

# A Regulatory Framework for Workforce Housing in Traverse City

Recommendations from the  
Traverse City Workforce Affordable Housing Ad Hoc Committee

March 2008



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Council of Governments**  
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**Traverse City Workforce  
Affordable Housing Ad Hoc Committee**

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## Introduction: Answering HUD's National Call to Action in Traverse City

Traverse City and the surrounding region have long been considered a thriving, desirable place to live. Natural beauty, small-town character, and a high quality of life have drawn many people to the area over the last few decades. But Traverse City's desirability and the resulting high demand for property in the region has worked to raise real estate values dramatically, even while incomes in the area remain relatively stagnant. Between 1990 and 2005, average home values in the Grand Traverse region increased 167%, while incomes increased only 57%.<sup>1</sup> As these trends continue, they create a community in which many families work, shop, and play—but one in which they can't afford to live.

As northwest Michigan's population grows, this imbalance in wages and home prices is increasingly becoming a concern for communities in the region. The lack of affordable housing has substantial impacts on our economy, transportation systems, schools, and overall quality of life. When many people can't afford to live in urban centers—where the bulk of jobs, shopping, services, and schools are located—they move farther out into the countryside, which creates sprawl, results in longer commutes to work, destabilizes school enrollment, and requires new infrastructure and services in rural areas.

On the other hand, when working people can afford to live in town, near their places of employment, communities witness a number of benefits: businesses get more year-round customers; school enrollment is healthier; a workforce base is present for businesses that want to locate in the area; and traffic congestion eases with the shorter commutes. Without the long commutes and added transportation costs, families have more time and more disposable income, along with the stability their children need to succeed in school.

What can local governments do to encourage a more balanced housing market? Parts of the problem are beyond local control: housing costs are in large part driven by supply and demand. But some local government policies work in conjunction with market forces to impact affordability issues. Zoning and other regulations can affect the availability and price of land and can encourage, deter, or prohibit certain kinds of development. When these regulations contribute to higher housing costs, without a significant corresponding health or safety benefit, they are considered “regulatory barriers” to affordable housing. According to the U.S Department of Housing and Urban Development (HUD),

While often motivated by good intentions, regulatory barriers may be unnecessary, duplicative, or excessive. By limiting overall supply and by adding costs, regulatory barriers impede housing rehabilitation and raise the cost of new development by up to 35%, effectively pricing out many Americans from buying or renting the kind of housing they otherwise could afford.

With its National Call to Action campaign, HUD is working to enlist states, local communities, and affordable housing advocacy groups across the country to commit to regulatory reform that will result in

1. Traverse Area Association of Realtors and Michigan Department of Labor and Economic Growth

## *Introduction*

greater opportunities for affordable housing.

In September 2007, the City of Traverse City joined HUD's National Call to Action, pledging to examine the City's regulations and policies in relation to affordable housing, and working to develop solutions. As part of this effort, the City appointed the Traverse City Workforce Affordable Housing Ad Hoc Committee. The Committee's charge was to "present recommendations by April 1, 2008 to the City Commission, for changes in regulatory and incentive framework which will produce more affordable housing for the Traverse City workforce." Between October 2007 and March 2008, the Committee met twice monthly to discuss City housing issues and policy, and to establish recommendations for a regulatory framework that could result in more workforce housing within the City. This report presents those recommendations and the next steps needed to implement them. Also included in this document are analyses of local housing needs and potential regulatory barriers that may affect the housing market.

The solutions presented are a framework that the City, developers, nonprofits, and other organizations will need in their work to improve the supply of affordable housing, and changes will come gradually and incrementally; results are not likely to be immediate. Nor will any of these initiatives, taken singly, work as a stand-alone solution to the City's affordable housing concerns. But should they be implemented as part of a comprehensive, cohesive approach to housing policy, the City could witness long-term, far-reaching impacts to its citizens' housing choices.



## Traverse City's Affordable Housing Gap

What is affordable housing, and why is it an issue in Traverse City? **“Affordable” housing is simply housing that costs no more than 30% of a household’s gross income.** Housing costs typically include a mortgage payment (principal and interest); real estate taxes; and mortgage insurance. When households pay more than 30% of their income for housing costs, they’re considered cost overburdened, and have less income to spend on expenses such as transportation, medical bills, and groceries. When households are “severely” cost overburdened—paying over half of their income for housing, leaving little room in their budgets for other necessary expenses—they are more likely to enter foreclosure and/or become homeless.

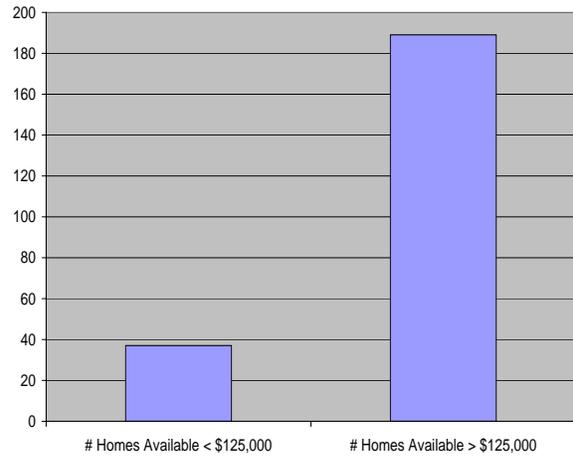
Traverse City has a documented need for housing that is affordable to low- and moderate- income households. The area median income (AMI) is used by HUD and updated annually to measure incomes in a region. A “low-income” household is defined as one that earns 80% or less of the AMI. “Very low income” households earn 50% or less of the AMI, with “extremely low-income” at 30% or less of AMI. In 2007, the AMI in Grand Traverse County for a family of four was \$62,400; to be considered low-income, a family of four would earn \$49,900 per year or less. A Housing Needs Assessment for Grand Traverse County, completed by Community Research Services, LLC in 2003, showed that over 60% of the households within the City of Traverse City are considered low-income, and 36% of the City’s households meet the definition of very low-income or extremely low-income (see Table 1).

| Occupation  | AMI Distribution   | Income (4-person household) | % of city residents in the category | Affordable Sales Price | Affordable Rent |
|---|--------------------|-----------------------------|-------------------------------------|------------------------|-----------------|
| Cashiers, waitstaff, food preparation, cooks, hotel clerks  | Below 30% AMI      | <\$18,720                   | 18%                                 | <\$46,800              | \$468           |
| Nursing aides, home health aides, preschool teachers, library techs, retail sales, child care workers, hair-dressers, janitors, bus drivers, administrative support, bank tellers | Between 30-50% AMI | \$18,720-\$31,200           | 18%                                 | \$46,800—\$78,000      | \$468—\$780     |
| Firefighters, reporters, dental assistants, dispatchers, carpenters, construction, electricians, roofers, graphic designers   | Between 50-60% AMI | \$31,200-\$37,500           | 10.6%                               | \$78,000—\$93,750      | \$780-\$938     |
| Probation officers, counselors, police officers, building inspectors, human resource assistants, editors, elementary school teachers  | Between 60-80% AMI | \$37,500-\$49,920           | 16.1%                               | \$93,750—\$125,000     | \$780—\$1,248   |

