

Housing and Community Services Department

	2019-21 Actual	2021-23 Legislatively Adopted	2021-23 Legislatively Approved *	2023-25 Current Service Level	2023-25 Governor's Budget
General Fund	326,583,557	501,765,128	923,982,969	192,202,324	677,277,683
Lottery Funds	21,752,234	25,224,730	25,224,730	28,443,620	30,593,961
Other Funds	586,451,142	848,189,272	1,107,774,136	504,140,287	1,637,877,540
Other Funds (NL)	649,881,602	926,685,282	926,685,282	882,849,056	882,843,018
Federal Funds	154,519,187	437,638,180	780,210,822	185,664,067	347,990,399
Federal Funds (NL)	150,805,360	176,472,688	176,472,688	185,102,399	185,102,399
Total Funds	1,889,993,082	2,915,975,280	3,940,350,627	1,978,401,753	3,761,685,000
Positions	252	350	422	323	421
FTE	219.21	327.84	366.03	322.50	427.00

* Includes Emergency Board and administrative actions through December 2022.

Program Description

The mission of the Housing and Community Services Department (HCSD) is to provide stable and affordable housing, and to engage leaders to develop integrated statewide policy that addresses poverty and provides opportunity for Oregonians. HCSD combines multiple strategies along a continuum of services that range from emergency sheltering and housing for the homeless; stability services to keep low-income people stably housed through administration of grants for eviction prevention, rental assistance, and bill payment assistance; anti-poverty programs that help people stabilize financially, including oversight of grants for housing counseling and Individual Development (Savings) Accounts; and efforts to facilitate the development of affordable rental housing and home ownership opportunities through financing, lending, and down payment assistance. The agency relies on contracted local service providers to deliver many of its programs, but directly oversees housing finance awards to developers of affordable housing.

HCSD has multiple revenue streams to support its programs and administrative costs. General Fund supports some of the agency's housing stability programs including Emergency Housing Assistance and the State Homeless Assistance Program, and debt service on bonds issued to support the financing of affordable housing. Other Funds revenue is derived primarily from bond sales, applicant fees and administrative charges (\$48.2 million), U.S. Department of Housing and Urban Development contract administration fees (\$7.1 million), loan repayments (\$6.6 million), public utility charges and energy assessments (\$90.4 million), interest income (\$16.8 million), real estate document recording fees, and construction excise tax receipts (\$1.9 million). Anticipated Federal Funds revenue totals \$448.5 million and is utilized for program delivery services including utility assistance and weatherization, affordable housing development, rental assistance payments, re-development, and disaster recovery.

HCSD's 2023-25 agency request budget anticipates a total of \$115.2 million in Document Recording Fee revenue for the 2023-25 biennium. However, higher interest rates and constrained housing supply appear to be influencing the rate at which Oregonians are purchasing or refinancing homes, and the Department of Revenue puts its independent estimate of document recording fee revenue at closer to \$89 million for the 2023-25 biennium.

CSL Summary

The 2023-25 current service level (CSL) budget for the Housing and Community Services Department is a 49.8% decrease from the 2021-23 legislatively approved budget, due to the significant amount of funding that was designated as non-recurring in the 2021-23 legislatively approved budget. Approximately 60.5% (\$116.2 million) of General Fund expenditures in the CSL are attributable to debt service related to bond sales in prior biennia, most recently the Low-Income Fast Track (LIFT) housing program. Lottery Funds Debt Service requirements total \$28.4 million.

Additional rental assistance and tenant services payments in the amount of \$22.9 million General Fund are included in the CSL, to reflect occupancy projections for units of Permanent Supportive Housing that are scheduled to come online in the 2023-25 biennium. A further \$46.3 million is related to CSL funding levels for Housing Stability programs including the Emergency Housing Account (\$29.9 million), State Homeless Assistance Program (\$13.4 million), and the Elderly Rental Assistance program (\$1.7 million). CSL operating costs in the Central Services Division amount to \$1.9 million General Fund.

HB 5202 (2022) included a transfer of General Fund to Other Funds for affordable housing preservation projects that will be completed in the 2023-25 biennium; the current service level includes \$176.6 million in Other Funds expenditure limitation related to this issue. A further \$9.2 million Other Funds expenditure limitation was phased in to reflect passage of HB 3141 (2021), which provides more funding for energy assistance payments.

One-time investments made in 2021-23 that do not recur in the 2023-25 biennium are phased out of the budget, totaling \$775.3 million General Fund, \$275.9 million Other Funds, and \$526.5 million Federal Funds. Examples of non-recurring investments include Emergency Rental Assistance Payments, shelter facilities and operations, long term rental assistance for youth, eviction prevention and diversion, wildfire recovery investments, and additional investments in Individual Development Accounts.

