Metro
600 NE Grand Ave.
Portland, OR 97232-2736

Council work session agenda

Thursday, September 7, 2017 **2:00 PM** **Metro Regional Center, Council Chamber**

2:00 Call to Order and Roll Call

2:05 Chief Operating Officer Communication

Work Session Topics:

2:10 Regional Funding and Investment Opportunities for Equitable Housing 17-4847

Presenter(s): Elissa Gertler, Metro
Emily Lieb, Metro
Andy Shaw, Metro

Attachments: Work Session Worksheet
Memo: Regional Equitable Housing Investment Opportunities
Attachment A to Memo

3:00 Councilor Liaison Updates and Council Communication

3:10 Adjourn

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February 2017

REGIONAL FUNDING AND INVESTMENT OPPORTUNITIES FOR EQUITABLE HOUSING

Metro Council Work Session
Thursday, September 7, 2017
Metro Regional Center, Council Chamber

METRO COUNCIL

Work Session Worksheet

PRESENTATION DATE: Thursday, September 7, 2017 **LENGTH:** 60 minutes

PRESENTATION TITLE: Regional Funding and Investment Opportunities for Equitable Housing

DEPARTMENT: Planning and Development/GAPD
PRESENTER(S): Emily Lieb, Emily.Lieb@oregonmetro.gov, 503-797-1921
Andy Shaw, Andy.Shaw@oregonmetro.gov, 503-797-1763
Elissa Gertler, Elissa.Gertler@oregonmetro.gov, 503-797-1752

WORK SESSION PURPOSE & DESIRED OUTCOMES

- **Purpose:** Provide an update on Planning staff's research and evaluation of potential regional investment approaches for equitable housing
- **Outcome:** Staff receives clear Council direction to proceed with proposed next steps to further develop regional program options

TOPIC BACKGROUND & FRAMING THE WORK SESSION DISCUSSION

In 2016, the Council requested more information from the Planning Department regarding potential programmatic and revenue options for regional equitable housing investment. A preliminary staff update on this topic was provided during the October 25, 2016 Council Work Session. Since then, Planning staff have completed the following efforts:

- Consulting study estimating the subsidy gap necessary to construct or preserve different types of affordable housing in different types of locations (i.e., high, medium, low land cost areas)
- Analysis and compilation of additional regional and local data regarding the need for affordable housing
- Inventory and analysis of existing federal, state and local resources for supporting affordable housing investment
- Identification of potential investment program options and analysis of their advantages and limitations
- Identification and description of potential revenue tools and their compatibility with identified investment program options
- Engagement of city, county, and housing authority staff to discuss their jurisdictions' most pressing housing concerns, current policy efforts, and perspectives on potential regional funding and investment solutions

The memo and table included in the packet outline the need for and advantages of a regional approach to address the challenge and lay out the policy and operational considerations that can inform the agency's next steps. They summarize the benefits and limitations of three potential investment strategies and two potential funding sources that have been informed by research and initial stakeholder input, including feedback from our local city/county staff partners as we've held meetings during the last several weeks to collaborate on these ideas.

If the Council is interested in continuing to explore this direction, staff proposes the following next steps:

- Work with internal and external partners to identify how efforts to advance regional affordable housing can best align with Metro's adopted racial equity strategy and provide maximum benefit to residents of color in our region
- Engage local planning, community development, and housing authority staff; funders and lenders; and for-profit and non-profit developers to better understand their perspectives on how a regional investment program could align with existing programs and support local needs and goals.
- Conduct targeted analysis to fully vet financial estimates and further refine programmatic options.
- Develop a draft regional investment program proposal for consideration by the Council in Fall/Winter 2017.

QUESTIONS FOR COUNCIL CONSIDERATION

- How would the Council like staff to move forward with the proposed analysis and engagement process to fully develop a regional investment program proposal?
- What are the best ways to align staff and Council work on next steps?

PACKET MATERIALS

- Would legislation be required for Council action ☐ Yes X No
- If yes, is draft legislation attached? ☐ Yes X No
- What other materials are you presenting today?
  Regional equitable housing investment opportunities memo
  Attachment A: Preliminary Analysis of Potential Regional Equitable Housing Investment Strategies and Program Options (narrative summary and table)

Memo

Metro
600 NE Grand Ave.
Portland, OR 97232-2736

Date: August 28, 2017

To: Metro Council

From: Elissa Gertler, Planning and Development Director

CC: Martha Bennett, COO
Megan Gibb, Land Use and Development Manager
Emily Lieb, Equitable Housing Initiative Project Manager

Subject: Regional Equitable Housing Investment Opportunities

Like other regions around the country, the Metro region faces an urgent need to address a critical shortage of affordable housing. Rents are increasing faster than renter incomes, and more than 67,000 renters in our three-county region pay more than half of their income toward housing costs. Metro's Equitable Housing Initiative is working to build our region's capacity and Metro's capacity to respond through a multi-pronged approach that includes the following elements:

- Mitigate displacement and stabilize communities
- Maximize and optimize resources for regulated affordable housing
- Leverage growth for affordability
- Increase and diversify overall housing supply

Financial resources remain the biggest hurdle to ensuring adequate housing for the region's low-income residents. Federal resources for affordable housing have continued to decline, and despite recent expansions in funding at the state level and within the city of Portland, a large funding gap remains to meet the need for housing affordable to households making less than 50% of area median income (AMI). It would cost about $900 million to construct sufficient new housing to close the region's 11,100-unit deficit of housing affordable to households making 30-50% of AMI, and approximately $5 billion to fill the 36,300-unit deficit of housing affordable to households making at or less than 30% of AMI.[1]

This memo starts from an assumption that there are certain income levels currently not served by the private housing market—hence the need to undertake strategies not only to increase incomes and provide access to affordable transportation options, but also to increase the supply of publicly subsidized, regulated affordable housing. The memo and attachments outline the need for and advantages of a regional approach to address the challenge and lay out the policy and operational considerations that can inform the agency's next steps. As part of the Equitable Housing initiative, we have undertaken a technical analysis to identify the region's most significant areas of housing need, and the strategies

[1] Assuming 4% tax credit leverage for wood frame or podium construction in medium cost areas, per unit gaps of $60,000 to $100,000 are achievable for affordability at the 60% of AMI level. Gaps to reach the 30% of AMI level are roughly double that amount. Based on David Rosen & Associates Housing Affordability Gap Analysis, 2017. Housing deficit estimates are from the 2010-2014 Comprehensive Housing Affordability Strategy database (CHAS) produced by the U.S. Department of Housing and Urban Development (HUD) and U.S. Census American Community Survey (ACS).

that have been used successfully in other places to address similar challenges. The memo and attachments summarize the benefits and limitations of three potential investment strategies and two potential funding sources that have been informed by this research and additional initial stakeholder input, including feedback from our local city/county staff partners. Finally, the memo includes recommended next steps for partner engagement, application of a racial equity lens, and continued development of programmatic elements.

The Planning department is seeking Council feedback regarding the overall direction and proposed next steps described at the end of this memo.

Advantages of a Regional Approach

Our housing affordability challenges do not know jurisdictional boundaries, yet within our region, resources for investing in affordable housing are overwhelmingly focused within the city of Portland. More than half of our region's severely cost burdened households live outside Portland in the other 23 cities and counties that comprise Metro's jurisdictional boundary; however, only 33% of our region's 41,353 regulated affordable rental housing units are located outside Portland, and only 6% of existing $149 million of annual funding capacity for investing in affordable housing is focused outside of Portland in the rest of the region.[2]

Tackling the region's shortage of affordable housing will require new dedicated revenue tools, coordinated investment strategies, and a mix of short- and long-term approaches. While such tools and strategies could be pursued at the local level, our team feels strongly that a regional approach offers several advantages, including the ability to:

- Generate an investment strategy on the scale necessary to have an impact on serving regional needs
- Integrate affordable housing into communities across the region and strategically target investments to locations that offer the best balance of cost efficiency, leverage, outcomes for vulnerable communities and local needs
- Develop a regional housing strategy that responds to regional dynamics of market change and economic displacement
- Connect affordable housing investments to planning and policy related to transportation, natural areas, economic development, and racial equity
- Leverage state and federal resources to support coordinated investment strategies to address a critical regional need
- Spread the burden of revenue generation evenly across the region in a way that does not affect the competitive advantage of one jurisdiction over another
- Capture operational efficiencies of scale

Recommended Strategies

Based on research, analysis, and stakeholder conversations over the past two years, staff have identified promising investment tools recommended for further exploration and development as part of a comprehensive regional investment program. We believe a successful regional program will include multiple components that fall within three strategic approaches:

[2] 2010-2014 Comprehensive Housing Affordability Strategy database (CHAS), U.S. Department of Housing and Urban Development (HUD) and U.S. Census American Community Survey (ACS); Metro 2015 Regulated Affordable Housing Inventory; David Rosen & Associates Inventory of 2016 Federal and Local Resources for Affordable Housing Investment.

