



AGENDA ITEM EXECUTIVE SUMMARY

Agenda Item Number: 4e

Title: Recommendation regarding 2021 Inclusionary Housing Fee

Presenter: Ellen Johnson

Meeting: Planning & Development Committee

Date: October 12, 2020

Proposed Cost: \$

Budgeted Amount: \$

Not Budgeted:

Executive Summary (if not budgeted please explain):

Background

The Inclusionary Housing Ordinance (IHO), Title 19 of the Municipal Code, requires developers of new residential developments to build a proportionate share of affordable housing units on site, or pay a fee in-lieu of providing affordable units. Fee in-lieu payments made by developers are placed into the City’s Housing Trust Fund to be used to provide and preserve affordable housing opportunities in St. Charles.

The IHO fee-in-lieu may be set on an annual basis at the discretion of the City Council. Council typically sets the fee at the beginning of each calendar year. The current fee for calendar year 2020 is \$39,665.75 per required affordable unit (calculated as the cost of a 25% downpayment for an affordable house priced at \$158,663). The fee is the same for all residential developments, regardless of unit type.

Discussion regarding IHO fee-in-lieu for 2021

Over the past few years, residential growth in the City has been primarily comprised of multi-family residential projects, and permanent affordable multi-family units have been created (including the completed Anthony Place project and proposed second phase building). The City is currently reviewing single-family and townhome developments that may begin construction next year, and in light of these projects, the IHO Fee for 2021 was discussed at the recent City Council Retreat.

Developers have noted that inclusion of affordable units within single family or townhome projects is challenging and that the IHO fee-in-lieu may be acting a disincentive for moderately-priced projects.

Staff is proposing that the Committee consider a tiered fee structure based on unit type, with the highest fee for multi-family units, a lesser fee for townhome units, and the lowest fee for single-family units. This tiered structure takes into account the relative ease of incorporating affordable units within multi-family developments and the greater likelihood of being able to take advantage of the density bonus allowed under the code for developments that incorporate affordable units, compared to single-family developments. Also, the cost of construction per multi-family unit vs. single-family unit is much lower, with the cost of a townhome unit falling between multi-family and single-family.

Proposal for 2021 IHO Fee:

The formula for calculating the fee could be modified as follows, while continuing to use the current affordable house price of \$158,663 as a baseline for the calculation:

- Multi-Family Developments: \$39,665.75 (cost of a 25% downpayment) – *same as existing*
- Townhome Developments: \$27,766.03 (cost of a 17.5% downpayment)
- Single-Family Developments: \$15,866.30 (cost of a 10% downpayment)

Alternatively, a new formula could be utilized, or the fee could be chosen not based on any formula. The attached Memo lists the total fee in-lieu contributions resulting from the tiered fees and other fee options.

Attachments (please list):

IHO Fee Memo

Recommendation/Suggested Action (briefly explain):

Provide a recommendation on the 2021 Inclusionary Housing Fee.

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Staff Memo

TO: Chairman Rita Payleitner
And the Members of the Planning & Development Committee

FROM: Ellen Johnson, Planner

RE: 2021 Inclusionary Housing Fee In-lieu

DATE: October 2, 2020

Staff is seeking direction from the Committee on setting the Inclusionary Housing Fee In-lieu for calendar year 2021, which would take effect January 1, 2021.

Per Section 19.02.060 of the City Code, the Inclusionary Housing fee in-lieu may be set on an annual basis at the discretion of the City Council:

The amount of the per-unit fee in-lieu of Affordable Units shall be determined annually by the City Council. If no fee has been determined by the City Council for the current year, the fee most recently determined by the City Council shall apply.

I. BACKGROUND

City Code Title 19 “Inclusionary Housing” requires developers of new residential developments to build a proportionate share of affordable housing units on site, or to pay a fee in-lieu of providing affordable units.

Fee in-lieu payments made by developers are placed into the City’s Housing Trust Fund. The purpose of the Housing Trust Fund is to provide and preserve affordable housing opportunities in St. Charles. Currently, the City offers the Home Rehab & Accessibility Loan Program and First-Time Homebuyer Loan Program which are funded by the Housing Trust Fund.

The City has also earmarked a significant portion of the fund to the Kane County Affordable Housing Fund to be made available to developers of affordable housing. Two purchase/rehab/resale projects have been approved with HTF dollars: 1432 Dean St., which was recently completed and sold to an income-eligible buyer, and 704 Adams Ave., which is currently being rehabbed. In September, the Housing Commission also approved partial funding for construction of a new affordable single-family home on the City-owned Moore Ave. lot, which P&D Committee decided should be offered as a buildable lot for an affordable single-family home.

II. CURRENT IHO FEE

A summary of past IHO fees can be found attached. Currently the fee per required affordable unit is \$39,665.75, which was set in February 2020 and is the same as the fee for 2019. The fee is calculated as the cost of a 25% downpayment for an affordable house priced at \$158,663. The affordable house price used was determined by the Illinois Housing Development Authority in its 2018 Report on Statewide Local Government Affordability.

IHDA is expected to release its next Report on Statewide Local Government Affordability in 2023. Unless the Council sees a need to change the fee and/or method for calculating the fee, the existing fee could remain in place until the updated affordable home price is determined by IHDA in 2023.

III. 2021 IHO FEE

The 2021 IHO Fee was discussed at the recent City Council Retreat. Prior to the retreat, the Housing Commission provided informal feedback to the Commission's City Council Liaison that their preference is to keep the fee for 2021 as-is.

