MADRAS CITY COUNCIL WORK SESSION

Wednesday, July 10, 2024 at 5:30 PM

City Council Chambers, 125 SW “E” Street, Madras, OR 97741

Telephone (541) 475-2344 www.ci.madras.or.us

This meeting is open to the public. However, Council does not take public comments at Work Sessions and no formal decisions will be made.

Join via Zoom:
https://us02web.zoom.us/j/2912614668?pwd=MIJ3ZzhOYzg0ZkhwOTZ0REgrWTFYdz09
Passcode: **5414752344**

Join via teleconference:
From a cell phone: **971-247-1195**
From a land line phone: **1-877-853-5257**
Meeting ID: **291 261 4668#**
Participant ID: **#**
Passcode: **541 475 2344#**

AGENDA

I. Call Work Session to Order

II. Roll Call

III. Work Session Topic(s)

1. Discussion On Potential Incentives For Workforce And Affordable Housing

IV. Additional Discussion

V. Adjourn Work Session

CITY OF MADRAS
Work Session Report

Meeting Date: July 10, 2024

To: Mayor and City Council Members

From: Will Ibershof, City Administrator, Jeff Hurd, Public Works Director, Fatima Taha, Associate Planner

Through: Will Ibershof, City Administrator

Subject: **DISCUSSION ON POTENTIAL INCENTIVES FOR WORKFORCE AND AFFORDABLE HOUSING**

TYPE OF ACTION REQUESTED:

Discuss

OVERVIEW:

At the April 23, 2024, council meeting, staff presented a discussion item on the expiring SDC incentives for the HURD. As a result of the discussion, the Council asked that staff bring back a resolution to extend the SDC incentives for the next 90-days. In discussions with staff, it is recommended that the Council extend the incentives through the end of this calendar year. Resolution 08-2024 was presented at the May 14, 2024, meeting, and adopted.

The reason for the longer timeline is to allow staff the opportunity to research, analyze, and develop a few different strategies for the commissioners to consider.

Disclaimer:
Before specific goals are established, staff recommends that the MRC review and approve the 2024 Housing Action Plan.

In the meantime, establishing a set of options for the development community to consider, would help with establishing draft goals that could be included in the Housing Action Plan.

STAFF ANALYSIS:

Background:
Urban renewal is a state-sanctioned program. In Oregon, the establishment of urban renewal districts is governed by state law, specifically under the Urban Renewal Law (ORS Chapter 457). Cities and counties in Oregon have the authority to create urban renewal districts as a tool for revitalizing blighted or economically distressed areas. The city can issue urban renewal bonds to pay for the identified improvements. As property values increase in the area due to new investment, the rise in property tax revenues (called “tax increment”) is used to pay off the urban renewal bonds.

This is called tax-increment financing. The local government may issue bonds or other forms of debt. This debt is typically repaid using the incremental tax revenues (TIF revenues) generated within the district over the life of the urban renewal plan. More than 40 Oregon cities and counties currently have urban renewal programs in operation.

Before creating an urban renewal district, a city must first develop an urban renewal plan, also called an action plan. The urban renewal action plan is a comprehensive document that outlines the specific goals, strategies, and projects intended to be implemented within the district boundary in collaboration with stakeholders and the community.

The City of Madras hired the firm Spence & Kupper to conduct a renewal feasibility study. In the 2002 Urban Renewal Plan, the City of Madras Urban Renewal Task Force drew a line around most commercial land in Madras (the urban renewal boundary) and identified desirable improvements within that area (Ordinance 700).

Again, the basic idea behind urban renewal is simple: future tax revenues pay for revitalization efforts. This district is to capture future increases in property tax revenues (incremental taxes) generated within the district boundaries to finance public improvements and redevelopment projects aimed at improving economic conditions and the quality of life within the district. The district borrows money and accepts advances, loans, grants, and other financial assistance from federal, state, local government, or public bodies to pay indebtedness incurred.

The Housing goal in the 2002 Urban Renewal Plan is to "provide for new housing units in livable mixed-income neighborhoods that collectively reflect a diversity of housing types, occupancy (rental and owner-occupied), and income levels in the City. Support housing development that is geared to support the Area's employment generation goals". The objectives were to provide a wide range of housing opportunities to accommodate all income levels and aid develop, maintain, and rehabilitate stock of housing in the renewal area.

The 2006 Urban Revitalization Action Plan prepared by Leland Consulting Group was the first action plan that addresses issues underlying Madras' struggling core and retail corridor. The 2006 plan focused MRC efforts on a targeted set of implementation steps. Challenges include a lack of workforce and affordable housing.

