AFFORDABLE HOUSING STUDY

for

GILLESPIE COUNTY and the CITY of FREDERICKSBURG TEXAS

presented to

THE GILLESPIE COUNTY ECONOMIC DEVELOPMENT COMMISSION

presented by

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TABLE OF CONTENTS

DATA TABLES

OVERVIEW

The following Affordable Housing Study is being provided as part of a local housing initiative being sponsored by the Gillespie County Economic Development Commission. A task force of community stakeholders, both public and private, was formed to oversee the affordable housing initiative with representation and funding generously provided by the City of Fredericksburg, Gillespie County, Fredericksburg Independent School District, Hill Country Memorial Hospital, Fredericksburg Chamber of Commerce, HEB, Boot Ranch, Texas Wine Collective, Happy State Bank, Chase Bank, Side Street Hospitality, Fischer and Wieser Specialty Foods, and the Hill and Vine Restaurant.

The primary goals of this study will be to:
1. Identify those forces that are contributing to the lack of affordable housing within the community.
2. Define housing affordability across all economic groups represented in the community.
3. Quantify the current supply and estimate current and future needs of affordable housing.
4. Provide information and strategies for planning and goal setting.
5. Identify ways to expand the supply of affordable housing going forward.
6. Identify certain funding sources and programs available to develop affordable housing.
7. Identify the roles each community stakeholder can take in addressing this issue.

The study will analyze local affordability for both single family home ownership as well as rental housing, however due to the need to address housing demand for the area's core workforce, emphasis will be placed on the development of multi-family rentals and single family homes for first time home buyers. The affordable housing development strategies will focus primarily on local government intervention, as well as those strategies that have the capacity to develop a substantial quantity of housing units over the near and long term.

Data contained in this Housing Study has been sourced primarily from information collected from the U.S. Census Bureau's 2020 Census, The U.S. Department of Housing and Urban Development (HUD), The Texas Department of Housing and Community Affairs (TDHCA), and The Gillespie County Economic Development Commission. It is deemed reliable but has not been verified. A margin of error is assumed, but is deemed reasonable subject to the general nature of the Study. All opinions, observations, and recommendations contained in the Study are that of the author, and do not reflect those of the sponsoring entities. The Study will focus exclusively on analyzing the housing development component of affordability and does not include economic recommendations to improve household incomes in the study area.

A. Local Economic and Demographic Challenges Related to Affordable Housing

Unique in comparison to many rural Texas communities, Gillespie County has experienced sustained growth in population and in its economy over the past decade. This success however has contributed to a number of challenges the community now faces with an adequate supply of local affordable housing at the top of that list. The area has become a victim of its own success as the effects of a growing, transitioning community has outpaced its ability to control it in some instances. It is understandable that a small, rural community may not be in a position to address such rapid change as they typically have limited resources, infrastructure, and an adequate workforce to respond quickly to these new demands. It is also understandable that the community would not be inclined to limit growth due to the economic benefits this growth provides to the local community.

Rural areas across the United States are home to different cultures, people, businesses, and infrastructure, and are far from geographically or economically homogeneous. However, since these rural areas are less densely populated and less connected to major centers of employment, they share common workforce development challenges. Too often, the emphasis is on economy rather than social or environmental factors. Wealthy new entrants to the housing market put upward pressure on residential housing pricing, "outward" relocation pressure on service-worker employees as well as local residents, and environmental pressure on the natural landscape. Without sufficient affordable housing, a tourist driven destination such as this risks enjoying a brief moment in the sun followed by stagnation and an inability to maintain it's economy in the future.

Viewed as a function of simple supply and demand, the area's housing market is not in balance as the demand for affordable housing is outpacing the supply thus driving up prices for both home ownership and rental housing. Key factors, both nationally and locally, contributing to this imbalance include:

1. Demographic Demand Trends – A greater percentage of the baby boomer generation is at or near retirement age. Gillespie county has been high on the list of high net worth individuals in this age group looking for an area in which to retire or acquire a second home in preparation for retirement. Based on U.S Census Data, it is estimated that as much as 17% of the area's total housing market is represented by non-owner occupied, second home owners. This entrant to the housing market can be categorized as economically affluent with a desire to purchase homes in popular tourist destinations. They create a range of social, economic, and environmental impacts in the destinations they choose as well as causing gentrification effects for existing residents.
2. Short Term Rentals – It is not surprising that a change in the local short term rental ordinance in 2013 allowing non-owner occupied STRs has coincided with the rapid increase in home prices for the area since that time. Investors looking for capital appreciation and revenue generation without the need for on-site management has found this area to be ideal. The older, smaller legacy housing stock which typically fulfills a housing market's need for affordable homes for first time home buyers is instead being re-branded as a business opportunity and priced relative to its ability to generate income. Realtor.com has advertised Fredericksburg as one of the top five rural communities nationally in which to operate a short term rental based on a projected return on investment. Based on U.S. Census Data, it is estimated that over 17% of the market's single family homes are currently being used as short term rentals.
3. Land Costs and Availability – Sufficient and affordable land in which to develop housing will always be a factor in the supply of affordable housing being built. The increase in the cost of housing development is directly related to an increase in the cost of land. Older, rural communities also typically lack tracts of land sufficiently small in size in which to develop housing around their perimeter and have very few lots left in their core that have not been developed.
4. Housing Turnover – On average, home owners in Gillespie county own their home for at least 16 years based on U.S. Census data. This is substantially higher than the national average of 7 to 9 years. This lack of turnover reduces the supply of homes available for sale on a yearly basis, especially those older homes that contribute to the availability of more affordable homes for first time home buyers.
5. Geographical Employment Flexibility – This is a trend that has accelerated due to the pandemic. The ability to work remotely has allowed many higher income professionals the opportunity to relocate to communities which provide a better quality of life for themselves and their families. Smaller, rural communities located within a reasonable distance to major metropolitan cities, have become ideal candidates for this type of relocation. This trend has created a demand for housing in these communities that previously did not exist.
6. Mortgage Interest Rates – Historically low mortgage interest rates have contributed to an increase in the average price of a home based on the inverse relationship between home price and interest rate. As interest rates have declined, the amount of income necessary to service a mortgage payment is reduced allowing for home price appreciation.
7. Development Costs – Area home builders are reporting that the average cost per square foot to build a home locally is currently between $145 - $150 per square foot. This estimate is for an average size, non-custom home with average quality construction materials. It does not include land, or the builder's development costs such as infrastructure like roads and

utilities. It also refers to the net livable space of the home which excludes garages, porches, etc. Factoring these additional costs can drive the total cost to well over $200 per square foot. This estimate is on the high side of the average construction costs found in Texas. The cost per square foot has risen substantially over the past 18 months due to a lack of skilled labor available, the price contractors can demand for services in a high demand environment, as well as increases in materials costs due to supply chain issues. The price of lumber has tripled during the pandemic and home builders are reporting it has increased the cost of construction on an average home by over $20,000.

8. Home Builder Incentive – A home builder typically factors in his/her profit as a percent of the total cost to build a home. Logically, building larger, high end homes will make the builder more money when compared to building smaller homes with basic amenities. This built-in incentive discourages home builders from building smaller, more affordable homes. During periods of high demand, builders are also able to charge more for a home simply on a supply and demand imbalance in the local market.
9. Land Use and Zoning - Economists widely agree that zoning makes housing not only less affordable but also less dense. Some small downtown areas see intense development, but most developed areas, including residential areas very close to city centers, have been left almost untouched. Lower and middle-density construction continues mostly as low-density single-family residences (SFRs) in undeveloped land. The pattern is evident in the Texas Triangle region. Texas cities have mostly grown through single-family housing. Buildings of two to four units are also uncommon as regulations typically exclude them from most areas or force severe compromises to their design.
10. Development Rate – The 2010 economic recession impacted the rate of housing development for ten years following. Both single family as well as multi-family development lagged due to more stringent financing requirements and a reduction in the number of developers still standing after the collapse. The pace of housing construction subsequent to this period has been insufficient in satisfy both past and current demand.
11. Institutional Buyers - Increased buyer demand from new entrants into the housing marketed include large institutional buyers, Real Estate Investment Trusts and I-Buyers such as Redfin and Zillow. These buyer are cash buyers and are buying for short term capital gains appreciation or for income by converting single family homes to rental property.

It remains to be seen whether these price drivers will continue to influence the local housing market going forward. Some are out of the control of local influence. Some, however can be influenced by policies and strategies employed by local government entities to either incentivise or restrict those forces that they can control within a comprehensive affordable housing development strategy.

