

PALM BEACH COUNTY
BOARD OF COUNTY COMMISSIONERS

WORKSHOP SUMMARY

Meeting Date: March 27, 2018

Department: Planning, Zoning & Building
County Administration

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I. EXECUTIVE BRIEF

Title: Workforce Housing Program Policy Discussion and Direction

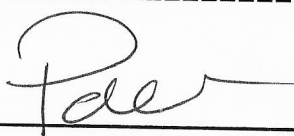
Summary: Staff is seeking policy direction from the Board on the proposed modifications to the Workforce Housing Program (WHP). Matt Kowta of BAE Urban Economics, the County's economic consultant, completed an economic analysis of the potential changes. During his February 2-6, 2018 visit to the County, Mr. Kowta had one-on-one briefings and-or teleconferences with Commissioners to review the economic analysis; summarized in **Attachment 1**. The Consultant also presented the results at stakeholders meetings with residential builders, housing non-profit organizations and other interested parties. Feedback from those meetings is summarized in **Attachment 2**. Based on additional meetings and discussions with the core stakeholders group, staff has made further modifications to the original recommendations in an effort to find more common ground. While those efforts have been productive, there are still several proposed threshold provisions where final agreement has not been reached. Staff will present the identified threshold policy issues to the Board for discussion and direction in order to proceed with code revisions to the WHP, **Attachment 3**. Collectively, the proposed provisions reflect the ongoing staff effort to evaluate and enhance the WHP to better reflect the current housing economic market as well as address concerns expressed by the Board at its informational workshop held on April 25, 2017. At the time of that workshop, the update on the WHP indicated there were 720 multi-family WHP units built and no single-family units. The Board emphasized the need to increase the number of for-sale workforce housing units and review the in-lieu buy-out (buy-in) fee of \$81,500 which was set in 2006. As the Board is aware, the WHP applies only in the Urban/Suburban Tier of unincorporated County and elsewhere by conditions of approval. It is one of several initiatives implemented by the County to facilitate the construction of workforce-affordable housing units. Again, staff is seeking Board direction on the identified threshold policy issues, including any others that may surface at the workshop, in order to finalize the Code revisions to the WHP. Countywide (RPB).

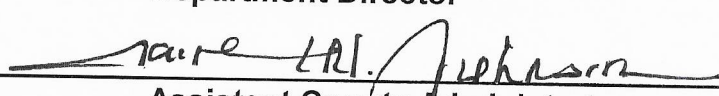
Background and Policy Issues: The County's WHP program was established in 2006 and modified in 2010 in response to economic conditions at the time. It requires that a percentage of units in residential developments in the Urban/Suburban Tier be provided as for-sale or rental workforce housing, affordable to households having 60% to 140% of area median income. The 2017 Area Median Income in Palm Beach County was \$67,900 for a family of four. The WHP provides a number of benefits for developers, including an optional density bonus in exchange for a larger percentage of units dedicated as workforce housing. The program also offers several options to meet the WHP obligation, including construction of the workforce housing units on site or off site, or making an in-lieu payment. Since the inception of the program in 2006, the in-lieu fee amount set by the Board of \$81,500 per for-sale unit and \$50,000 per rental unit has remained the same. To date, more than \$3,000,000 has been collected in in-lieu fees from 38 for-sale units in 11 developments. There are currently 121 for-sale townhome WHP units available for purchase in five developments and more than 700 rental units.

Attachments:

- 1) Summary Economic Analysis - Profitability Table from BAE Urban Economics (*attachments provided by email*)
- 2) WHP Stakeholder Comments Received - February 2-6, 2018
- 3) WHP Key Policy Issues for Board Direction

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Recommended by:  3/21/18
Department Director Date

Approved by:  3/25/18
Assistant County Administrator Date

Workforce Housing Program

Summary Economic Analysis - Profitability Table from BAE Urban Economics, Inc.

