

Fairfax County Department of Housing and Community Development
STAFF REPORT
Encouraging Private Sector Workforce Housing

October 27, 2008

Overview: *According to the George Mason University Center for Regional Analysis, Fairfax County will need 63,660 net new housing units affordable to households earning up to 120 percent of the Area Median Income (AMI), based on projected job growth through 2025.*

While Fairfax County has taken dramatic steps to both preserve affordable housing and foster the development of new workforce housing to meet this need, significant opportunities exist to leverage capacity of the private sector to develop workforce housing. Fairfax County is a leader in the development of innovative workforce housing policies and programs nationally. However, the workforce housing programs of other jurisdictions offer some models that could be successfully replicated in Fairfax County to further encourage private sector workforce housing.

Fairfax County Affordable Workforce Housing Needs Through 2025: A Snapshot		
New units needed affordable at up to 120 percent AMI*		63,660
<i>Less</i>	<i>Workforce Dwelling Units in Pipeline</i>	<i>845</i>
	<i>Affordable Dwelling Units in Pipeline</i>	<i>897</i>
	<i>Planned Magnet Housing units</i>	<i>135</i>
Remaining units needed by 2025		61,783

* Source: George Mason University Center for Regional Analysis

Background: At its meeting on July 21, 2008, the Board of Supervisors directed staff to explore and consider meaningful actions or policies that Fairfax County could enact to facilitate the efforts of the private and public sector to address the shortage of affordable, workforce housing. This report constitutes the staff response to that request, and includes: 1) An analysis of the need for affordable and workforce housing in Fairfax County; 2) A review of steps already taken by Fairfax County to encourage the development of workforce housing; 3) Public/Private partnerships for workforce housing in Fairfax County; 4) Financing products available from the Fairfax County Redevelopment and Housing Authority (FCRHA); 5) An analysis of opportunities to encourage the development of workforce housing by employers in Fairfax County; and 6) Workforce housing models in other jurisdictions that could be replicated in Fairfax County.

I. The Need for Affordable and Workforce Housing in Fairfax County

Over the last two years, the Fairfax County Redevelopment and Housing Authority (FCRHA) has commissioned studies by the George Mason University Center for

Regional Analysis, looking at different aspects of affordable and workforce housing in Fairfax County.

The first study, conducted in 2006, was intended to identify factors and trends the FCRHA could use to establish an appropriate definition of the term “moderate income”, for the purpose of its rental housing programs. The Center for Regional Analysis evaluated Fairfax County data in terms of:

- 1) The amount of total income families have available for housing needs;
- 2) The impact of family size on the ability to afford housing;
- 3) The cost and condition of available housing;
- 4) The ability of individuals and families to compete in the private housing market and pay for market-rate housing; and
- 5) Other factors, including standards established by federal housing programs to determine eligibility based on income, and commuting and household-migration trends.

The report concluded that, because the income available for Fairfax County families to spend on housing was under “severe pressure” due to the rising costs of expenses such as energy and medical care, homeownership was out of reach for households earning 120 percent of the AMI and below. While the study did not specifically recommend a definition of “moderate income”, the research made a compelling case that incomes for a family of four need to be as high as 94 to 115 percent of the median income (depending on family composition) in order to live and work without public assistance or subsidies. (The FCRHA defined “moderate income” as up to 100 percent of AMI.) Further, the study predicted that the market will put great pressure on rent levels and rents can be expected to rise. Additionally, the study states that while the County has become an “economic powerhouse” in terms of job growth, the jobs in the county are increasingly being held by non-resident in-commuters and this trend is expected to accelerate.

The current decrease in housing prices may have relieved some of the pressure in the sales market; however, tighter credits standards, a continued reasonably healthy job market and above average housing prices compared to the rest of the country continue to make Fairfax County a profoundly challenging housing market for low- and moderate-income working households. This is particularly true for new entrants into the housing market who are coming to pursue new jobs in Fairfax County.

The Center for Regional Analysis additionally evaluated the future need for affordable and workforce housing in Fairfax County based on projected job growth. In this work, it found that in 2007, Fairfax County had approximately 674,000 jobs, rivaling the District of Columbia as a job center. At that time, the Center for Regional Analysis projected that Fairfax County would add nearly 200,000 jobs by 2025 – an increase of 29 percent. New workers in the accommodation and food services, administrative support, waste management, health and social assistance services, and education services sectors were anticipated to “have the most difficulty finding affordable housing” in Fairfax County.

