MINUTES
CITY OF ST. CHARLES, IL
HOUSING COMMISSION
THURSDAY, APRIL 16, 2015
COUNCIL COMMITTEE ROOM

Members Present: David Amundson, Liz Eakins, Rita Payleitner, Karrsten Goettel, Corinne Pierog, John Glenn

Members Absent: Curt Henningson, Tom Hansen, John Hall Jr.

Others Present: Matthew O'Rourke, Economic Development Division Manager
Ellen Johnson, Planner
Tim Kessler, Plan Commission member

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1. **Call to Order**

Vice-chair Amundson called the meeting to order at 7:25 p.m.

2. **Roll Call**

Ms. Johnson called roll with five members present. There was a quorum. Mr. Glenn arrived at approximately 8:17 p.m. and Ms. Payleitner left the meeting at approximately 8:17 p.m.

3. **Approval of Agenda**

A motion was made by Ms. Payleitner and seconded by Ms. Eakins to approve the Agenda. Motion carried by a unanimous voice vote.

4. **Approval of Minutes from the March 19, 2015 Meeting**

A motion was made by Ms. Payleitner and seconded by Mr. Goettel to approve the March 19, 2015 Housing Commission meeting minutes. Motion carried by a unanimous voice vote.

5. **Recommendation regarding revisions to the Inclusionary Housing Ordinance**

Chair Amundson said he researched the implications of the City falling below 10% affordable. His interpretation is that we are exempt and that designation will not change until 2018 [when IHDA releases the next Exempt and Non-Exempt Local Governments list]. While we are exempt, the state cannot have a say in whether or not we impose affordability requirements on developers. The State Housing Appeals Board shall dismiss a developer's appeal if it concludes that the government was exempt in the year in which the appeal was filed. Also, an appeal cannot be made to the State Board until 60 months (5 years) after the local government is notified it is non-exempt. That means if we are found to be non-exempt in 2018, an appeal could not be made until 2023 at the minimum, assuming IHDA releases an update in 2018. Also, if an appeal is filed in, for example, 2024 and we are non-exempt, the board shall dismiss the appeal if the local government has adopted an affordable housing plan, has submitted a plan to IHDA within the required period, and has evidence that the local government has met its goal stated in the plan. In filing your plan with the state, you have to pick one of three possible goals: a minimum of 10% of total housing stock affordable; a minimum of 3 percentage point increase in the overall percentage of affordable housing; or a minimum of 15% of

all new development or redevelopment that would be defined as affordable. The third goal is achievable. If we become non-exempt in 2018, we can change the Inclusionary Housing Ordinance (IHO) in 2023 to require all new developments to provide 15% affordable units and change our affordability criteria to be in line with the state's criteria. Right now we are ahead of the curve; other area communities do not have Housing Commissions and are not imposing any affordability requirements on the development community. At this point, we could be more lenient related to the state's requirements because we are the only area municipality with any requirements. We need to be realistic about not pricing ourselves out of the market and preventing development in town. If eight years from now we are non-exempt and need to adjust our ordinance, our neighbors will be in the same boat. Anything we do will not seem onerous because it will be the same across communities. We should continue within the framework of what we discussed last month and stay on the side of flexibility for the development community for now. Then if we are notified we are non-exempt, we can amend our ordinance to be strictly in line with the state, and take away things we're offering now related to flexibility and trade-offs. If we make it too onerous for now developers, they will go to other communities.

Mr. O'Rourke said five years is an appropriate cycle to revisit and evaluate the ordinance anyway.

Chair Amundson reviewed that last month, the Commission agreed to take the state's formulation for determining the City's affordable housing share, adjust the fee in lieu, allow more flexibility with the density bonus, and reduce the required set-aside. The next point for discussion is whether we adjust for household size when determining the price of an affordable unit.

Ms. Johnson said if we decide to adjust for household size, no changes would be made to the ordinance in that regard since the ordinance already does this.

Mr. Kessler asked why IHDA dropped household size from their affordability share calculation.

