

Portland Housing Bureau Cost of Service Study February 2016

Introduction

In compliance with the City of Portland's Comprehensive Financial Management Policy 2.06, the Portland Housing Bureau (PHB) is including in its Requested Budget submission a cost of service study for those programs and functions in the bureau whose operations are or could feasibly be supported by fees. These are the indirect, Servicepoint and loan servicing programs.

Indirect Programs

About the Program

PHB's Indirect Program provides financial assistance in the form of tax and development fee exemptions and credits (i.e., indirectly) in order to promote development of and access to affordable homeownership and rental housing. The bureau defines affordability in relation to Median Family Income (MFI). In addition to revenues foregone by Multnomah County and the City of Portland (property taxes and system development charges, respectively) the Portland Housing Bureau incurs expenses in the course of administering these programs, primarily in the form of program staff salaries & benefits and indirect costs. The bureau charges fees to the customers accessing and benefitting from these programs in order to offset the costs of service delivery.

Program Details

1. Limited Tax Exemptions

PHB administers Limited Tax Exemption (LTE) programs that encourage the construction and preservation of affordable housing. There are three such programs:

- **Homebuyer Opportunity Limited Tax Exemption (HOLTE)** – A 10-year property tax exemption for residential structural improvements (up to 100% MFI for a family of four)
- **Multiple-Unit Limited Tax Exemption (MULTE)** – A 10-year property tax exemption for multi-unit structural improvements (minimum 20% of units at 60% MFI or below)
- **Non-Profit Low Income Housing Limited Tax Exemption (NPLTE)** – Full property tax exemptions for nonprofit organizations that own low-income rental properties (only for units at 60% or below)

2. System Development Charge Exemptions

PHB administers System Development Charge (SDC) programs that assist developers by exempting them from residential SDC's charged by Water, Parks, Transportation and Environmental Services. There are two such programs:

- **Homeownership SDC Exemption Program** – Exemptions available only for home purchased by homebuyers at 100% MFI for a family of four
- **Rental SDC Exemption Program** – Exemptions available only for units rented to tenants at 60% MFI or below

3. Mortgage Credit Certificate Program

PHB offers low and moderate income households (up to 115% of 100% MFI for a family of four depending on household size) in Portland the opportunity to get an ongoing federal tax credit through a Mortgage Credit Certificate (MCC) -- an IRS-approved tax credit that reduces federal income taxes owed as long as the homebuyers keep their loan and continuously occupy the home as their principal residence.

Fees and Fee Structure

PHB's fee structure is currently calibrated to generally recover the direct staff costs of the programs from fees while subsidizing the indirect costs incurred by the bureau. For FY 2016-17, PHB anticipates no major changes to this fee structure. The only changes anticipated over the current year are to:

1. Implement a penalty for builders that violate SDC or HOLTE program terms by selling over the sales price cap or to an over-income homebuyer
2. Increase the SDC homeownership program application fee from \$650 to \$850.
3. Consider collecting fees from program participants when it is necessary to file a document with the Multnomah County Recorder's Office. The analysis of these costs is covered under the *Loan Servicing* analysis later in this document.

Cost of Service Analysis

Each of these programs provides a significant financial benefit to the consumer (i.e., developer, homebuyer, lender or property manager) as described above, but also provides a public benefit to the City of Portland in the form of affordable housing development. Given the mutual benefits, PHB's fee structure is designed such that both the private beneficiaries and PHB share the costs of the programs. The budgeted costs, projected revenues and overall cost recovery for these programs are displayed in figures 1 and 2 below.

Figure 1: FY 2016-17 Indirect Program Projected Costs and Revenues

	Costs			Fees		
	Program	Indirect	Total	Gross	Pass-Thru	Net
HOLTE	113,653	92,911	206,564	182,500	(90,100)	92,400
MCC	70,316	57,484	127,800	104,000	(666)	103,334
MULTE	38,778	31,701	70,479	85,000	(45,000)	40,000
NP LTE	11,694	9,560	21,254	21,000	-	21,000
SDC Homeownership	109,674	89,659	199,333	143,500	(12,480)	131,020
SDC Rental	19,890	16,260	36,150	11,000	(390)	10,610
Total	364,005	297,574	661,580	547,000	(148,636)	398,364

Figure 2: FY 2016-17 Indirect Program Projected Cost Recovery

	Cost Recovery Ratio		Subsidy / (Surplus)	
	Program	Overall	Program	Total
HOLTE	81%	45%	21,253	114,164
MCC	147%	81%	(33,018)	24,466
MULTE	103%	57%	(1,222)	30,479
NP LTE	180%	99%	(9,306)	254
SDC Homeownership	119%	66%	(21,346)	68,313
SDC Rental	53%	29%	9,280	25,540
Total	109%	60%	(34,359)	263,216

Next Steps

Looking forward, PHB will explore addressing the HOLTE program cost recovery deficit. This will require conversations when appropriate with Multnomah County about the potential to revise the existing cap on the number of property tax exemptions that can be granted under this program.