Attached is the Summary Economic Analysis – Profitability Table from BAE Urban Economics, Inc. The BAE Feasibility Analysis tests the impact of varying several program parameters on the developer's profitability. The analysis is based on several assumptions:

- Density of developments:
 - Low (LR-2 and LR-3),
 - Medium (MR-5), and
 - High (HR-8) densities.
- Optional density bonus:
 - Low density: 30 to 65%
 - Medium and high density: 65 to 85%
- Minimum acceptable profitability:
 - Single-family: 10% profit on development
 - Multi-family: 5% capitalization rate
- In-lieu fee:
 - Single-family: \$120,000 (LR-2 and LR-3)
 - Townhomes: \$100,000 (MR-5)
 - Multi-family: \$75,000 (HR-8)

The parameters which were tested include the following:

- Use of a buy-out option (in-lieu fee)
- Delivery of required workforce units through
 - 1) construction on-site,
 - 2) construction off-site, or
 - 3) construction through an exchange partnership of two developers, with two different levels of surety requirements
- Requirement that 50% or 100% of workforce units be "like-for-like" in unit type to market rate units

Summary Economic Analysis - Profitability Table

from BAE Urban Economics, Inc.

Profit Metric:		Profit %			Cap Rate	
Land Use:		LR-2	LR-3	MR-5	HR-8	
Buyout (a)		12.8%	10.1%	10.3%	5.36%	
Build	On-site	100% LFL	11.3%	9.2%	12.7%	5.79%
		50% LFL (b)	13.0%	10.7%	13.3%	(c)
	Offsite (d)	100% LFL	12.6%	10.5%	14.1%	5.82%
		50% LFL (b)	15.4%	13.3%	14.7%	(c)
	Exchange (w/o premium)(e)	100% LFL	13.2%	10.6%	13.0%	(c)
		50% LFL (b)	15.0%	12.6%	14.6%	(c)
	Exchange (w/ premium)(f)	100% LFL	13.2%	10.6%	13.0%	(c)
		50% LFL (b)	15.0%	12.6%	14.6%	(c)

(a) Assumes the following buyout amounts: \$120,000 for LR-2 and LR-3; \$100,000 for MR-5; and \$75,000 for HR-8. Buyout allows the developer to exchange below market rate (BMR) units for market rate units.

(b) To calculate impact of construction of the not like-for-like product, BAE applied the net subsidy cost associated per workforce housing unit, as estimated using the on-site (100 percent like-for-like) financial model.

(c) Assumes that all not like-for-like product will be high-density apartments, similar to those allowed in the HR-8 future land use category.

(d) Offsite construction of BMR units allows the developer to exchange the BMR units that would otherwise be built on-site for market rate units.

(e) The off-site exchange involves a partnership between two developers. It allows the market rate developer to exchange the required BMR units for market rate units in concert with payment of a negotiated price to the second developer in exchange for off-site construction of the required BMR units. To participate in the exchange program, a bond must be taken out of the same value as the buyout.

(f) This scenario assumes that a 25 percent premium is added to the bond value.

**Workforce Housing Program Stakeholder Comments Received
BAE Urban Economics, Inc. - Small Group Meeting February 5, 2018**

Topic	Small Group Industry Meeting February 5, 2018
Engaging Other Sectors	<ul style="list-style-type: none"> • Other sectors need to participate (linkage fee) • Perhaps increase intensity (FAR) in exchange for participation • Builders' 81,500 in-lieu payment should be described/viewed as a partial 'contribution' toward a unit, not as the amount necessary to build a unit
Density	<ul style="list-style-type: none"> • 65% density bonus not valuable to low density builder; it's exaction w/o benefit • Should instead apply (today's fee?) as a per-unit exaction, which yields more WH units if more density is used
Profits/costs	<ul style="list-style-type: none"> • Acceptable profitability could be 7 to 8% (not 10%)? • Assumed soft costs/overhead are too low • Sales prices assumed for the densities are not realistic • Increased density can increase costs, for elevators, parking structures, etc. • Assumed exchange costs are too low
Exchange Program	<ul style="list-style-type: none"> • Builders' exchange proposal (and L-F-L conversion) has been dismissed • 81,500 is <u>minimum</u> amount expected to be paid to third party in an exchange situation, and maximum for which the developer should be responsible • Exchange program with a tie to parent project is unacceptable; a bond for \$81,500 is enough
On-site	
Like-for Like	<ul style="list-style-type: none"> • Builders' L-F-L conversion suggestion no longer under consideration?
Developable Land	<ul style="list-style-type: none"> • County should increase density on commercial properties to encourage WH
Housing Trust Fund	
Related Topics	<ul style="list-style-type: none"> • Lennar for-sale WHP unit issues (need HLC Lenders list?) • How will property appraiser treat these units from a valuation perspective?