B. Housing Affordability Defined

Every effort has been made to limit the amount of statistical data and industry terminology contained in this housing study so that it is easily understandable to those unfamiliar with the topics presented. However, one item of terminology that will be found repeatedly in the study and needs to be defined is **Average Median Income** or AMI. It is a statistical term used to define a household's income in relationship to all the other households in a specific geographical area. If a household's income is represented as 100% of the AMI, that means their income falls exactly in the middle of the income of all the other households in the area. So at 100% AMI – one half, or 50% of the households fall at or below that level, and one half, or 50% of the households fall at or above that level. A household at 80% of AMI means that 40% of the area's households fall at or below, and 60% fall at or above, etc.

There isn't one definition of affordable housing, but in the US, most policymakers and financial planners start from the Department of Housing and Urban Development's definition – housing that costs less than 30% of a household's income. Families who spend more than 30% of their income on housing are designated as cost-burdened, or rather the amount they spend on housing threatens their ability to afford other necessities like food, medicine, clothing, transportation, and childcare. So, who needs affordable housing? Everyone. From high-income earners, to hourly wage workers, to people experiencing homelessness, and everyone in between. The rent or home price that is affordable may vary from one household to the next, but the need for housing that is affordable is shared by everyone. Different families have different needs and expenses. An apartment affordable to a healthy person without debt might be out of reach for someone with student loans and medical expenses, for instance. Having 70% of your income left over is also very different for someone taking home $20,000 and someone taking home $200,000 per year. Despite the clumsiness of the 30% rule, policymakers and researchers use it as a way to assess the overall housing market by determining whether modest housing is affordable to someone making the median income as well as a way to determine how much housing assistance to provide people.

1. Extremely Low Income – Extremely low income households are typically defined as those making 30% or less of the average area medium income (AMI). Commonalities exhibited by these individuals typically include those that lack competitive job skills and/or who may live in economically depressed locations where full time employment is not available. Additionally, many of these individuals can have mental, physical, or social challenges which restrict their ability to work full time, if at all. They are highly dependent on family members, and community based supportive services to survive. This group is the most vulnerable to becoming homeless without charitable assistance. Housing options are very limited for this group and typically range from single room occupancy rentals (SRO) to traditional government run public housing, if available in their community. It is also extremely difficult to develop affordable housing to serve this group as the rental income these households can contribute to a development's operations requires prohibitive operating subsidies to make it economically feasible. Any inclusion of this group in subsidized housing developments is therefore limited and thus fails to satisfy the need.

2. Low Income – Low income households are defined as those making between 30% and 60% of their area's average median income (AMI). This group is most commonly referred to as the "working poor", although this group is usually not included in the definitions for workforce housing. Commonalities exhibited by this group include a lack of marketable job skills, residing in areas limited by employment opportunities due to a high percentage of retail trade /service sector, or agricultural needs. Younger age groups in entry level positions dominate this segment, but elderly households living on small pensions or social security benefits can be found here as well. Most all government rent subsidized housing programs target this group including traditional Public Housing, and the Housing Choice Voucher Program (section 8). Affordable housing development subsidized programs such as the Low Income Housing Tax Program (LIHTC) targets and designs the program based on this category as well. Availability for subsidized housing is way below demand with most properties or programs having waiting lists years long. Non -subsidized housing options for this group are typically substandard, old rental properties located in undesirable neighborhoods. In order to live in a more desirable area with better schools, less crime, or better job opportunities, these households must pay rents way above their means creating a severe housing cost burden.

3. Moderate Income – This group can be categorized as those making between 60% and 90% of the average median income (AMI) for their area. They are the first income group that is typically included in the definition of "**workforce housing**". In its basic definition, workforce housing is any housing that is affordable to any individual with a job or any household with a working member. It is usually defined as housing built to serve families that are sitting in the middle between true affordable housing and luxury housing. This type of housing is meant to fill the gaps between the government assisted housing programs and the free market, or rather to provide for workers who make enough to be disqualified from government assistance, but not enough to afford much of the new construction going up in areas across the US. This group represents the beginning of the core workforce of a community that includes essential government and health care workers like police, firefighters, nurses, and teachers, along with essential support personnel. Housing options for this group typically include class B multi-family which are older developments that due to location, age, or lack of amenities cannot command the top market rate when competing against newer multi-family developments. The higher income earners in this group are also able

to have access to single family rental options as long as availability in their geographic location is good. The extent of housing cost burdens for this group is tied very specifically to the supply and demand of these housing options in their community. A lack of supply will either force this group down into less desirable housing based on condition or location, or force them up into higher cost housing which creates a cost burden.

4. Average Income – Average income households represent those that are making between 90% and 120% AMI, and combined with moderate income households, represent the group that is typically categorized as a community's core "workforce". This group can include higher income single person households with management or professional job skills as well as moderate income, two earner married couples with school age children. Class A multi-family, single family rentals, and single family home ownership, primarily starter homes, are housing options available for this group. This group also exhibits the financial capacity to relocate for job opportunities, better schools, or better housing options. Traditionally, this group's housing cost burden was based more on geographic location, or personal decisions related to high debt or living above their means.

5. Above Average Income – This group reflects household incomes up to $100,000 and typically represents two person incomes at management/professional levels, as well as small business owners. This group is slightly older with high school and college age children. This group will reflect a higher net worth but with the majority of that reflected in the equity from home ownership and not necessarily in other assets such as cash, pensions, or other real estate, or business assets. Consumer debt is high in this group but declines with age in this income cohort. Households at this income level are able to income qualify for home purchases in all but the highest priced housing markets in the country which allows for greater mobility and geographic preference as to where they wish to live.

6. High Income – Older, college educated households dominate those groups of families making greater than $100,000 annually. They tend to have a higher net worth in a diversified portfolio of stocks and real estate and are willing to take greater financial risks. Their income is derived from both employment as well as income from investments. These groups are predominantly home owners with many able to purchase second homes for recreation or as an investment.

The following table shows the derived income levels in each of the income categories based on the definitions above. Currently, HUD is calculating the average household median income for Gillespie County to be $59,531. A household can be defined as one or more occupants, but is represented here based on the median size of an average household for the county of 2.2 persons. At 100% AMI, exactly one half of the households, or 5,347 of the 10,694 county households fall at or below this level while one half fall at or above this level.

Table 1

	Low income			Moderate income			Average income			
Percent AMI	30%	40%	50%	60%	70%	80%	90%	100%	110%	120.00%
AMI	$17,859	$23,812	$29,766	$35,719	$41,672	$47,625	$53,578	$59,531	$65,484	$71,437

	Above Average income			High income			Very High income			
Percent AMI	130%	140%	150%	160%	170%	180%	190%	200%	210%	220.00%
AMI	$77,390	$83,343	$89,297	$95,250	$101,203	$107,156	$113,109	$119,062	$125,015	$130,968

Using income data collected from the 2020 US census, the following table shows reported household income at the various income levels along with the number of households in each income group. A household is represented here as one or more persons.

Table 2

Annual Income	< $15k	$15-$25K	$25-$35K	$35-$50K	$50-$75K	$75-$100K	$100-$125K	$125k-$150K	$150K-$175K	$175-$200K	>$200K
Percent HH	9.0%	10.0%	10.0%	13.5%	14.0%	10.5%	10.0%	5.7%	5.5%	5.5%	6.3%
Number HH	962	1069	1069	1444	1497	1123	1069	612	597	589	663

C. Housing Availability and Affordability in Gillespie County

1. Single Family Home Ownership – A January, 2019 study by the business website Walletwise.com, ranked Fredericksburg as the most unaffordable city in Texas when comparing the area's average household income to the average price of a single family home. At that time, the average median home price (AMHP) was estimated at $374,000. Fast forward three years later and that estimate has exploded to over $550,000. Historically, the area's housing prices were relatively stable and affordable in relation to other Texas markets as home prices only increased an average of 1% annually between 2006 and 2014. This trend began to change in 2015, and has accelerated substantially in the past two years with home prices increasing over 83% between 2015 and 2021 for an average yearly increase of approximately 12%. during this time.

a. Affordability – For single family home ownership, a good rule of thumb used by most financial planners when advising clients as to affordability when purchasing a home is to multiply their household's annual income by a factor of 3. So if a family's total gross annual income is for example $100,000, they should look for homes to buy priced at around $300,000. This ratio is a good starting point, but other debt and expenses will come into play when qualifying for a mortgage to purchase the home and will certainly reduce this 3 to 1 ratio. In a balanced housing market with sufficient supply of homes available across a full scale of price points, an 80% AMI is typically the entry point where home ownership begins to become financially feasible.

