



THE CITY OF KEY WEST

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Date: September 4, 2014

To: Jim Scholl, City Manager

From: Donald Leland Craig, AICP Planning Director and Nicole Malo, AICP, Planner II

Subject: Affordable Housing Needs Solutions

Copy To: Sarah Spurlock, Assistant City Manager and Shawn Smith, City Attorney

Attachments:

1. 2012 Comprehensive Plan Affordable Housing Data and Analysis Report
2. 2014 U.S. HUD Income and Rent Limits
3. City of Key West 2014 Income and Rental Limits
4. 2008 South Florida Workforce Housing Best Practices
5. Florida Statutes 259 - Land Acquisitions for Conservation or Recreation
6. Florida Statutes 420.5095 – Community Workforce Housing Innovation Pilot Program
7. U.S. Census Bureau American Community Survey 2010-2012 Median Household Income for the City of Key West

Purpose

This presentation is in response to requests from the City Commission to improve the way the City's workforce housing issues are addressed. Over the next ten years the City will be receiving over 500 residential Building Permit Allocation System (BPAS) units that are required to be deed restricted affordable. The availability of these new BPAS units provides the City an opportunity to create a significant number of net new affordable housing units for the first time in over a decade. The following discussion describes several key scenarios for potential action to provide workforce housing in order to maintain a sustainable local economy.

Method

This presentation is the result of staff review and discussion of relevant data, the Comprehensive Plan and site visits to certain City and Key West Housing Authority owned properties which could be candidates for the construction of affordable housing. It is also the product of several meetings with the Executive Director of the Key West Housing Authority to discuss specific methods for creating new

housing and updating the Workforce Housing Ordinance. Finally, staff reviewed key state statutes whose subject matter is, or relates to, affordable housing; and identified Land Development Regulations (LDRs) in local Florida jurisdictions addressing affordable housing which may be models for amendments to the City's LDRs.

Problems and Key Findings Identified

There are currently 508 privately held affordable housing units, with varying degrees of deed restrictions and subsidy assistance, and 581 public housing units in the City representing 7% of the 14,892 residential dwelling units in the City, as identified by staff in the May 2010 Affordable Housing Deed Restriction Audit. The 2010 Census and the City Comprehensive Plan report a lower number of 14,107. Of the total 1,089 affordable units, 223 are expected to have their deed restrictions expire, or have expired by year's end. However, according to the findings of the 2012 Data and Analysis report (Attachment 1), prepared to support the Comprehensive Plan and confirmed by updated data provided by the Key West Housing Authority (08/2014) there continues to be and will continue to be a significant number of cost burdened households and a shortage of decent, reasonably priced, available housing, particularly one bedroom rentals. Specifically, data from the Comprehensive Plan and the 2010 Census indicate that at every income level from 30% to 140% of the Monroe County Median Income (\$63,500 in 2014), individuals and families are cost burdened as to amount paid for rent or mortgage. The City's Comprehensive Plan, the City's Land Development Regulations, and U.S. HUD guidelines indicate that not more than 30% of incomes should be expended for housing costs. In Key West over seventy-five percent (77% - 10,352) of all households, both renters and owners are cost burdened utilizing this guideline.

According to the Comprehensive Plan and the University of Florida Shimberg Center for affordable Housing, there is a need (deficit) of affordable housing units across the income spectrum. The deficit is at least 6,500 units. The City's Comprehensive Plan identifies the City of Key West median household Income as \$52,004 while the average annual wages earned by a worker in the City are approximately \$37,844, indicating that by standard guidelines for mortgage lending at the median level a home should cost no more than \$156,012, or three time the median income. This is clearly inconsistent with actual cost of housing in the City, when the Key West Board of realtors' reports that at the end of July 2014 the median sales price of 162 single family homes sold in the preceding 7 months was \$630,000, and the median sales price for Condo/Townhouses was \$368,000. Clearly persons and families making the median income or average wage cannot afford for sale housing, even if such were being built.

As to rental housing, the situation is no better. Even though dated and most assuredly higher the 2010 reported median gross monthly rent in the City was \$1,359. In order to be affordable to the average wage earner in the City, the then monthly rent should be no more than \$946. Rent such as this is not available in the City at this point in time, and result in workers sharing housing in increasing numbers, or paying 40-50% of their income for housing.

The Workforce Housing Ordinance (WFHO) of the City' Land Development Regulations has not been updated since 2005. At the time the WFHO was created real estate values, affordable housing stocks, and demands were different. The WFHO's stratification across the income spectrum from 80% to 140% of the median income at the Monroe County level (now \$63,500) is out of date with the actual incomes of today's workforce. Further, at the time and up until 2012, there were very, very few BPAS allocations available to create new housing, regardless of the WFHO's emphasis for housing for all income groups, resulting in very few new deed restrictions being built.

