and 4) allow developers of affordable housing to choose the higher of either the

local or state area median income for purposes of determining whether housing qualifies as "affordable" under the law.

## SECTION II

### *Incentives for Affordable Housing*

There are three areas in which cities have some control over housing affordability. The first is through the comprehensive plan and local land use regulations. By adopting supportive policies and development regulations, a city signals to the market its interest in affordability and establishes the ground rules for future development. The second area in which a city can influence the production of affordable housing is through public infrastructure improvements and local services such as transit, recreation, and senior services. For example, a city can encourage the provision of affordable housing by extending infrastructure and services into areas zoned for higher density housing ahead of lands designated for low density housing. The third way in which a city can influence the production of affordable housing is through urban renewal and public-private development. This section looks at what the City of Medford could do to assist in the development of affordable housing by adopting supportive policies and development regulations or by providing direct incentives.

#### **Incentive #1. Offering Flexibility of Bonding Agreements for affordable housing**

**Recommendation:** *The City should allow for*

*a bonding agreement for affordable housing development that would allow a developer to pull building permits for underground and site work and be able to get final plat without bonding the entire project.*

Advantages: Financial benefit to the developer.

**Incentive #2. Developing an Adaptive Reuse Ordinance to encourage the conversion of historic downtown commercial buildings and warehouses into housing.**

**How it is applied:** The Los Angeles ordinance includes the following components:

1. Streamlining the approval process by exempting the project from a site plan review.



*Adaptive reuse of Lees School in Virginia into loft housing.*

2. Waiving underlying density restrictions on the number of housing units allowed, provided that each unit is a minimum of 450 square feet.
3. Grandfathering in of all nonconforming floor areas, setbacks and heights, removing the need for an exception or variance.
4. Allowing mezzanines to be added to lofts without considering the added space as new

floor area, so long as it does not exceed the one-third the size of the floor area below.

5. Limiting the project’s new parking requirements as long as the existing parking is maintained.

**Recommendation:** *The City of Medford should consider the adoption of an Adaptive Reuse Ordinance.*

**Incentive #3. Providing city surplus property for the development of affordable workforce housing**

**How it is applied:** Many cities offer surplus properties to affordable housing providers for the development of affordable workforce housing.

**Advantages:** The cost of land is the biggest barrier identified by affordable housing developers. This would take that cost out of the equation.

**Disadvantages:** Potentially, this could take public land identified for parks and right-of ways out of the mix for future development.

**Recommendation:** *Review City inventory of properties and identify properties to make available to non-profits and affordable housing developers through a RFP process.*

**Incentive #4. Offering incentives for inclusionary affordable housing through annexation or rezoning of lands within the UGB**

Inclusionary housing requires developers to include a number of affordable homes in new residential developments over a certain size. The number of affordable units to be included is based on a percentage of the total

number of units in the development. The cost of providing the affordable units is offset with a density bonus. The affordable level of the designated units can target one income group, such as households earning 80% of the median income, or may serve a range of incomes. Additionally, the resale price of the affordable units may be restricted.

**How it is applied:** ORS 197.309 prohibits inclusionary housing as a mandatory requirement. Therefore in Oregon, inclusionary housing ordinances are incentive based, not mandatory. It can be applied as a performance based option (as part of a PUD, annexation, or zone change). Applicants would be given the option to propose affordable housing and if they choose to, they may be entitled to a density bonus. As mentioned above, usually a density bonus is given as a cost offset. If an affordable housing option is chosen, it is typically written into a developer agreement because ORS 197.309 prohibits inclusionary housing as a condition of approval or a requirement.

The City of Ashland requires inclusion of affordable housing in newly annexed areas and where developers are requesting an increase in zoning. The city has addressed ORS 197.309 by claiming that property owners have the option of not annexing.

**Advantages:** Cost of units is generally offset with the density bonus. Price controls and resale limits are established with nominal appreciation and cost of living allowances. Voluntary inclusionary housing programs may reduce potential opposition because lower income units are often constructed and

occupied concurrently with market rate units.

**Disadvantages:** Costs of administration and ensuring units remain affordable for the designated period of time. Developers tend to oppose inclusionary housing programs because many see it as a governmental interference in their business of providing housing. Developers also argue the losses they incur by providing below market rate housing are passed on to purchasers or renters of market rate housing in the form of higher prices, decreasing housing affordability for middle income people.

