



APPLIED POLICY PROJECT

# Addressing the Need for Affordable Housing in Albemarle County

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## DISCLAIMER

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The author conducted this research as a part of the Frank Batten School of Leadership and Public Policy at the University of Virginia. This paper is submitted in partial fulfillment of graduation requirements for the Master in Public Policy degree. The judgements, analysis, and conclusions are solely those of the author, and are not necessarily endorsed by the Batten School, the University of Virginia, the Albemarle County Board of Supervisors, or by any other agency.

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## ACRONYMS & ABBREVIATIONS

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### **ADU**

Accessory Dwelling Unit

### **AMI**

Area Median Income

### **Habitat**

Habitat for Humanity

### **HAP**

Housing Assistance Payment

### **HUD**

US Department of Housing and Urban Development

### **LIHTC**

Federal Low Income Housing Tax Credit program

### **PHA**

Public Housing Agency

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## KEY TERMS

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### Affordable Housing

Less than 30% of household income including rent, mortgage, utilities and taxes spent on housing.

### Affordable Housing Unit Level

The percentage of all available units that are low-income or affordable housing. The rest of the available units will be market rate homes. To receive this categorization, the resident must be spending less than 30 percent of the area median income.

### Area Median Income (AMI)

The midpoint of a region's income distribution. AMIs are used in housing policy to identify households that are eligible to live in income-restricted housing units.

### Cost Burdened

Residents who spend more than 30% of their income on housing.

### Severely Cost Burdened

Residents who spend as much as 50% or more of their income on housing.

### Substandard Housing

Housing that poses a risk to the physical well-being of its residents and neighbors. Those living in substandard housing often face increased susceptibility to disease and mental health issues.

### US Dept. of Housing and Urban Development Median Income for FY 2018

- Albemarle County Median Household Income: \$89,600
- Extremely Low Income: 30% AMI or \$26,880
- Very Low Income: 50% AMI or \$44,800
- Low Income: 80% AMI or \$71,680

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## ADDRESSING THE NEED FOR AFFORDABLE HOUSING IN ALBEMARLE COUNTY

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### EXECUTIVE SUMMARY

In Albemarle County, nearly 12% of households (4,950 households) used more than half of their income on housing in 2018 (Pethia, 2019). Without access to affordable housing, these families are forced to live in shelters, run-down homes in unsafe neighborhoods, or are left homeless, and often struggle to afford other basic living necessities. Rising housing costs have contributed significantly to the growing number of residents in need of affordable housing. With the current average rental rate at \$1,250 per month in Albemarle County (Schulyer, 2018), a resident making minimum wage has just under \$600 a month to afford all other costs. These rising rental rates and increasing population growth has led to demand for affordable housing significantly outpacing the supply in Albemarle County.

This report provides the Albemarle County Board of Supervisors with four policy alternatives to address the affordable housing crisis in Albemarle County. Each alternative's primary objective is to make as many affordable housing units available to Albemarle residents in need of affordable housing while maintaining financial feasibility for the County. The four policy alternatives include:

1. Let Present Trends Continue: Redevelop Southwood Mobile Home Park
2. Construct Affordable Housing Elsewhere in Albemarle County
3. Create a Locally Funded Housing Voucher Program
4. Provide Local Matching Funds to Affordable Housing Projects Receiving Federal Low Income Housing Tax Credits

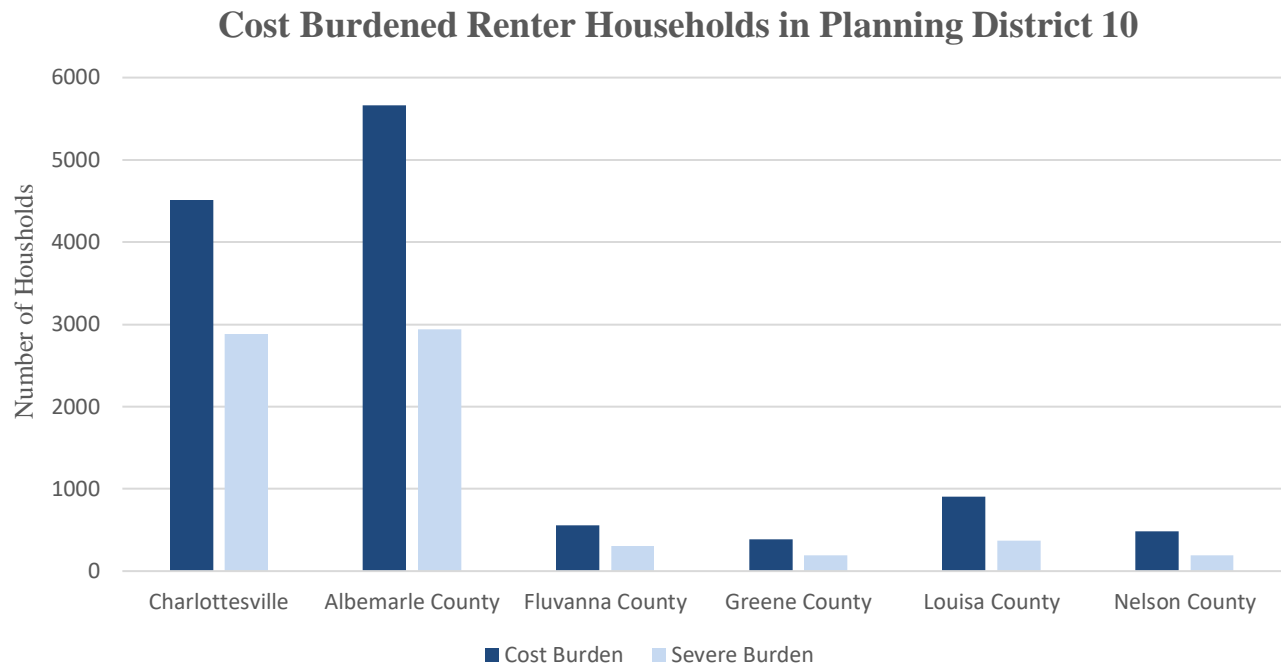
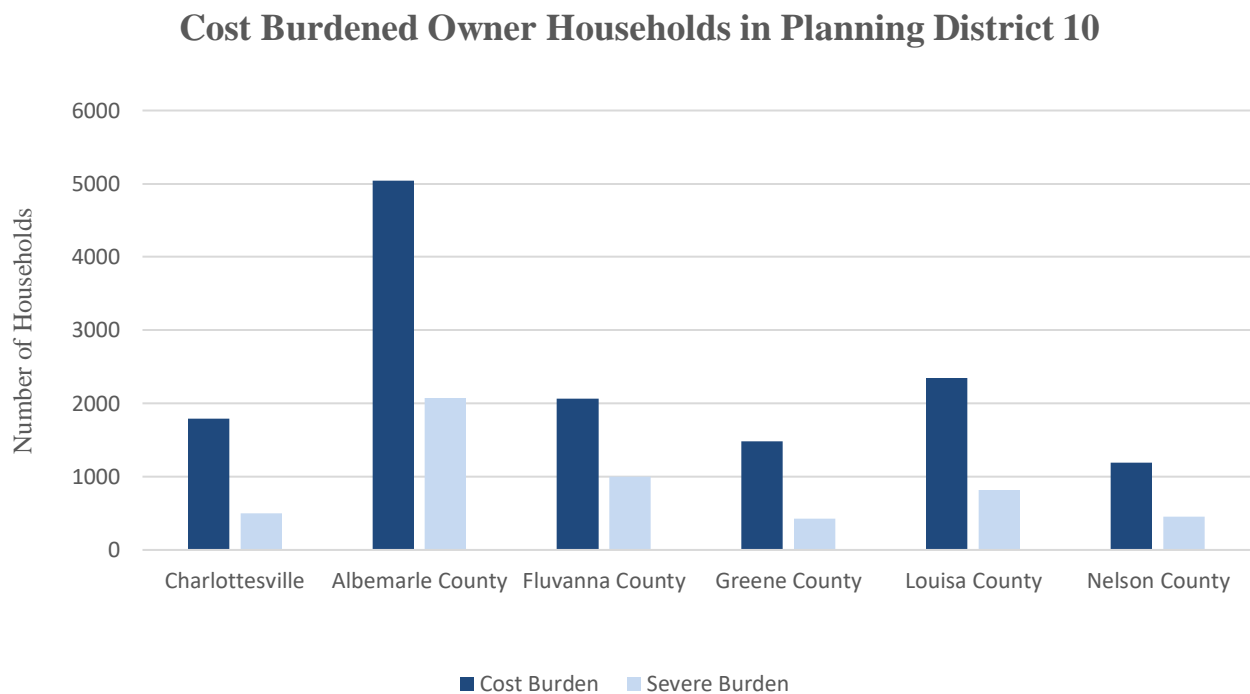
The policy alternatives are evaluated across a set of six criteria, including: cost, effectiveness, cost effectiveness, equitability of access, administrative feasibility, and political feasibility. After evaluation, it is recommended that the Board of Supervisors maintain their current annual funding level of \$675,000 to the Southwood Mobile Home Park redevelopment. This alternative is projected to make 83-112 affordable units available in the short term (1-3 years) at a cost of \$6,250-\$8,433 per unit. Ultimately, the redevelopment is projected to contribute significantly to the existing housing stock in Albemarle County by constructing 385-525 units by project completion. Additionally, this alternative is highly accessible to all Albemarle residents and has both high administrative and political feasibility.

## PROBLEM STATEMENT

In 2018, over 10,000 Albemarle residents were in need of affordable housing (Partners for Economic Solutions, 2018). These low income Albemarle residents often sacrifice health care, food, transportation, and child care, to afford rent. Of the 42,479 households in Albemarle County, approximately 10,700 rental and owned households (25.2%) spent more than 30% of their income on housing costs in 2018 (Partners for Economic Solutions, 2018). The exorbitant cost burden placed on Albemarle residents relative to surrounding counties can be seen in Figures 1 and 2.

