PORTLAND HOUSING BUREAU

Portland Housing Advisory Commission
Tuesday, December 5, 2017
3:00 p.m. – 5:00pm
Portland Housing Bureau, Ste. 500
421 SW 6th Ave.
Portland, OR 97204

✓= PHAC public member action item
▶ = PHB staff member action item

December Meeting Minutes - Draft

Members Present: Sara Zahn, Diane Linn, Ramsey, Ed McNamara, Hannah Holloway, Cameron Harrington, Maxine Fitzpatrick, Betty Dominguez, Amy Anderson
Members Excused: Elisa Harrigan, Shannon Singleton, Dan Steffey

Staff Present: Matthew Tschabold, Shannon Callahan, Jessi Conner

Guests Present:

As always, find all PHAC meeting materials archived at PHAC's website at http://www.portlandoregon.gov/phb/phac and click "Meeting Schedule & Materials" in the gray block on the left side of the page.

Agenda Item	Discussion Highlights	Outcomes / Next Steps
Meeting Transcript	Sarah Zahn: Good afternoon everyone. Sorry to get started a little late. So, let's see. We have, I guess, a quorum so we should go ahead and take a look at the minutes from the last meeting, please. Matt: Oh, sorry –. Sarah Zahn: There are no minutes –? Matt: – we don't have minutes yet. Sarah Zahn: Okay, never mind. Matt: We're still having to contract, yeah but it's –. Female Speaker: Right, because we –.	

Matt: Lost **Ryam** [Phonetic] [0:00:30].

Sarah Zahn: We lost Ryam. So, we will get those meeting minutes next month. Do we have anyone sign up for public testimony today? I have not seen anyone, anyone, any cards? Nope. Okay. Well, we will swing right into Director's update.

Kurt Creager: Thank you Sarah Zahn and members of the commission. These last few weeks have been extremely exciting [0:01:00] because we've been trying to essentially close every finance we possibly can before the year end with – uphold the house and the Senate tax bills in play, there'll be various damage to the affordable housing market.

The House is absolutely devastating, the Senate is less devastating. They're still very serious. So, as you may know from the press, Block 45, with Home Forward was advanced last week. Tomorrow we'll replace parts of three, which is 340 total units, first phase 202 units, 90 of which would be zero to 30, extremely low income housing units are all moving forward. And they have to move forward because if they don't close this month, they won't close for several years.

I think it's – it would be not – it would not be [0:02:00] overstating the case to say that depending on what passes the conference committee, it was finally enacted that there won't be a period of rule making by the treasury. And in 1986 the Tax Act took the IRS a whole year to write the rules for the [Indiscernible] [0:02:17] program.

I don't think – they don't – they're not creating new programs in this instance. They're actually just [Indiscernible] [0:02:24] existing ones. So it won't be quite as long, but there will be a period of at least six months where the market ceases up and the corporate investors recalibrate their appetite for investment.

And there'll be some unintended consequences. Although my biggest fear is in these complicated transactions, it is not what people do intentionally. It is what they do unintentionally without consideration of the secondary and tertiary effects. So, we're trying to avoid that difficulty, but we also recognize [0:03:00] the projects that are not yet right for approval are going to be in a period of some reconfiguration next year.

Some are – don't have permit approval yet, so that is a lesser concern. They have, in some cases, six or nine months to work their issues out. Meantime, perhaps fortunately for the House, the general obligation bond revenue and it is not reliant on a leveraged model using cash credit. So we will shift all of our manpower and all of our resources into that.

There won't be – meaningful entrepreneurial work to be done and I'm confident that we can continue to work that issue. As you can see, there is a robust conversation about the inclusionary housing pipeline or whether or not there is something we can do to also incentivize some of those projects to convert to affordable.

So, we have plenty to do in the New Year. And if I wasn't an [0:04:00] optimist, I wouldn't have stayed in this business as long as I have, which is I think a testament for the resilience and if everybody is committed to affordable housing – it is hard work. It is not going to get any easier, but I think we're up to the challenge.

And I do have that memorandum that I presented to you. Do you want me to touch on that now or do you want to wait until the end?

Matt: Yes, that –.

Kurt Creager: That would be good. Okay well, that is my sort of stream of consciousness description of the situation. And maybe it would help you to know where I'm coming from. You know, I started doing this work in the '70s and I have actually worked on some projects that were deemed affordable when they were developed and they had long-term use restrictions and like guess what, my life has exceeded the regulatory agreements, and I've started to see [0:05:00] projects that I worked on mark-to-market.

Projects in Seattle, projects in Belview, projects throughout [Indiscernible] [0:05:09] counties, that would have 20 or 30 years worth of affordability and they're now mark-to-market. And one thing that we did in Fairfax County, Virginia which I thought was helpful was that any project with county on the land, we did unsubordinated 99-year land leases. And the reason for that was that –. And in Virginia school districts are part of county government, so all the schools and all the school properties are owned by the county, so there is a significant difference in the land assets of the counties there than here.

But the regulatory agreements that we've been recording against these properties are extinguished by a foreclosure. And we have seen foreclosures in the Portland portfolio. And one of the reasons for a land lease is that you still have rights to survive foreclosure. [0:06:00] And if we are serious about long-term affordability, then we need to use the tools that are available to us. So, one way to ensure public value is maintain overtime is through that piece.

The term affordability, we sort of worked together that is why I presented them together, you know, historically we were at 60 years. Some states require a longer term. Utah has been at 99 years for many years. And I felt like if we were building buildings, weak home, commercially-viable properties with 100-year economic life, why wasn't that we were only securing the public interest for 60? That means that the property can be mark-to-market in year 61, we would then have a problem with that. As a steward of public funds, you want to take a stewardship for all and have a long-term [0:07:00] vision here.

So, I do think that extending the affordability to 99 years is warranted. As I described in my memo, we did a review with the housing director to negotiate longer term agreements then that is the – the basis upon which I've been doing these for the last year or so. But, it has never been embraced by a council. We've been informed verbally that that is what we're doing and I do think there is a value in them, perhaps owning a co-change. But I didn't want to take that to the council without your consultation.

So, I would call this kind of a jump ball. As you can see, I've – in my memo I was not selling or trying to oversell you on this. I think there is plenty of room from professional debate discussion. If you have a recommendation, that would be great. It would be helpful for you to know what we're doing with the last two projects that I mentioned.

In the case of Home Forward, we own Block 45 and [0:08:00] the mayor decided that Home Forward a.k.a. the Housing Authority of Portland would receive that land at no cost. He believes that the housing authority as an instrumentality of the city is discerned to be treated differently than a private developer would be. In the case of wherever we place parcel three, bridge housing is buying from Prosper Portland, the site, and they are essentially giving into the city and we're releasing it back to them.

So, it's in two phases, the west tower, which is the current three formal housing units will be leased to Bridge for 99 years. The east tower isn't ready to go yet because of market uncertainties on the market rate side. So, the housing era will control the east tower, Bridge House an exclusive right to develop [0:09:00] that site up until December 31st of 2020. If they're unsuccessful, then we have the right to essentially swap them out with a different developer.

So, we're keeping their focus on the project. They have very good intentions to execute both towers in sequence, so that they don't have to mobilize the contractor twice. They don't have to take the crane down, put up again. But the – My goal is to preserve and protect the public interest.

Both projects – going back to this issue of foreclosure and how the long-term affordability is affected by a foreclosure, both projects will be held to 80% of AMI in the case of a foreclosure. So if for some reason nobody expects either Bridge or Home Forward to declare bankruptcy, but if they lose the property to foreclosure and the bank forecloses on it, the bank can reset the rents to 80% [0:10:00] of AMI or below.

That gives us some comfort because frankly in the [Indiscernible] [0:10:06] district, there is nothing else at 80% of AMI, so that is still better than what we are getting before, which is nothing. Same thing with South and South Waterfront. So, those are the two issues, which use term loan affordability, 60 and if you ask me, at least 60 because that is what Title 37 is. We're imputing 99 as "permanent affordability," and whether or not these whole structures a wise way to go to get that.

That's my framing of the issue for you and, you know, I'd be happy to respond to any questions you might have.

Sarah Zahn: Kurt, thank you so much for providing the information ahead of time so we can review it and read it and presenting today and ask our opinion, I really, really appreciate that. [0:11:00] I'm here to say that we couldn't be more at least from our perspective of the program and in the home ownership into the spectrum, the permanent affordability of course is something that will prevent displacement into the future and the way you have it structured. I sent your materials to our national staff who are experts in the field that [Indiscernible] [0:11:22] solutions network to review this and they have a little bit of feedback so we can go, I think.

Kurt Creager: Oh, good.

Sarah Zahn: Some of the – more on the details on that.

Kurt Creager: Yeah. And Laura is a former colleague of mine.

Sarah Zahn: That is right.

Kurt Creager: We have a different time and space, that is for sure.

Sarah Zahn: Yeah. So there is a ton of research, a lot of detailed information and there is a lot of discussion nationwide around the expense of having to preserve these units when we try – when we can't do it right from the beginning and get it done and they think what you've laid out here is a good – is almost a gold standard in a way. And I don't mean an overdo, but a good approach in terms of protecting the public interest.

