

City of Portland, Oregon

## FINANCIAL IMPACT STATEMENT For Council Action Items

(Deliver original to Financial Planning Division. Retain copy.)

1. Name of Initiator Barbara Shaw	2. Telephone No. 3-3339	3. Bureau/Office/Dept. Housing Bureau (PHB)
4a. To be filed (date) 5/18/11	4b. Calendar (Check One) Regular <input checked="" type="checkbox"/> Consent <input type="checkbox"/> 4/5ths <input type="checkbox"/>	5. Date Submitted to FPD Budget Analyst: 5/12/11

**1) Legislation Title:**

\* Authorize the sale of six (6) single family houses located in the Lents Town Center Urban Renewal Area to Amethyst Development LLC and approve tax increment funding to benefit income-eligible, first-time buyers.

**2) Purpose of the Proposed Legislation:**

Allow for the sale of six single family homes owned by PHB and located in the Lents Town Center Urban Renewal Area (LENTS URA) to Amethyst Development LLC (AMETHYST) with tax increment funding of \$1,168,000 to benefit income-eligible, first-time home buyers. A portion of the financing (\$388,000) will be used to increase affordability to eligible households and will not be repaid. The balance, \$780,000, will be repaid when the homes are sold.

**3) Revenue:**

**Will this legislation generate or reduce current or future revenue coming to the City? If so, by how much? If new revenue is generated please identify the source.**

The legislation will result in increased revenue in the future. No property taxes have been paid during the period of public ownership. At an estimated market value of \$130,000 per home, annual property taxes would be approximately \$9,000 for all six homes and would be divided amongst the taxing jurisdictions according to formula by Multnomah County.

The project will provide revenue in the form of loan proceeds of approximately \$780,000 to the LENTS URA budget in fiscal year 2010/11 and 2011/12 when the acquisition loan that is being approved under this ordinance is repaid by AMETHYST to the Portland Housing Bureau (PHB).

**4) Expense:**

**What are the costs to the City as a result of this legislation? What is the source of funding for the expense? (Please include costs in the current fiscal year as well as costs in future years) (If the action is related to a grant or contract please include the local contribution or match required)**

In FY 2010-2011 costs to PHB are estimated at \$50,000 for closing expenses related to the sale of the properties, and for annual holding expenses including maintenance, repairs, security, and management. The acquisition loan and renovation loans to AMETHYST amount to \$1,168,000. The loan amount and expenses are provided for in the LENTS URA FY 2010/2011 budget. Of this, current estimates are for repayment of \$780,000 in Fiscal Years 2010/12 and 2011/12 depending on when homes are sold. Net costs are associated with significant repair to each property, making them safe, livable and more energy

efficient.

**Staffing Requirements:**

**5) Will any positions be created, eliminated or re-classified in the current year as a result of this legislation?** *(If new positions are created please include whether they will be part-time, full-time, limited term or permanent positions. If the position is limited term please indicate the end of the term.)*

No

**6) Will positions be created or eliminated in future years as a result of this legislation?**

No

**Complete the following section if you are accepting and appropriating a grant via ordinance. This section should only be completed if you are adjusting total appropriations, which currently only applies to grant ordinances.**

**7) Change in Appropriations** *(If the accompanying ordinance amends the budget, please reflect the dollar amount to be appropriated by this legislation. If the appropriation includes an interagency agreement with another bureau, please include the partner bureau budget adjustments in the table as well. Include the appropriate cost elements that are to be loaded by the Grants Office and/or Financial Planning. Use additional space if needed.)*

Fund	Fund Center	Commitment Item	Functional Area	Funded Program	Grant	Sponsored Program	Amount

APPROPRIATION UNIT HEAD (Typed name and signature)



CITY OF  
**PORTLAND, OREGON**  
PORTLAND HOUSING BUREAU

Commissioner Nick Fish  
Margaret Van Vliet, Director  
421 SW 6<sup>th</sup> Avenue, Suite 500  
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**COVER SHEET for  
ORDINANCE, RESOLUTION, REPORT TO COUNCIL**

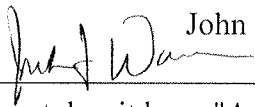
Today's Date: May 11, 2011  
Expected Date to Council: May 18, 2011

Title of Ordinance/Report: \* Authorize the sale of six (6) single family houses located in the Lents Town Center Urban Renewal Area to AMETHYST LLC and approve tax increment funding to benefit income-eligible, first-time buyers.