Despite Albemarle County's ranking as the twelfth wealthiest county of the Commonwealth's 134 counties (Virginia Demographics, 2018), it faces an increasingly urgent affordable housing crisis. Moving low income residents into safe and affordable homes has been a priority for Albemarle County for years, demonstrated by the commitment of over \$2 million of county funds to address affordable housing needs in recent years (IMPACT, 2018). Despite this investment, skyrocketing housing prices and population growth have limited the impact created by previous initiatives. According to an interview with Ridge Schuyler, a Charlottesville-based housing policy expert, the average price for a two-bedroom apartment in Albemarle County has increased 27 percent since 2011 from \$931 per month to nearly \$1,250 per month in 2017 (Schuyler, 2018). A similar trajectory is seen with population growth, as the population of Albemarle County grew 6.8 percent between 2010 and 2016 from 99,214 to 106,419 (U.S. Census Bureau, 2017). A quickly growing population increases the demand for affordable housing, which already exceeds the current affordable housing supply. Rising housing costs, in conjunction with population growth, have left over 300 families living in either shelters, substandard housing, or homeless in 2018, contributing to the growing number of residents in need of affordable housing (Hays, 2018).



**FIGURE 1****FIGURE 2**

*Source: (Partners for Economic Solutions, 2019)<sup>1</sup>*

<sup>1</sup> The data presented in the above graphs were originally published in the 2019 Regional Housing Needs Assessment by Partners for Economic Solutions. The graphs in the Regional Housing Needs Assessment were adapted to this report.

## POLICY ALTERNATIVES

Presented below are four alternatives the Board of Supervisors should consider implementing to address the affordable housing shortage in Albemarle County. Each alternative's primary objective should be to make safe, sanitary, and affordable homes available to Albemarle residents. This report will evaluate each alternative's ability to provide affordable housing to Albemarle residents using the evaluative criteria listed in the following section.

- 1. Let Present Trends Continue: Redevelop Southwood Mobile Home Park**
- 2. Construct Affordable Housing Units Elsewhere in Albemarle County**
- 3. Develop a Locally Funded Housing Voucher Program**
- 4. Provide Local Matching Funds to Affordable Housing Projects Receiving Federal Low Income Housing Tax Credits**

The policy alternatives are mutually exclusive, as there is a \$1 million budget constraint within which a new affordable housing initiative should be implemented. The County committed last year's \$1 million budget surplus to affordable housing initiatives in 2019-2020. This funding is intended to be used to fund a major affordable housing initiative of either the development or rehabilitation of affordable housing units or the creation of a financial assistance housing program. While this initiative may utilize the full \$1 million in allocated funding for the project, the Board has stated that any surplus funding will be used to further support affordable housing in Albemarle County through increased annual financial contributions to local affordable housing organizations, such as the Piedmont Housing Alliance or Albemarle Housing Improvement Program. Thus, the combination of the \$1 million funding cap and the additional use for the surplus funding prevents the County from implementing more than one alternative at this time.

## Alternative 1: Let Present Trends Continue – Redevelopment of Southwood Mobile Home Park

This policy option involves letting present trends continue by using existing affordable housing initiatives to move low income residents into affordable homes. Currently, Albemarle County’s Office of Housing has focused much of its resources on the redevelopment of the Southwood Mobile Home Park. Additionally, the Office of Housing aims to act as a hub of housing information by providing affordable rental property listings, a how-to guide on the Housing Choice Voucher Program, and an overview of eligibility requirements for various financial assistance programs on their website. Last, the county also offers annual contributions to local affordable housing organizations, such as the Albemarle Housing Improvement Program, which received \$400,000 in 2018, and the Piedmont Housing Alliance, which received \$35,757 in 2018 (Albemarle County Office of Management and Budget, 2018).

### *Redevelopment of Southwood Mobile Home Park*

In an effort to address the affordable housing crisis in Albemarle County, the Board of Supervisors has partnered with Habitat for Humanity of Greater Charlottesville to develop affordable housing units in the Southwood Mobile Home Park, the largest substandard housing community in Albemarle County (Albemarle County Office of Communications and Public Engagement, 2018). The redevelopment plan involves the development of a large mixed income community by replacing 341 mobile home units with approximately 700 units of a variety of housing types, including affordable site-built homes and market rate units (Habitat for Humanity, 2017).

Habitat purchased the Southwood Mobile Home Park for approximately \$7 million in 2007 (Andrews, 2019). In order to maintain Habitat’s non-displacement pledge, it also purchased a land parcel adjacent to the current Southwood Mobile Home Park, labelled Block H in Figure 3. Southwood’s current boundaries are identified by Blocks B, D, E, and F in Figure 3. Blocks A and B will possess commercial units, including resident-owned businesses (Trent, 2019). Phase 1 and Phase 2 of construction will take place in Block H, enabling current residents to stay in their homes as construction takes place as opposed to relocating outside of their community. Specifically, Phase 1 of the development involves the construction of a model village comprised of single-attached homes<sup>2</sup> and single-detached homes<sup>3</sup> where “early adopter” households—current Southwood residents who would like to be among the first to move into the new affordable homes—will live. Phase 2 will involve the construction of a second village that contains similar types of permanent housing as the model village in Phase 1. After construction, Habitat will then lease or sell the newly constructed homes to residents, who will either gradually pay off the house for how much it cost to build (approximately \$80,000 per home), thus building equity, or pay a monthly rent that will be no more than 30% of the resident’s income (Habitat for Humanity, 2019). All 1,500 current Southwood residents are guaranteed placement in a newly constructed, affordable Habitat home if they choose. To prepare current residents to move residences in the redevelopment, Habitat offers a home ownership program in which low income residents can opt into various pathways towards home ownership. These pathways vary, and include electing to build Habitat homes in other communities in Albemarle County, helping to construct one’s own Habitat home

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<sup>2</sup> Single-attached homes are characterized by a shared common wall on both sides of the property (Whitaker, 2019). Townhouses are a type of single-attached home.

<sup>3</sup> Single-detached homes are single family residences with no shared walls (Whitaker, 2019).

in Southwood, or exploring other vocational and business opportunities towards financial stability (Habitat for Humanity, 2017).

Habitat has utilized several different funding streams to finance the redevelopment of Southwood, including: \$675,000 in initial annual funding from Albemarle County, a \$2.25 million grant through the Virginia Department of Housing and Community Development's Vibrant Community Initiative obtained under the County's guidance (Augusta Free Press, 2018), and private donations, including a \$1.2 million grant from the Hunter Smith Family Foundation (Tigas et al., 2013). The current Board of Supervisors cannot commit to additional funding given that the future Board's approval is required for significant budgetary investments. However, based on discussions with members of the Board, it can be reasonably assumed that the Board would maintain a similar level of annual funding of \$675,000 in each of the next three years if it chooses to continue contributing taxpayer dollars to the project.

### ***Optimal Affordable Housing Unit Level***

In the Board of Supervisors' discussions regarding the number of low income housing units to be developed in Southwood, two levels have emerged that mirror the common schools of thought in available literature: a 15-20% level and a 51-55% level.

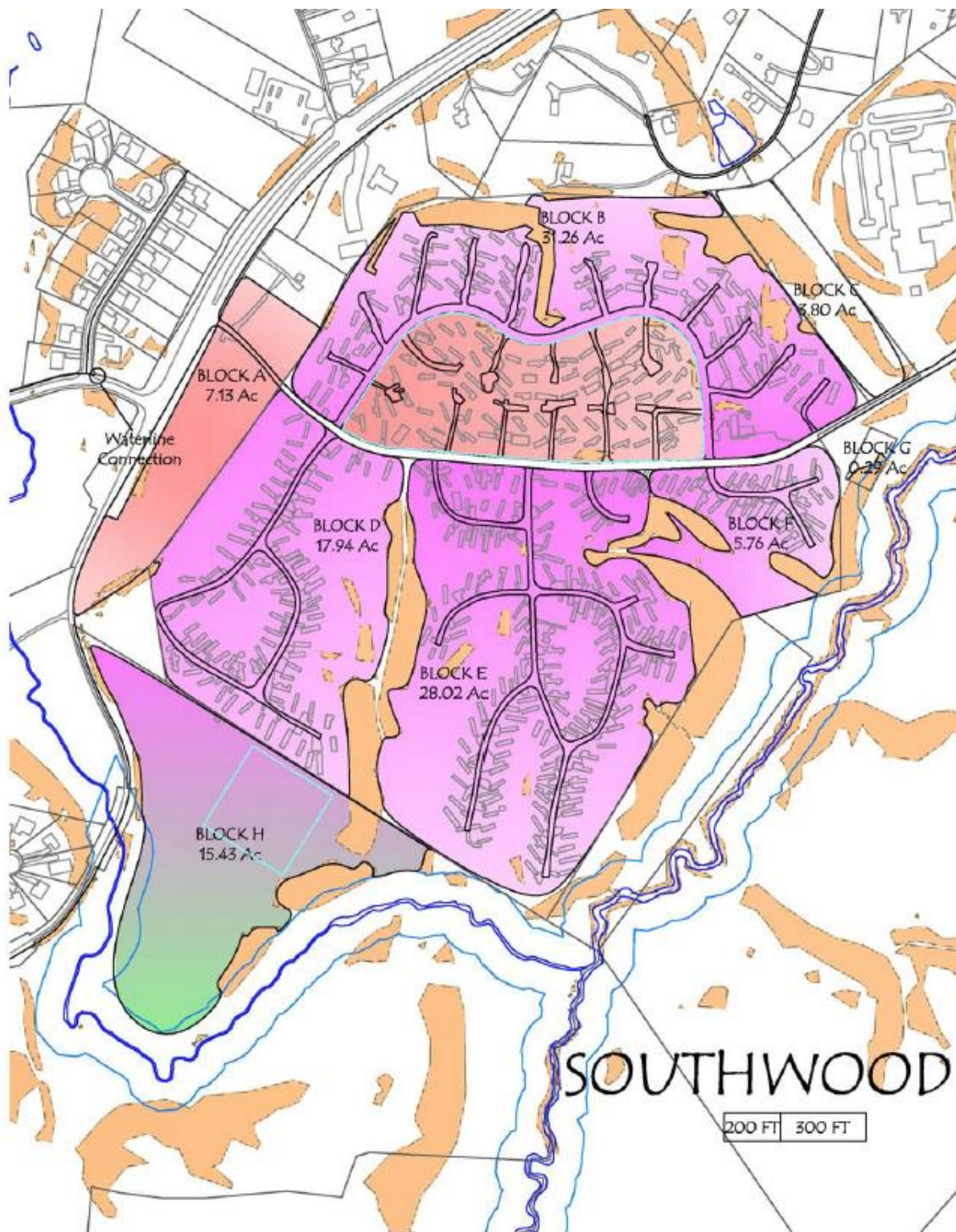
A 51-55% level of low income units in housing redevelopment is frequently cited as the optimal level of affordable housing due to its ability to adequately address the demand for low cost homes in the community. A Counselors of Real Estate (CRE) report discusses the vast success of an affordable housing development project in Rancho Cucamonga, California, which rehabilitated 2,500 rental housing units with 60% qualifying as low to moderate income housing (Tarantello, 1998). The report identifies the large number of low income units as a key contributor to an overall reduction of poverty in the area, as over 4,000 residents gained housing as a result of the development. The findings identified in the report are applicable to Albemarle County, as the Rancho Cucamonga and Albemarle County have similar poverty rates of 9.4% and 10.1%, respectively. Despite the capability of larger affordable housing levels to accommodate more low income residents, some authors discuss a disadvantage associated with developing the majority of available units as low income housing: the impact of the stigma surrounding affordable housing. An article evaluating the success of affordable housing initiatives in Greeley, Colorado describes the negative reaction low income residents often receive in mixed-income communities (Wenger, 2018). Through interviews with moderate to high level income Greeley residents, the article highlights the stereotypical attitudes often held towards incoming low income residents, such as that their arrival would threaten the safety of the community and lower the value of nearby market rate homes (Wenger, 2018). While this article uses qualitative data through interviews and is therefore not statistically significant, the empirical data used in the first article validates this point of view. These negative perceptions surrounding affordable housing often result in moderate-income residents leaving the community, increasing home ownership turnover and vulnerability to vacancy losses (Bach et al., 2007).

