

Incentive Policy Assessment

City of Delta

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Introduction

The city developed and adopted incentives for businesses growth and incentives to encourage the development of housing. This study begins by evaluating the residential and business incentives programs and eligibility requirements. The residential incentive evaluation was done in light of key findings from the 2023 City of Delta Housing Needs Assessment. This evaluation pointed toward a set of recommendations for updating key components of the incentive policy programs.

Residential incentives assessment

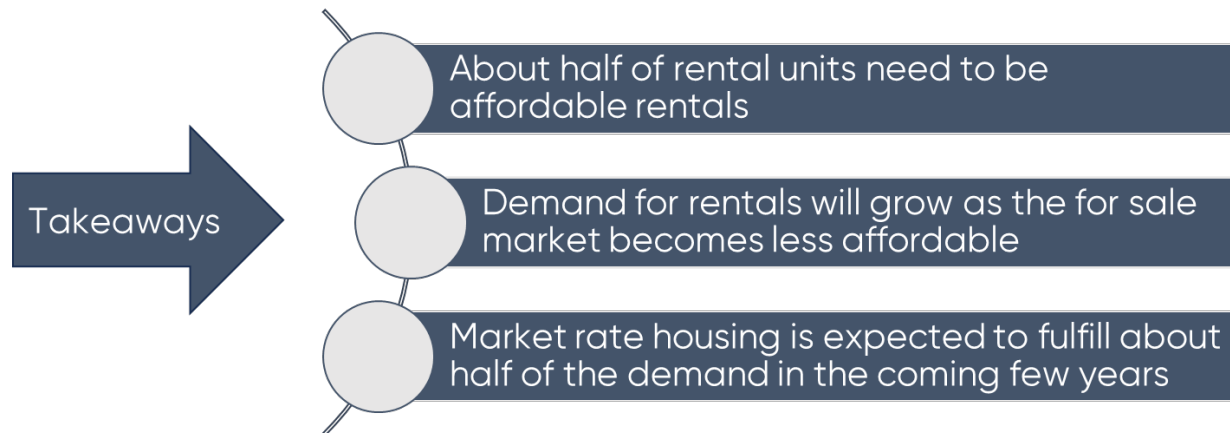
The city offers incentives on a case-by-case basis. The program is administered by the city manager who facilitates the city incentives committee and reports to city council. Depending on the project, incentives may include building permit rebates, project materials sales and use tax rebates, donation by the city of materials and labor for public infrastructure improvements, and in limited cases, donation by the city of all or a portion of water and sewer improvement fees. Eligible projects include new deed restricted affordable rental housing funded by state or federal grants, workforce housing with rents restricted to be affordable to households with 60%-100% of area median income (AMI) for 15 years, market rate rental housing "during times of housing constraints where vacancy rates are extremely low," and for sale housing deed restricted to be affordable to households with 60%-100% AMI.

Housing needs

The 2023 City of Delta Housing Needs Assessment was referenced and utilized in evaluating the residential incentives program. Currently almost half (44%) of renter households in the City of Delta pay more than 30% of their monthly income on rent, which is the widely recognized threshold for housing affordability. About half (57%) of the currently needed rentals in the City of Delta need to be affordable to low-income households (affordable to households with 60% of area median income or lower). The supply of rental homes in the city declined between 2016-2021, in large part due to single family home rentals being sold and converted to owner-occupied. This is combined with the fact that just 6% of the homes sold during 2021-2022 were affordable to the 55% of Delta households with incomes less than \$50k/year. Both of these factors point toward the need for rental housing, especially affordable units.



Figure 1 – 2023 City of Delta Housing Needs Assessment key conclusions



Residential incentive program outcomes

The consulting team received data summarizing the incentives awarded during 2021-2022 in order to evaluate the performance of the program. During this time, incentives were awarded to two residential projects: one incentive was awarded to a market rate rental apartments project and one to a market rate minor subdivision.

