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Barney S. Heath
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MEMORANDUM

DATE: November 9, 2017

TO: Councilor Ted Hess-Mahan, Chairman
Members of the Zoning and Planning Committee

FROM: Barney Heath, Director of Planning and Development
James Freas, Deputy Director of Planning and Development
Amanda Berman, Housing Development Planner
Jennifer Caira, Chief Planner

RE: #109-15(2) HIS HONOR THE MAYOR requesting consideration of changes to the inclusionary housing provisions of the Zoning Ordinance to increase the required percentage of affordable units to 25% for larger projects; require that some affordable units be designated for middle income households; and to create a new formula for calculating payments in lieu of affordable units.

MEETING DATE: November 13, 2017

Newton's Inclusionary Housing ordinance was last amended in 2003. In recent years, the strength of Newton's (and greater Boston's) housing market has diminished the supply of affordable housing and substantially widened the affordability gap for low- and moderate-income households seeking housing opportunities in Newton. A priority of the *Newton Leads 2040 Housing Strategy* was to update the Inclusionary Zoning ordinance to increase the affordable housing requirement beyond 15%.

Newton is not alone in considering an adjustment to its current ordinance. In the past few years, Boston (2015), Cambridge (2017) and Somerville (2017) have all amended their inclusionary housing ordinances to balance the need for affordable housing in a rapidly appreciating and high demand housing market.

In addition to proposing increases in the affordable housing requirement beyond 15%, the Planning & Development Department has taken this opportunity to provide greater clarity and consistency throughout the ordinance, working to reduce the potential for multiple interpretations of the ordinance language and provide users of the ordinance with a clearer roadmap for how the ordinance is to be applied in different circumstances. We have outlined the major proposed changes to our current ordinance in the table below.

Inclusionary Zoning Comparison

Provision	Current	Proposed	Rationale for Proposed Change
When applied (see Required Inclusionary Units table below)	Net increase of 2 or more new dwelling units, less the number of units allowed by-right. However, due to current interpretation of ordinance, IZ requirement usually kicks in when there is a net increase of 6 new dwelling units. 6 new units minus 2 units allowed by-right = 4 units subject to IZ requirement; $4 \times 15\% = 0.6$ (therefore, round up to get 1 required IZ unit).	Net increase of 4 or more new dwelling units, regardless of what is allowed by-right. The IZ requirement is purely based on the net increase of new dwelling units, with no reductions based on the number of residential units that could be built on a parcel by-right.	<ul style="list-style-type: none"> • To clarify confusion and multiple interpretations around current ordinance language. • 15% of 4 new dwelling units would result in 0.6 of a unit, which is more than half of a unit
Cash Payment in lieu of providing Inclusionary Units	Through special permit application, developments containing 6 dwelling units or less; or City Council makes specific findings to unusual net benefit to allowing a fee rather than Inclusionary Units.	Where IZ requirement results in a fraction of a unit, a cash payment may be made to cover that fractional requirement; or through special permit application, City Council makes specific findings to unusual net benefits to allowing a cash payment for the entire IZ requirement.	To capture all fractional amounts, regardless of project size, to go the IZ Fund to support future affordable housing projects.

<p>Cash Payment Amount and Calculation (see examples of calculation below)</p>	<ul style="list-style-type: none"> • First 2 units in a development are exempt from fee in lieu • For remaining units, fee equals 12% of sales price at closing of each unit or 12% of assessed value of each unit for rental projects 	<p>Based on a formula that utilizes the average of the Massachusetts DHCD Qualified Action Plan “Total Residential Development Cost Limits” Index for large and small unit projects at the time of first application to the City (currently = \$389,000).</p>	<ul style="list-style-type: none"> • To simplify and clarify calculation. • To tie cash payments to the state’s DHCD annual published maximum subsidy amount per unit for affordable housing projects seeking Federal Low-Income Housing Tax Credits (LIHTC) throughout the state.
<p>Inclusionary Unit Tiers: Household Income Targeting and Middle-Income Households (see FY17 Income Limits table below)</p>	<ul style="list-style-type: none"> • ½ of the households at 50% AMI • ½ of the households at 80% AMI • Average 65% AMI, regardless of project size • No IZ units provided for households above 80% AMI 	<ul style="list-style-type: none"> • Three Tiers of Eligible Households: Tier 1: Up to 50% AMI Tier 2: Up to 80% AMI Tier 3 (Middle-Income): Up to 110% AMI • Tiered structure linking affordability to project size and project type (ownership or rental) 	<ul style="list-style-type: none"> • To more specifically apply IZ requirements across the spectrum of housing need in Newton: from low- to moderate- to middle-income households. • To apply IZ targets according to the size of a project and whether it is an ownership or rental project.
<p>Employ Rising IZ percentage requirement to project size (15% to 25%)</p>	<p>15% for all Inclusionary Housing Projects, regardless of project size</p>	<ul style="list-style-type: none"> • 6 Tiers of Project Size: 15%: 4-9 new units 20%: 10-20 new units 25%: 21+ new units 	<ul style="list-style-type: none"> • Larger projects can absorb higher percentage requirements for low- to middle-income housing. • To balance the need for greater affordability with project financial feasibility.