On the 99-year lease [0:12:00], as you know, we're in negotiation on a project that again, it has to do with the different – this is a nuanced difference between rental projects and some people call it multifamily. Of course, home ownership can be multifamily also in the case of condos. The 99-year lease situation there has implications because when it is in the homeownership realm and it is a

	condo, the – there really is not a prospect of foreclosure in that case because it is commonly – the land is commonly held with all the owners in each of the units. And so we put it out there. We're going to be asking for an exemption on that one. Not because we don't – we wouldn't want to live under the 99-year lease proposition, but because it– prevents potential lift funding and shot funding from the Feds who require us to manage that agreement. And we hope that maybe nonprofits like ours and others could – habitat and others could, you know, have the kind of reputation of being – of mission-driven like [0:13:00] the city is to be trusted in that way. So, we really would lose extraordinary leveraging – family-leveraging opportunity in that case. Now, whether or not it should apply, I know there is liability on the book for the – books for the city and, you know, it should be offset by some, you know, some asset. I completely understand that. It is just I think a case by case basis based on the pros and cons, really makes it great to deal with a sense if you're open to that approach. Kurt Creager: Well, I think we had to be sensible. And, you know, the mayor has recognized that you may have a central trust of a policy, then you have to deal with the outliers as necessary. You raise a good point about financial sort of – long-term financial feasibility and one thing that I do think is terribly important. I've had this conversation with some of the Home Forward staff about the 99-year term has replaced Block 45 is that, you know, when you're [0:14:00] 75 or 80, an owner starts to make plans and if you don't think you're going to own the building in the last 20 years or after 20 years, you may roll back on your investment. So, it doesn't suit the city to see that inventory deteriorate towards the 80 or 90 years. So, there is a different kind of approach to asset management when you have the reset underway. And I do think that it would correspond to us in different kind of disciplines, which is half a bunch is going to be on 100 years, right? With your '70s assets, we'll have life beyond 100, some may not. And we need to be a little bit more transparent about that and what it was for specifics. Sarah Zahn: But well only, quite big beyond that is really permanent affordability isn't perpetuity and we are renewing to 99-year leases in our program. [0:15:00] So, I know it seems like a long time from now and this whole probably – well none of us will be here. But to do the right thing by the public in the long haul, if people have had that foresight 100 years ago, maybe Portland would look different today. Kurt Creager: Yeah. Well, I have to tell you, I'm kind of a – I speak in parables and I've got to, you know, [Indiscernible] [0:15:18]. But, I have a friend in the UK and he is this chief executive of	

something called the Guinness Housing Trust. And the Guinness Housing Trust was Guinness Brewery workers in Dublin and London.

And the trust owns a lot of central London that they have owned since 1840. And there is no housing on some of that property. They have high-rise office buildings and they use the income of the office stores to support the core mission. So you know, this is real estate and real estate is perpetual. And I think, I mean, you have to take that long-term view to really – to have a, serve a stewardship responsibility [0:16:00] to recognize that you're leveraging investments for five generations, not just for the one generation.

Sarah Zahn: That is right. If you need help communicating with city council or the mayor about this, please let us know.

Kurt Creager: Thanks.

Female Speaker: This is I think where we can help win.

Kurt Creager: Good, thank you.

Sarah Zahn: We may call on Ed next to – I think it was Ed and then Ramsey and then [Indiscernible] [0:16:20]. I'm watching.

Ed: Okay. There is none.

[CROSSTALK]

Male Speaker: Yeah, there we go. Kurt, I haven't seen the whole problem before but on the surface it seems to make a lot of sense, I think this issue along the land lease in 60 years, 99 years, not that big difference really. The one thing that – probably a little about our affordability is that as probably know for profit developers are treated differently, though they have the same affordability requirements, the same land restrictions for those 60 years are now 99. They pay property taxes on the land [0:17:00] and can apply for the payment on the taxes on improvement for 10 years at the time.

It seems like if we think that for profits can do with that, then we're giving away too much to nonprofits. If we think that the full payment then nonprofits can get – is really necessary, then we're not incenting for profits enough, which means the system is really geared towards just nonprofit developers, which is if that is the city's policy, that is okay. But if the idea is to get as

	much production as possible, we're cutting out a large part of the market. So as long as you think about the change and this isn't time to straighten that out. Male Speaker: I think it is perfectly reasonable to recognize those work together. Something – I think it might be a state statutory issue there. But, if we own the underlying land, it is a public ownership, maybe we [Indiscernible] [0:17:54] deliver that. Male Speaker: [0:18:00] When the – When Nick did the – Commissioner Fish did – take a look on all the tax abatements, six or seven years [Indiscernible] [0:18:11] to write a report and one of the lead recommendations was give it a distinction that it is affordable housing. It doesn't matter what the tax status of the developer is, it's – who is living there and what are the rents. And they thought it was one of the – would have the most impact to all the recommendations. So there is some research in that. Male Speaker: Thanks for the presentation. I have no problems with it, basically. I assume, first of all, the reason it has never been codified is you don't want to open that box and if that is true, I would certainly understand it, but it is curious that it – what it could be, it seems. The other thing I was curious about is, could you speak a little bit to what I perceive to be [0:19:00] the value of ownership by nonprofits in the dirt as opposed to a 99-year liaison? What impact then you think that would have on the network of nonprofit development? Kurt Creager: It has an effect, because these are book assets and they have – they help strengthen the balance sheet of whatever entity owns the land. You know, just speaking in meta terms if the – what I understand is the city has a struggling balance of about $1.7 billion. These are marginally land assets. It requires the bond revenue and it is no longer held by the city or held by the parties. Some of those are private developers and some of them are nonprofit developers. I don't think it is all 1.7 billion, I think some of that includes potential liabilities. We say it is a billion dollars. Well, that is a billion dollars of wealth. It has been created in this book and can be used as leverage for operating loans and it can be helpful to the whole strength of the corporation. So I understand that. And you know, I think as a considered judgment of the council is to whether or not that is part of the organ or whether or not that was part of the first generation of cultivating a nonprofit ecosystem. And it's that still needed to then be sustained and I think you know that point of search holding a conversation. Male Speaker: Well, and I think what I heard you say or maybe or I heard it myself is that it is a risk tolerance question and I kind of wonder about that. I mean you know, the first position is you know, another local government, the second position is a housing authority, because they are	

quasi-governmental and then you get into underwriting risk I guess, that is the way you presented it. I don't know if that is as persuasive to me as the condition of the nonprofit CDCs and their ability to book those assets. [0:21:00] I think that is going to be – maybe they've done just more of a romantic than underwriter.

Kurt Creager: No, I think neither recognized it. It is great that the housing is provided for the people who need it and we also can use that council to learn or better new things. And the – I spend 13 years in Vancouver – and the time I spent on Vancouver I positioned the authority to become a double A rated housing authority which is pretty unusual and it is because it is a balanced sheet because I wanted to be able to essentially borrow at lower interest rates. So I think recognizing it and then I would grant to your point that not all nonprofits are created equal. Some I may have reached a level of maturity and dullness so I needed the credit support and others aren't there yet. [0:22:00] And we shouldn't have a rigid sort of closed-door approach kind of getting everybody into the same box.

Male Speaker: Well maybe this is a case-by-case.

Kurt Creager: Yeah. Yeah.

Female Speaker: Thank you and – Director, thank you for your report and I just want to first point out that I sit on this committee not just as a representative of Home Forward but also MPAC and EPAC. We have a past [Indiscernible] [0:22:28] habitat so a number of different hats. So what I'm going to say right now is my personal opinion and I'm sort of in agreement with what you were saying Ramsey about value to nonprofits in terms of only the entire asset when it is really the land that appreciates and the structures tend to depreciate. As far as the affordability, I mean for a whole practical intents, 99 years, I mean it is just not practical from a financing perspective or condition of a building. But I guess as you said from 60 years to 99 years, it doesn't make much of a difference. [0:23:00] I do want to point out though, aren't you going to call in [Indiscernible] [0:23:05] phrase or something yourself?

[CROSSTALK]

Male Speaker: Cryogenics I think is the –

Female Speaker: Cryogenics there you go. Yeah, can count you 16 times in [Indiscernible] [0:23:18] of 99 years. But I do want to just point out also aim for the public record although I don't know if anybody is recording it?

Matt: We are.

Female Speaker: Ok. On the North East grand project I do want to say is the largest affordable housing project built in the city of Portland in 40 plus years, 240 units of affordable housing at the Lloyd district which currently has no affordable housing at all. So certainly as a worthy project as a developer of Home Forward has been in existence for 76 years, so a very strong developer there. And I wanted to say that we did hold a press conference on this site today and I don't know if any of you were there or heard about it I think. [0:24:00] Using the property to call attention to all of short falls or failings in the proposed tax code or reform on both sides of the aisle and how devastating those reforms if enacted would be to affordable housing. I believe commissioner before he was there, we're always out of town, so we're hoping that that is going to be picked up by the media and you know, I would urge everybody who has any kind of contacts in place that might matter or with your local congressmen although I should have done this already but you know, please push that issue that we can't let those kinds of reforms take effect or we will not have any more affordable housing.

Sarah Zahn: Thank you Betty. I just had one question for Kurt which was in terms of the – in your proposal, have you had an opportunity, and I am sure the answer is probably yes, to speak to some of the nonprofit partners about investor response [0:25:00] to a proposal for both the land lease and for the increased affordability more on the land lease side I think. Because I know in past experiences with the tax credit investors, we've had challenges with land leases and it sounds like you are moving some of those through the pipeline now. But I can – or never specifically on leasing – [Indiscernible] [0:25:19] how challenging it was to work with our lender on land lease structure. And so I would encourage you as you think about kind of in the light and, you know, in the same vein as the tax consequences that you're not creating unforeseen consequence on yourself.

