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**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Receive information regarding various housing-related issues and initiatives

**DEPARTMENT:** Transportation, Engineering and Development

**SUBMITTED BY:** Allison Laff, AICP, Deputy Director

**BOARD/COMMISSION REVIEW:**

This information was shared (in preliminary form) with the Housing Advisory Commission (HAC) at their February 4, 2019 meeting.

**BACKGROUND:**

There are a variety of housing-related initiatives occurring in 2019 that are important to be aware of as housing policy discussions occur. These include:

***Analysis of Impediments to Fair Housing Choice***

In May 2017, the City Council received the Analysis of Impediments to Fair Housing Choice report (AI). Staff has committed to undertaking 1-2 implementation items recommended by this plan each year; in 2018, the City conducted Fair Housing Training for city staff, board and commission members, and elected officials.

In 2019, staff will hire a consultant to complete a Housing Analysis, funded through the CDBG program, to compile better Naperville-specific housing data, including existing conditions, future projections, and housing market characteristics. This project was to be undertaken (regardless of IHDA’s findings below) in order to develop an Affordable Housing Plan, as was recommended as an implementation item of the Analysis of Impediments to Housing Choice (AI).

- *“Prepare an Affordable Housing Plan to determine the degree to which affordable housing demand exceeds current housing supply; implement any recommendations as supplemental*

*initiatives to this Fair Housing Action Plan.”*

### **Homes for a Changing Region Technical Assistance**

In addition to the Housing Analysis described above, the City will partner with the Metropolitan Mayors Caucus (MMC) beginning in April 2019 to develop a Housing Action Plan specific to the City of Naperville; this program is expected to take approximately 3-4 months from kick-off to completion. This program, which is free to the City of Naperville, will include a housing needs assessment, review and input by an expert panel(s), recommendations to address housing needs identified for the City of Naperville, and identified funding sources to assist with any implementation efforts.

This project will be a compliment to the data gathered through the Housing Analysis and will be broader in focus than the AI/AHPAA, and could include housing topics such as senior housing, workforce housing, crime-free housing, etc.

### **AHPAA**

The Illinois General Assembly passed the Affordable Housing Planning and Appeal Act (AHPAA) in 2003 to address the lack of moderately-priced housing that exists in many communities (see attached AHPAA handbook). The law identifies “non-exempt local governments” as those communities which have a population of at least 1,000 persons and have less than 10% of their housing stock qualify as affordable (per the income requirements listed below). For those communities identified as non-exempt, the law requires submittal of an Affordable Housing Plan, in which the community identifies the goals that will be set to increase the local affordable housing stock.

In 2003, the City of Naperville was classified as a non-exempt community by the Illinois Housing Development Authority (IHDA) due to the finding that only 9.4% of the City’s housing stock could be classified as affordable; in 2013, Naperville’s affordable housing share dropped to 6.2%.

In December 2018, the City was notified that it has again been classified as a non-exempt community based on 7.5% of the City’s housing stock qualifying as affordable. Based on the Naperville-specific data provided by IHDA, approximately 1,300 additional affordable units must be provided in order to reach the 10% affordable housing requirement. For Naperville, affordability is defined as:

- Homebuyers at 80% of regional median household income with no more than 30% of income spent on mortgage, taxes, and insurance): equates to a home value of not greater than \$133,000.
- Renters at 60% of the regional median household income with no more than 30% of income spent on rent and utilities: equates to an apartment rent of no more than \$950 per month.

