



AGENDA ITEM EXECUTIVE SUMMARY

Agenda Item number: 4e-1

Title: **Introduction to Presentations regarding Affordable Housing Policy**

Presenter: **Russell Colby, Community Development Director**

Meeting: Planning & Development Committee

Date: February 12, 2024

Proposed Cost: N/A

Budgeted Amount: N/A

Not Budgeted:

TIF District: None

“Affordable Housing” as defined in the City Code is based upon definitions set by the Illinois Housing Development Authority and the state’s Affordable Planning and Appeal Act, which directs municipalities to maintain or enact program/policies to reach at least 10% of all housing units as affordable.

The recent five-year State report provides an opportunity for the City to consider our current standing with respect to the State requirement, and based on this information, consider how to set and implement affordable housing policy for the next five years.

Strategic Plan:

Within the 2023-2027 Strategic Plan, Housing Policy is referenced:

- “Balanced and Thoughtful Development” Strategic Priority
- *Support economic growth that respects our unique character and contributes to a diverse local economy by facilitating developments that enhance the community’s quality of life.*
 - Strategic Goal:
 - *Promote and encourage the development of diverse and quality housing options to help ensure all can live in our community.*
 - Outcome Objective:
 - *Review existing development programs, policies, and codes and update as needed:*
 - *--Affordable Housing requirements and programs by the end of 2024.*

The agenda items that follow will provide an opportunity for the Committee to provide initial feedback on any potential changes to Affordable Housing Programs or policies.

Background on Programs and Policies:

The subsequent agenda items are interrelated and pertain to:

- **The Inclusionary Housing Ordinance (IHO)**, Title 19 of the City Code, requiring 10% of all new residential units within a project be affordable, or alternately, the City Council can accept payment of fee-in-lieu of units. While the requirement is set within the code, for most projects, the Council implements this policy on a per-project basis by deciding whether to require units or fees for a given project. (Small projects which typically do not require review by City Council simply pay a fee, which is often a smaller fraction of the per unit fee-in-lieu amount)
- **The Fee-in-Lieu amount** set by the City Council on a yearly basis, with the advice of the Housing Commission. The fee is based on a formula recommended by Housing Commission that is intended to

reflect a hypothetical “value” of an affordable unit. The fee is also intended to act as a *disincentive* to encourage units to be provided in a project, instead of a fee a payment. (Affordable units are further incentivized with other permit-related fee waivers under the code)

- **The Housing Trust Fund**, which his collects Fee-in-Lieu payments and program reimbursements, in order to fund programs for providing and maintaining affordable units, including:
 - **Grants to qualified owners of affordable units** (First Time Homebuyer and Home Rehab programs)
 - **Grants to developers of affordable units** (through participation in the Kane County Affordable Housing Fund, where local Housing Trust Fund money is pooled with other funding sources and offered to applicants through the County’s HOME Commission)

Staff Commentary on Affordability:

Although housing affordability in general has improved over the past few years, it is important to consider the context of recent economic trends. Affordability has risen due to rising incomes and only moderate owner-occupied housing value growth in the Chicago region. While rental rate increases have recently slowed, the number of affordable rentals in St. Charles has dropped, despite increasing supply. Higher than normal inflation and interest rates also negatively impact how the real costs translate to residents.

Over the long term, the interplay of these trends is difficult to predict, however St. Charles is a desirable community in the region and is likely to see demand that may continue to drive up housing costs. Prices are also constrained by limited supply availability.

Policy Considerations:

Historically, the City has supported affordable housing initiatives as a matter of policy, separate from the State Act and its 10% threshold. Staff believes that it will continue to be in the City’s interest to be proactive with affordable housing policy going forward, but we may want to consider how to best implement these policies.

The City has imposed affordable housing requirements (in the form of units or fees to the Housing Trust Fund) for most residential development projects going back to the mid-2000s. For early projects, the requirement was implemented as a policy and negotiated into new annexations or PUD developments. Adoption of the IHO in 2008 created a binding requirement for all projects. However, the actual implementation has fluctuated over the years as market conditions have shifted. IHO was suspended from 2013 to 2016.

The City has been willing to accept fees-in-lieu of units for recent projects. This has been the preference of recent developers, as they either don’t have the background, resources, or interest to own and manage affordable units, or the projects are not at a large enough scale to support the replacement of market-rate units with affordable units over the term of the project financing. Where units have been created, they are within a portion of the project that is set aside from the remainder of the market-rate development and may be developed separately by a housing provider.

Recent residential projects that are now in build out have resulted in an influx of money into the Housing Trust Fund. Turning these funds into affordable housing has been challenging. As discussed in the subsequent agenda items, the Housing Commission encourages finding more creative opportunities to incorporate units into projects, particularly larger or multi-phase projects, instead of continuing to collect substantial additional fees.

The City may see potential larger projects that could accommodate an affordable component, such as Charlestowne Mall on the east side and the Bricher Commons property behind Meijer on the west side. These

locations are in the vicinity of other business/services and transportation that can support residents of such a project.

Going forward, if incorporating affordable units within larger projects is not supported or required, then the City may want to consider whether a substantial fee is productive, or whether this type of impact fee could be collected for some other purpose that would benefit the community and perhaps indirectly support diverse housing opportunities.

Currently, the Affordable Housing Fee-in-lieu is a significant cost line item for a development project, and it is viewed together with other "impact fees", including:

- School and Park Fee-in-lieu of land contributions
- Water and Sewer Utility Connection Fees
- Electric Utility System installation costs
- Kane County Transportation Impact Fee

The City's affordable housing requirement is unique in our immediate area, and our closest neighbors with affordable housing policies (Geneva and Naperville) only have voluntary standards and incentives.

Attachments (please list):

Recommendation/Suggested Action (briefly explain):

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