*Sources: 2003 Housing Needs Assessment; Michigan Department of Economic Growth, 2006. Affordability is relative to mortgage payment, 5% downpayment, real estate taxes, and mortgage insurance*

For a family of four earning 80% AMI, an affordable home would cost approximately \$125,000. But, according to the Traverse Area Association of Realtors, in 2007, the median sales price for a home in Traverse City was \$163,000. While housing prices have recently been on the decline somewhat, housing prices still make homeownership unaffordable – or unattainable– to a large portion of the City’s population. Of the 231 homes on the market in February 2008, only 37 were priced at or below \$125,000. Nearly half of the homes in this price range were converted 2-bedroom apartments of limited size (under 1,000 square feet), and much of the remaining stock on the market in this price range is aged, in need of repair, and/or below 900 square feet in size. These smaller homes may not meet the needs of families with children; and for households on a budget, updates and repairs on newly-purchased homes aren’t likely to be feasible.

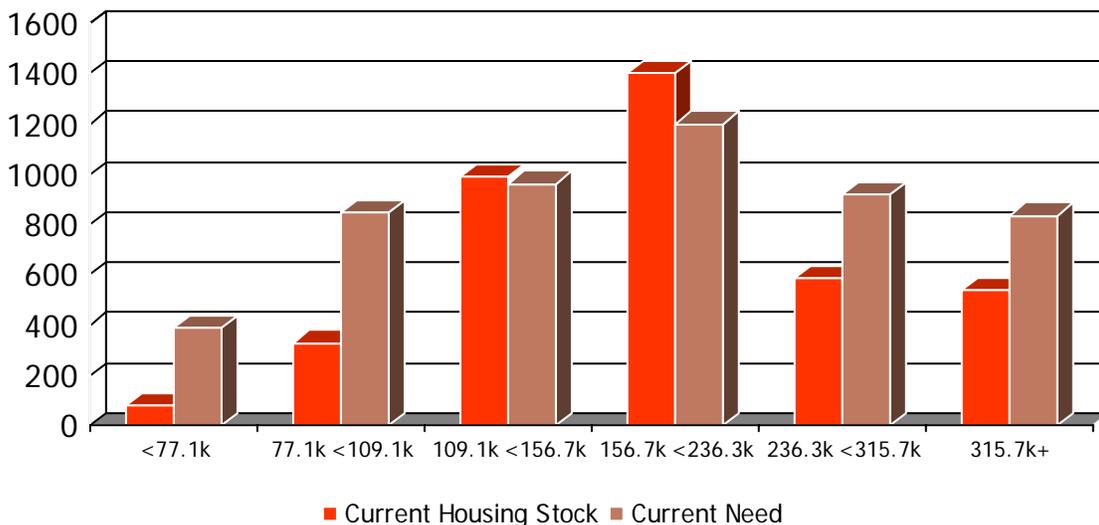
Figure 1: Values of Homes for Sale within the City of Traverse City, as of February 2008



Source: Traverse Area Association of Realtors

A housing needs analysis conducted in 2008 by Fregonese Associates, Inc. (FAI) showed a significant shortage of affordable ownership housing. Based on age and income cohorts, the study showed a need for about 1,236 ownership housing units priced below \$109,000 . But with an existing supply of only 405 units valued at \$109,000 or less, the City is experiencing a serious shortfall of ownership housing in that category—about 831 units, according to the analysis (see Figure 2).

Figure 2: Current Housing Stock vs. Current Need (Ownership Units)



When a community is faced with an affordable housing shortage, a number of situations occur. Households may become cost overburdened, which places them at higher risk for foreclosure and homelessness. To avoid cost overburden, they may choose to live in substandard or overcrowded housing. They may move to less expensive areas – often rural areas without significant services or employment opportunities. Or, they may give up on homeownership altogether, choosing to rent rather than buy. We can see these choices play out in Traverse City's demographics:

|                          | 1970   | 1980   | 1990   | 2000   |
|--------------------------|--------|--------|--------|--------|
| <b>Population</b>        | 18,048 | 15,516 | 15,116 | 14,383 |
| <b>Housing Units</b>     | 5,388  | 6,068  | 6,531  | 6,837  |
| <b>Household Size</b>    | 3.43   | 2.56   | 2.32   | 2.15   |
| <i>Source: US Census</i> |        |        |        |        |

- According to the 2003 Housing Needs Assessment, over 26% of the City's homeowners, and over 36% of renters, were cost overburdened.
- Between 2000 and 2006, the U.S. Census estimates that Grand Traverse County grew by nearly 9%, or about 7,000 people. All of that population growth occurred outside the City, with a slight decrease in the City's population. The fastest growth occurred in rural Fife Lake and Union Townships. According to the 2003 housing study, Fife Lake Township had the lowest housing values – or most affordably priced homes – in the County.
- Just over 40% of the City's households are renters—the highest proportion of rental households in the 5-county region.
- In 2007, the number of foreclosures in Grand Traverse County increased by 62% from 2006 levels, and the rate of foreclosures continues to rise, according to the Grand Traverse County Register of Deeds.

### Future Housing Needs

While Traverse City's population has declined over the last thirty years, the number of housing units continues to rise – reflecting a trend toward smaller household size. In 1970, the average household size was 3.43 households. By 2000, that had dropped to 2.15 people per household (see table 2), and demographic trends indicate that household size will continue to shrink as the population ages and the number of single-person households grows as a percentage of the population. As these trends continue, the City will see an ongoing demand for new housing over the next 30 years.