While a larger level of affordable housing development addresses the needs of more low income residents, a few sources suggest that a lower level of 15-20% yields better outcomes despite accommodating fewer residents. A HUD report, for example, argues that some development initiatives would benefit from a 20% level as opposed to a higher level due to the importance of local housing market conditions in determining the success and feasibility of mixed-income complexes. (Schwartz et al., 1999). The report identifies a smaller affordable housing unit level as a method to mitigate the difficulty associated with dispersing affordable housing units in moderate income developments, given

that a smaller level allows for more moderate to high income homes, thus attracting higher income households. Unless there are other characteristics of the neighborhood that would attract higher income residents, such as desirable location or high-end amenities, the report recommends that mixed income housing developments aim to build 15-20% of available units as affordable housing (Schwartz et al., 1999). A report from the Urban Land Institute also highlights the importance of community support and trust in the success of a mixed-income housing development (Bach et al., 2007). To combat the negative perception of affordable housing often adopted by moderate income residents, the authors cite lower level of affordable housing relative to market rate units as a way to mitigate these attitudes. By maintaining the vast majority of housing in an area as market rate housing, higher income residents may feel that the affordable housing units are causing less of a disruption than they had anticipated. The authors argue that lower levels of affordable housing will lead to more comprehensive community support, and thus, lead to the success of the mixed income community.



**FIGURE 3:** Southwood Redevelopment Conceptual Land Use Plan



Source: (Habitat for Humanity, 2017)

## Alternative 2: Construct Affordable Housing Elsewhere in Albemarle County

The Board may consider moving the monetary and administrative resources allocated to affordable housing construction in the Southwood community to the development of affordable housing units in other locations within Albemarle County. This alternative would address the affordable housing shortage by adding new affordable housing units to the existing housing stock in Albemarle County, resulting in residents being moved into safe and affordable homes. To implement this alternative, the Board may consider procuring a housing needs assessment to determine the optimal location of new affordable housing units. Additionally, the Board should consider entering into a private-public partnership to execute the construction of the affordable housing units to reduce the cost burden on the County.

### *Housing Needs Assessment*

To successfully implement this policy alternative, the Board may consider allocating a portion of the available funding<sup>4</sup> to conduct a housing needs assessment aimed at identifying the regions in Albemarle County where affordable housing is needed most. In 2018, The City of Charlottesville hired Partners for Economic Solutions, an urban economics consulting firm located in Washington, D.C., to analyze Charlottesville's affordable housing crisis and recommend potential solutions. The analysis results informed the City Council's 2019 Affordable Housing Plan and ultimately led to the allocation of over \$200,000 from the Charlottesville Affordable Housing Fund, which received nearly \$2.5 million in annual appropriations last year, to update the City's affordable housing strategies and priorities. In 2019, Albemarle County was included in a regional housing needs assessment commissioned by the Central Virginia Regional Housing Partnership of the Thomas Jefferson Planning District Commission (Partners for Economic Solutions, 2018). While the report provided the most recent data available on regional housing stock and the needs of Planning District 10 residents, few metrics were broken down by county with the majority of data in the report presented cumulatively. Given that affordable housing analyses of the City of Charlottesville and the surrounding region are not wholly applicable to affordable housing issues in the County, the Board should consider procuring a similar needs assessment that will inform the Board of the optimal location of new affordable housing development to ensure that taxpayer dollars are used effectively.

The housing needs assessment should include the following components:

- Socioeconomic and demographic analysis will characterize the existing housing demand in the County.
- Location analysis will determine the need of various regions within Albemarle County based on number of existing affordable housing options, proximity to community amenities and resources, and number of residents whose income is less than 60% AMI. Ultimately, this analysis will recommend the area within the county with the most urgent need for affordable housing.
- Housing affordability gap will identify the disparity between market-rate housing on the private market and the demand for affordable housing by Albemarle residents.
- Additional components may be added after this analysis is completed.

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<sup>4</sup> Cost of the housing needs assessment will be projected based on the cost of the housing needs assessments commissioned independently by the City of Charlottesville and the Thomas Jefferson District Planning Commission.

### ***Public-Private Partnership***

Similar to the Southwood redevelopment initiative, the Board should consider engaging in a public-private partnership to complete construction and development of the new affordable housing units. The County could choose to partner with a nonprofit organization, such as the Piedmont Housing Alliance or Habitat for Humanity of Greater Charlottesville, which are not-for-profit housing developers that often utilize the help of private developers to build quality affordable housing. Partnering with a nonprofit organization expands the project's fundraising network and often reduces the financial responsibility on the County. Alternatively, the County could opt to partner with a private developer. Partnering directly with a private developer eliminates the "middleman" of the nonprofit organization and enables the County to have more autonomy over the direction of the affordable housing development. However, given that this option eliminates a partnership with a nonprofit and thus increases the financial burden on the County, I have assumed in my analysis that the County will move forward with a partnership with a nonprofit.

Public-private partnerships significantly reduce the cost burden on governmental entities given that the private organization—in addition to other various funding streams, such as private donations and state/federal grants—take on a substantial portion of the financial responsibility of the project. Specifically, the private organization typically finances the land acquisition and owns the affordable housing infrastructure before leasing or selling it to recipients, while the local funding is often used to support site infrastructure development or planning and approval costs. In a public-private partnership, the County could provide funding in two ways: the Board could agree to underwrite a fixed amount for each Accessory Dwelling Unit (ADU) or a percentage of each unit, or it could underwrite a fixed amount per year for the project over a number of years (Randolph, 2019). Given that the County has almost exclusively provided funding on an annual basis for affordable housing projects, I assume in my analysis that the County will provide annual funding for this alternative.

### ***Effectiveness at Providing Affordable Housing***

Locally funded construction of new affordable housing is commonly identified in recent literature as one of the most direct approaches to providing affordable housing and is recognized as being particularly effective when there is an urgent shortage of affordable housing. A feature on the Virginia Review of Politics identifies slow affordable housing construction as one of the primary causes of the affordable housing shortage in the greater Charlottesville area (Barte, 2018). According to the article, the severe shortage of affordable housing that Charlottesville and the county are facing warrants immediate action, such as construction of new units. This argument is reiterated in a report by the Family Housing Fund and the Urban Land Institute, which analyzes eight case studies on cities that had solved their past affordable housing shortages (Urban Land Institute, 2012). Ultimately, the report attributed the success of six out of the eight case studies to the expansion of opportunities for new housing, such as spurring the redevelopment of publicly-owned buildings and lands for housing.

While there is an abundance of literature that identifies affordable housing development as a method of providing affordable housing, more research is needed on how to empirically identify the best location of the new affordable housing units.



### Alternative 3: Develop a Locally Funded Housing Voucher Program

This option involves expanding access for Albemarle County residents to housing vouchers by developing a locally funded housing voucher program to be implemented in conjunction with the existing federally funded Housing Choice Voucher Program. While the Albemarle County Office of Housing currently assists 388 families through a number of Section 8 rental assistance programs—most commonly tenant-based vouchers through the federal Housing Choice Voucher Program—there are still 1,315 applications waiting for housing subsidies or public housing (Wrabel, 2018). According to a recent study by the Charlottesville Redevelopment and Housing Authority, expanding access to housing vouchers through the creation of a locally funded program would provide rental assistance for 100 to 120 families within one year of implementation (Pethia, 2017).

#### ***Overview of Housing Choice Voucher Program***

Created in 1974, the Housing Choice Voucher Program<sup>5</sup> is one of the federal government's primary methods for helping very low-income families and individuals, the elderly, and the disabled afford adequate and affordable housing (HUD, 2018). The voucher program is funded by the US Department of Housing and Urban Development (HUD) but is administered on the local level by public housing agencies (PHAs) (HUD, 2018). The PHAs engage directly with the landlord on the recipients' behalf, as the housing subsidy is paid to the landlord by the PHA. The recipient(s) pays the difference between rent charged by the landlord and the amount of the subsidy paid by the program. The average recipient(s) receiving housing vouchers pays 30% of his or her monthly adjusted gross income for rent and utilities (HUD, 2018).

#### ***Limitations of Housing Choice Voucher Program in Albemarle County***

Utilizing housing vouchers is a popular pathway to affordable housing among very low income populations given that the program enables recipients to choose their own housing—within program requirements—not limited to subsidized housing developments. However, the high demand for housing vouchers in the County combined with limited federal resources available to the program has resulted in over 1,500 extremely low income households waiting for assistance (Suarez, 2017). In 2018, Albemarle County experienced such a substantial number of applications for federal housing vouchers that the waitlist was closed after more applications were submitted than could be assisted (Albemarle County Office of Housing, 2018). The waitlist closure indicates that there are likely even more residents seeking assistance than those who are accounted for on the waitlist. Given that the demand for housing vouchers is shown to be exceedingly high among Albemarle County low income populations based on the previous waitlist closure, expanding access to housing vouchers will address the need of affordable housing among these vulnerable populations, thus reducing the number of recipients on the waitlist seeking housing assistance.