Workforce Housing Program Stakeholder Comments Received
BAE Urban Economics, Inc. - Large Group Meeting February 6, 2018

Topic	Large Group Interested Parties Meeting
Engaging Other Sectors	<ul style="list-style-type: none"> • Residential building industry won't participate further until other sectors are engaged, except to call for engagement • Need to engage major employers through "Directions"-type gathering • Country club communities would be willing to build employee housing
Density	<ul style="list-style-type: none"> • Is WH obligated on both parent site and off site location? • How would density bonuses up to 100% be possible? • Requiring 35% of density increases as WH may make project unviable
Profits/costs	<ul style="list-style-type: none"> • Recent land sales suggest higher land costs than assumed • Some local governments may have additional incentives to offer that increase profitability for projects locating off-site units there
Exchange Program	
On-site	<ul style="list-style-type: none"> • Requiring as part of new development means HOA fees and western locations that increase commuting costs, defeating purpose of making units affordable
Like-for Like	<ul style="list-style-type: none"> • What are the parameters for L-F-L (sale/rent or unit type?) • Possible to modify development regulations to allow smaller SF? • Where is conversion factor, which is helpful to non-profits? • Could apply a conversion factor to the not L-F-L portion • Instead of conversion, which can result in mostly small units, consider an incentive to create larger MF units • Imposing L-F-L works against goal of maximizing number of WH units
Developable Land	<ul style="list-style-type: none"> • Limited developable land available, creating a supply and demand issue; need to move Urban Service Area boundary • Need new focus on urban corridors, near employment centers • Create redevelopment opportunities, such as TODs, on transit system • County should create/increase density on commercial sites • County should apply a conversion factor for commercial square footage to residential density
Housing Trust Fund	<ul style="list-style-type: none"> • State sweep of Housing Trust Fund \$ for other uses needs to be a priority issue for all parties
Related Topics	<ul style="list-style-type: none"> • With sales prices set using AMI for 4 person household, the sales price would be too high for a family who would fit in a one bedroom household.



MEMORANDUM

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Board of County
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Mack Bernard, Vice Mayor

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Dave Kerner
Steven L. Abrams
Mary Lou Berger

County Administrator

Verdenia C. Baker

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TO: The Honorable Melissa McKinlay, Mayor, and
Members of the Board of County Commissioners
FROM: Patrick Rutter, Executive Director, PZB *PR*
DATE: March 20, 2018
RE: **Policy Direction on Workforce Housing Program Threshold
Issues**

Attached is a matrix of key policy issues for Board discussion and direction. These issues developed from our ongoing effort to evaluate and enhance the Workforce Housing Program (WHP) as well as input provided from industry representatives. In order to proceed further with Code revisions to the WHP, the identified threshold policy issues including any others that may surface require policy direction from the Board.

As the Board is aware, the County has contracted with BAE Urban Economics, Inc. to determine the economic feasibility of potential modifications staff proposed to the WHP. BAE's feasibility analysis tests the impact of varying parameters on the developer's profitability and indicates that development pro-formas meet accepted profitability standards. In early February of 2018, Matt Kotwa of BAE reviewed the analysis with the Board in one-on-one briefings and via teleconferences. Mr. Kotwa also held outreach meetings with the core stakeholders group and industry representatives. Staff then held more meetings and discussions with the core stakeholders group in an effort to find common ground on the proposed threshold issues. In turn, we have made modifications to our original recommendations but could not find agreement with the core stakeholders group on all proposed provisions.

The threshold issues staff is seeking direction on will impact Mr. Kotwa's financial analysis; most likely increasing the developer's profitability. After the Board hears the discussion and comments from the public, staff is requesting the Board provide policy direction on the various threshold issues outlined in the matrix. Based upon the Board direction on these threshold issues, staff will work with BAE to update the profitability analysis and move forward with the final implementation of the changes to the WHP.

c: Verdenia C. Baker, County Administrator
Faye W. Johnson, Assistant County Administrator
Patrick Rutter, PZB Executive Director
Ramsay Bulkeley, PZB Deputy Director
Jon MacGillis, Zoning Director
Patricia Behn, Deputy Planning Director
Robert Banks, Chief Land Use County Attorney
Leonard Berger, Assistant County Attorney
Maria Bello, Principal Planner
Michael Howe, Senior Planner
Stephanie Gregory, Senior Planner