The following chart provides a 15 year view of the annual year over year and cumulative average change in the price of a single family home in Fredericksburg. It also provides data on the number of single family homes sold and the number of new single family housing starts for each year which are also included in the total number of homes sold.

(source: Gillespie County Economic Development Commission) Table 3

YEAR	2006	2007	2008	2009	2010	2011	2012	2013
AMHP	$232,683	$237,016	$230,682	$223,003	$206,357	$232,581	$237,225	$256,810
YOY % ChG	n/a	1.9%	-2.7%	-3.3%	-7.5%	12.7%	2.0%	8.3%
CA % CHG	n/a	1.9%	-0.8%	-6.0%	-10.8%	5.2%	14.7%	10.3%
# Units Sold	152	156	126	133	141	145	162	208
# New Units	6	63	42	28	34	33	34	41

YEAR	2014	2015	2016	2017	2018	2019	2020	2021
AMHP	$252,750	$298,640	$361,726	$386,098	$373,909	$390,150	$457,304	$549,829
YOY % ChG	-1.6%	18.2%	21.1%	6.7%	-3.2%	4.3%	17.2%	20.2%
CA % CHG	8.7%	26.8%	48.0%	54.7%	51.5%	55.9%	73.1%	93.3%
# Units Sold	202	210	206	222	231	258	325	352
# New Units	39	41	49	54	60	64	72	88

b. Availability – Using the basic model of a 3 to 1 relationship of income to home price, it becomes evident that most all of the area households, even including those in the above average and high income groups, would not be able to income qualify for the average priced home currently estimated at $550,000. An annual household income of $183,333 would be needed to qualify for a home at this level. Based on the income data contained in table 2 above, it is estimated that only 11% of the county's households could afford the average priced home, and a staggering 89% priced out of the market. With a high home ownership rate in the county of 76%, it would be safe to assume that the majority of those households with incomes high enough to afford to buy a home in the area are already homeowners.

A recent survey of local Realtors and home builders reports anecdotal evidence that the majority of recent home buyers in the area are high net worth individuals moving into the area to retire, or buying a second home as a recreational destination in preparation for retirement. Additional, a number of homes are being purchased by investors who are looking for short term capital appreciation with some renting the homes at high rental rates or simply letting the home sit vacant. Finally, the investor demand for single family homes to be used as short term rentals has increased substantially over the past two years due to the effects of the pandemic and substantial increases in operating revenue these investments are realizing.

c. **Conclusion and Forecast –** The current demand for single family housing is extremely high but is dominated by external buyers as most all local households are priced out of the market. In relation to historical price appreciation in the local market, such a severe rise in home prices should not be sustainable over the near term and should revert back to historical trends. Factors that may put downward pressure on home prices in the near and far terms include:

1. A recent change to local codes regarding short term rentals will all but end availability of single family homes purchases by investors in this category, thus making more single family homes available for long term home ownership or long term rentals.
2. The current external demand for housing in this market is dominated by older, retiring baby boomers. This group of buyers represents a large segment of the general population, but most all of them are at or near retirement age. Demand for housing from this group will wane with future generations less able to replace that demand.
3. Building costs (material and labor) are artificially elevated due to macroeconomic factors resulting from supply chain issues caused by the pandemic. This is also being affected by a greater amount of new homes currently being built. These influences should abate in the near term.
4. Interest rates have increased substantially recently and will reduce the demand for single family homes. As a result, the pace of new home construction will decrease which will help reduce the demand for building materials as noted above.
5. As local home prices rise, out of state transplants from high priced housing markets, will not find the affordability they once did thus reducing demand.
6. As home prices stabilize, investors looking for short term capital gains will exit the market as the profit potential for buying and holding a property will go away.
7. The pace of single family home construction has risen substantially recently with a number of new developments projected to start in the near future. An increase in the supply of new homes at the same time demand is waning should put downward pressure on home prices.
8. The possibility of world events or macroeconomic factors causing a downturn in the economy is greater now than at any time in the past ten years.
9. There is an imbalance between the home prices in this market and other desirable comparable markets. Buyers will begin to gravitate to these other markets thus reducing local demand.
10. The work at home trend is waning with most households able to take advantage of this flexibility now settled in their desired locations.

It is projected that home prices appreciation will stagnate in the near term and with the demand destruction pressures identified above, may drop substantially going forward. Home price depreciation rates of up to 30% to40% may not be unrealistic. It is impossible to forecast the timing or relative influence that all of the factors will have on the local housing market going forward. However, statistical modeling of housing markets throughout the US that have exhibited such a rise in home prices as seen in this market have historically always reverted back to the norm which would indicate that this market will do the same. Even a 30% reduction in the average price of a home will still be insufficient to make home ownership viable for a sufficient number of households in the community. Intervention strategies will need to be employed by various stakeholders in the community to further drive down the cost of home ownership.

2. Rental Housing - Due to the lack of affordable single family homes in the area, combined with an economy dominated by lower income service workers, affordability and availability of rental housing is very critical for this community. The ability to develop higher density housing using less land and infrastructure is a strategy many communities are turning to. The ability to build at scale – projects containing hundreds of homes - can drastically and immediately change the dynamics and availability of affordable housing in a community. National trends show a move away from single family home ownership and toward rental housing as the economics of development costs and ownership costs drive this change.

a. Affordability – The U.S. Census Bureau has published income data for Gillespie county relative to the recently completed 2020 census. It is provided below including income categories as well as the number of households and their percent to total of all households in the county. The affordable rents are then calculated based on the definition of housing costs being no greater than 30% of income.

Table 4

Annual Income	< $15k	$15-$25K	$25-$35K	$35-$50K	$50-$75K	$75-$100K
Percent HH	9.0%	10.0%	10.0%	13.5%	14.0%	10.5%
Number HH	962	1069	1069	1444	1497	1123
Affordable Rent	$0-$375	$375 - $625	$625 - $875	$875 - $1250	$1250 - $1875	$1875 - $2500

Currently, HUD reports the average median rent charged in Gillespie County to be $967 (based on a two bedroom unit). A renter would need to earn $38,641 annually in able to afford (i.e. not be cost burdened) a median rent two bedroom unit of $967 per month. It is estimated then that approximately 47% of Gillespie County renters would be cost burdened if renting at this level.

b. Fair Market Rents – Fair Market Rent (FMR) is the rent amount, including utilities (except telephone), to rent existing decent, safe and sanitary rental housing of modest (non-luxury) nature with suitable amenities. FMRs are calculated each year by the U.S. Department of Housing and Urban Development (HUD). They are used as a barometer regarding the affordability of a geographical housing market specific to rental property. HUD surveys each market for the price of a two bedroom unit and determines a fair market price based on units in the 40th percentile. In effect, they are not the average median rent (i.e. 50th percentile where half are above and half are below) but reflects a more modest, typical unit found in the market area. The following table shows FMRs for Gillespie County (Kerrville Tx. is included) for the past ten years.

Table 5

FMR	Efficiency	1 Broom	2 Broom	3 Broom	4 Bedroom	PERCENT CHANGE YOY	TOTAL
2022	$760	$765	$1,007	$1,430	$1,559	4.1%	12.6%
2021	$709	$734	$967	$1,384	$1,494	3.4%	8.5%
2020	$693	$710	$935	$1,349	$1,428	-4.0%	5.0%
2019	$732	$736	$974	$1,363	$1,471	-0.5%	9.0%
2018	$731	$736	$979	$1,350	$1,465	0.4%	9.6%
2017	$730	$735	$975	$1,282	$1,545	5.1%	9.1%
2016	$699	$715	$928	$1,193	$1,472	9.2%	4.1%
2015	$602	$628	$850	$1,059	$1,505	-2.9%	-5.1%
2014	$619	$647	$875	$1,090	$1,550	-2.2%	-2.2%
2013	$634	$662	$895	$1,115	$1,585		

Rents have increased 12.6% over the past ten years with an average of 1.2% annually. Compared to all other market areas, Gillespie County's FMRs have been, and are currently considered extremely high, being 87% higher than all other markets nationally, and 92% higher than all other Texas markets. Basic supply and demand forces are causing this effect where there is too little housing stock and the stock that exists is newer and reflects more of the luxury market. Gillespie county renters tend to stay in one location an average of six years which is extremely long and also indicates a lack of availability and an affordable price selection.

c. Availability – The total number of households who rent in the county is approximately 2,566 which is 24% of the total households of 10,694. The average renter household size is 2.14. The following chart breaks down the type and location of these long term rental units. The County Only chart includes all units outside the city of Fredericksburg.

