

06-14-2023 Town Council Meeting Responses to Council Questions

ITEM #12: Review Draft Affordable Housing Plan and Investment Strategy

Council Question:

How would the proposed revolving loan fund fit into the recommendations. Would it reduce either the proposed bond amount or the annual tax amount?

Consultant Response:

The proposed revolving loan fund would expand Chapel Hill's ability to preserve affordable rental homes by providing financing to acquire, refinance, and rehab those properties. It could also be used to acquire pieces of land, or buildings suitable for development, or redevelopment, as affordable homes. Both of these uses will address the need for quick and flexible financing.

The Town also plans to explore the possibility of the revolving loan fund supporting the construction of new affordable units. While this is not how most local loan funds have been set up to date, staff have received guidance from an experienced fund administrator that this type of loan product is possible under the umbrella of the revolving loan fund.

There will be additional need for permanent funding to help fund the construction and operation of the affordable units. That is where the recommendations in the investment strategy comes in – for the Town to utilize affordable housing bond and tax revenue to support the creation and preservation of affordable housing through permanent low-cost loans or grants. The revolving loan fund would likely not reduce in a significant way the need for substantial and consistent funding sources, but it can increase the impact they have.

Council Question:

How would an approximately \$29 million bond affect our overall debt capacity given our other capital financing needs?

Staff Response:

Any amount that Council considers for a future Affordable Housing bond would need to take into consideration the Town's overall debt capacity, debt affordability, and the prioritization of capital project financing needs. If Council wishes to pursue a \$29 million, \$40 million, or other sized bond, the Town would need to look at how a new borrowing would fit in with the existing projects in queue to determine options for how best to move forward.

06-14-2023 Town Council Meeting Responses to Council Questions

Council Question:

Would increased use of mixed income strategies, such as the one being employed at Weavers Grove, affect the overall financial needs?

Consultant Response:

If Chapel Hill adjusted its development approval process to allow for significantly more development at higher levels of density in exchange for mixed-income housing it could reduce the need for subsidy. But, the scale of the increase in development would need to be significant to meaningfully impact the need for subsidy. The Town and its consultants for the LUMO Re-Write project are currently analyzing the ability of mixed income projects to support creation of affordable units.

Council Question:

Is the rubric the Town currently uses for selecting AH projects to fund appropriate? What changes, if any, are needed?

Consultant Response:

The Town's current rubric to evaluate project requests for local funding appears to be appropriate and captures many of the recommendations we'd typically advocate for in evaluating projects, especially around income targeting, affordability impacts, and social equity.

There are several minor changes to the rubric we'd recommend the Town consider. Generally, we recommend assessing any unintended consequences of scoring requirements – for example scoring based on the total development costs per unit, given current market conditions, may unintentionally prioritize 'lower-quality' affordable housing compared to market rate housing. We also recommend exploring ways to continue incentivizing the repayment of Town funding and increasing emphasis on longer affordability periods.

Council Question:

The use of Town-owned land has been a major component of our AH strategy in the past several years. Do we have sufficient land to continue using that strategy?

Staff Response:

Leveraging publicly-owned land is a strategy frequently incorporated by communities to increase affordable housing development, especially for affordable multifamily rental projects. Within the context of the Plan, the Town should continue to explore partnerships in which it contributes Town-owned land to support affordable housing development. In total, this strategy could create more than 600 new affordable housing units over the next 10 years, substantially more than what we expect might be built on private land within that timeframe. However, the

06-14-2023 Town Council Meeting Responses to Council Questions

success of this strategy is dependent on the availability of gap financing in addition to the land donation.

There are additional sites that the Town could consider for affordable housing development, should Council give direction to staff to initiate planning and staff capacity be increased to allow for expansion of our work in this area. In addition to undeveloped land, the Town could explore re-purposing land for affordable housing. For example, developing underutilized parcels like parking lots or jointly developing parcels to include multiple community benefits, such as a fire station and housing.