- *Strategy #1: Anti-displacement and community stabilization (land/building acquisition).* Land acquisition, acquisition and rehabilitation of existing regulated and unregulated affordable housing, and gap financing to create or preserve housing opportunities for households at 0-80% of AMI in locations with high displacement risk and/or access to transit, opportunities, and amenities.

- *Strategy #2: Flexible gap financing, homelessness prevention and deep affordability.* Flexible gap financing to support traditionally financed projects at 0-60% AMI, which face widening subsidy gaps due to rising construction costs and uncertainty in the tax credit equity market. This strategy could be coordinated with housing authorities' project-based rental assistance vouchers to include some units with deeper affordability to serve households with incomes at 0-30% of AMI.

- *Strategy #3: Mixed income communities and shallow subsidy.* Financial incentives for inclusion of affordable and "below market" units, typically 60-80% AMI, in new private market residential developments. Incentives could be tailored to local community needs.

These three strategies and the program components within them are further described in *Attachment A*. In order to respond to the range of needs and contexts across the region, we anticipate that a regional equitable housing investment program would include multiple programmatic elements targeting different income levels and approaches. Most of these strategies are fairly scalable; however, start-up and overhead costs will vary. A summary of feedback on these strategies from local jurisdiction staff is included on pp. 5-7.

Key policy considerations related to the equity and cost effectiveness that would need to inform the design of a regional investment program include:

- *Who is served?* Households with the lowest income levels have the greatest need for affordable housing, but deeper income targeting requires more subsidy per unit, thereby reducing the number of households that can be served. For example, a strategy targeting households at 80% of AMI will be able to support more units with a shallow subsidy than a strategy serving households at 30% of AMI, which requires a much deeper per unit subsidy. It is worth noting: while our analyses do not show a deficit of rental housing affordable at the 50-80% or 60-80% AMI levels anywhere in the region, the data show that people in those income categories tend to "rent down", putting further pressure on and exacerbating the deficit of housing in the 0-60% AMI range.[3]

- *Where is housing built?* It's more expensive to produce affordable units in locations with high land costs; however, these locations are often the places that offer better access to transportation, services, and jobs. Focusing investments in low or medium-cost areas with increasing land values could help prevent displacement, ensure income diversity in high-opportunity areas, and capture value created by the real estate market.

[3] 2010-2014 Comprehensive Housing Affordability Strategy database (CHAS), U.S. Department of Housing and Urban Development (HUD) and U.S. Census American Community Survey (ACS). A similar conclusion was reached by a Johnson Economics of 2015 data from Axiometrics, ACS, and Metro's 2015 Regulated Affordable Housing Inventory.

- *What type of housing (new or preserved)?* Acquisition of existing units for preservation as affordable housing is more cost effective than new construction in low- to middle-cost areas; however, this strategy does not increase the overall supply of housing and is limited to locations where existing naturally occurring affordable housing exists. More research is needed to understand specific preservation opportunities across the region and how they would align with different income targeting and location priorities.

- *What revenue tool could be used to support it?* Two funding tools that have been identified as having near term potential include construction excise tax (CET) and general obligation (GO) bonds. These tools have different implications in terms of potential scale, permitted uses and compatibility with identified investment strategies, anticipated geography (region as a whole vs. non-Portland balance of region), implementation requirements (legislative and voter approvals), and who would be impacted (i.e., who pays, who benefits). These considerations are discussed further in the next section. .

Potential Funding Sources

Two revenue tools identified as having near term potential include construction excise tax (CET) and general obligation (GO) bonds. These tools are complementary. While either tool could be pursued and implemented independently, it is anticipated that a regional program supported by both of these funding tools could generate broader stakeholder support and serve a range of housing needs and local market contexts. If the region chose not to pursue either of these funding sources, other potential options include attempting to build a regional housing investment consortium or collective impact approach, pursuing federal or philanthropic grants, or attempting to develop a private funding source. Such strategies would all likely result in a much smaller scale of impact than the two funding sources detailed here.

Considerations	Construction Excise Tax	General Obligation (GO) Bond
Scale	$10.8 million/ year	Potentially $500 million or more. For example, Metro's 2006 Parks bond was $227 million. The proposed TriMet transportation bond for 2018 will be $1.7 billion.
Permitted uses	According to the formula laid out in SB 1533, 15% of proceeds are passed to the Oregon Housing and Community Services Department (HSCD) for homebuyer assistance programs, 50% of residential revenues must be used for developer incentives, and the remaining 35% of revenues from a residential CET and all revenues from a commercial CET can be used at local discretion.	Currently, local GO bonds for affordable housing are subject to a requirement that a public agency own and operate the asset until the bond is repaid. These requirements create limitations for the ability to use bond investments to leverage traditional finance tools such as tax credits. However, discussions are underway to pursue a constitutional amendment in 2018 that would modify those requirements to create greater flexibility.
Anticipated geography	Locations where a local CET is not currently in place. (Currently, Portland is the only Metro	The three-county region

Considerations	Construction Excise Tax	General Obligation (GO) Bond
	jurisdiction with a local CET, but others are considering it.)	
Approvals required for implementation	State legislative approval is necessary to enable Metro to be authorized to use the CET enabled by SB 1533. Regional voter approval would also be necessary.	Regional voter approval would be required for a GO bond. State voter approval would be required for the constitutional amendment that would provide more flexibility for this strategy.
Who pays?	While it is often assumed that “developers pay” for a CET, it is possible that some or all of these costs may be passed on to tenants in new residential or commercial building.	Costs would be spread across existing property owners throughout the region. Due to Measures 5 and 50, this means that existing inequities in the property tax system would be perpetuated.
Current use for affordable housing	There are currently seven local jurisdictions around the state of Oregon that have adopted a CET for affordable housing under the authorization provided in SB 1533. Currently, Portland is the only jurisdiction in the Metro region with a CET; however, other jurisdictions, including Milwaukie, are considering a CET.	The State’s Local Innovation and Fast Track (LIFT) program is funded by $40 million GO bond committed by the state legislature in 2015. In 2016, the City of Portland passed a $258 million bond—the largest housing bond ever passed by Portland voters, with a price point of $75/voter/year—focused on building or preserving 1,300 units of affordable housing over the next 5-7 years.

Feedback from Local Jurisdiction Staff

In August, Metro Planning staff met with planning, community development, and housing authority directors from across the region to discuss their perspectives on the need for regional approaches to funding and investment in equitable housing, and on the identified investment strategy options.

General themes included:

- There is widespread recognition among staff and elected leaders that housing affordability is a regional challenge that requires regional solutions. Participants expressed general support for Metro to convene a conversation about opportunities.
- Several participants expressed concerns about fair allocation of resources and the need for strong local participation in the design and/or administration of new investment programs. Additional concerns were raised about the need to align new program criteria with existing funding programs to avoid creating another layer of complexity for the already challenging process of lining up multiple funding sources to make affordable housing projects pencil out.
- Across the region, city and county staff are being directed by their councils to identify new policy and funding solutions to address growing local concerns about homelessness, displacement vulnerability for renters, and the need for permanently affordable housing to serve households at a range of income levels—from growing houseless populations to the local workforce.

- Smaller jurisdictions feel they lack the technical capacity to facilitate affordable housing development and expressed interest in a regional technical assistance program, whereas several larger jurisdictions felt they had significant staff expertise but lacked the resources and in some cases the staff capacity for implementation.
- Staff from different jurisdictions expressed interest in having a range of program elements included to allow for optimal customization in making investments that serve local needs. Some jurisdictions might be interested in a full range of tools and approaches, while others might only be interested in specific program elements.

