

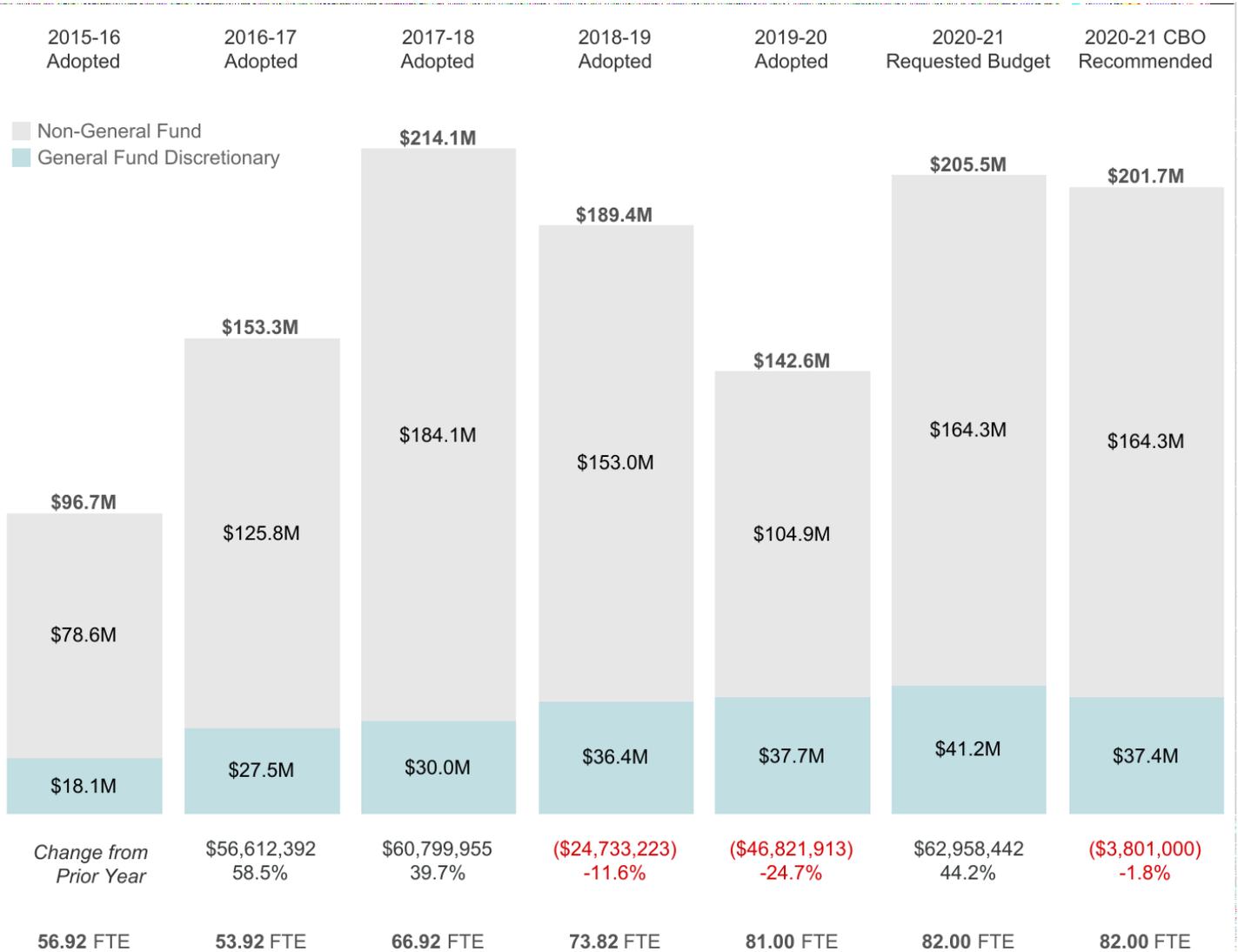


**City  
Budget  
Office**

# Portland Housing Bureau

*Analysis by Jane Marie Ford*

## Adopted Budget Revenues | 5-Year Lookback



*This chart includes resources for the Joint Office of Homeless Services, which have comprised the majority of the Portland Housing Bureau's General Fund revenue since the office was created in FY 2016-17.*

