

**MEMORANDUM**

TO: Mayor and City Council

FROM: Eric Mongan, City Planner

SUBJECT: HOLD A JOINT CITY COUNCIL/PLANNING COMMISSION WORKSESSION TO DISCUSS THE DRAFT AFFORDABLE HOUSING IMPLEMENTATION PLAN

DATE: September 21, 2022

Background:

In March of this year, City staff with the support of our consultant ECONorthwest and the Affordable Housing Implementation Plan Advisory Committee, began the process of drafting an Affordable Housing Implementation Plan as an amendment to Policy 3 of the Housing Element of the Cottage Grove Comprehensive Plan. In that period there have been two meetings of the Advisory Committee, stakeholder interviews, and several meetings between staff and the consultant. In June, the Housing Implementation Plan Background Report was completed and submitted to the Department of Land Conservation and Development. The Background Report serves as follow-up document to studies and amendments that have been completed in recent years, both with the support of ECONorthwest and City staff. The Background Report is included with this memorandum.

On September 8<sup>th</sup>, the Advisory Committee met and reviewed the draft Affordable Housing Implementation Plan. At this meeting the consultants, staff, and committee members worked through the proposed policy and/or code changes included in the draft report.

Per the Scope of Work for the Affordable Housing Implementation Plan it is now appropriate to convene a joint work session of the Cottage Grove City Council and Planning Commission to receive a presentation from the consultant and hold a discussion on the draft report (attached). Discussion on the proposed policy and code changes will be integrated into the final draft of the report.

The final draft of the report will be presented as a Comprehensive Plan Amendment for consideration by the Planning Commission and City Council for Adoption in November of this year.

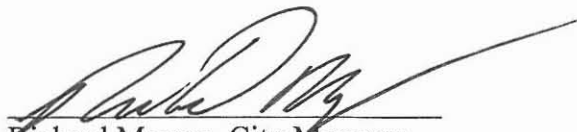
An agenda has been prepared for the work session and is attached to this memo.

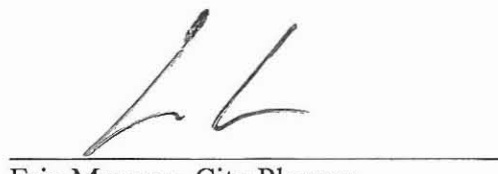
Recommendation:

That a joint work session of the City Council and Planning Commission be held to discuss the draft Affordable Housing Implementation Plan.

Cost:

None.

  
Richard Meyers, City Manager

  
Eric Mongan, City Planner



## AGENDA

### Cottage Grove 2022 Affordable Housing Implementation Plan Joint Planning Commission and City Council Work Session

9/26/2022

6:00 – 8:00 PM

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6:00 – 6:10 PM	<b>Welcome and Project Background (Eric)</b> <ul style="list-style-type: none"><li>• Building on prior projects</li><li>• Highlights of results to date</li><li>• Goals for this project</li></ul>
6:10 – 6:25 PM	<b>Project Overview (ECONorthwest)</b> <ul style="list-style-type: none"><li>▪ Areas of focus for this project</li><li>▪ Overview of work to date</li><li>▪ Highlights from Background Report</li></ul>
6:25 – 7:35 PM	<b>Discuss Recommended Strategies (All)</b> <ul style="list-style-type: none"><li>▪ Discuss Key Strategy Options—issue summary, potential changes, feedback from Advisory Committee, and discussion by PC &amp; CC<ul style="list-style-type: none"><li>○ Expanding opportunities for multifamily in commercial zones</li><li>○ Addressing open space requirements for infill development</li><li>○ Tax abatements for income-qualified affordable housing</li><li>○ Consideration of Construction Excise Tax for affordable housing</li><li>○ Potential measures to preserve and stabilize low-cost market-rate housing</li></ul></li><li>▪ Additional recommendations</li></ul>
7:35 – 7:55 PM	<b>Discuss Implementation Priorities (All)</b> <ul style="list-style-type: none"><li>▪ What are the biggest near-term priorities?</li><li>▪ What are the biggest mid-term priorities?</li></ul>
7:55– 8:00PM	<b>Next Steps (City Staff)</b> <ul style="list-style-type: none"><li>▪ ECONorthwest will work with city staff to finalize the Affordable Housing Implementation Plan</li><li>▪ Final Affordable Housing Action Plan due mid-November</li></ul>

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# Background Report

## Housing Implementation Plan

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June 30, 2022

Prepared for: City of Cottage Grove

Final Report

**ECON**orthwest

ECONOMICS • FINANCE • PLANNING

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# Executive Summary

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The City of Cottage Grove has advanced multiple efforts in the last five years to address local housing needs: in 2018-2019, the City worked with ECONorthwest to prepare and adopt a Housing Needs Assessment; in 2019, the City worked with ECONorthwest to identify priority housing strategies for implementation; and in the years since, the City has been working to implement recommendations from both projects. Strategies implemented to date include regulatory changes such as increasing densities in residential zones, adopting a Multi-Unit Property Tax Exemption (MUPTE) program, and supporting the school district to develop excess school property with 80 multifamily housing units. City Council also adopted a trust to help pay down System Development Charges (SDCs) for regulated affordable housing projects. The City has also considered Urban Renewal as possible sources of locally-controlled funding for affordable housing, though they have not been implemented yet.

Now, the City is working with ECONorthwest to identify and evaluate additional measures the City can take to remove barriers to housing production. ECONorthwest reviewed the City's zoning code, interviewed developers with experience in Cottage Grove, and discussed infrastructure constraints with City staff. Key findings include:

- Regulatory barriers related to building heights, open space, infill requirements, and residential allowances in commercial zones limit the development potential for multifamily housing in residential and commercial zones.
- City staff identified several infrastructure related barriers on development sites throughout the City that will be a challenge for developers to overcome without assistance from the City, such as a developer or latecomer agreement.
- Unknowns related to market demand and achievable rents for development types such as multifamily rentals or attached ownership products (e.g. duplexes, triplexes, or townhomes) create hesitancy among developers looking to build in Cottage Grove.
- Developers have noted that the MUPTE program helps bridge financial gaps between construction costs and achievable rents, especially within the first few years of operation.

The City also asked ECONorthwest to explore opportunities to improve housing quality for older rental housing without increasing displacement risks.

# 1. Introduction

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This report builds on a 2018 Housing Needs Analysis (HNA) (adopted in January 2019) that provided an informational baseline for planning efforts related to housing in Cottage Grove, including a 20-year projection of housing need and a Buildable Lands Inventory to understand the adequacy of residential land for the planning period. Following completion of the HNA, Cottage Grove received grant funding from the Oregon Department of Land Conservation and Development (DLCD) to develop housing strategies aimed at increasing affordability and availability of housing. The resulting Housing Strategy Implementation Plan (HSIP), completed in 2019, provided recommendations related to three key strategies: supporting development of surplus school district property with housing, utilizing urban renewal as a housing implementation tool, and using property tax abatement programs to incentivize multifamily housing development. ECONorthwest assisted the City with both the HNA and the HSIP.

The purpose of this Background Report is to document the City’s progress on implementing recommendations from the HNA and HSIP, and to identify remaining barriers and additional opportunities for housing production related to the zoning code, incentive programs, infrastructure, and residential land.

## 2. Progress Summary

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### Implementation To Date

The 2018 HNA included recommendations to address unmet housing needs and plan for more housing diversity in the future. The 2019 HIP evaluated three potential tools in greater detail. This section summarizes the City’s progress on implementation to date.

The HNA recommended specific changes to the zoning code to increase housing production and diversity and support affordable housing development. Exhibit 1 summarizes the HNA recommendations and their implementation status as of June 2022.

#### Exhibit 1: Implementation Progress for HNA Recommended Strategies

Source: ECONorthwest based on Cottage Grove HNA (2019) and information provided by City of Cottage Grove staff

Actions/Tools	Implemented	Implementation in Progress	Not Implemented
<b>Zoning code updates</b>			
Allow MF in commercial zones (without commercial)		Addressed in this report	X
Allow Manufactured Home Parks in the R-2 and R-3 zones			X



Actions/Tools	Implemented	Implementation in Progress	Not Implemented
Increase densities <sup>1</sup> in R-1 to 4 to 8 du/ac	✓		
Increase densities in R-2 to 8 to 12 du/ac	✓		
Increase the min density in R-3 to 12 du/ac	✓ increased min density to 14 du/ac		
Increase max height in R-3 zone to 60 feet.		Addressed in this report	X
Relax regs on cottage development (review process; no max # of cottages on lot)	✓ streamlined review process, no maximum number of cottages in R-3		There are minimums and maximums for the R-1, R-2, and RC zones. R-1 (4-8 units), R-2/RC (4-14 units)
Code audit to remove barriers		Included in this report	
Increasing the amount of developable land in the High-Density zone			
<b>Affordable Housing Support</b>			
Develop Urban Renewal Plan*		Discussed in 2019 HIP & City Council has discussed potential	X
Reduce or defer SDC /permit fees for affordable housing projects	✓ City council adopted a trust to help pay down SDCs for affordable housing projects		
Work with school district to develop sites that are surplus*	✓ Harrison School site under development with housing		
Develop abatement programs to promote development of affordable and market-rate multifamily housing*	✓ Evaluated in 2019 HSIP. Implemented Multiple Unit Property Tax Exemption (MUPTe). The City also has a Vertical Housing Development Zone in place along Main Street from I Street to Gateway Blvd.		

<sup>1</sup> Cottage Grove does not have maximum densities in any residential zones.

Actions/Tools	Implemented	Implementation in Progress	Not Implemented
Identify funding sources for government subsidized affordable housing development such as CET*		CET evaluated in 2019 HSIP along with other potential funding sources	

\* Included and evaluated further in the 2019 HSIP.

## Implementation Impacts

### Housing Production

Since the HNA and the HIP were adopted in 2019, Cottage Grove has permitted over 200 residential units in a 2-year period, ranging from single family to accessory dwelling units (ADUs) to senior housing and apartments. Exhibit 2 summarizes housing units built by type in 2020 and 2021.

#### Exhibit 2: Housing Units Permitted 2020-2021

Source: City of Cottage Grove

Housing Type	Units
<b>2020</b>	
Single Family	29
Duplex	2
Triplex	3
Fourplex	4
Tiny Home	17
ADUs	3
Land Trust Units	6
Senior Units	37
<b>Total</b>	<b>101</b>
<b>2021</b>	
Single Family	13
Duplex	2
Fourplex	4
Apartments	88
Townhomes	14
<b>Total</b>	<b>121</b>
<b>Total Housing Units 2020-2021</b>	<b>222</b>

### Affordability

In 2020, of the 101 housing units permitted, 19 were regulated affordable units: 13 tiny homes at the Cottage Village Co-op are permanently affordable rentals reserved for those making up to 50 percent of the area median income (AMI); four tiny homes in Legion Cottages are affordable



rental units specifically for veterans; and six land trust homes are single-family units affordable for those earning a moderate income, often first-time homebuyers.