Ms. Johnson said IHDA changed the methodology for calculating each community's affordable housing percentage. They use straight AMI now instead of AMI adjusted for a four-person household. IHDA did not explain why they made that change.

Chair Amundson read the three options related to adjusting for household size provided in the staff memo. The first option is to leave the ordinance as is and continue to adjust for household size when determining AMI. This gives the development community more flexibility, because it allows a price scale, rather than a fixed price regardless of product. The fixed price from IHDA requires an efficiency unit and a four-bedroom unit to be priced the same, at $916 a month for a rental. If we accommodate for household size, it becomes a sliding scale, which allows flexibility for the development community. For for-sale units, the fixed price is about $145,000 regardless of how many bedrooms are in the house. The second option is to go with the fixed number from IHDA. The third option is to take a hybrid approach; the developer could choose the more favorable of the fixed price or sliding scale price. It would allow, for example, a developer to charge $916 for an efficiency unit instead of $760 provided on the sliding scale.

Mr. Kessler asked how many developers are building affordable units as opposed to paying fee in-lieu.

Mr. O'Rourke said no units have been built as a result of this ordinance. However, there has not been

any residential development project approved, other than Lexington Club. A different path was negotiated for Lexington Club because of the environmental remediation required for the site.

Mr. Kessler questioned changing the ordinance to give flexibility to developers to build affordable units when no units are being built.

Mr. O'Rourke said a majority of the funds that are in the Housing Trust Fund are from the annexation agreement for the development north of St. Charles North High School [River's Edge]. A few other developments paid some fee in-lieu before the ordinance was adopted.

Mr. Kessler said it seems to him that discussions regarding how new developments would comply with the ordinance have always been towards paying fee in-lieu rather than providing units. That seems to be the direction the development community wants to go, and that has some bearing on which option the Commission chooses. He said he does not think the Commission must focus on making it easier to build units because the likelihood of developers doing so is not there.

Ms. Payleitner said we could obtain affordable units for multi-family developments.

Mr. O'Rourke said the ordinance used to require units for developments of a certain size. One of the revisions is for that requirement to be removed, to give developers the option of paying the fee in-lieu for any size development.

Chair Amundson said the odds of someone building are low, but if they do decide to build, he would prefer there to be flexibility in the ordinance.

Mr. Kessler said we have an obligation to make housing affordable for the people that need affordable housing. We do not want to make an ordinance that is developer friendly and not affordable.

Chair Amundson said the trade-off is allowing more flexibility to actually get the units built, but at the same time if you allow for flexibility the rent will be higher, making it more difficult for the family to afford.

Mr. Kessler said most developers are paying fee in-lieu, which tips the scale more towards affordable.

Chair Amundson said if we go with the fixed price and the developer wants to build efficiency units, they can charge $916. If we go with the adjustment for household size, they can only charge $760, so going with the fixed price hurts affordability.

Ms. Johnson said the hybrid approach is only advantageous for the developer.

The Commission agreed not to take the hybrid approach, option #3.

Ms. Pierog asked if fee in-lieu payments could be used as a subsidy program for homes that are under $200,000. She said she does not see option #2 as a bad thing.

Ms. Johnson said what we should do with fee in-lieu payments is the next discussion the Commission

needs to have.

Mr. O'Rourke said the majority of developers will go for fee in-lieu, especially for for-sale units. The next step is what are we going to do with the Housing Trust Fund. That is the path the Commission should go on.

Ms. Johnson said we will be seeing the revisions again if staff is directed to file a General Amendment application; the decision the Commission makes tonight is not set in stone.

Mr. O'Rourke said City Council may have a different opinion and direct us to go in a different direction so it would be valuable to get that input before we make a final decision.

Chair Amundson took an informal poll. Four members voted for option #1- adjust for HH size. One member voted for option #2- fixed price from IHDA. Mr. Kessler also voted for option #2.

Mr. Goettel said he thinks flexibility is important.