Figure 2 – Residential incentives assessment conclusions



Business incentives assessment

The city offers a range of incentives for businesses opening a new physical location in Delta or for existing businesses who are expanding and relocating or remodeling. Incentives are awarded on a case-by-case basis and the program is administered by the city manager who facilitates the city incentives committee and reports to city council. Depending on the project, incentives may include building permit rebates, project materials sales and use tax rebates, donation by the city of materials and labor for public infrastructure improvements, and in limited cases, donation by the city of all or a portion of water and sewer improvement fees.



Business incentives program outcomes

The consulting team received data summarizing the incentives awarded during 2021-2022 in order to evaluate the performance of the program. During this time the city awarded incentives to 12 business entities.

A key conclusion from the 2023 City of Delta Housing Needs Assessment is that market rate housing is projected to meet roughly half of the demand for housing in coming years and the remaining demand will be for rental housing. The supply of rental housing has decreased in the city recent years. According to the housing needs assessment, households earning more than \$50,000 per year are more likely to be able to afford to purchase a home and households with less income are most likely to be able to afford rental housing.

When a business expands or moves to Delta, it may hire new employees who do not currently live in Delta and those employees may need to find rental housing. One-third (33.3%) of the businesses which received incentives during the 2021-2022 study period are in sectors with average wages of over \$50,000 per year which means that employees of those businesses are more likely to be able to afford to purchase a home. Two-thirds (66.7%) of the businesses which received incentives during the 2021-2022 study period are in sectors with average wages of below \$50,000 per year, which means new hires are more likely to need rental housing.

Figure 3 – Business incentives outcomes: average wages by business sector

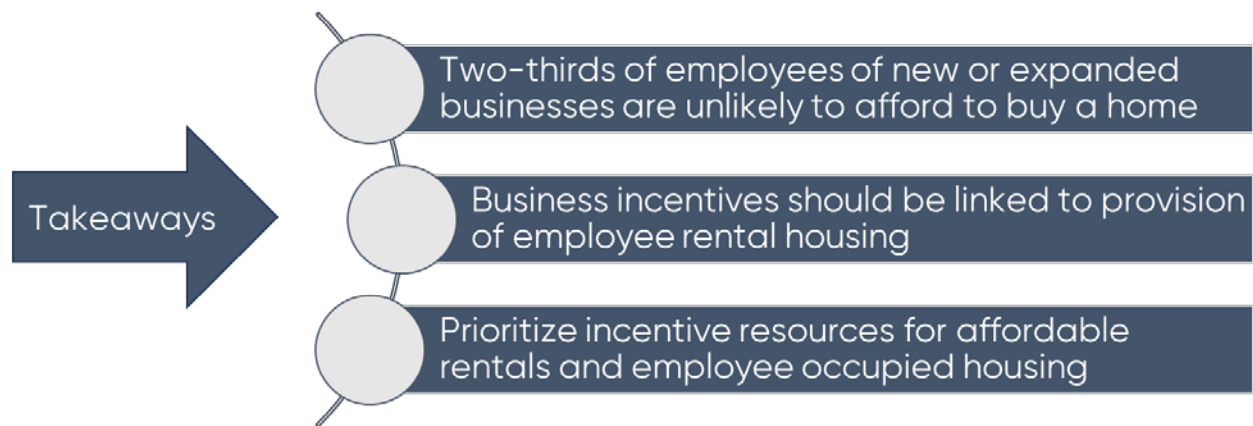
	% of Sample Projects	Average Wages	Sectors
Annual Wages \$50,000 or More (More likely to afford to buy a home)	33.3%	\$88,948	Healthcare practitioners and technical Business and financial operations
Annual Wages less than \$50,000 (Less likely to afford to buy a home)	66.7%	\$42,099	Food preparation and serving Personal care and services Sales and related production

Source: Quarterly Census of Employment and Wages, City of Delta incentives records

A key finding from this assessment of business incentives is that well over half of the businesses which received incentives for expanding their operations are in sectors with average wages that are not enough to ensure that new employees can afford to purchase housing. Meanwhile the number of rentals in the city has been decreasing as homes sell and become owner occupied. The conclusion is that business incentives should be linked to provision of employee rental housing or other forms of employee occupied housing.