### Specific Strategy Results

The MUPTE program applies to new (or newly converted) multifamily development with three or more units in areas zoned C-2 Central Business District and within a quarter-mile of fixed route transit service. Projects must provide some public benefit from a list included in the municipal code.<sup>2</sup> To date, it has resulted in six projects (148 dwelling units), with the first project brought forward during the program's first year (2020). One example is a fourplex that provided a fully ADA accessible unit on the ground floor.

After the 2019 HNA, the City removed maximum densities for all residential zones which made an 80-unit apartment project possible on the Harrison School site. Without the removing the maximum density, the project would not have happened. Redevelopment of the Harrison School site led to the Harrison Village Apartments, which are currently under construction and will deliver one-and two-bedroom units. Harrison Village Apartments will also utilize the MUPTE program.

## 2022 Affordable Housing Implementation Plan

While the City has taken considerable steps in implementing policy to better facilitate housing production and increase housing diversity, the current project seeks to identify where the City could build on this work and go further to support housing production and affordability. In addition to a review of remaining obstacles in the development code, this project will identify potential infrastructure barriers and additional financial incentives and educational efforts the City could consider.

## 3. Opportunities & Barriers to Housing Production

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This section summarizes issues and barriers that may be limiting housing production (particularly for higher density housing types) related to:

- Regulatory barriers
- Infrastructure availability
- Market and financial factors
- Information and awareness

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<sup>2</sup> CMGC Chapter 3.10

## Regulatory Barriers

ECONorthwest conducted a code audit to identify issues and barriers that may be limiting housing production, particularly for affordable housing and market-rate medium density and middle housing. This section summarizes the key issues identified through that review. A detailed code audit can be found in Appendix A.

### Review Process for Multifamily

Multifamily development requires Site Design Review—a Type III discretionary review with a public hearing by the Planning Commission—despite the fact that the approval criteria are (and, per state law, must be) clear and objective, with no room for discretion.<sup>3</sup> While Planning staff works to ensure that Planning Commission does not stray into discretionary considerations and the timeline is still short compared to many other jurisdictions, it does add a small amount of time and cost to development, and is unnecessary given the straightforward approval criteria. Still, it has not been a major issue, in part because developers noted that having responsive, engaged, and helpful city staff has made permitting easier and faster overall than in many other communities.

### Limitations on Multifamily in Commercial Zones

Most commercial zones allow housing in some form but may require it to be combined with commercial space or to undergo Master Plan approval (also a Type III discretionary review).<sup>4</sup> The additional permit process, as mentioned above, adds some time and cost to the development. The requirement for mixed use development can also be an obstacle because integrating ground-floor commercial space into a residential building is generally more complicated and expensive than constructing a residential-only building. Even if commercial and residential are built in separate buildings, there are fewer developers and investors who are interested in both commercial and residential development, and the requirement to produce both in one project can be a deterrent.

### Open Space Design

Common Open Space requirements for multifamily development require common open space areas to have an average length and width of at least 20 feet.<sup>5</sup> This may be particularly challenging on infill sites that are narrow or irregular in shape, and could make it difficult to build at higher densities on small sites.

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<sup>3</sup> CGMC Table [14.22.110](#)

<sup>4</sup> CGMC Table [14.23.110](#)

<sup>5</sup> CGMC [14.22.200\(1\)](#)

## Maximum Building Height

The maximum building height is 40 feet in the R-2 zone and 50 feet in the R-3 zone.<sup>6</sup> This would likely allow up to a three-story building in the R-2 and a four-story building in the R-3. Staff reports that there are infill sites zoned R-2 that may be developed with affordable housing but the maximum building height is likely to constrain development potential. While construction costs tend to increase for taller buildings and land costs in a place like Cottage Grove tend to be low enough not to justify the extra cost for building higher density, building at four or more stories can allow development to reach greater economies of scale or be more competitive for affordable housing funds.

## Height Transitions

To ensure compatibility between new construction and existing single-family units, new multistory buildings in several zones are required to “step-down” when adjacent to dwellings in the R or R-1 zone with lower heights and/or larger setbacks on the side next to the existing homes.<sup>7</sup> On a smaller site, this could constrain development potential, because there is less room to shift the building away from the existing home. For example, a 50’ wide site in the R-3 zone with an existing home adjacent to its side lot line would not be able to build up to the maximum height of 50’ on most (or all) of the site (see illustration in Exhibit 3 below).

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<sup>6</sup> CGMC [14.22.120](#)

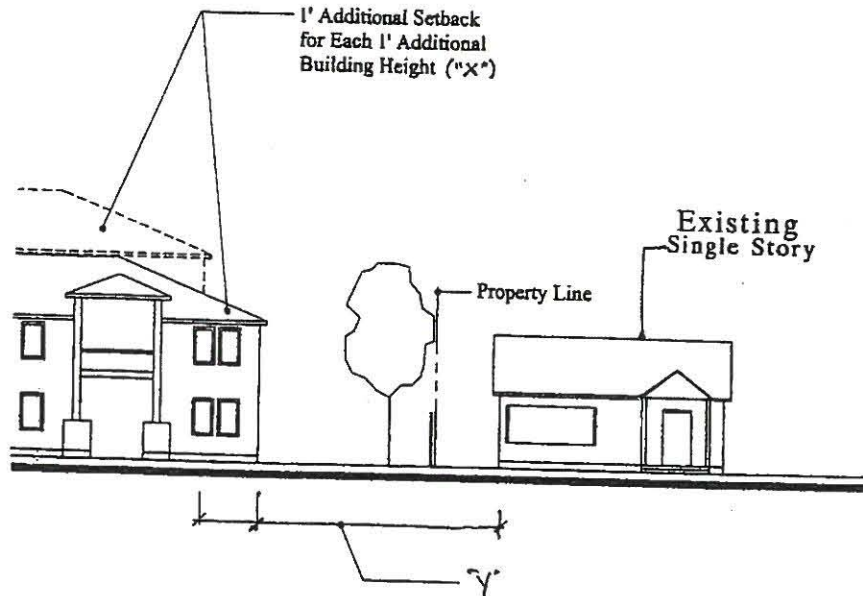
<sup>7</sup> CGMC [14.22.170\(C\)](#). The height of the taller structure cannot exceed 1 foot of height for every 1 foot separating the two structures.



### Exhibit 3: Building Height Transition

Source: Cottage Grove Development Standards

Figure 2.1.170C - Building Height Transition



### Infill Compatibility

In all Residential Districts, infill requirements are intended to ensure compatibility between new development and redevelopment in existing neighborhoods. Requirements limit infill development to a height and front setback that is similar to the adjacent house(s)—allowing no more than 10% variation from average of the adjacent residence(s).<sup>8</sup> Applying building height and setback compatibility requirements could put significant limitations on infill development for multifamily projects. While staff note that these requirements have often been superseded by other standards in the code, they could present an obstacle in some cases.

### Stormwater Infrastructure

Stormwater regulations were not included as part of the code audit; however, developers in the Eugene area have raised concerns about the impact of stormwater regulations since they can both increase construction costs and inhibit development potential. Stormwater infrastructure can include ponds where water is treated, stored, and eventually released. This can require large amounts of space that might otherwise be buildable, making it difficult to achieve higher densities. Underground storage and treatment facilities take up less space, but are very expensive to build.

<sup>8</sup> CGMC 14.22.140

## Flood Risk

Floodplain maps are established by the Federal Emergency Management Agency (FEMA), and there are federal and state requirements that jurisdictions must apply for any development in a floodplain for the community to be eligible for the National Flood Insurance Program (NFIP). Cottage Grove regulates floodplains as sensitive lands, and development within the floodplain is subject to special regulations.<sup>9</sup> New flood zone maps for Cottage Grove are expected to take effect in January 2024, and staff expects that new floodplain areas will be added. This will create additional challenges for development on parcels that fall within the floodplain, especially for affordable housing development.<sup>10</sup>

## Infrastructure Availability and Key Housing Sites

The availability of public infrastructure (particularly streets, water, and sewer) is critical to supporting new housing development, but it is also an important consideration for developers when evaluating development costs. A lack of available utilities and road infrastructure can increase construction costs to a point where development is rendered financially infeasible. Aligning capital investments in infrastructure to support future housing development in key areas can increase housing production.

### Identifying Key Housing Opportunity Sites

Beginning with the Buildable Lands Inventory (BLI) from the 2019 HNA, ECONorthwest worked with staff to highlight key sites and flag those where infrastructure could be a constraint.

### Built and Entitled Sites

As an initial step, staff identified residential sites that are either currently built (or under construction) or fully entitled (permitted for construction) (see Exhibit 4 below). These sites are past the point where City interventions will influence development outcomes, and can be excluded from further consideration.

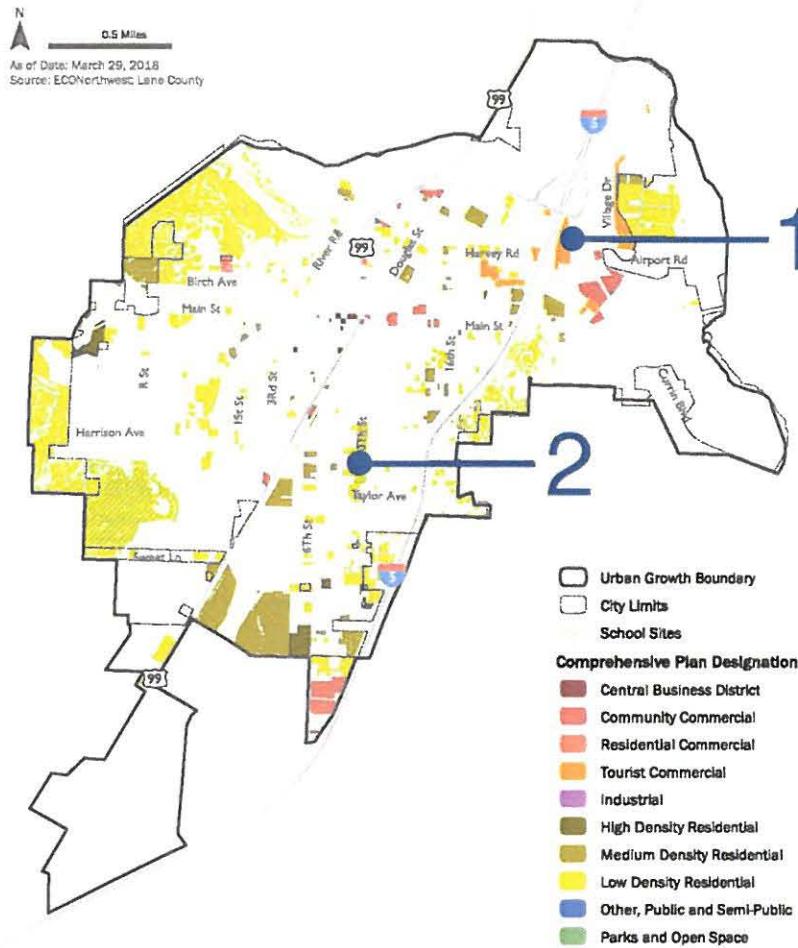
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<sup>9</sup> CGMC [14.37.200](#)

<sup>10</sup> There are additional federal regulations that avoid building federally-subsidized affordable housing in a floodplain, and increase complexity for federally-subsidized affordable housing development on sites with floodplains (see <https://www.hudexchange.info/programs/environmental-review/floodplain-management/> for more information).