Themes related to how the strategies described in Attachment A might relate to identified needs and existing programs or gaps to address them included:

- Nearly everyone we spoke with expressed concerns about the need for new solutions to address growing homelessness challenges. Housing authorities saw an opportunity to combine new gap financing with their existing federal rental assistance vouchers and align investments with social services to develop new permanent supportive housing for service-dependent low-income households.
- Housing authority staff also identified a growing need for flexible funding to fill the widening gap for traditionally financed affordable housing projects at 30-60% AMI. Current projects in the pipeline have been experiencing delays due to rising construction costs and uncertainty among tax credit equity investors.
- City and county staff saw an opportunity for coordination between regional housing and transportation funding discussions. Several participants pointed to opportunities for land acquisition and preservation in the SW Corridor.
- Jurisdictions with a lot of naturally occurring affordable housing expressed interest in a preservation strategy that would improve habitability of units while also protecting affordability.
- Several participants saw an opportunity for developer incentives to support inclusion of 60-80% AMI rental units in new market rate development to support mixed income buildings. Even in locations where most market rate development is currently affordable at 80% AMI or below, staff saw an opportunity to bring more income diversity to neighborhoods while also protecting long-term affordability in the face of anticipated market change.

Participants also identified three areas not included in the strategies summarized in *Attachment A*:

- In addition to general preservation strategies, several participants specifically pointed to the need to stabilize communities in mobile home parks. New state resources have been dedicated to this issue, but several participants felt it merited additional consideration as part of a regional strategy. This is something we would like to further explore in the next phase of this work.
- Several participants talked about the need to broaden access to homeownership both through the development of more modest "missing middle" housing options and through targeted homeownership assistance programs. Such a strategy would be supported to some extent by a CET due to the requirement that 15% of funding be allocated to the state to provide down payment assistance.
- Several participants, particularly in Clackamas County, pointed to the need for new solutions to provide temporary housing for the homeless, and more regional coordination around services for the homeless. We believe there is an opportunity to explore how a regional investment program could support homelessness efforts. With regard to coordination of services, the HUD regional field office could potentially serve as a regional coordinator.

Finally, feedback related to revenue approaches included:

- Some jurisdictions had concerns about the potential impacts of construction excise tax on development, given rising construction costs and already high system development charges (SDCs). At the same time, jurisdictions in Washington County have been fielding increasing inquiries from private developers following adoption of Portland inclusionary housing policy, which may create additional appetite for development outside of Portland.

Based on this feedback, we believe there is general support for the list of strategies described in Attachment A, but recommend continued engagement with city, county, and housing authority staff—as well as with a broader range of stakeholders—to design a program that will serve a wide range of needs and local contexts.

Racial Equity Approach and Proposed Next Steps

Based on the findings presented above and our discussions with internal and external stakeholders, we recommend the following next steps for staff to move forward with developing a draft regional investment program proposal.

Racial Equity Analysis. Over the next several months, staff will work with internal and external partners to identify how efforts to advance regional affordable housing can best align with Metro's adopted racial equity strategy and provide maximum benefit to residents of color in our region while still complying with federal fair housing law. Strategies designed to increase access to housing for residents with lower incomes do provide some targeted benefit to people of color, who experience disproportionate levels of low income compared to white populations; yet more can and should be done to explore how regional affordable housing revenue and investment strategies can maximize benefit to people of color. We will explore multiple next steps, including engagement, collaborative partner dialogue, and analysis to understand the potential equity impacts of revenue and investment strategy decisions, and to ensure that a racial equity lens approach is applied to these discussions. This information will be used to inform next steps and recommendations and will support existing timelines and program development.

Investment Strategies and Tools. Based on feedback from local jurisdiction staff, we recommend additional consideration of how mobile home park preservation and homeownership assistance might factor into a regional investment approach, and additional consideration for how a regional housing investment program could be aligned with homelessness efforts across the region. More targeted research is also needed to understand the best scale and targeting for a land acquisition and/or acquisition of naturally occurring affordable housing program.

Revenue Options. Further cost-benefit and legal analysis is necessary to understand the impacts of potential revenue tools and their implications for program development. Political feasibility research is also recommended to understand the viability of each of these strategies.

Stakeholder Engagement. On September 13, staff will present an update on this work to the Metro Policy Advisory Council (MPAC). We will also continue to engage city and county planning and community development staff and public housing authority staff, for-profit and non-profit developers, and funders and lenders to better understand their perceptions about how a regional strategy could respond to local needs and align with existing programs. Key stakeholders include:

- City and county community development and housing departments
- Local council and policy staff
- Public housing authorities
- Oregon Housing & Community Services (OHCS)
- Funders and community development finance institutions, including Network of Oregon Affordable Housing, Community Housing Fund, and Enterprise Community Partners
- Foundations, including Meyer Memorial Trust
- Private developers and nonprofit affordable housing developers
- Social service providers
- Advocacy groups and coalitions working on housing and equity issues, including the Welcome Home Coalition and Washington County Thrives Initiative
- Community leaders representing vulnerable communities, including partners on Metro's adopted Equity Strategy
- SW Corridor Equity & Housing Advisory Group

Council Next Steps. While staff is seeking Council direction to proceed with next steps to further research and analyze the most feasible and effective ways for Metro to play a role in addressing our region's affordable housing needs, we are also seeking Council's input on how our efforts at the financial and programmatic level can be best coordinated with the Council's outreach and engagement with key stakeholders across the region on this issue. How can staff's work best support and integrate with the leadership and communication efforts of Council on this issue as well as on related funding issues? Are there key stakeholders that Council wants to share this work with to seek feedback and input? As we work to explore an important new approach to accomplishing the 2040 Vision, staff recognizes how important it will be for Council to set the stage for this work and we want to ensure all of our efforts are coordinated with yours so that we're all more effective.

Attachment A: Preliminary Analysis of Potential Equitable Housing Investment Strategies and Program Options

August 28, 2017

The below summary describes three potential investment strategies that have been evaluated by Planning staff with economic and analytical support from David Rosen & Associates. Within each strategy, you will find description of specific program options that could be included, advantages/challenges of the overall approach and specific tools, other resources that could be leveraged, operational considerations, and additional research needs.

In order to respond to the range of needs and contexts across the region, we anticipate that a regional equitable housing investment program would incorporate all three of the below strategies described below—each likely including multiple programmatic options targeting different income levels. Most of these programmatic options are fairly scalable; however, start-up and overhead costs will vary. All strategies and program options would benefit from alignment with and leverage of existing affordable housing funding and investment programs.

More detail on the specific program options described within these strategies is available in the attached table.

Strategy #1: Anti-displacement and community stabilization (land/building acquisition)

Program Elements: *Land acquisition, acquisition and rehabilitation of existing regulated and unregulated affordable housing, and gap financing to create or preserve housing opportunities for households at 0-80% of area median income (AMI) in locations with high displacement risk and/or access to transit, opportunities, and amenities.*

In order to create and preserve affordable housing in locations with high displacement vulnerability and strong value capture potential from planned public investments (such as new transit corridors) or anticipated market changes, this strategy could include both land acquisition for new construction of affordable housing and funding for acquisition, rehabilitation, and preservation of existing regulated and unregulated affordable housing. Given the multi-dimensional nature of displacement vulnerability, a regional approach could ensure that investments are made within a comprehensive regional framework that is grounded in an equity approach, while also being tailored to geographic dynamics and responsive to local challenges and specific site opportunities.

This strategy provides flexibility to respond to variations in market dynamics over time and across different submarkets. In the short term, it provides the ability to respond to displacement pressures, helping to protect tenants from rent increases and address habitability issues in existing naturally occurring affordable housing. In the medium and long term, it provides opportunities to ensure that the benefits of public investments in transportation, parks, and economic development are captured for vulnerable, historically underserved groups by acquiring land in key locations, such as new transit corridors or growing employment centers.

For projects affordable at or below 60% of AMI, also provides opportunities to leverage 4% Low Income Housing Tax Credits, an underutilized, noncompetitive federal resource. Additional gap financing would be required to support higher density projects (for the land acquisition strategy) and projects in higher cost locations (for the preservation strategy).

Alternative Approach. A preservation strategy targeting moderately affordable housing could be supported by an affordable housing preservation loan fund created through in partnership with banks, community development finance institutions, foundations, and other public agencies, similar to the model presented by the Twin Cities' NOAH Impact Fund. Because private investors would likely require a limited return, this strategy would more appropriately target housing that is slightly below market, affordable to households with incomes between 60 and 100% of AMI. Due to the higher income targets, such a strategy would not be eligible to leverage noncompetitive 4% Low Income Housing Tax Credits. Meyer Memorial Trust is currently exploring a real estate investment trust to invest in preservation of naturally occurring affordable housing. Network for Oregon Affordable Housing (NOAH) has an existing $31 million acquisition loan program. Given these existing regional resources and discussions, and given the time it would take to develop a loan structure that would meet all partners' needs in terms of risk tolerance and expectations for return, we do not believe creation of a multi-partner loan structure is the best focus for a new regional effort. However, there is opportunity to work with these and other partners to explore coordinated investment strategies for preservation, or to generate new regional resources to invest in an existing fund.