**Recommendation:** *The Task Force concurs with the Housing and Community Development Commission recommendation submitted to the Planning Department in 2006.*

*A residential project will provide one of the following:*

*(A deed restriction or similar legal instrument shall be used to guarantee compliance with the below affordable criteria for a period of not less than 60 years.)*

*40% of the minimum number of units required by the zoning to qualifying buyers or renters with incomes at or below 120% of median income; or*

*30% of the minimum number of units required by the zoning to qualifying buyers or renters with income at or below 100% of the median income; or*

*25% of the minimum number of units required by the zoning to qualifying buyers*

*or renters with incomes at or below 80% of median income; or*

*20% of the minimum number of units required by the zoning to qualifying buyers or renters with incomes at or below 60% of median income; or Title to a sufficient amount of buildable land for development to be transferred to a nonprofit affordable housing developer or the Housing Authority of Jackson County for the purpose of complying with the above. The land may either be located within the project or the land may be located elsewhere in the UGB. All needed public facilities shall be extended to the area or areas proposed for dedication. Ownership of the land shall be transferred to the affordable housing developer prior to commencement of the residential project.*

**Incentive # 5. Offering streamlined permitting and review to affordable housing projects. Having a facilitator on staff to help developers through the entire planning and review process.**

Delays during any stage of the development review process add to the final cost of new housing. Reducing the costs incurred by developers during the development review process makes affordable housing projects more attractive. Expedited permitting is a cost-efficient and very effective way of reducing developer costs. The city could allow affordable housing developments to move to the front of the line in the application review process.

**How it is applied:** In Santa Fe, New Mexico the Santa Fe Homes Program accelerates the process of housing developments that include at least 25% affordably priced

homes. According to the City of Santa Fe, expedited permitting has helped make nearly 16% of all new homes built in Santa Fe during the last decade affordable for working families.

**Advantages:** Helps developers retain profit margins. Less developer costs translates to more affordable units.

**Recommendation:** *The city should offer an expedited review process for those projects meeting the city's definition of affordability. The city should hire a facilitator with affordable housing experience to assist developers through the entire planning and review process.*

**Incentive #6. Allowing Reduced or Flexible Development Standards (Parking, Setbacks, Height, Coverage, Frontage, Landscaping, etc.) for affordable housing.**

Increased flexibility in development standards should be considered if a standard is set too high to begin with or if certain performance standards are met. Parking and landscaping standards may also be excessive for some types of housing. Setbacks, lot coverage, landscaping, parking, frontage, and height standards are examples of where minor amendments to the code, or procedures allowing minor administrative exceptions on a case-by-case basis, are advisable.

**How it is Applied:** There are several ways in which this tool can be applied. A few examples follow:

**Amend the Standard.** Reducing or modifying the application of standards such

as required lot coverage or setbacks is appropriate when the existing standard represents a potential barrier and does not reflect existing or desired neighborhood character. Another option is to provide flexibility, for example by allowing an "average minimum" for lot size and side yard setbacks.

**Modifications.** The City of Portland code allows adjustments to the same types of development standards. Portland also allows adjustments to landscaping, buffering, building design (orientation, materials, transparency, etc.) and other design standards, where the applicant demonstrates that the adjustment equally or better meets the purpose of the standard that is being adjusted. Where a proposal does not meet the clear and objective criteria for limited adjustments, the Portland code allows greater adjustments to be approved through a quasi-judicial hearing process such as Medford's formal exceptions process.

**Advantages:** Exceptions provide needed flexibility without the burden of proof and uncertainty associated with traditional exceptions. The exceptions procedure is typically combined with a subdivision or site design review application, thereby streamlining the review process. Adjustment procedures such as Portland's can lead to better design than what would be required under the base standard.

**Disadvantages:** Some exceptions involve discretion and thus, are subject to appeal. Therefore, it is important to have clear purpose statements in the code, especially when the approval criteria for adjustments require findings of consistency with the

code's purpose and intent.