Policy Issues

Homelessness - Addressing homelessness requires multiple strategies, including emergency shelter services, housing stabilization through rental and utility assistance, and housing with supportive services. Several environmental factors and considerations that may affect the 2023-25 agency budget including the following:

- Shelter Services - The 2022 Point in Time Count showed an estimated 17,891 experiencing homelessness, approximately 62% of which were unsheltered. Anecdotal evidence suggests that the numbers have grown since then, due in part to rising housing costs. In 2021-23, over \$42.5 million General Fund was budgeted for shelter services and support at HCSD, with another \$75 million General Fund provided directly to local governments and community organizations. Operational support for new shelter capacity created with these investments is an ongoing issue. The Governor has declared a homeless state of emergency, and the City of Portland is proposing major initiatives in shelter and treatment for the unhoused, both of which are likely to request resources.
- Housing Stabilization - In 2021-23, \$214.5 million in non-recurring funding was budgeted for rental assistance, eviction prevention and diversion, and landlord guarantee funding, supplemented by \$104.2 Federal Funds. Reports from Portland State University and court filings indicate that the number of monthly evictions has surpassed pre-pandemic (circa 2019) levels since the expiration of pandemic-imposed tenant protections. This trend suggests that affordability remains an issue for many Oregonians and is likely to result in additional people needing emergency housing or shelter services.
- Permanent Supportive Housing - Permanent Supportive Housing units, which include rental assistance and supportive services for Oregonians with addiction and/or mental health challenges resulting from prolonged or chronic homelessness, are assumed to be a key strategy for stabilizing this vulnerable population. HCSD presently funds rental assistance on 497 occupied permanent supportive housing units, at a cost of \$833 per month (\$6.8 million in 2021-23), and funds services on 655 units at the same rate (\$10.1 million in 2021-23). To the extent additional units are developed, there is an accompanying cost of \$40,000 per unit per biennium to support rental assistance and services to this population. Service providers have recently requested an additional \$5,000 per unit per year (with automatic escalators in subsequent biennia) to cover the rising costs of service provision.

Affordable Housing Supply - The Oregon Office of Economic Analysis estimates that Oregon’s new construction is about 6 years behind demand. The demand for affordable housing - defined as spending no more than 30% of available income on housing - exceeds supply by 65,819 units in Oregon, and more units are projected to be needed to address homelessness, vacation and second home investments, as noted in the following table:

Affordable Housing Supply Need

Income Level (Area Median Income)	20-year Projected Need	Units lost to 2nd and vacation homes	Under- production	Units to Address Homelessness	Total Units	% of Total units
0-30%	42,948	-	16,660	25,965	85,573	15%
30-60%	65,632	-	22,775	2,334	90,741	16%
60-80%	44,292	-	10,719	875	55,886	10%
80-120%	79,547	21,287	11,052	-	111,886	20%
120%+	193,744	12,248	4,613	-	210,605	38%
Total	426,163	33,535	65,819	29,174	554,691	-
% of Total	77%	6%	12%	5%	100%	-

Major supply constraints contributing to the issue include lack of available land to build on, zoning restrictions, cost and timeliness of permitting, workforce shortages, and cost of materials. The passage of HB 2001 and HB 2003 in 2019 begin to address zoning issues and analysis of the amount and type of housing supply that is needed by region, but action resulting from this legislation will take time. In the meantime, rental assistance can provide a critical means of housing stabilization for lower income Oregonians facing further rent increases due to a shortage in supply, but only about 25% of households that are eligible receive rental assistance. With the exception of specialized permanent supportive housing (described above), Oregon does not have an ongoing, permanent, state-supported rental assistance program, and landlords are not required to accept federal tenant-based rental assistance vouchers.

Homeownership - Housing supply constraints are increasing the cost of homes for sale, resulting in a need for additional cash for down payments for buyers. When coupled with rising interest rates, the cost of homes becomes unaffordable for lower-income homebuyers. HCSD has a bond-funded home lending program, demand for which has increased slightly with rising interest rates. This lending vehicle offers no down payment assistance. HCSD is in the process of developing a Flex Lending program which provides a down payment assistance loan due on eventual sale of the home and does not require the low-income borrower to be a first-time homebuyer. This program has been slow to develop because it relies on private sector capital and investors to buy the home loans. Market forces have created additional affordability challenges for low-income homeowners: available funding does not leverage as much buying power, so fewer targeted income borrowers will be able to take advantage of the program. The program is expected to launch in January of 2023, and additional General Fund is requested to capitalize the program's revolving loan fund that provides down payment assistance, which is repaid on sale of the home.

Disaster Preparedness and Response - Initial emergency response efforts are the purview of other agencies, including the Oregon Department of Emergency Management (planning, communications, and coordination), Department of Human Services, and public safety agencies. HCSD's efforts are concentrated on replacement of housing and associated infrastructure lost to the 2020 wildfires, the primary source of funding for which is \$422 million of federal Community Development Block Grant Disaster Relief funds. As funding is deployed and reporting requirements are met, position and FTE requirements will need to be evaluated to ensure that sufficient funding exists to provide for ongoing support.