Options for the 2021 fee include:

1. Keep the current fee of **\$39,665.75** per required affordable unit.
2. Establish a new fee, based on a formula or not.
3. Establish a tiered fee structure based on unit type, with the current fee for multi-family units, a lesser fee for townhome units, and the lowest fee for single-family units. This tiered structure takes into account the relative ease of incorporating affordable units within multi-family developments and the greater likelihood of being able to take advantage of the density bonus allowed under the code for developments that incorporate affordable units, compared to single-family developments. Also, the cost of construction per multi-family unit vs. single-family unit is much lower, with the cost of a townhome unit falling between multi-family and single-family.

If this course of action is desired, the existing formula for calculating the fee could be modified as follows:

- Multi-Family Developments: \$39,665.75 (cost of a 25% downpayment for an affordable house priced at \$158,663) – *same as existing*
- Townhome Developments: \$27,766.03 (cost of a 17.5% downpayment for an affordable house priced at \$158,663)
- Single-Family Developments: \$15,866.30 (cost of a 10% downpayment for an affordable house priced at \$158,663)

The table on the following page lists the three fee tiers and the resulting fee in-lieu contributions for various sized developments.

		1-unit development	50-unit development	100-unit development	250-unit development	500-unit development
<i>Affordable Units Required</i>		<i>0.05 unit</i>	<i>5 units</i>	<i>10 units</i>	<i>25 units</i>	<i>50 units</i>
Multi-Family Fee (current)	\$39,665.75	\$1,983	\$198,329	\$396,658	\$991,644	\$1,983,288
Townhouse Fee	\$27,766.03	\$1,388	\$138,830	\$277,660	\$694,151	\$1,388,302
Single- Family Fee	\$15,866.30	\$793	\$79,332	\$158,663	\$396,658	\$793,315

The IHO Fee does not need to be set based on a formula. The current formula has been used since 2016. However, a new formula for calculating the fee(s) could be utilized, or the fee could be chosen not based on any formula. The table below lists possible fees not based on a formula, from \$50,000 down to \$5,000 per required affordable unit.

Other Possible Fees:					
\$50,000	\$ 2,500	\$250,000	\$ 500,000	\$1,250,000	\$2,500,000
\$40,000	\$ 2,000	\$200,000	\$ 400,000	\$1,000,000	\$2,000,000
\$30,000	\$ 1,500	\$150,000	\$ 300,000	\$750,000	\$1,500,000
\$20,000	\$ 1,000	\$100,000	\$ 200,000	\$500,000	\$1,000,000
\$10,000	\$ 500	\$50,000	\$ 100,000	\$250,000	\$500,000
\$5,000	\$ 250	\$25,000	\$ 50,000	\$125,000	\$250,000

IV. ATTACHMENTS

- Summary of IHO Fee In-lieu History

Inclusionary Housing Fee In-lieu History

The table below lists the past and current fee in-lieu amounts since the Inclusionary Housing Ordinance was adopted in 2008:

Year Fee Established	Fee Amount
2008	\$140,000 / required affordable unit
2010	\$104,500 / required affordable unit
2016	\$72,819.50 / required affordable unit
2017	\$72,819.50/ required affordable single-family, townhome, or duplex unit \$5,000 / required affordable multi-family unit
2018	\$36,409.75
2019	\$39,665.75 / required affordable unit
2020	\$39,665.75 / required affordable unit

The fee in-lieu that was set upon adoption of the IHO in 2008 was **\$140,000** per required affordable unit. The following calculation was used to determine the fee:

St. Charles' Median Home Sale Price (from Assessor's data) – 2/3 of the IHDA Affordable Price for a 4-person Household

In 2010, the fee in-lieu was lowered to **\$104,500** after IHDA released an updated affordability chart with a lower affordable price for a 4-person household. The same calculation as used in 2008 was used to determine the new fee.

In 2013, the IHO was suspended after a determination by staff that over 25% of the City's housing stock was affordable, per the provisions of the IHO at that time.

In March of 2016, the IHO was reinstated in an amended form. A new fee in-lieu was set due to concern expressed by City Council members that the fee of \$104,500 was too high. The Housing Commission recommended the fee in-lieu be calculated as the cost of providing a 25% downpayment for two affordable units priced at \$145,639, which is the affordable home price for St. Charles determined by IHDA in 2013. This resulted in a fee of **\$72,819.50**.

In February 2017, City Council established a different fee for multi-family housing developments due to concerns that the fee of \$72,819.50 was too high for multi-family projects. This resulted in a dual fee structure: **\$5,000 for multi-family developments and \$72,819.50 for single-family/duplex/townhome developments.**

In March of 2018, upon discussion with the Housing Commission at a joint meeting, City Council returned to a single fee for all types of residential units and set the fee at **\$36,409.75**, calculated as the cost of a 25% downpayment for one affordable unit priced at \$145,639.

In January 2019, based upon the Housing Commission's recommendation City Council kept the previous methodology for establishing the fee, but recalculated it based on the new affordable home price for St. Charles determined by the Illinois Housing Development Authority in its 2018 Report on Statewide Local Government Affordability. The fee was increased to **\$39,665.75**, calculated as the cost of a 25% downpayment for one affordable unit priced at \$158,663.

In February 2020, City Council kept the previous year's fee of \$39,665.75, as recommended by the Housing Commission. IHDA is expected to release its next Report on Statewide Local Government Affordability in 2023. Unless the Council sees a need to change the fee and/or method for calculating the fee, the existing fee could remain in place until the updated affordable home price is determined by IHDA in 2023.