#### ***Overview of Locally Funded Housing Voucher Program***

A locally funded housing voucher program would operate as a supplemental financial assistance program to the federal Housing Choice Voucher Program. The local program would be administered separately by the Albemarle County Housing Authority, however, it would adhere to the same standards and rules as the federal program (Albemarle County Office of Housing, 2018). Low income Albemarle residents with incomes at or below 60% of AMI (\$53,760) would be eligible to apply. After selection to receive a voucher, it would be the recipient's responsibility to obtain a privately owned, affordable

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<sup>5</sup> This program is also referred to as the Section 8 Program.

rental apartment within county limits. The voucher then pays the landlord the difference between 30% of the family's income and the gross rent for the affordable unit. Recipients will also be provided a 10% contingency fee that will cover any rent increases over the year they possess the voucher. The program will be funded through annual appropriations for an amount sufficient for program continuation (Pethia, 2017).

The following priorities should be considered when issuing vouchers within the first year of implementation:

- Eighty vouchers should be issued to households with incomes at or less than 30% AMI, including those experiencing homelessness;
- Forty vouchers should be issued to households with incomes at or less than 50% AMI<sup>6</sup>.

### ***Effectiveness at Providing Affordable Housing***

There is widespread consensus in available literature that housing voucher programs help to alleviate the affordable housing crisis by enabling very low income families to choose and rent or purchase safe and affordable housing. Common schools of thought range from those who argue that housing vouchers are highly effective at increasing access to affordable housing to arguments that improvements could be made to make the housing voucher program more effective and more efficient.

A 2010 qualitative evaluation of the Housing Choice Voucher Program offers insight into the recipient perspective on the housing voucher program (Teater, 2010). Through dozens of in person interviews with voucher recipients, the report provides an analysis of the recipients' experiences regarding the program's priorities and associated stigma. The report concludes that the Housing Choice Voucher Program effectively provides affordable housing that is satisfactory to the recipients, however, it also recommends that the program prioritize customer service at a higher level (Teater, 2010). The findings are not statistically significant, given that this analysis was purely qualitative, but the report still provides valuable information about provision of the voucher program.

A 2010 report funded by the What Works Collaborative argued that, while the Housing Choice Voucher Program has valuable long-term goals, the program is not effectively increasing access to quality affordable housing. Through phone interviews with mobility program experts at nonprofit organizations and consulting firms, in addition to a sample of 16 mobility programs across the country, the report found that more than half of voucher holders are living in neighborhoods with poverty rates over 30% and that black and Hispanic households are disproportionately affected (Cunningham et al., 2010). To improve the program, the report recommends that the program further prioritize "people-based" strategies to improve neighborhoods for the recipients of housing assistance. While the majority of the report's analysis is based on qualitative data, the presence of empirical analysis through a random sampling provides reliability to the findings.

After reviewing relevant literature on the housing voucher program, it is clear that there is a need for comprehensive empirical analysis of the Housing Choice Voucher Program.

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<sup>6</sup> Projections based on the thresholds discussed in the creation of the local housing voucher program in the City of Charlottesville (Pethia, 2017).

## Alternative 4: Provide Matching Funds to Affordable Housing Projects Receiving Federal Low Income Housing Tax Credits

The Board should consider contributing local resources to expand the use and impact of the Low-Income Housing Tax Credit (LIHTC) program in Albemarle County by committing matching funds to federal tax credit projects and projects applying for federal tax credits.

### ***Low Income Housing Tax Credit Program (LIHTC) Overview***

The LIHTC program is one of the largest affordable housing development programs in the country, with annual federal appropriations of \$9.9 billion (Goldman, 2018). The LIHTC program aims to encourage development of affordable rental housing for low income families by providing a federal income tax credit to developers who construct affordable housing units. Developers who receive the credits often sell them to investors, thus lowering the debt investors may otherwise incur and resulting in an overall reduction of project financing costs (Congressional Research Service, 2019). Although the program is federally funded, it is administered through state housing finance agencies such as the Virginia Housing Development Authority (VHDA). Since the program's creation in 1986, LIHTCs have been used to fund 45,905 projects and build nearly 3 million housing units across the country (Sally et al., 2018).

Recipients may be awarded two types of credits: a highly competitive nine percent credit<sup>7</sup> which covers approximately 70 percent of construction costs<sup>8</sup> and a less competitive four percent credit which covers approximately 30 percent of construction costs (Clarke, 2012). Four percent credits are most often used on projects financed with tax-exempt bonds issued by local agencies such as the refurbishing of older rental homes. However, they could be used to fund new construction if bolstered by local matching funds (OCC, 2014).

### ***Benefit of the LIHTC Program to Albemarle County***

Albemarle County has a severely low number of projects receiving LIHTC support, as the County currently has 11 tax credit properties compared to an average of 37 properties in the other ten largest counties in the Commonwealth<sup>9</sup> (VHDA, 2019). Despite the urgent need for affordable housing units in the County, developers are hesitant to build low cost units due to concerns that the low rent price will not cover cost of construction—a concern that is exacerbated by the increasing cost of construction in response to global competition for materials (Partners for Economic Solutions, 2018). Credits received through the LIHTC program alone typically only cover, at maximum, 70 percent of construction and renovation costs for the developer, requiring most developers to seek additional sources of funding (Goldman, 2018). If developers knew their costs would be covered by additional financial support through local matching funds, it is reasonable to assume that they would be more willing to build affordable units and apply for LIHTC funding. Additionally, a 2012 Albemarle County report on LIHTC credits specified that demonstrated local financial support for an application increases its likelihood of selection by 15% for each applicant (Albemarle County, 2008). The benefit of providing local matching funds is twofold: 1) supplemental matching funds will encourage local developers to apply for LIHTC tax credits, and 2) will increase the likelihood of selection for federal

<sup>7</sup> Nine percent and four percent terms refer to the percentage of construction and/or project costs that developers or investors may claim on federal tax returns in a 10-year period (Housing Counts, 2019).

<sup>8</sup> The exact costs covered by LIHTC credits vary by project and market conditions.

<sup>9</sup> Albemarle County is the 9<sup>th</sup> largest county in Virginia.

funding in a highly competitive application process. Supporting the LIHTC program by matching federal tax credits will encourage Albemarle developers to build and rent affordable units, providing much needed supply of affordable housing and assuaging the current shortage.

### ***Effectiveness at Providing Affordable Housing***

Despite the LIHTC Program being one of the primary approaches to affordable housing development for decades, available literature highlights mixed impacts of the tax credit on supply of housing. Practitioners, such as public housing agencies and low income housing advocates, have found the LIHTC program to be highly effective in increasing supply of housing. However, academic researchers coalesce around the argument that the LIHTC may substitute unsubsidized units that would have been built otherwise (Baum-Snow et al., 2009).

A 2002 study published in the *Journal of Housing Economics* found no significant relationship between the number of LIHTC units built and the supply of housing, arguing that the LIHTC may merely substitute unsubsidized units that would have been built otherwise (Malpezzi et al., 2002). Using a simple reduced form model of state housing markets, the study evaluated the effectiveness of the LIHTC program across all fifty states and found that the new LIHTC units effectively “crowded out” the same quantity of unsubsidized housing (Malpezzi et al., 2002). However, due to significant variation in the results of the study, the authors could not confidently state that the LIHTC units had no impact on the existing housing stock. The substitution argument is echoed by a Syracuse University study, funded in part by HUD, which analyzed the impact of LIHTC construction at various levels of geography. Ultimately, the study found that the LIHTC impacts the location of low income housing but has a relatively small impact on the number of newly created rental housing (Eriksen, et al., 2010). While the first study mentioned in this report lacked statistical support for its conclusion, the second study’s verification of the main finding regarding private development crowd-out supported this argument.

Other studies identify the LIHTC program as the most crucial tool in affordable housing development today (National Low Income Housing Coalition, 2018). Citing several case studies across the country, an Urban Institute report demonstrates the important role of the LIHTC in producing new units and preserving existing units, in addition to its positive impact on rural communities that often lack access to affordable housing improvements or development (Sally et al., 2018). This analysis also offered several suggestions for improvement, such as having a more sustainable long term solution beyond the LIHTC’s 30-year affordability period, which contributed to the report’s balance and reliability.

Ultimately, more research needs to be completed on the effectiveness of the LIHTC given its prominence in affordable housing development models. Specifically, there is a gap in the literature regarding analysis using recent data of the impact of the LIHTC program in the last decade.

## EVALUATIVE CRITERIA

The following set of criteria will be used to assess each alternative's ability to effectively address the affordable housing crisis in Albemarle County. Given the disproportionate impact of high housing costs on vulnerable populations, the criteria will also evaluate the fairness of the alternative among various age and racial groups and socioeconomic levels. Given that the policy alternatives are designed for action by an elected body, the Albemarle County Board of Supervisors, administrative and political feasibility are also important considerations to include. Each criterion will be quantified when possible. For qualitative evaluations, a scale ranging from low to high will be utilized.

<b>Cost</b>	<b>Equitability of Access</b>
<b>Effectiveness</b>	<b>Administrative Feasibility</b>
<b>Cost-Effectiveness</b>	<b>Political Feasibility</b>

### Cost

This criterion will project the financial costs of each alternative based on data gathered from discussions with Albemarle County employees, Habitat for Humanity staff, and available literature. Relevant costs for the alternatives are separated into two categories: costs to the recipients of the affordable housing units and costs to the Albemarle County Board of Supervisors/Albemarle County taxpayers. The total cost of each alternative is not included in the evaluation of the alternatives, but it is available to review for context in Appendix E. Given that the Board of Supervisors must decide where to allocate the \$1 million surplus in this fiscal year, the cost of each alternative incurred by the Board will be used in comparisons across alternatives and in the cost effectiveness analysis.

### Effectiveness

This criterion will measure the impact of the alternative on the affordable housing needs in Albemarle County. Specifically, this criterion will project the number of affordable housing units that Albemarle residents will gain access to as a result of the alternative. Effectiveness will be measured on a scale of *low, moderate, or high* depending on how many units are made available to Albemarle residents. Both a short term and long term approximation will be included for each alternative, however, the short term approximation of affordable housing units will be used to determine effectiveness. A low designation indicates the availability of 50 or fewer affordable housing units, a moderate designation indicates the availability of between 51 and 99 affordable housing units, and a high designation indicates the availability of 100 or more affordable housing units.