(source: Gillespie County Economic Development Commission) Table 6

RENTAL UNITS	FREDERICKSBURG				COUNTY ONLY			
	FAMILY	SENIOR	TOTAL	%	FAMILY	SENIOR	TOTAL	%
Multi-family 5+Units			827	44.7%			18	2.5%
Rent Restricted	149	0			0	0		
Rent Subsidized	92	72			0	0		
Market Rate	431	83			18	0		
Duplex/Fourplex			225	12.2%			9	1.3%
Rent Restricted	0	0			0	0		
Rent Subsidized	0	0			0	0		
Market Rate	225	0			9	0		
Single Family Homes			700	37.8%			344	48.1%
Rent Restricted	0	0			0	0		
Rent Subsidized	0	0			0	0		
Market Rate	700	0			344	0		
Mobile Homes			99	5.3%			344	48.1%
Rent Restricted	0	0			0	0		
Rent Subsidized	0	0			0	0		
Market Rate	99	0			344	0		
Total	1696	155	1851	100%	715	0	715	100%

d. Pent Up Demand – As of the beginning of 2022, there were approximately 13, 538 persons employed in the county. Census data reports that 20% (2,707) of the total workforce has a commute time greater than 25 minutes which assumes that they are traveling and living outside the county. It is unknown how many of these commuters would prefer to live closer to their work, but one can assume that it would be a substantial amount. Taking a conservative estimate of 70% would assume there is a pent up local housing demand for this group alone of close to 1,900 units of housing. In addition to this specific need, data from various job posting boards show over 700 job openings currently being advertised by employers throughout the county with only 10 rental properties below $1,500 per month being advertised as available. Table 6 above shows only 2,566 existing units of rental housing in the county. That amount could easily double and be absorbed by the estimated pent up demand.

e. Conclusion and Forecast – There have only been 172 units of long term rental property constructed in the county over the last ten years, and only 254 units built the decade before. There has been a reliance on other communities to provide housing for the area's increasing workforce as indicated by the large amount of workers having to commute into the area for work because there is insufficient housing available here. This reliance on others to provide the community's workforce with housing is unsustainable as factors such as higher food and gas prices and a lack of childcare will force these individuals to seek employment closer to home. Local employers have found this trend to be true post pandemic and will be forced to raise pay for their employees in order to maintain their competitiveness with existing staff and new hires.

Based on data from the Gillespie County Economic Development Commission, just under 1,500 units of multi-family rental housing is currently proposed for construction by various housing developers. Only 71 units are currently under construction. Most of the proposed units were envisioned prior to the recent increase in construction costs and interest rates so it is unknown exactly how many units will actually be built over the next few years if ever. The vast majority will be at market rate rents and will not alleviate the extreme shortage in affordable rental units needed in the community. Only 150 rent restricted, affordable units have been proposed and included in the total estimate of 1,500. Based on projections from a recent GCEDC demographic report, approximately 3,000 new jobs are projected to be created in the county between 2022 and 2032. This proposed amount of 1,500 new rental units will only satisfy five years of new demand not taking into consideration the already existing pent up demand. Failure to address this severe housing shortage will certainly impact the amount of new jobs the community can support and will have a detrimental effect on retention of existing workers.

D. Affordable Housing Development Strategies – A Local Government Approach

Historically, local units of government typically relied on the federal government to provide housing resources and programs to assist low income households with affordable housing options, and the private sector to develop and adequate supply of housing for everyone else. This historical model however can no longer be relied upon as it has failed to supply the needed housing across all income levels. Local governments are now faced with the dilemma of whether to interject themselves into this vacuum. Traditionally, local governments played a minor role in housing development with land use and development standards the only role they would typically play. The use of local tax dollars and active participation in housing development and administration were not viewed as roles a local unit of government was expected to assume. Recently, these local governments have begun to reassess their roles in assisting the development of affordable housing dictated primarily by a demand by their local community to step in and act, especially as it relates to the community's workforce housing needs.

The first step these local governments will typically take in moving into this new role is the acknowledgment that workforce housing and essential workers can and should be viewed as infrastructure. In using this new definition, the use of local public funds and resources for affordable housing development, becomes consistent with the traditional role of the local government being responsible for the development and administration of essential infrastructure just like roads, utilities, and public safety. Planning then includes this new role. Tax dollars can then be budgeted for these efforts. Community Development Departments and affiliated Public Facility Corporations within these governments can be formed. Bonds and loans sponsored by the local government can be created. Partnerships with other community stakeholders can be formed. All are necessary and needed components of a comprehensive strategy.

No one tool or policy alone however can be the "silver bullet" for producing needed workforce housing . When analyzing communities that have been successful in the development of affordable housing, key themes emerge when comparing them. They typically include a strong political commitment, an active effort in public relations and education, multiple strategies and tools utilized, clear and consistent policies and regulations, the establishment of quantitative and qualitative goals, a comprehensive economic development strategy, continued program monitoring and improvement, solid funding sources and commitments, and a plan that includes a diversity of income served, and a diversity of housing choices provided.

1. Public Private Partnerships - In addition to the key themes above, the use of public private partnerships is essential to leveraging all assets and expertise available in an affordable housing strategy. These partnerships combine the speed, flexibility, and expertise of the private sector with essential government subsidies and support from the public sector, both of which are needed to acquire, build, operate, and maintain affordable housing projects. Using a mix of private, philanthropic and public sector funding to address needs in affordable housing is necessary because the costs of acquiring or building and then operating such projects are just too high to be covered by middle-income rent, much less low-income rent. What this means is that you need the power of the public sector and the tax base to cover the long-term costs. Yet, at the same time, the public sector does not move quickly, it is risk-averse, and it cannot deliver capital quickly. So, while the public sector is needed for long-term funding, it's less effective when it comes to acquiring or building affordable housing.

2. Retaining and Attracting Essential Workers – A must in any local government workforce development plan is a strategy to retain and attract essential workers. Young people will only stay in areas where there are good services, education, and facilities and well-paid employment. The conditions need to be right — jobs, training and apprenticeships, affordable housing, affordable transport, affordable childcare, as well as cultural and recreational amenities. Given that young people are now rural America's most precious resource, it seems that the best way to preserve the nation's small towns will be to create new sorts of conservation efforts to invest more efficiently in these young people, whose futures — as parents, workers, homeowners, voters, and taxpayers will be so critical to the countryside's survival.

   Return migration also plays a largely overlooked role in replenishing population numbers while raising education levels and labor supply, and increasing the social vitality of thousands of rural communities nationwide. They often return with spouses and children, or begin child raising soon after returning. Many have gained education, work experience, and other skills while away. Return migrants use skills and experiences acquired elsewhere, and their commitment to their places of origin, to start businesses, fill professional positions, and take on leadership roles in ways that uniquely impact rural communities. Return migration, usually defined as individuals moving back to their hometowns or other previous residences, has been a major component of migration among adults in their late 20s and 30s. Return migrants who are 25 to 40 years old may be more numerous than retirees and may have a more positive economic impact because they bring spouses and children with them and are joining the labor force near the beginning of their careers. Strategies to develop and invest in workforce development in rural areas include:

   a. Education and training programs that prepare young and adult workers for high demand jobs and skills within existing and burgeoning industry sectors.
   b. Economic diversification initiatives to expand the region's job base and increase economic resiliency in case a major employer closes or relocates elsewhere .
   c. Strategies to create community amenities, support entrepreneurship, and improve the quality of jobs in order to attract and retain workers with a range of skill sets and income levels.
   d. Community development efforts focused on transportation, housing, child care, health care, and broadband that help workers and residents, particularly from low-wage sectors, access economic opportunity.
   e. Collaboration across the public, nonprofit, and private sectors to align workforce development, economic development, and community development goals.
   f. Innovation that identifies and promotes competitive niches and new ways to attract and keep young people.
   g. Promoting entrepreneurship through starting and growing new businesses must be a key part of workforce development.
   h. Identifying assets that protect, strengthen, and build upon their natural and cultural assets.
   i. Thinking and acting regionally and being unconstrained by jurisdictional boundaries.