# INTRODUCTION

Last year, Council voted to extend the State of Housing Emergency through April 2021 for a total of five-and-a-half years since the City first declared the state of emergency. The financial commitment from Council, Portland Housing Bureau, and local and regional voters to reduce unmet housing need is reflected not only in the increase in size but number of funding streams that have supported the Portland Housing Bureau’s budget for affordable housing development, homeownership opportunities and retention, and rental services.<sup>1</sup>

In FY 2020-21, the bureau is requesting \$650,000 in one-time resources to pilot a coordinated community development approach to mitigating displacement, building off of current successful strategies related to renter support and homeowner retention services. CBO has recommended that Council consider supporting this decision package based on available resources, including potential current year underspending.

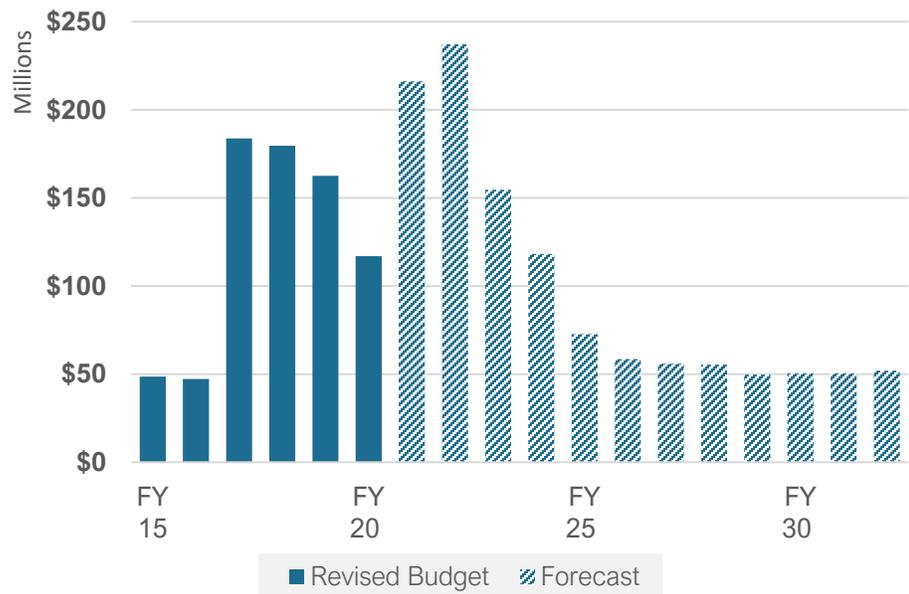
This package highlights two of the bureaus many workstreams, some of which have relied on serial one-time investments during the economic expansion and State of Housing Emergency and others that are connected to revenue streams that will expire over the next several years. As PHB begins to submit the second peak of historic funding levels in FY 2020-21, CBO notes the importance of PHB and Council identifying what the bureau will look like in five, ten, and fifteen years, as choices made now will impact what resources are available and what programs are prioritized.

## BASE BUDGET KEY ISSUES

### Historic Revenue Expansion

The Portland Housing Bureau (PHB) is currently in the midst of historic funding levels driven by increasing the bureau’s General Fund allocation<sup>2</sup>, the percentage of Urban Renewal dollars dedicated to affordable housing, two revenue streams related to short-term rentals, two different affordable

This chart illustrates the spike in investments following the State of Housing Emergency, with a second peak as new bond resources are disbursed over the next few years. The slope drops significantly as bond resources are spent and Urban Renewal dollars expire.



<sup>1</sup> Funding and programming supported through the Joint Office of Homeless Services are discussed in a separate review. Charts and figures in this document exclude those resources, which total \$38.9 million in the FY 2020-21 Requested Budget, unless otherwise noted.

<sup>2</sup> Although the significant majority of this increase has gone toward the Joint Office of Homeless Services, Council has also

housing bonds<sup>3</sup>, the Construction Excise Tax, Inclusionary Housing fee-in-lieu, and the Rental Registration fee.