Governor's Budget Summary

For the 2023-25 biennium, the Governor is recommending a series of investments along the housing continuum, some of which are recommended for early legislative action. The Governor proposes augmenting the 2021-23 biennium's budget by repurposing \$30.4 million in agency resources to address a homelessness state of emergency, declared in Executive Order 2023-2. The Governor is calling for early investments in several initiatives for the remainder of the 2021-23 biennium, and the first six months of the 2023-25 biennium as follows:

- \$33.6 million for statewide eviction prevention;

- \$200,000 for design of a long-term rental assistance program that can be ready to provide long-term rental assistance by the 2023-25 biennium;
- \$56.2 million for funding local plans that collectively expand shelter access by a collective total of 600 beds and rehouse 1,200 unsheltered homeless individuals in areas that have seen a 50% or more increase in unsheltered homelessness since 2017;
- \$5 million for support for tribes and \$5 million to support capacity of local service delivery partners; and
- Administrative resources for the Housing and Community Services Department and the Department of Emergency Management.

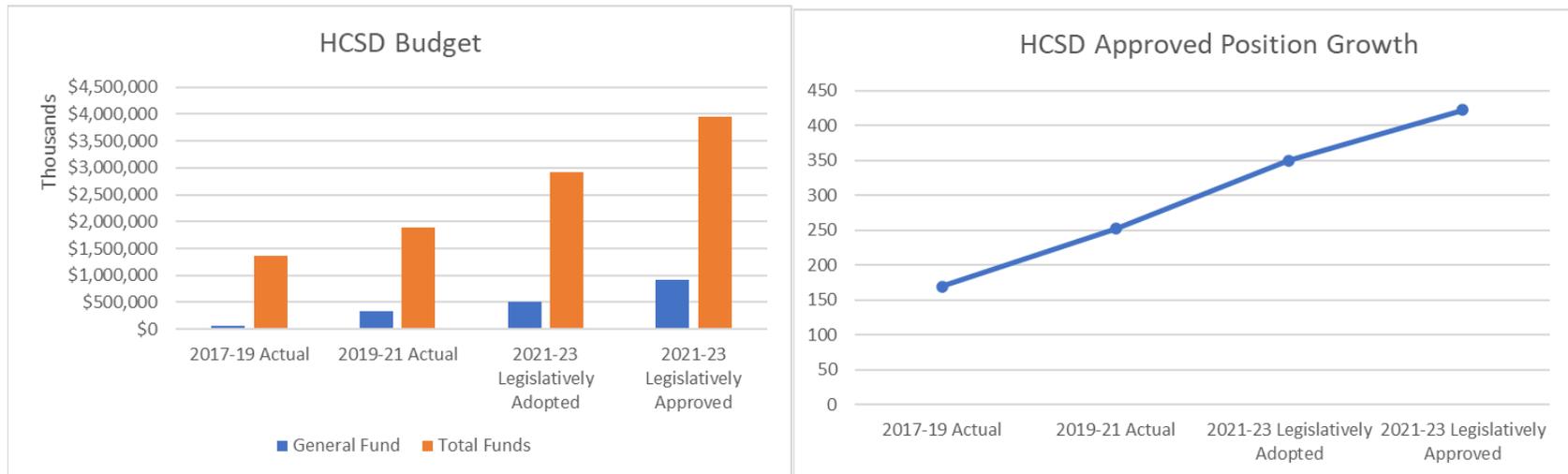
An estimated \$281.8 million would be required to continue these services for the remainder of the 2023-25 biennium. Other investments included in the Governor’s Budget provide for the following:

- Continuation of 19 positions funded with one-time revenue, by shifting support from General Fund to Other Funds;
- Adding 35 positions to support increases in program funding through Other Funds;
- \$9.4 million General Fund to support capacity and technical assistance for local service delivery partners;
- Construction of approximately 430 permanent supportive housing units, utilizing \$130 million in Article XI-Q Bond proceeds, and \$5.7 million GF for debt service for the bonds; going forward, these units will require additional General Fund support for rental assistance and services to tenants, once construction is complete and units are occupied (in 2025-27 or 2027-29);
- \$770 million in Article XI-Q Bond funding for construction of affordable homes; up to \$154 million in bond proceeds would be for home ownership opportunities, and \$486 million would be for affordable rental housing; \$5.6 million in the package is associated with debt service and cost of issuance for the 2023-25 biennium. \$34 million General Fund is also included in this package.
- \$5 million General Fund for tribal homelessness prevention and shelter efforts in the 2023-25 biennium (which augments the \$5 million in the Governor’s early investment package proposal);
- \$100 million in Lottery Bond proceeds and \$18 million General Fund for preservation of affordable housing with expiring affordability covenants;
- \$4 million General Fund to support manufactured home repair, decommissioning and replacement;
- \$5 million General Fund and \$45 million Other Funds to provide grants and forgivable loans to encourage the development of affordable “starter homes” for purchase;
- \$1.5 million General Fund for a grant to the Fair Housing Council of Oregon to provide legal services in conjunction with eviction prevention and diversion efforts;
- \$5 million for early learning and childcare facility grants and loans that are located in affordable housing developments;
- \$13.6 million General Fund and \$18.6 million Other Funds for down payment assistance to home buyers tied to HCSD lending products;
- \$7.5 million General Fund to augment tax credit proceeds for the Individual Development Account program, enabling more qualifying Oregonians to participate;