Since 2008 lending practices have been tightened and it is very difficult to both finance and construct units at any level except at the 60% of median through heavily subsidized tax credit funding, and none of these types of project have been built in the City due to the lack of reasonable priced land. Additionally, the cost of constructing units is extremely high at \$200-\$250 per square foot. Factored into the equation the focus in recent years has been to use

Land Authority Funds to acquire property together with Habitat for Humanity processes to reconstruct and manage the units. This has resulted in an emphasis being placed on the acquisition of existing units, often at high prices, which though deed restricted, require renovation and result in no net new units.

There are not enough very low (60% AMI) to low (80% AMI) income deed restricted units in the City to meet the needs of the local workforce. Yet the mechanisms to provide this housing are limited by outdated regulations and state statutes. For instance, in addition to the outdated Workforce Housing Ordinance, the Monroe County Land Authority (MCLA) statute, as presently written, does not work efficiently for Key West because it is limited to the purchases of land for three distinct purposes:

1. Conservation of environmentally sensitive lands;
2. Preservation of coastal access and recreation;
3. Affordable Housing.

The first two objectives have been met in the City as all conservation lands are now in the public realm and the access to coastal areas assured and adequate monies allocated through infrastructure taxes and Tourist Development Council grants. The third use of MCLA funds for affordable housing has experienced some successes, but at a very high price due to the very high cost of land. The City of Key West MCLA fund is presently approximately \$7 million which has been generated primarily from transient unit bed tax, as the City accounts for approximately 49% of the hotel rooms in the County. The \$7million is expected to increase to approximately \$8million after the start of the new fiscal year. While the funds have increased steadily the opportunities to use the funds have proven difficult to identify due to high land and costs and until recently the lack of new BPAS allocations.

Possible Solutions

Invest in Immediate Solutions while Planning for the Long Term

While there is an array of long term solutions which should be pursued, some of which are listed below, there may also be a nearer solution. This specific method can utilize existing publicly owned land together with MCLA funds, in order to create monies to build or subsidize net new affordable housing. The method has the following steps:

1. Identify land held by the City of Key West or the Key West Housing Authority which is capable of further development as affordable housing.
2. If necessary, rezone the property to achieve a higher density, which in Key West would be Medium Density Residential (MDR) at 16 units per acre, or High Density Residential (HDR) at 22 units per acre. If necessary, the Comprehensive Plan designations can be amended in an expedited manner for parcels whose use is to be affordable housing, enabled by state statute 163.3187. As a part of this effort the City may borrow forward one year from its annual allocation of 91 BPAS units.
3. The City of Key West sells its interest in the land to the Monroe County Land Authority, and restricts its use in the conveyance, consistent with the MCLA statute, to affordable housing.
4. The MCLA conveys the land to the Key West Housing Authority, and the city modifies its existing Inter-Local agreement with the KWHA to provide for the construction of affordable housing in partnership with city, and/or a developer partner.
5. The City uses the funds yielded from the sale of the property for the direct construction of the affordable housing on the site or uses the funds to otherwise subsidize the cost or operation of the affordable housing. The housing remains the property of the Housing Authority and or the City depending on the parcel and the arrangement reached with the transfer of the property to the Housing Authority.
6. Target projects which can accommodate mixed income users that provide relief to developers of affordable housing projects.

7. Repeat the process with other City or Housing Authority properties until all remaining affordable housing BPAS units are utilized.

Provide a Holistic Approach to Adjusting All Elements of Affordable Housing Tool

1. Work towards **reducing wind and flood insurance** premiums which increase the cost of homeownership and rental rates. If the proposed referendum on building height flexibility in response to FEMA insurance rates passes the ability to lower insurance rates may occur.
2. **Amend Comprehensive Plan** – Add policy(ies) to the City’s Comprehensive Plan Housing Element to provide that all future development shall not result in a “net loss” of existing workforce/affordable rental housing for households earning 80% or less than the area mean income. (Findings of Municipal Scorecard for Affordable Housing Delivery: Best Management Case Study for South Florida. Prepared for the South Florida Regional Business Alliance by FIU Metropolitan Center).
3. **Ask State Representative Raschein and State Senator Bullard to Sponsor Legislation to Amend the Land Authority Statute as it Applies to the City of Key West**

Currently the statute has been interpreted by local attorneys such that it allows the funds accumulated to be used for land purchases only. As has been demonstrated the cost of land reasonably priced for affordable housing in the City is very sparse. Also demonstrated is that conservation lands in the City have been acquired and protected. Couple that with the fact that the City has already protected its undeveloped lots with sufficient BPAS allocations to prevent inverse condemnation(“takings”) litigation against the City. Therefore , new state legislation to allow the City the ability to use MCLA funds for construction or other subsidy to provide affordable housing.

