A PLACE TO CALL HOME: MEETING MISSOULA'S HOUSING NEEDS

2019

Office of Housing & Community Development

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TABLE OF CONTENTS

A MESSAGE FROM THE MAYOR

It's hard to imagine not having a place to call home. Without that safe, comforting, reliable place, it's tough to make life work.

Today in Missoula, too many of our friends and neighbors don't have homes. Period. And for many more, the place they call home costs so much that they're less than a paycheck away from losing that home. And for even more of us, the idea of owning a home, still a key component of the American dream, is simply unachievable.

It hasn't always been this way in Missoula, and it certainly wasn't that way for my parents or for me. Just a few decades ago, wages and housing prices generally aligned, and most full-time jobs meant you could qualify for a mortgage that left enough money at the end of the month for groceries, gas, health care, and maybe a small luxury or two.

Most Missoulians could afford a middle-class home, but today that's not the case, and leaders throughout the community believe we can do better. And the people we serve believe we should do better.

So we bring you the City of Missoula's first effort at a comprehensive housing policy designed to help everyone, from the person sleeping in her car to the young professional looking to plant roots to seniors ready for something smaller and safer.

Fixing housing in a community like ours isn't easy. Nor does it happen overnight. But the recommendations we're presenting here are designed to make a dent, to ensure that a slow emergency doesn't become a full-blown crisis. None of what we recommend was cooked up in isolation; instead we reached out to folks who work in the field of housing as well as folks who, for all sorts of reasons, often don't have a voice in our community. We borrowed ideas that work in other communities, because Missoula is not alone in this challenging arena. We also worked to ensure that each of our recommendations honors the spirit of this place and its particular values.

I'm grateful to the hundreds of Missoulians who've had a hand in bringing these ideas forward, and I have nothing but confidence that these policies will make a difference.

We start with the conviction that everyone in Missoula deserves a safe, clean, decent place to live. These recommendations put those words into action.

John Engen

Mayor

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

In the past several years, Missoula has seen remarkable growth in its economy and population. Missoula is a community with incredible people and an attractive quality of life. The very nature of our community and our collectively-held values are what make Missoula a great place to live. This growth and vitality, however, has brought challenges. Home prices have steadily increased in recent years, outpacing wage growth and causing many Missoulians to find it challenging to afford safe and healthy homes. From young families to retirees, more than half of Missoulians can't afford to participate in the increasingly expensive housing market. Surveying in 2017 revealed a widespread perception of affordability problems in the City, with 92.6% rating housing as either expensive or very expensive. But there was also strong support for public interventions. A massive majority (92%) either strongly agreed, agreed, or were neutral with respect to the idea of local governments providing development incentives and new funding for the creation of homes Missoulians can afford. Missoula's task now is to safeguard its values while managing this growth and these changes effectively.

The Housing Policy presented here is guided by some of Missoula's strongest values and shared principles:

- **Diversity:** A healthy housing market includes options and resources for all Missoulians.
- **Innovation:** A commitment to innovation will ensure that this Housing Policy is as dynamic as the community it aims to serve.
- **Collaboration:** Missoula's Housing Policy relies on the collaborative spirit of this community and strong public-private partnerships.
- **Achievability:** While the goals of this Housing Policy are ambitious, they are also achievable. They reflect realistic projections of city resources and the opportunities we have at our disposal.

The resulting policy attempts to both spur and harness the market to better provide housing at a wide range of entry points, and to ensure that all Missoulians can obtain safe and decent homes.

COMMUNITY ENGAGEMENT AND POLICY DEVELOPMENT

The City of Missoula set out to create a comprehensive, community-driven housing policy in 2017 with a gaps and needs analysis of Missoula's housing market and the needs of its citizens. This analysis was released in January of 2018 and called "Making Missoula Home: A Path to Attainable Housing." In 2018 the Mayor appointed a Housing Policy Steering Committee, made up of community leaders and city staff, to investigate the findings of that analysis and recommend next steps for policy creation. Incorporating local residents, in addition to city staff, has been a primary strategy of the policy creation from the start with the goal of developing a local, home-grown policy. The Steering Committee met throughout 2018 and released their final recommendations in August of that year. Technical Working Groups of community volunteers, city staff, and county staff then began the work of turning those recommendations into policy.

Between August of 2018 and April of 2019, those five Technical Working Groups met over 40 times to develop recommendations. A primary goal of this Housing Policy is to align City resources, planning efforts, and workflows around addressing this community challenge. We want to leverage existing resources and catalyze new tools to ensure that all Missoulians can afford safe, healthy homes.

Throughout this process, city staff in the Office of Housing & Community Development reached out to a wide range of Missoulians to gather their feedback to take back to the Technical Working Groups. From Neighborhood Leadership Teams to nonprofit service providers, from local developers to everyday citizens, Missoulians' voices were built into this Housing Policy. In total, staff met with over 400 individuals to get feedback while a student group canvassed five neighborhoods, reaching 136 Missoulians for one-on-one conversations about how housing impacts them and gathering survey responses from another 90. The team of interdisciplinary students presented their findings and full report to Missoula City Council on April 17, 2019. Missoula's Housing Policy has relied on and benefitted tremendously from the active participation of community members.

This community-driven process produced a clear Vision for Missoula's Housing Policy. This Vision guides the suite of strategies that follow:

Homes Build Strong Communities. By providing safe and healthy housing with a diversity of home types and affordability levels, we can support childhood educational success, enable Missoulians to improve our circumstances in the community, support individual and community health, and allow for a robust and thriving local economy.

MISSOULA'S HOUSING POLICY STRATEGIES

The recommendations contained in this Policy are highly interdependent and are grouped into four primary action areas:

- Track and analyze progress for continuous improvement;
- Align and leverage existing funding resources to support housing;
- Reduce barriers to new supply and promote access to affordable homes;
- Partner to create and preserve dedicated affordable homes.

Track and Analyze Progress for Continuous Improvement

> ***Purpose:*** *Create a regular process of assessing housing needs and gaps, including development of annual City housing program outcome goals, prioritization of municipal resources, and measurement of programs' impacts.*

This is the critical first step in creating a systemic approach to affordable housing programs. City programs must be driven by a very clearly defined understanding of housing needs, overall housing market conditions, and data-driven benchmarks for annual home production. Goal setting should also be coupled with the collection of key statistical data that measure the gap between home costs and wages on an annual basis. Likewise, tracking of larger demographic indicators can help anticipate macro-level trends and measure program impacts as well as inform resource allocation to shifting and emerging housing needs.

Align and Leverage Existing Funding Resources to Support Housing

Establish an Affordable Housing Trust Fund

> ***Purpose:*** *Create a perpetual, dedicated funding pool for housing that represents a growing community resource with a regular and strategic process for allocating City resources for affordable housing activities.*

A housing trust fund is the most effective tool for the ongoing support of affordable housing. A trust fund is typically established by an enabling ordinance with the day-to-day operations guided by a set of administrative procedures that define housing priorities, eligible projects, and the process for solicitation and allocation of funding. To the extent possible, the fund should be structured to operate as a revolving loan pool distributed through a competitive process that ensures that only the highest performing activities will be funded, that the City is maximizing the leverage of public resources, and that efficiency and innovation are incentivized. A trust fund is essential to the consistency and predictability that are critical to long-range planning, multi-year projects, and measured risk-taking.

Support New Community Development Financial Institution (CDFI) Financing Tools

> ***Purpose:*** *Use high-leverage public investments to improve the competitiveness of lending products to preserve affordable housing and to expand consumer lending products.*

Community Development Financial Institutions (CDFIs) are a special type of entity that can play a critical role in promoting access to safe, healthy homes. They do this through community lending activities with the goal of providing services not offered by traditional financial institutions, often at more flexible rates and terms. There is an opportunity to close identified gaps in existing funding sources and to offer new types of lending products that could amplify the current work being undertaken in Missoula to create homes Missoulians can afford.

Reduce Barriers to New Supply and Promote Access to Affordable Homes

Incentivize Affordable Housing Development

> ***Purpose:*** *Create a structure for providing meaningful incentives to develop below-market housing that would otherwise not be built.*

Incentives that reduce development costs while maintaining community quality enable nonprofit developers to not only produce more affordable homes, but further develop the tools and capacity of the housing development community to efficiently deliver affordable units. These incentives also provide meaningful financial benefits to motivate private developers to participate in meeting affordable housing needs. Incentives should be aligned to support new housing development activity that achieves pricing and rent levels that would otherwise not be achieved by current market rate housing development. These incentives should also align closely with larger community land use goals around infill that are represented in Our Missoula Development Guide and that distribute affordable housing equitably around the city. Accompanying the land use incentive recommendations are suggestions for general land use code revisions that will support more efficient and affordable development across the board.

Support Housing Consumers

> ***Purpose:*** *Create a stronger system of public support for consumer housing programs that build the pipeline of educated, empowered consumers. These programs are essential to the success of all other areas of housing program development.*

Housing services are a critical, but often-overlooked component of ensuring a balanced and comprehensive approach to expanding access to affordable housing. As additional affordable housing is created through new programs, it is important that there be a ready pool of income- and mortgage-qualified households. There are also manifold benefits to expanding direct public support to housing service providers, who offer a high-leverage return on those investments.

Promote Infill through Accessory Dwelling Unit (ADU) Development

> ***Purpose:*** *Update ADU regulations to lower the cost of construction, incentivize development of rent-controlled homes, and promote accessible rental infill in all areas of the city.*

In 2013 the City created standards for developing new Accessory Dwelling Units (ADUs), yet only 13 ADUs have been permitted and constructed since adoption. The primary obstacles to expanded construction are a lack of community awareness, limited financing resources, and code requirements that add significant cost to the development process. The wider availability of ADU development represents a housing development approach strongly aligned with the City’s Focus Inward growth policy by creating “invisible infill” that is distributed around the city and utilizes existing infrastructure.

Partner to Create and Preserve Affordable Homes

Preserve Existing Affordable Housing

> ***Purpose:*** *Create a systematic program and develop new financing tools to promote preservation of existing subsidized and naturally affordable housing.*

One of the most important ways to support a healthy supply of affordable housing is to ensure that existing affordable housing is preserved. Preservation can take many different forms depending on the type of housing being considered and can include everything from naturally affordable market-rate housing to previously subsidized housing with expiring use restrictions.

Support Affordable Rental Development

> ***Purpose:*** *Support development of a consistent pipeline of new affordable rental housing that adds a significant number of homes on an annual basis.*

The single most impactful resource for affordable rental housing development is the Low-Income Housing Tax Credit (LIHTC) Program, which can bring millions of dollars of private equity into the community with just one successful project. A successful municipal LIHTC support program will continue to pursue tax credit projects through a formalized program of support.

Expand Affordable Homeownership Options

> ***Purpose:*** *Leverage City land donation and profits created by housing development to catalyze a nonprofit-led, mixed-income development model that will create a significant number of new, deeply subsidized homeownership opportunities while also significantly adding to the moderately priced market rate housing stock.*

Missoula has an acute shortage of homes affordable to households earning below 120% of the median income. Nonprofit mixed-income housing development can provide a very important contribution to the availability of homes Missoulians can afford with an entrepreneurial approach that needs little ongoing investment once an initial critical mass of operations has been attained. This model typically functions by developing mixed-income housing projects with a majority of homes priced for households at or below 80% of the median income, with the remaining development priced as entry-level market rate homes. The profits from the market rate homes are used to cross-subsidize the homes sold at discount prices. The discounts offered to homebuyers with low- and moderate-incomes are then secured through second mortgages, which can be used to recapture subsidy funds into a revolving development loan fund.

MOVING FORWARD

This policy proposes a fundamental shift in how housing is prioritized within the City of Missoula, as well as a commitment to long-term funding of housing initiatives. Collectively, the recommendations contained in this policy compose a thorough strategy that will support the market while ensuring long-term affordability and preservation. This strategy recognizes that neighborhoods have unique needs and that as we grow as a community we must develop thoughtfully, in a way that is sustainable and equitable, while maintaining community quality. Throughout this growth, no neighborhood should be asked to experience radical change. Consequently, no neighborhood should be exempt from change either.

Altogether, this Housing Policy proposes the development or adoption of over two dozen policies and code changes. The policies and code changes are additive, presenting significant gain while limiting the risk of unintended consequences to the market. We cannot achieve these goals alone and ask for the participation of our developers, nonprofits, financial institutions, housing advocates, and community members as we strive to make Missoula a place everyone can call home.

Together these changes will make both renting and purchasing homes in Missoula more affordable, with cascading effects on important Missoula values. By providing safe and healthy housing with a diversity of home types and affordability levels, we can support childhood educational success, enable Missoulians to improve our circumstances in the community, support individual and community health, and allow for a robust and thriving local economy. The pages that follow outline the policy proposals to achieve this vision in detail.

TRACK AND ANALYZE PROGRESS FOR CONTINUOUS IMPROVEMENT

By regularly tracking key housing market indicators and critically analyzing data, this Policy will ensure adaptability and course-corrections when necessary.

REGULARLY ASSESS PROGRESS AND ADJUST GOALS

Recommendations at a Glance

- Create a system for annual housing program assessments (see draft in Appendix III).
- Undertake a five-year comprehensive assessment.
- Create new methods for collecting rental housing cost and vacancy data.
- Create an annual process for goal setting for City-supported housing programs and housing development.

Background and Summary

To create a systematic approach to affordable housing development, a community must have a clear understanding of housing needs and overall housing market conditions, as well as data-driven benchmarks for annual home production goals. These benchmarks should include rental and homebuyer pricing targets that are tied to key income levels. These benchmarks should be updated annually with a standardized methodology used across City programs. Initial goal setting should be coupled with the collection of key housing statistical data that measure the gap between housing costs and wages on an annual basis. Likewise, tracking of larger demographic indicators will help anticipate macro-level trends, measure program impacts, and inform allocation of resources based on emerging housing needs. This macro-level tracking should be done every five years.

Recommendations

Create a System for Annual Housing Program Assessment

The City should design an annual process to collect key housing statistical data that will assist the City in completing year-to-year tracking of programs and outcomes. This report should function as a tool for informing decisions about program investments at the staff and policymaker level. A draft 2018 Annual Assessment report is included as Appendix III.

Scope and Timing of Assessments

One of the critical design elements of an assessment framework will be the timing of its production and release. The timing of an annual assessment will rely on a variety of diverse data sources and must work within the constraints of data availability, the City's fiscal year, presumed annual contracts with service providers, and partner data collections and publication dates. Staff will need to weigh tradeoffs to determine the optimal annual delivery timing.

The City should consider conducting two levels of assessment, one which annually analyzes year-to-year tracking of programs and outcomes, and a more in-depth five-year assessment. The analysis and recommendations contained here focus on the annual assessment framework. For the five-year analysis, the Making Missoula Home report could provide a good template for a more in-depth assessment, although it could likely be scaled back in some areas to reduce duplication and shorten the overall report.

Key Data Sources

There is no single repository of key housing and community data. As a result, the annual assessment report will rely on data from a variety of sources that range from nationally available data produced by the Census Bureau to local data collected by providers and industry groups. The City's housing assessment process should integrate partner data into the assessment while also providing key City data to inform other housing reports, including the Annual Housing Report produced by the Missoula Organization of Realtors (MOR). Likewise, the City should avoid duplicating data that is available from other sources, and instead focus on the core data necessary to direct housing program planning on an annual basis. Key sources will include:

- American Community Survey. Annually updated community demographic and macro housing statistics.
- Decennial Census. Once a decade update that covers community demographic and macro housing statistics.

- Internal City Land Use Data. Housing construction market indicators such as building permits, subdivision and TED approvals, and eventual utilization of affordable housing incentives.
- Multiple Listing Service. Real estate sales data for homeownership and housing development.
- Missoula Organization of Realtors (MOR). An Annual Housing Report that includes sales data, building data, and other housing market indicators.
- National Association of Rental Property Managers (NARPM). Rental market data on cost and vacancy rates.

Housing Service Provider Data

As part of Housing Policy development, a survey of housing providers was conducted. The purpose of this survey was to understand the inventory of affordable housing, housing services program outputs, the past three years' housing development activity, and the estimated pipeline of housing program activities for the coming year. Going forward, this survey should be conducted in conjunction with an annual assessment. The survey format should be updated as new City housing programs become more finalized. A copy of the housing provider survey and results are included as Appendix VI and VII.

New and Innovative Affordability Measures

Other areas of high interest for new data collection include housing affordability measures that consider transportation costs and energy efficiency, as well as the geographic distribution of affordable housing across various neighborhoods within the city. Lastly, it is important to collect data on outcomes for specific groups of people, such as veterans, people with a disability, seniors, and families with children. Data collection on these outcomes could be tied to housing program funding and associated reporting requirements.

Undertake a Five-Year Comprehensive Assessment

The City should complete a more comprehensive assessment every five years that will track larger demographic indicators that will assist in anticipating macro-level trends and measure program impacts.

Create New Methods for Collecting Rental Data

The City should work with partners in the industry to create an upgraded annual rental homes survey that will better measure the state of the rental market in Missoula. An upgraded annual rental homes survey will be critical in measuring the state of the rental housing market. This could be done in collaboration with NARPM's current survey efforts or a new survey approach could be developed working with other private sector partners such as local commercial real estate brokers. At a minimum, this survey should gather multifamily rental and vacancy rates across the market for various bedroom configurations. An annual rental survey should also differentiate rental and vacancy rates between subsidized and market rate developments to see if there are diverging trends in the market. Currently available rental data, which does not differentiate affordable and market rate properties can skew combined rental rate increases down due to income-restricted properties having mandated below-market rents and incremental annual rent increases. Income- and rent-restricted properties can also distort aggregate vacancy rates due to the large number of subsidized properties that often have near 100% occupancy and long waiting lists.

Create an Annual Goal-Setting Process

To effectively assess the impact of City housing programs and policies, the City should set goals for outputs for housing programs. These will include tracking construction numbers such as new homes created annually, as well as programmatic numbers such as down payment assistance loans and foreclosure counseling. This work should be done collaboratively with the community and partner organizations. Goal setting at the inception of new policy can be difficult but setting some baselines can be helpful, with the understanding that it may take a few annual iterations to hone in on specific outcomes. Goal setting should be integrated into each policy area. As new programs are developed that rely on partnership, output goals should be developed collaboratively and integrated into new service contracts, particularly for consumer housing services and programs. The matrix included with the draft annual report can serve as a framework for establishing goals.

ALIGN AND LEVERAGE EXISTING FUNDING RESOURCES TO SUPPORT HOUSING

By aligning and leveraging existing financial resources at the disposal of the City, this Policy will ensure efficient and strategic use of taxpayer funds.

ESTABLISH AN AFFORDABLE HOUSING TRUST FUND

Recommendations at a Glance

- Adopt a trust fund ordinance or resolution that is inclusive of the range of contemplated housing programs and investments.
- Create an allocation and administration process.
- Align existing funding sources into the trust fund allocation process.
- Explore new funding sources including City general operating funds, mill-levy, special districts, special improvement districts, bond funding, and private equity.

Background and Summary

One of the most versatile and effective tools for the ongoing support of affordable housing is the creation of a dedicated local funding mechanism, often referred to generically as a housing trust fund. A trust fund is typically established by an enabling ordinance with the day-to-day operations guided by a set of administrative procedures that define housing priorities, eligible projects, and the process for solicitation and allocation of funding.

To the extent possible, the fund should be structured to operate as a revolving loan pool with a competitive application process. This process should ensure that only the highest performing activities will be funded, that the City is maximizing the leverage of public resources, and that efficiency and innovation are incentivized. A trust fund is essential to provide the consistency and predictability that enable long-range planning, multi-year projects, and measured risk-taking. With proper structuring, the fund can become a portfolio asset for the community that builds over time and allows the leveraging of other outside resources and decreases the need for annual allocations of funding.