Kurt Creager: It is hard to create a totally apples to apples comparison because, you know, lenders want everyday.

Sarah Zahn: Yes.

Kurt Creager: They want site control. They want, you know, your first-born. My apologies to the – my friends that are bankers. But when you have a construct which says no, you don't get to do business under those terms and circumstances, they usually adapt. [0:26:00] In Fairfax County which was a, you know, 1.2 million people, all in Virginia, not only did Fairfax not subordinated the leases to the lenders. They didn't subordinate to the state either so that Virginia housing development, the HDA authority was the tax credit provider. In this case, the county was its own bond issuer. And it was a triple A credit. So, you know, that is the terms and circumstances that you do business in Fairfax. And all along the county executive was committed to that. I do think that there is a cost effect. I think in my memo, I talked about 10 basis points effect that when you

	extend the affordability, there is going to be an impact. And I do think that they all want to know what is going to happen in, you know, 60th year if they have any sort of contingent liabilities to track with the project because they don't want the asset to deteriorate any more than [0:27:00] we want the asset to deteriorate. So, I think as a conversation it is worth having with other lenders. But I can say, you know, just given the choice, it is always, what, 20 years of affordability with the first mortgage lay in, and you know no extended use of restrictions or whatsoever. I mean, that is kind of how they started in this business. And that is a low hanging fruit for them. Yeah. This is a moment to our market or a moment to our city. I think we should be holding out for more if we can. Female Speaker: Well, and in support of that, I think, just in light of all the uncertainty around tax reform right now, I would say proceed with caution in doing two new things at once with a lender and investor community. That is probably already very scarce, so. Sarah Zahn: I would agree. So, I – did anyone else have any other questions? Yeah, oh, Ed, sorry. Ed: This is actually about another part of Kurt's report. I'm not sure whether to address this question to Kurt or this committee. [0:28:00] So I'm going to play safe and address to the committee. The – I read the news article about the city council during last week of Block 45. And I was told about two things where Commissioner Fish said he wouldn't approve any more projects that didn't come with support housing. And my thoughts, so I could be wrong about this because don't know what the background was. One, that policy for the number of support units per year was relatively reasonably passed by council. And Block 45 has been underway for a long time. So to expect that project could change its makeup what is that for a lot of lenders and investors it seemed to me unreasonable, I could be wrong about the dates. And a second part of that was, the council gave Kurt the housing [Indiscernible] [0:28:49] a goal. And it felt a little bit like micromanagement from city council to say, every project has to have it. [0:29:00] And I would prefer to let Kurt and the qualified staff here and say, we're going to mix and match all the projects. Some of them are going to be 100 percent supported housing. So, are going to be 50, but we're going to figure that. We're going to be in the city goal. But the city council should be dictating what there is in every project. It was my feeling. And so it felt like, it might be appropriate for the PHAC to address something to city council, leave Kurt out of it because I don't want to get Kurt in trouble, but that was my thought. Sarah Zahn: So, I'll take that for just a second. So, in our executive committee meeting last week we actually talked about this. So, that was myself, Annalisa, and Dike. It was the day after that article came out and we had a very similar reaction as the executive committee, and we were going to also talk about this with the bigger group. But we have actually requested meetings with both	

the mayor and with Commissioner Fish to talk specifically about that because it was a concern I think that that came up at city council before it was brought to us, frankly [0:30:00]. And also, you know, a challenge when you are issued a directive from city council in that manner without really having a direct response as a body, both as a bureau and as an advisory body. So, the executive committee has asked for those meetings and we hope to get response from both the mayor and from Commissioner Fish on that going forward. Because I think it is important to be clear, right? I agree with you that that is a challenge, and especially, for those projects that are moving through the pipeline and already have [Indiscernible] [0:30:31] performance and, you know, specific commitments, it is a significant challenge.

Female Speaker: Well, it was certainly exciting for our staff at the moment. It was off the record, interesting, maybe difficult meeting. I think everybody managed to move through it well enough. I did want to point out as our Executive Director, Michael [Indiscernible] [0:30:53] did during the city council meeting that we have a number of units of [Indiscernible] [0:30:57] dedicated to victims [0:31:00] of domestic violence. And one could certainly argue that that is a version of prevalence Board of Housing, because without that kind of available housing, those women could easily be homeless. And I'm not sure if that mollified the commissioner or not, but that is the reality. And as you said, I appreciate both of you saying, you know, when you're this far and you know, when you're at the gate, that is felt close. You can't reprogram the property. So we felt that we were providing some various special needs and much needed housing and I appreciate the support of everybody.

Kurt Creager: Well, your voice is important in this mix. I just spent a little time with Commissioner Fish this morning prepping him on parcel 3. And, you know, I actually enjoyed that hearing quite a bit because it was a little drama. And, you know, here you have a former [0:32:00] board member of the Housing Authority, volunteering to vote against the biggest project we've ever done in 40 years. So a part of me wanted to say –

Female Speaker: Dig it out.

Kurt Creager: I bet you won't do that. I bet you won't do that. He needed to make a point. He made his point. The resolution did and it was enacted in October after Block 45 was conceived. And the big difference between parcel 3 is they came back for more money. And if Home Forward would come back to us for more money after the resolution have been enacted, I would have done the same thing that I did with parcel 3, we just say, "We now have a new landscape, we have a new set of expectations, you've got to comply." But they didn't, so I didn't have the ability, nor did I have the particular motivation to reopen a negotiation on a settled deal. So he is – he understands that not every project is even physically situated, geographically situated for PSH. So [0:33:00] but that is a conversation that, you know, needs to play out in the public realm so that people don't just unilaterally get burdened with the expectation to comply with the council resolution. And we need to provide the operating support through the county inventory and office to make sure it happens.

Female Speaker: I think and just me speaking personally, I might say that, you know, in the total development cost Home Forward equity and loan, $18.3 million, not counting $3.5 million in deferred developer fee, and this city's investment is $5.6 million. So Home Forward has almost four times as much money into the property, and we're still providing those units, so it was interesting to get that reaction.

Male Speaker: Real quick. I think when I read that article, it was the sense of impatience and the sense of passion that I heard, I think in my region I think what Betty is suggesting is probably correct, that there is a way to carve it out. [0:34:01] And I doubt that, let's just say that this resulted in no-vote. I think the real question is when the mayor said, I'm confident that this project, and I don't think he meant this project. But the upcoming decisions will be part of the support housing strategy, I think the larger question for me is how that gets developed with three or four different local groups that are working on this in the coherent ways, [Indiscernible] [0:34:30] explain to people like Commissioner Fish that I get it, we're doing it. It is part of the plan, see? And I think that the more of that – there is some certainty there like any other developer, they're probably going to be less – impatience. And that is what I heard, so I think that the real task is moving ahead. I don't think it was a mandate to this group to do anything one way or the other or the abdication of our role, I didn't see it that way. I just saw it as patience with something you've fought for [0:35:01] and I guess the real question is how do we give him a measured work plan to deliver then.

Kurt Creager: His retelling of the situation is that – the resolution calls for 2000 units in 10 years. And he has restated that to me, 200 a year. Well, that is not what it says. It says, it says a thousand, it says 2010 which means you might actually back load it, because you have a transition period, you haven't yet as it points out, and issue the task order to come back with a financing plan. So you know, you're right, it was the project in front of him that he had the opportunity to shape and to direct staff, that is our burden. We're the ones that are, the stationary objects, we need do that.

Sarah Zahn: Okay. Thank you very much Kurt. Next on the agenda is, [0:36:00] I understand we have the updates potentially from Dory and from Javier on the program side. So, if you'd like to join us.

Javier Mena: So just [Indiscernible] [0:36:12]. Have your map as a mirror. Thanks for having me. Just to follow up on what we said in terms of the PSH. We are – we will be looking at our current

	pipeline of projects, are going through the underwriting process, and seeing, as directed by Commissioner Fish was, so that we can add trust on the PSH, understanding there is another conversation, a holistic conversation become a part of the joint office [Indiscernible] [0:36:40]. Providers are still [Indiscernible] [0:36:43] how it is going to get funded. But we are looking at our current pipeline and seeing how we can adjust for the direction received. Beyond that, we don't have – I don't have any additional updates. Female Speaker: Okay. We were all just trying to come up [0:37:00] to save you some time. Sarah Zahn: That is great. Hi, Dory. Dory Van Bockel: Dory Van Bockel, Risk Analysis and Plans Program Manager. Here to just give you a quick update on inclusionary housing applications which you received a packet that has a summary on one side. So inside that, there is a little bit more information than we had last month. We do continue to have additional applications now being forwarded through inclusionary housing. A total of 14 private development projects are either – have either been approved or in the queue because some of them are still within the permitting process and not fully reviewed and approved yet. The numbers are not yet precise but we have over a hundred affordable units altogether. And the affordability is split at the bottom, you can see it is not quite 50-50, just a little bit more than about [0:38:00] – as of the units, at the 80% of the area middle income level but there are a fair amount of 60% units as well. Are there any questions? Male Speaker: What is the starting date that the – from when the policy took effect? Dory Van Bockel: February 1st of 2017. Female Speaker: The last meeting Dory we talked about the cost analysis of multi-program compared to just general affordable housing development. Do you ever get a chance to even think about that anymore? Sarah Zahn: I thought Matt you were going to provide the analysis from the –. Matt: The central city versus the non-central city multi-estimates? Sarah Zahn: Right, there is something. Matt: Yeah. So [0:39:00] yeah, I don't have that data but it is part of what we sent out. I sent out some follow-up materials but we can go ahead and put that on a regular agenda if we want to go into detail on that on a regular agenda.	

