

PROPOSED \$100 MILLION FOR FAMILY AFFORDABLE HOUSING

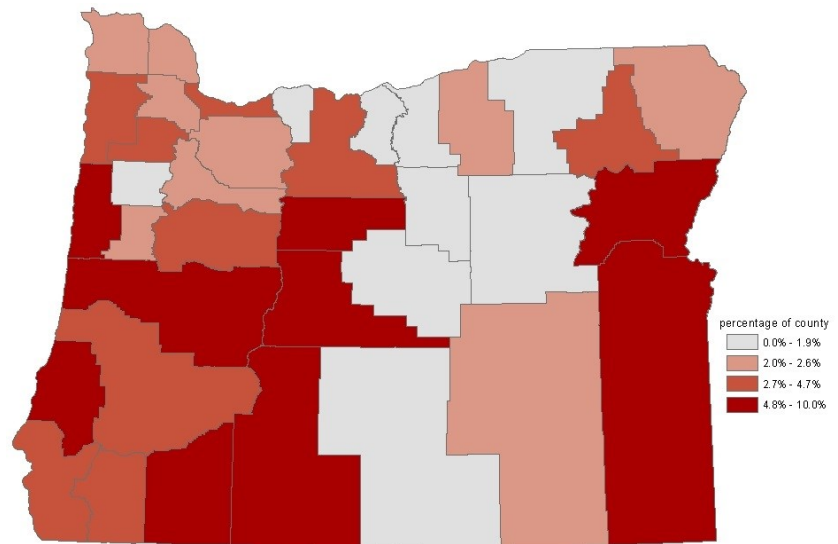
We urgently need to invest in housing production

An investment in housing production is urgently needed to address the lack of affordable housing. The proposed \$100 million of new resources will allow Oregon Housing and Community Services (OHCS) and its partners to create an innovative Oregon solution to begin to address the severe shortage of affordable housing, which is impeding our ability to raise school achievement, improve health outcomes, and move families to economic self-sufficiency. Today, 175,000 Oregon households survive on extremely low incomes, but our state only has 48,000 rental homes available at the right rent levels for these families. That gap is getting worse, as rent and home prices are going up much faster than wages. The frighteningly low apartment vacancy rate in many communities across the state confirms this trend.

Kids experiencing homelessness can't succeed in school

In the 2013-14 school year nearly 20,000 children experienced homeless for at least part of the year. And that doesn't include families who are one paycheck away from eviction, living in substandard housing, or severely rent burdened. These are the families and children most likely to fall behind academically, and to drop out before graduation. Access to stable housing would make the difference for these Oregonians.

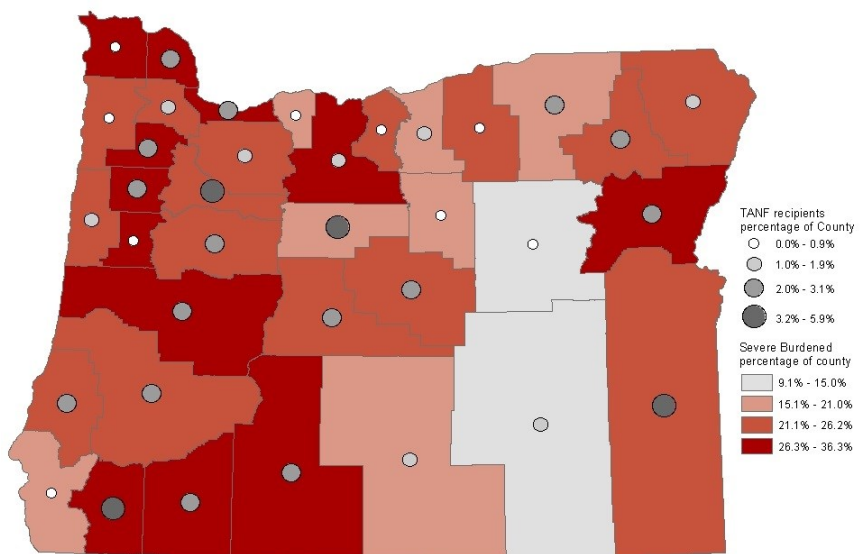
Students experiencing homelessness, 2013–2014