The 2016 Action Plan updates the 2006 action plan. ECONorthwest was hired by MRC to develop an action plan that assesses the city's development market, provides analysis related to the Urban Renewal Agency's finances and facilitates priorities for investment to attract development to Madras. The goal of the 2016 Action Plan is a list of projects that can further the goals of the 2002 Urban Renewal Plan and 2006 Urban Revitalization Action Plan.

In December of 2018, the City of Madras completed a Housing Action Plan. The Housing Action Plan noted the following facts about the supply of housing in Madras:

- Thirty-two percent of households in Madras are cost-burdened, paying more than 30% of their income on housing costs.
- No new multifamily housing units have been developed in Madras since 2010.
- Forty-nine new single-family units have been developed in Maras since 2010.
- One hundred five people in Madras were experiencing homelessness in 2018.
- There is a deficit of 401 housing units to meet the needs of households earning less than $25,000 per year.
- There is a deficit of 435 housing units to meet the needs of households earning from $50,000 to $100,000 per year.

The 2018 Housing Action Plan stated that the City of Madras' goal for overall housing production is an average of 30 new dwelling units per year. The City Council's goal for new housing development over the next 5 years is:

- 40 units of housing affordable to low-income households, who have annual earning of less than $30,360 in 2017 dollars. These units will be government-subsidized housing, most likely

townhouses, or apartments.
• 75 units of housing affordable to moderate- and middle-income households, who have annual earnings of between $30,360 and $60,720 in 2017 dollars. These units may include lower-cost, single-family detached housing, townhouses, cottage housing, duplexes, tri- and quad-plexes, and apartments.
• 50 units of housing affordable to higher-income households, who have annual earnings of more than $60,720 in 2017 dollars. These units may include any type of housing.

In 2019 the City of Madras hired Elaine Howard Consulting, LLC and Tiberius Solutions LLC to conduct a feasibility study for the creation of a Housing Urban Renewal District (HURD). The district consists of approximately 701.5 total acres: 606.22 acres of land in tax lots and 95.28 acres of public rights-of-way. Properties within the Plan Area are largely undeveloped, and most of the property is zoned for residential development. The Jefferson County Fairgrounds property is included in the boundary of the HURD as it may transition to a different use over the anticipated 30-year life of this urban renewal plan. The Plan is estimated to last 30 years, resulting in 30 years of tax increment collections. The maximum amount of indebtedness (amount of dollars spent for projects, programs, and administration) that may be issued for the Plan is $39,100,000.

The HURD Plan conforms to the Madras Housing Action Plan by providing the financial tools through the creation of an urban renewal area to help incentivize the development of housing and financing for infrastructure that is required to facilitate housing development in Madras.

Since 2018, there have been 37 units of low-income built.

- Five of them were RV replacements.
- 8 are townhomes on 10th and J street.
- 24 of them are senior housing on J Street.

Since 2018 there have been 162 middle-income homes constructed. They are all single-family homes, with a bulk of them constructed within Strawberry heights, and Treasure Hills.

Since 2018 there have been 194 market rate homes constructed in various parts of the city.

There was a spike in new construction in 2021. With 8 low income, 75 middle income and 79 market rate homes.

Present day:
It is the impression of staff that two key factors have changed. One, the market has changed. Interest rates are higher and the cost of constructing homes have increased. The city is experiencing growth in market-rate home construction. The city has exceeded the 2018 goal by over 400%.

Yet there is limited growth with affordable and workforce housing. Secondly, it is the impression of staff, that the commission would like to see a diverse housing market in the city. Several employers would also like to see their employees live within the community. This helps with retention and recruitment.

To determine what changes, the HURD would need to accomplish an increase in affordable and workforce housing. Staff met with two local developers, Housing Works, the City of Redmond affordable housing team, and Hayden Homes. In addition, staff looked at the different parcels within the HURD.

As a result, the staff is recommending five options for the MRC to consider. Each of the five options addresses the concerns we heard. These concerns are as follows:

1. Banks are reluctant to loan funds to purchase raw land (open field) without a Site Plan.

- Banks typically assess the risk associated with the investment. Raw land, without a clear development plan, presents uncertainties that make it less appealing to lenders including:
  - Lack of collateral value: Raw land generally has less inherent value as collateral compared to developed properties. Without any structures or improvements, it's challenging for banks to assess the land's true worth.
  - Development Risk: Developing raw land requires substantial investments beyond the purchase price, including infrastructure development, permits, and construction costs. Banks may be hesitant to finance these expenses without a clear plan and assurance of future returns.

2. Profitability is an important consideration for developers when deciding whether to commence a construction project.

- Developers expect to earn a return on their investment comparable with the level of risk involved. If the projected profits are not attractive, developers may opt for other investment opportunities with higher potential returns.
- If the projected profits are insufficient to satisfy lenders' requirements, securing financing becomes challenging, further deterring developers from proceeding with the project.