Female Speaker: I think that would be great.

Matt: Sure.

Female Speaker: Give us a kind of a cost benefit analysis of this regular Affordable Housing Protection compared to housing institutes as we settle them out to the program.

Matt: Sure, we can certainly dive into that, this material so we'll put that on a regular agenda after the New Year.

Female Speaker: Thank you. Okay.

Shannon Callahan: Hi, Shannon Callahan, Assistant Director for Policy and Strategy. I thought I could do a brief update on where we are with the Portland Affordable Housing Bond. We are in the RFI phase, a request for interest in seeking properties with a specific criteria based on our stakeholder advisory group framework that was set. [0:40:00] We have received approximately 42 property submissions for occupied and existing building structures. Only six of the 42 met our initial criteria for location zoning somewhere actually in the – a lot of them weren't actually in the city of Portland, so they were instantly excluded. We are sending our staff out to look at each one of the properties that meets our criteria. We've also received 18 parcels of land for consideration. Only – again, six of those have met our initial screening criteria, again, besides not being in the city of Portland. Some are quite frankly not large enough to build more than 20 units which is one of our – one of our preliminary [0:41:00] criteria. We've begun to engage our bond oversight committee on an internal review process with both internal and external partners. We've reviewed one particular property already. Unfortunately, we agreed that that was a good property to move forward on, but at the present moment it is under contract with another buyer. If for some reason that falls through, we do have the green light at this point to move ahead and we will be bringing more properties back to the internal and external panel later this month. We'll – should be able to have a more complete update for you. We're giving an update to the bond oversight committee which meets on December 12 and we'd be happy to share those with you. If you want more information about the bond process, I'll be happy to put that on the agenda but I'll also, I think we can just share out with you what we're sharing with them to keep you updated [0:42:00] and then if you have specific questions, we'll be happy to address those.

Female Speaker: What is staff looking for when they go out and do the site visits?

Shannon Callahan: So with the – the land is a kind of an easier proposition for us. So if it is a vacant parcel of land, we can look at the zoning, we can look at the location, we can look at, you know, the development potential. When it comes to an existing – an existing building we're particularly looking for, you know, how is it – how is it such – is it worth it for us to buy. I mean, we have a target price of about $160,000 with bond funds for each existing property and some of these properties may only have a useful life of quite frankly 10 to 15 years which is not the type of investment that we've been asked to seek. We can look where we are considering properties that were built when lead paint was [0:43:00] prevalent, but we are – we are finding that that is something that we may want to factor out though it is not in our first criteria. Quite frankly, I think what we've been submitted may not be the – some of the best properties that would be potentially out there, but we are considering, you know, doing substantial rehab. I think it is just a matter of can we get at least 20 more years of life and it doesn't have the development potential. Some properties are – don't have current zoning for us to rebuild. For instance, if there were a fire or even if we wanted to redevelop them at some point. So – But we are getting some interesting things and we are going to, in the New Year, more aggressively work with brokers and others to try to seek out properties that we may be interested in target areas given to us by the stakeholder advisory framework.

Cameron: Okay. Yeah, Shannon. [0:44:00] The last meeting when Karl was sharing the criteria for what property is looking for. I showed a concern that the zoning requirements are overly restrictive.

Shannon Callahan: Okay.

Cameron: Just in the [Indiscernible] [0:44:11] neighborhood where I work, there are a number of properties I think that make great candidates, that would meet all of their requirements other than the zoning. You know, we're talking about properties that have the capacity to build well over 20 units, but they're large properties. And so they're R1 or R2 zoning but they're large enough and you can put over 20 units there. So I'm still – I'm not convinced that there is a good rational to exclude those properties from consideration.

Shannon Callahan: We're not either. We actually think that in looking at what we're getting that that indeed may be a change we want to make. In fact, we – staff is proposing that we make that change. We feel more comfortable going to the bond oversight committee next week to talk with them about that before reissuing the RFI. But we – that is our recommendation [0:45:00] to the bond oversight committee after looking at the properties and especially the neighborhoods that – so the neighborhoods you've identified, we think that is correct.

Cameron: Thank you. And then one other piece of feedback on this is in light of the study that Professor **Bates** [Phonetic] [0:45:16] is he recently did for the housing bureau on the potential loss of naturally-occurring affordable housing multi-family buildings, I hope that that will be a priority

	for acquisitions is buildings that are in danger that are currently affordable, that are in danger of becoming unaffordable because of flipping or redevelopment and particularly where there are low income renters of color that make up the majority of these buildings. And I think there is an opportunity to work with tenant organizers on a strategy hand in hand that would help push owners to be interested in selling [0:46:00] and get tenants working together as part of a kind of a collaborative strategy. Sarah Zahn: Thank you, **Cameron** [Phonetic] [0:46:09]. Male Speaker: So a little Venn diagram question, I read the metro's grants from the CET and I noted that there are probably four or five, maybe six related to affordable housing in various neighborhoods and I wondered will the bond committee for several times, they actually mentioned leveraging bond dollars for St. John's for example, specifically mentions bonds, and I think it might be Brentwood Darlington or somewhere else. So, how do those circles overlap? You'd have five advanced planning processes for neighborhoods which might not get the response from – buy in those neighborhoods. So I guess I'm trying to sort of, we got a lot of potential here at least circles overlap and then how – [0:47:00] I don't have an answer but it struck me that there is a lot to talk about use of that resource, but we may not line up with what we're getting from your advice, so probably, yeah. Shannon Callahan: So we – I'm looking over to my co-assistant director because we are – we are not wanting just to stay with the RFI but actually to actively seek out properties in particular locations and you know, St. John's, Brentwood Darlington you know, **Kali** [Phonetic] [0:47:29]. Male Speaker: Kali is in here too. Shannon Callahan: Yeah. There are a number of neighborhoods or so, and honestly it is not just sometimes neighborhoods, it could be individual –. [Off-mic Conversation] Shannon Callahan: Indeed – Anyway, there are also individual pockets, you know, there are neighborhoods that I think we all have on our minds and I think we all kind of share. We've kind of talked about some of those same neighborhoods. And there is also just pockets [0:48:00] in different places, you know. So it is not just as easy as putting a big circle on the diagram. I'm looking at the 4 o'clock time and realizing and I might be talking too much, so. Javier Mena: Just very quick, we did in regard to leveraging what Metro is in. It is challenging obviously, with the bond, when there is limitations to where we – how we invest. We definitely are	

	looking at leveraging just infrastructure investments or any other type of investments in any way we can. Then as Shannon mentioned, we know that the R5 process along will not get us there so we will be more active and engage in a little more proactive model to be able to get that. Female Speaker: Thank you. I have a quick question. Are the bond proceeds subject to the 99 affordability issue as well so that anything we do with the Brown Act, we have it done with bond [0:49:00] to set a 99-year overlay. That is – So that makes it tougher on that rehab, doesn't it? Shannon Callahan: Surprisingly right now, they – bond is – bond properties will be city-owned property so they – based on constitutional restrictions, so there will be a different model of funding and creation and – than we've typically done with non-profits or private development. So they – as far as we're concerned, they'll be permanently affordable but they will be in – and actually titled in that city's name. Female Speaker: Did you mention the 20-year life span for the properties? Shannon Callahan: Yes, and I think we're looking both – when we look at properties that may be existing properties that people are in, we're looking to make sure that we do have that permanent affordability and if they're – and that they do have a value now and into the future, if they're [0:50:00] you know, only really valuable for the next 20 years no matter how much money we put into them and we can't redevelop the property, it is not something we'd be interested in because we are looking for something that is permanent. Sarah Zahn: Okay, thank you very much to staff. I'm going to go ahead and invite Mike and Gwenn to join us at the table from Oregon LOCUS and while we're inviting them up I want to give Amy a chance to quickly give us an update. She asked for a moment. Amy: Yes. Thank you everyone. The work that I do in the community has taken me to kind of a new place with working with the folks developing the non-emergency medical transportation piece which is how clients get to and from their appointments and it is a service paid for by the state through Medicaid dollars. Yeah. And basically what is happening is we currently have a provider who has access to care, that both [0:51:00] family care and health share signed on about five years ago. And due to the system at large, the community and everyone is really unhappy so we've decided to bring it back to the neighborhood and start developing our own network of drivers, providers. We want everybody's feedback on, if you have ideas as a nonprofit, how would you like to see your clients get better access to their appointments? And I was thinking maybe even some non-approved appointments like therapies that are not paid for by Medicaid but could potentially be done based on how we set up our transportation system.	