In order to house 65 percent of these new workers who earn 120 percent of AMI and below, the Center for Regional Analysis found that Fairfax County would need 63,660 net new housing units by 2025.

The Center for Regional Analysis stated in its reporting that Fairfax County’s economic vitality is “inextricably tied” to its response to the need for affordable workforce housing, and that the county’s continued growth is “highly dependent” on the availability of housing that is “affordable to workers from the full spectrum of the economy”. The Center for Regional Analysis further concluded that “failing to plan for a balanced supply of housing in the future will reduce the County’s opportunities for economic growth”, resulting in the out-migration of businesses, reduced availability of personal and business services, and a decline in “livability”.

(Copies of the George Mason University Center for Regional Analysis studies are attached.)

II. Review of Steps Taken by Fairfax County to Encourage the Development of Workforce Housing

Workforce Housing Policy: In the fall of 2007, the Board of Supervisors took a groundbreaking step toward meeting the challenge of producing the 63,660 new affordable workforce housing units Fairfax County will need by 2025: the Board created Fairfax County’s new Workforce Housing Policy, via amendments to the Comprehensive Plan and the Zoning Ordinance.

The amendment to the Comprehensive Plan created a proffer-based incentive system designed to encourage the voluntary development of new housing affordable to a range of moderate-income workers earning up to 120 percent of the Area Median Income (AMI) in Fairfax County’s high-rise/high-density areas. The Plan now provides for a density bonus of up to one unit for every workforce unit provided by a developer, with the expectation that at least 12 percent of units in new developments be affordable or workforce housing. The amendment to the Zoning Ordinance accommodates any density bonus associated with the provision of workforce units through proffered rezoning applications. Other amendments to the Comprehensive Plan as a part of this action by the Board included:

- Expanding the definition of “Affordable Housing” to include “Workforce Housing,” to recognize that persons living in units produced under the Affordable Dwelling Unit (ADU) program and other Fairfax County housing programs represent a critical segment of Fairfax County’s workforce;
- Adding a definition of “Workforce Housing” to include rental and for-sale housing affordable at up to 120 percent of the Area Median Income (AMI), and stating that the intent of the Workforce Housing initiative is to encourage affordable housing in Fairfax County’s Mixed-Use Centers (such as Tyson’s Corner); and

- Adding a policy that ADUs and Workforce Housing Units shall constitute a minimum of 12 percent of all new residential units.

The Board's actions implemented, as policy, the major recommendations of the Board-appointed High-rise Affordability Panel. The Panel was appointed by the Board to develop policies to promote the development of new affordable housing in projects using high-rise construction. The Panel worked for nearly two years to develop its recommendations, which included the 12 percent affordable/workforce housing expectation, bonus density, and the income range implemented by the Board's actions.

As of the end of FY 2008, a total of 845 Workforce Dwelling Units had been committed by private developers in rezoning actions approved by the Board of Supervisors, representing about 1.3 percent of the 63,660 units needed by 2025. It is anticipated that the first of these units will be delivered in 12 to 18 months, depending on market conditions.

Affordable Dwelling Unit (ADU) Program: The ADU program continues to play a vital role in new affordable workforce housing production. As of September 30, 2008, total of 3,162 rental and for-sale ADUs had been committed by developers via the rezoning process since the inception of the program in 1991. A total of 2,265 ADUs have been constructed and 897 units are pending construction. These 897 units represent about 1.4 percent of the 63,660 net new units needed by 2025.

Magnet Housing Program: The FCRHA has developed an innovative approach to partnering with both public and private employers to provide affordable workforce housing: the Magnet Housing Program. This program currently includes 48 units within the Fairfax County Rental Program (FCRP), which are rented to nurses, teachers, county government and school employees, and police and fire cadets through cooperative agreements with INOVA Health Services, the Fairfax County Department of Human Resources and the Fairfax County Public Schools. A total of 30 units of Magnet Housing at an FCRHA-owned site on West Ox Road (Sully District) are also included in the FY 2009 – FY 2013 Capital Improvement Program adopted by the Board of Supervisors.