The bureau has worked to weave these new funding streams into the existing revenue pool to mitigate funding restrictions, support operations, and ensure geographic equity in service levels across the City. PHB has provided an excellent overview of each fund and risks to revenues and expenditures over the five-year forecast in its FY 2020-21 [Requested Budget](#). After the projected peak in FY 2021-22, bond spending will ramp down, driving reductions in service levels and staffing. The bureau looks out further into the future to discuss the impact of the expiration of Tax Increment Financing and bond resources on PHB operations, which significantly diminishes revenue to support affordable housing production and homeownership programs.

After the sudden and dramatic expansion of services, now is the time to identify sustainable ongoing funding streams and strategic goals for the bureau beyond the immediate five-year forecast. Absent new investments, the bureau's more flexible funding sources – including General Fund resources, the Construction Excise Tax, and different Housing Investment Fund revenue streams – will need to be strategically deployed to meet operational, performance, and equity goals.

### **Short-Term Rental Revenue**

One of the bureau's most flexible funding streams comes from short-term rental (STR) revenue, which includes both a tax approved by Council in 2015<sup>4</sup> and a new surcharge adopted in 2018<sup>5</sup>. To date, this revenue has funded a variety of program areas, primarily housing development support and non-bond eligible costs. In the five-year forecast, the bureau plans to use these resources predominantly for additional non-bond eligible costs and to fund staff: by FY 2024-25, PHB currently expects to support approximately 28% of total bureau personnel costs with the City's portion of the transient lodging tax on short-term rental revenues (up from 4% in the current year).

The current forecast for both types of short-term rental revenues shares a similar outlook to the General Fund. It is possible that the dynamic regulatory environment of short-term rentals could impact future collections, as increased enforcement could reduce the number of units paying the tax and fee through STR platforms.

PHB is using conservative assumptions in for the tax and includes no revenue in the forecast for the \$4/night surcharge, which has yielded \$3.4 million over the past year-and-a-half. However, current trends suggest that revenue will likely exceed the bureau's projections at least in the near future, providing additional resources to fund costs that cannot be covered by more restricted funding sources.

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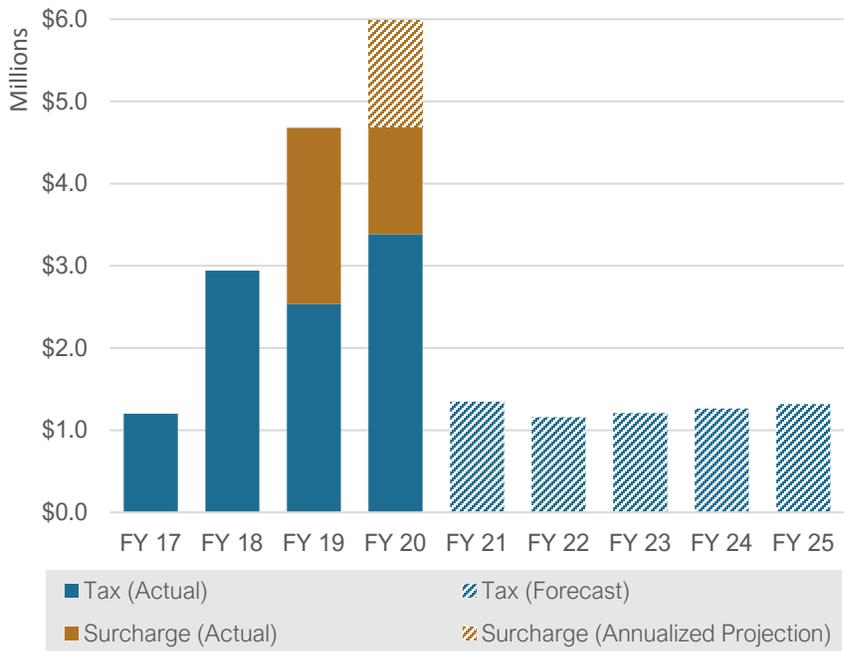
allocated significant resources for rental services, low-income home repair, and other programming retained in PHB's budget.

<sup>3</sup> The forecast chart does not include resources for the Metro Affordable Housing Bond as the intergovernmental agreement is still in negotiation. Although an estimated \$211 million will go toward supporting projects in Portland, these funds may be disbursed directly to project escrow accounts and therefore not reflected in PHB's budget.

<sup>4</sup> See Resolution 37170, December 16, 2015.