### Cost Effectiveness

I will evaluate the cost effectiveness of each alternative by comparing the costs of implementation incurred by the County to the program's performance by estimating the total number of affordable housing units made available by the alternative. To measure cost-effectiveness, I will quantify the financial cost of each alternative to the County and project the total number of safe, affordable homes that will be provided to Albemarle residents as an outcome of the alternative. The cost to the County of each alternative will then be weighed against the total number of affordable housing units to determine the alternative's cost effectiveness. This analysis includes both short term (1-3 years) and long term (3+ years) approximations of the number of affordable housing units that will be made available by each alternative. The short term approximation will be used in each alternative's cost effectiveness

analysis given that the Board's financial constraint of \$1 million is to be allocated towards affordable housing next year.

### Equitability of Access

Each alternative's primary objective is to make affordable housing units available to Albemarle residents, however, it is also necessary to consider the availability of the alternative to commonly excluded groups. Including this measurement in analysis of the policy alternatives will ensure that each alternative is equally accessible for all Albemarle County residents regardless of age, race, sex, disability, religion, or educational attainment. This analysis will consider application processes, eligibility requirements, and other aspects of the proposed programs that may disproportionately exclude vulnerable populations in Albemarle County, such as the elderly, children, and people of color. Each alternative will receive a designation of *low, moderate, or high* based on these considerations.

### Administrative Feasibility

Administrative feasibility assesses whether the Board of Supervisors has the organizational capacity and available resources to implement the alternative. Given the small number of staff members working on housing policy and the budget restrictions present, a thorough analysis of the resources needed from Albemarle County is necessary. Through the measurement of this criterion, I will compare the County's staff availability and relevant time constraints to the County resources needed for implementation. Each alternative will receive a designation of *low, moderate, or high* administrative feasibility depending on availability of Albemarle County resources for the given alternative.

### Political Feasibility

I will evaluate the degree to which each alternative is politically acceptable using a scale of *low, moderate, or high*. Two components will be included in the political feasibility analysis:

- **Board Interest:** I will review past decisions made by the Board in addition to discussions with Rick Randolph, Vice Chair of the Board of Supervisors, to gauge the Board's interest in pursuing each alternative.
- **Implementation Process:** I will also consider the political process by which the alternative will be implemented. Some alternatives may be decided upon unilaterally by the Board, whereas others may require public comment through a referendum or public hearing. Given that public engagement offers additional opportunities for the alternative to be rejected, alternatives that require higher levels of public engagement will be scored as having lower political feasibility whereas alternatives requiring only a Board vote will be scored as having higher political feasibility.



## EVALUATION OF POLICY ALTERNATIVES

This section projects outcomes for each of the alternatives. The projections are estimated by evaluating the performance of the alternatives across the evaluative criteria described above.

### Alternative 1: Let Present Trends Continue – Redevelopment of Southwood Mobile Home Park

#### ***Cost – \$700,000***

Redeveloping Southwood is the second least expensive alternative with a projected cost to the County of \$700,000 in the first year. The first year cost projection includes \$675,000 in fixed funding that the County agreed to underwrite annually and \$25,000 in administrative costs. Given that it is unknown what project costs the County's funding covers specifically, all costs associated with the redevelopment of Southwood are presented in Appendix A, although total costs are not included in the evaluation of the alternatives. Relevant redevelopment costs include cost of construction materials, administration costs, and planning, engineering and approvals costs, and were estimated based on discussions with Albemarle County Office of Housing employees and Habitat for Humanity staff. While there are immediate costs covered by the Board's funding within one year, the Southwood project will need long term County investment in order to be successful as the total cost of the project is projected to be approximately \$73 million. The Board cannot commit to future funding beyond one year, however, it is reasonable to assume that the Board would maintain its current level of annual funding in future years.

#### ***Effectiveness –Moderate-High***

The redevelopment of Southwood is moderately to highly effective at making affordable housing units available to Albemarle residents, as the redevelopment will make 83-112 affordable housing units available in the construction of Phase 1<sup>10</sup>. Ultimately, the redevelopment is projected to produce 385-525 affordable housing units, depending on the affordable housing unit level recommended by the Board.

#### ***Cost-Effectiveness – 3/4***

Redeveloping Southwood is the third most cost effective alternative. Using the aforementioned calculations, the cost-effectiveness of redeveloping Southwood is projected to be between \$6,250 and \$8,433 per affordable housing unit developed.

#### ***Administrative Feasibility – High***

The County possesses both adequate capital resources and staff availability to assist with the redevelopment of Southwood, resulting in high administrative feasibility. Given that the Board officially committed funding to the Southwood project in early 2018, necessary capital resources and staff were secured before the commitment. Specifically, a housing planner was hired to take on part of the increased administrative burden. She maintains her position and will provide adequate availability in the future for the Southwood project.

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<sup>10</sup> Phase 1 is projected to be completed by late 2020.

### ***Equitability of Access – High***

This alternative is highly equitable across all Albemarle residents. Due to concern that Habitat homes' cost of approximately \$80,000 would be out of the price range for extremely low income Albemarle residents, Habitat created home ownership and job development programs to assist low income residents in gaining access to Habitat affordable homes. Specifically, low income residents can pay off part of the home's cost by contributing "sweat equity" to help construct their home. These programs are developed by Habitat, although other nonprofit developers may offer similar programs.

### ***Political Feasibility – High***

With high levels of Board interest and a pre-approved implementation process, this alternative has high political feasibility. Given that the Board had approved a fixed investment of \$675,000 for fiscal year 2018-2019, it is reasonable to assume that future Boards would maintain similarly strong interest. Contributing to this alternative's high political feasibility is the fast-tracked implementation process. Maintaining this annual investment would not require a public hearing given that the decision to invest in Southwood was open to public comment when the Board originally invested in 2018, thus increasing its likelihood of implementation.

## **Alternative 2: Construct Affordable Housing Elsewhere**

### ***Cost – \$751,250***

Constructing affordable housing elsewhere in Albemarle County is the second most expensive option with a cost of \$751,250 to the County in the first year of implementation. This alternative includes many of the same costs required by redeveloping Southwood, including construction costs, planning, engineering, and approvals costs and increased administrative costs. However, this alternative also involves the additional cost of commissioning an Albemarle County-specific housing needs assessment, which is projected to cost approximately \$45,000 based on the costs of similar assessments commissioned by the City of Charlottesville and the Thomas Jefferson Planning District Commission.

### ***Effectiveness – Low***

Constructing affordable housing elsewhere in Albemarle County will be highly effective at making affordable housing units available, as it is projected to produce 33-45 affordable housing units depending on the project in the short term. In the long term, a new development is projected to produce 100-150 affordable housing units by project completion. Given that the number of affordable housing units produced by this alternative is conditional on the chosen development, several prospective projects were analyzed to determine a potential range of affordable housing units to be produced in one development.

### ***Cost-Effectiveness – 4/4***

Based on the above calculations, constructing affordable housing elsewhere in Albemarle County is the least cost effective option with a cost of \$16,694.44-\$22,765.15 per affordable housing unit constructed. A more detailed cost effectiveness analysis can be viewed in Appendix B.

### ***Equitability of Access – High***

Although it is unknown what specific development will possess the new affordable housing units, it is reasonable to assume that the construction of affordable housing through a public-private partnership will offer similarly equitable access opportunities as the Southwood redevelopment. Further, the



housing needs assessment will identify those in Albemarle County who are most in need of affordable housing, thus enabling the development to prioritize access for these residents.

***Administrative Feasibility – High***

Given that this alternative reallocates the resources currently used to fund the redevelopment of Southwood, which were secured in 2018, the County already possesses the necessary capital resources and staff to implement this alternative.

***Political Feasibility – Moderate***

Representatives of the Board have publicly stated their interest in development as a solution to the affordable housing shortage in Albemarle County, indicating that a new development would receive high levels of Board interest. However, the decision to fund a new development would require a public hearing. Considering the strong community support for the Southwood redevelopment, a discussion of reallocating Southwood funding for a new initiative would likely be met with opposition, thus decreasing the initiative's likelihood of implementation. The alternative's high level of Board interest and low likelihood of implementation results in a moderate political feasibility ranking.

### **Alternative 3: Develop a Locally Funded Housing Voucher Program**

***Cost – \$714,008***

Developing a locally funded housing voucher program is the second most expensive alternative with a cost of \$865,313 to the County in the first year of implementation. The County bears full financial responsibility for this alternative. Relevant costs include the value of the voucher (cost of monthly housing assistance payments (HAPs) to recipient households) and the administrative costs required to fund additional staff time. Using the average rental rate in Albemarle County of \$1,250 per month and average household incomes at 30% and 50% AMI, the average value of one voucher at each of the aforementioned income levels is projected to be approximately \$6,939 and \$1,560 per year, respectively. A detailed cost calculation of the voucher value at each household income level can be found in Appendix C. This option would also require administrative costs, as an inspector and housing specialist would be needed to carry out the administrative operations of the program. Based on a similar program in the City of Charlottesville, the administrative costs are projected to be approximately \$35,000 annually.

***Effectiveness – Moderate***

This alternative removes financial barriers that have previously prevented 120 households from accessing affordable housing, qualifying the alternative for a high rating. However, this alternative's effectiveness is limited by the shortage of affordable housing in Albemarle County. In order for a voucher program to effectively move residents into affordable homes, there must first be an adequate supply of affordable homes for the residents to move into. This alternative's impact is dependent on the supply of affordable housing in Albemarle County, which is already severely low, thus increasing uncertainty and reducing its effectiveness to a moderate score.

***Cost-Effectiveness – 2/4***

Based on the above estimates, the cost-effectiveness of creating a locally funded housing voucher program is projected to be \$5,950.07 per affordable housing unit made available through vouchers.

### ***Equitability of Access – Moderate***

This alternative is moderately equitable across all Albemarle residents given that the application process and required responsibilities of the recipients may exclude some residents from participating. Specifically, the Office of Housing estimates that the application may take several hours to several days to complete depending on one's knowledge of their financial status and available time. Additionally, while the responsibility of the recipients to find their own apartments after receiving a housing voucher is often viewed as an advantage given that recipients have more autonomy in the process, this responsibility can also burden residents who work full time, have more than one job, or have a family.