3. The rising cost of constructing a home.

- Fluctuations in the prices of construction materials, cost of land acquisition, supply chain disruptions, inflation, and compliance with code regulations involve additional expenses for the construction of a home.

4. Zoning regulations.

- When a parcel is zoned for non-residential use but there is a need or opportunity for workforce housing in that location, a zoning change may be necessary to accommodate the desired development. However, changing the zoning of individual parcels can be a complex and time-consuming process, involving public hearings, community input, and regulatory approvals. This can create barriers to quickly addressing the need for affordable and/or workforce housing. To overcome these challenges, comprehensive planning such as 2024 Housing Action Plan (HAP) can identify suitable residential and commercial parcels for workforce housing development. This might involve creating new a zoning designation specifically for workforce housing.

5. Determining what constitutes "affordable" versus "workforce" housing is often more complex than one might assume.

- The best way to approach it is to use a percentage of the Average Medium Income (AMI). The U.S. Department of Housing and Urban Development (HUD) publishes annual income limits for different household sizes, which serve as benchmarks to determine the maximum household income eligibility. Once the household income is established, it can be compared to HUD's income limit corresponding to the household size.
- HUD defines affordable housing as housing that is affordable to households for 30% or less of their gross income. With respect to Workforce Housing, is housing that is affordable to households earning 60%–120% of the AMI. The current 2024 AMI for Jefferson County, Oregon is $81,000 based on data from HUD. The table below established the income limits based on household size and the AMI for Jefferson County, Oregon.

FY 2024 Income Limits Summary

FY 2024 Income Limit Area	Median Family Income	FY 2024 Income Limit Category	Persons in Family							
			1	2	3	4	5	6	7	8
Jefferson County, OR	$81,000	Very Low (50%) Income Limits ($)	28,350	32,400	36,450	**40,500**	43,750	47,000	50,250	53,500
		Extremely Low Income Limits ($)*	17,050	20,440	25,820	**31,200**	36,580	41,960	47,340	52,720
		Low (80%) Income Limits ($)	45,400	51,850	58,350	**64,800**	70,000	75,200	80,400	85,550

6. Determining the average home price is affected by the down payment, credit score, and prevailing interest rates.

- The table provided shows the affordable workforce housing price based on a percentage range of AMI, with the assumption of allocating 30% of the monthly income towards housing costs, a 3% down payment, a 5.5% and 7% interest rate.

AMI (%)	Targeted AMI ($)	Monthly Income ($)	Max Monthly Housing Payment (30% Monthly Income)	Affordable Workforce Housing Price (at rate 5.5%)*	Affordable Workforce Housing Price (at rate 7%)*
60	$48,600	$4,050	$1,215	$205,524	$177,176
80	$64,800	$5,400	$1,620	$274,032	$236,234
100	$81,000	$6,750	$2,025	$342,540	$295,293
120	$97,200	$8,100	$2,430	$411,048	$354,3551

* Calculations derived from House affordability based on fixed, monthly budgets

- While it is generally recommended to spend no more than 30% of the monthly income on housing costs to be considered affordable, many workforce individuals and families may opt to allocate more than this percentage.

7. The price of market-rate housing varies on what is available and what is being built.

- Currently, the market rate for single-family homes ranges from $266,000 to $527,000 (source: RMLS of Portland Oregon). As of Q3 2023, the median price of a single-family home less than 1 acre in Madras reached $349,950 (Source: COAR).

Options to consider:
Option one:
The HURD reaches out to property owners, within the HURD and see if they are willing to sell their property to the city. The city would then release an RFP to the development community with a defined set of parameters of how many units would need to be affordable and how many would be workforce housing.

An example would be the city purchases a 12-acre lot, that is zoned to allow for a maximum density of 6 units per acre. The purchase price is $3,000,000. When you remove the roads and setbacks, you are left with 10-acres, allowing a developer to construct 60-homes. Out of the 60-homes, the city would like 10 of them to be affordable 20 to be workforce the remaining 30 could be market rate.

The respondent that meets the parameters outlined within the RFP, would be selected to build on the site. Using the example outlined above, the city determines that a lot costs $50,000 without any infrastructure. The city would then sell each lot to the selected developer for $20,000 and grant the developer $30,000 per lot. In this option, there would be deed restrictions on how much the homeowner can sell the home for in future. Therefore, the city would sell the development for $1,200.000 and grant the development $900,000.

Within this option, the MRC would establish the goals for the future project to include the number of housing types and the amount of the grant. The city would then solicit the landowners.

Deschutes County is currently working with Neighborhood Impact on a project with these parameters. The only difference is they are looking at 10 homes and utilizing the services of Neighborhood Impact to manage the affordability requirements.