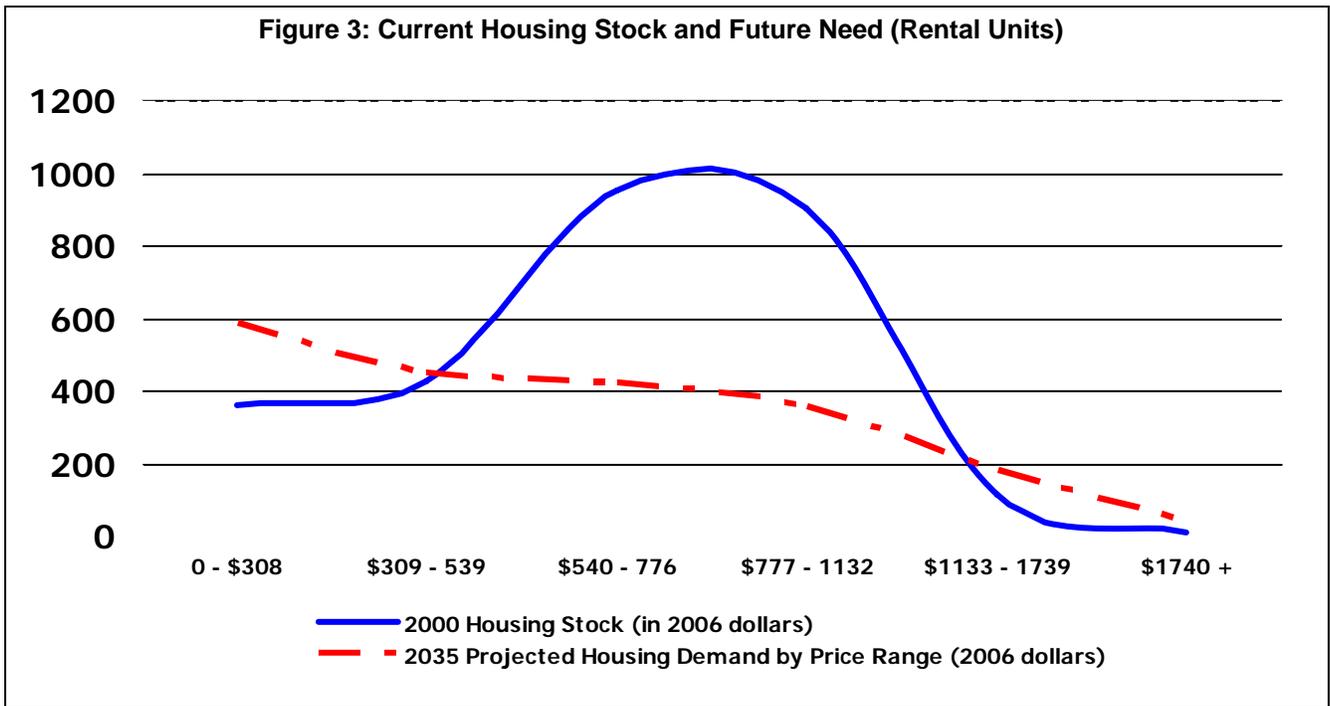
Much of this projected demand will be for new ownership opportunities, according to the 2008 housing needs analysis. To determine future housing needs, this study estimated current housing stock and future demand by income range; then compared the two to determine where shortages and surplus may exist through the year 2035 (see Figures 3 and 4). Findings indicated that:

- A surplus of mid-range rental housing (rents between \$540 - \$1132) exists in relation to existing and projected demand.
- Shortages are expected for both low-income rentals (rents below \$540/month) and higher-end rentals (rents above \$1132) in relation to projected demand (see Figure 2).
- The projected rental surplus is expected to correct itself through “filtering,” meaning that prices for some rentals may drop in order to meet higher demand for low-income rentals; and some properties may be rehabilitated to meet demand for higher-end rentals. Other properties may also be converted to ownership opportunities in order to meet the projected need for owner-occupied housing.

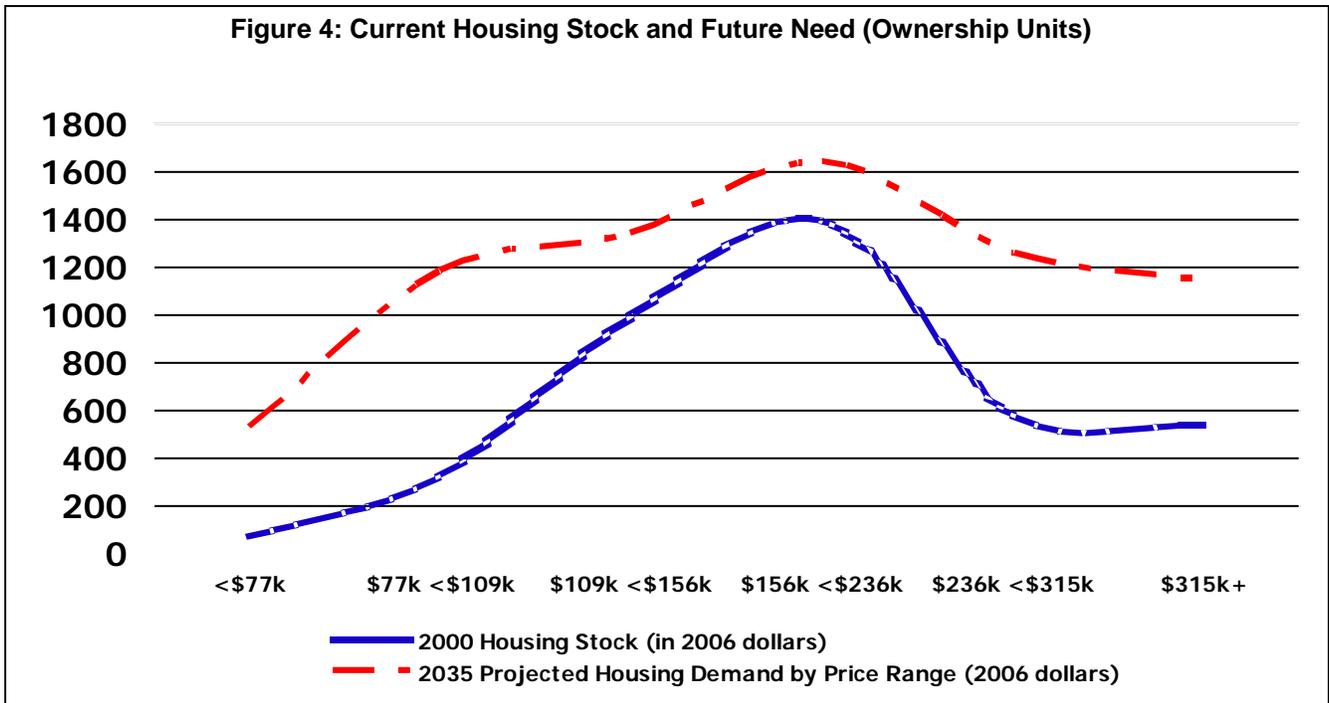
### *Traverse City's Affordable Housing Gap*

- Through 2035, there will be demand across the price spectrum for additional owner-occupied housing. The largest projected shortages of owner-occupied housing are expected to be in the lower- to mid-range price points (workforce housing) and homes at the higher end of the price spectrum (see Figure 3).
- To accommodate both ownership and rental housing needs, the City will need an additional 2,220 units through the year 2035 (see Appendix D).