Families are paying too much for rent, making them vulnerable

When household budgets are stretched, hard choices are made. For the poorest Oregonians, this means choosing between paying rent and other basics like food, child care, medications, or utilities. And it makes it nearly impossible for families to pay for extras like books, music lessons, sports, and other healthy activities. Of the 30,000 families who are receiving Temporary Assistance while working to get back on their feet, only one in six have access to affordable housing.

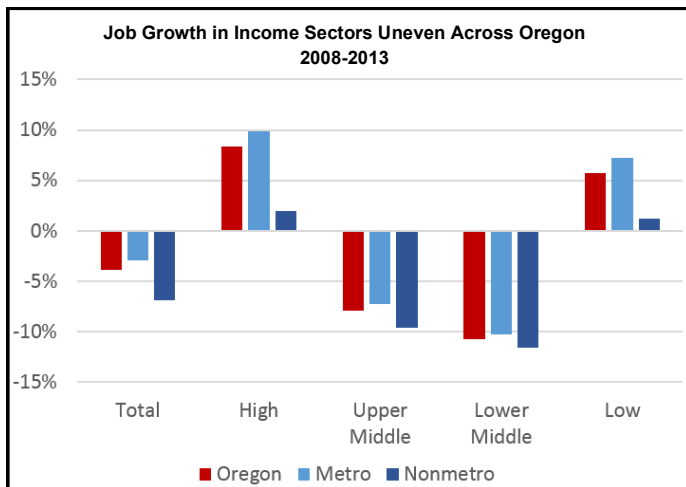
Severe rent burdened households and TANF recipients



Market rate apartments are unavailable

With vacancies in some communities at extremely low rates, finding an apartment for anyone is very difficult. Bend has record low vacancy rates of less than 1%, and reports of dozens of would-be renters showing up for announced openings. For our neighbors with any kind of negative rental history or credit score, securing that scarce rental is all but impossible. People lucky enough to have received a Section 8 voucher from their local housing authority after years of waiting often have to give back their vouchers because a rental unit cannot be secured.

In some cities, the private sector is responding with new construction. Building permits are up in Portland and Eugene. The majority of these new buildings don't include affordable apartments.



Source: Oregon Office of Economic Analysis

Oregon continues to have high rates of poverty and low wage work

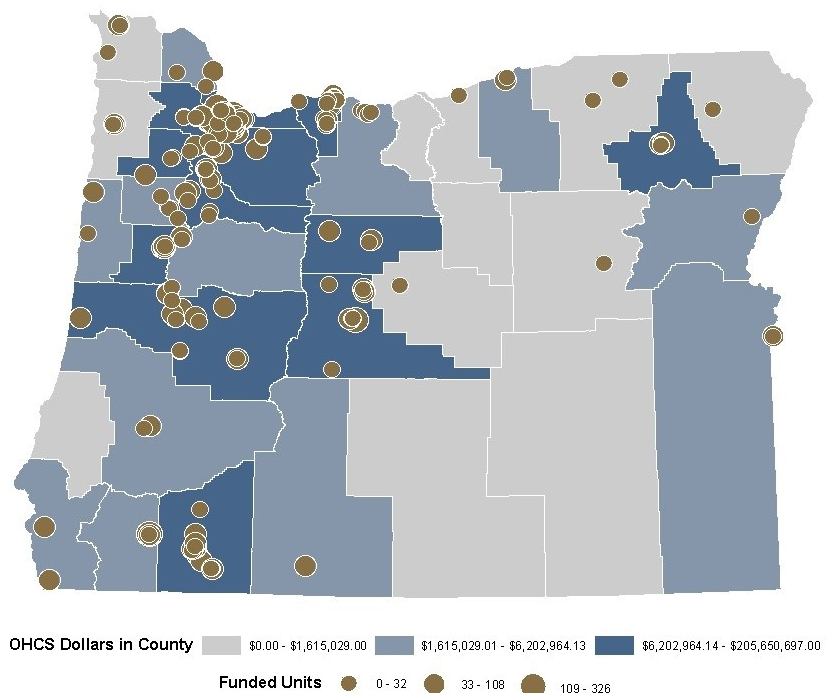
Oregon's economic recovery is uneven with record numbers of people continuing to experience poverty. Job growth is concentrated in high-wage, high-skilled sectors, and in the low-wage, service sectors with very few middle income jobs returning, putting additional pressure on the housing market.