Figure 4 – Business incentives assessment conclusions



Recommendations

The city has done well to establish the incentive program and the procedures for awarding incentives. The analysis shows that there has been interest in and use of the incentive programs, but the linkage between the incentives awarded and the purpose of the program is in need of calibration.

Tiered incentive

These recommendations build from what is currently in place by proposing a tiered incentive system to achieve more precisely the outcomes for which the program is intended.

Figure 5 – Tiered incentive system recommendations

Incentive Offered	Recommended Incentive Level
Building permit rebate (100%)	Standard and premium incentive level
Project materials sales and/or use tax rebate (50%)	Premium incentive level
City donates materials for public infrastructure	Standard up to \$5,000 Premium up to \$10,000
Donation of water and sewer system improvement fees or tap fees (100%)	Premium incentive level

Residential incentive eligibility recommendations

The demand for affordable rental housing has increased and will continue to increase. Market rate housing is also positioned to meet around half of housing demand in the near term. The recommendations balance between affordable and market rate housing.



Figure 6 – Residential incentive current and recommended eligibility criteria

Current Eligibility Criteria	Recommended Eligibility Criteria	Recommended Incentive Level
New deed restricted affordable rental housing funded by state or federal grants.	Rental housing projects providing at least 50% of units in the project deed restricted to rents affordable to 60% AMI or lower income.	Premium incentive level
Incentives not specified.	Purchase of market rental housing to convert at least 50% of units in the development to deed restricted rentals affordable to 60% AMI or lower income.	Premium incentive level
Incentives not specified.	Rehabilitation of rental housing resulting in at least 50% of units in the project deed restricted to rents affordable to 60% AMI or lower income.	Premium incentive level
Workforce housing with rents restricted to 60%-100% AMI for 15 years	Rental housing deed restricted to a lease holder who is a Delta County employee with 100% AMI or less.	Standard incentive level
Market rate rental housing "during times of housing constraints where vacancy rates are extremely low"	Recommend no incentives for unrestricted market rentals (as well as market for sale units).	None
For sale housing deed restricted to 60%-100% AMI	This is infeasible without a housing entity authorized to oversee transactions among for sale affordable housing units.	None

Business incentive eligibility requirements

The recommended eligibility requirements for business incentives would limit award of business incentives to businesses which provide housing for half of the newly created full-time equivalent employees. In order for an existing business expansion to qualify, it must provide affordable housing for 50% the new employees associated with the expansion.

Figure 7 – Business incentive current and recommended eligibility criteria

Current Eligibility Criteria	Recommended Eligibility Criteria	Recommended Incentive Level
New businesses. Opening a physical location in City of Delta.	New business opening in City of Delta which provides housing needed for 50% of new full-time equivalent employees.	Standard incentive level
Existing business expanding and relocating or expanding and remodeling current facilities	Existing business providing qualified affordable housing for 50% of the additional full-time equivalent employees associated with the expansion.	Standard incentive level



The recommended housing types to be provided by businesses seeking incentives include:

- On-site units – The deed restricted units are built on-site as new units or converted/rehabilitated units.
- Off-site units – The deed restricted units are built elsewhere in the City of Delta
- Conversion of existing dwelling units – Existing units in the City of Delta are purchased and/or converted to deed restricted units.

Deed restriction recommendations

Affordable housing units and Delta County employee units will require deed restriction to ensure that the units continue to serve the purpose of the incentives program. This means that the city will need to delegate management of deed restricted units to an existing housing entity or form one that is authorized to oversee deed restrictions on rental units.

A key element in defining deed restrictions is to define affordable rents using “Income Limit and Maximum Rent Tables for all Colorado Counties” put out annually by Colorado Housing and Finance Authority (CHFA). The recommended eligibility requirements restrict housing to “Delta County Employees” which will also need to be defined clearly so the housing produced benefits the local population and the local economy.