	There will be local call centers, so all calls coming in 24/7 will be answered locally. So anyone needing a ride like to a hospital or back from the hospital, we're working that out. And I've got some flyers that I'm going to pass around. Right connection [0:52:00] has gotten the contract to head up the training and organizing the drivers and helping to develop our network, and on part of the transportation advisory committee. And we have seats available there that we need representation of different agencies to be part of so that we can help make sure that folks get transported in a really good manner with more focus on customer service and more focus on really meeting the people where they're at in our community. So it is going to be an exciting time. The contract with access to care ends June 1st, 2018. So we're kind of in a crunch to try to organize all these before next year and make sure that everybody gets a chance to either drive for the organization or potentially be an agency that helps create a network of more partners. So if you have any questions, give the folks [0:53:00] a call at the bottom. If you want to go to the workshops and get more information, that would be great. Our **Tac** [Phonetic] [0:53:07] meeting is when? Tomorrow at 1:00 o'clock to 3:00 o'clock at the Lincoln Building for 21 Southwest Oak in the Pine room. So you're welcome to come and get to meet everybody on the advisory committee. And like I said, we have openings for different representatives from behavioral health. We need some folks that represent different areas of the community that we might be missing. So feel free to come and be a part of this, because this is our community and the more we help clients access their care, the better we'll all be in the long run, just providing support. So feel free to ask any questions or come on down because we've got a good year ahead of us. Thank you. Sarah Zahn: Thanks a lot, Amy. Female Speaker: Thank you for doing that. Sarah Zahn: That is great. [0:54:00] Well, welcome to our guests. We have Mike Kingsella and Gwenn Baldwin here from Oregon LOCUS to give us an update. Thank you guys. Gwenn Baldwin: Sure. Thank you. So I'm Gwenn Baldwin. I'm a state and local government relations advocate for Oregon LOCUS. And Mike Kingsella serves as the Executive Director of Oregon LOCUS. And we're the Oregon affiliate of Smart Growth America's coalition of responsible investors and developers. It is a national organization and we're sort of a beta test for a state chapter.	

	And really the focus is how do we sustain and create more high opportunity neighborhoods, how do we leverage those to their maximum benefit and how do we ensure that they are economically, socially, and environmentally sustainable as we look at the high opportunity factor. And so one of the things that we have been paying attention to and sort of trying to tease around is this incredibly large [0:55:00] pipeline of projects that are in the queue in Portland that will be built at 100% market, unless there is a dynamic change that makes that attractive to include affordability. And so what we really wanted to do in coming here today was to get your insights and feedback on the questions that we have been asking ourselves. Does Portland want to capture some affordability in this pipeline of otherwise market-rate projects? And what is the most effective and cost-effective way to access affordability in those projects? So I want to let it over to Mike and then we'll get to our thoughts. Mike Kingsella: Hi, good afternoon everyone. As Gwenn mentioned, my name is Mike Kingsella with Oregon LOCUS. And as Gwenn mentioned, there is a huge pipeline of projects in the queue per the memo from Bureau of Planning and Sustainability dated, I think, [0:56:00] September 15. They estimated 19,000 units of multifamily market-rate, multifamily exist in the pipeline that as Gwenn said, will move forward to 100% market. And 5,000 of those, the memo notes, have already submitted for building permits. Just broader context in the overall housing production field, we are seeing headwinds as far as feasibility of moving as an industry, significant number of new housing projects forward. Capital markets continue to get challenged with construction lending pulling back 5 to 10 percentage points in terms of leverage in pricing significantly moving outwards, which increases the cost of capital and consequently increases the cost to develop and bring housing units to market. Secondly, we're seeing a construction cost increase at a rate of anywhere from [0:57:00] half percentage point to one full percentage point per month which, again, caused significant pressure on financing and moving projects forward. And then finally by submarket in Portland, we're actually seeing rents soften. So with a lot of the new supply in the pipeline coming online in areas like Portland's Lloyd Center for all district, North Williams corridor, we're seeing rents often which leads to further difficulty in making sense of potential projects and in getting those projects financed and fully underwritten. And so in that context, we think that the bird in the hand of the 5,000 units is currently underway in that queue. It – we've been challenging ourselves and thinking about how do we pull some of those over to volunteer to provide set asides of affordability.	

	And I think a final note is that it is supporting a way, [0:58:00] you know, these opportunities and these ideas against the per-key cost. And so we've been thinking about how to find the sweet spot between the per-key or per-door subsidy requirement and the financial viability of projects with an incorporation of affordability. Gwenn Baldwin: So, yeah, believe in your packet, you received a [Indiscernible] [0:58:23] of three concepts and they have different emphases. And part of the driver is sooner is better than later, and what motivates people to choose, to develop sooner and choose to incorporate affordability sooner. So you'll see things that have different toggles and there are different cost points associated. These options, to be really clear, none of them have the same long-term affordability that the larger inclusionary housing program has. This is about encouraging and [0:59:00] capturing affordability that is more than what would be if nothing changes, which is none. And so that is the context in which it is measured. It really can't be measured against inclusionary housing program because it is not comparing against it. It is comparing against 100% market pipeline. So we're looking at also at how we can encourage sort of speed of adoption, which is why one of these elements, particularly the one that deals with waving fees in part is time limited. If you don't do it in this period of time, you don't get this extra encouragement. So I think – yeah. [Off-mic Conversation] Gwenn Baldwin: Yeah, there is a-- it urged people along. So with that – and each of these options has different attractiveness depending on your capital stack, your, you know, your financing, what your land is, what your project scope is. So that is why we also looked at option. So with that, Mike will walk you through the specifics. Mike Kingsella: Yeah. So walking [1:00:00] through the options and what they encourage and really at what cost. So in front of you, you should have a one-page document that provides three separate options for the voluntary affordability, you know. The background comments are generally what Gwenn and I have discussed with you all over the past few minutes. So I'll drill into option one, which is really emphasizing both the provision of affordable units and the duration of affordability. And so with this, the concept is to provide for a set aside of 10% of project units at 60% of median family income, or 20% of units for families earning – restricted families earning 80% of median income. So the idea here is really to mimic the structure of the current [1:01:00] inclusionary housing program.	

And so as to offset that and make this option tensile and attractive enough to – and sent folks to voluntary into providing the set aside, we're proposing [indiscernible] [01:01:15] and we're contemplating a 10-year tax abatement on all units in the project. And by the way, this option contemplates 20-year duration as opposed to the old 10-year duration in a multi-program.

But as Gwenn mentioned, less than the 99-year duration in the current IH program and in addition to the tenure tax exemption, a 50% waiver of system development charge fees and CET fees, but that is only offered through December 20 – excuse me, December 31, 2020 to push action sooner rather than later. And on this point maybe it makes sense to just go through [1:02:00] the scoring as we go through these.

Gwenn Baldwin: So knowing that you have already – you know, looking at how you look at the affordable housing bond and other subsidies, what is the per-key, you know, what does this mean? Well, obviously the more units you're spreading that per-key subsidy over, the less per-key the subsidy is.

So with all of these options, the 60% AMI which has 10% inclusion units is going to be a higher per-key cost because you're having fewer units of affordability that are behind that burden. So if you look at option one, the per-key, and we just, you know, we looked at it from a 3-storey, and 6-storey, 8-storey, and a 15-storey program because obviously people are going to build different things in different places at the city.

But looking at – for example, the 6-storey podium, the cost per unit would be just under $164,000. So if you think about some of the different [1:03:00] things that you're looking at how that compares favorably or not. It is a whole lot more expensive if you're going at 60% AMI because you're only having 10% that you just have to bear that cost and it pops up to 315,000. So that – bear that in mind, the 164, keep that in mind because we'll come back to that with these other options so you can see what the value proposition is. Yeah?

Ed: What cost is the 164? 1:03:27

Female Speaker: Yeah.

Ed: The cost to the city or?

Gwenn Baldwin: Yes.

Mike Kingsella: Yes, that is the –

Gwenn Baldwin: The city's cost.

Mike Kingsella: That is the net present value of the 10-year tax abatement plus the 50% waiver of SDC fees would normally be charged, as well the CET.

Ed: And how would you calculate the tax abatement? What discount rate did you use?

Mike Kingsella: I believe in our model, we used the discount rate of roughly 8%, which is based on cost of capital for – it is generally how appraisers in Portland value income, present value of tax payments, so weighted average cost of capital.

Male Speaker: [1:04:00] And what have you come with what the taxes, the amount of taxes abatement would be?

Mike Kingsella: We assumed fair – the real market value of the asset multiplied by the change property ratio to go to the intern estimate of the assessed value, how we imply a typical middle rate in the city of Portland and we included that at a 3% increase with the property tax limitation model.

Male Speaker: Okay.

Sarah Zahn: I have a question about the waiver of the fees, piece of this puzzle because in the past I know that has been a challenge. We typically waive fees on units that are at or below 60% NFI and have a 60-year affordability term only. And so have you – has this been vetted or what has been the bureau's response to that piece of the puzzle?

Gwenn Baldwin: Oh, I think both Shannon and Matt have been very candid that, you know, SDCs are maybe not quite the equivalent [1:05:00] of a third rail but are not, you know, popular. And I think – I mean we get that, you know. This is not our first [indiscernible] [01:05:08].

At the same time, there are only so many tools that are available in this toolbox. And if what we want to do is avail ourselves of these 19,000 units that will otherwise be market. I mean there may be some in mixed-use areas that voluntarily opt to crossover are largely driven by, I would say, the parking requirement rent. But that is not happening in central city which is our highest opportunity area or near in east side or west side.

And so we actually have to – if those are the tools that are available, then we have to look at using them sparingly, which is why we came at 50%, not 100% and limited time duration. Not too similar in some ways to what folks did when they were approaching AD use and wanting to really stimulate people to build AD use they gave that, you know, that waiver of fees. [1:06:00] And this does not by the way, waiver all development fees. It is specifically focused on the SDC and CETs at 50%.

