WORKFORCE HOUSING
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The lack of affordable housing is become more and more of an economic development issue. There is confusion about the term workforce housing. Some people think it is a euphemism for low-income or affordable housing. Today, we're talking about housing for the workforce – middle-income, middle class people who have a job and go to work every day. This term is also used to describe housing for a certain income range, usually 80 to 120% of Area Median Income. In different places, it means different things.

Why should local governments promote affordable or workforce housing? In the past, the reasons local governments got involved in housing issues were social equity, for the health and safety of the community or getting the homeless off the streets. However, the new reasons are to provide housing for public servants like school teachers, firefighters, police,, retail workers, hospital workers, or others we need to support our community or our major businesses. Some of the reasons we should be concerned about workforce housing is because attracting and retaining workers is difficult if there is not enough housing that they can afford within a reasonable commute. Studies have shown that there is increased absenteeism or people are forced to take an entire day off for a doctor's appointment if they cannot live within a reasonable distance of work.

How did this become an issue? In the Washington metropolitan area, job growth has outpaced housing supply. At the same time, the income gap has widened, with a higher percentages of upper income and low income people, and a shrinking middle class. Wages are stagnating and people have to "drive until they're qualified" for a home they can afford. On the supply side, many local governments are imposing growth controls or impact fees that increase the cost of housing. The federal government has reduced its role in providing low- and moderate-income housing. Many of the subsidized units that have existed are expiring and are being brought up to market rate. Construction costs have increased dramatically. Creative mortgages have allowed people to pay more for a house than they should have – this has helped keep prices high.

The result of these economic forces has been that the shortage of housing means prices have bid up. Middle income people have competed for a smaller number of houses, increasing the prices. Set asides for low-income people squeezed moderate-income people. Upper income people beat out the middle class. The large group of baby boomers and elderly stayed in their houses. The bottom line is that new people moving in and younger people are the most squeezed.

In Montgomery County from 1995 to 2006, median incomes have remained flat. New single-family homes have increased rapidly in cost to over $700,000. Median income people cannot afford the prices of single-family homes – it has "gone out of whack." Housing completions are dropping overall, despite the problem of affordability, perhaps due to impact fees, growth controls, a lack of developable land and other issues. Ms. Davison did a calculation to try to see if Montgomery County had tried to house the entire increase in employment, how many houses would have been needed versus the number of houses actually built? Job growth produces a need for a certain amount of housing, but the actual housing growth is much less. It is a compounding shortage.

There are many unintended consequences of many planning policies on housing prices. Restrictions on housing and Adequate Public Facilities Ordinances have reduced the amount of growth allowed in a given jurisdiction. We need to be aware of planning policies, which often seem very appealing, and try to evaluate them critically with regard to their impact on the supply of land or the cost of building new housing. These policies can reduce the amount of land for development, which drives up the price of houses. They also can restrict the development of new affordable units. Or they can increase the cost of development or remove buildable land from the market. We may still want to use the planning policies, but we should evaluate them carefully.

Montgomery County is probably most famous for its Moderate Priced Dwelling Unit (MPDU) Program, which was created in 1974. Under this program, 12.5% of new dwelling units were to be MPDUs. A total of over 12,000 units have been produced. A portion of new construction in virtually all subdivisions, including multi-family and single family, have had be set aside for people with moderate incomes – those earning between 65% and 70% of Area Median Income. People have to be income qualified and are selected by lottery. If their name is called, they can look at the unit and purchase it at a price affordable to them in their income range. Owners could only sell it at a controlled price. Prices were first controlled over a 10-year period, and this was later extended to 30 years. Owners split their windfall profits with the county 50-50 at the end of the control period. Design controls are enforced to ensure that all units are compatible with their neighbors.

Montgomery County's Workforce Housing Program was created in 2006. It is an add-on to the MPDU program, and is targeted to people at 70% to 120% of Area Median Income. A total of 22.5% of the units, located only in transit station areas, can be Workforce Housing Program units. The program allows developers a density bonus of 1 to 1 for workforce units. This program applies to higher density development only. None of these units has been built yet.