It is almost impossible to create a meaningful response to community affordable housing needs without dedicating local resources to the effort. As changes at the national level trend towards shrinking affordable housing funding from federal entitlement programs, local investments in housing become increasingly essential to fill that gap. Further, local funding can be prioritized to meet very specific local needs and adapted to respond to changing needs over time.

The sizing and annual allocation of funding should be based on desired outcomes for municipal investments in housing. To the extent possible, investments from the trust fund should be tied to measurable outcomes that are defined through performance or funding agreements.

On the macro level, a successful trust fund will be dependent on support from community members and political leaders, so detailed outcome tracking will be essential. Investments in safe, healthy homes have wide community benefits that extend far beyond just the families living in those homes. A system should be developed at the outset for tracking not only the housing outcomes, but also broader community indicators such as total spending leveraged by trust fund investments, job creation, and tax revenue generated.

A local housing trust fund will be a critical tool as the City of Missoula embarks on the development of a comprehensive housing policy. The trust fund mechanism plays a role in nearly all the program development activities currently being explored. Optimally, a trust fund would also secure and reinvest community contributions to housing, as well as capture the value created by land use incentives and other City-driven programs that produce below-market housing.

Recommendations

Adopt Trust Fund Ordinance or Resolution

The City should adopt a broad trust fund ordinance that establishes the program and outlines the top level of eligible housing activities and their administration. The ordinance should be accompanied by administrative procedures that detail a specific process for solicitation and allocation of funding. These administrative procedures should include a process for annually updating housing priorities with the participation of a community advisory group. This advisory group should have diverse representation amongst homeowners, renters, and income levels. A draft containing template ordinance language is included in this document as Appendix IV.

Create an Allocation and Administration Process

At the core of successful trust fund programs are systematic administration and accountable allocation methodologies that respond to housing needs on the ground. The administrative responsibility of a trust fund should be vested with the City's Office of Housing & Community Development. This includes creating the initial design of the allocation process, implementation on an annual basis, and the long-term monitoring of investments.

The City should develop a clear annual process for setting priorities around housing that tie to the City's annual assessment of housing programs. This often takes the form of a complete list of possible housing activities and income ranges eligible for support based on housing type (rental, ownership etc.). The administrative procedures of a trust fund ordinance should then prescribe a process for annually updating the priorities of the fund that provide a more specific level of detail, as well as the mechanics of how funds are distributed.

Many communities choose to utilize a request for proposals model of allocation that takes into consideration the timing of other state and federal housing funding programs. Some activities funded through the trust fund should also be considered on a rolling basis making sure that City funds are supporting consistent development throughout the year.

Optimally, the annual trust fund cycle would include:

- A community process to align the future year's funding methodology to the needs identified through the annual assessment process.
- An open RFP or application process for partners to respond to those stated needs at set intervals throughout the year.
- Technical administrative evaluation of the proposals and recommendations for funding.

Align Existing Funding Sources into Trust Fund Allocation Process

The sizing of annual contributions to a housing trust fund should be based on the desired outcomes from related housing programs. The process of identifying funding sources will be grounded in an overarching goal for annual recurring funding, typically in the $1-3 million a year range for a community this size. Having a predictable amount of annual funding is especially important for planning over multi-year periods and implementing larger multi-year projects.

For many communities, the immediate allocation of several million dollars in new funding for housing is simply not a practical option. In this situation, the best approach is often scaled, focusing first on realigning existing City funding sources into the trust fund model. This should, at a minimum, include current entitlement funds; revenue generated from the disposition of City-owned land; revolved funding from past affordable housing investments; and alignment of water, wastewater, sidewalk, and other infrastructure funding. Allocation of Tax Increment Financing (TIF) support for housing projects should be coordinated with the Missoula Redevelopment Agency.

For many of these funding sources, aligning with a housing trust fund simply means fitting them within the trust funds strategic framework and incorporating them in the allocation methodology. This alignment of existing sources can provide a strong basis from which to prove the impact of housing investments, both in terms of housing outcomes and broader economic indicators such as job creation and total leveraged investment.

Explore New Funding Sources

In a best-case scenario, trust funds should have a permanent or long-term funding source that provides for multi-year planning around municipal housing investments and is tied to the cost of supporting housing outcome goals. Because alignment of existing sources is not sufficient to meet these goals, new funding for the trust fund will be critical. Because the overall structure will operate as a revolving loan fund, the asset base will grow with time. As a result, the ongoing annual funding needs should diminish over time as the total asset base of the pool grows and past investments are repaid and become available to be recycled into new housing activities.

Generally, the most robust trust funds are capitalized from a variety of sources whose diversity helps ensure consistent funding through variable market conditions. The following sources represent opportunities for the new funding that will be critical to support a comprehensive response to the city's affordable housing needs. The City does not have large amounts of surplus discretionary revenue to reallocate and is operating near its mill levy cap. Because of this, nearly all of these sources rely on either increased taxation or assessments that function like taxes. The structure of any new funding source will need to be carefully balanced and will need to establish protections for people whose housing stability may be threatened by increased property taxes.

General Operating Funds

The optimal funding sources for affordable housing will be those that spread the responsibility across the entire city equally. Sources such as a set-aside from general operating funds are highly flexible. However, there is little or no surplus general revenue available so the amount of funding is likely insufficient to support anywhere near the total capitalization needs. One way to overcome the shortage of general operating revenue may be to explore bonding against those funds to provide for initial capitalization. In both the case of annual set-asides and bonding against general funds, these set-asides would not constitute a stable source of long-term funds. Still, this should be considered as part of a package of funding sources, particularly to fund housing services and administrative work associated with expanded City housing programs.

Mill Levy

Similar to the operational funding mill levy that accompanied the recent parks bond, this approach could provide a steady stream of annual trust fund monies. A mill levy can be approved by City Council if it is within the City's mill levy cap, or can exceed the cap with voter authorization. A mill levy could be structured as a perpetual set-aside, which is the optimal approach, or to have a sunset date in the future. Mill levy funding is desirable because it can be structured as a long-term set-aside for housing, and because it can be deployed in a wide range of applications. It could also be used in conjunction with a bond, much like the open space bond approach, which was widely supported by voters.

Special Districts/Special Improvement Districts

Another option to explore is a Special District set up to fund housing needs, not unlike existing city-wide Special Districts for parks and roads. These would trigger additional assessments on property taxes which could be bonded against to provide flexible funding allocated through the trust fund. These districts can be established by the City Council, subject to a protest period provision where the objection of 10% of properties within a proposed district can invalidate the initiative.

Similarly, Special Improvement Districts could be established to target affordable housing needs in specific areas within the city. There are currently numerous districts established that pertain to a range of needs focused primarily on streets and sewer infrastructure. In areas where there is little affordable housing or new housing development, this type of district would focus on land acquisition for housing development. In areas that are currently producing affordable housing or are likely to produce it in the future, a special district could be established to help support the infrastructure buildout needed.

Bond Funding

Another city-wide approach to capitalizing the trust fund would be to pursue a general obligation bond. While the impact of bonding on tax rates is at times a contentious issue in Missoula, the city also has a track record of voting with its values when it comes to critical issues. Bond funding is the most desirable approach because it could provide all the capital needed to support the full range of housing funding requirements and would be assessed on a city-wide basis, spreading the financial burden equally. Further, because bonding would be subject to a city-wide vote, approval would necessarily signify broad community support for and investment in the housing trust fund.

Private Equity

Nationwide, many housing advocates and investors are turning to private equity as a market based solution to capitalize an affordable housing trust fund. Rather than relying on tax revenue or federal subsidies alone, communities are attracting private equity – cash, in other words- and guaranteeing a return or a benefit to the investor. While these yields are often lower than those associated with traditional investment, they have become desirable to socially conscious investors by creating a measurable social impact.

Equity Equivalent financing, or EQ2, is a capital product for Community Development Financial Institutions (CDFIs) and their investors that increases lending and investing around targeted issues. EQ2 has become an increasingly popular tool with significant benefits for banks, CDFIs and communities. It is recommended that the City fully explore private equity sources, including EQ2, as a way to diversity the capitalization of an affordable housing trust fund.

SUPPORT NEW COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI) FINANCING TOOLS

Recommendations at a Glance

- Convene lending stakeholders to work on expanding CDFI products.
- Consider City loan guarantees to support below-market lending products.
- Promote existing CDFI products.

Background and Summary

Community Development Financial Institutions (CDFIs) are a special type of entity that can play a critical role in promoting access to housing through community lending activities. CDFIs are regulated by the Department of the Treasury and have access to funding sources to undertake regulated lending activities with the goal of providing services not offered by traditional financial institutions, often at more flexible rates and terms. The stated mission of the CDFI program is "to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States." A CDFI can originate home mortgages as well as other types of housing loan products including construction financing, long-term project debts, and even down payment assistance programs for consumers.

There are three CDFIs operating in Missoula, the Missoula Federal Credit Union, MoFi, and NeighborWorks Montana. Together these organizations offer a range of financial products including, but not limited to, down payment assistance, development financing, mobile home financing, and land financing used to support mobile home conversion to Resident Owned Communities (ROC). Gaps in existing funding sources have been identified and opportunities have emerged for new types of lending products that could amplify the current work being undertaken to provide homes Missoulians can afford. CDFI lending could play a very important role in the preservation of naturally affordable housing including mobile home parks. CDFI lending can also support expanded access to consumer products such as down payment assistance and mortgages for challenging home types including condominiums and mobile homes.

In general, overall capitalization does not appear to be a significant obstacle for these organizations. However, in order to fully take advantage of the CDFIs' access to capital the community needs to find ways to reduce credit and rate risk and enable CDFIs to deploy more flexible and unique lending products. In turn, this can help affordable housing providers better compete with private capital to preserve existing affordable housing from speculative redevelopment.

Recommendations

Convene Lending Stakeholders to Expand Products

To be able to offer more flexible products, and particularly for longer fixed-rate amortization terms, CDFIs need to be protected against both credit and rate risk. Rate risk is the chance that prevailing interest rates rise during the term of a longer fixed rate loan, locking the lender into a lower rate of return for the life of the loan. Credit risk is the chance that a given borrower will default on their loan. When it comes to credit and rate risk, member-funded CDFIs such as credit unions may not be able to match some of the more flexible lending terms that can be leveraged through conventional banks with Community Reinvestment Act requirements. The City can play a key role in working to bring CDFIs and banks together to work towards creating new lending products with targets around below-market rates and longer amortization terms.

Acquisition Financing

One of the new lending products with the greatest potential for impacting affordable housing would be an acquisition and long-term financing tool that could help affordable housing providers better compete against investors and private capital. For most mission-driven housing organizations, the goal with acquisition of existing housing is to preserve naturally affordable rental housing. But often these properties, particularly those with high redevelopment potential, are priced at levels that would force increases in rents to make a project cash-flow under conventional lending terms.

One way to make nonprofit acquisitions more financially competitive and attractive to sellers would be to offer more favorable lending terms and/or underwriting criteria than the general market would have access to. These should include below-market interest rates and/or longer amortization terms than conventional financing.

Bridge Financing

Another potential acquisition tool would be a shorter-term lending product that could act as a bridge financing mechanism for an interim period, while more comprehensive funding and other subsidy sources are being secured. This would typically need to deploy faster and more efficiently than conventional financing to give community benefit purchasers a time advantage over private market investors and developers.

Mobile Home Park Land Loans

Missoula Federal Credit Union currently offers a land loan for mobile home parks that is specifically designed to support preservation of mobile home parks through the ROC model. Under the current lending terms, acquisition loans for mobile home parks can only really work when there is an amenable seller and the pricing is not based on redevelopment potential. Below-market loan products could help ROCs make more competitive offers on properties.

Condominium Mortgages

Condominium financing is challenging because many secondary market entities, like FHA, Fannie Mae, and Freddie Mac prescribe a set of terms for approval that require a high level of owner occupancy to allow mortgages to be sold on the secondary market. Owner-occupancy requirements can be a particular challenge for newly constructed condominium projects that must meet at least a 50% owner occupancy threshold before receiving FHA mortgage approval. This makes mortgage finance terms for condominiums costlier with higher down payment requirements that can often offset affordability gains inherent to the more cost-efficient housing type. For this reason, most market activity in this sector is limited to higher-end luxury projects.

Condominiums as a home type are closely aligned with Missoula’s growth policy objectives and the growing need for more affordable ownership opportunities. Expanding access to competitive mortgage financing through CDFI lending could help fill a critical gap in the consumer lending market and help developers more confidently pursue development of these types of homes.

Employer-Funded Down Payment Assistance

A key opportunity for consumer products is to expand down payment assistance programs through partnerships between large employers and CDFI institutions. Employer-funded down payment assistance programs expand the range of employee benefits offered, stabilize employees and increase retention rates by fixing their home costs, while also providing potential tax benefits for the employer. Because these programs are funded with private capital, they can also be structured with more flexible qualifications than many public sources for down payment assistance. Over time, these revolving loan funds can become a sustainable source for employee benefits into the future as loans are paid off and recycled to new buyers.

There are a variety of ways that a down payment programs can be structured, but optimally the goal would be to reach the 20% down payment threshold to eliminate mortgage insurance and extend buying power, while also making it much easier for buyers to qualify for a mortgage. The City should focus on convening stakeholders to work toward new collaborative funding programs between large employers and CDFI institutions.

Consider City Loan Guarantees

The other primary way that the City could support this type of new lending product would be to provide loan guarantees to offset risk for the banks. Loan guarantees would ensure that the lender would be protected in the case of a default where the asset value was not sufficient to cover outstanding debts. This approach requires far less financial obligation than providing the complete capital base for lending. This would most easily be satisfied with a dedicated funding source such as a bond, and would otherwise need to be secured with general operating funds.

Promote Existing CDFI Products

Most CDFIs reported being well capitalized around their current lending products. But in some cases, these products are underutilized in the Missoula market. The City should work with CDFIs to identify existing products that are currently underutilized by Missoula residents and integrate them into any affordable housing public information campaign and online resources.

REDUCE BARRIERS TO NEW SUPPLY AND PROMOTE ACCESS TO AFFORDABLE HOMES

By reducing existing barriers and constraints on development of affordable housing as well as by supporting housing consumers, this Policy will strengthen the Missoula housing market as a whole as more housing stock becomes available and Missoulians are educated and empowered in their home choices.

INCENTIVIZE AFFORDABLE HOUSING DEVELOPMENT

Recommendations at a Glance

- Create an affordable housing incentive program that defines program eligibility and beneficiaries.
- Amend city code to include formal land use incentives for producing below-market rental and ownership homes.
- Pursue changes to general land use code that reduce development costs while maintaining community quality.

Background and Summary

One of the key recommendations from the Making Missoula Home report was for local governments to create a formal program that provides incentives to private sector developers to build affordable housing. The primary goal of this type of incentive program is to ensure a portion of new development remains affordable for Missoulians with low- to moderate-incomes. An effective incentive program should enhance the resources that existing nonprofit developers can access to develop affordable housing, while also motivating private developers to participate in meeting affordable housing needs at prescribed levels. The incentives program can do this by enabling developers, in return, to reduce costs or increase revenue. Accompanying the formal land use incentive recommendations are suggestions for general land use code revisions that will support more efficient and affordable development across the community. These components together are intended to ensure the incentives align closely with larger community land use goals around infill represented through the Our Missoula Development Guide and the equitable distribution of affordable homes across the city.

As part of this policy development process a Study Group was convened to analyze mandatory inclusionary zoning as a possible tool. Mandatory inclusionary zoning – which functions like the proposed incentive program, but requires all new developments to participate – presents a significant risk of exchanging modest affordable housing production for an increase in housing prices. Due to this, Housing & Community Development and Development Services staff, as well as our consulting team, did not see mandatory inclusionary zoning as beneficial at this stage of City housing policy development. However, it will be important for the City, stakeholders, and housing advocates to continue periodically evaluating inclusionary zoning's potential role, particularly in light of the performance of the voluntary incentive program.

Recommendations

Create an Affordable Housing Incentives Program

Incentive-based affordable housing development programs typically have two main types of beneficiaries, developers/builders who receive discounts and incentives, and the people that reside in the below-market housing created through the program. The benefits provided to developers should be tied to mandatory outcomes for home price or rent levels and income-qualified Missoulians. To the extent possible, the value of these incentives should be secured as a lien instrument that can be recaptured by the City and recycled into a trust fund.

Income Targeting

Based on a combination of analysis of current market activity and input received from the technical working groups, incentives should be targeted for homebuyers below 120% of the Area Median Income (AMI) and renter households below 80% AMI. The table below depicts AMI by household size. It is further recommended that two tiers of incentives be applied based on income targeting to provide the most incentives for the most deeply subsidized homes.

Incomes by HUD 2018 AMI Levels for Missoula by Household Size

% of median	Number of persons in household: 1	2	3	4	5	6
50%	$24,650	$28,200	$31,700	$35,200	$38,050	$40,850
60%	$32,045	$36,660	$41,210	$45,760	$49,465	$53,105
80%	$36,900	$45,050	$50,700	$56,300	$60,850	$65,350
100%	$49,300	$56,400	$63,400	$70,400	$76,100	$81,700
120%	$59,160	$67,680	$76,080	$84,480	$91,320	$98,040

Home Price Targets

It is critical that community investments in homes be tied to long-term commitments to affordability. Pricing targets should correlate to household incomes and must be supported by sufficient incentives to make the pricing achievable. For homeownership programs, pricing models are often based on FHA underwriting standards with assumptions for mortgage interest rate, property taxes, homeowner's insurance, and HOA fees. The two income tiers of assisted homeownership being contemplated are Tier 1, below 80% AMI, and Tier 2, from 80% to 120% AMI.

The following represents a matrix of maximum home prices at various income levels that is formula based. Optimally a single methodology for setting affordable pricing would be utilized across all City programs and would be updated annually, or in circumstances where market factors like prevailing interest rates have changed significantly enough to warrant a recalculation mid-year. This model assumes FHA underwriting standards but eliminates mortgage insurance in the formula where loan to value ratio is less than 80%.

Home Prices Affordable at AMI Levels (2018)

Number of persons in household

% of median	1	2	3	4	5	6
60%	$95,865	$108,000	$122,237	$137,669	$156,517	$172,686
80%	$131,091	$161,946	$183,160	$205,329	$202,783	$221,950
100%	$190,763	$191,417	$215,805	$241,315	$267,287	$290,224
120%	$215,121	$243,138	$274,288	$307,292	$343,917	$376,256

Rent Targets

Rental homes are typically considered affordable if the renter spends 30% or less of their gross household income on home costs. Pricing for rental programs are usually aligned with larger federal subsidies such as the Low Income Housing Tax Credit program. Because of this, it is recommended that the deepest level of incentives be reserved for projects serving households below 60% of AMI, with a second tier of incentives available for projects affordable to households at 60-80% AMI or units that make a commitment to provide preference for households with a rental assistance voucher. The table below illustrates affordable rent levels at different incomes. With rental programs, rents are typically set at the highest threshold for each median income level.

Affordable Monthly Rent at 30% of Income (2018)

% of median	Number of persons in household: 1	2	3	4	5	6
10%	$123	$141	$159	$176	$190	$204
30%	$370	$423	$476	$528	$571	$613
50%	$616	$705	$793	$880	$951	$1,021
60%	$874	$1,000	$1,124	$1,248	$1,349	$1,448
80%	$923	$1,126	$1,268	$1,408	$1,521	$1,634
100%	$1,233	$1,410	$1,585	$1,760	$1,903	$2,043
120%	$1,479	$1,692	$1,902	$2,112	$2,283	$2,451

Program Administration

For multi-unit projects, affordable housing commitments should be detailed in a written development agreement as part of the development review process. This document would memorialize the details of incentives being provided, commitments about the number of units and level of affordability being created and the period of affordability. Periods of affordability will be based on the level of investment and may span five to twenty-five years. For single units, a simple boilerplate agreement could spell out the benefits and obligations of participation in the program.