### **DISCUSSION:**

#### **Methodology Concerns - AHPAA**

Upon review of the data used for the AHPAA, City staff identified a significant concern regarding the calculation methodology used by IHDA to derive their affordable housing percentages, as follows:

IHDA uses the following calculation to determine affordability for ownership units:

- 80% of Chicago Metropolitan Statistical Area (MSA) Area Median Income (AMI) x 30%/12 months = Maximum Monthly Income that can be spent on Housing (mortgage and taxes)
- Maximum Monthly Income - Average Property Taxes Paid Per Year in Naperville = Maximum Monthly Mortgage Payment

- Maximum Monthly Mortgage Payment determines Affordable Purchase Price

For Naperville:

- 80% of \$63,327 Chicago MSA AMI x 30%/12 = \$1,266.54/month that can be spent on housing
- \$1,266.54/month - \$690.33 property taxes/month\* = \$576.21 mortgage payment/month =  
**\$133,083 Affordable Purchase Price**

*\*Assumes an average of \$8,284.00 in property taxes are paid in Naperville*

The concern with IHDA's methodology is that the average property taxes used in the above calculation significantly skews the resulting affordability levels. If it is assumed, as a standard rule of thumb, that property taxes are typically 2% of the home value, Naperville's average property tax level of \$8,284/year is equivalent to a home valued at \$414,200.

In contrast, property taxes assessed on a \$133,083 affordable home would be closer to \$2,700/year (or \$222/month). Accordingly, it would not be appropriate to assume payment of \$690.00 property taxes/month on a \$133,083 home. If a lesser (but still conservative) Property Tax assumption of \$5,000/year (or \$250,000 home value) is used, Naperville's Affordable Purchase Price increases to \$196,291. This, in turn, increases Naperville's affordability levels to 11.3%, which would be in compliance with AHPAA requirements.

### **Other Program Concerns**

In addition to the above, staff identified the following concerns with the AHPAA findings:

- AHPAA's calculations generate one affordable purchase and one affordable rental price for the City of Naperville; these amounts are not adjusted based on household size or number of bedrooms. This approach is different (and less representative) than the affordability calculations used by HUD which provide a range of affordability based on household size and number of bedrooms (see attached).
- The AHPAA percentages issued every 5 years are also impacted by market factors beyond Naperville's control, such as interest rates (which are a factor in the calculation methodology) and existing affordable developments, such as the Fairways, which choose to revert to a market rate development after their prior HUD funding expires.

### **Meeting with IHDA**

City staff met with representatives of the Illinois Housing Development Authority (IHDA) on March 19, 2019 to better understand the Affordable Housing Planning and Appeal Act (AHPAA) findings as they apply to the City of Naperville. The following perspective was gained from this meeting:

- IHDA stated that the methodology used is designed to apply to all municipalities across the state but acknowledged that some communities may use other ways to calculate their own affordable housing stock, particularly as it relates to the property tax factor (which has also been raised by other communities in past AHPAA list publications). However, these local data do not override the metrics used to develop the AHPAA list. IHDA's use of this methodology is informed by specific language included in the AHPAA statute. As a result, IHDA does not have the authority to change the City of Naperville's affordable percentage; however, they do review ways to improve the methodology every five years (within the constraints of the language included in the statute) and consider alternative methods in the future.
- IHDA confirmed that the City is not at-risk for losing its CDBG or other HUD funding as a result of the AHPAA findings.
- IHDA's role in the AHPAA is primarily administrative, as they conduct the calculations for the

AHPAA and publish the non-exempt list every 5 years. Additionally, they are responsible for notifying non-exempt communities of their status and are responsible for reviewing and approving AHPAA Affordable Housing Plans which are required to be submitted to IHDA by non-exempt AHPAA communities under the act. Finally, they are also responsible for administering and staffing the Governor-appointed State Housing Appeals Board (SHAB), which is the primary enforcement tool of AHPAA. If, for example, a non-exempt community denies an affordable housing development, the developer may appeal this decision to SHAB. It is important to note that, to date, no appeals have been filed with SHAB (by any developer or against any municipality) since the AHPAA was passed in 2003.

### **Conclusion**

During discussions with staff, IHDA stressed that the importance of AHPAA is *not only the affordable percentages, but also the plan each community has to address affordable housing*. In this respect, the City has many housing-related initiatives occurring in 2019 and should continue to pursue these. The resulting implementation of housing initiatives should be based on Naperville's specific housing needs, as identified by these plans, which are also anticipated to be complimentary to the housing goals and plan recommended by AHPAA.

### **FISCAL IMPACT:**

To be determined.