OREGON HOUSING and COMMUNITY SERVICES
725 SUMMER STREET NE, SUITE B | SALEM, OR 97301
503-986-2000 | www.oregon.gov/OHCS

April 26, 2023

Joint Committee On Ways and Means Subcommittee
On Transportation and Economic Development
900 Court Street NE
Salem, OR 97301

RE: OHCS Affordable Housing Finance

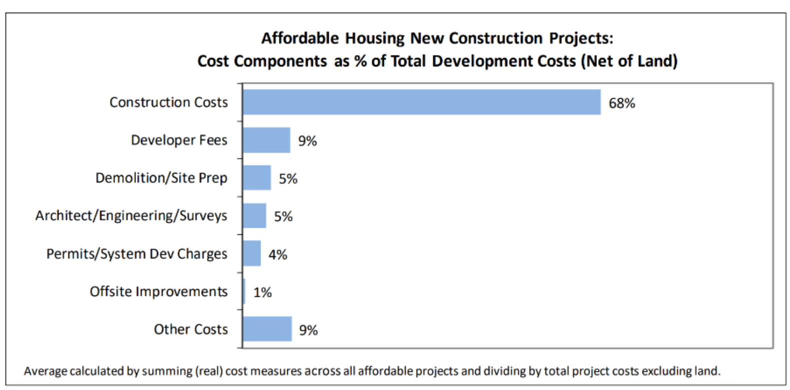
Co-Chairs Woods and Gomberg, Members of the Joint Committee on Ways and Means Subcommittee on Transportation and Economic Development,

Oregon Housing and Community Services would like to thank you for the opportunity to provide an informational hearing on Affordable Housing Finance. During yesterday's informational, committee members raised questions and key issues to which we wanted to provide additional information:

Senator Woods asked when Tukwila Springs in Gladstone OR opened.
Tukwila Springs is an affordable Housing development that opened in 2022. Tukwila provides 48 homes for low-income seniors, 12 of which are permanent supportive housing (PSH) for chronically homeless seniors. Tukwila Springs also provides wrap-around support for PSH tenants funded by Metro's Supportive Housing Services and OHCS' Permanent Supportive Housing Program.

Representative Gamba asked about the soft costs and costs of lawyers in a project.
Soft Costs are the costs of a project that is not considered construction, and include costs that are indirectly related to materials and labor of the physical building of the projects. OHCS requires that 30% or less of a total project's costs can pay for soft costs. In 2019 OHCS published an Affordable Housing Cost Study to assess the factors that influence the development of affordable multi-family rental housing in the state. The study found, in figure 3, that soft costs constituted approximately 27% of total development costs. Soft costs include developer fees (non-profits use these fees to pay back the cost of the land acquisition, pay for staff used to develop the project, and saved to use to acquire more land for the next project), architect/ engineering/surveys, permits, System Development Charges, and other costs, which include accounting and legal fees, insurance, property taxes, and other soft costs. Legal fees are captured in other costs in figure 3.

FIGURE 3: SOURCES OF DEVELOPMENT COST



To get a more recent example of what this means, OHCS Affordable Rental Housing Divisions pulled four recent 4% Low-Income Housing Tax Credit (LIHTC) deals that include Private Activity Bond issuance to compare legal fees to total project cost. This ranged from 1-3% of total development costs.

Example	A	B	C	D
Bond Council	$ 60,000	$ 66,500	$ 55,500	$ 55,500
Tax Credit Legal	$ 35,000	$ 60,000	$ 57,987	$ 59,597
DOJ	$ 10,000	$ 12,000	$ 16,129	$ 11,146
Lender Legal Fee	$ 48,000	$ 60,000	$ 50,000	$ 40,000
Legal/Accounting	$ 54,000	$ 92,200	$ 105,456	$ 55,010
Total Legal	$ 207,000	$ 290,700	$ 285,072	$ 221,253
Total Project Cost	$ 7,594,207	$ 56,608,398	$ 10,919,074	$ 12,823,173
Percentage of costs	3%	1%	3%	2%

For four recent 9% Low-Income Housing Tax Credit (LIHTC) developments, which do not include a Private Activity Bond Issuance, the legal fees are listed below as another example.

Example	E	F	G	H
Total Legal	$ 122,871	$ 143,815	$ 134,500	$ 125,000
Total Project Cost	$ 18,874,417	$ 15,958,992	$ 80,012,647	$ 20,036,771
Percentage of costs	0.65%	0.9%	0.67%	0.62%

Representative Gamba asked about how CDFIs interact with agency programs and the development process.
Community Development Finance Institutions (CDFI) are certified as financial intermediaries committed to generating economic growth in underserved/distressed communities. CDFI often provide funding for pre-development costs and/or permanent loans on affordable housing projects.