3. Land Use and Zoning – All powers over land use in Texas, with a few narrow exceptions, are delegated from the state government. In one regard, the state's land-use policies are exceptionally unobtrusive as Texas counties have weaker

control over unincorporated land than those of any other state. Counties can impose subdivision ordinances that regulate a few aspects of construction, such as street widths, building setbacks from public roads, and minimum lot frontages on existing roads. They may not, however, impose full zoning codes. A report by the Capital Area Council of Governments, an association of local governments in the Austin area, notes that because of these limits on county authority, "Texas is the only state in the U.S. that restricts large areas within its boundaries from being zoned or effectively planned." Subdivision ordinances can impose a few additional regulations but they are nevertheless far less restrictive than full zoning codes: state law prohibits counties from limiting building sizes or residential densities and from mandating separation of residential, commercial, and industrial uses.

Incorporated municipalities, however, have broad authority over land use. The Texas Local Government Code's zoning authorization, drawn from the same model statute as the zoning authorizations of many other states, gives municipalities authority to regulate groundwater pumping, the use of buildings, population density, and several aspects of building size, as well as to protect buildings and areas with historic importance. The Texas Property Code also allows developers of a neighborhood, or slim majorities of a neighborhood's residents, to impose "deed restrictions" on every property in the neighborhood. Deed restrictions play an important role in regulating Texas land use.. A state law called "extraterritorial jurisdiction" even gives Texas municipalities some control over unincorporated land up to five miles outside their boundaries. Extraterritorial extension of land-use regulations is not automatic and is prohibited for certain types of regulation, such as separation of uses and maximum building sizes. But other regulations, such as setback lines, can be extended, and most Texas municipalities apply their subdivision regulations extra-territorialy.

Although laws in the Texas Triangle facilitate "horizontal" growth through exurban development, they restrict "vertical" growth, or the redevelopment of built areas. Even cities with loose zoning codes, such as Houston, impose some restrictions. Recent increases in house prices, furthermore, suggest that restrictions on vertical growth are beginning to cause a housing shortage in the region's more desirable areas. The revitalization of central-city neighborhoods, meanwhile, shows a large demand for urban living that is underserved by today's zoning codes and other land-use regulations.

The following will provide some specific zoning practices that can be used to better control and incentivise the development of affordable housing by local units of government.

a. Municipal Utility Districts - Municipal utility districts (MUDs) seem to work in Texas. They have increased the housing supply, using lighter regulations, resulting in downward pressure on costs. In a typical scenario, developers assemble greenfield land in an unincorporated jurisdiction. They find private financing to build the infrastructure, form a governing board, and erect and begin selling homes. Once the development is generating enough revenue, the MUD — which is regulated by the Texas Commission on Environmental Quality — reimburses the developer and acquires the bond debt for certain infrastructure. Texas has over 900 MUDs, with a heavy concentration around Houston. They are generally suburban- style neighborhoods with cul-de-sacs, big retention lakes and upscale public amenities. But some include dense, new urban-style town centers in the mix.

MUDs can provide relatively affordable housing in what is often an upscale setting. Additionally, MUDs aren't as prone to insolvency as other developments. One common critique of sprawl development is that the overstretched infrastructure, supported by too few households per acre, creates maintenance costs that become unmanageable and are socialized onto outsiders. MUDs mostly avoid that. Much of the infrastructure that would normally be "public" — roads, parks, drainage, sewer, water — is built upfront by the developers, meaning they're the main risk-bearers. With time, the costs are spread around, but mostly to those living inside the MUD. Many MUD utilities are funded through user fees. In many cases, homeowners pay an incremental property tax above what they pay to counties. Roads are the most common thing MUDs transfer to county jurisdiction, while the MUD can contract with the county to provide other services, such as advanced public security. MUD tax rates tend to generally decline over time as the MUD's operating and debt service cost are shared by more homeowners. MUDs still must follow county and state rules, sometimes join existing school districts and eventually have elected governing boards as in a conventional city. But they inch in the privatized direction: The developer can plan the city (counties in Texas don't have zoning power), set tax rates and otherwise run things as they wish.

b. **Opportunity Zones** - Created in the 2017 Tax Cuts and Jobs Act, Opportunity Zones are designed to drive long-term capital into low-income communities across the nation, using tax incentives to encourage private investment into designated census tracts through privately- or publicly-managed investment funds. These investments can include supporting the development of affordable or workforce housing. The Opportunity Zones program provides opportunities for investors with long-term capital gains to defer paying tax on those gains for a period of time while also investing in underserved communities that need capital. The funding would be administered through an Opportunity Fund administered by the Treasury Department's Community Development Financial Institutions (CDFI) Fund.

d. **Mixed-Use and Mixed Income Workforce Housing Zoning District** – A Mixed-Use Workforce Housing Zoning Districts is intended to promote a mix of housing options within a single development, along with appropriate non-residential uses, by providing density incentives in exchange for below-market-rate housing in urban areas of the City where on-street parking or other public parking is "customary and can be reasonably accommodated." Mixed Income Housing – Available resources to develop affordable housing can go further with the development of mixed income housing, allowing for a range of price points consistent with the workforce needs of the area.

4. <u>Programs and Project Types</u> – The following list includes various affordable housing development strategies that can also be utilized within a comprehensive plan to development more affordable single family homes as well as affordable rental property.

a. **Adaptive Re-Use** – Adaptive reuse projects create new housing in existing buildings once used for commercial, industrial, or public purposes. Adaptive reuse poses an alternative solution to demolition or deterioration, and provides an option for expanding housing options in an environmentally sustainable way, while also maintaining historic buildings and preserving existing community structures. Common buildings used for adaptive reuse include but are not limited to historic buildings, schools, industrial factories, and hotels. Increasingly, communities are looking at ways to convert vacant or underutilized commercial or retail buildings into housing, including commercial strip shopping centers, "big box" stores, malls and small standalone former office or retail spaces. A handful of adaptive reuse projects have created "non-traditional" homes, such as micro units and spaces with communal living areas, as one way to keep housing affordable. Communal living, or shared housing, is generally where residents have private bedrooms and bathrooms but share kitchen and dining areas. Adaptive reuse is not always viable. Sometimes, it is financially more efficient to tear down and rebuild, rather than trying to repurpose an existing commercial structure as a residential building.

b. **Income Targeting** – Income targets and pricing are generally defined in terms of percentage of Area Median Income (AMI), and the majority of programs set the maximum income of eligible households between 51% and 80% of AMI. In terms of development-level financial feasibility, there is a trade-off between getting more affordable units serving higher-income households or fewer affordable units serving lower-income households. The rental revenue from a unit serving 40% AMI households is half that of a unit serving 80% AMI households. Thus, serving 51-80% AMI households may be a rational way to maximize the number of units while also serving low-income households in need, many of whom are also over-income for federal programs. Most government-supported rental housing serves 30%-60% AMI households. That said, most communities have the greatest housing shortage for households below 50% of AMI. In considering how to price inclusionary units, communities should consider doing a housing needs analysis of renters by income broken out by race; in many communities, renter households of color are disproportionately represented in lower income groups (below 50% of AMI).

c. **Special Needs Housing** – This housing serves individuals and families of moderate, low, very low, and extremely low income who can be categorized as Individuals with special needs, homeless individuals, veterans, farm workers, youth who are aging out of foster care; and elderly individuals. "Individual with special needs" is defined by the State of Texas as an individual who is considered to be an individual having a disability under a state or federal law, is elderly, is designated by the board as experiencing a unique need for decent, safe housing that is not being met adequately by private enterprise, or is legally responsible for caring for an individual designated above.

d. **First-Time Home Buyer Programs** – Local first-time home buyer programs assist low- and moderate-income households with purchasing a home by providing financial assistance with down payment, principal reduction and/or closing costs associated with a home purchase. Potential home buyers generally apply for assistance and sometimes have to meet certain requirements, such as currently living or working in the community. In order to receive assistance, home buyers must meet the definition of a first-time buyer, which typically means having not owned a home in the prior three years. Home buyers often must qualify for a mortgage from an approved lender and undergo home ownership counseling. Funding for first-time home buyer programs comes from CDBG and HOME funding, as well as from local funding sources.

e. **Employer-Assisted Housing** – Employer assisted housing (EAH) is an employer-provided benefit, usually designed to assist employees in becoming home owners. EAH programs often include grants for down payment assistance, low interest loans, matched dollar savings plans, credit counseling, and/or home-buyer education. While there have been efforts to create EAH programs that extend to private-sector employers broadly, local EAH programs have traditionally focused on public employees (e.g., local government and school employees) and employees of large nonprofit or anchor institutions (e.g., universities, hospitals). In addition to down payment and other home-buying assistance, there are examples of major employers investing directly in housing for their employees. This approach of directly building housing or supporting the construction of housing for employees has been most common in resort communities and in very high-cost markets.