Montgomery County also has identified 10-12 pieces of underutilized surplus public land. The county is putting them out to bid for development, with a requirement that they be mixed-income housing. They often also require a public facility to be built, such as a parking garage or library. The land price is reduced from market rate. The county controls the cost of housing over time through covenants. In Silver Spring, the county put out an RFP for a turnkey library with housing on top of it, some of which is affordable housing. The county assembled the needed land, used the complete density zoned for the site, and will have a mix of units. The additional funds that are being garnered from the sale of the air rights will be used to pay for the land and reduce the price of the library. There is a surface parking lot in downtown Bethesda near the restaurants and shops. The county has worked with the parking lot district that owned the property. They are going to build a 1,300-space underground parking garage with ground floor retail and 200 dwelling units above, including market-rate, MPDU and

Workforce Housing units. Both are win-win situations and utilize the scarce resources of the county.

When Ms. Davison became Montgomery County's Director of Housing and Community Affairs in the mid-1990s, there were a few neighborhoods that were shaky. Using existing resources, the county created the "Neighborhoods Alive" program to stabilize and upgrade some of these neighborhoods to make them more marketable to younger households. People in Connecticut Avenue Estates were trying to sell their houses, but were unable to, so in some cases, they simply walked away from the properties. Many of the houses were being rented out, some to drug dealers, and there was a lot of instability. The county got a non-profit under contract, and gave them a $1 million revolving loan fund to buy and do a gut rehab to make the houses liveable, including new kitchens, new HVAC systems, adding bathrooms, adding landscaping, finishing basements, and other improvements. The county also started enforcing codes, had neighborhood clean-up days, and used CDBG money to build a neighborhood park. The code inspectors used the housing code to shut down a drug house that the police had been unable to shut down. The county took existing resources and concentrated them in shaky neighborhoods that needed stabilizing. This program requires partners in the community and working with non-profits. Taking a neighborhood that could have been written off and revitalizing it has been a very effective way to create workforce housing and turn it into an asset for moderate-income workers.

Another tool the county has used is offering rehabilitation loans to low- and moderate-income homeowners with houses that need renovation or replacement. In one neighborhood they did about 120 rehab loans. They had a group of licensed, bonded and insured contractors. They worked with the homeowners to write up the specifications of what needed to be done. They offered the homeowners low-interest loans that were crafted to their financial circumstances. This program made the community more liveable and more attractive.

Replacement homes is a similar idea for homes that cannot be rehabilitated. The county uses CDBG funds to tear down houses and build new ones, putting a lien on the property. The county does about eight or 10 replacement homes a year.

In Montgomery County, the Housing Trust Fund program was established in 1989. It has become much more of a tool than the MPDU program because the level of new construction in the county, which is what MPDUs are tied to, has dropped off. The program began with $3 million, then $6 million, and then it jumped to $16 million. A bill was passed to require that a minimum of 2.5% of property tax revenue, or a minimum of $16 million, go into the Housing Trust Fund. This year, the program is funded with $30 million. The funds are used for soft second loans given to non-profit or for-profit developers to build new housing or rehab existing run-down properties, fix them up and make them affordable. They are low-interest loans – interest only or deferred payment – that are often layered with other programs. So far, the Housing Trust Fund program has produced over 8,000 units of housing.

The Maryland Department of Housing and Community Development has put a lot of money into the county's deals, and sometimes federal money has been used. The program leverages $6 for every county dollar. One example is Stewartown Homes, 99 very run-down townhouses, a third of which were uninhabitable, which has been rehabilitated and now has a new community center which offers after-school training for the neighborhood kids and job training for the adults. The Montgomery Arms apartment complex in downtown Silver Spring was rehabbed and kept affordable.