Female Speaker: So just to be sure we're on the same page, how are you defining an opportunity area?

Gwenn Baldwin: It's the – I mean I can describe it, but I mean there are mechanics within the city of Portland that said this is a high – it is scored as a high opportunity area. But when we're talking about places that you can walk to basic services that you have access to transit, whether it is fixed, or rapid bus, or otherwise.

Female Speaker: Good schools.

Gwenn Baldwin: Good schools. It means all those components of what makes easy access. So again, being very mindful of the fact that it has to drive significant distances or travel significant distances in order to access to services that is a cost of your life and livelihood that, you know, is more expensive than if you had access to those things within walking or [Indiscernible] [1:06:58] community.

So that is [1:07:00] option one. If you look at – Mike will walk you through option two and option three.

Mike Kingsella: Sure. Option two and option three are really designed to be variance off of option one. So really focusing on if the SDC and CET waivers are not possible or feasible, you know, options to pursue, we thought about, well, what are the other tradeoffs that we consider in terms of creating a workable program that would, again, incentivize that backlog of projects to voluntarily opt into providing a set aside of affordable units.

And so you'll see that there is two options, two very different emphasis. Option two has an emphasis on affordability duration. And so again, we held the 20-year requirement constant, assumed a 10-year tax abatement on all units, but assumed that the SDC [1:08:00] 50% waiver and the CET waiver were not part of the package. That supports a set aside of 70 – excuse me, 7% of the project and 60% of median, or 15% of the project and 80% of median from scoring our price standpoint.

Gwenn Baldwin: Right. Interestingly, it is a little bit more expensive than option one and that is because you have fewer units that are being affordable and therefore all the weight of that public subsidy sits on fewer units. So it is about 167.6 per key for option two.

Mike Kingsella: And then turning to option three, the emphasis is on to set aside rather than the duration of affordability. And so you can really think about this as what we – the old multi-program that existed prior to February 1st [1:09:00] of this year. So it is a 10-year abatement on all units and an exchange for a 10-year affordability duration at a set aside of 10% of units and 60% of median income, or 20% of units with respect to the 80% of median income.

Gwenn Baldwin: So, again, looking at 6-storey building, using that same model, the per-key cost is just over 127,000. So in some regard, we're not talking about a huge swing. The big swing is between 80% AMI and 60. Again, because you're talking about 10% units, therefore you're talking about more of that subsidy applying to fewer units and therefore the per-key cost is higher.

Mike Kingsella: And by the way, the swing is not driven by the affordability restriction for modeling this. The affordability – the difference in the cost per unit is really driven by the set aside. [1:10:00] So hypothetically, we do reverse this and have 10% – excuse me, 20% of units.

Gwenn Baldwin: Sixty.

[CROSSTALK]

Mike Kingsella: Sixty. It would be – you would get the same result.

Gwenn Baldwin: And 10% of 80%, 80% would be a higher cost to the public.

Female Speaker: Can I jump in at this point with a question?

Gwenn Baldwin: Yeah.

Female Speaker: Thank you. And I'm going to pull up Betty here and suggest that while I'm here representing the program, we talked about home ownership and permanent affordability a lot. I've spent years of my career on the homeless end of the spectrum, public policy development in the past and spent six year running the homeless agency. And I really am interested in the entire continuum of housing.

I just want to say that I think – I'm impressed with your thinking about this kind of Rubik's cube, you know, you move one thing here, and I know that has been used as analogy for the federal imaginations. But in this case, I've already reached out to you Mike and I really think that [1:11:00] there is people in the business of doing affordability for clients from the perspective of what it really takes to make units truly affordable to working families and to the people at various levels of MFI that if we could team up and think about how best to meet that need, you know, maybe there is a path forward.

We're going to encourage, of course, longer affordability because losing these units in the future are huge. And I'm also wanting to emphasize, there is a lot of settings, not just here in the city of Portland State where we talk about this with broad stroke that includes both rental and home ownership, and they are simply two different things. There is different dynamics that affect each one. I think we have to break them apart and look at them differently because rental has a whole – I mean I think this is kind of a rubric that is kind of a rental orientation.

Gwenn Baldwin: Absolutely.

Female Speaker: There is a whole other piece that has to do with home ownership that could be, you know, condos [1:12:00] basically, and setting them aside in ways to achieve maybe even better than what you're saying at less cost. I mean I think we can get there. So I mean I know there are people in the business that could help us with the affordability and what it would take to really make this kind of scenario work for rental. We're looking forward to talking with you about how we think it could work for home ownership.

And I know it seems like the complex piece of work, but I think there are simple steps in the path that might get us down the road. And maybe if we can come up with something together, we could bring it to the city and maybe talk about the pros and cons of those foregone resources that the city really require – really relies on it in terms of assistant development charges and that kind of thing. And I think we really got to make a very strong case. But why would we pass up the opportunity to see if we can get any of those units, percentage of any of these developers to engage with us.

The last thing I would add is [1:13:00], you know, the lift funds at the state level, if they sort out a few glitches right now that they're struggling with right now, really could be paired with some of this and we could actually tap some of those resources to maybe bring another layer of support and to achieve deeper levels of affordability or, again, just timing, leveraging, making sure it works, because everybody wants first position, everyone.

Gwenn Baldwin: I know.

Female Speaker: As what is mentioned earlier. So I really look forward to working with you both on this and seeing whether or not we can come up with some ideas that might help in fact influence the work you've been doing in here on the policy around having to implement IH for home ownership too.

Gwenn Baldwin: Thank you. And one of the things I really want to emphasize is that, again, if you look – we'll just use the 80% because it is the 20% rate of affordability that we were applying. The difference between 164, which is that option one, and a little bit over 127, which is the option three [1:14:00], dollar-wise isn't necessarily that much but you're getting twice the affordability duration. And that seems significant to us that the option one you get 20 years of affordability, option three is then 10 years of affordability, and that seems like a good value proposition for the difference in the per-key amount.

But, yes, I think this is absolutely a model that is geared toward rental, it is not geared toward home ownership. There are lots of ways in which I think we can partner. Other thoughts, feedback?

Sarah Zahn: So, Amy, do you have a question?

Amy: Yeah. My question is around –.

[Off-mic Conversation]

Amy: There we go. Is when you say 10-year tax abatement on all units, you don't mean an entire building, you're talking about just the units that are affordable, right?

Gwenn Baldwin: We mean all the units.

Amy: So you're talking about all the units in the whole building?

Gwenn Baldwin: Mm-hmm.

Amy: Okay. And the other is [1:15:00], are you talking about studios, one bedroom, two bedrooms, three bedrooms, what are we looking at for types of rentals, like what sizes are they?

Gwenn Baldwin: All of the above. It is not exclusive to the numbers.

Mike Kingsella: Yeah.

[CROSSTALK]

Mike Kingsella: And similar to past programs that the city of Portland has run. It will be equivalent distribution of units across the prop. So if 20% of the project were two bedrooms, and 60% of the project were one bedroom, and another 20% were studios, then the provision of affordable units would match that distribution.

Amy: Okay, okay.

Gwenn Baldwin: But it wouldn't be only for three-bedroom but only for studio it would be.

Amy: That is right.

Mike Kingsella: Yeah, I have two suggestions. First is that [1:16:00] I love to explore some way that you could write in an option that you would have to extend the affordability term at the end of the 10 or 20 years, so that if we get to that point we realize based on whatever is happening financially in the development world that there would be a good use of public resources to invest something else at that point to lock in 20 more years that there are some building opportunity for the city to make some play to extend the affordability.

And then the second thing is, why would we want to limit where and which buildings – geographically where they would be eligible for this? If someone is building a project that is across the street from an arbitrary geographic circle where we say opportunity exist on this side, but not on this side, why would we want to let – exclude that building from being one that includes affordable housing?

Gwenn Baldwin: That is an excellent point. It is the conversation [1:17:00] that we've had about, how do you leverage the initial investments? So we didn't – we specifically didn't say this is only inside central city because there are in fact projects that are already across the street from the line of central city which have a, you know, a different set of rules by which they play in the discussion of affordable housing.

So what we've been trying to say is a relative geography of near in east side, near in west side, and transit lines, and gateway because those are established, designated places where public transit and investment has occurred, and where density is intended to occur and makes the most of the existing public investments. So there are two high opportunity areas. But, no, I would tend to agree, we don't want anything that is a bright line that says if you're across the street you don't have this option.

Mike Kingsella: And I would also add that, you know, from the perspective of limited resources across the board we were trying to contemplate prioritization. And from affordability [1:18:00] standpoint one of the issues we're keenly aware off is that for a family earning, maybe at 50% of median income, the cost of commute by auto with gas and maintenance, and car payments, and so on and so forth, hits those family budgets disproportionately, right?

So our idea was to maximize affordable housing opportunities and locations adjacent to transit commute opportunities. And frankly, in areas where the lion's share of development has not been affordable, right? So trying to weight the scale of production more towards areas where folks can lessen their transportation and cost burden, as well as housing burden.

Male Speaker: So not just speaking there hypothetically, though. There are – as this program went forward, there will be a limit of how many units the city is going to subsidize through this program and want those to be focused [Indiscernible] [1:18:57].

