

HEARING DATE: OCTOBER 20, 2009

TO: The Honorable Mayor and Members of City Council

THROUGH: Amar Dwarkanath, Deputy City Manager - Operations

FROM: Brent R. Nielson, AICP, Director of Planning

DATE: October 7, 2009

RE: **CP-08-03**
A resolution to amend the Chesapeake Comprehensive Plan, Appendix "A" thereof, to modify the definition of "affordable housing" to mean housing for occupancy or ownership by persons or households whose annual gross income does not exceed one hundred percent of the United States Department of Housing and Urban Development's annual area median gross household income estimates for households of the same size in the Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area, provided that the household pays no more than forty percent of gross income for gross housing costs, including utilities.

AMENDMENT DESCRIPTION:

The proposed resolution amends the City's Comprehensive Plan as it pertains to the definition of affordable housing contained in Appendix A - Glossary. That definition was recommended by the Affordable Housing Focus Team, one of several advisory teams established to provide advice and recommendations in the development of the Forward Chesapeake 2026 Comprehensive Plan, and was adopted by City Council as part of the Comprehensive Plan policy document. The proposed resolution also seeks to provide a more practical definition of affordable housing than the definition developed by the Affordable Housing Task Force (AHTF) in its July 2006 final report to City Council, who approved adding the report to the Comprehensive Plan for reference as Appendix L.

BACKGROUND:

During its February 17 and 24, 2009 meetings, City Council considered CP-08-03, a resolution to amend the Chesapeake Comprehensive Plan, Appendix A thereof, to modify the definition of "affordable housing" to mean housing for occupancy or ownership by persons or households whose annual gross income does not exceed eighty percent (80%) of the area median household gross income in the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area. In considering this item, City Council felt that the proposed definition of affordable housing merited further review and refinement by staff, and subsequently continued the item until their May 19, 2009

meeting. City Council also requested that staff solicit input on the proposed definition from the City Council Liaisons to the Planning Department and the Department of Neighborhood Services, Council Members Hayes and Willis, as well as from members of the City's Housing Committee.

Planning Department met with the aforementioned entities, as requested by City Council, in addition to conducting further research into affordable housing definitions utilized by other localities and seeking comment from the Tidewater Builder's Association on the proposed definition. As a result, an alternative to the definition presented to City Council in February was developed, which substituted one-hundred percent (100%) for eighty percent (80%) of area median household income. In considering this alternative proposed definition, City Council felt that staff should solicit additional feedback from representatives of the housing industry, and subsequently continued the item until their June 16, 2009 meeting.

Staff met with housing industry representatives on June 4, 2009 as requested. Based on the feedback and recommendations received by staff from industry representatives, an alternative definition was developed, which recommended using one-hundred percent (100%) of the U.S. Department of Housing and Urban Development's annual area median gross income estimates, provided that the household pays no more than forty percent (40%) of gross income for gross housing costs. City Council felt that this latter definition should be reviewed by staff for compatibility with the Proffer Policy's affordable housing language, and continued the item for 120 days. Staff has completed this review and finds no compatibility issues between the alternative affordable housing definition and the Proffer Policy. Thus, herein re-submitted for City Council's consideration is the alternative definition dated June 16, 2009, per the attached resolution.

STAFF ANALYSIS:

As noted above, at the request of City Council during its May 19, 2009 meeting, Planning staff met with representatives of the housing industry on June 4, 2009. The following industry representatives attended the meeting: Claudia Cotton, Staff Vice President for Builders Services, Tidewater Builder's Association; Steve Lawson, President, The Lawson Companies; Barret Stork, Government Affairs Director, Hampton Roads Realtors Association; Karen Gaskins, Member, Hampton Roads Realtors Association; and Nick Baum, Planner, The Dragas Companies. After consulting with the aforementioned entities, and re-considering the existing definitions of affordable housing outlined in the original staff report for CP-08-03 dated January 8, 2009, **the following definition of affordable housing is recommended for inclusion in Appendix A-Glossary of the 2026 Comprehensive Plan:**

"Housing for occupancy or ownership by persons or households whose annual gross income does not exceed one hundred percent (100%) of the U.S. Department of Housing and Urban Development's annual area median gross income estimates for households of the same size in the Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area, provided that the household pays no more than forty percent (40%) of gross income for gross housing costs, including utilities."