Operations. Land acquisition aligns with existing activities within Metro's Transit Oriented Development (TOD) program, such as the model used for the Furniture Store development at SE 82nd and Division in Portland. However, increasing activity at this scale would require additional legal and development staff capacity, as well as partnerships with other agencies to perform income monitoring and compliance. An affordable housing preservation strategy, on the other hand, would require more analysis of needs related to naturally occurring affordable housing and emerging best practices to design and implement an effective strategy; as well as discussions with existing funders working together on preservation of existing regulated affordable housing. Whether administered by Metro, by local jurisdictions, or by housing authorities, this strategy would likely take the form of grants to nonprofits to acquire and preserve existing projects that meet specific criteria.

Additional research needs:
- Displacement vulnerability mapping framework
- Analysis of naturally occurring affordable housing to understand capital needs, acquisition opportunities, and existing tenants
- Research on emerging best practices for preservation of naturally occurring affordable housing
- Analysis of existing funding/programmatic gaps for preservation of regulated affordable housing
- Analysis of racial equity impacts

<u>Strategy #2: Flexible gap financing, homelessness prevention and deep affordability</u>

Program Elements: *Flexible gap financing to support traditionally financed projects at 0-60% AMI, which face widening subsidy gaps due to rising construction costs and uncertainty in the tax credit equity market. This strategy could be coordinated with housing authorities' project-based rental assistance vouchers to include some units with deeper affordability to serve households with incomes at 0-30% of AMI.*

A regional program could support existing state and federal programs to subsidize the development of deeply affordable housing aimed at helping households at a range of income levels from 0-60% of area median income. With an estimated regional deficit of 36,300, the greatest need for affordable housing is at the 30% AMI level and below. However, affordability at this level is really only achievable with a permanent operating subsidy such as rental assistance vouchers, of which there is a limited supply susceptible to federal budget cuts. Additionally, many households at or under 30% of AMI may require permanent supportive services which cannot be funded with GO bond proceeds.

Program elements targeting 0-30% AMI could specifically target investments to support individuals and families who are currently homeless or at risk of becoming homeless, as well as seniors and people with disabilities. It could include coordination with social service investments to provide permanent supportive housing for the most vulnerable, chronically homeless and service-dependent groups, including people with disabilities. The tradeoff of deep subsidies is that benefits are limited to a small number of people. Given that this approach relies primarily on existing federal funding, it presents limited opportunity to influence the location of future affordable housing and to coordinate housing investments in a way that responds to market pressures and captures value from planned investments in other forms of infrastructure.

Alternative Approach. An alternative approach that was considered but is not recommended would be to use a regional funding program to increase funding for rental assistance. Staff do not recommend rental assistance for a regional investment program because this tool requires a permanent ongoing funding stream at a scale best supported by the existing federal voucher program, and because it doesn't increase the supply of permanently affordable housing units.

Operations. A gap financing program has a fairly low administrative burden and could be administered by Metro or by a local jurisdiction or housing authority. There is less overlap with other Metro programs and policy frameworks, so it is unclear what advantage regional administration would have over local administration. Because this program primarily targets existing units under construction, there is limited value in regional coordination beyond the pursuit of a shared revenue source. One approach might be to use new resources to offset the cost of local affordable housing incentives such as tax exemptions and fee waivers.

Additional research needs:

- Analysis of existing federal, state, and local financing tools, and existing project pipeline, that a gap financing program would complement
- Analysis of existing social services capacity to complement investments in permanent supportive housing
- Analysis of racial equity impacts

Strategy #3: Mixed income communities and shallow subsidy

Program Elements: *Financial incentives for inclusion of affordable and "below market" units, typically 60-80% AMI, in new private market residential developments. Incentives could be tailored to local community needs in terms of what income level is served and whether the program is more targeted at private or nonprofit developers.*

A regional strategy could provide scalable financial incentives to support development of "below market" (typically 60-80% AMI) units in new transit oriented developments for which market rents typically run 80-120% AMI or higher. Such a strategy could offset the cost for developers to provide reduced rents for a fixed term. Essentially, this would serve as a voluntary inclusionary housing program—except in locations where jurisdictions have adopted a mandatory inclusionary zoning requirement, where it would serve as an additional incentive for developers to participate. Such a tool would need to be calibrated to local market conditions, but could be a key tool to support income diversity in high-opportunity locations—something which has been shown to lead to better economic and health outcomes among low- and moderate-income residents. There are currently limited existing local, state, and federal resources that support development of housing affordable at these income levels.

In comparison to other programs that leverage traditional federal, state and local funding for affordable housing, investing in moderately affordable or "below market" housing would make it easier to leverage private investment. It would provide a measure of affordability relief to a greater number of people in more locations distributed throughout the region; however, this strategy does not target the income levels where need is greatest. Our analysis does not show any deficit of housing at 50-80% AMI, however, people in this income category "rent down", therefore exacerbating the shortage of 0-60% units[1] A developer incentive program could help to round out a regional investment program to support the creation of housing at a range of affordability levels, and to leverage private investment to support our policy objectives.

Operations. Metro's Transit Oriented Development program staff have the expertise to administer an incentive program, and some local agencies have staff capacity to administer a program, but might benefit from technical assistance. Such a program would pose a higher administrative burden to monitor income compliance for a large number of units, so would likely require a fee-for-service partnership with housing authorities or another third party to perform income verification and monitoring.

Additional research needs:

- Regional sub-market analysis to understand sensitivity to various incentives

[1] 2010-2014 Comprehensive Housing Affordability Strategy database (CHAS), U.S. Department of Housing and Urban Development (HUD) and U.S. Census American Community Survey (ACS).

Strategy	Program Component	Hypothetical maximum target affordability** and locations	Hypothetical rental units produced per $1M invested	Existing finance tools that could be leveraged	Strengths	Limitations
Anti-Displacement and Community Stabilization (Land/Building Acquisition)	**Land Acquisition** Metro could acquire land for affordable housing development in high-opportunity locations that are well served by transit and make it available to affordable housing developers and land trusts through a competitive process. This strategy could include a gap financing component to make higher density construction types pencil out.	60% AMI Medium cost areas where affordable housing developers are outbid by market rate developers	Land for 29 units ($35,000 per unit) Land and construction of 17 units) ($60,000 per unit) (1)	• 4% and 9% Low Income Housing Tax Credits (LIHTC) • Oregon Affordable Housing Tax Credits (OAHTC) • Metro TOD funds	• Ability to deliver affordable housing in areas with good transit and other opportunities • Flexibility to respond to variations in market dynamics • Leverages readily available 4% LIHTC to cover approximately 30% of construction costs • Ability to use competitive RFQ process to get best projects from non-profit and for-profit developers • Metro experience with this model (TOD Program Furniture Store acquisition) • Strong role for regional coordination	• Requires sufficient regional gap financing capacity to ensure that land is able to be developed after it is acquired • Construction types beyond wood frame construction would require additional subsidy • Requires staff and broker capacity to identify sites and negotiate with property owners • Lack of a substantial amount of transit served vacant properties. • RFQ process leads to long timelines from acquisition to delivery of new affordable units
	Acquisition/preservation of naturally occurring affordable housing Grant funding to housing authorities, non-profit developers, and land trusts to acquire and preserve naturally occurring affordable housing in locations with high vulnerability for economic displacement. An alternative approach would be to create a structured, multi-partner fund to provide low-cost loans. While this approach could help catalyze broader collaboration, it is not recommended due to existing partner efforts and the time that would be required to create a fund that met all public and private investors' needs in terms of tolerance for risk and expectations for return.	60% AMI Low (and medium) cost areas expected to experience rising rents and medium cost areas (larger subsidy required) 80% AMI Low cost areas experiencing rising rents and medium cost areas	40 units ($25,000 per unit) (2) 100+ units (3)	• 4% Low Income Housing Tax Credits (LIHTC) • Network of Oregon Affordable Housing (NOAH) Acquisition Loan program	• Ability to target areas and populations at risk of displacement • Ability to coordinate with transit planning • Leverages readily available 4% LIHTC to cover approximately 30% of acquisition and rehab costs • Potential to support rehabilitation and permanent affordability in poorly managed or deteriorated properties • Relatively simple to administer and scale up • Strong role for regional coordination	• Much larger/prohibitive subsidy required where market rents are substantially higher than restricted rents • Affordability below 60% AMI requires additional subsidy or sources • Traditional funding is biased toward new construction; lack of focus on preservation (particularly of NOAH) • Acquisition and rehabilitation of occupied buildings requires skilled and experienced partners.
Flexible gap financing, homelessness prevention and deep affordability	**Gap Financing for deeply affordable housing** Gap financing to affordable housing developers to close the financial gap for existing affordable housing projects at 60% AMI, or to buy deeper affordability to reduce rent in planned or existing LIHTC projects from 60% AMI to 30% AMI.	30% AMI Existing or planned affordable projects throughout region 60% AMI Medium cost areas where affordable housing developers are outbid by market rate developers	13 units ($75,000 per unit) (4) 17 units ($60,000 per unit) (1)	• 4% and 9% Low Income Housing Tax Credits (LIHTC) • Oregon Affordable Housing Tax Credits (OAHTC) • Rental assistance	• Serves most vulnerable population • Potential to coordinate with social services and rental assistance to provide permanent supportive housing	• Does not create additional units • Lowest income tenants would still need rental assistance vouchers or income source to afford 30% AMI rents • Limited role for regional coordination
Mixed Income Communities and Shallow Subsidy	**Financial incentives for mixed-income housing** Financial incentives for private developers to include affordable units in otherwise market rate projects located in high-opportunity areas that are well served by transit.	80% AMI Greatest impact in higher cost areas with inclusionary zoning (IZ)	29 units ($35,000 per unit) (5)	• Private investment • Metro TOD funds	• Supports mixed-income buildings. Mixed income communities have been shown to lead to better economic and health outcomes for low-income households • Leverages private investment • Potential to support mandatory inclusionary zoning (IZ) program • Spreads affordability throughout the region	• Absent mandatory IZ policy, must pay developer full cost of difference between market and affordable rent, leading to high cost per unit in expensive markets. • Requires market analysis to ensure that incentives are properly calibrated for varied local market conditions • High administrative burden due to the need to monitor compliance across a larger number of units

