

*Andrew Kleine*

<b>FROM</b>	NAME & TITLE	Andrew Kleine, Chief
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432 City Hall (396-4941)
	SUBJECT	City Council Bill #10-0600, Inclusionary Housing Requirements - Repeal of "Sunset"

CITY of  
BALTIMORE  
**MEMO**



**TO**

DATE:  
October 25, 2010

The Honorable President and  
Members of the City Council  
Room 400, City Hall

Attention: Ms. Karen Randle

City Council Bill #10-0600 has been introduced for the purpose of abrogating the automatic termination of Ordinance 07-474 {"Inclusionary Housing"}; providing for a special effective date; and generally relating to the promotion of affordable residential units.

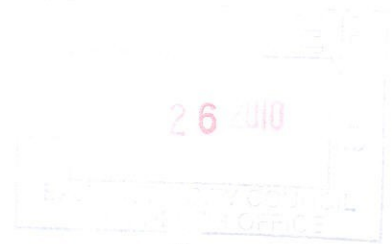
The Inclusionary Housing Ordinance 07-474 required certain residential projects provide units at affordable ownership costs or affordable rents. The law is triggered for any residential project that provides 30 or more residential units and:

- 1) receives a major public subsidy,
- 2) is wholly or partially on property for which there has been
  - a. a significant land use authorization or
  - b. a significant rezoning, or
- 3) is not otherwise subject to project receiving major public subsidy or project benefiting from significant land use authorization or rezoning

The law is not intended to impose additional financial burdens on a developer or a residential project. Rather, the intent of the law is that "the cost offsets and other incentives authorized under it will fully offset any financial impact resulting from the inclusionary requirements imposed." If the cost offsets or other incentives available to a residential project are insufficient to offset the financial impact on the developer of providing the affordable units required by the law, the Housing Commissioner shall exempt the residential project from the law requirements or modify the number of affordable units required so that the cost offsets or other incentives available are sufficient to offset the financial impact.

The ordinance established the Inclusionary Housing Offset Fund to finance the implementation and administration of the law's requirements, including the provision of cost offsets to promote economically diverse housing in City neighborhoods. In 2007, a Supplementary General Fund Capital Appropriation of \$2,000,000 was approved for the Inclusionary Housing Offset Fund. The Department of Housing and Community Development has obligated \$1,750,000 of those funds to two (2) projects managed by Seawall

*Comment*



Development. During the Fall of 2008, the City closed a loan of \$750,000 with Sewall Development for 10 inclusionary housing units. Those units are completely developed and fully occupied by renters. On October 19, 2010, the City closed a second loan for \$1,000,000 with Sewall Development for 10 inclusionary housing rental units. These “loans” operate as grants and are not required by law to be repaid.

The Finance Department believes that the Inclusionary Housing program, as currently authorized, is neither cost-effective nor sustainable. In the past three years, the program has produced only 20 units of “moderate cost” affordable housing at a cost of approximately \$87,500 per unit. This amount is in addition to the economic benefits of other incentives for the projects, such as rezoning approval and density bonuses. It is also well above the law’s \$25,000 “investment threshold” for moderate cost rental units. “Investment threshold” is defined as the additional cost per affordable unit of creating inclusionary housing, over and above the major public subsidy provided for the base project.

The law appears to be ineffective at generating inclusionary housing without extraordinary public subsidy. With the Inclusionary Housing Offset Fund nearly depleted and the City facing record budget shortfalls, the Finance Department recommends that: 1) the cost offset provisions be amended to require developers to share the cost of providing affordable units; and 2) the Department of Housing and Community Development conduct a comparative evaluation of its affordable housing programs to determine which strategies are most cost-effective.

cc: Edward J. Gallagher  
Angela Gibson

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