## Exhibit 4: Built or Fully Entitled Sites

Source: Cottage Grove BLI 2018, Vacant and Partially Vacant Residential Land



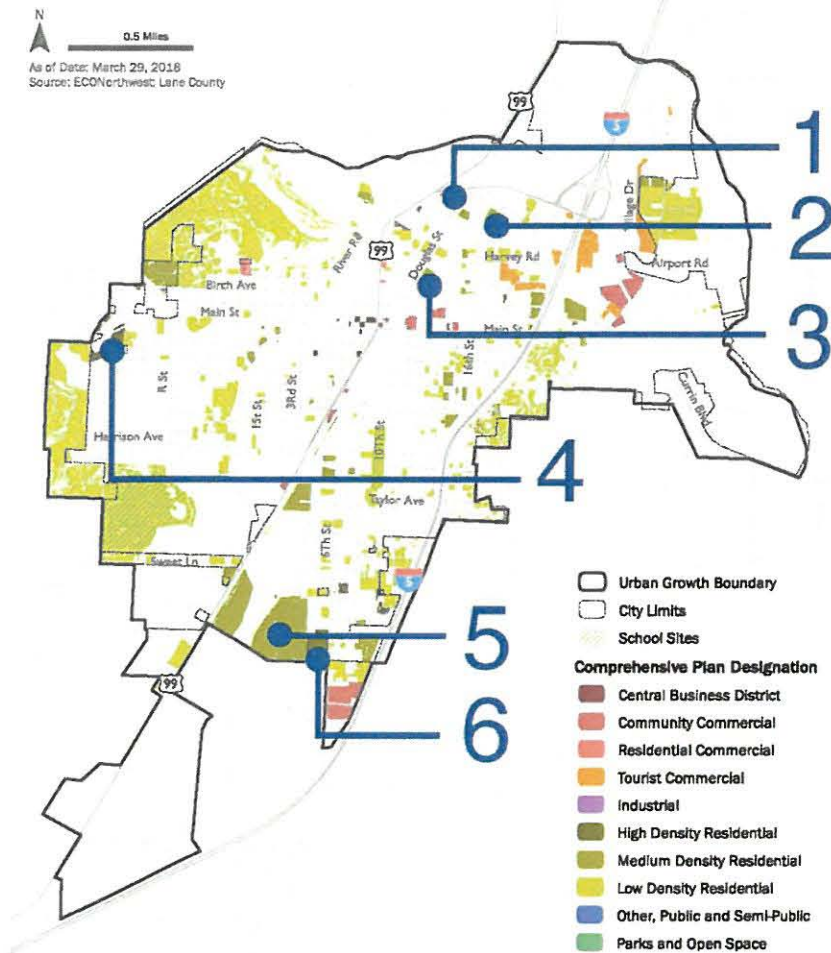
1. **Pine Springs Master Plan** located on the former Village Green site at interchange of Interstate 5 and Row River Road. The new development will retain some of the existing features such as the Village Green Hotel and the Village Green RV Park. The development will include approximately 140 apartments and potentially horizontal commercial development along Row River Road. The development was subject to Master Plan approval.
2. Construction of the **Harrison Village Apartments** is underway on the site of the former Harrison Elementary School. The development will include 80 multifamily residential units, including one and two-bedrooms. Phase I of the project will be move-in ready in June 2022, and Phase II will open in September 2022. A charter school will be developed on the northern half of the site.



## Key Sites for Future Housing Production: Opportunities and Challenges

### Exhibit 5: Sites with Development Opportunities and Challenges

Source: Cottage Grove BLI 2018, Vacant and Partially Vacant Residential Land



1. Parcels have been rezoned from Community Commercial to R-2 and the owners are in the process of trying to sell the properties for redevelopment.
2. Our Lady of Perpetual Help Catholic Church, located off of Harvey Road on the west side of I-5, owns **underutilized or vacant parcels**. The Church has contemplated developing the excess property that fronts on North 16<sup>th</sup> Street. As of April 2022, staff reports the Church has made no plans to move forward. Churches, as religious institutions, are exempt from paying property taxes, reducing urgency to develop the property.
3. **The City of Cottage Grove owns a site** fronting the east side of Douglas Street. The site has been eyed for around 40 units of low barrier housing, looking at a potential partnership with Homes for Good. However, the site is zoned R-2 and staff reports that the maximum building height (40 feet or likely 3 stories) is constraining its development potential. The site may also be in the floodplain after the new maps take effect.

4. This pocket on the western edge of the city limits includes **possibly up to 10 acres of developable High Density Residential land, but access to sanitary sewer is an issue.** Some of the property is held in a family trust, which can complicate and delay development because more parties must agree on plans for the property. Staff reports that multiple property owners would need to be ready to develop to make providing infrastructure viable. The area will likely also require a new wetland delineation prior to development, which could change the developable acreage.
5. **Approximately 25 acres of land under a single property owner (zoned R-2)** is situated at the southern edge of the city limits, just east of Highway 99. The site is currently under contract to a housing developer, but the site presents several challenges for development. The west side of the property has no legal access and there are no utilities available to service the site. A pump station is likely needed due to the site's topography. The east side of the property has more potential than the west because of its access to the existing street network. Staff and the developer are negotiating a cost-sharing agreement to build the needed sewer infrastructure in a way that can also serve future development on adjacent properties.
6. This 5.4-acre site zoned for high density residential (R-3) has access to necessary utilities. Currently, only 0.5 acres can be served with utilities because the remaining 4.9 acres needs to be annexed in the city limits. However, the site contains multiple parcels with existing dwellings and barns that will make the property more expensive to purchase.

## Market and Financial Factors

While the City has little influence over the market, understanding the market and financial factors that affect housing production in Cottage Grove can inform appropriate strategies.

- **Lower Market Pricing:** Market rents and sale prices also tend to be lower than in larger cities in the region, and there is relatively little demand from high-income households seeking high-end housing. This makes the City affordable to more households, but can make it harder to cover the costs of new construction.
  - **Implications:** Where the City can support new construction, it is likely to be relatively affordable to moderate-income households, which makes offering incentives to support some lower-cost market-rate development appropriate. The City's MUPTE program has helped make multifamily rental housing at moderate rents viable when it would otherwise not have generated high enough rents to cover costs initially after development.
- **Limited Comparable New Development:** Developers and lenders have had few recent example developments to point to in Cottage Grove to calibrate and justify rent / sales price and absorption assumptions. This can make it difficult to get financing.



- **Implications:** The influx of development in the last few years and in the pipeline today should help ease this constraint for future development.
- **Older Apartment Stock:** Many of the existing apartments in Cottage Grove are more than 30 years old. Staff and local stakeholders report that some of these buildings have deferred maintenance issues. While there is little reliable market data available for communities like Cottage Grove with primarily small, older multifamily housing stock, the data that is available suggests a very low vacancy rate for existing rental housing.
  - **Implications:** A tight rental market can mean strong demand even for older rental housing in poor condition. Adding new housing supply could impact existing older apartments in two ways: it could increase pressure on the older apartments to make renovations in order to attract and retain tenants; however, it could also demonstrate potential for somewhat higher rents if the buildings were to make renovations. With new housing coming to the area, there could be impacts to older apartments that could improve housing conditions for some existing residents, but could also lead to faster rent escalation and greater risk of displacement.
- **Depth of Demand for Density:** While several developers pointed to the HNA as an important source of information supporting their development, and vacancy rates are currently extremely low, there were still questions about the extent of demand for additional higher-density housing. Because there is a relatively large amount of new moderately priced apartments in the pipeline and Cottage Grove is a relatively small community, some developers were unsure how much demand will remain for this type of housing once those projects are built. Others pointed to a wide-spread desire for detached housing (particularly in for-sale housing), and a relatively untested market for for-sale attached housing (e.g., townhouses) in this area, because many residents choose communities like Cottage Grove so that they can afford a home with a yard that may be unaffordable to them in larger cities.
  - **Implications:** Providing a more market-oriented, near- to medium-term housing demand assessment that accounts for what's currently in the pipeline could help make a case to developers for what types of development are still needed.
- **Permitting Speed and Staff Support:** Coordination and a partnership approach from all City staff who need to approve a development project makes a big difference to developers because it reduces risk, carrying costs, and the developer's overhead time on the project. It also allows developers to be more responsive to changing market conditions. For those newer to the development process, such as homeowners considering building an ADU or adding units to their property under middle housing regulations, support from staff to navigate the permit process is also very helpful.
  - **Implications:** Cottage Grove is already well-regarded for permitting speed and helpful staff by developers. The City also has access to pre-approved ADU plans that can reduce design and permitting costs for ADUs specifically, though they have not been widely advertised.

- **Cost Sensitivity:** Land values in Cottage Grove are low relative to larger markets like Eugene. Keeping development costs down is important in this context because there is less room to absorb costs through negotiating lower land prices or, as noted above, through increasing rents/sales prices. In addition to permitting speed (discussed above) and design requirements (which can increase building costs), infrastructure improvement requirements and local fees (SDCs and permit fees) and are the main ways that a City can influence development costs.
  - **Implications:** The City is already looking at taking a partnership approach to funding infrastructure improvements for several key properties, but this is an important strategy. In addition, measures to reduce carrying costs for SDCs (e.g., deferral or low-interest financing) on market-rate development could be valuable for some developers. For example, allowing SDCs to be deferred or financed until the project is generating revenue (close to full occupancy for apartments, or sold for for-sale housing), would reduce carrying costs if the terms were attractive for a developer.<sup>11</sup>
- **Funding for Regulated Affordable Housing:** Because much of the funding for affordable housing from the state is competitive, being able to provide local funding, tax or SDC abatements (such as the Low-Income Rental Housing Property Tax Exemption), or other measures of local support can help affordable housing developers secure funding to build in a given community.
  - **Implications:** The recently-adopted SDC trust is an important step. Other measures, such as offering longer-term tax abatement for regulated affordable housing and/or implementing local funding sources for gap financing, could also help.

## Next Steps

To inform the 2022 Cottage Grove Housing Implementation Plan, the City has convened an advisory committee to provide feedback on potential strategies to address remaining barriers and/or capitalize on opportunities identified in this report. Based on the issues and opportunities identified in this report and the input of the Advisory Committee, ECONorthwest will work with city staff to identify and evaluate a new set of housing strategies for the City to carry forward over the next several years.

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<sup>11</sup> For SDC financing—long-term or short-term—allowing the City’s loan to take “second position” behind a bank mortgage so that the bank is paid first if the property were to go to foreclosure is an important consideration in making financing a viable option. The interest rate would also need to be below the market interest rate for construction financing (for short-term SDC financing) or permanent loan rates (for long-term SDC financing) to offer a compelling incentive.



# Appendix A: Municipal Code Audit

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## Review Process for Multifamily

### **Code Section: Land Uses Allowed in Residential Zones – CGMC [Table 14.22.110](#)**

Multifamily development (3 or more units on a lot, excluding cottage clusters) is permitted with standards (S) in R-2, R-3, and RC. Uses permitted with standards must be implemented through Land Use Review (Type I) or Site Design Review procedures, as applicable, prior to building permit review and approval, according to CGMC 14.22.200(A).