Montgomery County has provided $1 million in funding to the Housing Opportunities Commission to provide grants of up to $5,000 to local government employees. A state program can match that money. Employers are getting into this in a fairly large way because they can't attract employees because the potential employees cannot find affordable housing. Employers also want to reduce worker commutes and increase employee attendance and performance. Employers are providing employees with cash subsidies, counseling and the actual development of housing. A lot of this is creative financing, and this is a trend that is growing across the country. Employers include larger institutional employers like universities and hospitals which have a lot of low- and moderate-income employees.

Land trusts are getting a lot of interest. They have the greatest track record in New England, particularly Vermont. Land trusts separate ownership of the land and the dwelling units. The land is held in a trust, and the owner purchases the house for less than if the house and the land were combined. When the owners sell the house, they get a portion of the appreciation. Different programs are set up differently, and the percentages vary. This has worked in the District of Columbia in some gentrifying neighborhoods. It requires some caution and looking at the local housing market before creating the program.

Other jurisdictions are being creative about affordable housing. Illinois is giving tax incentives to employers to provide grants and housing counseling, using a non-profit. Some Virginia jurisdictions are giving people grants of between $20,000 to $50,000, subsidies to new employees to move into their jurisdictions. Fairfax County has worked with a developer to build a multi-family community solely for local government employees. Some developers have creatively marketed their dwelling units to public servants.

Local communities need to evaluate the balance of housing and jobs, recognizing there will be commuting between jurisdictions. Communities' land use plans need to designate land for affordable townhouse units. They need to try to increase density to moderate density, not high density. They should not require developers to provide expensive amenities unless they are essential. Communities need to expedite plan approvals for developments with affordable units. Montgomery County started a green tape (not red tape) zone that put plans with affordable units at the top of the list to be processed. It's important for counties to find partners in their communities, including non-profit groups, church groups and major employers, to make more workforce housing available.

Questions and Answers

In response to a question about Maryland's Live Near Your Work program, Ms. Davison said the program applied to very limited specified geographic areas, and did not have a lot of funding. People received up to $3,000 to put toward the price of a house. Ray Skinner, Secretary of the Maryland Department of Housing and Community Development (DHCD), said the State currently has employer-assisted housing programs, where it works with employers to provide people with down payment and closing cost assistance. DHCD offers several different matching programs that are a partnership between the State and employers. Steve Silver, DHCD's Chief Financial Officer, discussed the More House 4 Less program, which provides down payment and closing cost assistance, among other things. In the House Keys 4 Employees program, the State matches up to $5,000 from the local government. In Montgomery County, people can get up to $5,000 from the county and $5,000 from the State through this program. DHCD recently launched the Smart Keys program, in which the State match is doubled for people who live within 10 miles of their employment. Thus, in Montgomery County, people can get up to $5,000 from the county and $10,000 from the State through this program. The State funds are a 0% deferred second mortgage loan that goes along with the More House 4 Less first mortgage program. More House 4 Less also provides help with down payment assistance outside the double match. People can get another $3,500 installed second or 2% to 3% for higher purchase price homes. People in Montgomery County can get up to $24,000 in mortgage assistance on a $300,000 house.

In response to a question about the difference between the Housing Opportunities Commission (HOC) and the Department of Housing and Community Affairs, Ms. Davison said the HOC is a public housing agency and a housing finance agency originally set up by the State. It focuses primarily on low-income housing and runs the Section 8 and public housing. However, it also develops mixed-income housing communities and provides housing financing.

In response to a question about income limits in inclusionary zoning, in Montgomery County it is 65% to 70% of Area Median Income, the low end of workforce housing. An additional 10% of units have been set aside for people with slightly higher incomes, up to 120% of Area Median Income. There are many advantages to these programs because housing is dispersed throughout the jurisdiction. People across the country recognize you can't put low- and moderate-income housing all in one place because it creates social issues. There is even moderate priced housing in Potomac.

In response to a question about MPDUs, the units blend in on the outside, but inside they often don't have granite countertops and high-grade carpeting. The first units built in the 1970s were clustered, and this created problems. The Planning Commission now looks at the developer's plans and then designates which lots will be MPDUs.