Option two:
In this option, the MRC establishes an incentive based on the price of the home. Using the same example as option one, the MRC would establish the amount of an incentive for a home at different price points. The incentive program would operates on a tiered basis, depending on the sale price of the home. If a home is sold for $205,000, the incentive provided is $30,000 per lot. If the home sells for $274,032, the incentive decreases to $20,000 per lot. Importantly, if the home is sold at market rate, no incentive is offered.

These incentives are specifically tailored for homes sold under the affordable or workforce housing categories, which target individuals or families with incomes ranging from 60-120% of the Average Median Income. For the year 2024, the median market rate is established at $349,950. The market rate will be reassessed annually to ensure the incentives remain in line with prevailing market conditions.

AMI (%)	Affordable Workforce Housing Price	Incentive Per Lot (Based on market rate $349,950)
60	$205,524	$30,000
80	$274,032	$20,000
100	$342,540	$10,000
120	$411,048	N/A

Option three:
In this option, the city would partner with a landowner on their development to assist with the infrastructure. In this example, there is a parcel of land that does not have connecting roads or utilities to it. The landowner has not developed his/her parcel due to the cost of installing the utilities makes it difficult to develop the parcel.

The city, under the direction of the MRC, would develop a set of parameters, where the city would pay for the infrastructure and grant a portion of the cost, to the developer, based on the housing type they decide to build. For example, if there is a 10-acre parcel that would require infrastructure to be installed if it is going to be developed, the city would enter into a development agreement with the landowner, that the only way the infrastructure would be installed is if they were going to build. It could work on a reimbursement model, similar to the MURD.

If the MRC is amendable to this option, then staff would establish a set of parameters. Such as a late comer's agreement if the landowner decides to sell the parcel to a developer to build market rate homes.

Option four:
In this option, the city would explore a hybrid approach, combining elements of the previous three options:
• The city would first identify available properties within the HURD owned by private landowners.
• The MRC would establish a framework for incentivizing affordable and workforce housing developments based on market conditions and housing price points, like Option Two.
• Once potential properties are identified, the city would engage in negotiations with landowners to assess their willingness to sell or develop. The parameters set forth by the MRC would guide these discussions, ensuring that any resulting developments align with the city's affordable and workforce housing goals.
• In cases where landowners are amenable to development but face challenges due to infrastructure costs, the city could help, as outlined in Option Three. This assistance could take the form of infrastructure installation and/or incentives program, provided that the resulting developments adhere to the established parameters for affordable and workforce housing.
• To address potential concerns regarding the future sale of developed properties for market-rate housing, the city would implement safeguards such as latecomer's agreements, like those proposed in Option Three. These agreements would ensure that the incentives and assistance provided by the city are contingent upon the continued adherence to affordable and workforce housing objectives, even in the event of subsequent property sales or changes in ownership.

Option Five:
In this option, the city would establish a Community Land Trust (CLT) program within the HURD. A CLT runs as a nonprofit and holds land in perpetuity for the benefit of the community. The city would acquire land within the HURD and transfer ownership to the CLT. CLT's function is to facilitate the creation and preservation of affordable and workforce housing.

CLT would establish a Housing Trust Fund (HTF), funded through a combination of public and private sources, including government grants, developer contributions, and philanthropic donations. HTF funds will be allocated towards the acquisition and rehabilitation of existing properties within the HURD. Developers would apply for funding from the HTF, subject to criteria established by CLT including the allocation of a certain percentage of units for affordable and workforce housing. CLT would be overseen by a board or committee comprised of MRC representatives, community organizations, and housing experts. Regular reporting and public disclosure of fund allocations would be required.

RECOMMENDATION:
Throughout the discussion, staff highlighted significant challenges such as changing market dynamics, rising construction costs, and zoning regulatory hurdles impacting the feasibility of housing development. The city's growth in market-rate housing contrasts with limited progress in affordable and workforce housing, underscoring the need for targeted interventions.

Ultimately, the decision rests with the MRC. Staff is recommending the MRC consider long-term housing objectives. By providing the development community and city staff with options to work with, the city can help achieve its housing objectives.

Several critical strategies and options have been identified to address the pressing need for workforce and affordable housing in our community. Staff proposed five distinct options designed to overcome barriers related to financing, profitability for developers, infrastructure needs, and defining housing affordability criteria. These options include direct city involvement in land acquisition and development, incentive-based programs tied to home prices, partnerships with landowners for infrastructure support, hybrid approaches combining multiple strategies, and the establishment of a Community Land Trust program.

Staff is recommending that the MRC support at least two different options. These options could be one of the five options presented or an additional option that may arise from ongoing discussions.