All multifamily development is subject to a site plan review (Type III Quasi-Judicial Review) per CGMC 14.42.200 (B), as it is not exempted under CGMC 14.42.200 (A). Site Plan Review is a discretionary review conducted by the Planning Commission with a public hearing. Its review criteria is similar to a Land Use review (Type I or II) in that it ensures compliance with basic land use and development standards of the land use district, such as lot area, building setbacks and orientation, lot coverage, or maximum building height. However, since state law requires standards for Needed Housing to be clear and objective, there is no discretion in the Planning Commission's decision, and a Type III process is unnecessary.

While city staff has noted that this requirement does not appear to be creating a major barrier for multifamily development in Cottage Grove, it does add a small amount of time and cost to development. While a Type I review takes just 10 days, Site Design Review can take up to 45 days from the time a complete application is submitted to the end of the appeal period. (Planning Commission decisions may be appealed to City Council.) There is also a small increase in permit costs: a Type I general base permit fee is \$50 while Site Design Review (Type III) is \$800. These differences are not substantial, but they do not add value to the City or the applicant given the lack of discretion.

## Limitations on Multifamily in Commercial Zones

### **Code Section: Land Uses Allowed in Commercial Zones – CGMC [Table 14.23.110](#)**

Most commercial zones allow housing in some form, but the requirements vary:

- Residential uses are permitted above ground floor commercial or behind front 25' of commercial façade on sites located in the Cottage Grove Downtown National Register Historic District overlay district in the C-2, C-2P, and CT zones. (In practice, staff has not been enforcing the limitation to the Historic District, and has been allowing this option throughout these zones.)
- Multiple-family residential without a combined commercial use is allowed outside of the historic district in the C-2 zone only.

- Multiple-family residential without a combined commercial use may be permitted through a Master Plan approval (Type III Review Process) in all commercial zones.

As noted above, a Type III process adds time and cost to development. For a Master Plan, the same process and timeline applies, but the permit fee is \$2,000, plus \$250 for a required pre-application meeting.

Mixed use development can also add time and cost relative to building residential development on its own. Integrating ground-floor commercial space into a residential building is generally more complicated and expensive than constructing a residential-only building. There are several reasons for this, including:

- **Building Code and Fire Separation:** Building code requirements for non-residential uses and spaces differ from those for residential, while combining commercial and residential uses in the same building requires additional fire separation between the uses.
- **Ceiling Heights:** Retail space is typically designed with much higher ceilings than most residential development (e.g., 12-16feet for retail compared to 10 feet for residential).
- **Property Management and Leasing:** Compared to an all-residential multifamily property, a mixed-use building either requires one property management company that is skilled in managing both residential and commercial uses, or two separate management companies, which can increase operating costs.

Even if uses are combined on the same site but not in the same building, coordinating development of both commercial and residential development can add complexity. Many developers and some contractors specialize in either commercial or residential development, but not both, particularly in a smaller town like Cottage Grove. In addition, there must be demand for additional commercial and residential space at the same time and the site must be suitable for both uses.

## Open Space Design

### Code Section: Multifamily Design Requirements [CGMC 14.22.200\(J\)](#)

Common Open Space requirements outlined in CGMC 14.22.200.J.2.d require an average length and width of at least 20 feet for common open space areas. Areas must contain one or more of the following: outdoor recreation area, protection of sensitive lands (e.g., wetlands or tree preservation), play fields, outdoor playgrounds, outdoor sports courts, swimming pools, walking fitness courses, pedestrian amenities, or similar open space amenities for residents (CGMC 14.22.200.J.2.b).

Meeting an average of 20'x20' for an open space area may be particularly challenging on infill sites that tend to be narrower or irregular in shape, and could make it difficult to meet the minimum density for the zone in some cases. Additionally, if a development was attempting to



meet open space requirements through pedestrian facilities, a 20-foot width for a sidewalk or trail is unusual.

Reducing the minimum required width of an open space area to 10 feet would allow more flexibility in the type of open space amenity provided. Another option could be to allow a reduced length and width of open space areas just for infill sites.

### Maximum Building Height

#### **Code Section: Development Standards - Residential Districts [CGMC 14.22.120](#)**

The maximum building height in the R-2 zone is 40 feet and 50 feet in the R-3 zone. This would likely allow up to a three-story building in the R-2 and a four-story building in the R-3. (While residential development can have a floor-to-floor height of 10 feet or less, factors such as topography, taller ground floors, and roof design often mean that total building height will be more than 10 feet per floor, even if some of the upper floors are less than 10 feet high.) The code offers a building height bonus of an additional 10 feet if onsite recreation is increased to 15 percent of the site area. The height bonus likely enables one additional story in both the R-2 and R-3 zone. However, the requirement to increase the onsite recreation space make this bonus less likely to work in an infill setting. Other infill regulations, including the required height transitions discussed below, may also prevent development from taking advantage of this option in an infill setting.

Staff reports that there are infill sites zoned R-2 that may be developed with affordable housing but the maximum building height is likely to constrain development potential. If a comparable 10-foot height bonus was available for affordable housing projects (and potentially other projects that provide a public benefit), without a requirement to increase recreation space, it could reduce barriers and allow more housing production on these smaller sites.

### Height Transitions

#### **Code Section: Building Height: Exceptions, R/R-1 Step-Down Requirement [CGMC 14.22.170\(C\)](#)**

To ensure compatibility between new construction and existing single-family units, new multistory buildings in zones R-2, R-3, RC, C2-P, CT, M-1, and M-2 are required to “step-down” when adjacent to dwellings in the R or R-1 zone are within 20 feet of the new structure. The height of the taller structure cannot exceed 1 foot of height for every 1 foot separating the two structures (i.e., 20’ high at 20’ of separation, and 30’ high at 30’ of separation). On a smaller site, this could constrain development potential, given that the minimum side or rear set-back in the R-2 and R-3 zone would typically be no more than 10’, and could be as little as 3’ on each side, with a maximum height of 40’-50’.

There is an exception to the step-down requirement if city staff determines that the existing single-family residence located within 20 feet of the subject site is redevelopable.

“Redevelopable,” in this case, means a lot either has an assessed market value that exceeds the assessed market value of all improvements on the lot, based on the most recent data from Lane County Assessor’s Office; or the front yard of the subject lot is large enough that it could be subdivided based on the Residential District standards. The Community Development Director makes this determination through a Type II application review. However, because determining that an existing home is “redevelopable” can have a negative connotation and may offend the property owner, it can be problematic for staff to be in the position of making this determination.

## Infill Compatibility

### **Code Section: Infill Standards in Residential Districts – CGMC 14.22.140**

Infill requirements are intended to ensure compatibility between new development and redevelopment in existing neighborhoods. The standards in this section apply to all new buildings or full story additions proposed on a lot that was platted 10 or more years ago or a newly subdivided lot in an existing (platted 10 years or more ago) neighborhood. The setback and building height standards in this section supersede those in the underlying zone, and limit infill development to a height and front setback that is similar to the adjacent house(s)—allowing no more than 10% variation from average of the adjacent residence(s).<sup>12</sup>

While staff has only applied these standards to single-family development in the R-1 zone, the code applies beyond the R-1 zone. Applying building height and setback compatibility requirements could put significant limitations on infill development for multifamily projects.

Staff report that these standards would be superseded for multifamily development by other requirements related to access and circulation; however, this is not stated explicitly in the code. Providing more explicit exemptions from these standards for multifamily development would ensure that they do not become an issue in the future.

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<sup>12</sup> Height is limited only to no more than 10% above the average height of the adjacent residence(s).

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# City of Cottage Grove Affordable Housing Implementation Plan

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August 30, 2022

Prepared for: The City of Cottage Grove

Draft Report

DRAFT

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# Executive Summary

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To be included once implementation priorities are identified.

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# 1. Introduction

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The City of Cottage Grove adopted a Housing Needs Analysis (HNA) in January 2019 that has informed the City's housing planning efforts over the last few years. Later in 2019, the City received grant funding through the Oregon Department of Land Conservation and Development (DLCD) to assist with developing and implementing housing strategies aimed at increasing affordability and availability of housing. Cottage Grove completed its first Housing Strategy and Implementation Plan (HSIP) in 2019 and has since implemented several of the strategies outlined in both documents.

In 2021, the City received an additional grant from DLCD to fund the development of an Affordable Housing Implementation Plan to continue its forward momentum in addressing the housing needs specific to Cottage Grove. The Plan was prepared by ECONorthwest (on behalf of the City of Cottage Grove), with input and direction from city staff and an Advisory Committee (AC) composed of City Councilors and housing providers.

## Background Context and Key Findings

As part of the Affordable Housing Implementation Plan, ECONorthwest completed a Background Report in June 2022 to document the City's progress on implementing recommendations from the HNA and HSIP, and to identify remaining barriers and additional opportunities for housing production related to the zoning code, incentive programs, infrastructure, and residential land.

ECONorthwest reviewed the City's zoning code, interviewed developers with experience in Cottage Grove, and discussed infrastructure constraints with City staff. Key findings include:

- Regulatory barriers related to building heights, open space, infill requirements, and residential allowances in commercial zones create obstacles to multifamily housing development in residential and commercial zones.
- City staff identified several infrastructure-related barriers to development on vacant sites throughout the City that may be a challenge for developers to overcome without assistance from the City.
- While there has been a recent surge of multifamily housing production in Cottage Grove, uncertainty about the depth of remaining market demand for apartments and uncertainty about interest in attached ownership products (e.g. townhomes) create hesitancy among developers about further medium-density development in Cottage Grove.
- Developers have noted that the recently-enacted multiple unit property tax exemption (MUPTE) program helps bridge financial gaps between construction costs and achievable rents, especially within the first few years of operation.



The City also asked ECONorthwest to explore opportunities to improve housing quality for older rental housing without increasing displacement risks.

## 2. Implementation Plan Overview

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The City is ready to build on the momentum generated by policy changes made over the last few years and take a more proactive approach to supporting housing affordability. Being proactive will require a combination of zoning code changes to remove residential development barriers, and funding and/or incentives to encourage production of housing that the market will not deliver on its own. ECONorthwest, City staff, and the AC considered potential actions and strategies to evaluate in the implementation plan outlined below.

### Land Use Regulations

- Allowing multifamily development more broadly in commercial zones
- Options or alternatives to deliver usable open space with fewer barriers, with a potential tie-in to Parks SDC credits
- Exemptions from infill compatibility standards for multifamily development
- Potential 10-foot bonus height for regulated affordable housing development

### Infrastructure Planning

- Considering infrastructure needs to support affordable housing and other needed housing development as part of future infrastructure master plans

### Preservation of Low-Cost Market Rate Housing

- Supporting acquisition and rehabilitation of existing low-cost market-rate properties by nonprofits or other affordable housing providers
- Incentives for private owners of low-cost market-rate apartments to make improvements while stabilizing rents

### Support for Regulated Affordable Housing

- Additional property tax abatement programs designed to support regulated affordable housing
- Potential for use of a construction excise tax (CET) to generate local funding for affordable housing projects

## 3. Strategies Evaluated for Implementation

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This section describes each action and strategy evaluated through this process, and summarizes key findings from our evaluation regarding the role the tool could play in supporting housing affordability and offers recommendations for implementing the tool in Cottage Grove.