Servicepoint Program

About the Program

PHB manages a homeless management information system (HMIS) as part of the HUD McKinney grant the bureau receives. The bureau refers to this system as *Servicepoint*. This reporting system is utilized by government and non-profit agencies state-wide to record data associated with persons experiencing homelessness. PHB charges user fees to those user agencies and those fees, in combination with Federal grant funds, pay for license fees and bureau staff time involved with system management, data, training, user support and technical assistance. Funds are also reserved for software updates and hardware replacement.

Cost of Service Analysis

Cost recovery is scaled to the total number of users in the system as well as the needs of the individual agency and the grant funding PHB receives. Given that grant funding, the fees are not set for full cost recovery. Figure 3 below shows the program’s estimated cost of providing service.

Figure 3: FY 2016-17 Servicepoint Projected Cost of Service

	Share of HMIS Prog Staff	Estimated Servicepoint License Fee ¹	Estimated Servicepoint Software Fee ¹	Total Program Costs	Share of Indirect Cost ²	Total Program + Indirect
PHB Data Reporting	22,418	-	2,926	25,344		25,344
OR501 - COC / HFE	88,291	29,631	14,630	132,553		132,553
Multnomah County	23,526	-	4,180	27,706		27,706
HMIS Grant Subtotal	134,235	29,631	21,736	185,603	-	185,603
PHB Single-family programs	12,871	2,597	3,344	18,812		18,812
HOPS Subtotal	12,871	2,597	3,344	18,812	-	18,812
Lane County	4,732	15,118	418	20,268	2,685	22,953
Central Oregon	9,410	2,365	1,672	13,448	5,652	19,099
Jackson County/ACCESS	18,712	4,200	5,016	27,928	11,866	39,795
ROCC/OHCS	22,336	17,038	4,180	43,554	13,493	57,047
Washington County	27,042	-	5,016	32,058	16,319	48,376
Clackamas County	5,922	-	418	6,340	3,321	9,661
BMAC	-	791	-	791	-	791
Other Subtotal	88,155	39,512	16,720	144,387	53,336	197,723
Grand Total	235,262	71,740	84,580	348,803	53,336	402,138

Next Steps

Projected costs of service will inform the negotiation and fee-setting process for FY 2016/17 intergovernmental agreements.

Loan Servicing Activities

About the Program

PHB has a portfolio of approximately 1800 loans between its multi- and single-family affordable housing programs. These loans create a legally-binding agreement between the City and the borrower that serves to ensure that policy objectives for affordable housing are met and that the recipient of the loan continues to meet all regulatory requirements. Thus, for the life of the loan, it is necessary that the City manage and monitor this portfolio conscientiously.

Routine loan servicing functions (e.g., processing payments, producing required tax reporting are performed by staff) are funded by the sources that originally financed the loans (e.g., Tax Increment Financing, Federal sources, Housing Investment Fund). This cost of service study reviews functions that are not related to routine management of the loan during its life cycle, but rather are performed upon request by the borrower. Note that loan servicing in the context that PHB performs it differs from commercial loan servicing in that the vast majority are deferred payment in nature.

Specific Loan Servicing Functions

The following loan servicing activities are analyzed in this study. A brief description of each can be found below.

- **Reconveyance:** Releases a lien from the property by lender; recorded by Multnomah County.
- **Loan Modification:** Restructures loan terms with the preparation of new documents.
- **Subordination:** Allows new debt to be placed in front of existing lien.
- **Assignment / Transfer:** Transfers existing loan made to borrower who may no longer be living to another party.
- **Loan Conversion:** Changes or transitions from one set of loan terms to new terms.
- **Loan Payoff:** Reduces an outstanding loan balance to zero.
- **Audit Confirmation:** Reports a borrower’s loan activity, balance and terms.

Cost of Service Analysis

Figure 4 below summarizes the cost of performing each specific activity, the fee (if any) PHB currently charges and the costs and fee revenues projected over the next fiscal year.

Figure 4: FY 2016-17 Loan Servicing Projected Cost of Service

	Cost of Service		Fees		Annualized Projection		
	Direct Staff Only	Direct Staff + Indirect	Current	Monthly Volume	Cost	Fee	(Subsidy) / Surplus
Reconveyances	\$39	\$71	\$21	10	\$8,511	\$2,520	(\$5,991)
Loan Modifications	\$179	\$326	\$21	1	\$3,908	\$252	(\$3,656)
Subordination	\$84	\$152	\$250	6	\$10,932	\$18,000	\$7,068
Assignment / Transfer	\$91	\$165	\$21	3	\$5,948	\$756	(\$5,192)
Loan Conversions	\$80	\$145	\$21	4	\$6,967	\$1,008	(\$5,959)
Loan Payoffs	\$15	\$28	\$21	20	\$6,740	\$5,040	(\$1,700)
Audit Confirmations	\$8	\$15	\$0	4	\$747	\$0	(\$747)
Totals					\$43,754	\$27,576	(\$16,178)

Next Steps

PHB management will review this cost of service analysis and determine whether to update the loan servicing fee structure, and what the appropriate timing for such changes are