In most communities, it is not recommended that core program functions such as client management and income qualification be handled by City staff. Rather, these programs should be administered by local organizations specializing in affordable housing consumer services. These activities include administrative support funding and are awarded competitively based on an annual proposal process.

Proposed Incentive Program Structure

Certain types of land use incentives can only be applied during the development review process for subdivision or TED approval, while other incentives can be applied to single units at the permit level (such as ADU development). The following proposed structure creates two tiers of incentivization for both homeownership and rental that allow the program to tie the most lucrative incentives to the deepest levels of affordability, while also providing opportunities for supporting both single dwelling unit as well as multi dwelling unit project configurations.

Single Dwelling Unit Development Incentive Tiers

Tier 1	For sale housing below 80% AMI, rental housing below 60% AMI
Tier 2	For sale housing below 120% AMI, rental housing below 80% AMI or Voucher preference unit

Multiple Dwelling Unit Development Incentive Tiers

Tier 1 Rental	75% of units below 60% AMI or qualifying LIHTC projects
Tier 2 Rental	25% of units below 80% AMI
Tier 1 Ownership	10% of units below 80% AMI, 25% @ 120% AMI in projects <10 units
Tier 2 Ownership	25% of units below 120% AMI

The following table describes initial proposed pricing targets. Because incentives will be applied to multiple income tiers with a range of incomes within each tier, a policy must be developed for setting pricing targets within the tiers. The reason pricing is set to the highest income level in Tier 1 is that setting it much lower creates prices that are likely unfeasible for all but nonprofit developers. With Tier 2, pricing at the top of the income range would likely overlap with existing market rate homes and create a situation where housing that would already likely be created is being subsidized through incentives. Rental rates are based on gross rents before deductions for utilities which typically will lower effective rents by $100-150 a month.

Home Price and Rental Affordability Targets (2018)

	Maximum Home Price by Household Size/Rent by Number of Bedrooms				
	Income Range	1	2	3	4
Tier 1 Homeownership	<80% AMI	$131,091	$161,946	$183,160	$205,329
Tier 2 Homeownership	80-120% AMI	$190,763	$191,417	$215,805	$241,315
Tier 1 Rental	<60% AMI	$740	$846	$951	$1,056
Tier 2 Rental	<80% AMI	$923	$1,126	$1,268	$1,408
Tier 2 Voucher Payment Standard	110% FMR	$805	$1,020	$1,474	$1,791

Source: 2018 HUD Income Limits, 2019 Payment Standard=110% Fair Market Rents

Amend City Code to include Land Use Incentive

The following table depicts the range of incentives identified through the evaluation process. These options include several incentives recommended in the original Making Missoula Home report as well as others identified by stakeholders during the community-driven housing policy development.

Housing Incentives

SDU = Single Dwelling Unit (e.g. single detached home or ADU)
MDU = Multiple Dwelling Unit (2+ units—e.g. townhome, condominium, or apartments)

Recommended Incentives	Discussion	Tier 1 Rental	Tier 2 Rental	Tier 1 Owner	Tier 2 Owner
Subsidization of Development Costs	The City should consider subsidization of development costs for projects that build affordable housing. Eligible development costs should be subsidized for qualified single and multiple dwelling units that meet affordability targets. Eligible costs should be defined through the Affordable Housing Trust Fund with scaled investment based on the number of affordable units.	SDU MDU	SDU MDU	SDU MDU	SDU MDU
Financing of Infrastructure for Affordable Homes	The City should provide low-cost amortizing or deferred loans for infrastructure to housing development providing below-market affordable rental housing and homeownership opportunities. For rental developments, these could be secured with a lien and be recycled at the end of an affordable compliance period or refinance. For homeownership projects, the initial investment could be structured to act like a down payment source for the eventual buyer. The level of subsidization as well as favorability of the terms could be used to incentivize development in the Our Missoula Development Guide high opportunity zones.	SDU MDU		SDU MDU	
Subsidization of Open Space Cash-In-Lieu of Fee	In TED developments, the subsidization of open space in-lieu of fees should be considered for projects that meet affordability targets and are located in areas that are sufficiently served by existing parkland resources.			MDU	MDU

Housing Incentives *(continued)*

SDU = Single Dwelling Unit (ex: single detached home or ADU)
MDU = Multiple Dwelling Unit (2+ units, ex: townhome, condominium, or apartments)

Recommended Incentives	Discussion	Tier 1 Rental	Tier 2 Rental	Tier 1 Owner	Tier 2 Owner
Adjustment of Current Density Bonuses	The current density bonuses offered in the City of Missoula are limited to a small number of zoning categories that already have relatively high density and are only for the provision of single dwelling or townhouse development on long-term deed restricted properties. The City should update this section of the code, removing long-term deed restrictions and making it apply to more zoning categories and for additional building types.	MDU	MDU	MDU	MDU
Expedited Development Review	Expedited review of development applications should be considered for projects that create below-market housing. These projects would not supersede projects already in review, but place them next in line. This could prove a valuable incentive, especially when development review entities are experiencing a high volume of applications for review. This incentive would have to be subject to the limitations imposed by state law regarding statutory review times.	MDU	MDU	MDU	
Reduction of Parking Requirements	The City's current incentives for subsidized housing allow for reduced parking requirements. It is recommended that the City align the definition of subsidized housing in the parking chapter with Tier 1 and Tier 2 development.	MDU	MDU	SDU MDU	MDU
Reduction of Minimum Parcel Size	The City currently has a statutory minimum lot square footage requirement of 3,000 square feet. The City should consider reducing or eliminating the minimum lot size in homeownership projects.			MDU	MDU

Pursue Changes to General Land Use Code to Reduce Development Cost and Constraints for Affordable Housing

In addition to the specific incentives being contemplated for affordable housing development, the housing policy process also identified potential future amendments to city code. These represent opportunities to reduce development costs and address barriers to building to currently zoned density, while reducing overall constraints to home development.

Minimum Parcel Size

The current land use code limits minimum lot size at 3,000 square feet. Allowing smaller lots is contemplated as an incentive for TED and subdivision development under the proposed program, which could serve as a valuable pilot for eventual changes to the underlying code across the board. This is critical for promoting infill development while also ensuring overall housing affordability.

Parking Requirements

The City of Missoula has adopted more progressive parking requirements for subsidized housing, which has a beneficial impact on affordable multifamily developments and community land trust homes. It is recommended the City proceed with a planned comprehensive parking chapter review. Additionally, it is recommended that the City consider a transit parking reduction for residential development, similar to the commercial reduction that currently exists.

Infrastructure Requirements

Variable infrastructure requirements from project to project are one of the costliest uncertainties faced by new developments of any scale. Robust infrastructure requirements such as ideal complete streets can create a conflict with the goal of promoting small infill development and increases unit costs and prices. The City should work to create the most predictable infrastructure standards possible and consider appropriate reductions in requirements for all infill projects serving 5 units or less.

Property Setbacks

Missoula has relatively large setback requirements, particularly in single-family zones; as with infrastructure requirements, larger setbacks mean greater unit costs and prices. While flexibility in setbacks has been contemplated as an incentive, there is a desire to maintain as much consistency between incentive-based development and existing homes as possible. For this reason, it is recommended that the City evaluate setback requirements for all development within the context of affordability, the ability to achieve maximum zoning density, and how it impacts the potential to convert existing non-conforming structures into ADUs. Developers engaged to provide feedback on the incentives program design suggested various ranges of reduced minimum setbacks but there was agreement that reducing setbacks to, at most, 15-foot front yard, 5-foot side yard and 6-foot rear yard would allow for greatly enhanced affordability. Front yard setbacks have the largest visual impact on established street-fronts, and an exception for front setbacks based on the established build-to lines of adjacent properties already exists in the code. Given this, the focus should be mostly on side and rear setback minimums.

Townhome Exemption Development (TED) Standards

A reoccurring issue that surfaced during housing policy development is the tension created as successively larger TED projects are proposed. TEDs are a relatively new development option that are intended to provide a new financing option for condominium-type development, but have engendered confusion within the development community as to the products they support and the instances when they would be permitted. Missoula has embraced TEDs through permissive language in zoning, but must continue to put this development option into the context of the purpose of zoning which is to “protect and promote the public health, safety, and general welfare.”

TEDs present unique opportunities and unique challenges. Regulatory controls on TEDs are important to address public health and safety issues and to minimize impacts on surrounding neighbors. However, increased requirements result in higher development costs that negatively impact affordability, particularly for smaller infill projects.

Ultimately, the City may want to consider a two-tiered approach that increases the size of by-right approval for TEDs to 10 units. Given the problematic nature of very large TEDs, which challenge the local government’s ability to protect general health and safety as provided for in the subdivision regulations, a higher tier of regulatory oversight should be considered for projects over a certain threshold. This would ensure the benefits of flexibility and cost savings for smaller infill TED projects are not lost in the process of regulating to mitigate the impacts of very large TED developments.

Equity in Land Use

To provide a diversity of housing options at prices Missoulians can afford, and to avoid socio-economic segregation, every neighborhood should participate in addressing Missoula’s housing issues. A key consideration that the City should integrate into the design of the housing policy, as well as long-term land use planning and growth policy, is how current zoning impacts affordable housing and its geographic distribution. Housing affordability is deeply tied to the ability to achieve more compact development patterns than many single-family zones allow. Likewise, traditional development patterns requiring undeveloped real estate result in development in the urban fringe, which is in direct conflict with the City's Growth Policy. In the previous half century Missoula's zoning, combined with increasing real estate prices, a growing population, and shifting job markets has limited affordable housing development in single-family neighborhoods. This evolution of economics, cultural and social circumstances are now at odds with the static zoning system currently in place. While some of these impacts on affordability and equity have been ameliorated in recent years with changes to zoning, the vast majority of growth and, by proxy, affordability is still supported by a small number of neighborhoods that were originally zoned for higher density. Further, City zoning regulations have not always kept up with the City's adopted growth plan.

The City should consider hiring a consultant to conduct a zoning audit that helps quantify how affordability is distributed geographically with the goal of increasing the amount and geographic distribution of land appropriately zoned to support affordable housing development. This audit should also consider alignment between Title 20 and Title 12 requirements.

Additionally, the City should utilize the Neighborhood Council framework to engage in conversations about inclusive, diverse, and equitable housing to find opportunities to improve housing affordability across the community.

Urban Subdivision Process

The City should continue to work with other urban municipalities and partner organizations to advocate for updating Montana's Subdivision Act to provide more regulatory flexibility for an urban subdivision process.

Park Master Planning

Park master planning processes have the potential to positively impact affordable housing by providing for acquisition of larger public parklands in park deficit areas and in neighborhoods likely to see large amounts of affordable housing development. This, in turn, could create the opportunity to provide waivers or reduction of parkland requirements as an incentive for increased affordability. The City should actively pursue parkland acquisition in park deficit areas that present high opportunities for residential development, as identified in the Our Missoula Development Guide.

SUPPORT HOUSING CONSUMERS

Recommendations at a Glance

- Expand City support for housing services.
- Increase community awareness and access to services.

Background and Summary

Housing services are a critical but often less visible component of a balanced and comprehensive approach to expanding access to affordable homes. To be successful in addressing community-wide housing issues there must be a significant public investment in partners who deliver programs on the ground. Relationships with those partners is key to successful housing programs.

Missoula has a robust group of nonprofit housing services providers. The main areas of housing services currently provided in Missoula include individual housing counseling that covers available housing assistance, budgeting, savings, mortgage qualification, credit repair and general homebuyer process education. Groups also provide in-person financial education and homebuyer training. There are also an array of homebuyer assistance programs including down payment and closing cost assistance, mortgage origination, and housing repair loans.

Homebuyer services have a powerful impact that translates into wider community benefit. A 2016 study by the U.S. Department of Housing and Urban Development (HUD) Office of Policy Development and Research found that borrowers who had completed counseling and training were 70% less likely to default on their mortgage during the first two years. A 2005 study from HUD found that $1,000 in down payment assistance increased a family's chance of homeownership 19%, and that $10,000 increased underserved groups' chances of homeownership 41%.

To help better understand the scale of this work locally, we surveyed nine housing services providers about their programs, staffing, and budgets. Collectively these organizations invest over $20 million annually in housing services, with over 110 full time equivalent staff dedicated to this work.

The City currently provides direct support for housing services through federal entitlement funds like the Community Development Block Grant (CDBG). "Entitlement funds" are use-restricted grants provided to municipalities annually by HUD. Allocations depend on congressional appropriations and are based loosely on community population. The use of entitlement funds to support services (as opposed to capital investments) is statutorily capped at 15% of the total annual allocation, or for Missoula around $80,000 a year. Homebuyer education and counseling is also supported through a Federal Housing Counseling Grant which provides around $50,000 per year to organizations with the most robust housing education and counseling operations. But in reality, these programs typically cost hundreds of thousands of dollars a year to operate. The burden of raising gap funds can be a significant obstacle for organizations, and many groups rely on revenue from housing development activity to internally subsidize consumer program operations. Aside from the capacity challenges posed by having to raise gap funding year-on-year, internal subsidization can deplete development reserve resources and hinder an organization's ability to develop new homes. Increasing financial support for these programs can have positive impacts on the services themselves as well as on housing development activity.

Recommendations

Expand City Support of Housing Services

One of the biggest areas for expanded support of consumer programs will arise through the need for administration of consumer services related to expanding City housing programs. As new City-supported development scales up, this will present a commensurate need for income certifications, underwriting of homebuyer assistance, and the provision of requisite homebuyer training requirements. To address specific needs among cost-burdened renters, the City should support services that aim to increase access to safe and stable housing. These may include a rent guarantee fund, landlord liaison services, legal support, and centralized credit and background checks.

Administrative Funding

The City should dedicate at least $200,000 a year for housing services financial support. This would represent a 20:1 leverage on City investment. This baseline of administrative funding will help organizations be able to focus more internal capacity on housing development work.

Fee for Service Contracts

As the City implements this housing policy, many programs will require marketing of homes, income certification, and homebuyer education for program participants. The City should structure administrative contracts for service to support these activities. The best structure is to include baseline administrative funding plus fee-for-service activities to scale funding as City programs gain momentum. The baseline of funding also recognizes that there are positive outcomes that don't get measured in completed transactions and maintains support through bust cycles in housing development.

Innovation Set-Aside

The City should earmark a portion of housing services funding for new and innovative approaches that integrate priority areas of expanded housing counseling. These new and innovative approaches may include rental counseling, post-purchase counseling, and the exploration of new building types and patterns, as well as the integration of energy efficiency and transportation as critical components of long-term affordability. This funding could also be used to pursue new online approaches to homebuyer education.

Expanded Funding Sources

The City should explore and develop new funding sources to support expanded areas of housing services such as transportation and energy efficiency education grants.

Land Trust Administration Support

The pool of permanently affordable homes is an incredibly valuable affordable housing asset, but one that requires considerable ongoing administrative support. The City should create financial support mechanisms for administration of the community's permanent affordable Community Land Trust housing stock, ensuring that the work of transferring these properties is supported long-term.

Increase Community Awareness and Access to Services

Outreach and Education

As the mortgage and home-buying markets are disrupted by new technology, the growth of online mortgages and home listing resources means that more and more consumers, particularly young consumers, are entering into the real estate world online, and not interacting with real estate professionals and housing service providers. These consumers, potentially discouraged by online qualification rejection or a lack of online home listings in their price range, should be utilizing housing assistance resources that can help them overcome obstacles and access resources like down payment assistance programs. This presents an opportunity for providers to shift how they reach potential clients. The City should integrate housing services awareness into City housing outreach and education campaigns and make sure these campaigns use a variety of modes of communication including online, print, and radio.

One additional challenge is that consumers are increasingly turning to online options for homebuyer education. While often more flexible and convenient for consumers, online homebuyer education is widely understood in the field to be less impactful than in-person training classes, where you can ask questions, network with other prospective homebuyers, and meet real estate professionals. Yet many of these in-person classes are already at capacity. It is critical that consumers be able to access these services in a timely fashion, especially when homebuyer education is a pre-requisite for buying a home subsidized with federal dollars or for accessing programs such as down payment assistance.

In addition to increasing financial support to expand the number of homebuyer education and financial skill-building classes offered, the City should also consider supporting explorations into hybrid online/in-person approaches. These could include videos that participants watch at their convenience that are paired with in-person components designed to support the “soft” benefits of in-person group trainings like networking.

There are several gaps in current Missoula housing counseling services that need to be addressed. These included rental housing counseling, energy efficiency education, and post-purchase and foreclosure counseling. Rental housing counseling can be critical for helping people locate affordable rentals and understand what potential rental assistance programs they qualify for. This could be a critically important service if Missoula adopts an incentive-based affordable rental program.

Consumer Service Portal

Currently there is no single access point that captures the range of housing services available in the community. The City should support the creation of a single online resource and periodic print material for consumer housing services resources that provides a one-stop way for people to understand and access the range of housing services being provided in the community.

Partnership Development

The City could play a key role in networking housing providers with real estate industry groups such as lenders and realtors, as well as connecting housing providers with key contacts such as university departments that could help support consumer programs with in-kind services and collaborative projects as educational components. There are opportunities to strengthen and support collaborative work around data capture and impact analysis, marketing, and graphic design. And as the City considers investments in public education around housing, bringing more attention to existing housing services and programs should be central to that work.
The City should convene an annual meeting of key housing service providers with real estate industry representatives and other potential community partners to raise awareness about services and facilitate new collaborations and partnerships.

PROMOTE INFILL THROUGH ACCESSORY DWELLING UNIT (ADU) CONSTRUCTION

Recommendations at a Glance

- Update ADU regulations and land use code.
- Implement a collaborative community informational campaign to increase public awareness about ADU options and process.
- Expand access to construction and long-term financing, particularly for lower-income homeowners.
- Incentivize construction of below-market and voucher-preference ADU units.
- Set goals for increased ADU production and below-market ADU creation.

Background and Summary

Accessory Dwelling Units (ADUs) (sometimes known as granny flats, Fonzie flats, or alley houses) are one of the most ecologically sound ways to develop new homes. They help reduce carbon dioxide and other pollutants that cause climate change by increasing urban density and requiring fewer natural resources to build and operate than a standard-sized home. And because ADUs are generally smaller than typical single-family homes, they use fewer natural resources to build and less energy to heat and cool.

This approach is also more resource efficient for local governments. By utilizing existing city infrastructure, it combines an ecological and financial benefit when compared to costly infrastructure expansion at the urban fringe. The deployment of ADUs in existing neighborhoods also reduces the need for automotive transportation—a source of about 25% of greenhouse gases—and supports alternative modes of transportation such as walking, biking, and public transit. The wider adoption of ADU development represents a housing approach strongly aligned with the City's Focus Inward growth policy.

In 2013, Missoula's City Council passed Ordinance 3493 establishing standards for developing new ADUs in the City of Missoula, with the intent to encourage production. Yet only 13 ADUs have been permitted and constructed since adoption, and only nine are actively permitted with the city. In the spring of 2018 the code was updated to remove ADUs as a conditionally approved use, the first step towards making ADU development more accessible. The primary remaining obstacles to adoption are a lack of community awareness, limited financing resources, and code obstacles that add significant cost and uncertainty to the development process.

Recommendations

Updated ADU Regulations and Land Use Code

Update the ADU regulations and other aspects of land use code to make new ADU construction possible on more lots throughout the city and to remove financial barriers to construction.

