

Non-Residential Development Exaction

Concept Statement

The Advisory Group discussed a need to consider establishing a policy that helps provide additional financing for affordable housing development and while agreeing with the need for additional financing sources, the Group could not achieve consensus to support this proposal. This idea, a "Jobs-Linkage Fee" would be an "inclusionary" requirement tied to non-residential and other economic endeavors, namely commercial developments (i.e. office, retail, hotel and industrial projects). These projects create jobs of which many have income ranges that would qualify for Assisted and Affordable/Workforce Housing units.

While an analysis must be completed to establish a legal nexus between these jobs and its impact to the existing housing stock, this strategy has been an effective tool to help produce more affordable housing units in other parts of the country. Job growth in the non-residential sector is generally considered the principal cause to the need for such housing. Anyone reviewing the Federal, State, and County financial resources currently available will quickly realize that these resources are limited. In order to help address the City's affordable housing needs, a Jobs-Linkage fee can help by increasing the amount of available funding and ultimately production of units.

Background

Development of affordable housing projects is an integral component of any housing plan that seeks to create a sustainable community. Creating housing opportunities that targets this population will not only result in families that have a stable base from which to establish roots, but allows them to lead balanced lives. Today, the decision appears relatively simple, either families pay a large share of their income towards housing, find cheaper housing opportunities far from jobs, realize the need to work more than one job or settle for crowded or poor quality housing options. All of these trade-offs not only affect the individual's life but also influence their family life. Synonymous with high housing costs include difficult decisions on balancing the cost of food, transportation, medical and educational expenses –many families make difficult sacrifices each month. These impacts extend beyond the family and into their ability to contribute to the community (i.e. coach youth athletics, involvement in church or neighborhood groups, participation in local politics, etc.). Hawaii's unwavering reliance on petroleum and geographical isolation only adds to these difficulties with its extraordinarily high living expenses.

Public and private employers should not look the other way. Large and small businesses are integral to any community's success, their contributions in tax revenue and jobs are essential components in a healthy economy. Supporting affordable housing initiatives or developments can result in housing opportunities that are near jobs and provide a multitude of benefits for businesses including a more stable workforce, higher employee retention and reduced commutes times. All of these contribute to a healthier work force which translates into a more productive business environment. Furthermore, partnerships

by the private sector can ensure a continuous and adequate supply of affordable housing units. Those results will translate into local economic growth, retention of locals, provide incentive and opportunities for college kids to return to the islands and slow the “brain drain,” and attract new industries, business, employees and residents and will diversify the economic base. Equally important, public agencies should endeavor to sustain these efforts; targeted investment in urban in-fill opportunities will stabilize or grow neighborhoods, thereby increasing overall tax revenues and an expansion of infrastructure services.

Who are these affordable families?

What is the public’s responsibility to provide assistance? It is common belief that these families aren’t central to the community nor do they impact our own lives or families. However, while the definition is often misunderstood, it’s clear that these working families provide the bulk of the essential services in any community, they include:

Teachers	Police officers	Hotel workers	Receptionists
Counselors	Mechanics	Bus drivers	Engineers
Accountants	Cashiers	Warehouse workers	Airline Workers
Social workers	Retail sales	Admin Assistants	Hairdressers
Firefighters	Laborers	Bank tellers	Architects
Loan officers	Medical technicians	Planners	Legal assistants
Librarians	Florists	Performers	Dieticians
Trainers	Writers	Cooks	Janitors

In fact, it is estimated that nearly 78% of the four person households (two wage earners) make less than the area median income¹. Specifically, the 2008 the HUD median income for Honolulu County is \$77,300 (family of four), families that would qualify for work-force housing include those making up to \$108,220 (up to 140% of the area median income which accounts for 92% of the households in Hawaii).

Another means for understanding the need is to consider the average cost of a two bedroom unit in Honolulu. According to HHFDC², the average rent for a two bedroom unit is \$1,798 (2006), this means that a family of four would need a \$71,920 annual salary or \$34.57 per hour for one wage earner or \$17.28 per hour for two wage earners to reasonably make ends meet. These hourly wage rates are substantially higher than the vast majority of hotel, restaurant and retail workers – all components of the hospitality industry, Hawaii’s largest employment sector. We must also remember that during the last economic boom, residential construction has principally targeted families with higher incomes, this was especially true for the condominium towers built in the central urban core – little or no apartment units were built as the economic conditions did not warrant such investments. Limited supply of rental units translates into higher demand and prices for existing inventory.

¹ US Department of Labor, Bureau of Labor Statistics 2006, updated through 2008.

² Housing Policy Study, prepared by SMS Consulting (2006), Table 6. Average and Advertised Rents, 2003 and 2006.