f. **Shared Equity Models** – Co-housing creates a planned community of homes centered around common space and amenities, such as green-space, kitchens, laundry and dining areas. The homes can be attached or single family and offer the same amenities as what we know traditional homes to have. In an area that attracts and demands seasonal workers, smaller square footage homes with shared amenities may be a helpful way to provide the needed housing units but limit the costs. Residents live private/separate lives, but organize and manage neighborhood events and common spaces. While co-housing is often designed with shared values as the goal, rather than affordability, its benefits can be applied to improving affordability. As such, land costs are not all assumed by one household, as is the case with a single family home, but are shared by multiple households. Savings are then achieved through not only the reduced construction of these shared amenities but also through the increased density that a workable co-housing model demands.

g. **Modest Sized Homes and Lots** – Another method of reducing the cost of housing development without sacrificing livability is to reduce the scale of the homes. A benefit to consider is the fact that these units may not require government subsidies because the improved affordability can be due to smaller square footage, rather than to governmental grants, loans or tax credits. Smaller scale, sometimes furnished, housing is appealing to a seasonal worker. Small square footage strategies will produce a deliberate, targeted approach to the localized needs of the tourism workforce. Smaller homes can take many forms, each resulting in cost savings that can make housing within reach for more local residents. There are other ways to ensure that the mission of an affordable housing model can additionally support the economic development goals of a tourist town. By having innovative housing solutions that create noteworthy architecture, housing in and of itself can be a destination. Because of the architectural interest combined with the affordability mission, the architectural innovations found in these affordable homes create a tourist destination.

h. **Land Banking** – Land banking has the ability to support a long term affordable housing strategy. By allowing for the county to bank land that is tax delinquent or public property to allow for the repurposing of the land by an affordable housing developer, the county and local government can support an overall plan for an affordable community.

i. **Preserving Naturally Occurring Affordable Housing** – A method that many tourist destinations have employed is a buy down program whereby the city or non-profit partner purchases affordable or market rate housing units as a way of preserving them for the local resident market rather than the vacation rental market. Additionally, many communities are experiencing a voluntary deed restriction plan where existing home owners restrict their property to long term occupation only. Once sold, this restriction stays with the home for all successive property owners.

e. **Form-Based Code –** A form-based code is a land development tool that is designed to regulate physical form, rather than specific use (e.g., commercial, residential). A form-based code is a regulation, not a mere guideline, adopted into local law. Communities often pursue form-based codes to attempt to create denser, more walk able, mixed-use neighborhoods. Often under a form-based code, developers are able to take advantage of higher allowable densities and more limited community review processes. However, local jurisdictions should invest considerable time upfront to get community input on the parameters that will shape the requirements under the code. Form-based code is not typically used primarily to create workforce housing options. However, a form-based code can facilitate the production or preservation of below-market-rate housing by writing affordability requirements into the code. Higher densities also sometimes make it more feasible to produce below-market rate housing units. Finally, a more predictable, streamlined review process under form-based code can help reduce the overall cost of development, making it easier to produce lower cost units. Well-designed form-based codes can potentially have a positive impact on affordability across the income spectrum if it encourages adequate supply and the development of missing middle housing typologies. In addition, deeper levels of affordability can be provided if inclusionary housing elements are included in the policy.

f. **Expedited Permitting –** New residential (and commercial) construction typically goes through a process that involves review and approval by multiple local government departments (e.g., planning, zoning, transportation) and often must be reviewed by other agencies and organizations (e.g., utility companies, state environmental agencies). The review process can sometimes lead to the necessity of re-doing project plans or conducting additional studies to gain local support for the development. Delays and unpredictability associated with project review, zoning, permitting, entitlement, and other approvals processes add to the final costs of new housing. These costs typically are passed on to the final occupant of the new building and make it more difficult to build housing affordable to lower income households. Expedited development review and permitting can be one way of reducing costs and to help promote the development of housing affordable to low- and moderate-income households. While fast-tracking review and permitting of workforce housing projects reduces developer costs at no cost to local jurisdictions, it also may mean fewer opportunities for community input on proposed projects. Therefore, it is important to balance the goals of an expedited process with other goals in the community. Alongside an expedited process, more education and coordinated outreach around the development review and approval process is often essential for helping developers and other stakeholders be more aware of the requirements and process.

g. **Fee Waivers –** Fees are charged as part of the development review and approval process. Some fees—such as subdivision review fees or board of zoning appeals fees—are associated with specific steps in the review and approval process. Impact fees are one-time charges assessed on new residential developments to help pay for new or expanded infrastructure to serve them. Revenue collected through impact fees can help fund the expansion of water and sewer lines if they do not exist, the building of new or improvement of existing roads or sidewalks in the area, and the creation of public amenities, such as parks or new schools. Like other development costs, fees add to the final cost of housing. To make it easier to develop workforce housing, local jurisdictions sometimes offer to waive the impact and/or other fees associated with developments which include below-market-rate units. Alternatively, a "proportional" fee reduction program may be developed in which impact fees are adjusted according to the size of the housing unit or the location of the new housing. Larger homes and those located in outlying areas where infrastructure does not currently exist usually command a higher fee than smaller, in-town units.

h. **Alternative Building Types and Methods** - The use of manufactured and modular homes are increasingly being used as viable means of affordable housing development, especially as it relates to the creation of equity for owners. Municipalities are reassessing their land use plans to allow for a greater amount of this type of housing development. There are a number of alternative construction methods being explored by housing developers. These are typically an alternative means of structural development, which is typically only 20% of the total building costs of a home and are proving to provide only a limited means of cost reduction. Modular home construction, in most cases, can substantially reduce the time it takes to build a home, but as yet are not impacting the total costs.

E. Affordable Housing Financing Sources and Methods

1. Federal and State Sources – Federal law with annual congressional oversight control the activities of the following programs. The funds then flow to the states who ensure program compliance and determine an allocation of funds based on regional needs. Local entities, either units of government, non-profits, and/or developers then apply for and use the funds based on their specific program rules and regulations. These local entities are then responsible for administration of the programs to ensure on-going compliance.

   a. **The Low Income Housing Tax Credit Program** – The Low-Income Housing Tax Credit (LIHTC) subsidizes the acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate-income tenants. Since the mid-1990s, the LIHTC program has supported the construction or rehabilitation of about 110,000 affordable rental units each year, and over 2 million units in all since its inception. The Texas Department of Housing and Community Affairs (TDHCA) oversees the program in Texas with the governor and an appointed board of trustees developing an annual administrative plan for the program called the Qualified Action plan or QAP.

   The federal government issues tax credits to state and territorial governments. State housing agencies then award the credits to private developers of affordable rental housing projects through a competitive process. Developers generally sell the tax credits to investors, who may be better able to use the tax credits and other tax benefits of the housing project (e.g., depreciation, interest paid, net operating losses). Investors also contribute equity, often through a syndication or a partnership. The investors or limited partners usually play a passive role, receiving the tax benefits associated with the project but not participating in day-to-day management and oversight. Most investors in LIHTC projects are corporations that have sufficient income tax liability to fully use nonrefundable tax credits. Financial institutions traditionally have been major investors, because they have substantial income tax liabilities, have a long planning horizon, and often receive Community Reinvestment Act credit from their regulators for such investments. Taxpaying investors cannot claim credits until the project is placed into service.

There are two types of tax credit programs available. The first is the 9% tax credit program. This program is highly competitive and typically funds less than 50% of the applications submitted each year. A point system is established annually within the QAP and awards are selected based on the highest scoring applications. Gillespie County is located in region 9 and applications are submitted in the rural set aside for the county. Tax credit allocations are typically sufficient to fund only one application per year for this rural region providing approximately $6 million of equity for a development. The amount of equity received can fund up to 90% of the total development cost of a project. The second type of tax credit program is the 4% bond program. It combines the issuance of a private activity bond with tax credit equity to fund a project. The combination of funds are required to fund a minimum of 50% of the total development costs. This program is considered noncompetitive, however due to the increased demand is recent years, annual funding allocations have not been sufficient to fund all applications. As a result, a lottery was introduced as a method of selecting/funding annual applications.

b. The HOME Programs – The HOME Program is a federal program that provides grants to states and units of general local government to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low and very low-income Americans. The Texas Department of Housing and Community Affairs administers the program for the state as a funding recipient and then distributes these funds to local units of government that have elected to participate in the program. Participating jurisdictions may use HOME funds for a variety of housing activities, according to local housing needs. Eligible uses of funds include tenant-based rental assistance; housing rehabilitation; assistance to home buyers as well as and new construction of housing. HOME funding may also be used for site acquisition, site improvements, demolition, relocation, and other necessary and reasonable activities related to the development of non-luxury housing. Funds may not be used for public housing development, public housing operating costs, or for Section 8 tenant-based assistance, nor may they be used to provide non-federal matching contributions for other federal programs, for operating subsidies for rental housing, or for activities under the Low-Income Housing Preservation Act.