Parking

There is little evidence to suggest ADUs cause widespread parking problems. Portland, OR provides the best-tracked data on ADU parking impacts. Because ADUs are rare (Portland, the nation's ADU "leader," has them on less than 1% of eligible lots), and because ADU households have fewer cars than other households, ADUs should have virtually no effect on parking conditions on a citywide basis. Portland has no parking requirement for ADUs, part of a suite of incentives that have led to significantly expanded ADU construction.

The nature and scale of parking issues in Missoula differ from those of a larger city like Portland, but the example is still illustrative. Current City code requires an on-site parking space for any newly constructed ADU, along with bringing any non-conforming parking up to current standards, requiring a total of three on-site parking spaces for most homes. This represents a significant amount of lot area and a construction cost increase that makes many potential lots infeasible for development or makes the rent needed to cover debt service less affordable.

Current parking requirements dictate that new parking be placed on the lowest volume street. This means that many units must build parking on alleyways, which, in turn, requires paving portions of the alley. Eliminating the requirement to build a new off-street parking space, and therefore eliminating the need for alley paving, would significantly reduce construction costs for ADUs and make overall build cost less variable on different sites. Additionally, for many areas of the city creating an additional off-street parking space is a zero-sum game. Mandating a new on-site parking space often requires a curb cut that eliminates an existing on-street parking spot that has already been paid for and is available for public use.

The City should eliminate the third off-street parking space requirement for new construction of ADUs when adequate on street parking is available.

Setbacks

Allowing more flexibility in the placement of ADUs through reduced setback requirements could make more existing properties eligible for ADU development. The classic location for many ADUs is over the garage (Fonzie flats), because there is no additional noise nuisance over an existing living space and because the cost and complexity of construction is significantly reduced. Currently, many garages on older sites are at property edges and would require setting the second floor back in order to be added on. The City should adopt flexibility in property setbacks to allow ADUs to be added to existing nonconforming accessory structures and smaller lots as long as structures meet 10-foot minimum distance requirements to structures on adjacent properties.

Unit Size and Height

Current ADU regulations limit the maximum size of ADUs to 600 square feet and City code requires a minimum size of 350 square feet. The current minimum code size of 350 square feet limits the potential use of “tiny homes” (often defined as homes below 400 square feet) as a building typology for ADUs. The City should revise minimum housing unit size requirements in the land use code to allow for smaller structures. The City should also revisit maximum unit size limits. The City should eliminate the requirement that ADUs not exceed the height of the primary residence and allow for heights permitted in the underlying zoning district.

Owner Occupancy

Currently, at the time of ADU construction, the homeowner must record both an affidavit and deed restriction that run with the land and is assumed by subsequent owners that requires an owner occupant in one of the two units in perpetuity. The owner-occupancy requirement is enforced by an annual permitting process which has to be renewed every calendar year. There are currently nine actively permitted ADUs in Missoula.

The current owner occupancy requirement presents significant barriers to the construction of ADUs. The recordation of deed restrictions has the tendency to complicate the process of obtaining financing or limit the types of mortgage financing available for the home when resold to a new buyer. Additionally, this requirement dissuades some potential ADU developers who may not plan to occupy the home long-term. There is also a secondary effect when a property owner no longer resides on site, and a potential rental unit must be legally removed from the market for little or no community benefit. Because of obstacles to financing and the potential to needlessly remove rental units from the market, the City should no longer require owner occupancy for ADU construction and ongoing permitting.

Implement a Community Awareness Campaign

Many property owners are not aware of the community benefit or, for many, the option to build an ADU even under the current land use regulations. The City should promote ADU development through a low-cost community awareness campaign that engages natural partners like local contractors. This should focus on the steps the City is taking to make ADU construction more accessible and highlight the positive benefits to the community.

Expand Access to ADU Financing

In all cities where ADU construction occurs, one unfortunate dynamic has been consistent: ADUs are built by property owners who are either able to pay construction costs in cash or by those who have the substantial equity required for Home Equity Line of Credit (HELOC) financing. It is important that any enhanced ADU approach extends the benefit of wealth and income creation to lower-income homeowners as well. A potential solution would be to create or expand access to local financing that allows property owners to utilize future rental income to qualify for construction financing. A local financing option also creates the opportunity to leverage below-market financing terms in exchange for commitments for long-term rental affordability.

The City should work with existing lending institutions and CDFIs to expand financing products that use future rental income to help qualify for construction. Additionally, a public and private sector working group should explore below-market rate financing tools for the creation of restricted-rent or voucher-preference rental units.

Incentivize Construction of Below-Market and Voucher-Preference ADU Units

There are several opportunities to use incentives and financing-based models to create below-market rate or price-controlled rentals at the point of ADU construction. Financing-based models could use publicly supported lending with below-market interest rates or more flexible qualifying criteria as leverage to create long-term affordability commitments. This could take several forms from full capitalization of a revolving loan fund, to providing a one-time guarantee for private lenders or CDFIs. Similarly, strong incentive-based programs could leverage fee waivers, waiver of parking requirements, relaxed setbacks and design standards, or even direct subsidies as carrots to entice affordability commitments.

In all of these cases, the affordability commitments by ADU builders would have to be structured so as to be commensurate with the benefits being offered to a potential ADU developer. Commitments could be made to:

- Keep the unit at or below Fair Market Rents (FMRs) targeting Missoulians with moderate-incomes and voucher recipients;

- Accept and specifically market to renters with Housing Choice Vouchers;
- Keep the unit at or below more deeply discounted rents such as high HOME rents;
- Accept long-term controls on rental rate increases such as caps on annual rental increases; or
- Set affordability requirements that tie to level of incentives.

The City should incorporate incentivizes for ADU construction into the larger framework of land use incentives. These should focus on creating below-market, long-term rentals that are distributed throughout the city. New financing programs or other forms of subsidization should be explored to support the construction of below-market rate and/or voucher-preference rental units.

Set Goals for ADU Production

Since the approval of ADU regulations (Ordinance 3493) that were passed in May of 2013, ADU development has been very minimal, with significant fall off at the various steps of approval, construction permitting, certificate of occupancy, and annual permitting.

As the City works to promote ADU development, ADU goals and outcomes should track both the increase in the rate of production that results from streamlining code as well as programmatic incentives tied to the development of below market units. The City should set modest goals for increased ADU construction and programmatic incentives tied to affordability.

Missoula ADU Production Since 2013

Approved ADU's	31
Received Building Permits	27
Completed Construction	13
Completed Annual Permit Renewal	9

PARTNER TO CREATE AND PRESERVE AFFORDABLE HOMES

By preserving and creating dedicated affordable homes, this Policy will ensure that there are safe and healthy homes available for the most vulnerable Missoulians.

PRESERVE EXISTING AFFORDABLE HOUSING

Recommendations at a Glance

- Track affordable rental properties facing expiring affordable housing use.
- Develop new preservation financing tools in partnership with CDFIs.
- Adopt a policy to address displacement of mobile home communities for City-funded projects.
- Establish a mobile home infrastructure assistance program.
- Create an acquisition program for Community Land Trusts.

Background and Summary

One of the most important ways to support a healthy supply of affordable homes is to ensure that existing affordable homes are preserved. Preservation can take many different forms depending on the type of housing being considered, and can include everything from naturally affordable market-rate housing through previously-subsidized housing with expiring use restrictions.

There are several challenges to preserving affordability, which vary depending on the type of housing being preserved. Market pressure often elevates the cost of acquisition beyond the capacity of nonprofit housing organizations. In other cases, financing terms would require rent increases that preclude affordability. Further, beyond the cost of acquisition, many of these properties require costly rehabilitation work.

Similar challenges exist for mobile homes, a significant source of naturally affordable housing in the community. Much success has been had with the Resident Owned Community (ROC) model of preservation, but financing terms and redevelopment pressure still limit what types of mobile home communities can be preserved. Lastly, aside from down payment assistance programs and limited energy efficiency retrofit programs, the community lacks a program or financing mechanism that can be used to preserve and maintain existing moderately-priced single-family housing as affordable stock.

There are three major areas of preservation the City should consider: multifamily rental, mobile homes, and scattered site single-family housing.

Multifamily Preservation

Existing affordable multifamily rental is one of the community's most important affordable housing assets. This area of housing falls into two major groups: previously-subsidized rental housing with expiring use restrictions and "naturally" occurring affordable homes, typically older housing stock with fewer amenities whose affordability is not a function of subsidization.

Mobile Home Preservation

Mobile homes represent a large segment of existing affordable housing in Missoula. They are also one of the most threatened types of affordable housing due to high pressure for redevelopment. Owners of mobile homes, who tend to be people with low incomes, also face a higher risk of displacement: when mobile home parks are bought for redevelopment, Missoulians with lower incomes are faced with the costly challenge of moving a mobile home, often with very few options for relocation. Functionally, many people in this situation are forced to give up their home.

Affordable Homeownership Preservation

Currently, down payment assistance is the only mechanism available to assist families with low- and moderate-incomes to purchase existing for-sale housing. Land trusts are a very effective model for acquiring and converting existing housing to permanently affordable homeownership units.

Market factors will drive the disposition of existing affordable homes much more than City policy will. Nevertheless, convening key stakeholders and the creation of new lending products could ensure that as many affordable homes are preserved as possible.

Recommendations

Track Affordable Rental Properties Facing Expiration

As part of this housing plan development, City staff compiled a database of existing deed-restricted Low Income Housing Tax Credit (LIHTC) affordable rental projects. This database indicated that there were 25 projects with just over 1,000 units of housing in the city. Using the most conservative assumption of a 30-year affordability period, three projects were identified that may expire in the coming seven years.

This database should be maintained and updated regularly. As projects near their expiring-use date, the City should reach out to project owners to find out the owner's intentions around disposition and convene community partners around acquisitions strategies. Similarly, the City should assess and track the current mobile home parks to identify which are facing the most redevelopment pressure and which are best suited for preservation.

Develop New Preservation Financing Tools

The City should support development of new financing tools that could assist in affordable housing preservation. The first step in this process is convening CDFIs and other local financial institutions to explore proposed financing tools.

Multifamily Acquisition Loan Guarantee and Repair Loan

There is clearly a need for acquisition financing tools for both expiring use and naturally affordable multifamily housing. The primary way that the City could support their creation is by providing loan guarantees or loan loss reserve funding to backstop such products. This could be combined with small amounts of additional funding to support light rehabilitation or repairs to help correct any deferred maintenance and make the acquisition more sustainable. This type of small multi-unit rental repair loan should also be contemplated as a stand-alone product to support existing affordable housing not subject to acquisition.

Multifamily Down Payment Assistance

Another option to support acquisitions would be a secondary financing mechanism that could function as a down payment for a multifamily projects. These loans would help decrease the out-of-pocket capital needs for nonprofit acquisitions and could be structured with more favorable repayment terms, or fully deferred repayment, to support long-term affordability.

ROC Land Loan Guarantee

The primary mechanism for preserving mobile home affordability is through the Resident Owned Community (ROC) model. In this model the land is purchased by the park residents, who then operate the park much like a land trust, owning the land collectively. There are existing land loan financing products available to help support this model with current terms at around 6% interest with 30-year amortization. Missoula Federal Credit Union also provides chattel loans for mobile home units, although their deployment is limited to prevent concentration of too many loans in a single park because of the risk of multiple defaults if a park is bought for redevelopment.

The main challenge for the ROC model is that it is only feasible when there is both an amenable seller and the mobile home park is moderately priced, typically because it isn’t facing high pressure for redevelopment. This means that the ROC model is currently more successful in rural areas of Missoula County and has limited applicability within the city limits. One way to make ROC models more competitive would be to create a land loan product with flexible financing terms. This would help the ROC model compete more aggressively with private capital investment. Lower interest rates or longer amortization periods would be needed to make the ROC model cash-flow for more expensive acquisitions.

Similar to a municipally-supported acquisition loan, City loan guarantees should be explored to help develop and attract ROC land loan products that offer lower rates or longer amortization periods than currently available.

Small Home Repair Loan Program

There are gaps in funding available for small home repairs, particularly for mobile homes. A City-funded small repair program that focused on repairs up to $7,500 for mobile homes and $25,000 for housing on permanent foundations would offer more flexible income qualification than federal programs, helping to fill a critical gap in services. There is also the potential to explore a collaborative program with the County that could utilize existing program sources such as Community Assistance Funds.

Adopt a Policy to Address Displacement of Mobile Home Communities

Addressing the displacement of mobile home park residents when park preservation is not successful is important. Use of federal funds in a project that displaces residents triggers mandatory Uniform Relocation Act requirements, which ensure that residents have adequate support in securing new housing. This expectation should extend to any City-driven or City-funded redevelopment. In cases where mobile home residents are impacted by private redevelopment, to the extent possible, the City should encourage relocation as a part of the overall development plan. The City should consider adopting a formal policy for park closure that ensures that certain thresholds of notification and relocation planning are provided when mobile home parks are redeveloped.

Establish a Mobile Home Infrastructure Assistance Program

One potential leverage point for mobile home preservation could be through infrastructure assistance for existing parks. The City should work to develop a loan program that could help with emergency repairs or replacement of infrastructure within mobile home parks. The terms of these loans could be structured to be more beneficial to park owners than other products, and in exchange provide the City or its agent right-of-first-refusal when the park is sold. The right-of-first-refusal should be structured to give the City, or its designee such as an affordable housing partner, enough time to assess the park for acquisition and pursue a ROC model if appropriate. If the ROC model is not a good fit, the acquisition for City-supported affordable housing redevelopment could also be considered.

Create a Community Land Trust Acquisition Program

The acquisition of homes to place in a Community Land Trust can be capital intensive. But under this model, the homebuyer is only responsible for the cost of the structure, significantly reducing the overall price of homeownership. This could provide a viable mechanism to preserve a handful of existing housing units a year and add them to the city's stock of permanently affordable housing. Once created, a formal land trust program for existing housing could also serve as a mechanism for community members to donate homes to the land trust. Another option would be to support the creation of a social investment loan pool that would leverage private philanthropic contributions to help support land trust acquisitions.

The City should consider ways to support the creation of a new community land trust (CLT) acquisition program. This would be best structured as a program of current CLT partners working in the community. Helping to develop marketing and outreach materials for potential donors and providing sufficient seed funding for a first phase of acquisitions could help catalyze the model. Even absent seed funding, simply having the structures created could also help engage private philanthropic support that may broaden the impact of this approach to preserving existing single-family affordability.

SUPPORT AFFORDABLE RENTAL DEVELOPMENT

Recommendations at a Glance

- Create a formal support program for projects seeking 9% tax credits.
- Align significant city resources behind 4% projects.
- Align City support cycles with the Montana Housing funding schedule.
- Support state-level advocacy for a more systematic 9% allocation methodology and the creation of state affordable housing tax credits.

Background and Summary

One of the most impactful resources for affordable rental home development is the Low-Income Housing Tax Credit (LIHTC) Program, which can bring millions of dollars of subsidies into the community with just one successful project. There are two primary forms of LIHTC subsidy that are allocated on the state level, the 9% LIHTC and the 4% LIHTC.

The 9% LIHTC is the deepest subsidy available for the creation of below-market rental homes. This highly competitive funding source is allocated on an annual basis by Montana Housing in a multi-step process that is costly and labor intensive for applicants. Montana Housing is not bound to award credits to the highest scoring project, and some developers perceive the process to yield arbitrary results; historically, Missoula has not been awarded tax credits proportional to its size and need.

By comparison, 4% LIHTC projects are not competitively awarded, nor are they bound the annual credit application schedule. However, they are also a much less lucrative subsidy. To be financially feasible, 4% projects must be larger (150-200 units) and serve slightly higher income levels than 9% projects. Even at this larger scale, significant gaps in financing exist, on the order of $3 million per project.

A successful municipal LIHTC support program will continue to pursue 9% projects through a formalized program of support. But due to the non-systematic way these credits are allocated by Montana Housing, there is little that City support can do to make allocation more consistent.

Even in a best-case scenario, Missoula could perhaps anticipate one 50-unit 9% project every three years. By comparison, a well-structured 4% support program could consistently yield between 450 and 600 units in that same time period. For this reason, the City should pursue an aggressive strategy that supports a new 4% development annually.

Recommendations

A systematic and layered approach should be at the core of future City support for LIHTC funded projects. The following recommendations seek to outline a process for supporting both 4% and 9% LIHTC projects in tandem, with a focus on aligning existing and new affordable housing program resources while working towards a predictable pipeline of future LIHTC projects.

Create a Formal Support Program for Projects Seeking 9% Tax Credits

The 9% Low Income Housing Tax Credit is unmatched in its ability to provide deep rental subsidies that can target renter households most in need. The City should formalize a program of support for 9% LIHTC that maximizes project scoring.

Align Significant City Resources behind 4% Projects

The scale and predictability of 4% LIHTC projects means they offer the best opportunity for consistent and scaled impact on rental housing needs. To effectively leverage this resource, the City should deploy a variety of tools to fill the approximate $3 million gap in financial feasibility.

The following represent the list of potential resources that should be considered for a coordinated LIHTC support program. Some of these resources are already being deployed to support LIHTC projects, and many of these resources will be addressed in other areas of affordable housing program development currently being undertaken.

Land Donation

Land donation is likely the single biggest source of local subsidization that the City can provide. As the City considers a formal land donation program for affordable housing development, high opportunity sites for multifamily development should be identified and a process for donation should be defined. This approach should be used for both 4% and 9% projects although land donation is most critical for 4% financial feasibility and should be prioritized for this use. The City should also consider acquisition of high opportunity multifamily sites, particularly in Qualified Census Tracts, and consider scattered site approaches. A formal land donation program should be in alignment with the goals outlined in the Growth Policy and the Our Missoula Development Guide.

Infrastructure Provision

Creating a public financing mechanism to address infrastructure in affordable housing development will be a key recommendation impacting several areas of City housing policy. A set-aside of existing capital improvement funding could be deployed for this purpose and used to fund aspects of publicly-owned infrastructure requirements without raising new funds.

Entitlement Funds

A large allocation of entitlement funds will be critical to the development of 4% projects. In general, the City should consider prioritizing LIHTCs in the allocation of entitlement funds, which will streamline reporting and other administrative burdens associated with the funding source.

Expedited Development Review

As part of the City's effort to create incentives for affordable housing development, LIHTC projects should be given expedited development review. While not easily quantifiable in terms of reducing development cost, this does have a positive impact on project holding costs and overhead. It will also help developers meet strict two-year expenditure deadlines under the program.

Land Use Incentives

As part of the creation of land use incentives for affordable housing development, by-right incentives for LIHTC development will be an important component.

Project-Based Vouchers

Project-based rental vouchers can help fill significant financial gaps by cross subsidizing specific units. The City should support the pursuit of special purpose vouchers to allocate to future 4% projects, and consider a methodology for working with the Missoula Housing Authority to project-base a small number of existing Housing Choice Vouchers annually.

Align City Support with Montana Housing Schedule

The allocation of 9% tax credits follows a strict calendar for application. The City should ensure that the timing of City contributions and other support mechanisms are optimized to work with the Montana Housing application process, and should monitor and respond to annual Montana Housing process changes.

Support State Level Advocacy

Advocacy on the state level will be critically important to increase the predictability of the 9% tax credit allocation and to bring new resources to the table to help make 4% projects more financially feasible. Advocacy should focus on supporting the existing work of local groups that operate on a statewide basis, namely the efforts of the statewide Montana Housing Coalition.

There is currently no representative from Missoula County on the board of Montana Housing. Because of the unique subjectivity afforded to the board of Montana Housing in the 9% tax credit allocation, securing local representation on that entity is critical. Likewise, both public sector and private sector stakeholders should pursue conversations with Montana Housing's board and staff to help shape policy in a way that leads to more predictable 9% tax credit allocation.