<sup>5</sup> See Ordinance 189031 as amended (<https://efiles.portlandoregon.gov/Record/12065998/>) and City Code Chapter 6.09 Nightly Fee on Short-Term Rentals (<https://www.portlandoregon.gov/citycode/77648>).

STR revenue has steadily increased over the last few years and consistently exceeded original projections. Assuming no immediate decline in resources, this will be an important flexible funding source for the bureau moving forward.



### Affordable Housing Bond Implementation

Implementation of both Portland and Metro affordable housing bond resources remains a major focus for PHB over the next five years. In September 2019, nine new projects were announced that put the City on track to meet the Portland Affordable Housing Bond goals, including exceeding total unit production goals by 10%.<sup>6</sup> This is especially impressive given the changes the bureau had to navigate when, two years into bond implementation, voters approved a constitutional amendment allowing PHB to shift course away from developing or acquiring housing as City-owned capital assets toward the bureau’s typical model of lending resources to third-party developers. This strategy has the benefit of allowing the City to leverage other resources, including federal tax credits, to increase the number of units that can be created with General Obligation bond resources. This same approach will be used for Metro Affordable Housing Bond resources.

### Funding Delivery Costs

The key challenge presented by this change is in how the bureau will fund bond administrative costs, which are capped at 7% for the Portland bond and 2.1% for the City’s portion of the Metro bond. Typically, General Obligation bond delivery costs are able to be capitalized and reimbursed through bond proceeds. In this situation, there are several unique factors that complicate recovery of both past and future administrative and program delivery costs.

All of the Portland bond spending in the first few years went toward acquisition rather than construction of new units. This matters from an accounting perspective, as there is a narrow window to be able to capitalize and chart costs associated with assets (15 to 90 days) compared to construction projects (which usually take several years). The bureau had intended to be able to capitalize more of the bond administrative costs with future construction projects.

<sup>6</sup> 2019 Progress Report: Portland’s Housing Bond. Available at <https://tinyurl.com/tvce8gw>.

However, PHB will now be allocating the remaining Portland bond funds to third-party developers and therefore not creating additional City-owned capital projects that could be charged for administrative costs. The bureau has partly solved this issue by working with Debt Management to create a new program delivery fee that will allow the bureau to recover direct and indirect (including administration) costs associated with development. As currently envisioned, the fee would be set at 7% and yield a total of \$13.4 million. Even including prior year spending, this is still well below the administrative cap, but may not be sufficient to fund all projected bureau costs associated with bond delivery, including General Fund overhead.

PHB’s five-year forecast currently does not include costs or revenue associated with the Metro Bond. Council has not yet approved the Local Implementation Strategy, and the intergovernmental agreement with Metro is still in negotiation. Given the significant cap on administrative expenditures, the bureau is working to limit the City’s program delivery costs.

To date, the bureau has subsidized bond administrative costs, program delivery expenses and leveraged bond funds with property acquisitions with a total of just under \$7.0 million from the City’s share of transient lodging tax on short-term rental revenues and another \$1.9 million from the main Housing Investment Fund. Other strategies could include reassessing the program delivery fee to ensure that the full cost of delivery is recovered.