Mr. O'Rourke said staff will tell P&D Committee that the Commission felt option #1 was the more flexible option, but also saw merit in option #2, and that the Commission would like their feedback on the issue.

Ms. Pierog said getting fee in-lieu allows for a greater pool for other programs.

Ms. Payleitner said she wants to make sure that if multi-family projects comes up, that we get stock from them.

Chair Amundson said we are more likely to get units created for multi-family if we go with the sliding scale, because most likely larger units would be created, and rents would be higher than the fixed rent ($916). If we go with the fixed rent, the developer may not create the units because they might say they cannot afford to build, say a 2-bedroom and 3-bedroom unit for $916 per month.

Ms. Eakins said the need is for housing for families; units with more than one bedroom are needed.

Chair Amundson said, in helping the units get built, it makes it more onerous for the families to get into them.

Mr. O'Rourke said the developers will more likely take advantage of the density bonus for multi-family development. There is also the matching unit requirement. If you build two-bedroom units, you need to build two-bedroom affordable units. It would be better to keep the sliding scale if we are going to require that.

Chair Amundson said the next point of discussion is the length of the deed restriction. It is currently seven years for for-sale units. We are proposing twenty. There was discussion last time on dis-incentivizing maintaining and improving the affordable unit if the deed restriction is too long. Highland Park's deed restriction is onerous and not practical. He suggested having an appraiser determine the market value of any improvements that have been made. Any improvements should be eligible, including additions and decks, so the homeowner can earn capital.

Ms. Eakins wondered whether an appraiser would have the ability to do that.

Mr. Kessler said his idea would be to determine the difference between the affordable price and the market price, and make that the cost basis for when you sell the house. In other words, if the affordable price is $145,000 but market value is $180,000, $35,000 is the cost basis for moving forward for however long the deed is. When they sell the house they have to pay the original cost difference.

Mr. O'Rourke said when the affordable unit is sold at market rate after the deed restriction ends, the difference between the affordable price and the sales price comes back to the Housing Trust Fund.

Chair Amundson said the issue is if the price is fixed when they sell the house, the homeowner does not recoup any of the money they put into the house. They will earn equity through mortgage payments and they are provided with certain intangibles like living in a good neighborhood. However, if they put $20,000 into the kitchen, an appraiser should be able to compare the value of the original kitchen and the new kitchen, and the homeowner gets to keep whatever the new kitchen raised the appraised value by.

Mr. Kessler said that would be difficult to administer. If someone buys a house that has to be sold for an affordable price for a certain period of time, that is the risk the homeowner takes. But if the deed restriction is 20 years, then you have taken all incentive for home improvements away. Seven years would be the longest he would be willing to go. If they stay in the house 20 years, it is not affordable housing stock anymore anyway.

Chair Amundson said if the house is sold within the 20 years, another family would have to meet the affordability requirements. If the homeowner makes improvements, they should be allowed to gain something from those improvements. Otherwise, there is no incentive to do anything serious to the house.

Ms. Payleitner said that is ok. She said when she bought her first house, she knew that whatever she did to it, due to the neighborhood and its size, it would always be a starter home. She would not put in a $35,000 kitchen because she knew she would never see that money back.

Mr. Kessler said there is not a lot you could do to a $140,000 house to improve its value other than what the market dictates.

Chair Amundson said an affordable unit's market value may be $250-$300,000 if it is within a new development. It will be substantially the same as all its neighbors.

Mr. Kessler said it is important to be realistic. The likelihood of a developer building a $140,000 home next to a $300,000 home is low; they will pay fee in-lieu.

Chair Amundson said it is a possibility the developer will create the affordable units.

Mr. Kessler said it is a business decision for the developer.

Chair Amundson said we do not want to dis-incentivize a family from making improvements to the home.

Ms. Johnson said the ordinance allows for an allowance for the cost of certain improvements. How exactly that allowance is accounted for will be figured out through the deed restriction, which will be drafted at a later date.