### Land Use Regulations

As part of the Background Report, ECONorthwest conducted a code audit to identify issues and barriers that may be limiting housing production, particularly for affordable housing and market-rate medium density and middle housing. Relevant portions of the code audit are included for context to introduce the options considered; a detailed version of the code audit can be found in the Background Report in Appendix A.

#### Multifamily Residential in Commercial Zones

##### Context

Cottage Grove allows housing in some form in most commercial zones, but requirements vary and are unclear as presented in CGMC [Table 14.23.110 - Land Uses Allowed in Commercial Zones](#).

- Residential uses are permitted above ground floor commercial or behind front 25' of commercial façade on sites located in the Cottage Grove Downtown National Register Historic District overlay district in the C-2, C-2P, and CT zones. (In practice, staff has not been enforcing the limitation to the Historic District, and has been allowing this option throughout these zones.)
- Multiple-family residential without a combined commercial use is allowed outside of the historic district in the C-2 zone only.
- Multiple-family residential without a combined commercial use may be permitted through a Master Plan approval (Type III Review Process) in all commercial zones.

##### Barrier

Allowing residential uses only within a mixed-use development limits the potential for residential development in the commercial zones. Mixed use development can add time and cost relative to building residential development on its own. Integrating ground-floor commercial space into a residential building is generally more complicated and expensive than constructing a residential-only building.

Even if uses are combined on the same site but not in the same building, coordinating development of both commercial and residential development is an added level of complexity for developers and contractors, particularly in a small market like Cottage Grove. There must

also be demand for additional commercial and residential space at the same time and the site must be suitable for both uses.

## Existing Commercial Zones

Cottage Grove has three commercial zones where housing is permitted in some form, but the characterization of each zone varies and the same allowances for residential development may not be suitable all three zones. The City will need to consider the pattern and scale of existing development in the three zones when evaluating additional residential allowances and regulations for them. This section provides a high-level overview of the three zones to provide context for the alternatives presented below.

### C2 – Central Business

The C2 zone is home to much of Cottage Grove's Historic Preservation Overlay District. The district includes properties with both local and national historic designations. Main Street is a pedestrian-oriented commercial corridor, with 2-3 story historic buildings featuring ground floor retail. There are two lanes of traffic with on-street parallel parking. The blocks north and south of Main Street are larger single-story commercial sites with parking lots. The R-1 zone surrounds the C2 zone to the north, west, and southwest.

### C2P – Community Commercial

Portions of the C2P zone are situated along Highway 99. Businesses are mostly 1-2 story buildings with parking lots located out front for easy access from Highway 99.

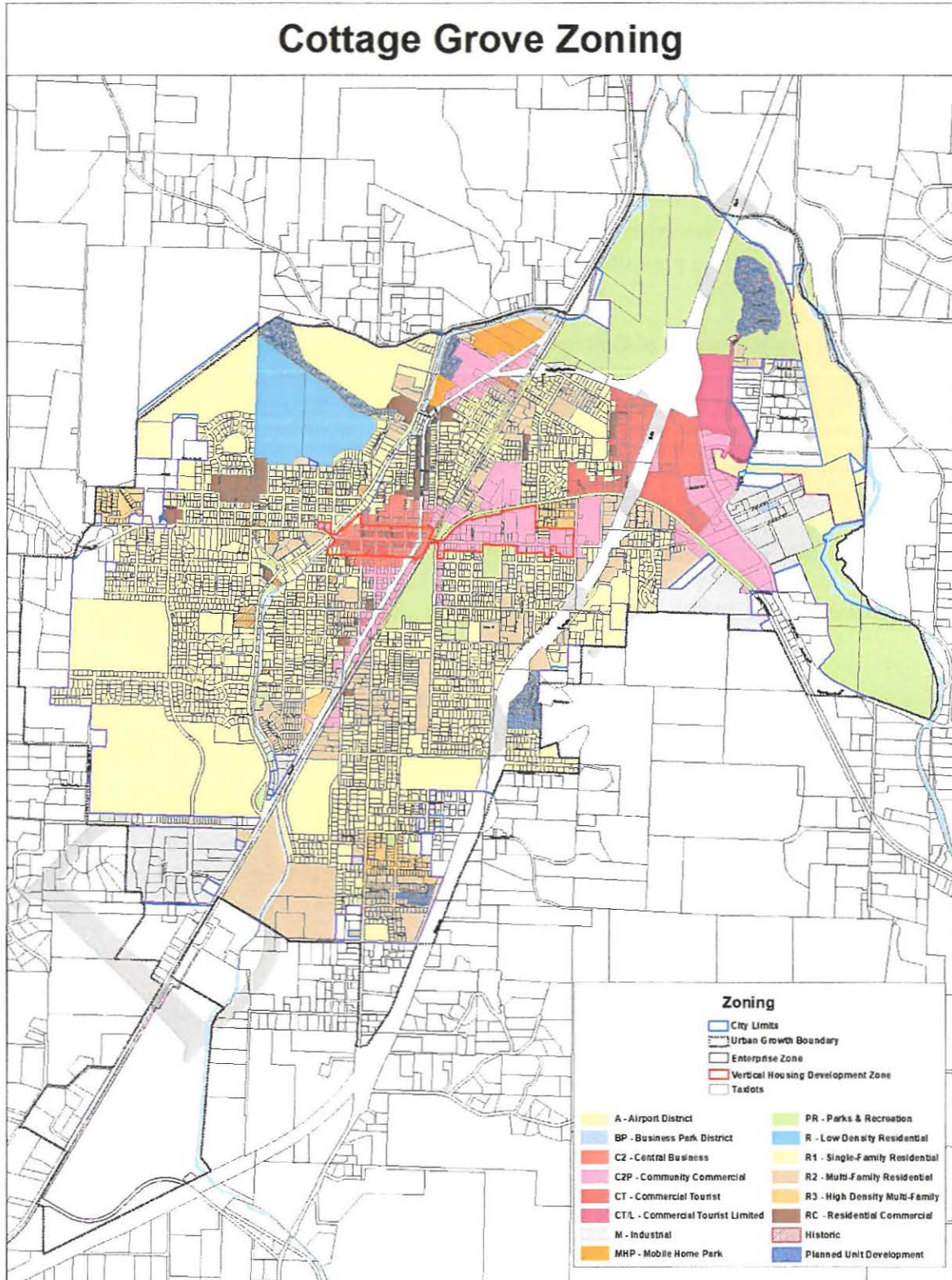
The C2P zone is also located just east of the C2 zone, across Highway 99. Main Street stretches across 99 into this area. Portions of the zone feature development similar to the C2 zone, but further east, parcels become larger for businesses like Safeway or Walgreens.

### CT – Commercial Tourist

The CT zone is highway-oriented, with I-5 cutting through the center. The scale of commercial development is much larger than the other two zones, with big-box retailers and fast-food restaurants. The City recently conducted a pre-application meeting for a master plan in this area, with about 140 apartment units and some horizontal commercial pads set aside for development along Row River Road.



Exhibit 1: City of Cottage Grove Zoning Map, 2020  
 Reference: City of Cottage Grove





## Evaluation of Alternatives

The City is interested in expanding opportunities for residential development in commercial zones to expand residential capacity and increase housing production, but wants to ensure that the commercial zones continue to provide opportunities for businesses as well. Maintaining continuity of commercial use is important in walkable commercial areas. Outside of these key areas, having a mix of residential and lower-intensity or less walkable commercial uses is less problematic. In the C-2 zone, the requirement for commercial ground-floor frontages within the historic overlay and allowance for stand-alone multifamily in other areas already addresses this balance. The C-2P and CT zones are less pedestrian-oriented. Options the City could consider include:

- Allow stand-alone multifamily development throughout the C-2P and CT zones.
- Limit ground floor commercial requirements to only parcels with frontage along specific commercial corridors in the C-2P zone.
- Formally allow residential development above or behind commercial uses outside the historic overlay in the C2P and CT zones without a master plan.

### Allow Stand-Alone Residential Development

The City could consider allowing residential development, without a commercial component, in the C-2P and CT zones (it is already allowed in the C-2 zone outside the historic overlay).

#### Pros

- Simplest option for developers: no development partnerships required (i.e., residential developers do not need to coordinate commercial developers or manage a retail or office space within development).
- Could work well for smaller sites where horizontal mixed use is not an option.

#### Cons

- There is no guarantee that development of commercial and residential uses will be balanced in the commercial zones.
- Makes long range planning for employment more challenging because of the difficulty in predicting mix of uses in the commercial zones.<sup>1</sup>
- Sites that are well-suited for commercial development may be developed with residential if the market isn't quite ready for commercial development.

### Focus on Specific Frontages

The CT zone is highway-oriented, and specific frontages are less relevant. However, in the C2P zone, the City could apply ground floor commercial requirements to only parcels with frontage along specific commercial corridors, such as the east-west stretch of Main Street and Highway 99, and allow stand-alone multifamily in other areas. The requirement could also be limited

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<sup>1</sup> Oregon's Statewide Land Use Planning Goal 9 requires cities to have enough land available to realize economic growth and development opportunities.

based on the amount of frontage and/or parcel size (e.g., only larger parcels or those with more frontage would have a ground-floor commercial requirement).

#### Pros

- Protects best and most important sites for commercial uses while allowing flexibility other places.

#### Cons

- Many of the parcels in the C2P zone front on Main Street or Highway 99, so there would be relatively few properties where this would expand options.
- Makes the development code more complicated to implement for both city staff and applicants.
- Not every site with frontage will be suitable for mixed-use development, as parcels come in many shapes and sizes.
- Challenging to implement in the C2P zone along Highway 99, because of the diagonal orientation.

#### Remove Historic Overlay Requirements for C2P and CT Zones

The City could consider removing the current requirement that only allows mixed-use development in the C-2P and CT zones within the National Register Historic District overlay district.

#### Pros

- Allows for mixed use development throughout the commercial zones without a master plan process.
- More predictable for tracking buildable lands more commercial and residential development.
- Formalizes current staff interpretation.
- Simple code update to implement.

#### Cons

- Mixed-use development might not be suitable everywhere, including on smaller parcels.
- Does less to expand opportunities for multifamily development than other options because mixed use is still required.

#### Preliminary Recommendation and Next Steps for Implementation

Based on the trade-offs discussed above, ECONorthwest recommends the following option(s) for further consideration:

- In the CT zone, where parcel sizes are larger, allow residential as part of a mixed-use development or through a master plan (Option 3).
- In the C-2 zone, allow residential outright throughout the zone, or establish certain commercial core frontages (e.g., at major intersections) where ground-floor commercial is required.



Staff can advance this discussion through a code amendment process involving stakeholders and the Planning Commission to adopt code amendments.

## Infill Compatibility

### Context

Cottage Grove has specific infill requirements intended to ensure compatibility between existing residential development and new development (or redevelopment) in its neighborhoods. The setback and building height standards in this section supersede those in the underlying zone, and limit infill development to a height and front setback that is similar to the adjacent house(s)—allowing no more than 10% variation from average of the adjacent residence(s). While staff reports they have only applied these standards to single-family development in the R-1 zone, the code applies beyond the R-1 zone.