Affordable Housing Preservation: The Board of Supervisors Affordable Housing Preservation Initiative and the Penny for Affordable Housing Fund continue to be effective means of slowing the loss of affordable housing in Fairfax County. As of the end of Fiscal Year 2008, a total of 2,224 affordable units had been preserved since the inception of the Preservation Initiative in April 2004. It should be noted that between 2002 and 2008, a total of approximately 9,305 rental housing units affordable at 70 percent of the AMI and below have been lost to rising rents, redevelopment, and condominium conversions. Without the Preservation Initiative and the investment of the Penny Fund, the loss of affordable housing would have been closer to 11,500 units.

There are a total of approximately 1,877 new Workforce Dwelling Units, ADUs, and Magnet Housing Units that have received an approval by the Board of Supervisors and are pending construction; these units constitute 2.9 percent of the 63,660 new affordable workforce housing units needed in Fairfax County by 2025.

Workforce Housing Summit: In June 2008, the Fairfax County Board of Supervisors and the FCRHA conducted a successful all day summit to focus on the need for workforce housing and to generate creative ways to address that need. Over 200 attendees, representing the business community, transportation officials, educational institutions, financial institutions and developers, came to the summit.

III. Public/Private Partnerships for Workforce Housing in Fairfax County

There are a number of critical public/private partnerships which have the potential to yield affordable workforce housing:

Residences at the Government Center (Springfield District): As one of the County's largest employers, the Board of Supervisors has been exploring the use of a portion of the Government Center campus for the development of affordable workforce housing. The potential development, known as the "Residences at the Government Center", would provide approximately 270 units of affordable workforce housing, serving incomes ranging from 50 percent to 100 percent of AMI. Fairfax County is in negotiations with JPI, one of the nation's largest multifamily developers, for the development of the site. It is anticipated that "The Residences at Government Center", if built, would serve primarily Fairfax County and Fairfax County Public Schools employees. This privately-built development would have no Fairfax County funds; the County's contribution is the land, via a ground lease.

Kingstown Regional Library Site (Lee District): In 2006, Fairfax County received an unsolicited proposal under the Virginia Public-Private Education Facilities and Infrastructure Act of 2002 (PPEA) for the development of the Kingstowne Regional Library site, to include workforce and active senior housing. It is anticipated that the 105 units of workforce housing on the site will serve nurses, teachers, and potentially other persons in critical, difficult-to-recruit jobs in the public and private sectors, earning up to the Area Median Income. Negotiations with the developer on the comprehensive development agreement are ongoing, and early design work has begun.

East County Human Services Center (Mason District): Also under PPEA, Fairfax County received an unsolicited proposal to replace a homeless shelter and construct a new human services center in the Bailey's Crossroads area (Mason District), in exchange for County owned property. The proposed new center is expected to be approximately 175,000 square feet, modeled on the successful South County Government Center and will include a homeless shelter to replace the current Bailey's shelter, and potentially affordable workforce housing. Preliminary review and analysis are underway to determine the feasibility and funding availability for the plan.

IV. Financing products available from the Fairfax County Redevelopment and Housing Authority (FCRHA) and the Fairfax County Economic Development Authority (FCEDA)

FCRHA: The FCRHA provides a variety of financing options to developers of affordable workforce housing. The Affordable Housing Partnership Program (AHPP) serves as the gateway to the FCRHA's principal sources of affordable housing funds: the Penny for Affordable Housing Fund (Fund 319), the Housing Trust Fund (Fund 144), the Community Development Block Grant (federal, CDBG; Fund 142), and the HOME Investment Partnership Grant (federal, HOME; Fund 145). Financing is provided for pre-development activities such as feasibility studies, market studies, appraisals, and for the construction, acquisition and rehabilitation of affordable housing. The FCRHA can issue tax-exempt bonds, which are an important tool available to affordable housing developers. Tax-exempt bond financing provides long-term below market interest rate financing for the construction, acquisition and rehabilitation of affordable rental housing. The FCRHA has issued over \$500 million in tax exempt bonds in its 40 year history.

FCEDA: The FCEDA does not currently offer workforce housing incentives to businesses. However, the FCEDA has the authority to issue tax-exempt revenue bonds to be used in financing the acquisition, construction or equipping of various types of facilities. Applicants must be non-profits or constructing a for-profit "manufacturing facility". The FCEDA has, in the past, used its bond authority to finance senior housing, but in a county with a housing authority, such as Fairfax, the financing of housing by an economic development authority is limited.