**Workforce Housing Program - March 27, 2018 Workshop
Key Policy Issues for Board Direction**

Provisions	Current Code	Changes under Discussion	Considerations	REQUIRED BOARD DIRECTION: Staff Recommendation
Optional Density Bonus *	Under 'Full Incentive' Option: <ul style="list-style-type: none"> • LR-1 to LR-3: limited to 30% bonus • MR-5 and higher: based on concentration of VL-L income households and other factors 	Increase density bonuses to allow up to 100% density bonus, subject to compatibility	<ul style="list-style-type: none"> • Potential benefit to developer, but requires early engagement of residents, staff • Density bonus not valuable to low density builders 	Allow up to 100% density bonus
Limited/No Incentive Options *	In addition to 'Full Incentive' Option, WHP offers: <ul style="list-style-type: none"> • Limited Incentive Option, reduces bonus and obligation in half • No Incentive Option, for projects with all WH units, all on site, no bonus density 	Eliminate existing No Incentive option	<ul style="list-style-type: none"> • These options were added to the program during recession 	Eliminate No Incentive option
In-Lieu Fee *	\$81,500 (SF) \$50,000 (MF)	Increase in lieu fee to: \$120,000 (SF) \$100,000 (TH) \$75,000 (MF)	<ul style="list-style-type: none"> • Unchanged since program inception in 2006 • Engages only the residential building sector • Higher in-lieu fees increase incentive to build units, or result in additional funds 	Increase to: \$120,000 (SF) \$100,000 (TH) \$75,000 (MF)
On-site WH Units *	<i>No requirement (except under 'No Incentive' Option)</i>	Reduce obligation by 10% if units are built on site	<ul style="list-style-type: none"> • To assist with affordability, on-site WH units can be provided in a separate 'pod' with reduced amenities and HOA fees 	Revise to incentivize onsite construction
Select WHP Option at Public Hearing	Developer can revise selected method to meet WH obligation until final DRO or 1st building permit	Require developer to declare method at public hearing, and return to BCC to change method		Require declaration at public hearing
Release of Obligation	After 180 day good faith effort to market WH units, developer can request release from obligation and pay significantly reduced in lieu fee, if market rate units in project/phase are 80% under contract	After 180 day good faith effort to market WH units and starting marketing at same time as market rate units, developer can request release from obligation and pay significantly reduced in lieu fee, if market rate units in project/phase are 80% sold (recorded deed). Requirement for marketing plan and updates by developer.	<ul style="list-style-type: none"> • Current provision creates disincentive to market WHP units 	Revise this provision
Like-for-Like WH Units *	<i>No requirement</i>	Require some or all WH units to be same type (SF,TH, or MF) and same ownership type (for-sale, rental) as parent project, (but not same size, finishes, or location- NA if not on site); or allow conversion factor (1 SF unit=1.5 MF unit) for some or all required units	<ul style="list-style-type: none"> • Like for Like requirement would result in more single-family units • <i>Conversion factor would result in more total units for projects opting for conversion (keep this bullet only if conversion factor stays in)</i> 	Establish this requirement

Provisions	Current Code	Changes under Discussion	Considerations	REQUIRED BOARD DIRECTION: Staff Recommendation
Bedrooms Proportional to Market Rate *	<i>No requirement</i>	Require same distribution of bedroom unit types as in project's market rate units	<ul style="list-style-type: none"> Without this requirement, resulting WH units may be mostly one-bedroom, unsuitable for families 	Establish this requirement
Income Category Flexibility	<i>No requirement</i>	Case by case, allow buyer to purchase WHP unit for another income level, if qualifying ratios are met and unit is available	<ul style="list-style-type: none"> Due to family size or other factors, a WH purchaser may need a different unit type or size not available in their income category 	Allow this flexibility
WH Obligation on Comprehensive Plan Amendments	<i>No requirement</i>	Establish a 25% requirement on the increased density	<ul style="list-style-type: none"> BCC has imposed similar condition of approval on most recent amendments Historically, amendments were not subject to WHP, but projects using the amended designation were 	Establish 25% requirement on density increase
Exchange Program *	<i>Not addressed (not precluded under current code)</i>	Formalize an 'exchange option' allowing a developer to contract with another party to build required WH units, with either party providing surety in amount equal to full in lieu fee	<ul style="list-style-type: none"> No exchanges have been utilized to date Concept proposed by builders in 2016 WHP review, includes 2 fee levels; however, If surety is less than in-lieu fee, County would not be made whole 	Allow exchange with requirement for surety equal to full in lieu fee

* Deviations from staff's recommendation will have a direct impact on BAE analysis