All housing developed with HOME funds must serve low- and very low-income families. For rental housing, at least 90 percent of the families benefited must have incomes at or below 60 percent of the area median income; the remaining 10 percent of the families benefited must have incomes at or below 80 percent of area median income. Home ownership assistance must be to families with incomes at or below 80 percent of the area median income. Each year, HUD publishes the applicable HOME income limits by area, adjusted for family size.

HOME-assisted rental units must have rents that do not exceed the applicable HOME rent limits. Each year, HUD publishes the applicable HOME rent limits by area, adjusted for bedroom size. For projects with five or more HOME-assisted rental units, 20 percent of the units must be rented to very low-income families. HOME-assisted home buyer and rental housing must remain affordable for a long-term affordability period, determined by the amount of per-unit HOME assistance or the nature of the activity. HOME-assisted home buyer housing is also subject to resale or recapture requirements. Participating jurisdictions must provide a 25 percent match of their HOME funds. Participating jurisdictions must also set aside at least 15 percent of their allocations for housing to be owned, developed, or sponsored by Community Housing Development Organizations (CHDO).

c. Community Development Block Grant (TxCDBG) Program for Rural Texas - The primary objective of the Community Development Block Grant program is to develop viable communities by providing decent housing and suitable living environments and expanding economic opportunities principally for persons of low to moderate income. The US Department of Housing and Urban Development (HUD) provides federal Community Development Block Grant (CDBG) funds directly to states, which, in turn, provide the funds to small, rural cities with populations less than 50,000 and to counties that have a non-metropolitan population under 200,000 and are not eligible for direct CDBG funding from HUD. These small communities are called "non-entitlement" areas because they must apply for funding through any of the Texas CDBG programs.

Another important program under the block grant program is the Planning and Capacity Building Fund. This fund provides grant money for local planning activities. It has the same eligibility requirements as the CDBG fund. The planning process undertaken with these funds should result in an improved local capacity to identify long and short-term needs and to develop strategies to address identified community needs. Applications for grant funding are administered through the Texas Department of Agriculture with grants awarded between $75,000 minimum and not to exceed $350,000. Selection criteria includes awarding applicants subject to past awards frequency in order to promote limit overuse by specific counties.

d. Texas Housing Trust Fund – Housing trust funds are distinct funds established by a City, County or State government that generally receive ongoing dedicated sources of public funding to support the preservation and production of housing affordable to lower-income households. Revenue for local housing trust funds is generated from a variety of sources, including real estate transfer taxes or recordation fees, litigation settlements, inclusionary in-lieu fees and appropriations from a municipality's general revenue. Less common is for donations or dedicated contributions from local employers. There is wide variation in the amounts local jurisdictions commit to housing trust funds, and the amounts can vary from year to year. Trust fund dollars can be combined with other local funding to support affordable and workforce housing programs and services. While there may be limits on uses of local trust fund dollars imposed by the state, generally there is a lot of flexibility in how these resources may be used. In the most effective local housing trust funds, public dollars are used to leverage a range of additional funding sources, which expands the impact the fund can have. Trust fund dollars can be used to fund a wide variety of housing production and preservation activities, depending on the goals of the community. Funds can be allocated as grants or as loans for predevelopment activities, construction, rehabilitation, or resident services. Loan repayments can ideally account for a share of the trust funds revenue.

2. <u>Local Government Funding and Financing Tools</u> **–** Limited funds for affordable housing can be one of the biggest barriers cities face when seeking to increase housing availability and affordability in their community. While a majority of funding for preserving and creating affordable housing has historically come from federal sources, these funds are inadequate to support local housing needs. As a result, many Texas cities have been relying increasingly on local revenue sources to improve housing stability, although the range of local revenue sources available to cities here is very limited due to state legislative limits. Seven important local revenue sources and financing programs that are currently being used in Texas cities to fund affordable housing and other housing stability projects are outlined here, along with the opportunities and challenges of using these tools.

a. General Obligation Bonds – These bonds can generate large levels of funding over multiple years that are dedicated to affordable housing. The bond proceeds may fund only capital costs and not operational costs or support service. Subject to public vote, the use of these bonds are tied directly to local community support.

b. Tax Increment Zone – This type of local financing places a special ad valorem tax levy on a specific geographical area of new development within the community. In doing so it places the burden of financing affordable housing on future development rather than the current tax base. It also locks in ongoing contributions of city tax dollars towards affordable housing for many years.

c. Type B Sales Tax – Allowed under section 4A/4B of the state's tax code, the use of the type B tax for economic development purposes has been one of the most popular and effective tools used by Texas cities to promote economic development. The

Type B tax can be used to fund the provision of land, buildings, equipment, facilities, expenditures, targeted infrastructure and improvements that are for the creation or retention of primary jobs. The development of affordable housing is an approved use of this taxes revenue under the 4B tax code.

d. **General Revenue** - This type of revenue source is not very reliable as a long-term source of financing subject to annual political battles and competing priorities. It is also subject to the state's annual revenue caps on cities. With that being said, budgeting for affordable housing actives with general revenue funds can take the form of assisting in the administration of various programs or in the funding of community development departments creating to administer these programs.

e. **Fees in Lieu of Density Bonuses** - Fees in lieu are paid for by the developer of a project instead of taxpayers. An inconsistent and unpredictable stream of revenue for affordable housing that relies on a strong real estate market and demand for denser development.

f. **Public Land –** Public land policies make government-owned land available at reduced or no cost for affordable, workforce or mixed-income housing. Public land could include land owned by the local government, school district, parks authority or even a public utility agency, and can include both vacant and underutilized parcels. In high-cost jurisdictions, using public land has become an essential tool for subsidizing—without spending public money directly—the production of new, below-market rate housing. In addition, public ownership of land is often also important for achieving other community goals, including open space preservation, heritage/cultural site protection, and environmental stewardship.

g. **Property Tax Waivers and Exemptions** – Unlike most affordable housing funding methods that focus on reducing the cost of development, property tax exemptions make housing more affordable by reducing an owner's on-going operating expenses. Used in both affordable and mixed income rental developments, an owner is able to establish rents at below market rate for tenants. Property tax exemptions are a substantial incentive used by Local Public Facility Corporations to entice private sector affordable and near market rate multi-family developers to choose their community over other competing communities.

3. <u>Private Equity</u> – Due to the lack of sufficient funding resources available from governmental entities, many communities are turning to private equity to fiance their affordable housing projects.. Affordable housing allows a private investor to get involved with an asset that is in demand while also contributing to social change in the communities where these properties exist. Return on investment is always the magic number in any investment, but when you are able to make a strong social impact as well, it creates an opportunity that many investors, particularly Millennials, gravitate towards. Investors are seeing that affordable housing communities are quickly occupied and experience a very low turnover. Many occupants become long-term tenants, which is great for cash flow. The constant demand for affordable housing also eliminates some of the marketing and advertising costs typically required when a rental unit experiences turnover. There isn't a housing segment outside of the affordable market that experiences such high occupancy rates. Low supply combined with huge demand creates a real estate investment portfolio that can produce a high net operating income and a solid return on investment.

F. Administration of Affordable Housing Programs

All affordable housing entities, regardless of who is sponsoring them, require local organizations to develop and oversee their administration. It is also critical that these entities coordinate and partner with one another to leverage their specific functions and assets. The following will provide a list of government and non-profit based entities and their roles in managing the various programs currently available.