Current affordable housing production levels

In 2006, the Hawaii Housing Finance Agency published a report that indicates over 22,000 housing units are needed between the years 2007-2011³, translating into an annual production level of 5,500 units. Limited financial resources at the city, state and federal agencies result in the production levels that are less than one-tenth of the projected demand. The state's gap subsidy program (Rental Housing Trust Fund) has been avant garde in its capacity to provide a continuous stream of funding by tapping into the State's Conveyance Tax, however, the amount of subsidies are dwindling in value as many factors (i.e. increase in overall land value and construction costs, etc.) dilute its overall impact. Funding in recent years has averaged approximately \$11.0M each year (FY02-FY08) and translates into a rough production level of 110 units per year⁴. Other financing sources including Statewide and City and County of Honolulu HOME entitlement funds (approximately \$6.5M each year⁵), volume cap Low Income Housing Tax Credits and other bridge loan programs offered by the State may double overall state-wide production levels to a total of 200-250 units per year. It is clear that with all these programs, even if existing production levels maintained a consistent supply, demand and need for affordable housing will always outstrip our community's ability to produce such housing. The end result does not only impact these households, everyone will feel the negative effects on quality of life (longer commute times, higher demand for existing energy resources, poor air quality, social inequity, etc.).

Contributions to assist production levels

New large-scale projects such as; hotel, retail centers, office and industrial developments are important in the growth of any community. Over the past several decades, Hawaii has concentrated its local economy on tourism and the related service and retail industries. Central and common to all these industries is the necessity for employees to provide the services that tourists, both outsiders and kama'aina, will expect. While many of these businesses will provide opportunities at all levels, a majority of these jobs are those that would qualify for affordable housing programs.

If existing financing resources cannot support the necessary production levels, new commercial developments that create new job opportunities will likely only contribute to the housing problems that workers face. A "Jobs-Housing Linkage Fee" program would provide additional resources to improve affordable unit production for new worker households. Cities of varying sizes have implemented these programs, San Francisco and Boston incorporated their programs⁶ over twenty years ago, both of these cities recognized real growth even with this inclusionary requirement in place. Clearly mimicking other programs may not address the concerns that are specific to this

³ *Housing Policy Study, prepared by SMS Consulting (2006), Table 13. Needed Housing Unit by County. There are approximately 22,000 housing units needed for families making to 140% of the median income, statewide.*

⁴ *Assumes \$100,000 per unit of subsidy, estimated amount required for a one-bedroom unit with no land cost*

⁵ *State of Hawaii HOME consortium received \$3,000,000 for 2007 shared among the outer islands. As a HOME entitlement community, the City and County of Honolulu received approximately \$8,000,000 in CDBG funds (spent the funds on infrastructure and service programs, not direct investments in the production of housing units) and \$3,500,000 in HOME funds for 2007. Excluded in this calculation are inclusionary in-lieu fees paid to each County.*

⁶ *San Francisco Municipal Code §313. Housing Requirements For Large-Scale Development Projects (1996). Boston Zoning Code and Enabling Act, Article 80, § Requirement of Development Impact Project Exaction (1996).*

community, an evaluation should be completed to understand the impacts on the local economy.

Issues to consider in the analysis of such program;

- Confirmation that an affordable housing problem exists;
- Review recent historical production levels from both the public, non-profit and private sectors and determine if these units are addressing this shortfall;
- Determine if additional funding subsidies may be useful in providing assistance in solving this problem;
- Understand if new affordable housing developments are being developed in sufficient quantities to meet the demand created by new job opportunities.
- Establish that a nexus exists between the creation of new job opportunities and its correlating negative impact on the existing affordable housing problem;

If a correlation is established consider the following:

- Review other Jobs-Linkage programs adopted by communities facing the same affordable housing problems to determine if those programs are successful in creating affordable housing units;
- Review the details of comparable Jobs-Housing Linkage programs to determine if such terms are appropriate for the local business environment;
- Establish the parameters for a local Jobs-Housing linkage program that address applicability of such ordinance (types of developments that are applicable, rate of exaction, minimum project size, exemptions where applicable, determine policies on how such fees should be expended, etc.).

A properly designed Jobs-Housing linkage program with fees set at reasonable levels should not dissuade construction or negatively impact the local economy, but will provide additional resources to assist in addressing the affordable housing. It must be recognized that these funds won't solve the entire affordable housing problem but will begin to bring together a broader coalition with a greater understanding of the problem. In the end, we must not forget the individuals that provide the services that make up our community. These families touch every aspect of our daily lives and must have a decent safe place to live, many whom work in the hospitality industry. The value of the new affordable housing production goes beyond the bricks and mortar, these investments will result in improved lives and changed neighborhoods. While affordable housing development will stimulate other investments in housing, retail and commercial amenities and community facilities, a bolder vision of this effort is the establishment of a broad partnership across the many industries and disciplines that is moving Hawaii towards a sustainable and balanced economy.

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