As part of the housing needs study, a capacity analysis was conducted to determine whether the City has the development potential, in terms of land supply and current zoning framework, to meet the projected need of an additional 2,220 units. The analysis showed that it will be difficult for the City to accommodate the projected demand of an additional 2,220 units, without significant residential redevelopment in commercial districts. If the City is not able to meet its housing demand, shortages for housing across the board will push prices higher yet, throwing the City's housing market—and its economy, schools, and transportation systems—further out of balance. Unless the City takes steps to encourage additional residential development, its limited capacity will exacerbate the City's affordability gap.



Source: Traverse City Housing Needs Analysis, 2008, from Fregonese Associates, Inc.



Source: Traverse City Housing Needs Analysis, 2008, from Fregonese Associates, Inc.





## *A Regulatory Framework For Workforce Housing in Traverse City:* **Potential Barriers**

Housing affordability issues in Traverse City have in large part been driven by economic factors. High demand and limited availability of land have resulted in high costs for real estate within the City limits. Higher taxes, in comparison to surrounding areas, also act as an economic disincentive to living or building within the City, while local government policies and practices work in conjunction with these market forces to further affect affordability issues. Other barriers, such as public awareness and perception, act as de facto barriers in the use or implementation of effective housing policies.

### **Limited Land Supply and Development Opportunities**

Within the City of Traverse City, one of the largest barriers to affordable housing is simply the limited availability and high cost of developable land. According to City property tax records, of approximately 6500 parcels of land within the City limits, there are currently about 131 parcels classified as vacant residential, commercial, or industrial parcels, totaling about 80 acres. 53 of those parcels – totaling about 22 acres – are classified vacant residential, with an average value of about \$69,500. Acreage for these parcels averages slightly less than half an acre.

The limited amount of vacant land represents a significant challenge in adding to the City's housing stock. A capacity analysis was conducted by the Northwest Michigan Council of Governments and Fregonese Associates, Inc., in order to determine the maximum amount of housing units that could occur on developable land under the City's existing zoning regulations. Current zoning densities were applied to vacant land; and a percentage of land in each district was assumed to have some potential for redevelopment.

The results of this study show that the City could accommodate the projected housing demand of an additional 2,220 units **only if** a significant amount of residential redevelopment occurs in commercial districts and multi-family residential districts. Assuming a small amount of residential redevelopment in multi-family residential districts, the City's residential districts have the capacity for an additional 452 dwelling units. Additional residential development could occur in commercial districts, which would significantly increase the City's residential capacity: commercial districts have the capacity for an additional 421 units, and assuming a 5% redevelopment rate occurs in those districts, another 1,360 units could be developed in commercial zones. However, while some residential development could be expected in commercial districts, it's not likely that maximum residential densities will be obtained on commercially-zoned land.

### **Taxes**

Higher taxes, in comparison to surrounding areas, can work as a deterrant to living or building within the City. For a home valued at \$125,000 in the City of Traverse City, property owners would pay about \$2,250 per year in property taxes- nearly \$200 per month. Property taxes for townships within Grand Traverse County range from 5% to 40% lower. It's interesting to note that those townships with the lowest tax rates – Union, Grant, and Whitewater Townships – are also among the five fastest growing townships in the County, according to the U.S. Census, with population growth ranging from 15% in Whitewater Township to 59% in Union Township.

Another tax barrier, of statewide scope, is Proposal A. Proposal A presents a barrier in the form of tax rates that vary depending on the date the home was purchased. Michigan tax laws restrict the amount by which a home's taxable value can grow to either 5% or the rate of inflation, whichever is less. While tax rates are capped based on the time the home was purchased, the home's market value will continue to rise, creating a gap between how much a home is taxed and how much it's actually worth. The law was enacted in order to protect homeowners from rapidly rising tax rates. However, the result is an inequitable distribution of the tax burden: neighboring homes with the same market value can pay significantly different amounts in taxes, depending on when the homes were purchased. The tax caps can also work to discourage homeowners from moving, as a new home purchase would be taxed at a higher rate.

### **Restricted Residential Development**

In 2007, the Northwest Michigan Council of Governments studied potential regulatory barriers found in zoning ordinances and master plans in the Traverse City urbanized area. The study identified a number of strengths (high density zoning, support for various types of residential development, clustered housing and planned unit development options) as well as potential regulatory barriers. One such barrier is an additional layer of restrictions on certain types of residential development

Three types of residential uses or developments – the conversions of single-family homes to two-family homes, temporary accessory dwellings (TADs), and clustered single family developments, all of which have potential for affordability – are subject to special land use review and approval. This means they receive an additional layer of review and must meet specific criteria pertaining to lot size, square footage, age, etc., as well as general special use approval standards. Because some of those standards are subjective (i.e., design must be “harmonious”), some applicants might find it difficult to comply. The added review process and additional approval criteria may work to dissuade some owners for submitting applications for these uses.

### **Low-density Zoning**

Another barrier identified in the NWMCOG Regulatory Barriers study was low-density zoning, which was defined as land zoned at 6 units or less per acre. The Residential Conservation and R-1a districts were identified as low-density. The larger lot sizes required in these districts lowers the overall availability of land and translates into higher costs for land, raising housing costs.

### **Planned Unit Development and clustered single family developments**

Because Planned Unit Developments (PUDs) can take advantage of regulatory flexibility in density, site design, and use, they have more potential to contribute to affordable housing. In Traverse City, PUDs are allowed in any district, but are subject to a 3-acre minimum lot size. In some cases, a PUD could work on smaller parcels. And, because of the limited availability of larger, developable pieces of land in the City, the 3-acre minimum lot size could restrict the opportunities for this kind of development. This is also the case with clustered single family developments, in which regulatory flexibility could contribute to affordability; however, these developments are subject to a 5-acre minimum lot size, which limits the opportunities for this type of project.

### **Review and Approval Processes**

Approval processes may also work as an obstacle to affordable housing, particularly for medium- and higher- density housing developments, which have more potential for affordability. However, complicated, time-consuming approval processes are standard in the reviews of these developments; and when the projects are proposed as a special use or PUD, it can be difficult to determine compliance with subjective approval criteria. This works to create delay and uncertainty for developers, which in turn can raise costs of development and may impact the feasibility of the project. Complex, lengthy review proc-

## Potential Barriers

esses, combined with the uncertainty inherent in those processes, may deter developers from pursuing larger scale projects altogether.