1. <u>Public Housing Authorities</u> – Contrary to what many believe, public housing authorities or PHAs are not federal entities but are units of local government created under Texas Local Government Code 392. PHAs are sponsored by a municipality, a county, or may also be sponsored by a regional group consisting of multiple counties under an inter-local agreement. Their

Board of Commissioners are appointed by the sponsoring unit of government, but act independently of that sponsor. Their primary mission is to assist those individuals making at or below 80% of the area's median income with their affordable housing needs. Most PHAs receive the bulk of their funding through their administration of the federal public housing and housing choice voucher (section 8) programs. Currently it is a violation of federal law to expand the existing stock of public housing. Additionally, funding for the section 8 program has been capped by Congress thus limiting any expansion of this federal program as well.

Due to the restrictions on these federal programs and recent changes to federal regulations and state law, PHAs have begun to expand their traditional roles as federal program administrators into developers of affordable housing, workforce housing, and in some instances moderate income (market rate) housing. PHAs are utilizing the Low Income Housing Tax Credit Program and leveraging their assets such as excess land and cash reserves with their tax exempt status to develop viable affordable housing developments for persons of low and moderate income.

Texas Housing Foundation – The Texas Housing Foundation is a local and regional affordable housing developer. It was created as a regional housing authority but does not administer any federal public housing programs or section 8 programs in the areas it serves. THF is governed by a 6-member Board of Directors appointed by the County Commissioners of each participating county. Currently Bastrop, Blanco, Burnet, Llano and Williamson Counties participate within the organizational structure of the Texas Housing Foundation. It was established to provide a tool to create, develop, acquire, administer, manage, and provide services to affordable housing projects through related business entities and for the residents and communities in which they are located. Through 2019, over 5,100 units of affordable workforce and senior housing across the region have been developed or acquired.

Additionally, The Texas Housing Foundation, through a wholly owned subsidiary, currently operates and fully underwrites Centers of Texas, a one-stop social service outreach serving Blanco, Burnet, Llano and Williamson Counties with participating non-profit and state agencies all housed under one roof. THF also collaborates with other municipalities, foundations, service providers and through joint ventures with private developers to develop, finance, and manage affordable housing projects.

2. Texas Public Facilities Corporation (PFC) - A PFC is a local unit of government created under Texas Local Government Code 303. They are sponsored by a governmental entity such as a city, county, school district, housing authority, or special district. PFCs have broad powers over public facilities, including financing, acquisition, construction, rehabilitation, renovation and repair. A PFC, once created, has the authority to issue bonds on behalf of its sponsoring public entity and once the bonds are funded, the money can be used in numerous ways. This type of legal entity has gained attention because local municipalities with critical affordable housing needs are being forced to seek alternative funding sources. Recently, Texas public housing authorities have also sponsored the creation of PFCs to oversee their new roles as affordable housing developers. PFCs are typically sponsored by a Public Housing Authority, but city and county governments are increasingly creating an affordable housing based PFC especially in those communities that do not have an existing public housing authority, or the existing public housing authority lacks the capacity or resources to take on this role.

   Public Facilities Corporations are governed by a board of directors either appointed by the sponsoring unit of government or can be selected based on specific criteria of local representation or development expertise. The board acts independently of it's sponsoring entity in all manners, but does not have taxing authority nor the power of eminent domain. PFCs are, like all other units of government, fully tax exempt and have the power to convey this tax exemption to all property it owns and all activities it undertakes. The ability to exempt it's property from ad valorem taxes is a powerful tool PFCs have in reducing operating costs of affordable housing developments thus allowing for these properties to operate with reduced rents.

3. Community Development Corporations – Community Development Corporations (CDCs) are 501(c)(3) non-profit organizations that are created to support and revitalize communities, especially those that are impoverished or struggling. CDCs often deal with the development of affordable housing. They can also be involved in a wide range of community services that meet local needs such as education, job training, healthcare, commercial development, and other social programs. While CDCs may work closely with a representative from the local government, they are not a government entity. As non-profits, CDCs are tax-exempt and may receive funding from both private and public sources.

   A Community Housing Development Organization (CHDO) is an enhanced designation afforded to CDCs whose primary purpose is to provide and develop decent, affordable housing for the community it serves. Certified CHDOs receive designation from a Participating Jurisdiction (PJ) indicating that certain HOME Program requirements have been met and therefore are eligible for CHDO funding. HOME provides formula grants to states and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or home ownership or provide direct rental assistance to low-income people. PJs are required to set-aside a minimum of 15 percent of their HOME allocations for housing development activities in which qualified CHDOs are the owners, developers and/or sponsors of affordable housing in the communities that they serve.

   Community Land Trusts – CLTs provide opportunities for current and future generations of moderate-income residents to own homes in a gentrifying neighborhood, while giving communities long-term control over the land. In a community land trust, a nonprofit organization (typically a CDC) maintains long-term ownership of land while using the land for a range of community benefits, such as selling and renting affordable homes on the land to low-income households and green space. Community land trusts typically incorporate residents into the governance of the CLT. A community land trust can be used with single-family housing as well as mixed-used and multifamily development, and with home ownership as well as rental housing. For home ownership units, the CLT's land is typically leased for 99 years to an income-eligible family for an affordable price ($25-$50 a month is common) through a very detailed ground lease, which sets forth the policies and rules governing the use and sale of the property. An income-eligible family purchases the home sitting on the land at an affordable price with mortgage financing, typically from a bank. When the family wishes to sell the home, the nonprofit CLT typically has a right of first refusal to purchase the home, and the resale price is restricted to ensure the home can be resold at an affordable price to another low-income buyer. CLT homeowners recoup what they paid for the home, while a fixed rate of appreciation caps the amount of appreciation they can receive if property values are rising. For rental CLT units, the nonprofit entity maintains ownership of the home and leases it to an income-eligible family for an affordable price.

   A CLT should be created only if there is clear community support for this model. Extensive community engagement and securing the trust of the community is critical to a CLT's success. Community control of land can be an unfamiliar concept to many residents and often requires extensive education and community trust building to counter suspicions of a land grab. If these steps are not taken, a community may ultimately oppose efforts to create the CLT. To be successful, CLTs also need access to land. Public land, such as surplus land and city land bank lots, can be an excellent resource in many cities to help CLTs get off the ground. CLTs may also need grant funding to help subsidize the construction of the houses as well as cover operational costs in the initial stages of the CLT's development.

4. Housing Finance Corporations – Texas HFCs are established under Texas Local Government Code 394. They are considered units of local government but are typically not sponsored by a municipality or county government as Public Facility Corporations sponsored by a unit of local governments have the same statutory authority. They are used primarily by non-profit entities as a source of financing various affordable housing developments HFCs are authorized to issue debt/bonds for the purpose of supporting affordable single-family home mortgages, and issue private activity bonds to provide financing for

multifamily housing projects for low and moderate-income owners. As a unit of local government, they enjoy the benefits of exemption from all sate and federal taxing authorities including federal income taxes, local sales, and local property taxes. There are a number of regional HFCs throughout Texas providing assistance specific to a region and concentrating on that area's unique housing needs.

Texas State Affordable Housing Corporation – TSAHC is a state created HFC and is used by many non-profits who do not have a local HFC operating in their community. Their programs target the housing needs of low-income families and other underserved populations who do not have acceptable housing options through conventional financial channels. It is their mission to address this critical and expanding need with initiatives such as first time home buyer grants and other down payment assistance programs. As a nonprofit TSAHC leverages private donations with its authority to sell tax-exempt affordable housing bonds to fund the wide spectrum of housing programs. They also utilize program-related investments (PRIs) from foundations and financial institutions to help non-profit developers create affordable housing. Finally, property donations are critical to the success of TSAHC's land bank services. By partnering with local nonprofit housing organizations, donated properties are redeveloped as affordable housing.

G. Conclusion

The study area is in need of thousands of units of affordable housing based on pent up demand, the income levels of it's residents, and future projected growth rates. The issues with the lack of affordable housing was identified years ago, yet no comprehensive plan was created to adequately deal with the issue. This problem is now critical and failure to take steps to address it will create real detrimental economic and social problems going forward. It is recommended that the following steps be taken immediately to begin this process:

1. Become educated and informed of the issues that impact affordable housing in the community.
2. Act with a sense of urgency to begin to address these issues.
3. Establish leadership and identify who or what entity(s) will take the lead and what roles they will play.
4. Commit local resources of time, effort, money, and assets towards the issue.
5. Take advantage of all methods, funding, and strategies.
6. Commit to new ways of thinking beyond traditional roles and attitudes.

In meeting with a number of stakeholders in the community over the past few weeks, I sense that the community realizes how critical this issue is. They are concerned and willing to commit their time and resources in what ever manner they can. The willingness of a community to act is the most critical resource needed and it is evident that the community has that commitment.