Current resources are both insufficient and complex: two out of three projects turned away

With access to federal and state tax credits, grants, and subsidized loans, OHCS financing helps build or preserve about 1,300 affordable rental units each year. For the communities lucky enough to secure a project, these units are critical community resources. Each year the agency turns away two or three worthy projects for each one it funds, as a result of the scarcity of these resources.

Affordable housing development using these existing tools has become extremely complex, and most projects rely on layering five or more public capital subsidies, in addition to private debt and equity. A high degree of expertise is needed to navigate the development and financing process. The capacity for this highly technical work is uneven.

2010—2014 OHCS Funded Projects



What is possible with new resources?

More affordable apartments

OHCS estimates that between 3,000 and 4,000 new units could be built to help meet needs across the state with a \$100 million investment. The ultimate number produced will depend on a number of variables and choices. Market prices for land, materials, and labor can change over time and impact the ultimate number of apartments produced. A variety of public policy choices – like the ranges of affordability, design and construction standards, and regulatory requirements – will also factor in to total production. (See box below).

Innovation

Oregon's communities lack thousands of needed affordable housing units to provide homes for families with low incomes, and we must create new and innovative ways to deliver these critical resources. In order to make progress towards making sure all Oregonians have a safe affordable place to call home, we must try new strategies that are less complex than the publicly-financed housing system we have today. With an Oregon-funded solution, we can set the rules, define the policy choices, and set the targets. New, flexible resources would allow OHCS and its partners to test innovative strategies and create a modern model of affordable housing development, using years of experience, expertise, and success. This will provide an opportunity to try different construction methods, simplify existing financial structures, and reconsider regulation and complexities.

Leverage

Local communities are eager to address their housing crises. Some have local resources such as equity or grants; others have land; some are willing to waive systems development charges or cover infrastructure costs. With an expedited and flexible source of funds, we

can partner with communities that are ready to invest and move the needle more quickly. We also know we can't afford to leave behind the communities that lack resources to contribute to the development of affordable housing, but we can use the flexibility of these new resources to tailor solutions to meet the unique needs of local partners.

Alignment

Housing is fundamental to effective human service delivery, to health outcomes, and to educational success. OHCS and its state agency partners are ready to deepen their collaboration to better and more effectively serve families. As OHCS takes charge of producing the affordable housing developments in communities where there is great need, the Department of Human Services (DHS) and other state agencies will work to build system linkages to ensure their families are served and supported in this new housing. This kind of alignment will take pressure off of housing developers to find funding for services.

Alternative Construction

From manufactured or modular housing, to alternative construction methods, developers and local leaders are eager to try new solutions. None of OHCS's current resources work with these types of projects. Flexible new resources will allow us an opportunity to test these innovative strategies and deliver modest housing solutions at a lower cost.

Cost Containment

Local and national experts have studied the best methods for containing the cost of affordable housing development. These studies offer insight to reduce costs by reducing regulation where feasible and simplifying construction and design.