### ***Administrative Feasibility – Moderate***

The County possesses both adequate capital resources and staff availability to implement a locally funded housing voucher program, which qualifies it for a high score. However, the separate administration of the federal Housing Choice Voucher Program and the locally funded program requires the use of separate public housing software and the employment of different staff members. While the cost of the new software is within the budget and there is an adequate number of staff members to operate both programs, it is both complicated and time consuming to rearrange organizational structures. As a result, this alternative has moderate administrative feasibility.

### ***Political Feasibility – Low***

There is severe opposition to the creation of a locally funded housing voucher program on the Board of Supervisors, reducing the alternative's political feasibility to a low designation. Based on discussions with several Supervisors, there is widespread concern on the Board that creating a locally funded voucher program may reduce the financial responsibility of the federally funded Housing Choice Voucher Program in providing housing financial assistance and thus may provide an incentive for the federal government to reduce funding. Although the creation of a locally funded housing voucher program would only require a simple Board vote, the opposition to the alternative results in a low likelihood of implementation.

## **Alternative 4: Provide Matching Funds to Affordable Housing Projects Receiving Federal Low Income Housing Tax Credits**

### ***Cost – \$396,000***

Providing matching funds to projects receiving federal LIHTC funds is the least expensive alternative by far, as the total cost to Albemarle taxpayers in the first year of implementation is only \$396,000. While County funds will finance the entire program, the projected \$10,000 to \$12,000 per unit costs allow costs to stay low. A detailed cost breakdown can be reviewed in Appendix D. Relevant costs include the value of the tax credit at various affordable housing unit levels<sup>11</sup> and annual administrative costs. The administrative costs for this alternative are the highest among all of the alternatives at \$50,000 due to increased administrative burden on County officials.

### ***Effectiveness – Moderate-Low***

This alternative is projected to make 70-100 affordable housing units available within the first year of implementation through the distribution of matching funds to LIHTC developers, qualifying it for a moderate designation. However, there is great uncertainty surrounding this alternative given that the

<sup>11</sup> Affordable unit levels used in this analysis include: 100 or more units, 61-99 units, 41-60 units, and less than 40 units.

provision of matching funds is contingent on the federal LIHTC process, which is often categorized as unreliable<sup>12</sup>. The combination of the urgency of the affordable housing crisis and the relative uncertainty associated with the LIHTC process reduces this alternative to moderate to low effectiveness.

#### ***Cost Effectiveness – 1/4***

Providing matching funds is the most cost effective amongst the alternatives. Using the cost and effectiveness calculations, this alternative's projected cost effectiveness is \$3,960 - \$5,657.14 per affordable housing unit made available through matching funds.

#### ***Equitability of Access – High***

This alternative has high equitability of access given that LIHTC units are highly accessible to all Albemarle residents. LIHTC units are typically targeted at providing housing to residents earning 60% or below AMI, thus ensuring that very low income and extremely low income residents gain access to the affordable housing. Additionally, the federal LIHTC program promotes non-discrimination and racial integration in their policies, aiming to make LIHTC units available to anyone in need (PRRAC, 2010).

#### ***Administrative Feasibility – Low***

This alternative has low administrative feasibility due to the required increases in administrative capital resources and staff time to coordinate with the federal LIHTC program. Specifically, County staff incur increased administrative burden from this alternative by both providing technical support to applicants as they navigate the LIHTC application process and negotiating the matched value with the applicants after they receive LIHTC funding.

#### ***Political Feasibility – Moderate***

With moderate Board interest and a unilateral implementation process, providing matching funds has moderate political feasibility. Based on discussions with members of the Board, there are concerns that the uncertainty of the LIHTC process will limit the alternative's ability to address urgent affordable housing needs. However, the members stated that they were not opposed to the option and would be interested in learning more. Additionally, this alternative is likely to pass the implementation process if proposed given that only a Board vote is required.

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<sup>12</sup> Ron White, Chief of Housing and an expert on federal tax credits, stated that it is difficult to depend on the LIHTC process given the strong competition for credits and variability in outcomes (White, 2019).

## OUTCOMES MATRIX

Evaluative Criteria	Alternatives			
	<i>*Redevelop Southwood</i>	<i>Construct Affordable Housing Elsewhere</i>	<i>Create a Local Housing Voucher Program</i>	<i>Match Federal LIHTC Funds</i>
<b>Cost</b> <i>Financial Cost to Albemarle Taxpayers in the First Year</i>	\$700,000.00	\$751,250.00	\$714,008.00	\$396,000
<b>Effectiveness</b> <i>Number of Affordable Units Provided in Short Term</i>	Moderate-High 83-112 units	Low 33-45 units	Moderate 120 units	Moderate-Low 70-100 units
<b>Cost-Effectiveness</b> <i>Cost / Number of Affordable Units Made Available</i>	\$6,250.00 - \$8,433.74 3/4	\$16,694.44 - \$22,765.15 4/4	\$5,950.07 2/4	\$3,960 - \$5,657.14 1/4
<b>Equity</b> <i>Availability to All Residents</i>	High	High	Moderate	High
<b>Administrative Feasibility</b> <i>Capital Resources + Staff Availability</i>	High	High	Moderate	Low
<b>Political Feasibility</b> <i>Board Interest + Likelihood of Passing Political Process</i>	High	Moderate	Low	Moderate

High is positive; low is negative. Cost effectiveness is evaluated by a calculation of *cost to Albemarle taxpayers in the first year/ number of affordable units made available* and a rank order. A 4/4 rank indicates the least cost effective alternative; a 1/4 rank indicates the most cost effective alternative.

## TRADEOFFS ACROSS ALTERNATIVES

The outcomes matrix presented above provides a summary of the tradeoffs that exist across the four alternatives. The tradeoffs presented in the matrix are described in more detail below. Tradeoffs existing in Alternative 1 are discussed under Rationale in the following section.

**Alternative 2**, constructing affordable housing elsewhere in Albemarle County, was not recommended due to its low effectiveness in the short term. Although this alternative is projected to produce 100-150 affordable housing units in the long term, a range well within the high effectiveness designation, it is only able to produce 35-50 units in the short term. Additionally, it is highly unlikely that the County will be able to secure another property as large as the Southwood redevelopment<sup>13</sup>. Given that constructing affordable housing elsewhere in Albemarle County has higher costs than the Southwood redevelopment and lower affordable housing production in both the short and long term, this alternative was not recommended.

**Alternative 3**, creating a locally funded housing voucher program, was not recommended for several reasons. Despite its long term cost-effectiveness, this alternative has minimal impact on affordable housing needs in the short term and low political feasibility. There is certainly demand for housing vouchers in Albemarle County, with a housing voucher waitlist of over 1,200 Albemarle residents seeking financial assistance in 2018. However, available research shows that provision of housing vouchers is only successful in alleviating the need for affordable housing if there is adequate housing stock, which Albemarle County is currently lacking. Should the affordable housing stock in the County increase in the future, the creation of a locally funded housing voucher program should be considered given that it is projected to be highly effective when there is an adequate number of available affordable housing units. Additionally, the widespread opposition to this alternative on the Board of Supervisors severely reduces the likelihood of implementation.

**Alternative 4**, providing local matching funds to affordable housing projects receiving federal low income housing tax credits, was not recommended due to high levels of uncertainty surrounding its implementation. While providing local funds to match federal tax credits is highly cost effective, the success of the project is wholly conditional on both the willingness of developers to apply to the federal LIHTC program/local funding program and the likelihood of the developer being selected to receive federal tax credits. Although the County will only incur costs if the developers are selected, the public commitment of \$1 million to be spent on affordable housing initiatives next year—in addition to the increasing urgency of affordable housing needs in Albemarle County—constrains the ability of the Board to depend on an alternative with such uncertain outcomes.

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<sup>13</sup> The Southwood redevelopment is the second-largest Habitat for Humanity development project, by acreage, in the country (Habitat for Humanity, 2018).

## POLICY RECOMMENDATION & IMPLEMENTATION

Each alternative's cost, effectiveness, cost-effectiveness, equity, and political and administrative feasibility were evaluated to determine the alternative that will most effectively make safe, sanitary, and affordable homes available to Albemarle residents. Considering each alternative's performance across the evaluative criteria, I recommend that the Albemarle County Board of Supervisors continue to fund the redevelopment of Southwood Mobile Home Park.

### **Alternative 1: Let Present Trends Continue – Redevelop Southwood Mobile Home Park**

**I recommend that the Albemarle County Board of Supervisors continue to fund the redevelopment of Southwood Mobile Home Park in partnership with the Habitat for Humanity of Greater Charlottesville. The Board should also propose a 55-75% affordable housing unit level in Southwood, which would result in the construction of 83-112 new affordable housing units in Phase 1 of the redevelopment.**

### ***Rationale***

While the total cost of this project is highest among all of the alternatives, the County's public-private partnership with Habitat for Humanity allows the cost to the County to be within the allocated funding amount. Redeveloping Southwood is also the only alternative to have a high score across equitability of access, political feasibility, administrative feasibility, and effectiveness. The Southwood redevelopment is highly effective at making affordable homes available to Albemarle residents, with 83-112 affordable housing units added to the county's housing stock by 2020 and 385-525 affordable housing units added by project completion<sup>14</sup>. The redevelopment is highly accessible to Albemarle residents due to home ownership and skill development programs offered by Habitat to enable extremely low income residents to purchase or rent a Habitat home. Additionally, this alternative will have a simple implementation process given that the necessary administrative and political requirements were acquired previously as support for the project is currently ongoing.

The benefits of this alternative can be separated into two categories: benefits to recipients and benefits to the Albemarle County economy.

### ***Benefits to Residents***

Most importantly, future residents of the Habitat homes—including current Southwood residents who will move into the new homes—will gain access to safe, high quality, affordable housing. Residents will also incur financial benefits. They will be able to allocate a larger portion of their income towards basic living necessities that may have been previously sacrificed in order to pay rent, such as health care, child care, food, and transportation. Additionally, residents will likely incur a reduction in utility costs due to energy-efficient insulation in the Habitat homes<sup>15</sup>. Residents will also receive several non-monetary benefits. A Brookings study evaluating the social benefits of home ownership found that low

<sup>14</sup> A completion date for the Southwood Redevelopment has not yet been determined. However, based on redevelopments of similar scale, it is reasonable to assume that the redevelopment will not be completed until 2028 at the earliest.