- \$21.9 million in 2021-23-approved lottery bond proceeds, \$136.1 million Federal Funds, and 29 positions (29.00 FTE) for housing recovery efforts related to the 2020 Labor Day wildfires; the Federal Funds represent a portion of the \$422 million from the Community Development Block Grant - Disaster Relief grant awarded to Oregon; and
- \$14.8 million Federal Funds and one position (0.50 FTE) to administer weatherization assistance funds, which will be delivered by Community Action Agencies to qualifying households, as part of a formula grant received from Infrastructure Investment and Jobs Act - Low Income Weatherization Assistance Program.

Other Significant Issues and Background

HCSD has grown in terms of the number and complexity of its programs, the amount of its budget, and the number of new staff, as illustrated by the graphs below.



Despite having position authority to address the volume of new funding and attendant programs in 2021-23, a tight labor market has exacerbated recruitment struggles, and as of December, the agency had a vacancy rate of 27%. These challenges have contributed to delays in program development relative to new and one-time investments, such that - as of December 2022 - General Fund appropriated for the following programs had yet to be committed to partners to carry out programmatic objectives:

- Homeownership down payment assistance (\$10 million);
- Homeownership Development (\$40 million) - expected commitment in March or April HSC; and
- Homeownership Development Counseling Provider Support (\$15 million).

While this funding may be *committed* to partners by the end of the 2021-23 biennium, the extent to which these funds are expended by the agency is to be determined. Generally, the later in the biennium that program development was completed, the more difficult it will be for partners to submit invoices by June 30, and the longer it takes these services to be delivered to Oregonians who need them.

HCSD has sought culturally specific organizations to serve as partners to disburse a share of its program funding in an effort to achieve equity for housing stabilization programs and down payment assistance funding. Some of these partnerships are nascent, consisting of smaller organizations that may lack the capacity or familiarity with program execution and/or reporting requirements. HCSD must balance the need to expeditiously deploy its resources with the value of newer partnerships that may require greater time and attention in order to achieve program expectations in terms of both results and fiscal accountability.

HCSD received \$422.3 million in federal Community Development Block Grant-Disaster Recovery funding to facilitate and fund housing recovery efforts for survivors of the 2020 Labor Day wildfires. Planning efforts have been approved by the U.S. Department of Housing and Urban Development and funding must be expended by 2027. HCSD's action plan includes a housing replacement program for homeowners who lost homes in the fires; a new homeownership program for displaced renters; and a fund to support local priority projects for infrastructure, mitigation, and economic revitalization. Intermediate housing assistance and support services (such as rental assistance and case management) are already available. In anticipation of future disasters, HCSD has authority for 13 permanent positions and 31 limited duration positions in 2021-23 to help plan for and deploy housing recovery efforts, and is creating a Disaster Recovery and Resiliency division within the agency. Of these positions, four permanent positions and 26 limited duration positions remained vacant as of December 2022.

An audit of Emergency Rental Assistance funding deployment is underway at the request of legislators. The Secretary of State's Office will evaluate HCSD's administration of state and federal rental assistance funding for sufficiency, expediency, and lessons learned. The audit report is tentatively scheduled for release in late January.

Key Performance Measures

A copy of the HCSD Annual Performance Progress Report can be found on the LFO website:

www.oregonlegislature.gov/lfo/APPR/APPR_OHCS_2022-10-03.pdf)

For the 2022 reporting year, HCSD met targets for 60% of its measures, in the areas of permanent housing retention; prevention of power disconnections; affordable rental housing funding awards for the disabled; rental housing funding provided for units in high opportunity areas; and the percentage of homeownership services provided to low-income households and people of color. The agency was 10% below its target for the percentage of agency-funded rental units intended for those at or below 50% of area median income, and its cost per square foot for rehabilitated housing units exceeded a national benchmark by 69%. Affordable rental housing awards for rural areas failed to meet agency goals, and customer satisfaction was down 21%, reportedly due to difficulty accessing federal emergency programs like Emergency Rental Assistance.