Another proposed state-level initiative is a State Housing Tax Credit. A similar program in Colorado serves as a critical tool that almost completely fills the financial gap on 4% projects. The City should formally endorse a State Housing Tax Credit and provide support to advocacy work underway.

EXPAND AFFORDABLE HOMEOWNERSHIP OPTIONS

Recommendations at a Glance

- Explore an entrepreneurial nonprofit development approach to catalyze affordable housing construction and generate new housing program funding.
- Donate City-owned land for affordable housing development.

Background and Summary

Missoula has an acute supply shortage of homeownership options affordable to households earning below 120% of the median income. Nonprofit mixed-income housing development can provide a consistent contribution of homes through an entrepreneurial approach that requires significant upfront investment but little ongoing support. This model typically functions by developing mixed-income homes with a majority of units priced at levels affordable to families with low- and moderate-incomes, with the remaining units priced as entry-level, market-rate homes. The profits from the market-rate homes are used to cross-subsidize the homes sold at discount prices. The discounts offered to homebuyers with low- and moderate-incomes are then secured through second mortgages, which can be used to recapture subsidies in a revolving development loan fund.

This type of development model should generally not be undertaken as a project within the City government structure. Optimally, any pursuit of this model would include the formation of a small and efficient nonprofit master developer entity that would handle the subdivision and sales of tracts, buildout of spine infrastructure, and day-to-day administration of affordability programs. A portion of tract sales within the development could be used to support administrative costs with the balance of repayments flowing back to the City's housing trust fund.

The main challenge of this model is that it takes significant up-front investment to catalyze a stable ongoing operation. Donation of City land or the leveraging of donation of a 20-35-unit tract within a larger private subdivision would provide enough resources to create a functional single development, but would not generate enough immediate return to sustain a model capable of ongoing development operation. To achieve sustainable operation a pipeline of several parcels suitable for donation would have to be committed. Initial investigations identified two City-owned sites that meet top-level criteria and range in size from 1.5-6 acres in size, but further feasibility work is required to know if those sites are well suited for this type of model. Additionally, there are over 4,200 entitled lots in Missoula. This presents a unique opportunity for the City to catalyze development on those entitled lots with an emphasis on subdivisions that align with the Our Missoula Development Guide suitability maps.

Under this model, there are two levels at which the community investment in affordability should be secured. At the time of donation, the City would execute a performance agreement with the developer spelling out the details of the expectations contained in a Request for Proposals (RFP) and secured with a lien on the property. As the homes are sold, meeting the expectations of the program, the relevant portion of those liens can be extinguished. In this way, the City's investment is secured through sale of the homes to income-qualified buyers.

At the individual home level, a similar mechanism is executed to secure the subsidy in the house and preclude "flipping." Below-market homes are sold just at or slightly below market value, often providing a small equity buffer for the buyer at sale. The discounts offered to homebuyers with low- and moderate-incomes are sized to a given family's income, or fit within larger pricing models dictated by City programs. This subsidy amount is then secured as a second mortgage mechanisms. This preserves flexibility on the part of the lien holder to exercise a right-of-first-refusal at sale, reinvesting and preserving a home as affordable, or if desirable, letting the unit become entry-level market rate stock and recouping the subsidy to reinvest in new affordable housing activities.

This type of mixed-income development could be deployed through two different approaches of different scales: a subdivision or a larger, master-planned community.

Subdivision Model

Many higher cost markets have strong needs for both below-market homeownership development and increased "missing middle housing." This often means that families with incomes just above the threshold for subsidized housing have limited or no market rate housing options. The specifics of how these models operate vary by community and sometimes between different developments in the same community. The general concept is that a majority of units in a given development are set aside for households earning below the upper threshold for housing assistance in a given community, typically 80% AMI. The remainder of the homes are targeted to the entry-level market rate homeownership market with moderate pricing targeted to families in the 120-140% AMI range, resulting in a more diverse, mixed-income community. The profit generated from the market-rate units, along with any nonprofit subsidy resources, help the overall project cash-flow and the developer realize some level of development cost recovery.

Master-Planned Community

Stepping up in scale, the most comprehensive approach to broadening participation in affordable housing development is a nonprofit-driven master development model. The best example of this approach can be found in the Tierra Contenta community in Santa Fe, New Mexico. The result of a community-wide affordable housing strategic planning process, this project started with the municipal purchase of an 850-acre tract of land from a market rate developer through municipal bond funding. The City of Santa Fe then created the nonprofit Tierra Contenta Corporation (TCC) in 1994 for the purpose of implementing a master plan that established the framework for a mixed-use, mixed-income community with homes, schools, offices, businesses, community services, parks and open spaces. Tierra Contenta, on behalf of the City of Santa Fe, is responsible for implementing the master plan, developing design standards and obtaining master plat and master development plan approvals for each of the three phases of the development.

This approach has a marked impact on macro level community affordable housing goals. The provision of finished lots to small scale builders and nonprofits has encouraged more private developers to engage in affordable housing construction, resulting in increased building capacity. The ready availability of finished lots at reasonable pricing has also helped positively impact the cost of land across the community. The widespread availability of moderately priced homes in the mid $200,000 range helped set and stabilize the entry level prices for homes, even during the highest levels of demand.

A model of this scale could solve many of the housing supply and affordability hurdles currently facing Missoula. This single unified approach could help fill significant gaps in the rental and homebuyer markets while creating a decades-long pipeline of affordable housing. At the most macro-level, the design of a master plan approach could be used to illustrate innovative housing development models and pilot types of development not currently being undertaken by for-profit developers. In this way, the City could have unprecedented ability to create development that demonstrate mixed-income, mixed-building typologies, and sustainable development practices.

Recommendations

Explore Entrepreneurial Nonprofit Development Models

In order to scale an entrepreneurial model adequately to sustain a long-term pipeline of affordable housing development, land acquisition will be critical. Accordingly, extensive additional analysis is necessary.

Feasibility Analysis

Because of the scale of funding needed for this model, funding options are very limited. Municipal bond funding is the only likely source available for local governments to acquire a parcel of appropriate scale. Optimally that initial bonding would include money for both acquisition as well as buildout of at least the first phase of spine infrastructure.

Ultimately, the larger development operates like a social enterprise, with value created by land development and sales being split between subsidization, administration, and land sales repayments that could be directed to a housing trust fund. In this way, a considerable amount of the initial bond investment would be recycled into future housing development activities.

The City should study the feasibility of a bond-funded approach for the acquisition of a large tract of land suitable for a social enterprise master planned development. This is discussed as part of the Housing Trust Fund recommendations as one possible way of capitalizing that fund. The City should look to the recent open space bond as a model for approaching any affordable housing bond campaign.

Parcel Identification

A survey of large high opportunity private development tracts suitable for this scale of development should be undertaken. This should be done within the context of analyzing both physical infrastructure such as roads, sewer, and utilities, as well as social infrastructure like schools, community facilities, trails, and parkland access. The Opportunity Map as part of the Our Missoula Development Guide takes these community facilities and services into consideration and should be the basis for parcel identification.

Financial Analysis

This analysis should be reserved for the short list of highest opportunity development sites. A conceptual development pro forma should be created that captures the estimated cost of infrastructure buildout and models the number of units possible and the approximate per-lot cost of their development. Within that modeling a portion of the development should be earmarked for donation for deeply subsidized homeownership and affordable rental housing development.

Affordability Plan

To undertake this scale of public-purpose development, a detailed affordable housing plan for the project would need to be developed. This plan would spell out targets for pricing and percentage of affordability within the larger development. The level of affordability that can be achieved is variable based on a variety of factors driven primarily by general housing market conditions. Factors like site, construction, and infrastructure costs, in addition to transportation and energy costs, would have to be considered to create a realistic plan.

Conservation Development

The City should explore the concept of a joint purchase of a large tract in conjunction with the open space program that integrates parkland conservation and affordable housing development.

Entitled Lots Assessment

The City should convene developers and land owners who control some of the 4,200 entitled lots to identify obstacles to their development as well as high opportunity sites for acquisition for land banking and future donation.

Donate City-Owned Land for Affordable Housing Development

Land Donation Program

Create a formal program for annual land donation for nonprofit driven development with the target of starting one homeownership development per year for 8-10 years. Support both single-unit CLT development on smaller or single-lot parcels as well as scaled subdivisions of 20+ units for mixed income development. Use this opportunity to integrate innovative development techniques that achieve goals around higher density while integrating developments into the existing neighborhood context. Layering housing development incentives and infrastructure investment will be essential to achieve the deepest level of affordability targeting. Regardless of whether a large master planned affordable housing development model moves forward, the City should work to create the program infrastructure and identify initial sites for near-term donation. In no situation should the City wait for a master planned model to begin this work.

Land Banking Strategy

Adopt a long-term strategy for land acquisition of high-opportunity sites, particularly those with Our Missoula Development Guide compatibility, into a formal land banking program for future affordable housing development and City donation programs.

APPENDICES

APPENDIX I — GLOSSARY OF TERMS

Accessory Dwelling Units (ADU)

A separate dwelling unit within a primary residence or a separate dwelling unit that occupies an accessory building that shares a parcel with a primary residence. As the name implies, accessory dwelling units are an accessory use to the principal use of the property.

Affordable Housing Development

An affordable housing development is housing that is specifically set aside to be below market rate so lower-income community members can afford housing without being rent burdened. Some affordable housing developments may have maximum income caps, and/or collaborate with local service providers to house those who do not currently have housing.

Affordable Housing Trust Fund (HTF)

An affordable housing production program that complements existing federal, state and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low- and very low-income households, including homeless families. HTF funds may be used for the production or preservation of affordable housing through the acquisition, new construction, reconstruction, and/or rehabilitation of non-luxury housing with suitable amenities.

Area Median Income (AMI)

A statistic published annually by HUD. It is a midpoint of a county or state's income distribution by household size.

Building Permits and Fees

City Planning & Development Services permit fees calculated from an adopted schedule. In Montana, these fees are calculated based on standards set at the state level. For more information on Missoula building permits, click here.

City Code

A body of law written and adopted by a local government that defines local authority and governs certain processes in the jurisdiction. In this Housing Policy, most references are to the City of Missoula Title 20 Zoning Ordinance or Title 12 Engineering Code.

City Impact Fees

City Parks, Police, and Fire impact fees are calculated during the building permit review and attached to the building permit fees. Impact fees help fund Parks, Police, and Fire services.

Missoula's city impact fees are development and transportation, fire/emergency, community services, and law enforcement related.

Community Development Financial Institution

CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers. CDFIs are helping families finance their first homes, supporting community residents starting businesses, and investing in local health centers, schools, or community centers. CDFIs strive to foster economic opportunity and revitalize neighborhoods. They are a collaborative force that brings together diverse private and public sector investors to create economic opportunity in low-income communities. CDFIs continue to grow in size and impact, and to support community transformation. CDFI's in Missoula are MoFi, MFCU, and NeighborWorks.

Developer

Developers build structures in an area. They can be for profit or nonprofit entities. The city works with the developer to make sure they are in compliance with ordinances to foster development in alignment with other guiding plans.

Expired-Use Affordable Housing

Designated homes that are statutorily bound to be rented at specific affordability levels for a set period of time, for which that time period has expired. Typically constructed with Low Income Housing Tax Credits (LIHTC), HOME Investment Partnership Funds, or Community Development Block Grant Funds.

Housing Affordability

This term is often used broadly without clear definition. Under HUD rules, income-eligible households should pay no more than 30% of their income for gross housing costs, including utilities. Some HUD Programs provide subsidy to the household or the housing development to meet the 30% rule. The 30% rule is also a benchmark for national affordability. The Housing and Transportation Index (H+T Index), which provides a broader view of affordability that includes both the cost of housing and transportation combined, sets the benchmark at no more than 45% of household income.

Low-Income Housing Tax Credit (LIHTC)

A dollar-for-dollar tax credit in the United States for affordable housing investments. It gives incentives for the utilizations of private equity in the development of affordable housing aimed at low-income Americans. These tax credits are administered by the board of Montana Housing.

Market Value

The sales price of a building including land cost and real estate fees.

Master Planned Community

A master-planned community is a large-scale residential neighborhood with a large number of recreational and commercial amenities.

Missing Middle Housing

Missing Middle Housing is a range of multi-unit or clustered housing types—compatible in scale with detached single-family homes—that help meet the growing demand for walkable urban living.

Multi-Family Building

A building with three or more attached units intended for living, sleeping eating cooking and sanitation.

Preservation (of housing)

Housing preservation is an effort to keep the existing housing stock in a certain area. This may involve incentive programs to salvage lower quality (but still viable) housing stock.

Subdivision

In the classical sense, a subdivision is a plat of land, divided into lots. A plat is already a divided piece of land, and lots are created by dividing that land accordingly; hence, the name subdivision. Many people know subdivisions at their most developed points, when they have infrastructure, roads and homes.

Tax Increment Financing (TIF)

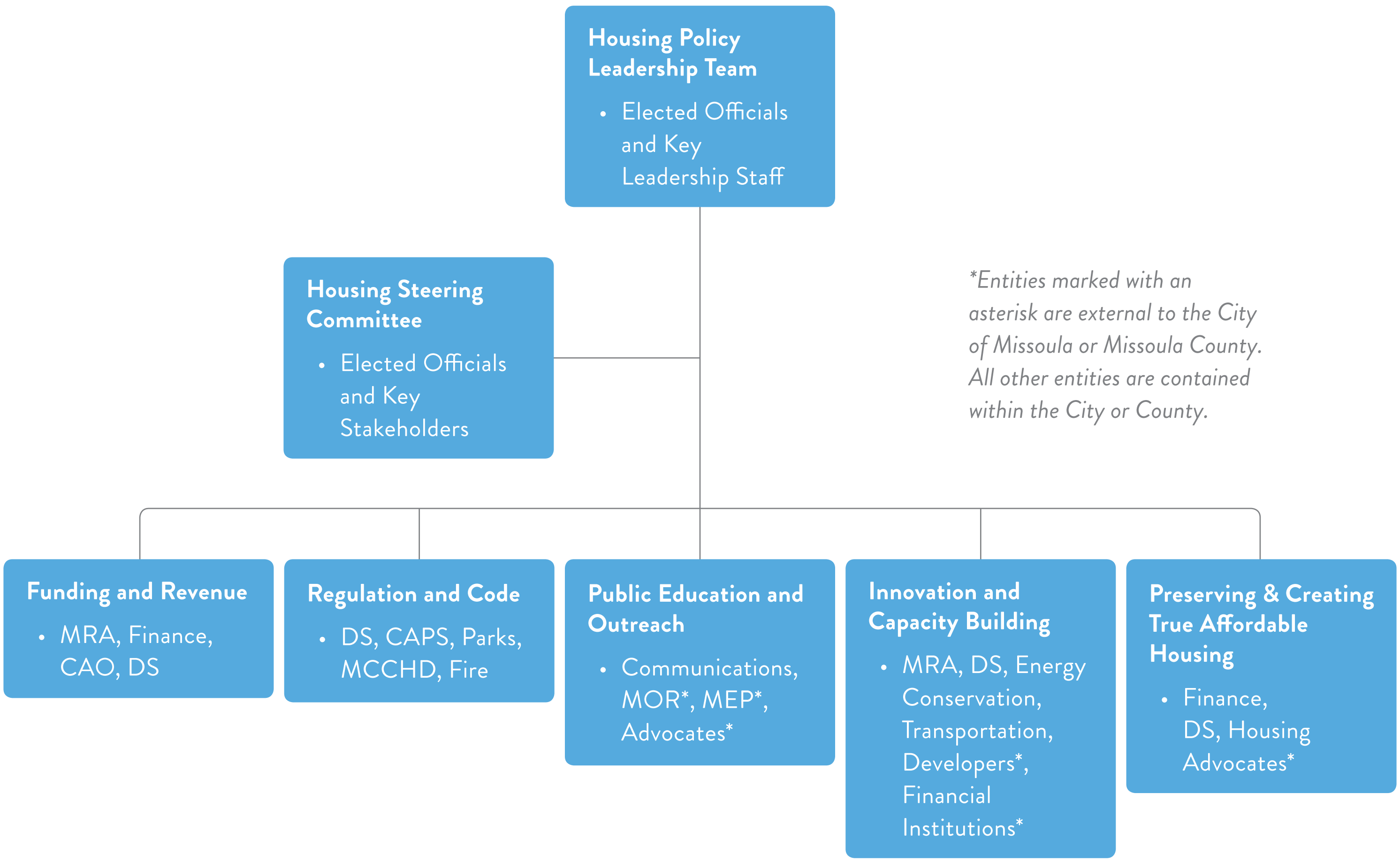
A form of public financing that collects future tax benefits for real estate subsidies or improvements to pay for current improvements/subsides. This method is used to spur development, stability and address blighted areas. Funding for TIF is often drawn from property taxes or sales tax.

Urban Renewal Districts

An Urban Renewal District (URD) is an area deemed blighted by the City Council where economic growth has been impaired and there is a lack of public and private investment. Missoula's first URD was created downtown in 1978. As a result of MRA's success in revitalizing that area, subsequent districts have been formed in other parts of Missoula.