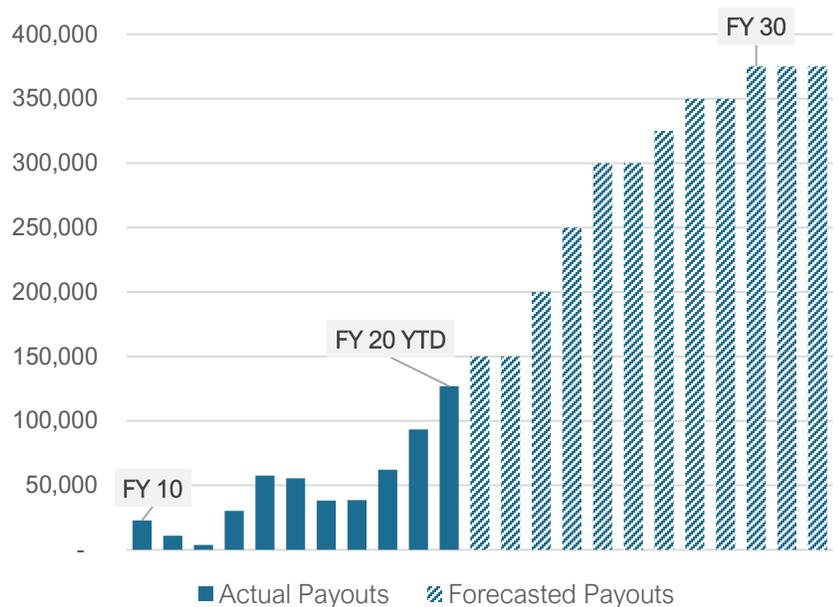
**Permanent Supportive Housing**

Both the Portland and Metro bonds have targets for the number of permanent supportive housing (PSH) units developed, a goal that is echoed in the joint City and County commitment to add a total of 2,000 PSH units to the local housing system over a ten-year period. These are the most deeply affordable units, requiring the highest rent and operating subsidies and additional service dollars in order to serve individuals and households with more complex needs.

Over the last two years, nearly 800 new supportive housing units have gone into operation or are in the development pipeline. Another 10 units are anticipated to be developed through Portland bond resources and 300 units with Metro bond resources. This leaves an additional 890 units to be identified to fulfill the 2,000-unit target.

As more units come online, the City’s Risk Mitigation Pool (RMP) is projecting a significant increase in claims paid out to help project owners support the cost of repairs and operational funding gaps that can occur with permanent supportive housing units. The pool was created by the City in 2005 with \$800,000; resources have been drawn down slowly over the past 15 years, but payouts have ticked up more recently as the number and size of supportive housing units subscribed to the pool increases.

Risk Mitigation Pool Claims have increased significantly over the past three years, drawing the balance down to an estimated ~\$230,000 by the end of FY 2019-20. Annual payouts are expected to grow dramatically as more PSH units come online.



The bureau is planning to replenish the pool with General Fund resources retained in PHB’s budget for supportive housing, estimated at \$322,400 in FY 2020-21 and a total of approximately \$3.2 million over the twelve-year forecast. Although relatively small in the context of the bureau’s total budget, this represents a tradeoff with other services without dedicated funding stream. Adequately funding this pool is part of the larger regional and statewide supportive housing conversation, and could potentially draw other public and private resources to help increase the number of units that can be supported.<sup>7</sup>

## DECISION PACKAGES

### Community Development Mitigating Displacement

*DP 9608, \$650,000*

#### Request Summary

The Mayor’s FY 2020-21 Budget Guidance included as one of seven priority issue areas a directive for the Bureau of Planning and Sustainability, the Portland Housing Bureau, the Portland Bureau of Transportation, and Prosper Portland to develop, implement, and manage equitable community development while mitigating displacement alongside infrastructure bureau partners. This effort was expected to include:

1. Collaboration alongside Portlanders to center community needs;
2. Improvement of East Portland to catalyze equitable and sustainable community development; and
3. Prioritization of residents who have displaced or who are at risk of displacement to achieve shared economic prosperity.

For FY 2020-21, the Housing Bureau, Bureau of Planning & Sustainability, and Prosper Portland put forward a collective one-time General Fund ask of \$1.14 million to support specific activities, which is actually anticipated to total \$3.42 million over three years. This is referred to below as the “pilot” to distinguish from broader City anti-displacement efforts.

PHB’s portion of this ask includes \$650,000 to scale housing anti-displacement and stabilization interventions, including homeowner support and renter services. This funding would primarily scale existing programming to enhance services in Outer Division and Rosewood.

#### Offset Summary

The Mayor’s Budget guidance directed bureaus to identify a 50% offset for any new General Fund requests. PHB has identified \$325,000 in existing funding for the to-be-developed East Portland Initiative as leverage; this does not offset the cost to implement this package, but the bureau may provide additional weight to grant proposals under the East Portland Initiative that enhance, support, or scale the pilot effort.

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<sup>7</sup> Portland is listed as a case study along three other jurisdictions for Engaging & Supporting Landlords through Risk Mitigation Funds. The section on Portland highlights efforts specific efforts to end veteran homelessness, which is part of the broader RMP. Other jurisdictions have included funding from local government contributions, fee revenue, philanthropic partners, and property management firms. See <https://tinyurl.com/tbrttwh> for the white paper from the United States Interagency Council on Homelessness.