What is OHCS' role in preserving Oregon's existing affordable housing?
There are different ways and funding programs that OHCS assists developers with to preserve affordable housing. OHCS' preservation efforts generally focus on periodically investing, with preservation resources, in the physical condition and financial sustainability of existing affordable projects as they age, in return for extending the rent restrictions attached to the development. Until roughly a decade ago, few in the affordable housing industry were paying sustained attention to preservation needs. Since then, OHCS and partners worked to bring awareness to the need of preserving affordable housing and risks if action is not taken. Last biennium saw the largest

investment in preservation ever by the Legislature, a total of $165 million between the 2021 and 2022 Legislatures (the previous allocation during the 2019 session was $25 million). Governor Kotek's mission focused budget includes a $118 million investment to fund the preservation of existing affordable homes, including homes in manufactured homes parks. These investments are additive to ongoing federal and state programs that can be used for preservation, namely the General Housing Assistance Program (state, Document Recording Fee), Oregon Affordable Housing Tax Credit (state), and the Low Income Housing Tax Credit (federal). While the scale of investments will help preserve long-term housing stability for thousands of Oregonians, the need far outstrips available resources; the agency and partners will have difficult decisions ahead on prioritize limited resources for preservation.

OHCS has four primary ways of supporting the preservation of Oregon's existing affordable housing: financing the acquisition of publicly supported housing with expiring affordability (as was recently approved for the Woodspring Apartments in Tigard), providing resources to address life, health, and safety concerns for affordable housing developments, providing resources to intervene when properties are at risk of financial insecurity, and acquiring and rehabbing manufactured home parks that will be owned by nonprofits and cooperative ownership (co-ops). Other related preservation priorities include renewing federal rent assistance contracts attached to specific properties and exploring opportunities to support the preservation of manufactured home communities as long-term affordable housing options. In addition, because of the need for extended affordability periods, most forms of OHCS funding now come with 60 years of affordability, rather than the previous standard of 30 years.

OHCS is developing a Preservation Strategy Framework which will guide future preservation investments and help clarify priorities to our partners. The agency is currently vetting plans through relevant stakeholders to better inform the final framework. That strategy is expected to be completed mid-2023 and focus on the risk of loss of affordable properties and the impact to tenants if properties are lost (especially the most vulnerable tenants).

What happens when OHCS portfolio affordable housing restrictions expire and what is OHCS's role?

When affordable restrictions expire (usually 30-60 years) on a property, the owner can decide to convert the development to market and no longer maintain restricted rents. They may choose to preserve the development either through opting to continue restrictions or by accessing public resources to further invest in needed property upgrades or rehabilitation.

Expiring affordable housing units in the OHCS portfolio are automatically part of the Publicly Supported Housing Preservation (PuSH) regulations which allow OHCS to appoint a "Designee" to act as a qualified purchaser for a withdrawing PuSH Portfolio project. The PuSH process is a result of HB 2002 (2017) and amended by HB 2002 (2019). Owners must provide notices to local government and OHCS regarding their intent to preserve the property or not when the affordability restrictions will expire. Owners are not required to accept any of the qualified purchaser initial offers but are required to accept the first received subsequent matching offer from qualified purchasers under a right of first refusal process when the owner intends to sell to a third-party. The right of first refusal

Oregon Housing and Community Services | 725 Summer St. NE Suite B, Salem, OR 97301-1266 | (503) 986-2000 | FAX (503) 986-2020

period begins upon an offer made by a qualified purchaser and extends 24-months beyond the anticipated withdrawal of the property from publicly supported housing.

Oregon Housing Developments with affordability limitations due to expire.
All projects with rent restrictions (OHCS funded, HUD, and RD) due to expire:

- In the next five years (2023-12/31/2027): 122 developments, 4,779 units
- Five-ten years out (2028-12/31/2032): 94 developments, 4,335 units
- Beyond 2032: 381 developments, 19,045 units

The figure above includes developments where federal rent assistance (HUD + USDA Rural Development contracts) is due to expire. Those account for a significant portion of the units at risk.

- In the next five years (2023-12/31/2027): 88 developments, 2,754 units
- Five-ten years out (2028-12/31/2032): 38 developments, 940 units
- Beyond 2032: 89 developments, 3,991 units

We appreciate this time to discuss more deeply the in and outs of affordable housing finance and development. It takes key partnerships, clear goals, and hard work to develop affordable housing in this state. We look forward to our continued efforts to bring forward housing solutions to address housing needs for Oregonians in every corner of the state.

In partnership,

Natasha Detweiler-Daby
Director Affordable Rental Housing
Oregon Housing and Community Services