V. Opportunities to Encourage the Development of Workforce Housing by Employers/Private Sector Fairfax County

While the programs described in Section II represent significant first steps toward producing 63,660 new affordable workforce units by 2025, there are other potential opportunities for the private sector and employers to meaningfully participate in meeting this challenge.

High-Rise Affordability Panel: The High-Rise Affordability Panel made a number of other important recommendations aimed at enhancing the capacity of the private sector and employers to provide affordable workforce housing, including:

- *Affordable Workforce Housing in Commercial and Industrial Districts:* The High-Rise Panel recommended allowing, via a mechanism such as the Special Exception process or the development of a by-right prototype, affordable workforce housing in commercial, industrial, and mixed-use districts, under certain conditions and restrictions. Essential to this element of the Panel's work was its recommendation that employers with campus-type facilities in commercial and industrial districts should be allowed to use a portion of their land to provide affordable workforce housing for their employees. The Panel recommended that the affordable workforce

component of any residential development permitted in commercial or industrial districts should not count against the planned density or intensity of the property, within reasonable limits. It was this recommendation that the Panel anticipated would produce the most affordable workforce housing over the long term.

One major employer constructing housing on its campus is George Mason University. The university is building 55 multifamily and townhouse rental units for faculty and staff, with a goal of helping the university more effectively recruit and retain employees. The units will be available to qualifying employees based on a priority system and leased to tenants for up to three years. The transitional nature of the units is designed to give new entrants into the high-cost Fairfax County housing market time to secure long-term housing solutions. Tenancy will be tied to maintaining tenant's employment with the university. It is anticipated that these units will be delivered by the fall of 2009.

- *Regulatory "Toolbox":* The High-Rise Panel also recommended that Fairfax County develop a toolbox of regulatory actions to "green tape" development projects providing affordable workforce housing, including but not limited to:
 - Parking: Designating Workforce Dwelling Units in Development Centers as eligible for a reduction and/or flexibility in parking requirements. The Panel acknowledges the Planning Commission's ongoing Transit Oriented Development efforts and the related parking study, and recommends that this issue be studied as part of that effort;
 - Processing Time: Decreasing the processing time of rezoning applications, site plans, and building permits for projects providing substantial affordable workforce housing;
 - Development Fees: Moderating, as appropriate and where possible, development fees such as processing fees and granting the reduction or waivers of other development-related fees to the extent possible;
 - FAR Calculations: Modification of the Zoning Ordinance so that the square footage associated with Workforce Dwelling Units is exempted from Floor Area Ratio calculations; and
 - TIF: Tax district tax increment financing (TIF) to offset infrastructure costs and certain other development charges.
- *Land donations:* The High-Rise Panel recommended that Fairfax County develop a process and structure to accept and manage suitable land donated by developers and private individuals. The sole purpose of such donations, as envisioned by the Panel, would be for the development of affordable workforce housing. The Panel recommended that staff evaluate the relative benefits and drawbacks of a) the Board of Supervisors or the FCRHA directly accepting donations and making grants, leases, or sales to qualified non-profit affordable housing-producing organizations; and b) the creation of a non-profit community land trust or similar organization to accept and manage land donations.
- *Condominium fees:* The High-Rise Panel also identified condominium fees, particularly in high-rise construction in the county's high-density employment

centers, as a barrier to affordability. The Panel recommended that Fairfax County establish a policy to mitigate the impact of condominium fees for purchasers of affordable workforce units. Examples of such means could include: 1) for those at the lower end of the income range, the County could provide financial assistance to the FCRHA reduce the impact of condominium fees; and 2) a developer fund, endowed by contributed funds, could be established to provide a subsidy for condominium fees.