*Deeper affordability or higher cost areas would require more subsidy per unit.
**Target affordability levels reflect maximums for hypothetical unit production estimates. It is anticipated that a program would actually target income ranges (e.g., 0-30% AMI, 30-60% AMI, 60-80% AMI).

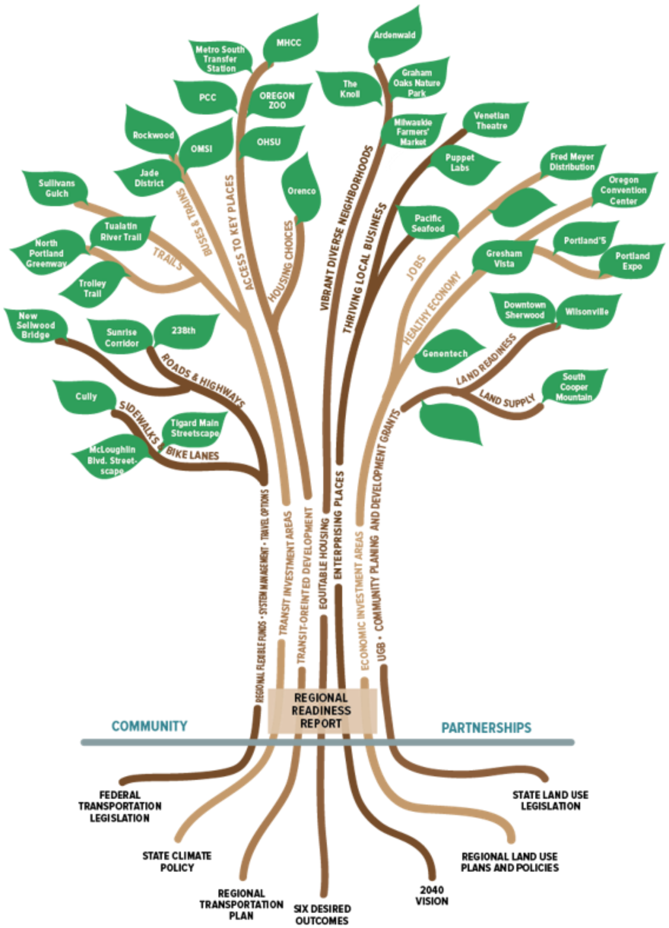
(1) Based on estimated land cost of approximately $35,000 per unit (and full gap subsidy for development of $60,000 per unit affordable at 60% AMI), assuming: new construction of wood-frame low rise flats (Prototype 2), medium cost scenario, 4% tax credit leverage (no basis boost).
(2) Based on estimated gap subsidy of approximately $25,000 per unit for acquisition of existing multifamily units affordable at 60% AMI assuming: 50% each 1 BR and 2 BR units, medium cost scenario, 4% tax credit leverage.
(3) Based on estimated gap subsidy of approximately $7,000-$10,000 per unit for acquisition of existing multifamily housing affordable at 80% AMI assuming: low to medium cost areas, no leverage.
(4) Based on estimated gap to bring a 60% AMI unit to 30% AMI, assuming: new construction of wood-frame low rise flats (Prototype 2), medium cost scenario, 4% tax credit leverage.
(5) Based on estimated gap to bring a market rate rental unit to 80% AMI assuming: 50% each 1 BR and 2 BR units, medium cost scenario, no leverage.
(6) Net present value at 6% discount rate of 60 year of rental assistance to bridge the gap from market rents to 30% AMI rents in middle cost areas assuming: 50% each 1 BR and 2 BR/2BA units. Average subsidy cost is $363,700 per unit.

Materials following this page were distributed at the meeting.

Regional Equitable Housing Investment Opportunities

Council Work Session September 7, 2017

Responding and Anticipating Growth and Change



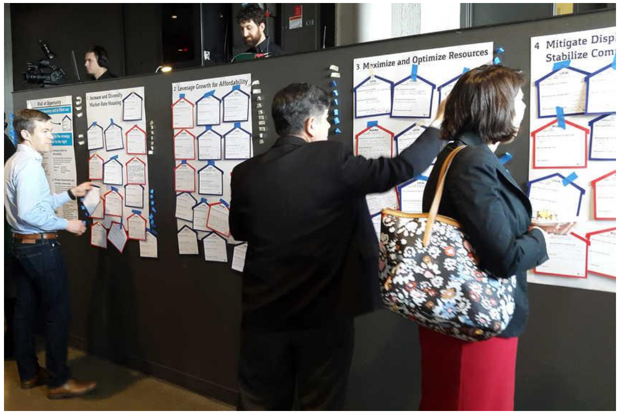
Regional Livability Trust

Equitable Development Portfolio

Land and Infrastructure	Funding and Financing	Policies and Regulations	Community and Cultural Capital
• UGB • TOD • HCT	• RFFA • CPDG • HOUSING	• UGMFP • RTP • CSC	• Engagement • Placemaking

2040 GROWTH CONCEPT

Equitable Housing Initiative



2017 Build Small LIVE LARGE

- Equitable Housing collaborative framework report and summit
- Lunchtime learning/speaker events
- Equitable Housing Grants
- Build Small Coalition and Build Small Live Large Summit
- Regional Funding & Investment Opportunities Analysis

Related Planning Efforts

Transit Oriented Development

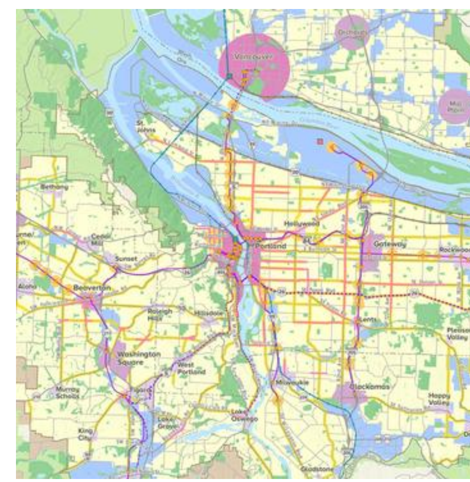
Southwest Corridor Equitable Development Strategy (SWEDS)