## CBO Analysis

Portland joins cities across the nation in experiencing an influx of residents and investments following the recession. This economic prosperity has not been experienced equally by all community members, and rapidly rising rents and cost of living have pushed many residents out of their homes and some into homelessness. Many cities have adopted or are in the process of creating anti-displacement plans<sup>8</sup>, which generally center on strategies to increase overall housing supply and regulated affordable housing units; implement broader economic and employment development programs; create or strengthen renter protections and services; and provide education, technical assistance, home repair, and tax abatement and/or subsidies to low- and moderate-income homeowners. There is also a strong thread throughout these efforts to work in partnership with impacted communities, recognizing that historically underrepresented communities – including those who are low-income, renters, communities of color, people with disabilities, immigrants and refugees – have often been excluded from the planning process.

### ***Background: East Portland Funding & Anti-Displacement Efforts at the Portland Housing Bureau***

Although Portland is still developing its formal Anti-Displacement Plan, the City adopted a number of housing-specific strategies to combat displacement in the 2035 Comprehensive Plan.<sup>9</sup> PHB reflected some of these priorities in its FY 2016-17 Requested Budget to provide focused services to households in East Portland that were at risk of displacement due to neighborhood revitalization and increased cost of living rippling outside of the urban core. This included the following new ongoing General Fund investments:

- \$500,000 for home repair services to help low-income homeowners stay safely and stably housed;
- \$300,000 for homeowner retention services, such as legal aid, estate planning, and outreach and education; and
- \$1.5 million for a new Rental Rehabilitation program to provide conditional grants for owners of rental properties to address outstanding code violations in exchange for regulated affordability to help reduce potential rent increases in historically more affordable neighborhoods.

The home repair<sup>10</sup> and homeowner retention services were implemented as expected. The Rental Rehabilitation program never moved forward due to a variety of reasons. Of the original \$1.5 million allocated for this program, \$110,000 returned to the General Fund and the remaining revenue was redistributed to support rental services, home repair programming, and a new East Portland Initiative; the request for FY 2020-21 described below scales, adds new capacity, or leverages each of these programs.

### ***FY 2020-21 Request: Community Development Mitigating Displacement Pilot***

The goal of the pilot is to test an approach to coordinating and sequencing bureau interventions prior to major public capital investments that are likely to result in increased property values, taxes, rents, and other cost of living increases. PHB's request focuses on renter and homeowner interventions, including:

- \$300,000 for culturally specific high-risk building and anti-displacement case management

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<sup>8</sup> This includes: Austin, TX; Hudson, NY; Los Angeles County; Milwaukee, WI; Minneapolis, MN; Oakland, CA; Philadelphia, PA; Sacramento, CA; San Jose, CA; Seattle, WA; Vancouver, WA.

<sup>9</sup> Available at <https://tinyurl.com/t8nkw19>

<sup>10</sup> The Portland Housing Bureau created a map that shows all home repair grants and loans funded by the bureau from February 12, 2016 through February 12, 2020, available at <https://tinyurl.com/rvb4ouf>. There is a concentration of investments in Urban Renewal Areas, which have additional dollars available for home repair. However, the map highlights the Citywide need for services and importance of geographically flexible revenue sources.

services for renters in two to four buildings (serving 40 to 240 total renters), including organizing renters and providing educational and technical assistance, case management, legal assistance, rent or relocation assistance, and other services. This is modeled on two current rental services pilot programs that have shown success in utilizing community organizations to help provide wraparound services for renters. This funding would add to the \$1.9 million in PHB's base budget for rental services contracts in FY 2020-21.

- \$350,000 for homeowner interventions, including \$50,000 for community engagement (outreach and awareness strategies and workshops), \$75,000 for advocacy services, and \$225,000 for home repair resources. This funding would add to the \$6.6 million allocated in the bureau's base budget for FY 2020-21 for homeowner retention services, \$2.2 million of which can be used Citywide.
- PHB plans to integrate this work with the new East Portland Initiative, funded with approximately \$600,000 in ongoing General Fund resources realigned in the bureau's base budget in FY 2019-20. The bureau created a limited-term position and intends to allocate the remaining \$450,000 to \$500,000 for community grants for planning and feasibility studies, community development initiatives providing stabilization and anti-displacement services, and building organizational capacity to include historically underrepresented and underserved communities in planning and development.