<sup>15</sup> Habitat homes are projected to cost its recipients roughly \$70 per month in energy costs (Habitat Home Construction Technologies, 2017) compared to the regional average of \$132 per month (City of Charlottesville Dept. of Utilities, 2017).



income households that were able to purchase a home due to financial assistance or affordable housing programs experienced improved long term health outcomes, higher educational attainment, and decreased likelihood of involvement in criminal activities compared to renter households that were paying more than 30% of their income on rent (Engelhardt et al., 2010).

### ***Benefits to Albemarle County Economy***

The redevelopment of Southwood presents a significant social and financial benefit to the local economy. A 2013 study by the Weldon Cooper Center for Public Service estimated that redeveloping Southwood from a mobile home park to a mixed income, mixed use community will ultimately generate 17 times the tax revenue than it currently produces (Weldon Cooper Center for Public Service, 2013). The economic impact study also determined that constructing a 700-unit community of permanent housing units and commercial businesses will increase neighboring property values. Specifically, the study found that homes within 1,500 feet of a Habitat home will likely be worth 6-6.5% more as a result of the new development (Weldon Cooper Center for Public Service, 2013)

### ***Considerations for Implementation***

For the County to continue its partnership with Habitat for Humanity of Greater Charlottesville by maintaining a \$675,000 annual funding level to the Southwood redevelopment, increased communication and consensus between the two parties is needed. The largest obstacle currently facing the Southwood redevelopment is disagreement between Habitat and the Board regarding the mixed income community's affordable characteristics. While there is broad consensus regarding the preferred outcome of the development—to make affordable housing units available to low income residents in Albemarle County while developing a thriving community—wide numerical disparities exist between the affordable housing unit levels and percentages of units at various income levels desired by Habitat and the Board, respectively. Given that both the Board and Habitat are the project's two public-facing representatives and the largest financial supporters, a unified vision is necessary for its success.

### ***Next Steps***

To reach consensus on the affordable characteristics of the mixed income community, an updated performance agreement should be developed through coordination of both parties. Specifically, the updated performance agreement should include:

- **Affordable Housing Unit Level:** an agreed-upon percentage of affordable housing for the entire development at completion and also specified by phase.
- **Number of Units Constructed at Various Income Levels:** the specific number of affordable homes available to residents with incomes at 30% AMI, 50% AMI, and 80% AMI.

According to this analysis, the optimal level of affordable housing is between 55% and 75% of the total number of units. While Habitat mixed income communities across the country often utilize a 15% affordable housing unit level, Albemarle County has a county-wide standard that all new units approved by rezoning or special use permits—such as Southwood—must include at least 15% of their units as affordable (Albemarle County Office of Housing, 2015). Thus, if a 15% affordable housing unit level is utilized in Southwood, the County will receive no extra affordable housing units for their financial contribution beyond the level that would have been required without their partnership. Further, the Southwood redevelopment is uniquely suited for a higher percentage of affordable units given that it is being redeveloped from a mobile home community. The concern usually associated with higher levels of affordable housing in mixed income communities is that a larger proportion of low income residents

may drive out potential moderate to high income residents due to societal stigmas surrounding affordable housing. However, given that is publicly available that the new Southwood will house the current residents of the trailer homes, a 48% affordable housing unit level is already required (Charlottesville Tomorrow, 2018). It is then reasonable to assume that an increase to 55%-75% of low income residents will not deter potential residents who previously felt comfortable with a 48% affordable housing unit level.

The optimal number of units constructed at various income levels was not included in this analysis. However, it is recommended that the Board engage in discussions with Habitat to determine levels that will mitigate the urgent need of many Albemarle residents to gain access to affordable housing while also leading to financial stability for the community.



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## APPENDIX A

### Cost Effectiveness Analysis for Alternative 1: Let Present Trends Continue, Redevelop Southwood Mobile Home Park

ASSUMPTION	ESTIMATED COST/VALUE	SOURCE
Fixed funding in FY 2019-2020 (Annual)	\$675,000	Southwood redevelopment 2018 performance agreement <sup>16</sup>
Administration costs (Annual)	\$25,000	Albemarle County Office of Housing estimate
Total residential units in Southwood redevelopment community in Phase 1 (Short term approximation)	150 units	Habitat for Humanity estimate
Total residential units in Southwood redevelopment community at completion (Long term approximation)	700 units	Habitat for Humanity estimate
Total affordable housing units in Southwood redevelopment community in Phase 1 (Short term approximation)	83-112 units	Estimate based on recommended affordable housing unit level of 55%-75%
Total affordable housing units in Southwood redevelopment community at completion (Long term approximation)	385-525 units	Estimate based on recommended affordable housing unit level of 55%-75%
Recommended affordable housing unit level	55%-75%	Estimate based on research findings regarding optimal affordable housing unit levels in mixed income developments <sup>17</sup>

The formula used to calculate the cost effectiveness measure for this alternative is shown in detail below.

<sup>16</sup> (Habitat for Humanity, 2018)

<sup>17</sup> (Tarantello, 1998)

$$\begin{aligned}
 \text{Cost effectiveness} &= \frac{\text{Financial cost to the County in Year 0}}{\text{Number of Affordable Housing Units Made Available in the Short Term (1-3 Years)}} \\
 &= \frac{\$700,000}{83 - 112 \text{ units}} \\
 &= \$6,250.00 - \$8,433.74 \text{ per unit of affordable housing}
 \end{aligned}$$

## APPENDIX B

### Cost Effectiveness Analysis for Alternative 2: Construct Affordable Housing Elsewhere

ASSUMPTION	ESTIMATED COST/VALUE	SOURCE
Fixed funding in FY 2019-2020 (Annual)	\$675,000	Southwood redevelopment 2018 performance agreement <sup>18</sup>
Housing needs assessment	\$45,000	Estimate based on the costs of similar needs assessments in the area <sup>19</sup>
Administration costs (Annual)	\$31,250	Albemarle County Office of Housing estimate
Total residential units in redevelopment community in Phase 1 (Short term approximation)	60 units	Estimate based on number of units completed in Phase 1 in developments of similar scale
Total residential units in redevelopment community at completion (Long term approximation)	400 units	Estimate based on potential future developments identified in the Thomas Jefferson Planning Commission regional housing assessment <sup>20</sup>
Total affordable housing units in redevelopment community in Phase 1 (Short term approximation)	33-45 units	Estimate based on recommended affordable housing unit level of 55%-75%
Total affordable housing units in redevelopment community at completion (Long term approximation)	220-300 units	Estimate based on recommended affordable housing unit level of 55%-75%
Recommended affordable housing unit level	55%-75%	Estimate based on research findings regarding optimal affordable housing unit levels in mixed income developments <sup>21</sup>

<sup>18</sup> Since this alternative requires the movement of the funding originally allocated to the Southwood redevelopment to a new development, the Habitat performance agreement informed the analysis of this original funding amount (Habitat for Humanity, 2018).

<sup>19</sup> (City of Charlottesville Budget, 2018).

<sup>20</sup> (Partners for Economic Solutions, 2019).

<sup>21</sup> (Tarantello, 1998).



The formula used to calculate the cost effectiveness measure for this alternative is shown in detail below.

$$\begin{aligned}
 \text{Cost effectiveness} &= \frac{\text{Financial cost to the County in Year 0}}{\text{Number of Affordable Housing Units Made Available in the Short Term (1-3 Years)}} \\
 &= \frac{\$751,250}{33 - 45 \text{ units}} \\
 &= \$16,694.44 - \$22,765.15 \text{ per unit of affordable housing}
 \end{aligned}$$

## APPENDIX C

### Cost Effectiveness Analysis for Alternative 3: Create a Locally Funded Housing Voucher Program

ASSUMPTION	ESTIMATED COST/VALUE	SOURCE
Average rent costs in Albemarle County (Annual)	\$15,000	Estimate presented in 2018 <i>Orange Dot Report</i> <sup>22</sup>
Number of vouchers provided to households at 30% AMI (Annual)	80 vouchers	Recommended number based on the percentage of extremely low income residents on the federal housing voucher waitlist in Albemarle County <sup>23</sup>
Number of vouchers provided to households at 50% AMI (Annual)	40 vouchers	Recommended number based on the percentage of very low income residents on the federal housing voucher waitlist in Albemarle County <sup>24</sup>
Total affordable housing units made available through locally funded vouchers within first year of implementation (Short term approximation)	120 units	Recommended number based on the City of Charlottesville's locally funded housing voucher program <sup>25</sup> and discussions with Albemarle County Office of Housing staff
Total affordable housing units made available through locally funded vouchers within first year of implementation (Long term approximation)	360-400 units	Recommended number based on the City of Charlottesville's locally funded housing voucher program <sup>26</sup> and discussions with Albemarle County Office of Housing staff
Contingency fee	10% of cost per voucher	Office of Housing estimate
Percentage of annual income spent on rent	30%	HUD affordability standard
Administration (Annual)	\$35,000	Office of Housing estimate

The formula used to calculate the cost effectiveness measure for this alternative is shown in detail below.

<sup>22</sup> (Schuyler, 2018)

<sup>23</sup> In 2018, 60% of residents on the federal Housing Choice Voucher program waitlist in Albemarle County were extremely low income (Albemarle County Office of Housing, 2018).

<sup>24</sup> In 2018, 34% of residents on the federal Housing Choice Voucher program waitlist in Albemarle County were very low income (Albemarle County Office of Housing, 2018).