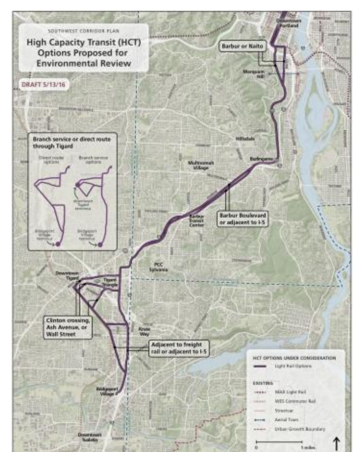
Urban Growth Management

2040 Grants

Regional Snapshot Program

Equity Strategy





Equitable Housing Collaborative Framework

Mitigate displacement and stabilize communities

Maximize and optimize resources for affordable housing

Leverage growth for affordability

Increase and diversify housing supply

Funding and Investment Work Complete

Economic feasibility analysis

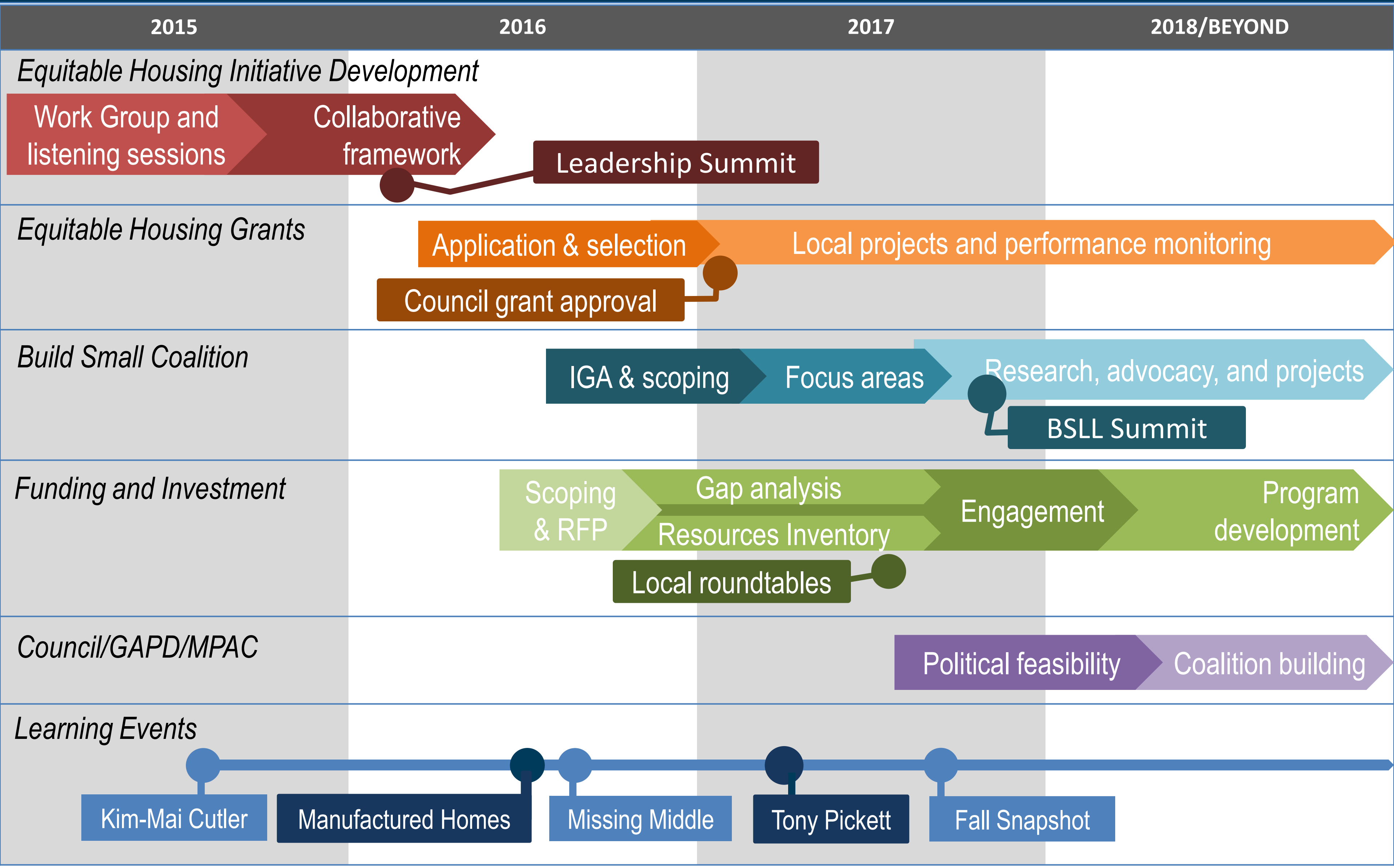
Inventory of existing resources/tools

Affordable housing needs analysis

Identification of revenue options

Conversations with local staff

Activities and Milestones



Affordable Housing Need and Supply

0-30% of Area Median Income

<$15,690

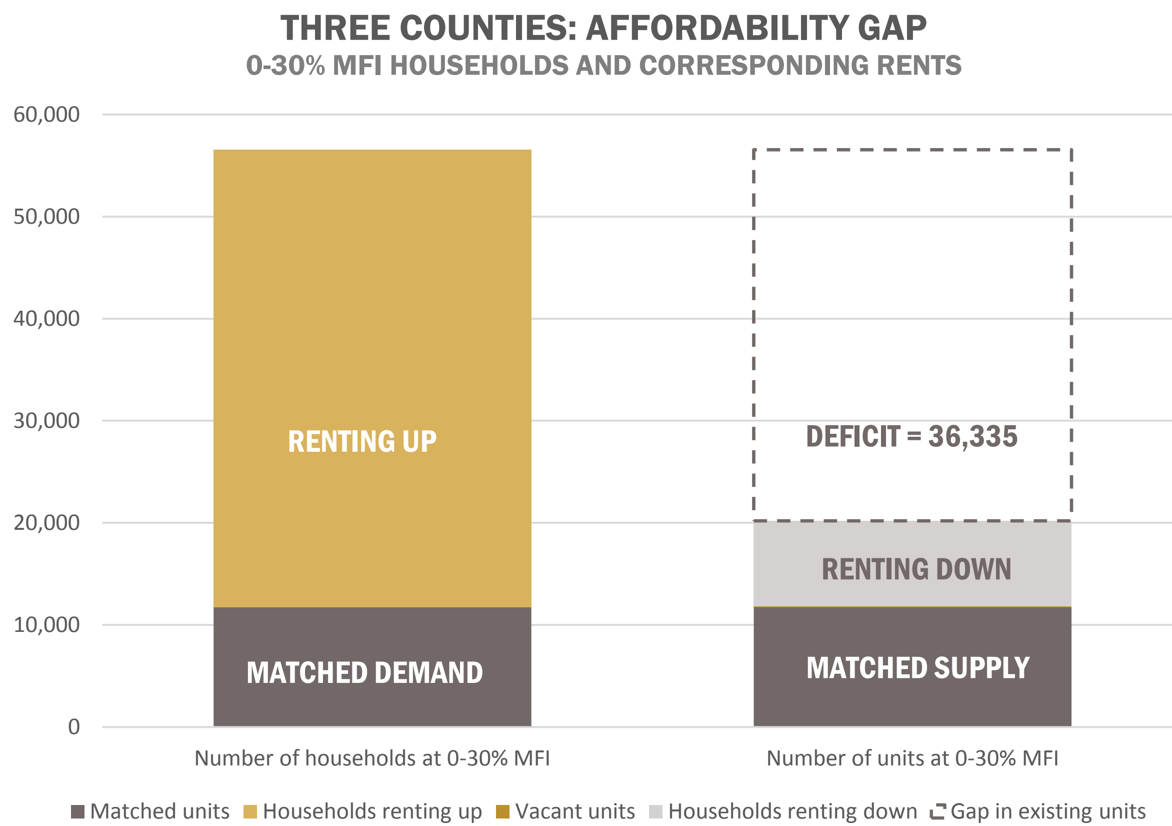
<$17,940

<$20,190

<$22,410

Social Security (individual): $8,820

Full-time Minimum Wage: $23,400



CHAS, 2010-2014

Affordable Housing Need and Supply

30-50% of Area Median Income

<$26150

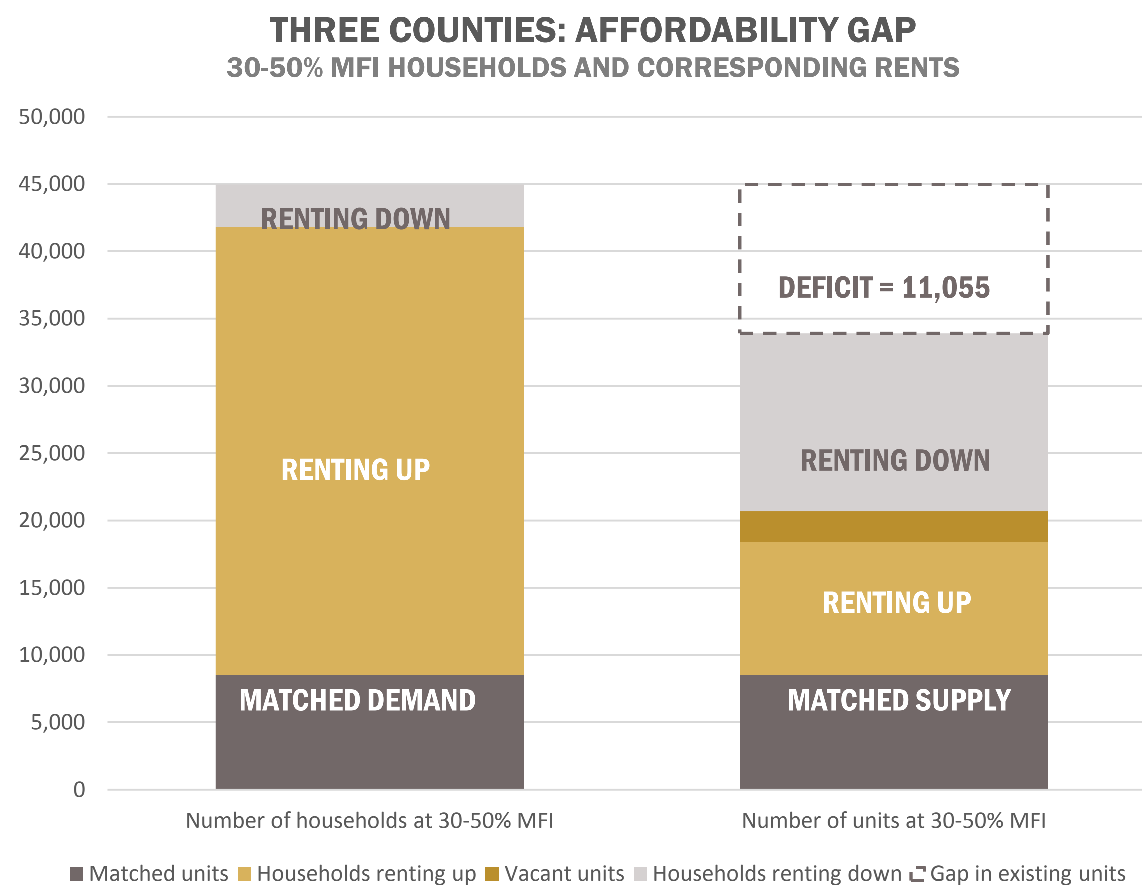
<$29,900

<$33,650

<$37,350

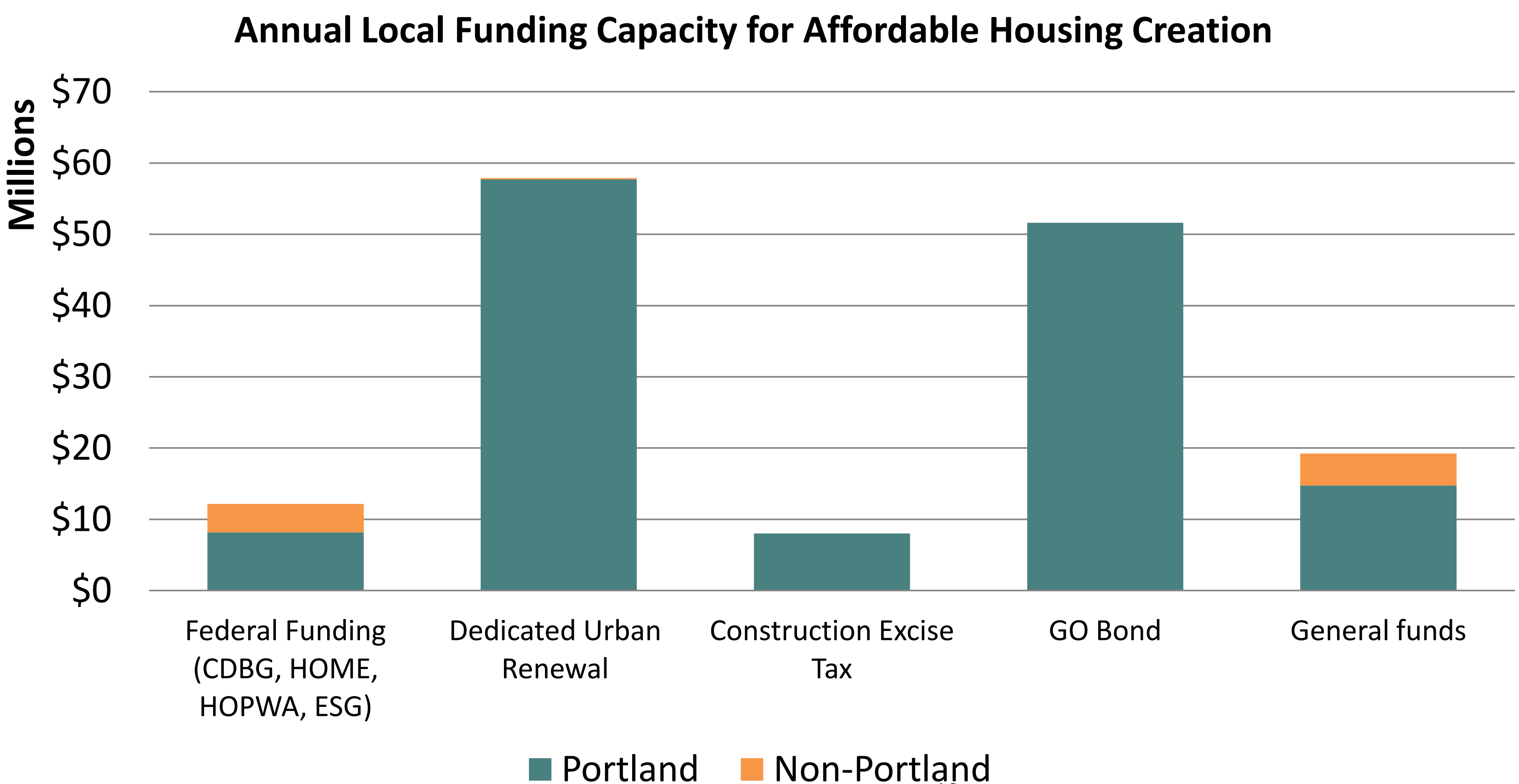
Customer Service Rep: $34,626

Preschool Teacher: $27,440



CHAS, 2010-2014

Existing Local Resources

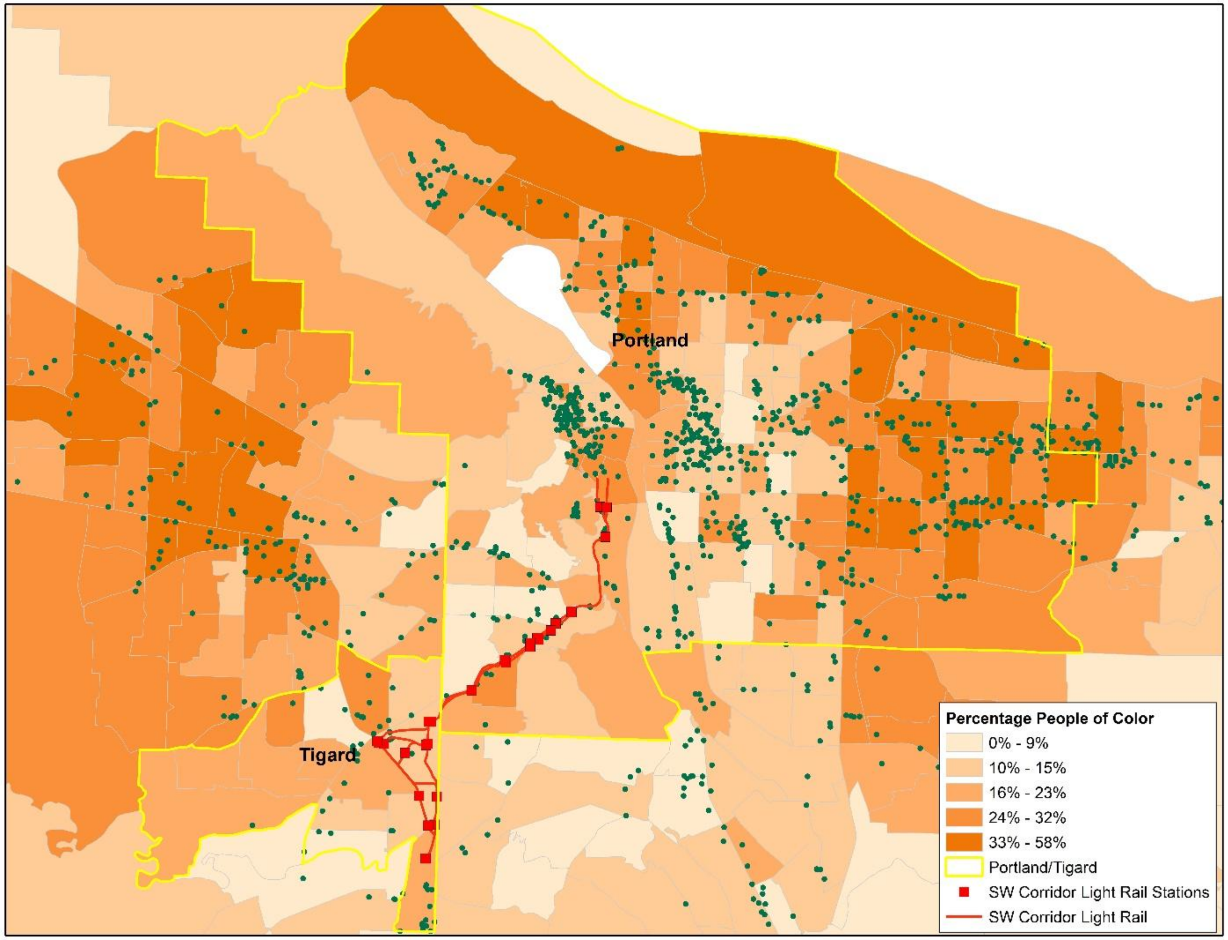


Racial Equity and Displacement Risk

60% of MF units sold are in racially diverse tracts.

Of these, 27% were 1-2 star and 43% were 3 star.

Source: Costar 2011-2015, PSU



Why a regional approach

Regional scale impact; flexible options that can be tailored for local needs

Geographically target investments to balance cost efficiency and outcomes for vulnerable communities

Coordination with transportation, parks, and economic development

Opportunity to leverage state, federal, and private investment

Burden of revenue generation distributed across the region

Operational efficiencies of scale

Menu of Program Options

Strategy #1: Anti-displacement and community stabilization

Elements	Advantages	Limitations
Land acquisition (w/gap financing)	• Supports affordable TOD • Leverages tax credits • Competitive RFQ process • Role for regional coordination; builds on TOD model	• Requires additional gap financing • Lack of appropriate vacant properties for sale • Time intensive