### Barrier

Applying building height and setback compatibility requirements could put significant limitations on infill development for multifamily projects.

Staff report that these standards would be superseded for multifamily development by other requirements related to access and circulation; however, this is not stated explicitly in the code. Providing more explicit exemptions from these standards for multifamily development would ensure that they do not become an issue in the future

### Evaluation of Alternatives

The City could consider removing or adjusting infill compatibility standards to increase development feasibility in residential zones, particularly in higher density zones where building height for a multifamily building would be severely limited if sited adjacent to a single-family structure. Options the City could consider for implementation include:

- Remove requirements for multifamily development in certain zones
- Limit the requirements to sites in and adjacent to the historic overlay

Provide more explicit exemptions from standards for multifamily development

The City could consider implementing explicit exemptions from infill compatibility standards for multifamily development in the R-2 and R-3 zones to ensure projects are able to utilize the development standards in their underlying zone.

### Pros

- Provides more clear and objective standards in the code for future staff to interpret and implement
- Increase development feasibility by removing limitations on multifamily infill projects adjacent to existing single-family homes

#### Cons

- Could raise concerns for nearby residents even though the current requirements are typically not applied today

Limit the requirements to the historic overlay and adjacent sites

The City could consider limiting infill compatibility requirements to sites that fall within the historic overlay and those that abut a property within the historic overlay.

#### Pros

- Helps preserve character of areas around sites that have historic designation
- Removes limitations for infill multifamily development projects in the R-2 and R-3 zone, since the historic overlay is primarily in the R-1 and Central Business zones

#### Cons

- Only applies to a few sites—could raise concerns for nearby residents even though the current requirements are typically not applied today

### Preliminary Recommendation and Next Steps for Implementation

Based on the trade-offs identified above, ECONorthwest recommends prioritizing removing the requirements clearly from multifamily development in the R-2 and R-3 zones, unless the development abuts a historic overlay designated property. Staff can advance this discussion through a code amendment process involving stakeholders and the Planning Commission to adopt code amendments.

### Building Height

#### Context

The maximum building height in the R-2 zone is 40 feet and 50 feet in the R-3 zone. This would likely allow up to a three-story building in the R-2 and a four-story building in the R-3. The code offers a building height bonus of an additional 10 feet if onsite recreation is increased to 15 percent of the site area and for vertical mixed use development.

#### Barrier

The height bonus likely enables one additional story in both the R-2 and R-3 zone. However, the requirement to increase the onsite recreation space make this bonus less likely to work in an infill setting. Other infill regulations, including the required height transitions, may also prevent development from taking advantage of this option in an infill setting. These regulations could be limiting housing production on smaller infill sites.

### Evaluation of Alternatives

The City could consider adding an option to access the existing height bonus by offering an additional 10-feet for affordable housing projects without requiring additional open space.



Pros

- Could help deliver the type of housing units the City needs to meet affordability goals
- Since a height bonus already exists, this would require only small tweaks to the zoning code

Cons

- 10-feet may not always equate to an additional story; however, there is already some flexibility built into the existing height limits relative to the typical number of stories that would be built in each.

To illustrate what a building height bonus of 10 feet could achieve, two examples of recently permitted projects are provided below. Exhibit 2 provides an example of a 3-story building, with a floor-to-floor height of 10 feet, with a total height of 40 feet. If this building qualified for a building height bonus of 10 feet, it could reasonably be a 4-story building with a height of 50 feet.

**Exhibit 2: 3-Story Residential, Seattle**

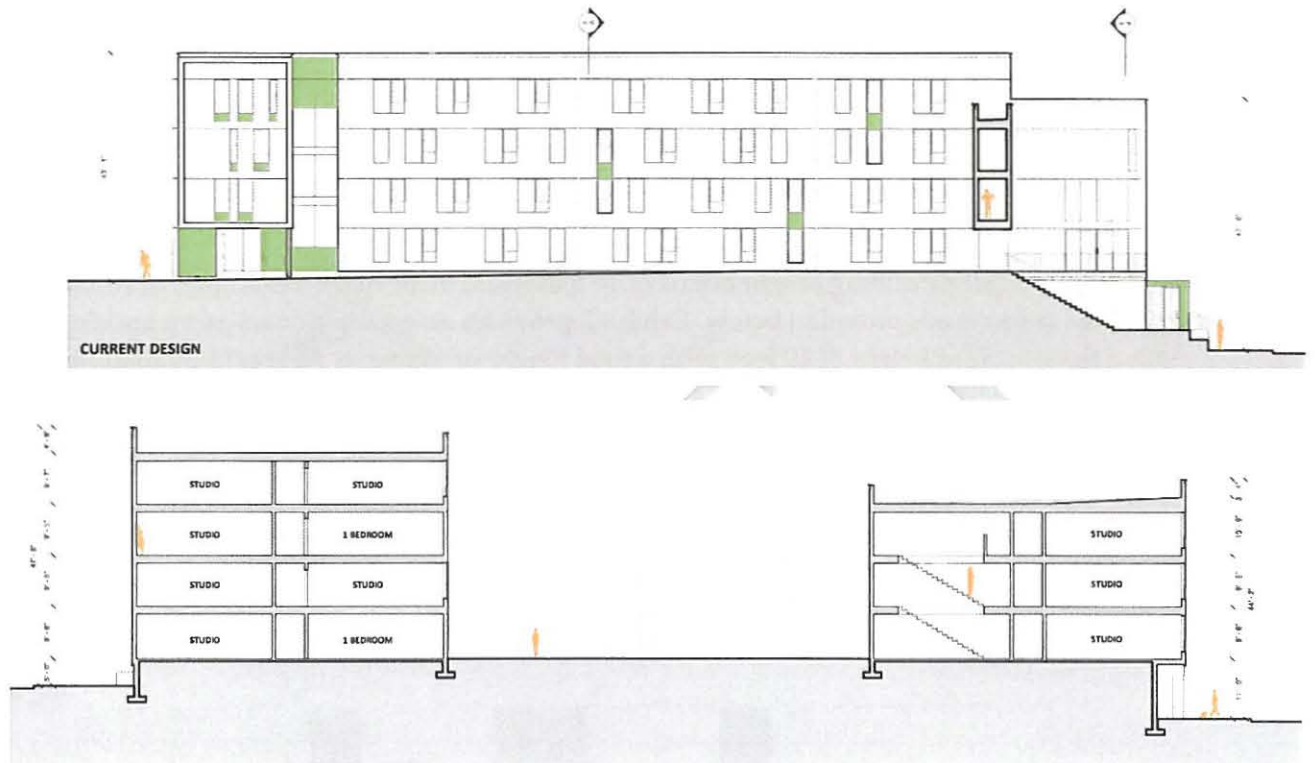
Source: Lemons Architecture, PLLC via Seattle in Progress



Exhibit 3 shows a 4-story building, with a floor-to-floor height of just under 10 feet. Depending on where you measure the structure, given the change in the site's topography, the height is somewhere between 43-50 feet. If this building qualified for a building height bonus of 10 feet, it would likely result in a 5-story building with height of around 60 feet or below.

### Exhibit 3: 4-Story Residential, Portland

Source: MWA Architects via Next Portland



### Preliminary Recommendation and Next Steps for Implementation

ECONorthwest recommends including this change in a package of code amendments for consideration by the Planning Commission and stakeholders.

### Open Space Requirements

#### Context

Cottage Grove requires onsite open space for multifamily developments<sup>2</sup>. Common open space areas must maintain an average length and width of at least 20 feet, and areas must contain one or more of the following: outdoor recreation area, protection of sensitive lands (e.g., wetlands or tree preservation), play fields, outdoor playgrounds, outdoor sports courts, swimming pools, walking fitness courses, pedestrian amenities, or similar open space amenities for residents.

#### Barrier

Meeting an average of 20'x20' for an open space area may be particularly challenging on infill sites that tend to be narrower or irregular in shape and could make it difficult to meet the

<sup>2</sup> CGMC 14.22.200.J.2.d

minimum density for the zone in some cases. Open space requirements for multifamily development are intended to promote livability for residents and compatibility with nearby uses. However, given site constraints and/or a need to maximize building envelopes to increase development feasibility, onsite recreation spaces can result in small, unusable tracts of land set aside just to satisfy requirements.

## Evaluation of Alternatives

The City would like to explore ways of delivering usable open space with fewer barriers for multifamily development, on or off site. Considering the increased interest from multifamily developers in Cottage Grove and with a few new projects coming online, city staff is interested in either improving onsite open space requirements or offering financial options for developers to contribute to public park improvements, rather than require open space onsite.

Options the City could consider for implementation include:

- Exempt all residential projects located in close proximity (e.g., within ¼-mile) of a public park, with safe pedestrian access, from on-site open space requirements
- Exempt projects located in close proximity (e.g., within ¼-mile) of a public park, with safe pedestrian access, that make improvements to that park that are eligible for SDC credit, from providing onsite open space
- Exempt small projects and those in the C2 zone
- Modify on-site open space requirements to add infill-friendly options

### Exemptions for all projects that meet proximity and access criteria

The City could exempt multifamily projects within close proximity (e.g., ¼-mile) of a public park that have safe and easy pedestrian access (i.e., do not have to cross a major arterial, sidewalk infrastructure along route, etc.)

#### Pros

- Increase buildable area for multifamily projects, especially on infill sites

#### Cons

- City will need to establish potentially complex criteria for exemption
  - What is a suitable proximity?
  - How do you define “safe pedestrian access”?
- Not all parks are the same classification, so the City may need to decide if exemption applies to any public park or will it only apply to parks with certain classification (i.e. neighborhood park v. regional park)
- Increasing reliance on public parks without regard to condition of park facilities

### Exempt Projects Eligible for SDC Credit For Public Park Improvements

The City could exempt only projects that are both close to an existing park and that invest in improvements to the park that are eligible for Parks SDC credits from providing onsite open space.



### Cottage Grove SDC Methodology

The City of Cottage Grove’s current SDC methodology maintains a credit policy that meets the minimum legal requirements outlined in ORS 223.304, which states that credits must be provided against the improvement fee for “the construction of a qualified public improvement.”<sup>3</sup> The public improvement must either be:

- “Not located on or contiguous to property that is the subject of development approval; or
- Located in whole or in part on or contiguous to property that is the subject of development approval and required to be built larger or with greater capacity than is necessary for the particular development project to which the improvement fee is related.”

Cottage Grove does not grant credits in excess of the improvement and have adopted a credit policy where credits:

- Represent the portion of the actual, estimated, or agreed-upon cost of capacity in excess of that needed to serve the particular development
- include no cash reimbursement
- are issued for planned projects only

#### Pros

- City might be more likely to see investments in upgrades to parks in line with increased demand (i.e., upgrades occur as new residents move into the area)
- Potential for lower costs to deliver park improvements if developers conduct the work

#### Cons

- Creates additional complexity in the code—legal review required to ensure that development standards and SDC credits can be linked in this way
- Determination of appropriate improvements would be somewhat discretionary and would have to be provided as an option, not a mandate
- Increased need for quality control since developers would be responsible for coordinating construction and installation for a public facility

#### Exemptions for Small Projects and those in the C2 Zone

The City could consider allowing developers building small multifamily projects (e.g., less than 30 units) and those developing in the C2 zone (which has a more urban development pattern with small blocks) to choose between providing private open space or common open space rather than requiring both.