**Recommendation:** *The city should allow for reduced or flexible development standards for affordable housing.*

### **Incentive #7. Offering Flexibility to Standards for Infill Development**

**How it is applied:** Flexible standards for vehicle access (including fire code requirements), lot area, setbacks, and coverage are needed for infill development to reduce routine exceptions. The code would need to have a clear definition for what is infill development.

**Advantages:** Adds predictability to development review process by replacing discretionary exceptions procedures with clear and objective standards; may improve affordability by allowing for development at planned densities and reducing development review processing time.

**Disadvantages:** Neighborhood opposition to infill may increase if the city does not also adopt infill design standards.

**Recommendation:** *The city should offer flexible standards for infill development based on design standards adopted by each neighborhood or adopted in the Code.*

### **Incentive #8. Offering Architectural Design Standards to Promote Acceptance of Higher Densities and Infill Development**

**How it is applied:** Design standards for infill typically address bulk, height, materials, and detailing. Height step-downs, height averaging of adjacent buildings,

garage orientation and design, screening, and maximum side yard planes may be used to address compatibility and privacy concerns between buildings, especially those related to flag lot development. Some codes also address historic preservation.

Aside from historic districts, housing design standards must be clear and objective or provide applicants the choice of clear and objective standards with optional discretionary standards (two-track design review), per state law (ORS 197.307).

**Advantages:** Where codes provide for streamlined review of infill projects, design standards can provide for greater acceptance of infill in established neighborhoods. Design standards can make infill strategies more acceptable among neighbors, especially if the standards are based on



A duplex with front facing garages and side entrances on a traditional neighborhood street with front porches and front yards.

development forms and materials that are compatible with the local community.

**Disadvantages:** Design standards, if not balanced with infill streamlining (see above),

can lead to processing delays and increase development costs. If infill strategies do not encourage a variety of housing at planned densities, design standards may actually reduce housing affordability.

**Recommendation:** *The city should adopt minimum architectural design standards for infill development or redevelopment on a neighborhood basis or in the code throughout the city to provide for higher density and affordable housing and allow for greater predictability.*

**Incentive #9. Promoting green building standards for Affordable Housing.**

Incorporating green building into the construction of new housing or the rehabilitation of existing housing can certainly enhance the overall affordability to residents and/or developers to save on energy costs. (Appendix 3-A)

**How it is applied:** Green development can include energy efficiency measures, healthier building materials, the incorporation of recycled building materials and water conservation measures. Several such green development measures are listed below:

1. The location of a development in proximity to public transit, schools, retail and employment opportunities
2. Indoor water conserving measures such as low flow fixtures, showerheads and toilets
3. Outdoor water conserving measures such as a rainwater catchment system, on site storm water detention process, native landscaping plants and low maintenance landscaping

4. Energy efficiency advantages include upgraded windows, insulation and hot water heaters including Energy Star rated lighting, appliances and other fixtures



Prefab home on display at green building conference in San Francisco. Includes solar panels and a roof-top garden.

- 5. Whole house continuous ventilation systems
- 6. Recycled carpet, drywall and insulation
- 7. Use of Zero –VOC paints and sealants
- 8. Building orientation in relation to the sun
- 9. Use of durable exterior materials
- 10. Maximum use of natural lighting

**Recommendation:** *The city should continue to encourage the use of energy-efficient materials and construction methods in building new affordable housing. The city should further consider the use of SDC deferrals or waivers for developments using sustainable building practices for affordable housing. ( See Incentive #12B)*

**Incentive #10. Promoting Cottage Development**

Cottage housing is generally defined as a grouping of small, single family dwelling units clustered around a common area and developed with a coordinated plan for the entire site. Cottage housing has gained popularity in recent years as a type of infill development on small sites within existing developed areas. The cottage units may have other shared amenities. The shared common area and coordinated design may allow densities that are higher than usual in single family neighborhoods while minimizing impacts on adjacent residential areas. As a result, cottage housing can offer its owners a quality living experience that is less expensive than traditional single family housing. This type of housing typically attracts singles, single parent households and seniors.

There are currently examples of older cottage housing in parts of West Medford.