Grants for acquisition & rehab of existing housing	• Targets areas/buildings with displacement risk •Leverages tax credits •Rehab deteriorated properties • Role for regional coordination	• Larger subsidy required in areas with high market rents • Affordability below 60% AMI requires additional subsidy

Furniture Store (SE 82nd & Division, Portland)

Hidden Villa Apartments (Beaverton)

Strategy #2: Flexible gap financing

Program Elements	Advantages	Limitations
Gap financing for affordable and deeply affordable housing	• Targets areas/buildings with displacement risk • Leverages tax credits • Can support rehab of deteriorated properties • Regional coordination w/housing authorities	• Larger subsidy required in areas with high market rents • Affordability below 60% requires additional subsidy

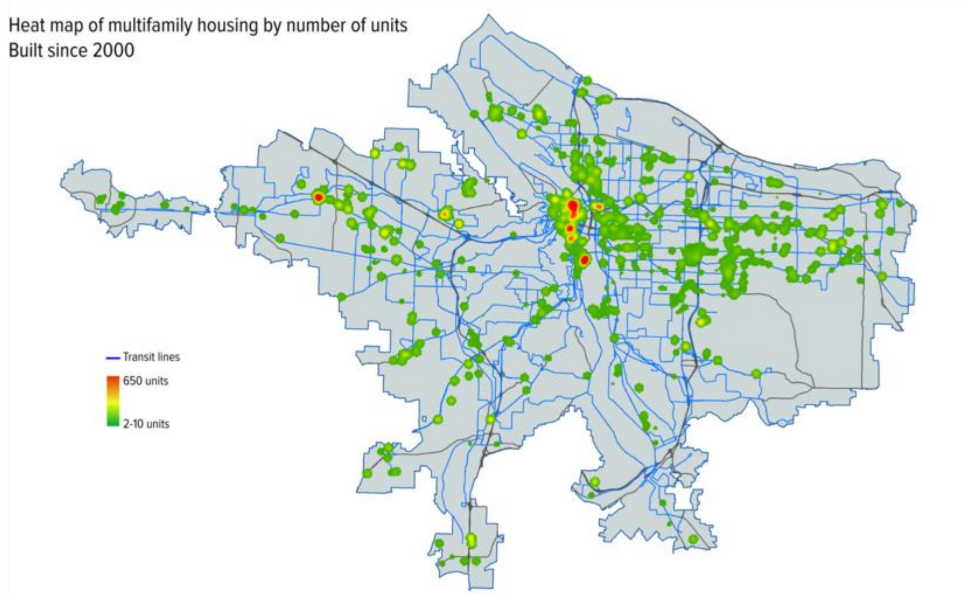
The Barcelona (Beaverton)

The Charleston Apartments (Wilsonville)

Cornelius Place (Cornelius)

Strategy #3: Mixed Income Communities and Shallow Subsidy

Woodie Guthry Apartments (Lents)



Elements	Advantages	Limitations
Financial Incentives for mixed income housing	• Supports mixed income buildings • Leverages private investment • Potential to support mandatory IZ program • Produces more units w/shallow subsidy	• Larger incentive required in areas with high market rents • Incentives must be calibrated to local market • Higher admin. burden for compliance monitoring

Policy Considerations

Who is served? (target income levels)

Where is housing built? (high, medium, low cost areas)

What type of housing? (new construction vs. rehab/preservation)

What revenue tools are compatible?

Funding Options

Construction Excise Tax

- $10.8 million/year in locations without existing CET
- 15% goes to state to support homeownership; 50% of residential portion for developer incentives
- Requires state legislative authorization and regional voter approval

General Obligation Bond