4. **Revise the Workforce Housing Ordinance:**

The Planning Department has requested proposals for a consultant who will assist staff with amendments to the Land Development Regulations, specifically the Workforce Housing Ordinance. Staff has researched the American Community Survey to extract data for the City’s area median income (AMI) in order to compare it to that of the County’s, which is used as the current baseline. However, the ACS survey shows that the County’s and City’s AMI are within a few thousand dollars of each other with the City’s being higher in a few critical income household sizes. Further, petitioning HUD to allow the City to use the ACS numbers instead of the universally excepted US Census figures to establish the AMI may put our federal funding in jeopardy when using such federal subsidies. However, if the model put forth above as immediate action is pursued and no federal funds or subsidies are utilized or otherwise compromised , the use of the lower City median income may be possible.

The Workforce Housing Ordinance, based on income and workforce data from the early 2000, is confusing and out of date. As a result the inclusionary housing provisions (122-1467) and eligibility requirements (122-1469) are out of touch with the current housing needs. The ordinance also lacks incentive programs to encourage private developers to build new affordable housing.

Based on meetings with Manny Castillo, Executive Director of the KW Housing Authority and planning analysis supported by the 2013 Comprehensive Plan Data and Analysis, staff recommends the following approach to amending the WFHO:

- a. **Add provisions for inclusionary housing for *redevelopment***, not just new development.

- b. Revise Section 122-1496 for required income category mix** - Determine what the target incomes are and use current income level data to establish new ratios for 30% rule, such as more lower income category units. Reestablish inclusionary housing provisions requiring more low (80% AMI) and median (100% AMI) income level units. This can only be provided for by applying an approach like that used by the Village of Islamorada, wherein significant expansions of residential and commercial development, or net new development is evaluated, by type, as to the employees and jobs created to serve the new or expanded development, and thus the need for new affordable housing. A specific economic analysis for Key West, must be created to support the inclusionary housing provisions, recognizing the unique market of the City of Key West.
- b. Revise Eligibility Requirements (Section 122-1469)** - Maintain category income *range* within the low, median, moderate etc. categories for pro forma purposes, but allow the actual sales and rental levels to be determined based on a person's actual percentage of income (25-30%). Currently the City's one bedroom rental rates are higher than HUD's rates but the City's three and four bedroom rental rates are all lower than HUD's. The City needs to find a method to lower rents for the most sought after units (1 bedroom). This may require the mixing of market rate units in mixed income projects to provide indirect subsidy to the affordable units.
- c. Create innovative regulatory and financial incentive programs** for building workforce housing and maintaining rental housing. Such as:
 - 1. Tax abatement etc.
 - 2. Waiver all permitting fees (except impact fees which guarantee bond obligations).
 - 3. Expedited review.

5. Potential Funding Opportunities

- 1.** Community Workforce Housing Innovation Pilot Program loans and State Housing Initiatives Partnership Program (F.S. 420.5095).
- 2. Staff**
 - 1.** Create a City Affordable Housing Officer, whose responsibility it would be to assist workers in finding and qualifying for housing.
 - 2.** Create an Economic Development Officer whose responsibility it would be to identify possible Public private partnerships for redevelopment/development potential and who can offer incentives.
- 3.** SHIP – State Housing Incentive Program;
- 4.** HOME – Need more information
- 5.** CDBG – Community Development Block Grants
- 6.** TIF – Tax Increment Financing
- 7.** Surtax – Such as additional sales tax on alcoholic beverage sales
- 8.** CHDO - Need to establish CHDO (Community Housing Development Organization) per Section 122-1471 a non-profit organization, to serve as developer for AH on City owned property and administer the Affordable Housing Trust Fund
- 10.** Create a rental affordable housing trust fund for providing security deposits for rental housing

The possible solutions described above are all consistent to one degree or another with the City's Strategic Plan and previous recommendations off many study groups dealing with eh affordable housing issue.

Recommendation: It is recommended that the City Commission direct staff to immediately proceed with the Land Authority/City of Key West/City of Key West Housing Authority program outlined above, while prioritizing the analysis of items 1 through 8 above.