Cottage development

**How it is Applied:** Cottage housing is identified by code as a permitted use which may be developed on individual lots (e.g., cluster subdivision) or as a multifamily project (e.g., with multiple cottages on one lot). Cottage developments are typically built on infill sites in established single family neighborhoods and therefore design standards should be used to ensure compatibility. The review process should not be so cumbersome that it scares away potential developers and results in

conventional single family development. Cottage housing ordinances attempt to ensure a process that is not overly restrictive yet ensures compatibility with the surrounding neighborhood. To ensure that the project fits well in a neighborhood, standards should provide for flexibility in lot



Cottage development in West Medford

size, access, parking and other development standards, which protecting the neighborhood character. Standards should also address lot coverage, setbacks, height and bulk, open space, and dispersion.

**Advantages:** Cottage housing offers some privacy and some of the benefits of single family housing combined with the lower cost and maintenance of attached housing. The clustered arrangement can contribute to an enhanced sense of community. Cottage housing can be developed on individual lots (cluster subdivision) or as a multifamily project with multiple cottages on one lot.

**Disadvantages:** Ensuring that the development fits into existing single family neighborhoods is the key to success. The departure from existing patterns and its

higher density have encountered resistance in some communities. Maintenance of common areas and accesses can also be a problem if ownership and funding (Home Owners Association) responsibilities are not properly addressed.

**Recommendation:** *Encourage and promote the development of cottage housing as infill development in existing neighborhoods.*

**Incentive #11. Developing a Housing Trust Fund to provide a Direct Financial Subsidy to Develop Affordable Housing**

Currently, the City of Medford’s annual CDBG Entitlement is the funding used for the development of affordable housing. The HUD Entitlement amount has been averaging \$600,000 annually and is restricted in its use. For example, it cannot be used for new construction. Also, there are competing needs for this funding including the development and repair of neighborhood infrastructure in existing CDBG eligible neighborhoods throughout the city. The Housing and Community Development Commission has been working on the establishment of a Housing Trust Fund to provide an additional source of direct funding for affordable housing.

**How this is applied:** A Housing Trust Fund is a source of public revenue, dedicated by ordinance or law, to a distinct fund with the express and limited purpose of providing affordable housing. Due to the fact that housing trust funds are designed locally without federal intervention, they represent the most flexible funds that jurisdictions have in regard to addressing their affordable housing needs. Most city housing trust funds

allow nonprofit and for-profit developers to apply for funds. Almost all city housing trusts funds allow funds to be used for new construction and acquisition and most allow rehabilitation /preservation as an eligible activity. Funds are generally distributed through an open application process or request for proposal process.

The City of Portland and City of Bend have housing trust funds as does the State of Oregon.

**Advantages:** Provides for a dedicated source of funding for specific purposes related to affordable housing.

**Disadvantages:** Requires a dedicated source of revenue which takes that funding away from other special purposes such as parks or the promotion of tourism.

**Recommendation:** *The City should consider the development of a housing trust fund for the development and preservation of affordable housing.*

### **Incentive #12. Providing Financial Incentives to Developers of Affordable Housing**

**How it is applied:** Financial incentives for affordable housing may include but are not limited to: public-private development incentives (i.e. putting together land parcels and/or subsidies through urban renewal), tax abatement (i.e., vertical housing zones, as authorized under ORS 285C.450 through 285C.480), system development charge reductions (i.e. pro-rated based on number of bedrooms and/or floor area), system development charge waivers or deferrals, and permit fee reductions and/or waivers.

**Advantages:** Direct financial assistance to developers, subject to housing affordability requirements, is one of the most effective ways to reduce housing costs to consumers.

**Disadvantages:** The public at-large bears the cost of subsidies. Such programs work only where there is political support. Public education should focus on the connection between affordable housing, local economic development objectives (i.e., workforce housing) and regional transportation issues.

Two such financial incentives are listed below:

#### **A. Establishing Vertical Housing Development Zones in Transit Oriented Districts (TODs)**

A Vertical Housing Development Zone encourages mixed-use commercial / residential developments in areas designated by communities through a partial property tax exemption.

**How it is applied:** The exemption varies based on the number of residential floors on a project with a maximum property tax exemption of 80 percent over 10 years. An additional property tax exemption on the land may be given if some or all of the residential housing is for low-income persons (80 percent of area median income or below). The city currently has one Vertical Housing Development Zone in its central business district.

**Advantages:** Provides a financial incentive for mixed used developments

**Disadvantages:** Requires taxing districts to give up the property taxes for a ten year

period.