Gwenn Baldwin: Yeah. I mean some of this is [1:19:00] just – is the market. You know, of those 19, 000, how many will actually be built, then how many of those will be attractive to move over into, you know, incorporating affordable? And there is already a cap on how much tax can be abated in that period of time where, you know, this 100% market is sort of filling the queue, how much of that is going to be of that abatement cap is going to be taken by this program? I think we're mindful that this is not something that even 50% of projects will likely adapt. But some will and we wanted to have the highest value of prospect so that when it sits underneath that overall $5 million rolling in five-year cap, it is valuable and meaningful.

[Off-mic Conversation]

Male Speaker: Just a quick question, maybe it is for Matt. I appreciate this is an effort of problem solving. We've talked about that opportunity a little bit, but are there other [1:20:00] proposals coming from the city itself or other people to put this in some context?

Matt: So I'm not aware of another proposal coming from a non-city entity to incentivize the vested pool of units other than LOCUS. And, you know, we've been having, you know, conversations. Mike and I are having conversations about this for a few months because the mayor's office is interested in finding the right balance between public benefit and expenditure of fee or tax waivers in exchange for trying to incentivize in somebody's unit.

So the premise of, you know, and I should have said this, that the concept that the premise of LOCUS being here today is that the mayor's office is interested in what is possible in incentivizing some of the vested queue to opt in and was specifically [1:21:00] looking for feedback from this body before something moved forward in the form of a formal proposal to council to authorize an incentive program.

Male Speaker: So just a quick follow-up. Does that imply then that this is somewhat endorsed by the mayor's office? There aren't other courses in the race?

Matt: It does not apply that this is endorsed by the mayor's office. Before, the mayor has settled on an opt-in program, if you will, used like for feedback from both the bureau and this body. And, you know, as both Gwenn and Mike have alluded to, there have been some previous iterations. I think some of the primary differences were a waiver of all the SDCs, which as mentioned we've been very candid that that is probably a non-starter with city council, and so they have put together these options at our request further review here, and then we'll be working with them to look at [1:22:00] what does this mean in terms of the cost for tax exemption or SDC waivers or CET waivers.

Female Speaker: So I think I would be interested in seeing something more than this single page. Maybe staff has seen it, but we haven't. I really like to see the modeling across all the scenarios, including building heights to see your financial impact across the board because otherwise –

Gwenn Baldwin: Sure.

Female Speaker: – this isn't a lot to go on.

Gwenn Baldwin: I would also love to see that. And I just want to emphasize again, you know, let's all work together on this. There is a lot of us that really want to be a part of this conversation and we have a lot to add. So I think if it was a much – it was a more broadly collaborative proposal, we maybe can get further down the road together.

Mike Kingsella: I will – I agree. And I think we will – we'll be working with LUCOS to cost this out. I also want to acknowledge that while many of LOCUS' members may have projects that make up [1:23:00] the 14 000, they do not have control over all of the owners of these proformas.

And so, we'll do our best to – with LUCOS to try and identify some potential real but anonymous proformas. But there may be a certain amount of prototypes based on where we see the permits and generally what zoning we see in those areas.

Male Speaker: Three thoughts on it. One, the – well, I guess, maybe four.

Female Speaker: Yeah.

Ed: The discount rate might make sense for you, Mike, but it might not be the same discount rate the city would use in valuing its participation. So, you know, a lower discount rate is going to make that number look a lot bigger and then that present value. So let's say that uses – there is a form, but there might be higher ceiling on what the real cost is to the city in terms of the city's calculation of its investment, not yours.

Mike Kingsella: And just – sorry, real quick, Ed. To that point, I am looking [1:24:00] over Dory. I'm pretty sure that in the past for the traditional multi-program we used 3%.

Ed: That is what I would guess.

Mike Kingsella: Is my – but don't – you know, we'll come back. We will present the assumptions on both sides, both LOCUS and then ourselves for how we would discount the property tax exemption.

Ed: So, well, let's stick with your number at the 164 per key over 20 years of affordability. It looks like you're about 8,200 per unit per year of invest of investment by the city at that present value. So you need – the city would need $700 reproduction from what the market-rate to the 60% to make that make sense to make them be equal. If it is more than 700, city comes out ahead. If it is less than 700, city is putting a little more than they're getting. So that is what we think about it right now.

So, you know, I think the 60% rent [1:25:00] for one bedroom are probably close to 800 right now. So you need a market-rate of 1,500 on a one bedroom. And they're probably dropping below that if you take in three months of, you know, free rent, or some free parking, or to rent a moving cost. You know, the real cost of those markets per unit might be less than 1,500. So is the city getting that $700 discount for the investment that it is making? So that is really the first thought.

The second is the city's gamble would be, well, if they don't give this, you know, given the description of I think, you know, Mike's sort of active description of the market, the headwinds, along these [Indiscernible] [1:25:36]. So what happens? You know, when do other projects get built and they have to come at the door for the existing program? So, what will the city get if it waits and takes the existing IZ program?

But the third thought is most people think the existing IZ program is pretty harsh and not feasible. So, [1:26:00] maybe somewhere between what you're offering and a little bit more is a way to look at a more realistic IZ program, and that might be a great experiment. So that being said, I think there is a basis for discussion here to try and get something practical to see if it works better than what we have on paper, because I'm not sure what we'll get build in the existing program. So those were my thoughts.

Mike Kingsella: Thank you. Thank you, Ed. And I appreciate the comments and I agree with all the points you raised from the perspective of, you know, the question of the discount rate. We're certainly looking at that valuation from the market participant perspective and clearly from a city finance perspective. There is a different value associated with the tax payment. And so, we're happy to share our numbers and do that reconciliation partnership with the bureau with respect to the relationship between the subsidy requirement [1:27:00] and the cost of the dollar amount.

This per unit, per month subsidy versus the capitalized subsidy, there should be and there is as we model it a direct relationship. And so I just – that I wanted to also – and respond to you that, you know, while developer and our member developer proformas are not in all cases disclosable, real estate proformas are rocket science. And what we've done in various settings is taken prototypes for, I mean, 6-storey mid-rise projects all the way up to 15-storey high rise. And we can very transparently show how we got to the numbers that we got to in terms of tying that per unit, per month rent subsidy to the capitalized subsidy. So we're happy to share that information as process.

[CROSSTALK]

Mike Kingsella: Absolutely.

Female Speaker: – projects, yeah.

Mike Kingsella: Right. And that is all tied to, you know, market [1:28:00] information for publish, you know, investors, surveys, too, you know, what is going on. These are the market rents and construction cost, again, cycled sources. So we're happy to participate in that process and share what we can from that standpoint.

Female Speaker: I mean it would just be nice to see how you got to 164 units –.

[Off-mic Conversation]

Gwenn Baldwin: And I know we're running out of time on this topic, but with all due respect to Ed, there is a lot of us who work really hard to get this, the band on inclusionary zoning at the time off. Not everybody doesn't like it. But a lot of us think, it really got some great promise. It needs to be done really well and right. And I think we can learn from jurisdictions across the country that have applied this and try to find, you know, that sweet spot of balance and I know it is not easy. We were developers, too. We work with the city. It is not easy. God loved you all. So I think, you know, I do think we want to get proactive and move together – move forward together.

Mike Kingsella: Yeah.

Gwenn Baldwin: No question. And truthfully, we were, in support of the adoption of inclusionary zoning [1:29:00], I think there are two points I think that are really important. One is we get that we can't sort of, you know, put blinders on and say, "Inclusionary housing is over here, don't look to the right behind the curtain." We are talking about this 100% market queue. And I think we would agree it is not going to be all 19,000 to get built. Is it going to be half of it? Is it going to be 2/3 of it, 1/3 of it? I don't know. But whatever those numbers of units are, we know at least there are five that are permitted. Can we get affordability within those? And so like the bird in the hand, it is moving forward.

There will be a time in which all of us will engage robustly in how we're doing conversation piece of the inclusionary zoning, and that is an important conversation that will be coming down the road. It is somewhat separate from this, except that I appreciate if folks are holding back on doing anything with the best of queue because they don't want [1:30:00] anything to take away from the available tools for inclusionary housing. And I would say simply this is not an either/or. It is an additive. It is a we. If we do not do something now we are talking about somewhat in the ballpark of three to five years.

Cameron: Okay. So they aren't clear. I'm not sure if I said something that sounds like it was critical of inclusionary zoning as a concept, I don't mean that. It is the program that we enacted locally. A lot of people see it as some of the most onerous requirements for implementing inclusionary zoning in the country and maybe not feasible on the market.

So my thought is if we can get something along this line that works, it gives us something else to compare and then we'll see what actually gets build under the existing program for new ones that come in the door and see if it works. So it is a nice experiment. We do it. It is not a criticism of IZ as a concept. It is rules we put up.

Female Speaker: [1:31:00] Okay. Thank you.