APPENDIX II — MISSOULA'S HOUSING POLICY PROCESS

Chart of Housing Policy Bodies and Leadership



Key (continued on next page):

- CAO – Chief Administrative Officer (City of Missoula)
- CAPS – Missoula County Community & Planning Services
- Communications – City of Missoula and Missoula County Communication Departments
- DS – Development Services (City of Missoula)
- Energy Conservation – City of Missoula Energy Conservation Coordinator
- Finance – City of Missoula Finance Department
- Fire – City of Missoula Fire Department
- MCCHD – Missoula City-County Health Department
- MEP – Missoula Economic Partnership
- MOR – Missoula Organization of Realtors
- MRA – Missoula Redevelopment Agency

- Parks – City of Missoula Parks and Recreation
- Transportation – City of Missoula Transportation Planning Division

Housing Policy Leadership Team Members

- Mirtha Becerra, Missoula City Council Ward Representative
- Dale Bickell, Chief Administrative Officer, City of Missoula
- Ellen Buchanan, Director, Missoula Redevelopment Agency, City of Missoula
- John DiBari, Missoula City Council Ward Representative
- John Engen, Mayor, City of Missoula
- Donna Gaukler, Director, Missoula Parks & Recreation, City of Missoula
- Mike Haynes, Director, Development Services, City of Missoula
- Bryan von Lossberg, Missoula City Council Ward Representative
- Nicole Rowley, Missoula County Commissioner
- Eran Fowler Pehan, Director, Housing & Community Development, City of Missoula

Housing Policy Steering Committee Members

- Corey Aldridge, General Manager, Mountain Line
- Collin Bangs, Private Developer and Realtor
- Dale Bickell, Chief Administrative Officer, City of Missoula
- Ellen Buchanan, Director, Missoula Redevelopment Agency, City of Missoula
- Scott Burke, President & CEO, First Security Bank
- Andrea Davis, Executive Director, Homeword
- Heidi DeArment, Vice President, MoFi
- David Edgell, Edgell Building Incorporated
- Beverly Edmonds, Interim Provost, University of Montana
- John Engen, Mayor, City of Missoula
- Julie Gardner, Realtor, ERA Lambros
- Hermina Harold, Executive Director, Trust Montana
- Mike Haynes, Director, Development Services, City of Missoula
- James Hoffman, Hoffman Morgan & Associates
- Jack Lawson, CEO, Missoula Federal Credit Union
- Miles McCarvel, Ironworkers Union Leader
- Gene Mostad, Mostad Construction, Inc.
- Ginny Merriam, Communications Director, City of Missoula
- Bob Oaks, Executive Director, North Missoula Community Development Corporation
- Ruth Reineking, Board Member, Missoula Redevelopment Agency
- Matt Rosbarsky, Realtor, Clark Fork Realty
- Nicole Rowley, Missoula County Commissioner
- Hillary Stowell, Office of the Provost, University of Montana
- Eran Fowler Pehan, Director, Housing & Community Development, City of Missoula

Technical Work Group Members

Funding & Revenue

- Chris Behan, Assistant Director, Missoula Redevelopment Agency
- Dale Bickell, Chief Administrative Officer, City of Missoula
- Leigh Griffing, Finance Director, City of Missoula
- Mike Haynes, Director, Development Services, City of Missoula
- John Adams, Grants Administrator, City of Missoula
- Eran Fowler Pehan, Director, Housing & Community Development, City of Missoula

Innovation & Capacity Building

- Ellen Buchanan, Director, Missoula Redevelopment Agency, City of Missoula
- Barb Callaghan, Commercial Lender, First Security Bank
- Andrea Davis, Executive Director, Homeword
- John Giuliani, Private Developer
- Chase Jones, Energy Conservation Coordinator, City of Missoula
- Laval Means, Planning Services Manager, City of Missoula
- Nate Richmond, Blueline Development Group
- Aaron Wilson, Transportation Planning Division Manager, City of Missoula
- Montana James, Grants Administrator, City of Missoula
- Eran Fowler Pehan, Director, Housing & Community Development, City of Missoula

Preserving and Creating True Affordable Housing

- Lori Davidson, Executive Director, Missoula Housing Authority
- Melissa Gordon, Grants Program Manager, Missoula County
- Hermina Harold, Executive Director, Trust Montana
- Noreen Humes, Executive Director, Habitat for Humanity
- Heather McMilin, Housing Development Director, Homeword
- Jim Morton, Executive Director, Human Resource Council
- Kaia Peterson, Assistant Director, NeighborWorks Montana
- Colin Woodrow, Grants Administrator, City of Missoula
- Eran Fowler Pehan, Director, Housing & Community Development, City of Missoula

Regulation & Code

- Denise Alexander, Permits and Land Use Manager, City of Missoula
- Ben Brewer, Planner, City of Missoula
- Jennie Dixon, Planner, Missoula County
- Elizabeth Erickson, Open Space Program Manager, City of Missoula

- Andrew Hagemeier, Planner, Missoula County
- Kevin Slovarp, City Engineer, City of Missoula
- Don Verue, Assistant Director, Development Services, City of Missoula
- John Wilson, Director, Public Works, City of Missoula
- Colin Woodrow, Grants Administrator, City of Missoula
- Eran Fowler Pehan, Director, Housing & Community Development, City of Missoula

Public Education & Outreach

- Anne Hughes, Communications & Projects Director, Missoula County
- Ginny Merriam, Communications Director, City of Missoula
- Mike Nugent, Realtor, Berkshire Hathaway
- Lindsey Wallace, Communications Director, Missoula Economic Partnership
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Special Topics Research Groups

Inclusionary Zoning

- Collin Bangs, Private Developer and Realtor
- Jack Lawson, CEO, Missoula Federal Credit Union
- Jenny Baker, Planner, City of Missoula
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APPENDIX III – CITY OF MISSOULA ANNUAL HOUSING ASSESSMENT 2018

The following draft report is intended to be used as a template for annual outcomes and trend reporting.

Key Indicators of Missoula Housing Affordability

In all aspects of housing program planning, it is important to remember that the true measure of housing affordability is the gap between wages and housing costs. For the purposes of City programs, housing affordability is defined as a housing payment at or below 30% of a family's gross income. This figure is used to calculate both rental and homeownership affordability based on income levels.

The percentage of households paying more than 30% of their income for housing is tracked by the Census and households paying more than 30% of their income are considered "cost burdened." The following table depicts cost burden for renters and owners showing both a 10-year and one-year change.

Housing Cost Burden for City of Missoula Renters and Owners: 2007 and 2016, 2017

	2007	2016	2017	10-Year Change	1-Year Change
Owner-Occupied Housing Units	13,053	14,374	14,598	12%	2%
Renter-Occupied Housing Units	12,585	15,841	16,316	30%	3%
Percentage of Owners Paying More 30% or More	30.3%	26.4%	25.1%	-17%	-5%
Percentage of Renters Paying 30% or More	51.3%	51.7%	50.4%	-2%	-3%

Sources: 2005-2007 ACS 3-Year Estimates; 2012-2016 and 2013-2017 ACS 5-Year Estimates, Table S2503.

Renters in Missoula remain significantly more financially challenged than homeowners, with over half of renters paying more than 30% of their income for housing. But affordability for both renters and owners has improved year-on-year, with a 5% reduction in cost burdened homeowners and a 3% reduction in renter cost burden from 2016 to 2017. It is important to note that the margins of error for the American Community Survey (ACS) can be large, so the key takeaway overall trends are more important than specific percentages.

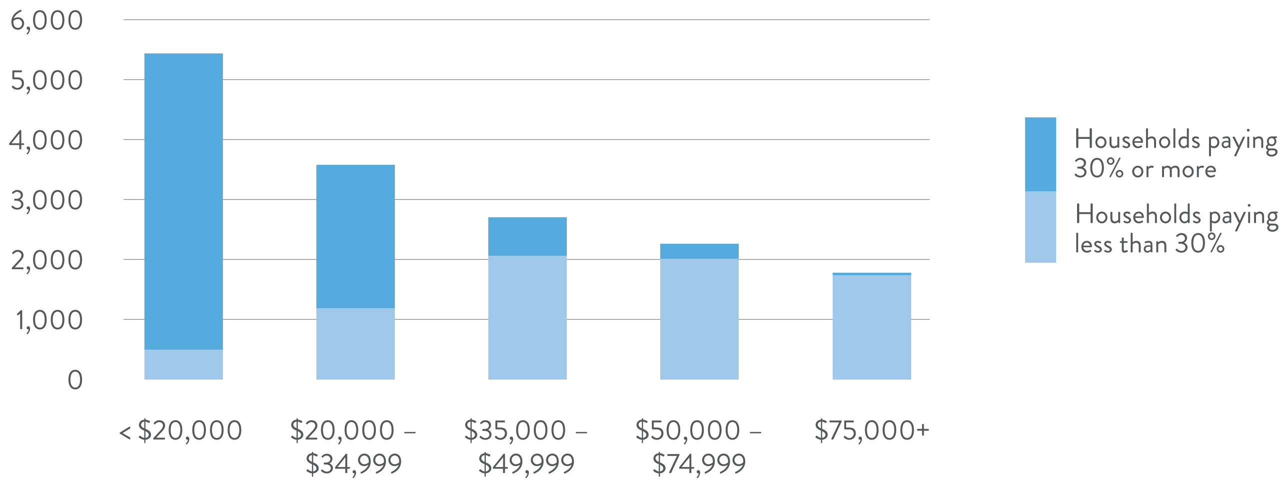
When looking at the 10-year period, the overall proportion of cost burden owners has decreased significantly since 2007. While the total number of households paying more than 30% of their income has increased over that time period, this is largely due to population growth over time. While on the surface, the 17% reduction in owner cost burden is a significant decrease, it also includes the period of the Great Recession, in which many cost burden owners lost their homes to foreclosure or were otherwise forced to sell. Renter cost burden has been relatively stable over the 10 year period.

Rental Affordability

There are several areas within the rental affordability calculations that are incomplete due to a lack of accurate data. This is addressed in the recommendation to develop a more comprehensive City rental housing market survey.

Rental affordability remains the most critical issue facing the community and is a problem that disproportionately impacts the lowest income families. When renter cost burden is analyzed by income level, we find that there are nearly 8,000 families earning less than $50,000 a year that are paying more than 30% of their income for housing. This income level is very close to the 80% of area median income (AMI) level for a family of three ($50,700). The problem increases greatly in the lower income segments, with 67% cost burdened families earning less than $35,000 a year, and a staggering 91% cost burden for families earning less than $20,000 a year.

Renter Cost Burden, City of Missoula



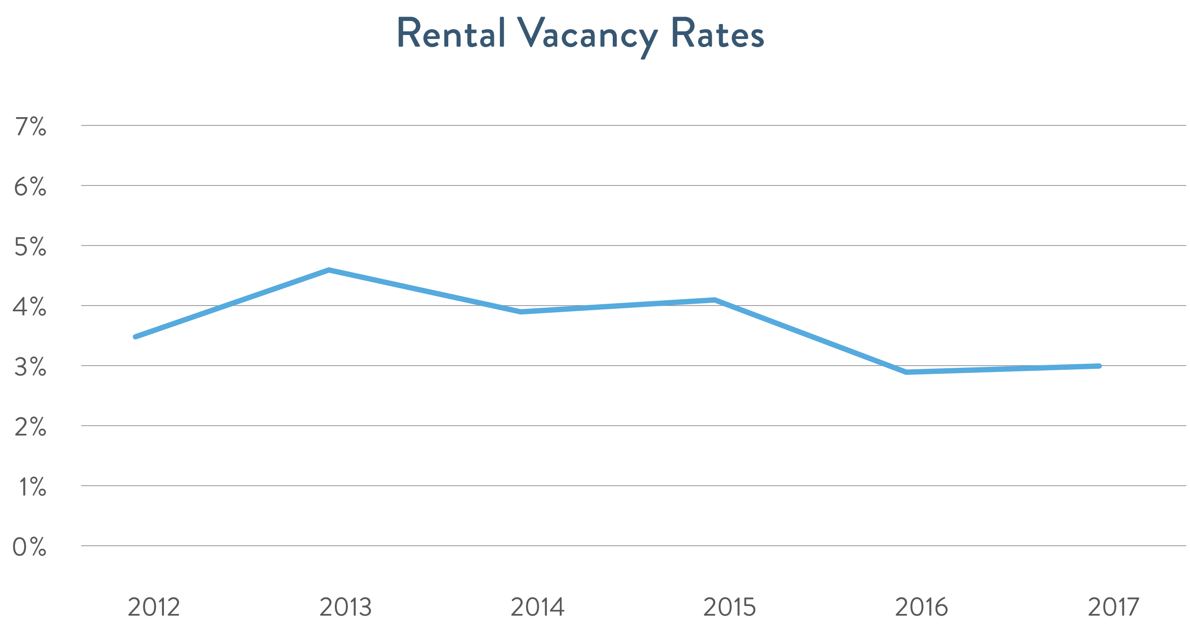
Source: Census Bureau, ACS 2015

The following table depicts maximum affordable rental rates for key income levels as a function of HUD area median income and family size. While affordability issues exist for families up to the 80% AMI level, the majority of program emphasis and City investment should be on new rental housing serving households below 60% AMI.

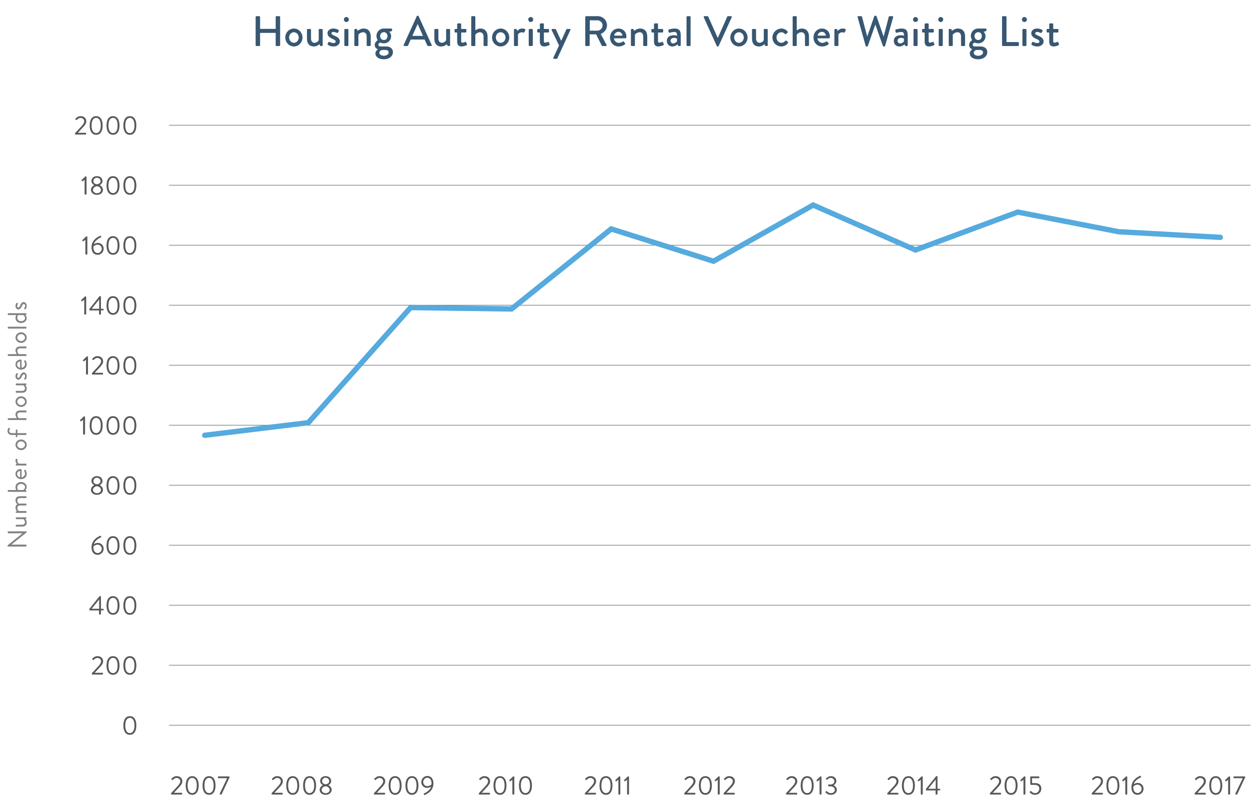
Affordable Monthly Rent at 30% of Income

	Number of Persons in Household					
% Median	1	2	3	4	5	*6*
30%	$370	$423	$476	$528	$571	$613
50%	$616	$705	$793	$880	$951	$1,021
60%	$740	$846	$951	$1,056	$1,142	$1,226
80%	$923	$1,126	$1,268	$1,408	$1,521	$1,634

The best indicator of longer-term rental housing market trends are rental vacancy rates and waiting lists for housing assistance. Rental vacancy rates continue to decrease over time and remain well below 5%, a widely accepted level of a balanced rental housing demand. Rental vacancy has decreased steadily since 2013, settling at 3% in 2017. In 2018 Missoula saw vacancy rates increase for the first time since 2013, with rates rising close to 1%. This is likely the result of adding over 1,000 units of rental housing in 2016-17.



The Missoula Housing Authority was able to place all 774 Housing Choice Vouchers (HCV), formerly known as Section 8 rental vouchers. These rental vouchers pay the difference between market rent and affordable rents based on each voucher holder's income. The number of households on the HCV waiting list is another indicator of overall demand for affordable rental housing. The waiting list for these vouchers continues remain very high, with no signs of increased voucher allocations on the federal level. This indicates the continued need for additional subsidized rental housing stock.



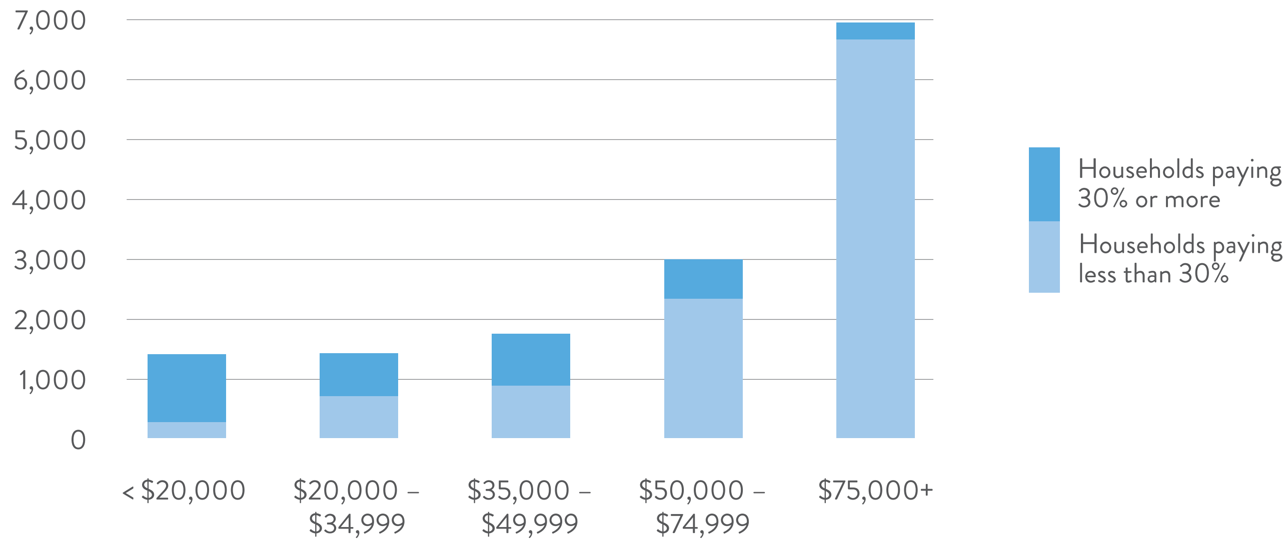
Rental Housing Affordability Conclusions

While there are some signs of easing in overall rental housing conditions, the situation is still dire for the lowest income households in Missoula, mainly those below 60% AMI. Large additions to rental housing stock in the last couple years have eased demand somewhat, but these benefits do not appear to be “trickling down” to the lowest income families. This highlights the need for strong ongoing support of new rental housing development through the Low Income Housing Tax credit program as well as other new initiatives to provide incentives for creating below market rental housing.

Homeownership Affordability

Much like the situation with rental housing, affordable homeownership is increasingly elusive the lower income households. Looking at the breakdown of ownership cost burden in the table below, it becomes clear that homeownership in Missoula is primarily reserved for households above $75,000 a year in combined income . In fact, there are more owners earning above $75,000 year than all the other income categories combined. A significant 45% of homeowners earning below $75,000 a year (3,400 households) are cost burdened.

Owner Cost Burden, City of Missoula



Source: Census Bureau, ACS 2015

The following table depicts the affordable home price based on AMI and family size. This calculation assumes FHA underwriting standards. When this is compared to home sales data from the Missoula Organization of Realtor's (MOR) Multiple Listing Service (MLS) the challenges facing potential homeowners below 120% of area median income are clear.