### **Dimensional Restrictions**

Dimensional restrictions—height, setback, lot width and area, density, and impervious surface coverage requirements—are intended to ensure consistent and appropriate development. However, in some cases, inflexible dimensional regulations act as barriers, working to restrict new construction even when lots could be developed appropriately under more flexible standards. By requiring that substantial portions of a lot are left open, setbacks and impervious surface coverage requirements can limit opportunities for development. These restrictions, combined with lot width and area requirements, can prohibit development on smaller lots that may be appropriate for residential infill.

### **Permitting and Fees**

To varying extents, permit and infrastructure fees – which can total several thousand dollars per unit—also add to the costs of development and the sale price of housing. Within the City, many of these costs are associated with building inspections and permits, which are issued by the Grand Traverse County Construction Code office.

### **Public Awareness**

A less tangible issue affecting existing homes on the market is that of public awareness. A number of service providers and lenders offer assistance to income-eligible families in the way of down-payment assistance, low-interest loans, credit counseling, etc. There is a perception that many eligible families may not be aware of these services, which, in some cases, could provide the added leverage that a family may need to purchase a home.

### **Public Perception**

While many people express support for the concept of affordable housing, actual affordable housing projects or initiatives may generate opposition. Public perception of affordable housing often includes stereotypes of affordable housing as unattractive, poor-quality housing that reduces property values. Negative stereotypes can extend to residents of affordable housing, as well, with the perception that these residents are undesirable neighbors. This public opposition can significantly impact public policy and may work to prevent housing initiatives or projects.

### **Working Toward Solutions**

Some of these barriers may be addressed with changes to the City’s regulatory framework; others are more deep-seated issues that will need to be creatively addressed in cooperation with other parts of the community. But whatever the barrier, leadership from the City would provide a crucial first step in working towards effective solutions.





## *A Regulatory Framework For Workforce Housing in Traverse City:* **Goals**

The City of Traverse City is committed to making decent, affordable housing available to all its citizens. To that end, the following goals and policies are proposed to serve as a framework for consistent and predictable decision-making relative to new housing programs and projects.

1. The City of Traverse City shall support and encourage new housing development that is affordable, well-designed, and compatible with the character of surrounding neighborhoods.
2. The City shall support and implement programs that result in the preservation and enhancement of existing housing resources, in terms of livability, historical character, and affordability.
3. City housing initiatives focused on affordable homeownership opportunities shall be directed towards households earning 80% or less of the area median income. City housing initiatives focused on affordable rental opportunities shall be directed towards households earning 50% or less of the area median income.
4. City housing initiatives shall be coordinated in partnership with other agencies and programs for maximum impact.
5. Residential projects seeking City subsidy, including financial subsidy, donation of land, or physical improvements, shall include an affordable housing component.
6. City housing initiatives and partnerships in housing programs and projects shall be consistent with the goals of the City's adopted Master Plan.
7. City housing initiatives and partnerships in housing programs and projects shall be focused in areas of the City that are most appropriate for these initiatives, based on:
  - a. Higher density zoning
  - b. Redevelopment opportunities and potential
  - c. Infrastructure availability
  - d. Access to transportation, schools, shopping, etc.
  - e. Potential for coordinated economic incentives via Neighborhood Enterprise Zones, Brown-field Authority, and Land Bank Authority
8. Housing initiatives involving new construction shall be implemented, where feasible, in partnership with organizations that can guarantee long-term affordability, including but not limited to:
  - a. Homestretch
  - b. Habitat for Humanity
  - c. Traverse City Housing Commission
9. When residential developments include a specified percentage of affordable units, the City shall seek to manage property in coordination with the Grand Traverse County Land Bank Authority.
10. The City shall support efforts towards simplifying and expediting the housing development process.



## *A Regulatory Framework For Workforce Housing in Traverse City:* **Recommendations**

To meet the City's housing goals, the Traverse City Workforce Affordable Housing Ad Hoc Committee proposes the following recommendations for consideration by the City Commission. Appendix A, Regulatory Framework Implementation, includes outlines of the recommendations and steps involved in implementation.

### **High Priority Recommendations:**

- **Inclusionary Zoning Dimensional Incentive:** The Committee and the Planning Commission coordinate to create an inclusionary zoning framework to offer variations in density, lot width, lot area, and impervious surface coverage requirements as incentives for affordable housing components included within new residential developments in specified districts or Planned Unit Developments (PUDs) with an in-lieu fee option, for consideration by the City Commission.
- **Regulatory Flexibility—Miscellaneous Zoning Amendments:** The Committee and the Planning Commission draft zoning amendments to facilitate use of flexible zoning options, for consideration by the City Commission.
- **Housing Trust Fund:** The Committee establishes guidelines, framework, and administrative procedures for a housing trust fund designed to provide assistance to specified households in purchasing or renovating a home, or to eligible nonprofits in new affordable housing programs or projects.
- **Housing Program Awareness:** The City coordinates with other agencies in developing a referral procedure or clearinghouse to encourage and facilitate the use of existing programs, products, and organizations.
- **Partnership with the Land Bank:** The City facilitates affordable housing activities and development through partnership with the Grand Traverse Land Bank Authority.
- **Neighborhood Enterprise Zones:** The City helps to promote property improvements and reduce financial burdens on property owners by designating Neighborhood Enterprise Zones and encouraging investment in those zones.

### **Medium Priority Recommendations**

- **Cottage zoning:** The Committee and the Planning Commission draft zoning amendments to create an option for cottage housing developments.

### **Low Priority Recommendations**

- **Infrastructure Incentives:** The City contributes to infrastructure costs or development when the project includes an affordable component.
- **Streamlined Review:** The City coordinates with Grand Traverse County to investigate opportunities for streamlined review processing for projects that include an affordable housing component.
- **Accessory dwelling units:** The City Planning Commission reconsiders zoning regulations allowing accessory dwelling units (ADUs) as a special use.



*A Regulatory Framework  
For Workforce Housing in Traverse City:*  
**Appendix A:  
Implementation**

**High Priority Recommendation**

**Inclusionary Zoning: Dimensional Incentive Framework**

Under inclusionary zoning, developers include an affordable housing component in their primarily market-rate residential developments. Inclusionary programs can be effective in increasing the supply of affordable housing, without a direct public subsidy. These programs have the added benefit of integrating affordable housing throughout the community, rather than confining new affordable development to a single neighborhood. Ordinances can include design guidelines, requirements for long term affordability, eligibility standards, and other criteria designed to ensure appropriate use of the option.