CBO has reviewed the requests from BPS, Prosper, and PHB both independently and collectively to develop a recommendation. CBO recommends funding BPS' request for personnel to continue initial planning and coordination, which is critical to ensuring the overall success of the City's anti-displacement strategy. CBO also supports the concept of the proposed pilot, recognizing that it is an experimental coordinated approach that builds on successful strategies related to business support, rental services, and homeowner retention. It is not entirely clear how success of the pilot will be measured, acknowledging that it is incredibly difficult to track the movement of specific households and distinguish voluntary migration from involuntary displacement due to increased rent or loss of community. However, it is possible to assess the outcomes of specific programs, such as the percentage of homeowners retaining their housing one year after receiving home repair services (a measure already tracked by PHB for existing programming).

In addition to Council's option to allocate one-time General Fund to support this work, CBO notes the following considerations for PHB's portion of the ask:

- The Rental Services Office anticipates underspending in the current fiscal year, and will be working with service providers to identify carryover in the Spring Supplemental Budget. Given the level of dedicated ongoing funding projected to be available to the Rental Services Office through the new Rental Registration Fee, there will be less reliance on one-time resources to support services. As such, one-time carryover could be programmed to support one-time services through the pilot.
- As the East Portland Initiative has not yet started, the bureau will be requesting carryover of most of the FY 2019-20 allocation for this program (a total of \$600,000) in the Spring Supplemental Budget. These resources could be programmed to fund the first year of the pilot, as the goals of the pilot strongly align with the goals of the original funding allocation back in FY 2016-17. The tradeoff would be the size and number of the grants awarded under the East Portland Initiative.
- There may be some potential overlap in, if not the work itself, the organizations that would participate the East Portland Initiative and BPS' broader community engagement efforts related to the Anti-Displacement Action Plan. BPS' Requested Budget notes that the bureau will partner with

the Anti-Displacement PDX Coalition to help build capacity within East Portland and other historically under-served areas to meet the needs of those who “have experienced historical, serial, forced displacement, and those currently experiencing housing, commercial, or cultural instability.”<sup>11</sup> This is similar to CBO’s understanding of the intent behind the East Portland Initiative outreach.

While the request addresses a clearly defined and pressing need, the extent of the impact and effectiveness of the proposal is hard to quantify and may take years to determine. In addition to the uncertainty around impact, CBO is concerned about potential future costs that may be required to sustain and ensure this investment has the intended impact and/or meets community expectations once the work has begun.

However, CBO recognizes the time-sensitive nature of this type of proposal given our current stage in the development cycle, and notes that the proposal addresses one of the Mayor’s priorities for FY 2020-21 and is related to an adopted City policy. As a result, CBO is supportive of this proposal; given aforementioned concerns, CBO is not recommending a specific dollar amount to be allocated to this proposal. Rather, CBO recommends the Council determine the appropriate scale of new resources versus carryover or existing resources that should be allocated to this effort based upon Council priorities and available funding.

CBO also notes that allocating new resources may set both short- and long-term expectations from the community about maintaining increased service levels. As mentioned above, the bureaus intend to request one-time resources again in FY 2021-22 and FY 2022-23; it is not clear if the full \$3.4 million is required to test the pilot or if funding may be scaled based on available resources. If the pilot is successful, replicating the approach would require Council to either allocate additional ongoing resources or direct the bureau to prioritize this work within its existing budget, driving other service level tradeoffs.

CBO also recommends that the bureau, City Council, and other partner bureaus prioritize the creation of a detailed workplan in order to clearly articulate when project deliverables can be expected, and how those deliverables may create a demand for additional resource. CBO also strongly recommends that the bureau secure a financial commitment from bureau partners and/or Council before establishing community expectations that will require a new operational or financial commitment to fulfill.

## **Joint Communications PIO**

*DP 9609, \$131,000, extension of 1.0 FTE*

### **Request Summary**

PHB’s FY 2019-20 budget includes one-time funding for a new communications position to be co-located in the Joint Office of Homeless Services (JOHS). The position has not yet been filled, but is expected to work with staff from PHB, the JOHS, and City elected offices to develop and maintain online and social media content, convey marketing and media strategies, and implement community engagement programs. The bureau is requesting to extend the position through FY 2020-21.