North Main Apartments in Milwaukie, Oregon use the VHDZ to encourage mixed use commercial and residential.

**Recommendation:** *The city should develop a vertical housing development zone designation for its transit oriented development districts, starting with the West Main TOD.*

**B. Offering SDC deferrals or waivers for affordable housing with affordability covenants**

**How it is applied:** System Development Charges, which typically add \$7,000 to \$10,000 per unit on the overall housing cost, could be waived or deferred for affordable housing for a specified period of time. Charges could also be reduced.

The City of Eugene exempts local SDCs (transportation, local wastewater, stormwater, parks) for low income housing developments up to an amount per development as determined by the City's Community Development Division of the Planning & Development Department. The

total low income housing SDC exemption available to be allocated for qualifying developments each fiscal year varies depending upon the compounding effect of inflationary adjustment to the original base exemption amount (program was developed starting fiscal year 1998) as well as the roll-over balance available to be allocated from each previous fiscal year. To qualify for this exemption, the housing must be developed for low income persons who meet certain income criteria as determined by the State Housing Council (based on information from the United States Department of Housing and Urban Development). The regional wastewater SDC is not exempted.

The City of Eugene offers funds to assist in the payment of City of Eugene System Development Charges (SDCs)-up to \$620,000 available July 1, 2008- attributable to the local transportation, parks ,wastewater and storm water sewer system. The SDC Waiver program has limits on rents, sale prices, and occupant incomes. The Eugene Water and Electric Board offers funds to assist with payment of EWEB water system development charges - up to \$100,000 annually. The City of Eugene offers a 20 year tax exemption for low-income rentals.

The City of Ashland waives the System Development Charges, the Engineering Service fees, and the Community Development Fee for affordable rental and single family homes at households earning less than 80% AMI. The waived System Development Charges become a "sleeping second mortgage" and deed restricts the property to being affordable for a minimum of 30 years. At the conclusion of the period

of affordability, the obligation is considered satisfied without payment.

**Advantages:** This would be a good incentive for developers wanting to develop affordable housing as it reduces the overall upfront cost to them.

**Disadvantages:** The public-at -large would bear the cost of the System Development Charges in the short run. A dedicated fund, such as a Housing Trust Fund, could provide the funding necessary for the upfront development costs to the city.

*Recommendation: The city should review both the City of Ashland's and City of Eugene's SDC waiver and/or deferral programs and consider the adoption of all or parts of either program. This would provide a much needed incentive for developers to build/renovate affordable housing. (Appendix 9-A,10-A and 11-A)*

## **Conclusion**

The Medford City Council needs to take a leadership position and demonstrate its commitment to affordable housing by adopting and implementing these strategies. They need to facilitate partnerships with private and non-profit developers ensuring that lots of tools supporting affordable housing development are available. The city's Community Development Block Grant Entitlement amount has been decreasing annually. Also, the city is seeing a large loss of affordable rental units due to the aging out of HUD subsidized rental housing complexes. There are 1,169 affordable units in the city and of those, 124 with deep rent subsidies will be lost over the next couple of

years. Given these losses, it is imperative that the City of Medford step forward to do something to assist with the preservation of affordable housing stock and the development of new affordable housing units.

This report dovetails with recently completed Land Use Efficiency Measures in the new Housing Element as well as with the goals and strategies in the City's Consolidated Plan for Housing and Community Development.

## Acknowledgments

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1 - A. City of Bend Flow Charts(2)

3 - A. Green Building

- ◇ Impact of Energy Efficiency and Conservation on Affordable Housing
- ◇ Case Studies– Denny Park and Lincoln Woods

9 - A. City of Ashland Deferral of SDCs

10 - A. City of Ashland Density Bonus and Deferred SDCs for Affordable Housing

11 - A. City of Eugene SDC waivers

13 - A. Vertical Housing Zoning

15 - A. Case Study – Vertical Housing in Central Point

19 - A. Housing Trust Fund

21 - A. Goal 10

23 - A. Housing Element : Proposed Goals

29 - A. Consolidated Plan for Housing and Community Development 2005-2009 5 year Strategies

35-A. Medford in the 21st Century, Vision Strategic Plan, Housing