Voluntary inclusionary zoning ordinances offer incentives to developers who agree to include a certain amount of affordable housing in their projects. Incentives may take the form of density bonuses or flexibility in various development standards, such as setbacks or lot size. Some communities allow developers to pay a fee in lieu of construction the affordable units; fees are often paid into a housing trust fund. Density incentives and voluntary payment of an in-lieu fee may be appropriate in Planned Unit Developments that include an affordable housing component. Incentives resulting in dimensional flexibility may be appropriate for builders pursuing smaller scale projects as a use-by-right under the zoning ordinance, as well as those proposing a Planned Unit Development (PUD).

**Policy Goals:** Encourage the creation of new, well-designed affordable housing, integrated into market-rate development projects and existing neighborhoods.

**Recommendations:** The Committee and the Planning Commission coordinate to create an inclusionary zoning framework to offer variations in density, lot width, lot area, and impervious surface coverage requirements as incentives for affordable housing components included within new residential developments in specified districts or Planned Unit Developments (PUDs) with an in-lieu fee option, for consideration by the City Commission.

**Potential Partners:** City Planning Commission

**Implementation:** Variations in density, lot width, lot area, and impervious surface coverage requirements are offered as incentives in specified districts and PUDs when a specified minimum percentage of a project’s residential component is affordable to low-income households. To obtain PUD incentives, inclusionary units may be provided as part of the project, *or* fees may be paid, in lieu of constructing an affordable unit. In-lieu fee amounts will reflect the actual cost of providing an affordable unit within the project, and will be deposited into a housing trust fund.

Long-term affordability is guaranteed through legal covenant on any inclusionary unit built under incentive provisions.

Design of inclusionary units is compatible with market-rate homes and surrounding neighborhoods.

To qualify for incentive provisions, inclusionary units must be affordable to low-income families, consistent with adopted definitions and eligibility criteria.

Administrative procedures are established to enforce long-term affordability, household eligibility, and guaranteed construction of affordable units.

**Timeline/Start Date:** 6 months

**High Priority Recommendation**

**Regulatory Flexibility: Miscellaneous Zoning Changes**

Because Planned Unit Developments (PUD) and clustered single-family residential projects can take advantage of regulatory flexibility, they have the potential to contribute to affordable housing. However, the City’s minimum lot size requirements for these development types, combined with limited land availability and complicated review processes, work as obstacles to pursuing these types of developments. Removing the minimum lot size for these development types would result in more opportunities for use of these techniques. In the case of PUDs, removing the minimum lot size only for those projects with a residential component would work as an incentive to include a residential component. In the case of clustered single family residential projects, administrative special use permit review would reduce time and costs involved with the review process.

**Policy Goals:** Reduce regulatory disincentives in zoning mechanisms that could be conducive to affordable housing.

**Recommendations:** The Committee and the Planning Commission draft zoning amendments to facilitate use of flexible zoning options, for consideration by the City Commission.

**Potential Partners:** City Planning Commission

**Implementation:** Zoning amendment waives the minimum lot size requirement of 3 acres for Planned Unit Development projects that include a residential component.

Zoning amendment eliminates the minimum lot size requirement of 5 acres for clustered single family housing developments.

Zoning amendment allows administrative approval for clustered single family developments.

**Timeline/Start Date:** 3 months

**High Priority Recommendation**  
**Housing Trust Fund**

Housing trust funds are funds established by legislation, ordinance, or resolution to receive public revenue, which can only be spent on housing. These funds receive on-going revenue from dedicated sources of public funding such as taxes (usually tied to real estate transactions), fees, or loan repayments. Each housing trust fund is designed to meet specific local needs and circumstances. The funds also leverage additional money, such as loans or grants, for affordable housing activities. Some of the activities that can be financed with a housing trust fund include, but are not limited to: downpayment assistance programs, new home construction, rehabilitation programs, property purchases, and grants or loans to affordable housing nonprofits for specified projects. A housing trust fund would allow the City to pursue targeted housing initiatives, such as live-near-your-work programs, financial assistance for home rehabilitation, or new home construction, in partnership with appropriate nonprofits.

**Policy Goals:** Encourage home ownership, home renovation, and other affordable housing activities through financial assistance.

**Recommendations:** The Committee establishes guidelines, framework, and administrative procedure for a housing trust fund designed to provide assistance to specified households in purchasing or renovating a home, or to eligible nonprofits in new affordable housing programs or projects.

The City considers adoption of legislation creating a housing trust fund.

**Potential Partners:** City Housing Commission

**Implementation:** Housing trust fund revenue will be provided by inclusionary zoning in-lieu fees. Other revenue sources will be investigated.

Clear strategic priorities will be established to maximize the impact of housing trust fund programs. Activities of the fund will conform to the City’s housing policy and will include the following activities:

- Down-payment assistance
- Land acquisition
- Grants or loans to eligible nonprofits for new construction, rehabilitation, etc.
- Rental-to-ownership conversion assistance

Administrative procedure ensures household and nonprofit eligibility for funding.

**Timeline/Start Date:** 6—12 months to develop framework  
Implement as funded

**High Priority Recommendation  
Housing Program Awareness**

Many governmental agencies and nonprofit organizations currently offer housing assistance through a wide array of programs –including homebuyer education, low-interest loans, foreclosure prevention, and rental assistance. However, awareness of many of these programs is perceived to be low, and eligible families may miss opportunities to take advantage of these services. A web-based “clearinghouse” approach and accompanying outreach activities to offer guidance on available housing programs and opportunities could provide resources and direction to potential homeowners and other families in need of housing assistance.

- Policy Goals:** Encourage the use of existing programs, products, and organizations in order to leverage financial assistance for families seeking housing in Traverse City.
- Recommendations:** The City coordinates with other agencies in developing a referral procedure or clearinghouse to encourage and facilitate the use of existing programs, products, and organizations.
- Potential Partners:** City Housing Commission, Grand Traverse County, Northwest Michigan Human Services Agency, Michigan State Housing Development Authority, lenders, realtors
- Implementation:** The Committee and staff create an inventory of affordable housing and financing tools available within the City to be incorporated into a clearinghouse resource.
- The City administers an online information clearinghouse and referral assistance resources available from City offices.
- To the extent possible, the City coordinates with other organizations or agencies in clearinghouse activities.
- Timeline/Start Date:** Immediate

**High Priority Recommendation  
Neighborhood Enterprise Zone**

Under Public Act 147 of 1992, qualifying districts within certain cities can be designated as Neighborhood Enterprise Zones (NEZ). Property owners within a NEZ receive tax relief on new homes or on new value added to existing homes. Owners of a newly constructed housing unit will pay the full tax on the land, but only half the state average rate on the new unit. Owners of existing housing may make major renovations without increasing the existing taxes for 12 years. The tax incentives offered in NEZ's can encourage new housing construction or rehabilitation on existing homes, and are used most often used to spur investment in parts of the community where it may not occur otherwise.