Missoula Urban Sales

Sales Price	2016	2017	2018
Under $200,000	342	240	146
$200,000 - $249,999	470	532	310
$250,000 - $350,000	300	503	459
$350,000 +	280	419	357
TOTAL	1,392	1,694	1,272
Under $200,000	25%	14%	11%
Under $250,000	58%	46%	36%

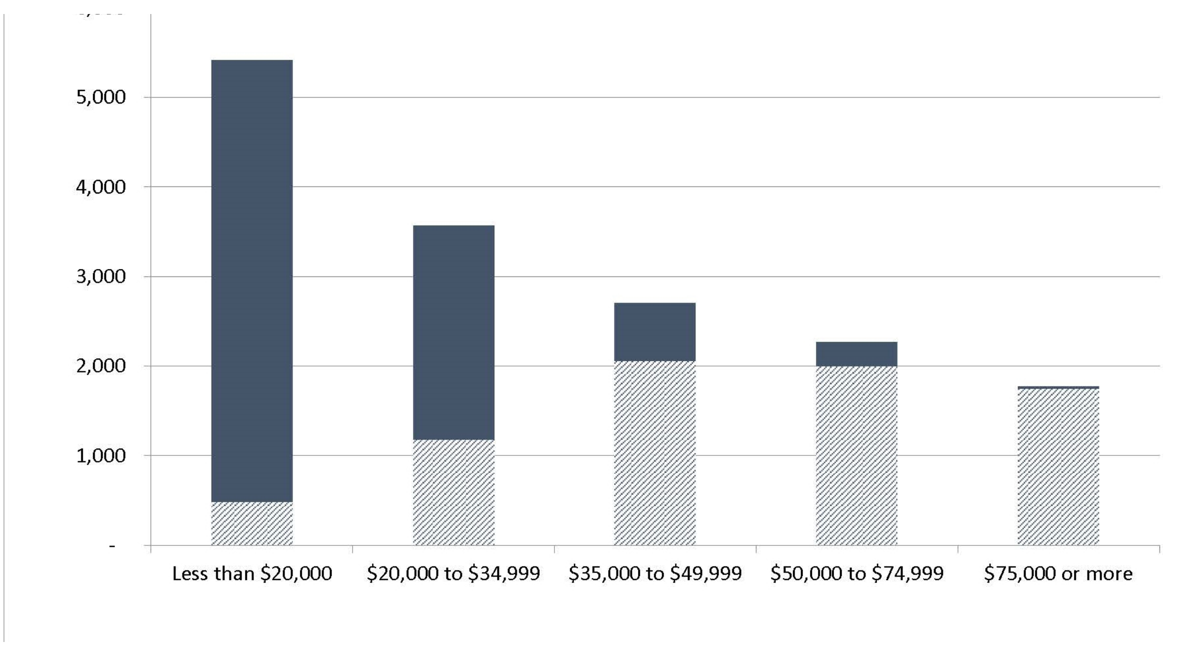
Source: Missoula Organization of Realtors

As a whole, total home sales have remained relatively stable in the city, but after years of fairly stable sales below $200,000, we see a dramatic decrease in sales between the 2016 and 2018 calendar years. In fact, sales below $200,000 shrunk 47% in just those two years and a total of 61% since 2014 and now only comprise 11% of market activity. This primarily impacts households below 80% AMI whose upper end of affordability is around $205,000 for a family of four. Likewise, increases in sales in the $200,000-$250,000 range seen in 2015 and 2016, started to shrink again in 2018. Overall, home sales in the $200,000-$250,000 range shrunk 19% between 2015 and 2018. This signals shrinking affordability for families up to the 120% AMI range. At the same time, we have seen a 137% increase in sales above $350,000.

The trend towards decreasing affordability can also be seen in the overall median sales price trend for the Missoula Urban Area. For reference, the Urban Area includes Rattlesnake, Downtown, University, Farviews, South Hills, Pattee Canyon, Lewis and Clark, Miller Creek, Blue Mountain, Big Flat, Orchard Homes, Mullan Road, Grant Creek, Lolo, Bonner, East Missoula, and Clinton. The Missoula Urban Area does not encompass Frenchtown, Seeley Lake, the Swan Valley, Potomac, and Turah.

Listing data for the Urban Area was provided by the Missoula Organization of Realtors at a point in time in February of 2019. This revealed just 19 units listed below $200,000. It is also important to note that of the four detached homes, all were listed as studio/1-bedroom units.

Median Sales Price Missoula Urban Area



Source: Missoula Organization of Realtors

For Sale Home Listings Missoula Urban Area (2019)

Listing Price	Detached	Townhome	Condo	Total
Under $200,000	4	2	13	19
$200,000 - $249,999	15	4	2	21
$250,000 - $350,000	52	26	6	84
$350,000 +	144	10	22	176
TOTAL LISTINGS	215	42	43	300

Source: Missoula Organization of Realtors, February 2019

Homeownership Affordability Conclusions

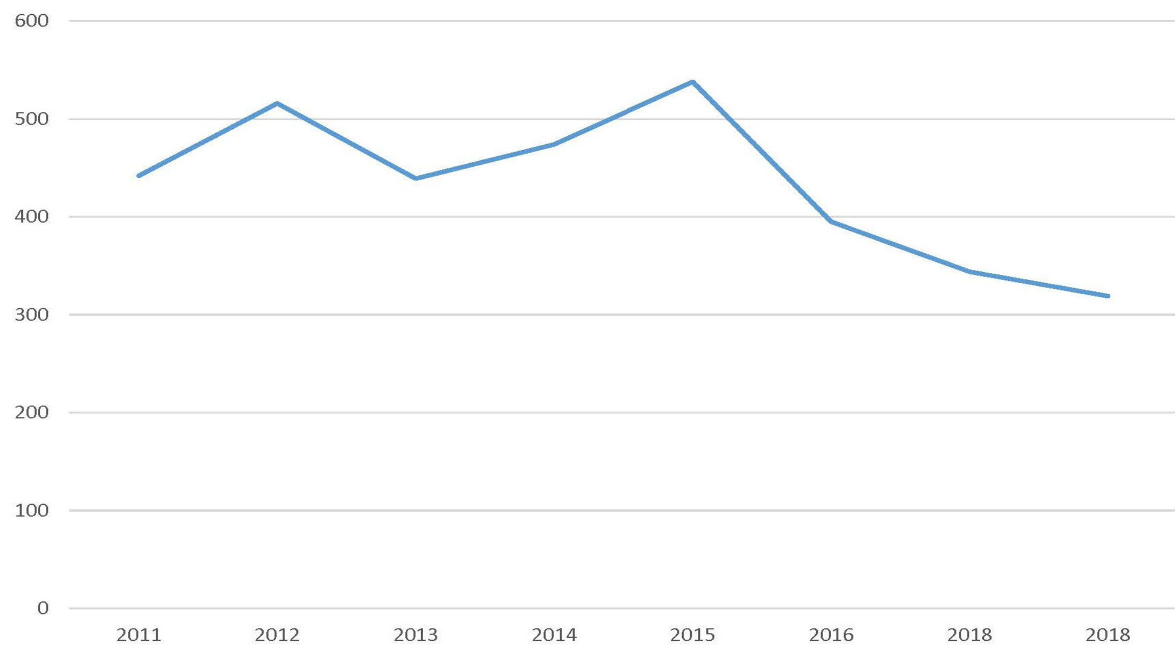
Homeownership remains challenging for households below 120% AMI, with acute needs for families below 80% AMI. These challenges are reflective of both market pressure and steadily increasing development costs which make it difficult to develop housing to serve lower income groups without significant subsidization. To make homeownership achievable for households below 80% AMI, new forms of homeownership development with layered City support will be needed. For potential buyers in the 80-120% AMI range, gaps are smaller, which can hopefully be addressed through city-incentivized below-market development and downpayment assistance programs.

Homelessness

There are two main indicators for homelessness, the Point in Time (PIT) count and number of homeless children in the Missoula County Public School (MCPS) system, both of which point to positive gains on the community level. The January PIT count indicates the number of homeless individuals on a single night each year and is part of a coordinated assessment of homelessness that takes place across the country each year.

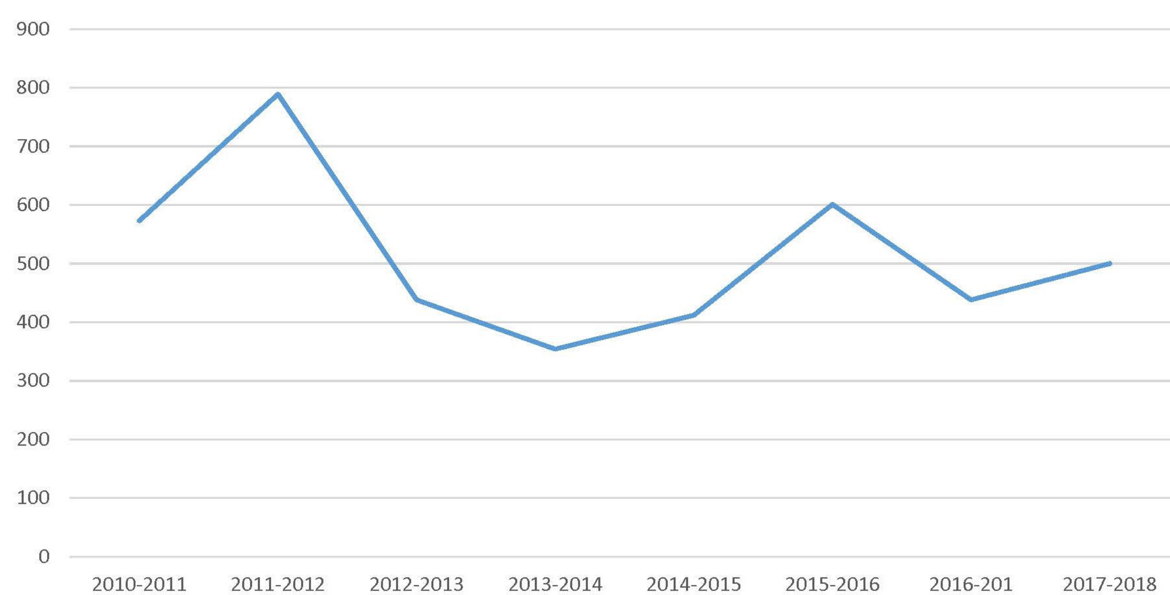
There were 319 homeless individuals observed during the 2018 PIT count, down 41% from a peak of 538 in 2015. Likewise, data from MCPS indicates easing of total homeless student population in the 2016-2017 school year with a slight increase in the 2017-2018 school year.

Total Homeless Individuals on a Single Night in January



Source: Montana Continuum of Care

Number of Homeless and At-risk Children, MCPS, 2009-2016



Source: Missoula County Public Schools

Homelessness Conclusions

Overall the trends appear to be towards decreasing homelessness in the Missoula area. There are currently 118 shelter beds, 55 transitional units and 14 units for special needs residents available from Missoula area housing service providers. This indicates a strong need for additional support, particularly deeply subsidized rental and transitional housing units.

Indicators And Trends

While still well below the national trend, Missoula area saw very positive income gains year-on-year from 2016 to 2017. The closest approximation of HUD median income is Census Median Family Income, which most closely approximates a renter or homebuyer family. Rising incomes help close the affordability gap, unfortunately even at over 6% growth, this does not keep pace with housing price increases.

Census and HUD Household Income Benchmarks

	Previous Year	Current Year	% Change
City of Missoula Household Median Income	$42,389	$43,602	2.8%
Missoula County Household Median Income	$46,371	$49,412	6.2%
City of Missoula Family Median Income	$67,229	$71,740	6.3%
Missoula County Family Median Income	$66,985	$70,883	5.5%
HUD Median Family Income	$71,200	$70,400	-1.1%

Source: Census ACS 2016/2017 5-Year, HUD AMI 2017/2018

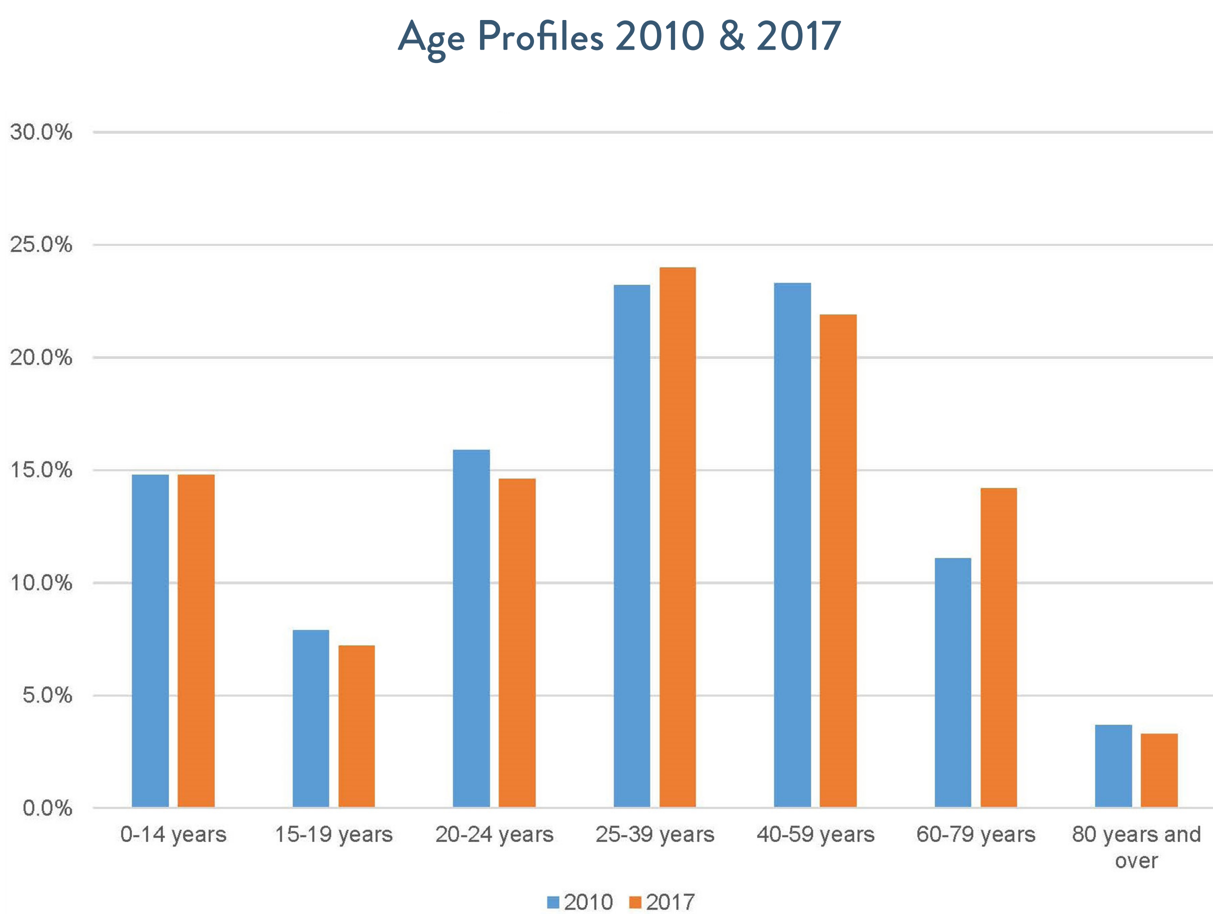
Overall, the City saw significant increases in households roughly on par with the increases in housing units. This signals a relative balance of “keep up” housing needs, but does not address the pre-existing gaps supply demand imbalance.

Population and Housing Units 2017

	City of Missoula	Change from 2015	Missoula County	Change from 2015
Population	70,847	+ 1,657	114,231	+2,265
Households	30,914	+1,054	47,963	+1,339
Total Housing Units	32,755	+1,087	52,559	+1,503
Seasonal Housing Units	360	+72	2,408	+240
Percentage Vacant, Year Round	5.6%	-0.1%	8.7%	0.0%
Percentage of Occupied Units Rented	52.8%	0.7%	41.1%	-0.5%
Percentage of Occupied Units Owned	47.2%	-0.7%	58.9%	0.5%

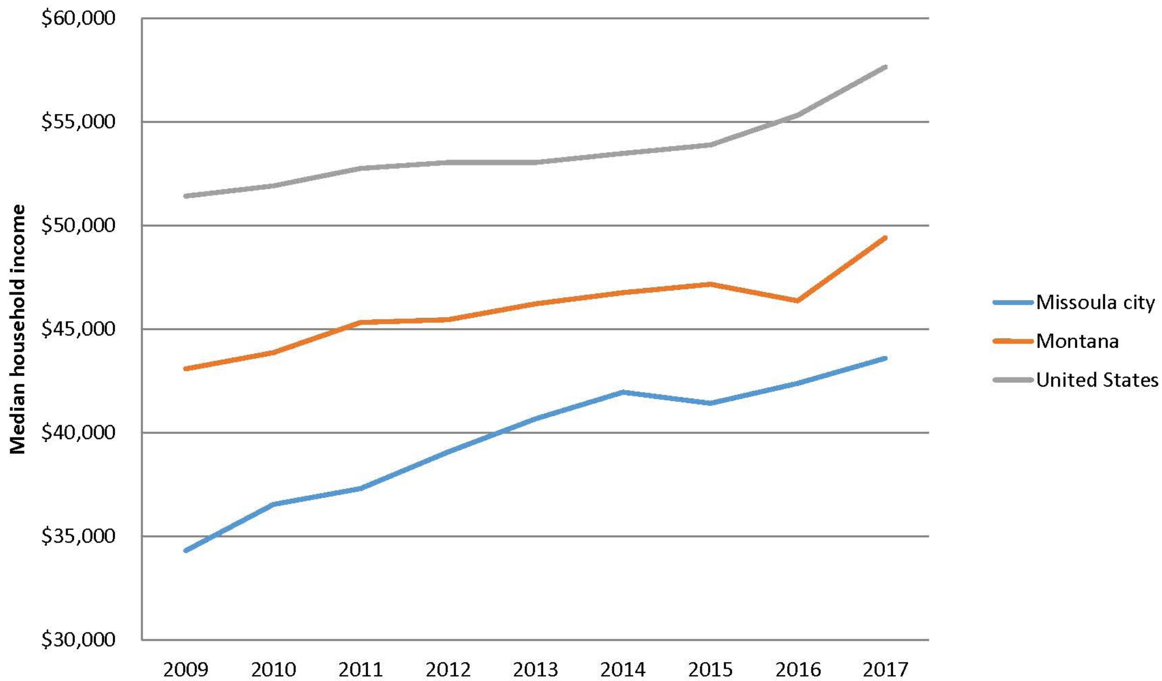
Source: 2013-2017 American Community Survey 5-Year Estimates

Overall, age trends are relatively stable, with slight increases in the 60-79 year old age group. This suggests a continued need to increase housing programs and development of appropriate housing types aging populations.



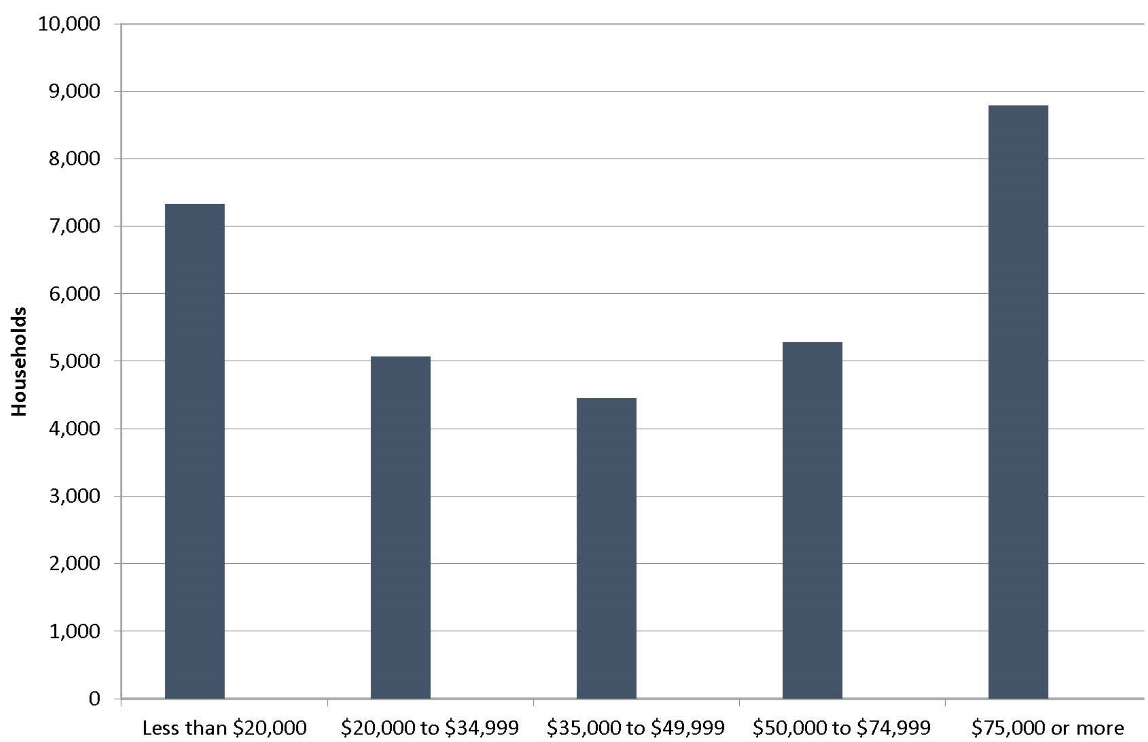
Income trends show consistently positive growth over time, with a healthy increase from 2017-2018. But overall Missoula still lags behind both the state and the nation in median income. The distribution of income by household also shows an inverse bell curve with larger groups at the lower and higher end of the income distribution.