Elder Housing with Services	<ul style="list-style-type: none"> Contribution = 2.5% of annual gross revenue calculation to be contributed to City The City Council determines whether the contribution shall be residential beds or units or a cash payment 	<ul style="list-style-type: none"> 5% of beds provided on-site shall be designated affordable for elderly households at or below 80% AMI. Monthly housing plus service costs not to exceed 80% of eligible household's annual gross income. Cash payment option through special permit process, where City Council finds a net benefit to allowing payment rather than providing affordable beds. 	<ul style="list-style-type: none"> To simplify and clarify ordinance language and reduce confusion around current requirements. To provide clear guidance for determining Elder Housing with Services Inclusionary benefits.
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Number of Inclusionary Units Required												
Tier Level	4-6 new units		7-9 new units		10-20 new units		21-50 new units		51-100 new units		101+ new units	
	Rental	Owner	Rental	Owner	Rental	Owner	Rental	Owner	Rental	Owner	Rental	Owner
Tier 1, up to 50% AMI	-	-	-	-	-	-	5.0%	-	7.5%	-	10.0%	-
Tier 2, 51%-80% AMI	15.0%	15.0%	15.0%	-	10.0%	10.0%	10.0%	10.0%	10.0%	15.0%	10.0%	15.0%
Tier 3, 81%-110% AMI	-	-	-	15.0%	10.0%	10.0%	10.0%	15.0%	7.5%	10.0%	5.0%	10.0%
Total	15.0%	15.0%	15.0%	15.0%	20.0%	20.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%

FY 2017 Income Limits Summary - Newton, MA						
Income Level	Household Size					
	1	2	3	4	5	6
50% AMI	\$36,200	\$41,400	\$46,550	\$51,700	\$55,850	\$60,000
60% AMI	\$49,680	\$55,860	\$62,040	\$67,020	\$72,000	\$76,980
80% AMI	\$54,750	\$62,550	\$70,350	\$78,150	\$84,450	\$90,700
100% AMI	\$72,400	\$82,800	\$93,100	\$103,400	\$111,700	\$120,000
110% AMI	\$79,640	\$91,080	\$102,410	\$113,740	\$122,870	\$132,000
120% AMI	\$86,880	\$99,360	\$111,720	\$124,080	\$134,040	\$144,000

Inclusionary Housing Cash Payment Calculation:	
A = # of new dwelling units X IZ % Requirement (per Required Units Table)	X
<i>Multiplied by</i>	
B = 2017 DHCD Total Residential Dev. Costs Index (avg. of large & small unit projects)	\$389,000
Total Cash Payment Due for Project	Equals A X B

The cash payment as an alternative to each required Inclusionary Unit, or fraction thereof, shall be based on a formula that utilizes the current Massachusetts Department of Housing and Community Development Index for “Total Residential Development Cost Limits” for Production Projects within Metro Boston. This index is updated annually through DHCD’s Qualified Action Plan (QAP) and serves as a maximum subsidy amount per unit for affordable housing projects seeking Federal Low-Income Housing Tax Credits (LIHTC) throughout the state. While the QAP distinguishes between Large and Small Unit projects and defines the Index for each (2017: large unit projects within Metro Boston, \$399,000, and small unit projects, \$379,000), B shall equal the average of the two numbers.

Example #1: The cash payment amount for a rental or ownership Inclusionary Housing Project that contains a net increase of 4 new dwelling units would be calculated as follows:

A: 4 X 15% IZ requirement = 0.6
 Multiplied By
 B: \$389,000
Total IZ / Cash Payment Requirement for Project = \$233,400

Example #2: The cash payment amount for a rental Inclusionary Housing Project that contains a net increase of 73 new dwelling units would be calculated as follows:

A: Tier 1: 73 X 7.5% = 5.475, so the fractional requirement would be 0.475
 Tier 2: 73 X 10% = 7.3, so the fractional requirement would be 0.3
 Tier 3: 73 X 7.5% = 5.475, so the fractional requirement would be 0.475
 Multiplied By
 B: \$389,000
Total IZ / Cash Payment Requirement for Project =
 Tier 1: 5 Inclusionary Units *plus* a Cash Payment of \$184,775
 Tier 2: 7 Inclusionary Units *plus* a Cash Payment of \$116,700
 Tier 3: 5 Inclusionary Units *plus* a Cash Payment of \$184,775
Which equals a total of 17 Inclusionary Units plus a Cash Payment of \$486,250

Attached, please find a redline version of the proposed ordinance for your review. We look forward to walking through this memo and the attached ordinance with you and we welcome your feedback as we work to create an ordinance that more effectively balances our City’s growing need for affordable housing units for populations at all income levels.