- Policy Goal:** Where feasible, reduce housing costs through tax relief on new homes or on new value added to existing homes.
- Potential Partners:** City Assessor, City Clerk, Grand Traverse County
- Recommendation:** The City helps to promote property improvements and reduce financial burdens on property owners by designating Neighborhood Enterprise Zones and encouraging investment in those areas.
- Implementation:** The Committee establishes goals, objectives, and policies for Neighborhood Enterprise Zones (NEZs), and identifies proposed NEZ boundaries.
- The City Commission reviews the proposed NEZ policies and boundaries to determine consistency with the City's Master Plan and City economic development and neighborhood preservation goals.
- The City Commission adopts a statement of the City's goals, objectives, and policies relative to the maintenance, preservation, improvement, and development of housing
- The City Commission adopts a resolution establishing a Neighborhood Enterprise Zone
- Neighborhood Enterprise Zones are identified as preferred housing target areas for inclusionary zoning projects, Land Bank partnerships, and other affordable housing initiatives in City housing policy.
- Timeline/Start Date:** 3 months

**High Priority Recommendation  
Partnership with Land Bank Authority**

Under PA 123 of 1999, Michigan counties can create a Land Bank Authority to take ownership of tax-reverted properties; properties may also be purchased by, or donated to, the Land Bank Authority. Because the legislation allowing land bank authority was created to deal with tax-reverted properties and the problems often associated with them, land banks have a number of management tools available to them that wouldn't exist under standard ownership scenarios, such as:

- Ability to clear “dirty” titles in order to prepare properties for sale
- Ability to hold properties tax-free for other interests, until land is ready for redevelopment
- Automatic eligibility for brownfield status
- Ability to own homes, sell, rent, prevent eviction, sell on land contract, or partner with private developers or nonprofit agencies to redevelop

Land banks can be used to promote affordable housing goals by providing land for affordable development, opportunities for redevelopment, and, in some cases, homes that can be resold at an affordable price.

Grand Traverse County has established and is operating a land bank, for the stated objectives of using appropriate properties “for affordable housing and economic development opportunities, with a focus on collaboration with community organizations and local governmental units.” There may be opportunities for the City to manage property and reduce land costs for affordable development, in cooperation with the Grand Traverse County Land Bank Authority.

- Policy Goal:** Where feasible, reduce land costs for affordable development.
- Recommendation:** The City facilitates affordable housing activities and development through partnership with the Grand Traverse County Land Bank Authority.
- Potential Partners:** Grand Traverse County, Habitat for Humanity, Homestretch, MSHDA, developers
- Implementation:** Where feasible, the City works with developers, nonprofits, and the Land Bank Authority to manage property and lower land costs, when projects include an affordable component (identify threshold).
- City subsidies, including financial subsidy, sale of land at or below actual value, or physical improvements, are undertaken in cooperation with the Land Bank, when such subsidies support the creation or preservation of affordable housing.
- Timeline/Start Date:** Immediate/Ongoing

**Medium Priority Recommendation**  
**Cottage Zoning**

Cottage zoning permits cohesively-designed, higher density developments for smaller homes, which are often sold as condominiums. In “cottage housing developments,” a number of small (600-1,000 square feet in size), single-family homes are clustered together around a commons area. The developments combine the low-maintenance features of condominiums, with the privacy and character of single family homes. The compact, low-impact nature of cottage housing makes it effective as a type of residential infill development, offers an affordable housing option for retirees, singles, and any small households in existing single family neighborhoods. Given the limited amount of vacant residential land in the City, options like cottage housing, which permit compact residential infill, may be an appropriate option for the City.

**Policy Goal:** Create regulatory structure to add to the mix of homeownership opportunities for smaller families.

**Recommendation:** The Committee and the Planning Commission draft zoning amendments to create an option for cottage housing developments.

**Potential Partners:** City Planning Commission

**Implementation:** Density is increased in selected residential districts when projects consist of cottages ranging from 600 to 1,000 square feet in size.

Cottages are cohesively designed around a commons area, with shared parking.

Design is compatible with surrounding neighborhoods.

Cottage development is authorized with a special use permit with administrative approval.

**Timeline/Start Date:** 6 months

**Low Priority Infrastructure Incentives**

For certain projects, developers may find it cost-prohibitive to develop a site due to the costs for construction for infrastructure such as roads, water, sewer, and stormwater management. In some circumstances, the City may be able to offset some infrastructure costs by providing resources for selected site improvements; or by leveraging TIF financing.

**Policy Goal:** Lower development costs by contributing to infrastructure costs or construction.

**Recommendation:** The City contributes to infrastructure costs or development when the project includes an affordable component.

**Potential Partners:** City Engineering, Grand Traverse County

**Implementation:** Where feasible, the City works with developers, the Brownfield Authority, the Downtown Development Authority, and others to lower costs for infrastructure development, when projects include an affordable component.

**Timeline/Start Date:** As opportunity presents

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**Low Priority Recommendation Streamlined Review**

Medium and higher density housing developments have more potential for affordability; but review and approval procedures for larger projects typically encounter more red tape in the form of needed rezonings, variances, hearings, etc. This process can result in delays, which add to the final costs of new housing. Reducing the costs incurred by developers during the review and permitting processes can lower the overall cost of development, and when offered for projects that contain an affordable housing component, expedited permitting can work as a cost-effective incentive through reducing developer costs. In the case of permits that are issued by Grand Traverse County agencies via an intergovernmental agreement, it may be appropriate to explore options for streamlining or increased efficiency, in coordination with the County.

**Policy Goal:** Lower development costs by reducing time lags in the review and approval process.

**Recommendation:** The City coordinates with Grand Traverse County to investigate opportunities for streamlined approval for projects that include an affordable housing component.

**Potential Partners:** City Planning and Zoning, City Engineering, Grand Traverse County Construction Codes

**Implementation:** City departments work with the Grand Traverse County Code offices to develop a fast track review process that coordinates project review and reduces approval times.

City departments coordinate with the Grand Traverse County Code offices to apply fast track review when projects include an affordable housing component

**Timeline/Start Date:** As opportunity presents

**Low Priority Recommendation**

**Accessory Dwelling Units**

Accessory dwelling units (also known as accessory apartments, guest apartments, or granny flats) are small housing units within existing single family neighborhoods. ADU's can be found in the building's interior, such as an apartment in a basement or above an attached garage; or in a detached unit, such as a small guest house or an apartment over an attached garage. Because they're located in existing residential neighborhoods, they help keep residential development compact, with minimal impacts on neighborhood character. Because they're small, ADUs can provide more affordably priced rental housing for small households. with no direct public subsidy.