Median Household Income Trend 2009-2017



Source: American Community Survey

Missoula City Households by Income

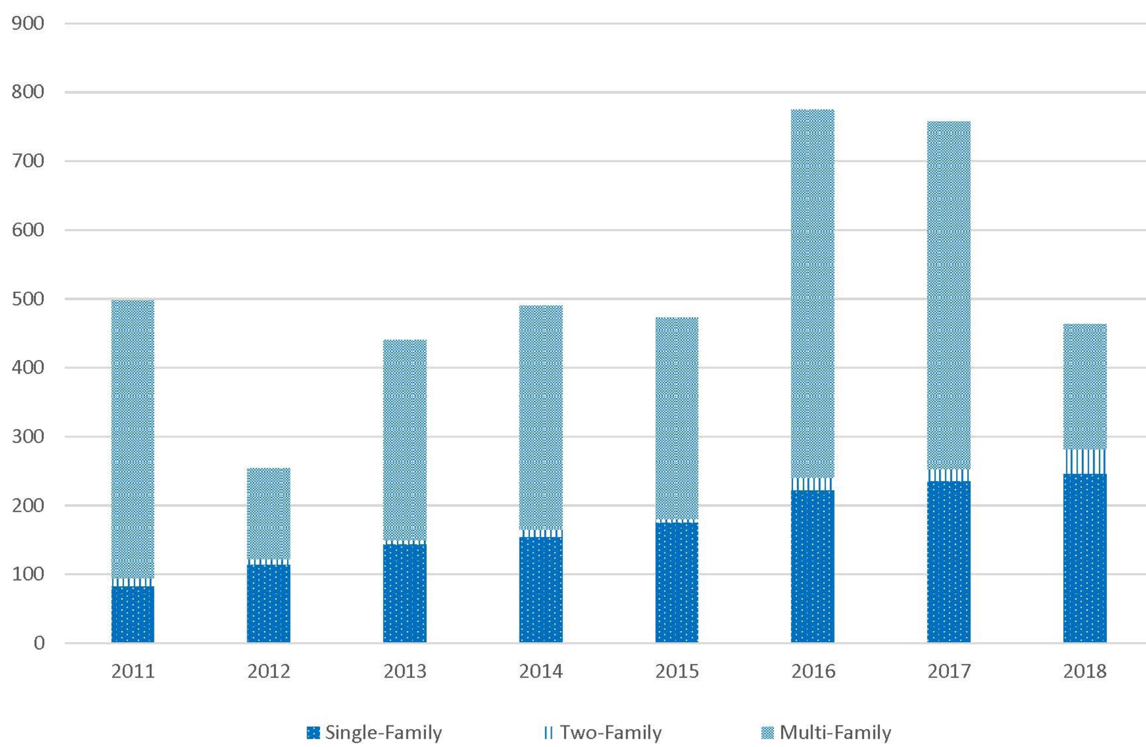


Source: ACS 2013-2017

Housing Development Activity

Housing development activity has a large impact on macro housing conditions such as housing supply and overall access to housing. The city has seen a steady increase in single-family permits since the recession with total permits increasing slightly to 246 in 2018, 10 more units than in 2017. There was a moderate increase in duplex construction which doubled from 17 permits in 2017 to 36 in 2018. But there was steep decline in multi-family units permitted, with a drop off from over 500 units in 2016 and 2017 to just 181 in 2018. The slight increase in vacancy rates in 2018 suggests that the additional supply is catching up somewhat with demand.

Building Permits, City of Missoula, 2011-2018



Source: City of Missoula Development Services

The other major measure of future development activity is the creation of lots and approval of TED developments. While there were no new subdivision approvals in 2018, TED approvals continued to be robust with 96 net new units approved.

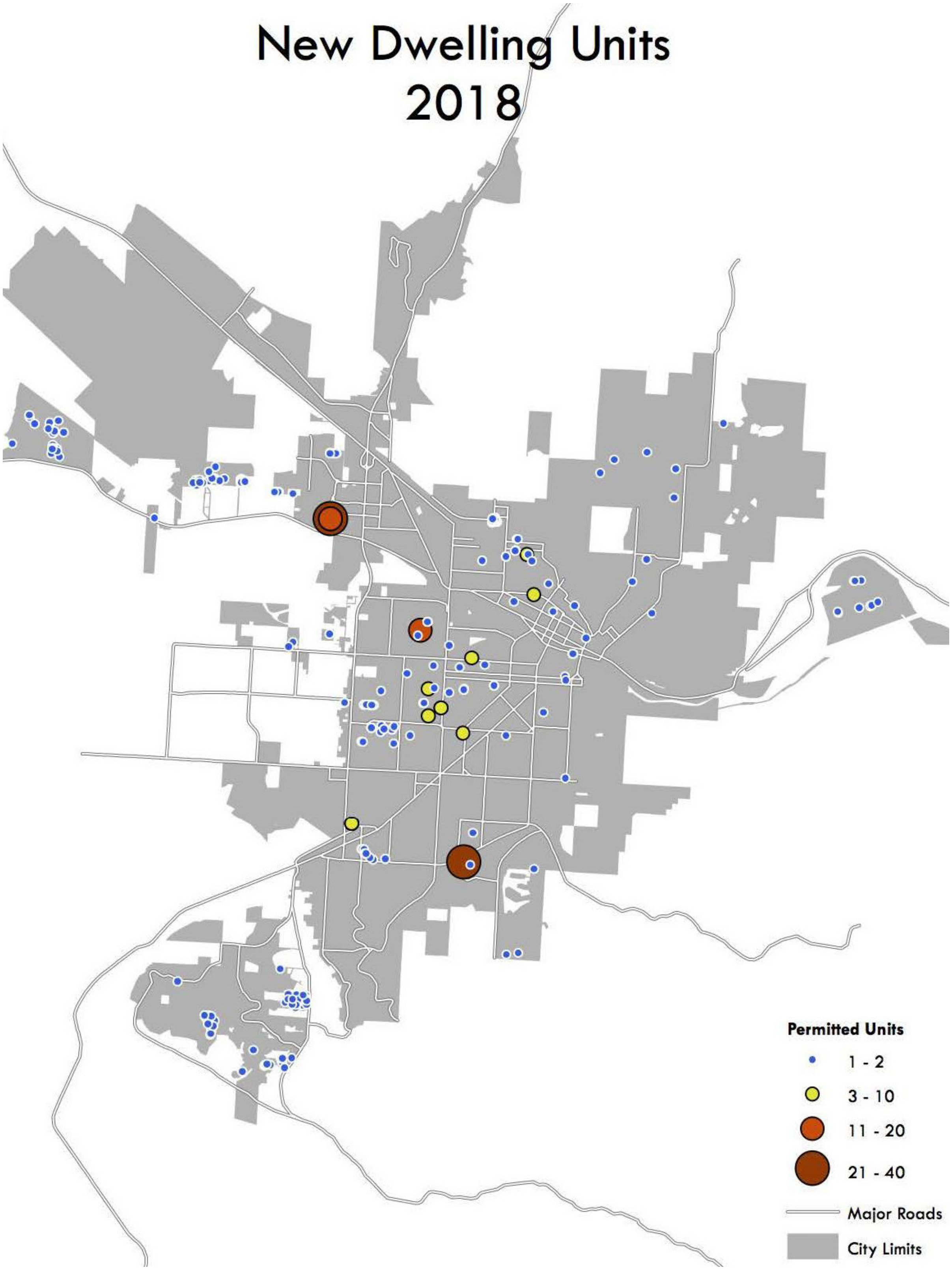
City of Missoula Development Approvals

	2016	2017	2018
City Subdivisions	1	3	0
City Lots Approved	2	34	0
Townhome Exemption Development Approvals	60	93	96

Source: City of Missoula Development Services

Another important factor is where housing is being developed. The following image depicts new unit production by scale of project. This shows a relatively balanced distribution of unit creation across all area of the city. As to be expected, larger projects (21+ units) are occurring somewhat outside of the urban core of the city, although there are a healthy number of projects in the 3-10 units range.

New Dwelling Units 2018



APPENDIX IV – AFFORDABLE HOUSING TRUST FUND DRAFT ORDINANCE

1. Purpose

The purpose of the Housing Trust Fund Ordinance is to identify the initial source of funds which shall be dedicated to the housing trust fund (HTF) and to restrict allowable uses of the HTF to provide or pay all or a portion of the costs of acquisition, development, construction, renovation or conversion, financing, operation or owning affordable housing, infrastructure to support affordable housing which meets agreed upon community housing goals and objectives and the support of affordable housing services. The HTF is not intended to be the sole source of funding for affordable housing and any activity or project eligible for support from the HTF is expected to develop additional sources of funds.

2. Definitions

Administrative procedures refer to the administrative procedures adopted by resolution that outline application, evaluation, and all other administrative procedures associated with the HTF.

Affordable housing means residential housing primarily for persons or households of low or moderate income.

Allowable uses mean those uses for the HTF which are set forth in subsection XXXXXXXXX.

Community housing priorities means priorities established from time to time by the Office of Housing and Community Development or the governing body to guide the allocation of funds from the HTF.

Comprehensive housing strategy means a services delivery system that addresses the full continuum of housing needs from the homeless to the homebuyer.

Eligible households mean a person or households of low or moderate income as defined in rules adopted by City.

HTF means the housing trust fund.

Leverage means the dollar value of other resources committed to projects for which an application and approval has been received for a loan or grant from the HTF. Each dollar committed to the project that is not generated from the HTF shall be considered as leverage.

Office of Housing and Community Development means the department of the City of Missoula or its successor administering affordable housing programs.

3. Dedication

(Will need to be updated based on outcomes from other areas of program development)

The following shall be dedicated to the housing trust fund.

A. Revenue generated from the sale of City-owned land

B. Proceeds of loans that have been recorded against various affordable housing units through the capital improvements program funds—infrastructure loan funds.

C. Principal and interest payments made by the borrowers to the City for outstanding HTF loans. Other funds that may be identified from time to time which are suitable and appropriate for allocation to the HTF. These may include on-going, dedicated funding sources as well as one-time funding that is specifically approved by the governing body.

4. Use of the housing trust fund

The City shall provide loans, housing assistance grants, or service contract by using the HTF to:

A. Donate, provide or pay all, or a portion, of the costs of land for the construction on the land of affordable housing;

B. Donate, provide or pay all or a portion of the costs of conversion or renovation of existing buildings into affordable housing;

C. Provide or pay the costs of financing or infrastructure necessary to support affordable housing projects; or

D. Provide or pay all or a portion of the costs of acquisition, development, construction, financing, operating or owning affordable housing.

E. Provide or pay the up-front costs associated with deferred development, permit and development fees

F. Provide or pay all or a portion of the costs associated with consumer housing programs and services

5. Other requirements

Use of the housing trust fund shall comply with the following:

A. Location. Financing for projects shall be limited to developments located within the city limits of Missoula

B. Beneficiaries. The beneficiaries of the housing shall be limited to households of low or moderate incomes. Lower income requirements may be established for specific projects to meet community housing goals.

C. Leverage. All loans, housing assistance grants, or housing service contracts from the HTF shall have a minimum one dollar ($1.00) to three dollars ($3.00) leverage requirement. Sources of leverage may include other project financing, federal community development block grants, federal HOME investment funds, low-income housing tax credits and owner equity or any other sources which are in accordance with the approved administrative procedures. Financing and funding from other sources must be committed prior to the release of HTF funds.

D. Terms of the Loan. Loan terms will vary with the type of development proposal. Loan terms and conditions will be outlined in the administrative procedures, which may be amended and approved by the governing body from time to time.

E. Restriction. Funds loaned to an organization shall only be used for the activity or project for which the loan was approved. The funds cannot be expensed (thereby reducing the amount of the asset on the organization’s balance sheet) except in cases where an unpreventable loss occurs and when approved by the governing body.

6. Housing trust fund administration

A. The HTF shall be administered by the Office of Housing & Community Development (HCD). The administrative procedures for the HTF shall be prepared by the HCD and shall be periodically updated to respond to changing housing needs and market conditions.

B. All funds shall be allocated under a request for proposal that is conducted at least annually and is consistent with the provisions of this section and administrative guidelines. Loans and grants shall be disbursed according to standard City procurement practices.

C. Applications for funding shall be reviewed according to evaluation criteria contained within the administrative procedures.

APPENDIX V — NONPROFIT DEVELOPMENT SUBDIVISION MODEL PRO FORMA

Subdivision Model Pro Forma

The following conceptual pro forma for a City-supported 30-unit subdivision or TED development shows how the financial aspects of the subdivision model in the "Expand Affordable Homeownership Options" recommendation operate. This also demonstrates how City incentives and land donation can be converted into below market housing, as well as value for affordable housing development loan pools vested with nonprofit partners. This model assumes incentive-based subsidization of permit, impact and utility connection fees, as well as $25,000 per-unit infrastructure assistance for each affordable unit within the project.

The model shows how approximately $1.3 million in City investment, was leveraged to create over $2 million in total subsidy for 16 homes sold with effective prices $130,000 below market. This model also includes $155,000 in development cost recovery back to the nonprofit to cover overhead.

Subdivision Model Pro Forma

Number of units: 30

Development Costs	Per Unit Cost	Total Cost	Donation
Land Value/Cost	$27,500	$825,000	$825,000
Site Infrastructure	$25,000	$750,000	$400,000
Per Unit Permits/Impact Fees	$3,500	$105,000	$56,000
Utility Connection Fees	$1,500	$45,000	$24,000
Hard Construction Costs	$185,000	$5,550,000	
Contingency @ 10% of Construction	$18,500	$555,000	
Soft Costs, Professional Services	$3,000	$90,000	
Total Development Cost	$264,000	$7,920,000	
Donation-Based Subsidy	$43,500		$1,305,000

Subdivision Model Pro Forma (continued)

Disposition	Unit Count	Per Unit Price	Total Value
Market Rate Value	30	$295,000	$8,850,000

Cash on Cash Disposition	Unit Count	Per Unit Price	Total Value
Market Rate Units Sold at Full Value	14	$295,000	$4,130,000
Subsidized Disposition	16	$165,000	$2,640,000
Total Cash Revenue Generated			$6,770,000
Total Hard Development Costs			$6,615,000
Development Cost Recovery to Nonprofit			$155,000
Value of Subsidy Created			$2,080,000

APPENDIX VI – HOUSING PROVIDER SURVEY 2018

Completed by (name, title):_________________________Organization name: ___________________________Phone: __________________Email:_____________________________

1. Program Outcomes: For each year 2016-2021, please fill in your outcomes in the appropriate lines. 2018 outcomes should be year-to-date. 2019-2021 outcomes should be your best estimates. Give numbers for completions by year, not "starts." Please list funding sources in shorthand such as CDBG, HOME, FLHB, LIHTC, loans, donations etc. "Pre-2016" outcome numbers can be a rough estimate – to round out "total production to date."

	Pre-2016	2016	2017	2018	2019	2020	2021		Current Funding Sources Used
HOMEOWNERSHIP OUTCOMES BY YEAR								Total	
a. New construction and sales of affordable homes									
b. In row a, how many were/will be deed restricted?									
c. Acquisition, rehab and sales of homes									
d. In row c, how many were/will be deed restricted?									
e. In rows a and c, how many buyers received down payment assistance?									
f. Weatherization of existing homes									
g. Resale of permanently affordable units									
f. Individuals completing pre-purchase counseling									
g. Individuals receiving foreclosure counseling									
h. Buyers receiving your loans to buy existing homes									
RENTAL/SPECIAL NEEDS OUTCOMES BY YEAR								Total	
i. Income restricted rental units completed									
j. Permanent special needs housing units completed									
k. Transitional housing "beds" completed									
l. Emergency Shelter "beds" completed									
OTHER OUTCOMES									
m. Other (describe):									
n. Other (describe):									
o. Other (describe):									

Please answer narrative questions on the second page.

PLEASE TYPE ANSWERS TO THE FOLLOWING QUESTIONS (expand into an additional page if necessary)

2. Current annual operating budget for housing programs (not including invested capital): $ _________

3. Number of full-time equivalent staff or independent contractors working on housing: _____(FTEs)

4. How many rental housing units or special needs "beds" do you own (or control through an LLC): _____ units _____beds Who manages them?_____________

5. What programs would you like to start, expand, contract or eliminate in 2019?

6. What barriers do you see to expansion?

7. How would you describe the current general housing market conditions?

8. What new opportunities do you see in the housing market?

9. New kinds of activities would you like to explore?

10. What do you see as the highest housing priorities in the community?

APPENDIX VII – HOUSING PROVIDER PRODUCTION MATRIX

Housing Provider Production Matrix

Homeownership Outcomes	Pre-2016	'16	'17	'18	'19	'20	'21	Total	Projected	Funding Sources
New construction	121	2	2	2	15	2	2	127	19	HOME funds, Private, RD Mutual Self Help, TIF
Deed restricted?	48	0	0	0	7	0	0	48	7	CDBG, HOME, loans, donations
Acquisition Rehab	8	5	5	10	0	0	0	28	0	HOME DPA
Deed restricted?	1	0	0	0	0	0	0	1	0	
Down payment assistance	20	0	0	0	4	0	0	20	4	
Weatherization existing	1	0	0	0	0	0	0	1	0	
Resale of affordable units	56	0	0	0	0	0	0	56	0	
Pre-purchase counseling	3,628	232	253	262	33	25	25	4,375	83	HUD, MT Housing, NeighborWorks
Foreclosure counseling	302	11	23	1	0	0	0	337	0	
Receiving loans to buy homes	0	7	2	0	0	0	0	9	0	

Housing Provider Production Matrix cont'd.

Rental / Special Needs Outcomes	Pre-2016	'16	'17	'18	'19	'20	'21	Total	Projected	Funding Sources
Development of Income-restricted Units	589	131	166	0	0	200	0	886	200	LIHTC, HOME, CDBG, FHLB, grants, loans, donations, TIF, NW Energy solar program
Acquisition of Income-restricted Units	8		161	0	0	0	0	169	0	
Permanent Special Needs	14	0	0	0	0	0	0	14	0	HOME, MHA funds
Transitional	55	0	0	0	0	0	0	55	0	HOME, Section 8, private, VA, MHA funds
Emergency Shelter	118	0	0	0	0	151	0	118	151	CDBG, New Market Tax Credits, private, loans
Other Outcomes										
Housing Choice Vouchers	774							774	0	
Tenant Based Transitional Vouchers	0	0	0	0	0	0	0	0	0	
Rental Assistance in Market Units	88	123	236	280	280	280	280	1,567	840	HUD CoC; DOJ OVW Transitional, Missoula County CAF, private
TBRA	18	25	24	0	0	0	0	67	0	HOME TBRA
Resident Ownership Units	67	0	0	0	0	0	0	67	0	CDBG, CDFI loans from ROC USA Capital, NeighborWorks Montana

Note: Blank cells indicate missing data.

APPENDIX VIII — REPORT REFERENCES AND LINKS

All reports and documents linked and referenced in this Housing Policy can be found at the Office of Housing & Community Development webpage here: www.ci.missoula.mt.us/housing.