Other Concepts: In addition to the ideas raised by the High-Rise Affordability Panel, staff has also identified other concepts which may warrant further consideration in Fairfax County:

- *Transportation/Workforce Housing Linkage:* The Urban Land Institute (ULI) Terwilliger Center for Workforce Housing is developing an employer-assisted housing demonstration project with Emory University in Atlanta, Georgia. Under this project, the university would provide down-payment assistance to qualifying employees in exchange for those employees agreeing to use modes of transportation other than their automobiles in commuting to work.
- *Workforce Housing Foundation:* In Rochester, Minnesota, the Mayo Clinic led a coalition of approximately 100 employers and the Rochester Area Chamber of Commerce to create “Rochester First Homes”, a foundation which has raised over \$14 million in pledges and leveraged another \$115 million for workforce housing. As of 2007, Rochester First Homes had exceeded its goal of creating 500 new homeowners and developing 375 rental units. It should be noted that Rochester First Homes programs are open to any area low-income buyers, not just employees of businesses that have contributed.
- *Tax Credits and State Matching Funds for Employer Assisted Housing:* In Illinois, the Regional Employer Assisted Collaboration for Housing (REACH) developed a successful employer assisted housing pilot project, through which an employer provides \$5,000 in down-payment assistance to allow employees to live near their work. The company saved approximately \$100,000 on employee turnover, recruitment and training in the first year of the program. To build on the success of the REACH pilot, the Illinois Housing Development Authority established a state tax credit and matching funds for employers who provide down payment and closing cost assistance. The benefit for an employer is equal to a \$.50 state income tax credit for every \$1 in cash, land, or property that a company invests in employer assisted housing programs that benefit employees earning up to 120 percent of the AMI. As of 2007, over 60 employers were participating and approximately 1,300 employees had purchased a home with their employer’s assistance. It should be noted that replicating this concept in Fairfax County would likely require legislative action at the state level.

VI. Workforce Housing Models in Other Jurisdictions

Staff has also identified three models from other jurisdictions for leveraging the capacity of private sector employers to contribute to the availability of affordable workforce housing:

- Public/Private Partnerships for Homeownership (Arlington County, Virginia): The Arlington County Workforce Housing Initiative is a public/private partnership created to promote homeownership for persons employed within Arlington County. The Workforce Housing Initiative provides special mortgage products and resources, homeownership education, and financial literacy training, and discounts on selected properties from participating residential developers. Currently, there are seven public and private employers participating, with a combined workforce of over 11,000, representing over 6% of the total Arlington workforce.

There is a potential nexus with Fairfax County's Magnet Housing Program model, which markets rental properties through cooperative agreements with public and private sector employers. First-time homebuyer opportunities could be marketed through participating employers to employees in critical or hard-to-fill positions as a means of attracting and retaining their workforce.

- Employer Matching Contributions (Calvert County, Maryland): Calvert County is a participant in Maryland's "More House 4 Less" workforce housing program and the "House Keys for Employees" initiative, an employer partnership initiative that provides matching funds for closing costs and down payments. To receive the Calvert County contribution, participants must be first-time homebuyers and purchase a home in Calvert County. In the Calvert County model, an employer makes a contribution toward closing and down payment costs, which is matched up to \$2,500 with local funds; the State of Maryland then provides a match of up to \$5,000 as a no-interest deferred loan, for a total leveraged assistance amount of \$10,000.

The Fairfax County First-Time Homebuyer Program has sufficient flexibility to incorporate an employer match program. However, any local matching contribution would likely need to be provided as a low-interest deferred loan, rather than a grant, and would be subject to appropriations.

- Affordable and Workforce Housing in Non-Residential Districts; Workforce Housing Contributions for Non-Residential Uses (Marin County, California): Marin County permits affordable and workforce housing in commercial/industrial districts for employees and very low- and low-income households. Marin County also requires contributions for workforce housing from non-residential uses; contributions include providing housing on-site or other alternatives of equal value.

Marin County's approach to allowing affordable workforce housing in commercial/industrial areas is consistent with similar recommendations of the High-

Rise Affordability Panel described above. Implementation of such a policy in Fairfax County would require significant staff study and public input. However, this concept has the potential to produce a substantial number of affordable workforce housing units.

Establishing a requirement for an affordable workforce housing contribution linked to commercial development, outside of the existing proffer system, would require an amendment to the Code of Virginia.

Attachments

Attachment A: *Definition of Moderate Income in Fairfax County*; George Mason University, Center for Regional Analysis; July 2006

Attachment B: *Need for Affordable/Workforce Housing in Fairfax County*; George Mason University, Center for Regional Analysis; November 2006

Attachment C: *Linking Job Growth to Housing: Forecasts of the Demand for Workforce Housing in Fairfax County*; George Mason University, Center for Regional Analysis; June 25, 2008