**Policy Goal:** Create regulatory structure to add to the mix of rental opportunities for smaller families.

**Recommendation:** The City Planning Commission reconsiders zoning regulations allowing accessory dwelling units (ADUs) as a special use.

**Potential Partners:** City Planning and Zoning

**Timeline/Start Date:** Within 5 years

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## **Appendix B: Case Studies**

### **Inclusionary Zoning Incentives, Leelanau Township, Leelanau County**

In their Planned Unit Development language, Leelanau Township permits a density bonus of 25%, if the development includes at least 10% and not more than 20% affordable units in the development. To qualify for the incentive, units must be “affordable” to a family earning less than the median income of Leelanau Township. This incentive is being used in the Timber Shores development south of the Village of Northport. A total of 474 units have been approved, and 24 additional bonus units can be awarded for providing affordable housing in or near the project site and/or in or near the Village of Northport.

### **Inclusionary Zoning Incentives and Housing Trust Fund, City of Ann Arbor**

Ann Arbor provides incentives to developers for creating new affordable housing under two provisions: Planned Project developments, and Planned Unit Developments. Developers generally work out a development agreement with the City in order to obtain the incentives. The agreement is a legal contract that spells out the details of the housing (i.e., rental vs. ownership, design, etc.), how its affordability will be ensured, and how long the units will remain affordable.

One form of incentive is allowed for “Planned Projects,” which permit greater design flexibility. To use the Planned Project option, developers must provide one or more of seven objectives defined by the City. One of these objectives is “affordable housing for low-income households.” Developments under a Planned Project are eligible for dimensional adjustments; however, no change in density or use is allowed under a Planned Project.

Changes in density are allowed in Planned Unit Developments – if a certain amount of affordable housing is provided. When a PUD exceeds the density of the site as permitted by underlying zoning or as recommended by the master plan, by up to 25%, the project must include 10% of the total dwelling units as “affordable” dwelling units. PUD projects that exceed the density by over 25% must provide 15% affordable dwelling units.

The Ann Arbor regulations also allow developers to contribute cash in-lieu of development. Rather than building affordable units in the development, the developer can pay an amount determined by the City Council for each affordable unit that would have otherwise been developed as part of the project. For instance, a PUD that exceeds the density of underlying zoning by 20% in order to create a 100-unit project, would be required to build 10 affordable units. In 2006, the per-unit cash-in-lieu of development established by the City Council was \$89,000; so instead of new housing, the developer would contribute \$890,000. The trend has been towards payment of the in-lieu fee rather than development. Fees are paid to the City’s housing trust fund, which uses the revenue to develop low-income housing.

### **Neighborhood Enterprise Zones, City of Wyandotte**

In 1992, the City of Wyandotte established three Neighborhood Enterprise Zones (NEZ) as part of a wider community development program. Over a 12-year period, over 100 new homes were built in the three designated NEZs, with over 150 homes demolished. Property values rose from 11—18% per year annually in these districts, with an overall increase in value of 95% in the three districts.



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**Appendix C:  
Definitions**

**Affordable housing unit:** dwelling unit for which housing costs do not exceed 30% of the monthly income of the purchaser. For an owner-occupied unit, the calculation of housing costs is based on current real estate taxes, a 30-year fixed rate mortgage (principal and interest), a 5% downpayment, and prevailing mortgage rates. For a rental unit, the calculation of housing costs is based on rent and a 10% utility allowance.

**Area Median Income:** The median income of Grand Traverse County, as established and updated annually by the United States Department of Housing and Urban Development.

**Low-income households:** Households earning 80% or less of the area median income.

**Very low-income households:** Households earning 50% or less of the area median income.

**Inclusionary unit:** affordable housing unit constructed as part of a development project in order to receive regulatory incentives.

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## Appendix D: 2008 Housing Needs Analysis

Housing needs analysis information provided by Fregonese Associates, Inc. for the purposes of the Traverse City Workforce Affordable Housing Ad Hoc Committee study and recommendations, March 2008.

| <b>Current Housing Needs by Tenure and Sale Price</b> |                  |                         |                          |                          |                          |                 |
|---|------------------|-------------------------|--------------------------|--------------------------|--------------------------|-----------------|
| <b>Rental (Monthly Rent)</b>                          | <b>0 - \$308</b> | <b>\$309 - 539</b>      | <b>\$540 - 776</b>       | <b>\$777 - 1132</b>      | <b>\$1133 - 1739</b>     | <b>\$1740 +</b> |
| Current Housing Stock                                 | 364              | 428                     | 956                      | 903                      | 116                      | 10              |
| Current Need  | 428              | 330                     | 313                      | 264                      | 135                      | 27              |
| Surplus/Gap   | -64              | 98                      | 643                      | 639                      | -19                      | -17             |
| <b>Ownership Units (Value)</b>                        | <b>&lt;77.1k</b> | <b>77.1k &lt;109.1k</b> | <b>109.1k &lt;156.7k</b> | <b>156.7k &lt;236.3k</b> | <b>236.3k &lt;315.7k</b> | <b>315.7k+</b>  |
| Current Housing Stock                                 | 76               | 329                     | 990                      | 1404                     | 586                      | 539             |
| Current Need  | 387              | 849                     | 962                      | 1200                     | 921                      | 835             |
| Surplus/Gap   | -311             | -520                    | 28                       | 204                      | -335                     | -296            |

| <b>Projected Housing Needs by Tenure and Sale Price (in 2006 dollars), through 2035</b> |                     |                               |                                |                                |                                |                   |              |
|---|---------------------|-------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------|--------------|
| <b>Rental units (Monthly Rent)</b>  | <b>0-\$308</b>      | <b>\$309-\$539</b>            | <b>\$540-\$776</b>             | <b>\$777-1132</b>              | <b>\$1133-1739</b>             | <b>\$1740+</b>    | <b>Total</b> |
| Current Housing Stock   | 364                 | 428                           | 956                            | 903                            | 116                            | 10                | 2,777        |
| Additional Units Needed, 2035   | 200                 | 19                            | -                              | -                              | 25                             | 25                | 270          |
| <b>Ownership Units (Value)</b>  | <b>&lt;\$77,000</b> | <b>\$77,100 &lt;\$109,100</b> | <b>\$109,100 &lt;\$156,700</b> | <b>\$156,700 &lt;\$236,300</b> | <b>\$236,300 &lt;\$315,700</b> | <b>\$315,700+</b> | <b>Total</b> |
| Current Housing Stock   | 76                  | 329                           | 990                            | 1,404                          | 586                            | 539               | 3,924        |
| Additional Units Needed, 2035   | -                   | 450                           | 250                            | 150                            | 600                            | 500               | 1,950        |