- Potentially $500 million or more
- Constitutional limits related to public ownership/operation; a constitutional amendment is being explored to provide more flexibility
- Requires regional voter approval; state voter approval would be needed for a constitutional amendment

What we heard from local staff:
General themes

- Regional coordination needed to develop resources on scale
- Concerns about fair allocation of resources; strong local participation in program development/administration
- Cities/counties exploring new tools: e.g., SDC waivers, property tax exemptions, CET, inclusionary zoning
- Need across all income levels; homelessness to workforce
- Small cities lack technical capacity; larger jurisdictions could do more if they had more resources.
- Interest in customizing tools to serve local needs

What we heard from local staff:
Specific program feedback

- Opportunities for regional coordination with social services
- Growing financial gaps for existing projects due to rising construction costs and uncertainty in tax credit equity market
- Opportunities for coordination of housing and transportation funding discussions/coalitions, esp. in SW Corridor
- Interest in preservation strategies that improve habitability of existing "naturally occurring" affordable housing
- Incentives for 60-80% AMI units in market housing could secure affordability as prices go up

What we heard from local staff:
Additional areas to explore

- Stabilization of mobile home park residents
- Increasing access to homeownership
- Solutions for homelessness

Proposed Next Steps

Program development

Political feasibility analysis

Racial equity analysis

Engagement

MPAC, local planning/development staff, housing authorities, developers, funders/lenders, CBOs, advocacy

Discussion

How would the Council like staff to move forward with the proposed analysis and engagement process to fully develop a regional investment program proposal?

What are the best ways to align staff and Council work on next steps?

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