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<sup>3</sup> a capital improvement that is required as a condition of development approval, identified in the plan and list adopted pursuant to ORS 223.309



#### Pros

- Simple code amendments, and easy to administer
- Targeted to infill development where open space requirements could be an obstacle

#### Cons

- May not capture all development where the exemption would be appropriate
- Not linked to availability of other open space (e.g., public parks) nearby

#### Modified Onsite Requirements

The City could allow onsite open space requirements to be met through interior community amenities such as a gym or a recreation room, or a roof deck.

#### Pros

- Builds on the existing system
- More flexibility in how onsite open space is provided could result in more usable spaces

#### Cons

- Setting appropriate standards for a recreation room or similar could become complex.

#### Preliminary Recommendation and Next Steps for Implementation

ECONorthwest recommends, at a minimum, providing additional flexibility for small projects that are close to public parks and multifamily development in the C2 zone. Further evaluation of alternatives should occur as part of consideration by the Planning Commission and stakeholders.

## Infrastructure to Support Housing Development

#### Context

There are several key sites in Cottage Grove where development potential is constrained by a lack of available infrastructure and/or the cost of providing it. ECONorthwest worked with city staff to identify these areas, which are outlined in the Background Report in Appendix A.

#### Barrier

The availability of public infrastructure (particularly streets, water, and sewer) is critical to supporting new housing development, but it is also an important consideration for developers when evaluating development costs. A lack of available utilities and road infrastructure can increase construction costs to a point where development is rendered financially infeasible. Aligning capital investments in infrastructure to support future housing development in key areas can increase housing production.

#### Preliminary Recommendation and Next Steps

While the City has several mechanisms available to partner with developers to fund infrastructure improvements related to housing development, the City could take a more

proactive approach when updating infrastructure master plans or developing the Capital Improvement Plan (CIP).

The City could implement a policy that requires infrastructure master plans to consider and prioritize housing, especially affordable housing, when identifying and prioritizing future projects. This could help advance housing development projects on sites lacking adequate infrastructure.

## Support for Regulated Affordable Housing

The City has taken recent steps to assist in the development of new regulated affordable housing. The City recently adopted an SDC trust to help backfill SDCs for affordable housing projects, and recently acquired land to transfer to Homes for Good to develop with regulated affordable housing. The City could consider additional measures to provide financial support for regulated affordable housing, including additional land acquisition, specific tax abatements for regulated affordable housing, and/or a construction excise tax (CET) to generate local funding for affordable housing projects. These options are discussed further below.

### Land Acquisition

The City was able to use American Rescue Plan Act (ARPA) funds to purchase a site along Douglas Avenue after offers from perspective buyers fell through due to title issues. The City has since demolished the existing residence and the goal is to gift the property to Homes for Good with the expectation they will build regulated affordable housing.

### Preliminary Recommendation and Next Steps

If the initial land acquisition project is successful, the City could consider allocating additional funding for land acquisition to assist affordable housing providers when opportunities arise. Funds could come from the General Fund, a CET, or one-time funds like ARPA. The City could partner with affordable housing developers (e.g., Homes for Good, Habitat for Humanity, or St. Vincent De Paul) for site development. Direction from Council would be needed to support budgeting for future land acquisition.

### Tax Abatements

Oregon has several property tax abatement programs that can be used to support development of affordable housing. There are several tax abatement programs available for affordable rental housing and one for affordable homeownership that may be useful for the City of Cottage Grove to consider. The programs are summarized and compared in Exhibit 2, below.



**Exhibit 4: Tax Abatement Program Comparison**

Programs for Affordable Rental Housing				Programs for Affordable Homeownership
Program	Multiple-Unit Property Tax Exemption (MUPTE) for Affordable Housing <sup>4</sup>	Low-Income Rental Housing Exemption	Nonprofit Low-Income Rental Housing Exemption	Homebuyer Opportunity Limited Tax Exemption
Authorizing Statute	ORS 307.600 to 307.637	ORS 307.515 to 307.535	ORS 307.540 to 307.548	ORS 307.651 to 687
Affordability Criteria	Housing subject to a housing assistance contract with a public agency <sup>5</sup> (must show that the exemption is necessary to preserve or establish the low-income units, but the statute does not define an income threshold).	60% of Area Median Income (AMI), or up to 80% of AMI in some circumstances.	60% of Area Median Income (AMI), or up to 80% of AMI in some circumstances.	The market value (land and improvements) of the home must be no more than 120% of the City's median home sales price (or a lower threshold if set by the City)
Eligible Projects / Properties	New construction, addition of units, or conversion of existing building to residential use, regardless of ownership. The City sets a minimum number of dwelling units and other criteria.	New or existing housing owned by a nonprofit. New housing meeting income criteria regardless of ownership if rents reflect the full value of the property tax abatement. Land held by a nonprofit for future affordable housing development.	New or existing housing owned by a nonprofit. Land held by a nonprofit for future affordable housing development.	Existing or new construction single-family, townhome, or condominium (units sold individually).
Extent of Tax Exemption / Abatement	Residential improvements exempt.	Land and improvements exempt.	Land and improvements exempt.	Improvements exempt.
Duration of Tax Exemption / Abatement	Exemption can be extended for as long as the housing is subject to the public assistance contract.	Exemption lasts 20 years but can be renewed.	Must be applied for every year but can continue as long as the property meets the criteria.	Maximum of 10 years.
Eligible Areas	Anywhere in city (or more limited areas if designated by City)	Anywhere in city	Anywhere in city	Anywhere in city

<sup>4</sup> The same statute that authorizes the City's existing multiple-unit property tax exemption (MUPTE) also authorizes a similar exemption for housing subject to an affordability contract. For purposes of this document, this program is referred to as MUPTE for affordable housing.

<sup>5</sup> Per ORS 307.603(4): "Low income housing assistance contract" means an agreement between a public agency and a property owner that results in the production, rehabilitation, establishment or preservation of housing affordable to those with a defined level of household income.

Programs for Affordable Rental Housing				Programs for Affordable Homeownership
Program	Multiple-Unit Property Tax Exemption (MUPTe) for Affordable Housing <sup>4</sup>	Low-Income Rental Housing Exemption	Nonprofit Low-Income Rental Housing Exemption	Homebuyer Opportunity Limited Tax Exemption
<b>Adoption / Designation Process</b>	City designates via ordinance or resolution. <i>Public hearing required to determine whether qualifying housing would or would not be built without the benefit of the program.</i> City must establish standards and guidelines with requirements for eligibility.	City adopts an ordinance or resolution. City sets any additional local requirements.	City adopts an ordinance or resolution. City sets any additional local requirements.	City adopts an ordinance or resolution.
<b>Participation by Other Taxing Districts</b>	None, unless districts representing at least 51% of combined levy agree by board resolution to participate, in which case all districts are included.	None, unless the boards of districts representing at least 51% of combined levy agree to the exemption for a given property, in which case all districts are included	None, unless the boards of districts representing at least 51% of combined levy agree to the exemption for a given property, in which case all districts are included.	<i>Exemption cannot take effect</i> unless governing bodies representing at least 51% of the total combined tax rate (when combined with the City's tax rate) agree to grant the exemption.

The three affordable rental housing programs are similar, but the low-income rental housing tax exemption program (sometimes called LIRHPTE) offers the flexibility for the program to apply to nonprofit affordable housing or other new privately owned affordable housing. The MUPTe for Affordable Housing program offers less of an abatement (land is not exempt) but provides the most flexibility to apply to any new or existing regulated affordable housing where the exemption is necessary to establish or preserve affordability. This can also potentially include co-op ownership models and versions of regulated affordable housing that may not meet traditional income limitations or use typical affordable housing financing methods.

The affordable homeownership program can be valuable to homeowners participating in programs like Habitat for Humanity, but is not itself an incentive for development, and its expiration after 10 years (which is set in statute) can create challenges for homeowners whose costs increase suddenly.

### Preliminary Recommendation and Next Steps

The City should consult with other taxing districts and with local affordable housing providers to select the tax abatements that best meet local needs.



## Construction Excise Tax

### How it Works

A construction excise tax (CET) is a tax imposed on new development and expansions as a percentage of the permit value. Cities can impose a CET to generate funding for affordable housing.<sup>6</sup> It can be applied to commercial and industrial development and/or to residential development (affordable housing and certain public and institutional uses are exempt). Funds are used primarily for local housing programs. Rates on residential development are capped at 1% of permit value; there is no statutory limit on CET rates for nonresidential development.

Under statute, the City may retain up to 4% of funds to cover administrative costs. For a CET on residential development, statute requires that the funds remaining be allocated as follows:

- 50% must be used for statutorily authorized developer incentives, including fee and SDC waivers<sup>7</sup>, tax abatements, or finance-based incentives. In other words, a city would have to offer the incentives but could cover the costs / lost revenues with CET funds. For example, this could support the City's existing SDC trust fund.
- 35% may be used flexibly for affordable housing programs, as defined by the jurisdiction.
- 15% is not available to the city and flows instead to Oregon Housing and Community Services for home ownership programs that provide down payment assistance.

For a commercial/industrial CET, 50% of the funds remaining after deducting 4% for administrative costs must be used for housing-related programs, as defined by the jurisdiction (note that these funds are not necessarily limited to affordable housing), and the remaining 50% are unrestricted.

### Pros and Cons

#### Pros:

- Flexible funding source, especially for funds derived from commercial/industrial development.
- Allows some use of funds for administration; can fund staff time needed to administer programs.

#### Cons:

- CET increases costs for subject development.

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<sup>6</sup> This is separate from the construction excise tax that is authorized under ORS 320.170 for school districts. South Lane School District currently imposes a CET, but this does not prevent the City from adopting a CET for affordable housing. However, the cumulative cost of both CET programs on development is a consideration.

<sup>7</sup> Note that while these are called "waivers", they are really subsidies, since the fees would still be paid by CET revenues rather than by the developer.

- Revenue will fluctuate with market cycles and will not be a steady source of funding when limited development is occurring.