Sarah Zahn: So thanks everyone. We do need to move on. But I do just want to make one comment about the proposal which is that, you know, we have had a multi-program that we've used for these types of projects and I would challenge LOCUS and the bureau to, you know, why are we – why are we not considering, you know, temporarily using a program that had successful parameters in place before while not perfect? And with a limited affordability period, I think, which

	caused all of us some consternation, it is still for this particular group of units, it could be an opportunity. Now, clearly, we have limited resources and understanding that there are – you know, we are programming property tax exemptions in one place or another whether we're using them for the future IZ or for the existing multi-program [1:32:00] there is – there are caps and there are limits of resources. I question why we are trying to create a new program when there is one that exists. So that – I'll just leave us with that and something to think about as we move forward. But I am glad that we're talking about this because I think it would be a shame to miss an opportunity to capture some affordability in some of these future housing developments. So with that, I'm going to thank you both for coming today and for the robust conversation. And I'm going to turn this over to Matt to talk about budget, our favorite topic, especially at quarter five. Matt: So yes, we are behind schedule as usual. So I just confirmed with Sarah and just to kind of flag this for everyone so you're not going to have any other – first reminder, we have two meetings in January to talk about budget. And in our first meeting we will have no standing updates and we will have no other agenda item except for budget [1:33:00], because we keep getting behind schedule. So just be prepared for that in the first January meeting and we'll try and get the standing updates as written updates. Female Speaker: Great. Well that's just looking in this and save our [Indiscernible] [1:33:13] for later. Matt: I think if we have time certainly, but just know that we will have a full two hours of only budget and nothing else for the first January meeting. So for –. Sarah Zahn: I better not hear that you're all sick. Ed: No. Sarah Zahn: You'll hunt us down. [CROSSTALK]	

Matt: So just as a reminder of where we have been. Oh, should we have – also, can we get the members of the budget advisory, the PHAC staff or the Housing Bureau staff to join PHAC, all members of the Budget Advisory Commission?

Female Speaker: Oh, that was so close to get a report.

Matt: Yeah. They're trying to sit back there. So – and so as you heard, we'll have two hours of the first January meeting.

As a reminder where we've been, you know, we've talked about the city's overall budget and the budget process [1:34:00]. We've spent some time talking about how the bureau works in terms of its 12-year development forecast, which can help you understand, when you're looking at a single fiscal year that we're really looking at a 12-year fund and development forecast and then we move funds between fiscal years.

So the virtue of today's presentation was going to be about full budget, overall budget for the bureau as well as program performance. I don't think we're going to get to approve that performance. But I think we'll be able to get through an overview of the budget. And then what you should anticipate at the January meeting is we will talk about program performance and then we will – you will get presentation on the decision packages, the adjustment packages and the budget that the bureau and the mayor's office is currently considering, which will then be the information we used to have a discussion about how you want to respond to that as a budget advisory commission.

So, again, [1:35:00] today is really – as part of the '18, '19 budget development process looking at the current fiscal year budget, July 1, 2017 to June 30th of 2018. So I forward this all to you, but I'll just hit it really quick again. The mayor issued his budget guidance and that was – there is integrative language about shifts and funding to align with the core mission. So that is really looking at the base budget. And are there using existing funds? Are there shifts in where those funds are being allocated that can better align with core mission of each bureau?

There has been a request for a 5% reduction for looking at what – where we would prioritize the 5% reduction. And, well, the housing bureau has been exempted from that in the past. We are not exempted this year. So we will have to have a conversation about what the bureau is thinking is on where the 5% reduction could occur, should one be taken. And then there is advisory body's perspective on that [1:36:00]. There is direction to hold revenue-generating programs harmless and that – at package priorities are the issues up there. That is not the exact language, but those are the general categories where AD packages would be considered by the mayor's office.

So just as a quick summary for this fiscal year. We've got $214 million budget. And you see the kind of spread of the funds right there. It is not – it doesn't add up perfectly. There are some –.

Male Speaker: No.

[CROSSTALK]

Matt: – there are some debt services and contingency that is not reflected in these categories, which is the difference there. And I won't go through mission act, because we're going to – I'm going to go through them and talk about them. These are just some overall contexts for the percentage of the bureaus' budget compared to overall city budget, and then the percentage of the program areas compared to each other.

So the first is economic opportunity. This is really a past through. This is in arrangement we've had with the Portland Development Commission [1:37:00] and have passed for Portland for a number of years where they – as the kind of economic development urban renewal arm of the city administer this. It is just – we are the – this is Federal funds and we are the recipient of the Federal funds, the recipients of the agency, and so we pass through those funds to the – to pass for Portland. And they were [Indiscernible] [1:37:24] in a number of community providers to administer workforce in micro enterprise development.

Sarah Zahn: So Matt, I'd like to come back to that later in January and I wish **Nate** [Phonetic] [1:37:34] was here because we have some issues last time around about outcomes in DC.

Matt: Okay.

Female Speaker: And we wanted to explore that further and then we never got initial info, so.

Matt: Yes. Nate did email and he is a sick kid. He apologizes. But, yes, we can come back to that and spend a little more time –.

Female Speaker: Thank you.

Matt: – on that, okay, at the January meeting. And we'll be pretty candid. It could change to the past through, we need to come from this body to the mayor's [1:38:00] office as a recommendation, if there is a recommendation to modify something.

The next one up is the Joint Office of Homeless Services. Again, this is another pass through dollar amount, you know, for folks that have been around at Joint Office. The homeless services budget used to be within the housing bureau as the – actually the administrator of contracts for services. And when the joint office – the Joint City County Office of Homeless Services was created, part of the intergovernmental agreement was – and just kind of implicit agreement between the two jurisdictions is that the Joint Office of Homeless Services had its own advisory body. And that is the home for everyone committee and that body is really the body that weighs in the public advisory body that weighs what should to be considered in the Joint Office's budget. To some degree, we weigh in a little bit, but really we differ to that body [1:39:00] as well as kind of joint discussions between the chair's office and the mayor's office.

So this, you know, it is $28 million of general fund in our budget. It is split between those broad program categories. And, again, I think while this body could weigh in on this really where these discussions are happening are the home for everyone committee and between the mayor's office and chair's office in terms of policy around the priorities for services for homeless individuals and families, just to be candid about it. So let's do our front as pass throughs.

So affordable wealthy family housing, this is our largest program area. This is primarily multifamily rental housing. I would need to check the budget detailed for folks that have some multifamily ownership to assess whether there were particular projects in this budget [1:40:00] or the homeownership budget.

What you can see there is there is $6 million for preservation and asset management, $118 million for new affordable rental homes, $4.2 million for inclusionary housing, $2.5 million for property management, and then $1.6 million for housing development financing support.

And I guess I should have mentioned this earlier. In your pockets, what you have also is, at the end of these slides, you actually have the excerpt from the overall city budget for the housing bureau. And so as we're going through this, there is more detailed information. And this is the one of the items that I've sent out to you, but there is more detailed information on each program area. And so this one actually begins on page 377, of like 377 in the pocket, which from 800 to a 1,000-paged city budget document.

So, again, you see some of the key performance metrics in the [1:41:00] budget overall, but we'll be speaking to those at the January meeting when we talk about program performance. And then I'll do my best to answer the questions. We also have Javier here, assistant director for programs, he may be able to answer them as well.

Mike Kingsella: Matt, this is just a quick question. This is last year's budget that we're talking trough, correct?

	Sarah Zahn: Correct. Matt: Correct. Sarah Zahn: Correct. Matt: Yeah, yeah, not our proposed budget. Mike Kingsella: Correct? Matt: Yeah, that is correct. Any questions for Shannon or Javier? Male Speaker: This is 2019. Matt: You guys might have – there was a typo in the pocket, so that might be the typo. So this is this fiscal year's budget that we're going over. Male Speaker: Oh, okay. Matt: So that is probably a typo. Female Speaker: Why are we going to do that? Sarah Zahn: Just to review it. Matt: Oh, because not everybody here knows what the bureau's budget looks like, so. Female Speaker: Okay. So that is great. Matt: Yeah. So are there any questions on affordable multifamily housing for Javier? [1:42:00] Just the program category is generally what the program does. Male Speaker: How much – I mean, I guess there is – how much is the capital – as long as there is capital, they're also staff and admin for that program and better in that budget. I mean you get $133 million out the door or is that included that 20 staff will work on that? Matt: It is both. I mean – and honestly I did –I was not expected to talk about – I was not expected to talk about this.	

Male Speaker: No, you didn't.

[CROSSTALK]

Matt: So I mean I will say if you look on page 377 in here, it gives the detail of the budget. And some of these have staff included in the program budget and some of them the staff is part of admin and operations. So, if you look on this page 377, there are 19.88 [1:43:00] FTE and then a breakdown of where the funds are allocated by program category.

Male Speaker: So that 19.88 would be included in those numbers below.

Matt: That is correct. Okay. Thank you.

Male Speaker: Thank you, Matt.

[CROSSTALK]

Male Speaker: That is beautiful.

Matt: Okay. So next is our affordable home ownership programs. And you can see that the breakdown healthy homes, which is we're looking at kind of health hazards in the home including things like led, home retention services, home buyer financial services, home ownership development, and tax exemption, and fee waiver programs. So that is $24 million, again, that is for this fiscal year. And most of these are administered by contracts with community [1:44:00] providers. There are some that are administered by the staff. So questions?

Male Speaker: This year's budget.

Matt: This year's budget. Okay. And then finally office of rental services, there are some contracts we have for fair housing as well as legal assistance and education outreach added and kind of consolidated into this program area before they were spread across the program areas as a total of $1.7 million. And this, again, this is primarily administered by Kim McCarthy.

Male Speaker: For the revenue resources and things –.

[Off-mic Conversation]

Matt: No, not in this budget.

	Male Speaker: Okay. Matt: Yeah. So we can talk about that at the January meeting as well. Questions from the body [1:45:00]? Okay. With that, we are coming up on five. And thank you all for being here. [Off-mic Conversation] Sarah Zahn: See you all in New Year. Thanks for coming. [Off-topic Conversation] [Audio Ends] [1:47:26]	
Good of the Order	The next meeting of the PHAC is on Tuesday November 7th.	