The above definition is a modification of the definition presented to City Council in May. **First**, in addition to recommending that 100% of the area median income be used to determine whether housing is affordable, it is now specifically recommended that the U.S. Department of Housing and Urban Development's (HUD) annual area median income (AMI) estimates be used as the basis for comparison. HUD's AMI estimates tend to be timelier than the U.S. Census American Community Survey estimates. In addition, the HUD AMI figures are commonly used by the housing industry as a benchmark for setting prices for rental and owner-occupied housing. As indicated in the original staff report for CP-08-03 dated January 8, 2009, the definition of affordable housing developed by the Affordable Housing Task Force and approved by City Council for inclusion in the Comprehensive Plan as reference Appendix L establishes an upper household income limit of 120% of Chesapeake's median income for the housing unit owned or rented by said household to be defined as affordable. Based on City Council's concern during discussion of the Atlantic Vista rezoning application last fall that 120% of Chesapeake's median income was not a practical benchmark, it is felt that 100% of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area's median income, per HUD's estimates, is a more workable target that will encompass a greater diversity of households than the 80% figure first proposed to City Council.

Section 15.2-2201 of the Code of Virginia contains this definition of affordable housing:

"Affordable housing means, as a guideline, housing that is affordable to households with incomes at or below the area median income, provided that the occupant pays no more than thirty percent of his gross income for gross housing costs, including utilities...."

For the purpose of administering affordable dwelling unit ordinances authorized by this chapter, local governments may establish individual definitions of affordable and affordable dwelling units, including determination of the appropriate percent of area median income and percent of gross income to be devoted to housing costs. A review of selected affordable dwelling unit ordinances administered by localities in Virginia revealed that they generally identify dwelling units occupied by persons with household incomes at or below the area median income as being affordable. Therefore, the recommended benchmark of 100% of area median household income to define affordable housing in Chesapeake would be compatible with state code and the practices of other Virginia localities.

Second, the alternative definition of affordable housing presented herein raises the acceptable percentage of gross income to be spent on gross housing costs, including utilities, from 30% to 40%. There was consensus among the housing industry representatives consulted by Planning Department staff that if the Comprehensive Plan affordable housing definition provides guidance to housing occupants as to the appropriate amount of household income to devote to gross housing costs, it should make appropriate allowances for utility costs, which can be significant. It should be noted that the existing definition of affordable housing contained in the Comprehensive Plan Glossary includes a figure of 40% when utilities are included.

Attached is a housing affordability analysis for Chesapeake prepared by Steven Lawson of The Lawson Companies, in coordination with Claudia Cotton of the Tidewater

Builders Association. This analysis uses area median income from the FY 2009 HUD Income Limits Documentation System (e.g. \$67,900 for a four-person household), and applies conventional mortgage loan payment and utility allowance calculations to determine maximum affordable prices for new construction single-family homes, both detached and attached. Based on sales price information from Residential Data Bank for the 1st quarter of 2009, the analysis reveals that an affordability gap exists between the maximum affordable price for homebuyers and average sales prices in Chesapeake's housing market at every level of the median household income, whether 30% of gross household income is used for gross housing costs, or 40% with utilities.

For example, in the attached Scenario 1, the maximum affordable price of a new construction, single-family detached home for a household at 120% of the area median income and assuming a 30% housing cost ratio (gross cost of housing without utilities versus gross income) would be \$258,016. With an average sales price of \$371,318, an affordability gap of \$113,302 is created. For households earning either 100% or 80% below area median income, the affordability gap gets worse. The same holds true for new construction, single-family attached homes, though the gap is not as great. As can be seen in the attached Scenario 2, when a 40% housing cost ratio (including utilities) is applied, the affordability gap is significantly reduced at all income levels, whether detached or attached homes are involved. Additional research by Mr. Lawson revealed that affordability gaps also exist when existing single-family detached or attached homes are considered, although the gaps are generally smaller than for new construction homes. However, the affordability gap still increases as the percentage of median income moves from 120% to 100% to 80%.

Ultimately, the Tidewater Builders Association recommends that the Comprehensive Plan Glossary affordable housing definition be amended to include 120% or below of area median income and a 30% housing cost ratio, excluding utilities; alternatively, they recommend using a limit of 100% of area median income and a 40% housing cost ratio, including utilities. Planning staff concurs with the latter recommendation, as reflected in the proposed alternative definition contained in the attached resolution.

STAFF RECOMMENDATION:

Based on the finding that the proposed amendment to the Comprehensive Plan follows good planning practices and that the amended definition of affordable housing would be a vital tool for implementing the Comprehensive Plan's housing vision, staff recommends approval of the proposed amendment to Appendix A of the Comprehensive Plan. Therefore, staff recommends that **CP-08-03, version dated June 10, 2009**, with minor revisions on October 7, 2009, be **APPROVED**.

MHW

Attachments

cc: William E. Harrell, City Manager
Karen E. Shaffer, Assistant Director of Planning
Jaleh M. Shea, Comprehensive Planning Administrator
Mark H. Woodward, Senior Planner
Alisa Winston, Housing Program Coordinator