Strategies to consider with these resources that could bring costs down, compared to typical affordable housing development:

- Keep building designs simple and deploy serviceable but modest materials
- Limit blending of new resources with tax credits solely to the Lottery Backed Bond resources, as tax credit transactions are more complex and costly by nature
- Simplify or relax complex regulatory requirements that require technical compliance expertise or consultants up front and over time
- Ensure social support services are funded outside of the real estate operating budgets, to maximize debt capacity

What is the proposed funding source and how will it work?

The 2015—17 Governor’s Budget calls for:

- **\$85 million in General Fund-backed bonds**, allowed under Article XI-Q of the Oregon constitution. “Q Bonds” have been used to develop public buildings including the State Hospital. This will be the first time this source is applied to affordable housing, so understanding rules and limitations will be critical.
 - ◇ Using “Q Bonds” means that the State expects to take an ownership interest in the financed properties
 - ◇ OHCS will enter into agreements with experienced, professional housing providers to operate and manage the properties
 - ◇ Bond proceeds will fund the State’s equity interest in individual projects
 - ◇ Bonds will be issued on a taxable basis to preserve flexibility in their application
 - ◇ The unique nature of this funding source gives us both the duty and the opportunity to innovate
 - ◇ Resources would not be available until the bonds are issued in 2017, but projects will need to be identified in advance
- **\$15 million in Lottery Fund-backed bonds**
 - ◇ These resources can leverage substantial public and private capital
 - ◇ Project funds would not be available until the bonds are issued in 2017
 - ◇ These resources have been used to fund affordable housing in the past

Program design and oversight

Housing Stability Council

Specific program design and implementation strategies will be developed with input and oversight of the Housing Stability Council, whose members are appointed by the Governor and confirmed by the Oregon Senate. The Housing Stability Council is well positioned to be the central table where this kind of policy framework is debated, vetted publicly, and then established. From the outset, the Council intends to augment its expertise by forming subcommittees with real estate, finance, social service, and community action agency experts. These groups will study and make recommendations about balancing competing needs and priorities, such as rent levels or incomes served, ensuring application of an equity lens, addressing unique capacity issues in rural communities, and simplifying deal structuring to maximize production.

What will the \$100 million investment look like in Oregon?

Small scale new construction

- ◇ 10 wood-frame units in small communities or on urban infill lots
- ◇ Two and three bedroom units affordable to low wage workers
- ◇ Construction and development costs consistent with the private sector



Mid-size new construction

- ◇ 50 unit wood-frame in a suburban community or small city
- ◇ Construction and development costs consistent with the private sector
- ◇ In some communities, the local jurisdiction could contribute land, waive systems development charges, or contribute cash
- ◇ Two- and three-bedroom units, at a mix of affordable rents
- ◇ Local Public Housing Authority partnerships could help lower rents with vouchers



Land acquisition

- ◇ OHCS can use its resources to purchase an available land parcel at market value
- ◇ This would allow time for site feasibility studies and a normal development process
- ◇ A land lease to a private developer would satisfy the ownership requirements of the bonds



Innovation

- ◇ Modular construction or other alternative design and construction strategies
- ◇ Reducing green building requirements to no greater than existing local building codes to save costs



Building acquisition

- ◇ An existing small market-rate apartment community, owned by a private investor, that's been well-maintained
- ◇ OHCS could use bond proceeds plus conventional debt to buy the property and reduce rents
- ◇ On unit turnover, some upgrades can be made
- ◇ No displacement of existing tenants, if those tenants are low income, they could see a rent decrease



Assumptions:

Program design including key policy choices will be publicly vetted through the Housing Stability Council. For discussion purposes, OHCS currently assumes the following:

- Emphasis on two- and three-bedroom apartments to accommodate families; some one-bedroom and four-bedroom units could be developed
- Units are developed for a range of incomes between 30% and 60% of Area Median Income (AMI)
- Construction and development costs at the same levels as the private sector

In all cases, OHCS will take an ownership role in the property, and will enter into agreements with experienced housing providers to operate and manage the properties.