[Mr. Glenn entered the meeting and Ms. Payleitner left the meeting at 8:17 p.m.]

Mr. O'Rourke asked whether there is support to extend the deed restriction, in the context of the ordinance amendment.

Chair Amundson said the problem with a seven year deed restriction is, if a unit is built, only seven years later it will be back on the free market. By increasing the timeline, maybe two families would get the advantage of owning the affordable home. One of the conditions required for the State Housing Appeals Board to hear an appeal is that the developer comes forward with a proposal that includes 20% affordable dwelling units that are subject to restrictions that for-sale units remain affordable for 15 years and rental units for 30 years. So, seven years is not in line with what the state wants.

Ms. Eakins said the family will have had the advantage of living in a nice house and neighborhood. The length of time would not be a burden. The family knows what they are getting into and the benefits that they are reaping.

Ms. Pierog said a family is aware that if they stay for 15 years, then they can sell the house at market price.

Mr. O'Rourke noted that the difference between the market price and the affordable price comes back to the Housing Trust Fund. The homeowner would get to keep the difference between what they bought it for and the current affordable price. It may not be addressed in the ordinance if the current affordable price is lower than what they bought it for. It could be written into the deed restriction that if the affordable price goes down, they can always sell the unit for what they bought it for.

Chair Amundson said the owner gets the equity from their mortgage payments and the mortgage interest tax deduction. They do not get the cash incentive people in the free market get, but the tradeoff is that they are getting a house in a location that they could not otherwise afford, and all the intangibles that come with that.

Mr. Kessler said the requirements should be brought in line with the state as much as possible.

Mr. Glenn asked if Highland Park is trying to do more on the sale or rental side. It seems like the rental side would be the best place to focus.

Ms. Johnson said Evanston and a few other communities are now part of the former Highland Park land trust, but she does not know what they focus on.

Mr. Glenn said renters do not need to pay for maintenance, and the product continues to serve other families.

Mr. O'Rourke said, should a developer want to build a market rate for-sale product and take

advantage of the density bonus, there needs to be some sort of avenue to provide the for-sale affordable unit.

Chair Amundson said there needs to be some protection that ultimately the sale price can be whatever the state says it is, plus the increase they put into it. If the affordable price is $155,000 and they put $10,000 into it, it will go on the market for $165,000 and the owner will get to keep the difference.

Mr. Kessler suggested the owner be able to sell the house at the affordable price, plus whatever the market has appreciated over the period of time.

Mr. Glenn said maintenance is expected. If a house does not have a furnace the owner needs to put it in.

Chair Amundson said he is not concerned about maintenance; he is concerned about if the owner puts an addition on, or new kitchen or deck.

Ms. Pierog suggested something be attached to the permit system so if the owner comes in for a permit for an addition, they are reminded they have a subsidized home and will not recoup the cost.

Ms. Eakins said we might want to encourage more of the maintenance aspect like new roofs and furnaces that are going to ultimately have an effect on the quality of that structure at the end of the term, rather than additions and decks. If we are going to offer protection for additions but not for maintenance, then we are shooting ourselves in the foot in terms of what the structure might look like.

Mr. O'Rourke said we are encouraging owners to maintain the things that should be maintained. If they can afford to put an addition on, maybe it is time for them to leave the affordable unit and buy a market rate house.

Mr. Kessler said people earning $50,000 a year will not be buying a house, they will be renting.

Commissioners agreed to a 15 year deed restriction.

A motion was made by Ms. Pierog and seconded by Mr. Goettel with a unanimous voice vote to recommend to Planning & Development Committee that staff be directed to file an application for General Amendment based on the conceptual revisions as discussed by the Housing Commission.

6. Additional Business

There was no additional business to discuss.

7. Future Meeting Dates

The next meeting will be Thursday, May 21, 2015.

8. Adjournment

A motion was made by Mr. Glenn and seconded by Ms. Eakins and Mr. Goettel to adjourn at 8:34 p.m. Motion carried by a unanimous voice vote.