

# Memo



**Metro**

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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

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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.<sup>1</sup>

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

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<sup>1</sup> 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.<sup>2</sup>

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:

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<sup>2</sup> 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.<sup>3</sup>
- *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.

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<sup>3</sup> 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                                                                                                                                                                                                                                                                                                                                                                   |
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|                                       | 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.