### **Offset Summary**

Since the position has not yet been filled, the bureau will have at least eight months of vacancy savings that could be carried over into FY 2020-21 to offset the full-year cost.

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<sup>11</sup> Bureau of Planning & Sustainability FY 2020-21 Requested Budget, page 5. Available at <https://www.portlandoregon.gov/cbo/article/752708>.

## **CBO Analysis**

The Joint Office of Homeless Services is also requesting joint City and County resources to fund a new Community Engagement position, described in further detail in the JOHS review. The combined requests highlight an ongoing need identified by elected officials to engage with the broader community on the issue of homelessness. As the position has not yet been hired, it is not possible to provide further analysis on the success, challenges, or opportunities associated with this workload.

Combined with carryover dollars, this communications position could be extended through the end of FY 2020-21 for an additional approximately \$55,000<sup>12</sup>, which could be funded either through additional likely underspending or new one-time General Fund dollars. CBO recommends that Council also consider how to utilize existing staff capacity across the Portland Housing Bureau, Joint Office of Homeless Services, elected officials' offices, Office of Community and Civic Life, and relevant County offices to fulfill the goals of the requests.

**CBO Recommendation: \$0 ongoing | \$0 one-time | 0.00 FTE**

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<sup>12</sup> Vacancy savings will depend on actual compensation for the employee hired.

## SUMMARY OF REQUESTS AND RECOMMENDATIONS

Below is a summary of the Portland Housing Bureau's total budget, which includes decision packages requested on behalf of the Joint Office of Homeless Services. As noted above, CBO has not identified a specific dollar amount for the Community Development Mitigating Displacement Pilot; instead, CBO recommends the Council determine the appropriate scale of new resources versus carryover or existing resources that should be allocated to this effort based upon Council priorities and available funding.

### Portland Housing Bureau - All Funds

		2019-20 Adopted Budget	2020-21 Requested Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Budget (A+B+C)
Expense	Personnel	\$10,455,977	\$10,782,984	\$131,000	(\$131,000)	\$10,782,984
	External Materials and Services	\$117,245,171	\$175,198,046	\$10,816,765	(\$3,670,000)	\$182,344,811
	Internal Materials and Services	\$2,155,721	\$3,833,478	\$0	\$0	\$3,833,478
	Capital Outlay	\$6,855,000	\$0	\$0	\$0	\$0
	Debt Service	\$1,468,750	\$1,906,000	\$0	\$0	\$1,906,000
	Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
	Fund Transfers - Expense	\$4,034,198	\$2,450,312	\$0	\$0	\$2,450,312
	Contingency	\$340,315	\$394,989	\$0	\$0	\$394,989
	<b>Total</b>	<b>\$142,555,132</b>	<b>\$194,565,809</b>	<b>\$10,947,765</b>	<b>(\$3,801,000)</b>	<b>\$201,712,574</b>
	Revenue	Beginning Fund Balance	\$9,948,071	\$18,484,024	\$0	\$0
Bond & Note Proceeds		\$0	\$50,700,000	\$0	\$0	\$50,700,000
Charges for Services		\$6,583,987	\$12,357,361	\$0	\$0	\$12,357,361
Fund Transfers - Revenue		\$3,528,380	\$1,534,074	\$0	\$0	\$1,534,074
General Fund Discretionary		\$37,174,732	\$29,556,352	\$10,947,765	(\$3,801,000)	\$36,703,117
Interagency Revenue		\$130,808	\$12,309	\$0	\$0	\$12,309
Intergovernmental		\$73,072,416	\$66,378,815	\$0	\$0	\$66,378,815
Miscellaneous		\$6,416,738	\$8,414,874	\$0	\$0	\$8,414,874
Miscellaneous Fund Allocation		\$600,000	\$323,000	\$0	\$0	\$323,000
Taxes		\$5,100,000	\$6,805,000	\$0	\$0	\$6,805,000
<b>Total</b>		<b>\$142,555,132</b>	<b>\$194,565,809</b>	<b>\$10,947,765</b>	<b>(\$3,801,000)</b>	<b>\$201,712,574</b>