<sup>25</sup> (Pethia, 2017)

<sup>26</sup> (Pethia, 2017)

$$\begin{aligned}
 \text{Cost effectiveness} &= \frac{\text{Financial cost to the County in Year 0}}{\text{Number of Affordable Housing Units Made Available in the Short Term (1-3 Years)}} \\
 &= \frac{\$714,008}{120 \text{ units}} \\
 &= \mathbf{\$5,950.07 \text{ per unit of affordable housing}}
 \end{aligned}$$

The value of the voucher given to households is calculated using the household income and rental rate. Voucher recipients are required to pay 30% of their income towards rent, with the locally funded voucher covering the remaining amount and paid directly to the recipient's landlord. Annual costs of providing housing vouchers at 30% and 50% AMI were estimated using the following calculations:

**Annual cost per voucher at 30% AMI = \$610,368**

$$\begin{aligned}
 \text{Household income at 30\% AMI} \times \% \text{ of income spent on rent} &= \text{Annual income spent on rent} \\
 \$26,880 \times 30\% &= \mathbf{\$8,064}
 \end{aligned}$$

$$\begin{aligned}
 \text{Annual rent costs} - \text{Annual income spent on rent} &= \text{Value of one 30\% AMI voucher} \\
 \$15,000 - \$8,064 &= \mathbf{\$6,936}
 \end{aligned}$$

$$\begin{aligned}
 \text{Value of the voucher} \times \text{Number of 30\% AMI vouchers} &= \text{Annual cost of vouchers} \\
 6,936 \times 80 &= \mathbf{\$554,880}
 \end{aligned}$$

$$\begin{aligned}
 \text{Contingency fee/voucher} \times \text{Number of 30\% AMI vouchers} &= \text{Annual contingency fund costs} \\
 (\$6,936 \times .1) \times 80 &= \mathbf{\$55,488}
 \end{aligned}$$

**Annual cost per voucher at 50% AMI = \$68,640**

$$\begin{aligned}
 \text{Household income at 50\% AMI} \times \% \text{ of income spent on rent} &= \text{Annual income spent on rent} \\
 \$44,800 \times 30\% &= \mathbf{\$13,440}
 \end{aligned}$$

$$\begin{aligned}
 \text{Annual rent costs} - \text{Annual income spent on rent} &= \text{Value of one 50\% AMI voucher} \\
 \$15,000 - \$13,440 &= \mathbf{\$1,560}
 \end{aligned}$$

$$\begin{aligned}
 \text{Value of the voucher} \times \text{Number of 50\% AMI vouchers} &= \text{Annual cost of vouchers} \\
 \$1,560 \times 40 &= \mathbf{\$62,400}
 \end{aligned}$$

$$\begin{aligned}
 \text{Contingency fee/voucher} \times \text{Number of 50\% AMI vouchers} &= \text{Annual contingency fund costs} \\
 (\$1,560 \times .1) \times 40 &= \mathbf{\$6,240}
 \end{aligned}$$

## APPENDIX D

### Cost Effectiveness Analysis for Alternative 4: Provide Matching Funds to Affordable Housing Projects Receiving Federal LIHTC Credits

ASSUMPTION	ESTIMATED COST/VALUE	SOURCE
One development of each unit level will receive federal and local tax credits in the first year of implementation	4 developments	Estimate based on average number of LIHTC-funded developments in Albemarle County in the past five years <sup>27</sup>
Administration (Annual)	\$50,000	Office of Housing estimate
Total affordable housing units in redevelopment community available in the first year of implementation (Short term approximation)	70-100 units	Estimate based on a construction rates of similar scale developments within the first year of implementation <sup>28</sup>
Total affordable housing units in redevelopment community at completion (Long term approximation)	242-299 units	Estimate based on a construction rates of similar scale developments within the first year of implementation <sup>29</sup>
Credit value maximum for a development with 100 units or more (Long term approximation)	\$1,500,000	Estimate based on maximums identified in case studies of local provision of matching funds to federal housing programs <sup>30w</sup>
Credit value maximum for a development with 61-99 units (Long term approximation)	\$1,000,000	Estimate based on maximums identified in case studies of local provision of matching funds to federal housing programs <sup>31</sup>
Credit value maximum for a development with 41-60 units (Long term approximation)	\$700,000	Estimate based on maximums identified in case studies of local provision of matching funds to federal housing programs <sup>32</sup>
Credit value maximum for a development with less than 40 units (Long term approximation)	\$400,000	Estimate based on maximums identified in case studies of local provision of matching funds to federal housing programs <sup>33</sup>

<sup>27</sup> In the last five years, Albemarle County has had only eleven developments receive LIHTC funding. Although this number is expected to increase with the provision of matching funds, this number provides a baseline for the first year of the program's implementation (VHDA, 2019).

<sup>28</sup> (Piedmont Housing Alliance, 2018)

<sup>29</sup> (Piedmont Housing Alliance, 2018)

<sup>30</sup> (Massachusetts Department of Housing and Community Development, 2018)

<sup>31</sup> (Massachusetts Department of Housing and Community Development, 2018)

<sup>32</sup> (Massachusetts Department of Housing and Community Development, 2018)

<sup>33</sup> (Massachusetts Department of Housing and Community Development, 2018)

Payment rate (Annual)	10% of total credit value	Rate based on the federal LIHTC annual payment rate, as credits are provided over a ten-year time frame
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The formula used to calculate the cost effectiveness measure for this alternative is shown in detail below.

$$\begin{aligned}
 \text{Cost effectiveness} &= \frac{\text{Financial cost to the County in Year 0}}{\text{Number of Affordable Housing Units Made Available in the Short Term (1-3 Years)}} \\
 &= \frac{\$396,000}{70-100 \text{ units}} \\
 &= \$3,960 - \$5,657.14 \text{ per unit of affordable housing}
 \end{aligned}$$

The cost to the County within the first year of implementation of providing matching funds to federal tax credits is calculated using the total value of credits awarded to the development and the annual payment rate of 10%. For the purpose of this cost calculation, it will be assumed that 80 units will be constructed in the 61-99-unit level development and that 50 units will be constructed in the 41-60-unit level development. Detailed calculations are presented below.

**Total value of tax credits to a development of 100 or more affordable units = 1,500,000**

$$\begin{aligned}
 \text{Per unit cost} \times \text{Number of Units} &= \text{Maximum value of tax credits awarded} \\
 \$15,000 \times 100 &= \$1,500,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Max. value of tax credits} \times \text{Payment rate} &= \text{Annual cost to County per development} \\
 \$1,500,000 \times .1 &= \$150,000
 \end{aligned}$$

**Total value of tax credits to a development of 80 affordable units = \$960,000**

$$\begin{aligned}
 \text{Per unit cost} \times \text{Number of Units} &= \text{Maximum value of tax credits awarded} \\
 \$12,000 \times 80 &= \$960,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Max. value of tax credits} \times \text{Payment rate} &= \text{Annual cost to County per development} \\
 \$960,000 \times .1 &= \$96,000
 \end{aligned}$$

**Total value of tax credits to a development of 50 affordable units = \$600,000**

$$\begin{array}{lll} \text{Per unit cost} \times \text{Number of Units} & = & \text{Maximum value of tax credits awarded} \\ \$12,000 \times 50 & = & \$600,000 \end{array}$$

$$\begin{array}{lll} \text{Max. value of tax credits} \times \text{Payment rate} & = & \text{Annual cost to County per development} \\ \$600,000 \times .1 & = & \$60,000 \end{array}$$

**Total value of tax credits to a development of 40 affordable units = \$400,000**

$$\begin{array}{lll} \text{Per unit cost} \times \text{Number of Units} & = & \text{Maximum value of tax credits awarded} \\ \$10,000 \times 40 & = & \$400,000 \end{array}$$

$$\begin{array}{lll} \text{Max. value of tax credits} \times \text{Payment rate} & = & \text{Annual cost to County per development} \\ \$400,000 \times .1 & = & \$40,000 \end{array}$$



## APPENDIX E

### General Assumptions for Total Cost Analysis

- A 3% discount rate
- A \$11.11 minimum hourly wage
- \$10,000 construction costs per two weeks on one affordable housing unit based on Habitat for Humanity national projections
- All administration cost estimates were projected with the help of Stacy Pethia, Principal Housing Planner, based on confidential information about past internal administration costs
- \$100 moving costs per household

### Total Costs for Alternative 1

ALTERNATIVE 1: Redevelop Southwood Mobile Home Park			
Type of Cost	Per Unit Cost	Number of Units	Total Monetary Cost
Board 2019 Contribution	\$675,000.00	15	\$10,125,000.00
Construction materials	\$80,000.00	700	\$56,000,000.00
Planning, engineering, & approvals	\$350,000.00	1	\$350,000.00
Land acquisition	\$7,000,000.00	1	\$7,000,000.00
Moving costs	\$100.00	385-525	\$38,500 - \$52,500
Administration	\$31,250.00	15	\$31,250.00
Lost wages due to "Sweat equity"	\$11.11	2,000	\$22,220.00
		<b>TOTAL</b>	<b>\$73,566,970.00 - \$73,580,970.00</b>

### Total Costs for Alternative 2

ALTERNATIVE 2: Construct Affordable Housing Elsewhere			
Type of Cost	Per Unit Cost	Number of Units	Total Monetary Cost
Board 2019 Contribution	\$675,000.00	15	\$10,125,000.00
Construction materials	\$50,000.00	400	\$20,000,000.00
Planning, engineering, & approvals	\$250,000.00	\$1.00	\$250,000.00
Land acquisition	\$700,000.00	N/a	\$700,000.00
Moving costs	\$100.00	220-300	\$22,000 - \$30,000
Administration	\$31,250.00	15	\$468,750.00
Lost wages due to "Sweat equity"	\$11.11	1,000	\$11,110.00
Housing assessment	\$45,000.00	1	\$45,000.00
		<b>TOTAL</b>	<b>\$31,621,860.00 - \$31,629,860.00</b>

### Total Costs for Alternative 3

<b>ALTERNATIVE 3: Create a Locally Funded Housing Voucher Program</b>			
<b>Type of Cost</b>	<b>Per Unit Cost</b>	<b>Number of Units</b>	<b>Total Monetary Cost</b>
Vouchers to recipients with an income less than or equal to 30% of AMI	\$6,936.00	1200	\$8,323,200.00
Vouchers to recipients with an income less than or equal to 50% of AMI	\$1,560.00	600	\$936,000.00
Contingency Fee for 30% AMI vouchers	\$693.60	1200	\$832,320.00
Contingency Fee for 50% AMI vouchers	\$156.00	600	\$93,600.00
Time spent completing application	\$11.11	360	\$3,999.60
Administration	\$35,000.00	15	\$525,000.00
		<b>TOTAL</b>	<b>\$10,714,119.60</b>

### Total Costs for Alternative 4

<b>ALTERNATIVE 4: Provide Matching Funds to Projects Receiving Federal Tax Credits</b>			
<b>Type of Cost</b>	<b>Per Unit Cost</b>	<b>Number of Units</b>	<b>Total Monetary Cost</b>
Value of tax credit	\$10,000.00-\$12,000.00	<100 units	\$1,500,000.00
Value of tax credit	\$10,000.00-\$12,000.00	80 units	\$960,000.00
Value of tax credit	\$10,000.00-\$12,000.00	50 units	\$600,000.00
Value of tax credit	\$10,000.00-\$12,000.00	>40 units	\$400,000.00
Administration	\$50,000.00	15	\$750,000.00
		<b>TOTAL</b>	<b>\$4,210,000.00</b>