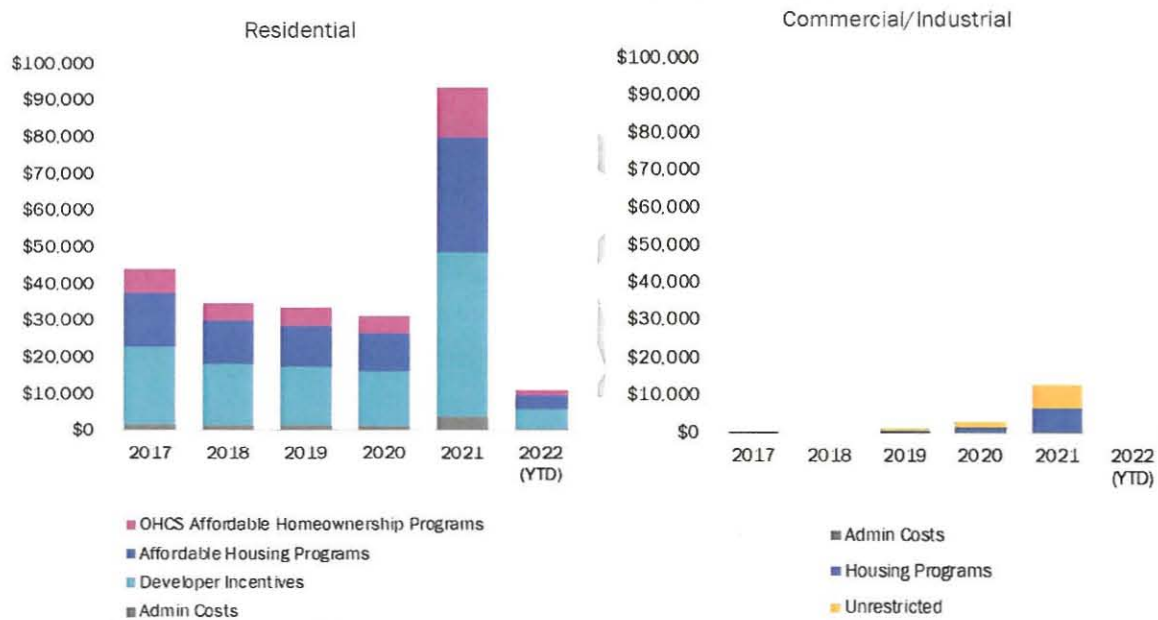
## Application in Cottage Grove

### Rate and Applicability

ECONorthwest tested the revenue potential and cost implications to development for a range CET rate of 0.5% as an example. Based on historical building permit values for residential and commercial/industrial development, after excluding development that would be exempt from a CET, ECONorthwest estimated annual CET revenue that the City would have received if a CET had been in place when that development occurred (in 2022 dollars) and allocated it according to statute. The resulting estimates are shown in Exhibit 3.

### Exhibit 5: Estimated Potential CET Revenue from Development Based on Historical Permit Activity, 2017-2022, 0.5% CET Rate

Source: ECONorthwest calculations using permit data provided by the City of Cottage Grove



## Next Steps

- Seek guidance from Advisory Committee and Council
- Conduct additional outreach to affordable housing providers to help the City understand how best to administer funding if a CET is adopted.
- If the City chooses to adopt a CET, it must pass an ordinance or resolution that states the rate and base of the tax.<sup>8</sup> Most communities also identify any further self-imposed

<sup>8</sup> ORS 320.192



restrictions on the use of funds as part of the adopting ordinance (e.g. establishing that the housing programs will support housing affordable up to a certain percentage of area median income, or specifying the allowed uses of unrestricted funds). If the ordinance passes, the City must then establish a process to distribute the funds.

## Preservation of Low-Cost Market Rate Housing

### Context

Many of the existing apartments in Cottage Grove are more than 30 years old. Staff and local stakeholders report that some of these buildings have deferred maintenance issues, and a low vacancy rate for existing units. With new housing coming to the area, there could be impacts to older apartments that could improve housing conditions for some existing residents but could also lead to faster rent escalation and greater risk of displacement.

Older apartments built around 30 years ago on larger properties with more amenities, while they may need repairs and upgrades, tend to be professionally managed and upgraded over time as units turn over. This decreases the risk that tenants will be displaced due to upgrades; however, rents at these properties are also more likely to track the market over time.

Older, smaller apartment developments with few amenities are less likely to be professionally managed and upgraded over time; they can become deteriorated and potentially need major upgrades that would require tenants to move out, but they also tend to be slower to raise rents in the absence of upgrades.

### Preserving and stabilizing existing “naturally occurring affordable housing”

To preserve these units as part of the City’s low-cost market rate housing stock, the City may need to intervene or offer assistance or incentives to help properties make necessary upgrades while maintaining stable rents.

There are two general approaches to preservation of older apartments for cities that do not have their own Housing Authority to own and manage housing directly:

- Supporting **acquisition and rehabilitation** by nonprofits or others who would keep rents affordable or convert to regulated affordable housing
- **Incentives for property owners** (e.g., tax abatement, grants/loans) to make needed health and safety improvements while stabilizing rents

### Acquisition and Rehabilitation

Acquisition and rehabilitation of existing apartments by providers of regulated affordable housing for conversion to regulated affordable housing can be funded through state and federal programs such as the Low-Income Housing Tax Credit (LIHTC). Acquisition/rehabilitation projects are complex on many levels, including understanding the capital needs required to rehabilitate the property, analyzing rents and cash flow, and converting units to be income-qualified without displacing existing renters (who may not be eligible for the income-restricted

units). Cities can help if they can provide access to a flexible local funding source to facilitate acquisition while developers arrange long-term funding. However, this strategy may be challenging for a smaller city like Cottage Grove to implement for several reasons:

- The amount of funding needed to acquire a developed, operating apartment building could be substantial, and may be more than the City can make available even as a loan.
- To be effective, the program would need to be flexible to structure an acquisition loan without fully understanding when loans may be paid back or whether the project will receive other necessary funding.

This strategy may be most successful for larger cities with a housing department that has staff capacity to navigate the financial, administrative, and programmatic challenges it presents. However, given the City's recent success in other acquisition endeavors (discussed later in this report), this method may be something to keep in mind for future evaluation. If financial resources were available, the City could potentially partner with other organizations that have expertise in this area (e.g., the Network for Oregon Affordable Housing, which has a Housing Preservation Project<sup>9</sup>) to reduce the administrative effort.

### Incentives for Property Owners

Some property owners may want to help their tenants and keep their rents low but may not have the resources to maintain and improve the property without raising rents. Others may be willing to consider stabilizing rents if there are strong enough financial incentives to do so. The main approaches that cities can use to incentivize property owners to invest in property maintenance or upgrades without increasing rents are grants, low-interest loans, or tax abatements. Any of these can potentially be paired with a requirement to provide affordability commitments.

### Grants/Loans for Stabilization

Funds could be distributed as grants or loans with varying terms to increase affordability and incentives for landlords to participate. There are meaningful trade-offs between offering grants or loans, and the City could offer both funding types, choosing between them depending on the borrower's creditworthiness.

- If the City offered grants, there is potential for deeper affordability for the units or the borrower, because grant funds do not accrue interest and are not expected to be repaid. As such, the funds are gifted to the property to help lower the cost of the rehabilitation project and thus increase affordability. However, the City would not receive its funding back and it cannot be used for future preservation projects.
- If the City were to offer loans, it would become a real-estate lender to the private market. Loans come with the expectation that the borrower repays the full principal plus interest over the life of the loan. If the City offered loans, although affordability can vary based on loan terms, it is not as affordable for the borrower as a grant. However, loans mean

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<sup>9</sup> <https://noah-housing.org/programs/ohpp/>



that the City can reinvest its funds in future preservation projects, and loans may induce greater accountability (such as through a lien on the property), for the borrower.

Either way, funding would be distributed in exchange for an agreement with the landlords or property owners to rehabilitate the properties to adhere to certain safety, code, or habitability standards, and provide a certain level of affordability for a defined period of time. The City would need to ensure that any loans could be paid back with the affordability restrictions in place. If the City were the only source of funds for the project, the City would also need to take on monitoring and enforcement to ensure the terms of the affordability agreement were being met. The City could explore partnering with another organization to assist with program administration.

#### Tax Abatements

There are two property tax abatement programs authorized under state statute that the City could consider as incentives for preservation and rehabilitation of older apartments:

- The MUPTE for affordable housing program described above can apply to preservation.
- The Rehabilitated Residential Property tax abatement<sup>10</sup> can apply to rehabilitated properties in particular areas.

These programs are discussed in more detail below.

#### MUPTE for Affordable Housing

As noted above, state statute allows for another version of the MUPTE program to be used for new or existing multiple-unit housing that is or becomes subject to an affordability agreement with a public agency. This means that the City could offer the tax abatement in exchange for signing an agreement with a public agency (such as the Lane County Housing Authority) to regulate rents. Because the statute is flexible about the nature of the affordability agreement, it could be structured to limit the annual increase in rents or to require a reduction based on the value of the tax abatement. The City could require that participating property owners invest in renovations to qualify, but this is not required under statute.

Additional testing of MUPTE for affordable housing as an incentive for specific properties and outreach to property owners would be needed as a follow-up step to determine whether it could provide a viable incentive for rehabilitation and stabilization. This program could potentially be paired with a low-interest loan or grant as described above for projects with more extensive capital needs.

#### Rehabilitated Residential Property Tax Abatement

This program provides a 10-year property value freeze for rehabilitation of existing units in substandard condition, and for the conversion of transient accommodation or nonresidential structures to permanent residential units, in areas designated by the jurisdiction as “distressed” — residential areas that are deteriorated, lacking proper facilities, or that have

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<sup>10</sup> ORS 308.450 to ORS 308.481

vacant or abandoned homes or structures. No more than 20% of the jurisdiction's total land area may be included. For properties subject to affordability restrictions, the freeze can remain in place for the duration of the restrictions. Like the MUPTE program, the City may only exempt its own taxes, unless the boards of districts representing at least 51% of combined levy agree to the exemption for a given property, in which case all districts are included.

Structures must be at least 25 years old and not meet local building or housing codes prior to the improvement. The value of the improvements must be at least 50% of the existing assessed value of the property. All housing types are eligible, which would make the program available for single-family (rental or owner-occupied), middle housing, or apartments. This versatility could make it a good choice for areas where much of the lower-cost housing stock is in poor condition but includes a mix of housing types.

This program is more restrictive than the MUPTE for affordability program and offers less of an incentive because only a portion of the improvement value is exempt. However, because both programs require support from overlapping taxing districts to apply to more than just the City's taxes, the fact that this program does not decrease the tax base may make it more acceptable to other taxing districts. In addition, the flexibility in housing type and tenure could make it a good fit for certain areas.

### Next Steps

The City should engage with stakeholders and partners to gather feedback on the potential interventions identified in this memorandum. This should include:

- Overlapping taxing districts to gauge support for adopting a tax abatement for preserving affordability of low-cost market-rate apartments.
- Property owners/managers of target properties to gauge their interest in participating in a preservation program through tax abatements or grants/loans, and whether they would consider selling to an affordable housing provider in the future.
- Lane County Housing Authority, nonprofit affordable housing providers, and other funders to explore program design options for City acquisition and/or preservation grant/loan programs.

Over the coming years, City should also consider how it can dedicate additional local funding to support preservation and housing stabilization efforts.

## Depth of Demand for Density

### Context

Cottage Grove has a large amount of new moderately priced apartments in the development pipeline. However, given the wide-spread desire for detached, for-sale, homes and Cottage

Grove's relatively untested market for for-sale attached housing, developers are hesitant to pursue multifamily development prior to understanding the longevity of current demand.

#### Next Steps

Providing a more market-oriented, near- to medium-term housing demand assessment that accounts for what's currently in the pipeline could help make a case to developers for what types of development are still needed. However, the City will need to gather absorption data from recent multifamily projects in 1-2 years to fully understand their interaction with the housing market.

The City could bookmark this kind of analysis for the next grant project or offer funding for a project specific market study.

## 4. Conclusions and Implementation Priorities

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Will be filled out after first review by staff and advisory committee weighs in