Contract Manager's Name & Number: Barbara Shaw, 503-823-3339

Preparer's Name & Number: Same as above

Manager's Name: John Warner

Manager Approval: 

If this is an Agreement/ a Contract, has it been "Approved as to Form" by the City Attorney?

Your Manager accepts this and signed here: 

Will this be on **Regular** or **Consent** agenda? **Regular**

Budget Impact Statement Attached? **Attached**

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*Please complete the following information*

- A. Provide information about the item (What is it about? Why is it important? Is there anything controversial? If so, why is it controversial and how is the controversy addressed? Any pertinent background information?)

Portland Housing Bureau (PHB) obtained control over twenty (20) single family homes on scattered sites in the Interstate and Lents Urban Renewal Areas (LENTS URA) from the Portland Development Commission (PDC) in July 2010. The homes had been purchased by PDC from the Housing Authority of Portland. In 2010, PHB released a public solicitation inviting proposals for the renovation and sale of these homes to first time homebuyers earning at or below 80% of median family income. AMEHTYST LLC responded to the RFP and was awarded the opportunity to purchase, rehabilitate and market six homes located in the LENTS URA. AMETHYST will acquire the homes from PHB for a purchase price of \$780,000 with a \$780,000 loan from PHB. AMETHYST will also receive a renovation loan of \$388,000 and will work with local contractors to correct life/health/safety issues, upgrade the properties, and improve energy-efficiency. Upon completion the homes will be marketed to eligible homebuyers. PHB's acquisition loan to AMETHYST will be repaid to the city as the homes sell. The renovation loan will be forgiven, in order to make the homes affordable to eligible buyers.

B. Provide three points of information that our Commissioner can use to introduce this item

- The homes are vacant. They were originally purchased by PDC, in part, to assist HAP in consolidating and improving public housing stock.
- All six homes will be sold to first-time homebuyers making 80% or less of area median family income (MFI). We are using the “first-time buyer” definition used by HUD/ FHA programs which includes families that have not owed a home in the last 3 years and displaced homemakers among other targeted households. Target incomes will be 60-80% MFI. For a family of four, 60% MFI is equivalent to annual income of \$42,700.
- AMETHYST will work with local community partners including the Portland land trust, Proud Ground, to market the homes to eligible homeowners.

C. Will you, as the preparer of this item, be at Council when this is heard? **Yes.**  
If not, who will be there in your place?

D. If the item is on the regular agenda, describe who will make the presentation or testimony and how much time will be needed for presentation and for Council discussion and vote.

No presentation will be made. The preparer and representatives from AMETHYST will be there to answer any questions from Council.

E. Will members of the community be part of the presentation or be invited? **No.**



## PORTLAND HOUSING BUREAU INTERNAL MEMORANDUM

May 11, 2011

### Single Family Home Rehabilitation Project– Amethyst Development LLC

#### BACKGROUND:

PHB currently has control over twenty (20) single family homes scattered in the Interstate and Lents Urban Renewal Areas. These homes were originally purchased from the Housing Authority of Portland and were the subject of a request for proposals issued July 16, 2010. Amethyst Development LLC (ADL) bid on and won the “B” bundle of Lents Town Center URA (LTC), which contain six (6) properties.

The RFP required that all development teams purchase the LTC URA homes for \$130,000 each (on average). It also provided a maximum of \$63,000/home for rehabilitation, carrying costs and developer fee.

Since PHB will be transferring the property without remediating it, and without indemnification, a separate line item sources and uses amount of \$10,000 (combined total) in addition to the rehabilitation budget of \$63,000 per unit is identified. In a market transaction, either HAP or PHB would have been required to clean up the property prior to sale. PDC opted to receive some of the properties without remediation. Representations in some of the materials about the presence of certain conditions (i.e. lead, asbestos, oil tanks) by property were found to be inconsistent with supporting documentation. In a market transaction, PHB likely would not be allowed to pass title without cleaning up existing contamination.

#### PROPERTY AND AFFORDABILITY:

The homes in Bundle B are:

	<u>Bundle</u>	<u>Acquisition</u> <sup>1</sup>	<u>Rehab Amt</u>	<u>Resale Price</u> <sup>2</sup>	<u>Year</u>	<u>Sq Ft</u>	<u>Type</u>
8037 SE Duke	B	130,000	67,983	153,440	1977	1096	3BR, 2Ba
6325 SE 86th	B	130,000	66,031	123,760	1961	884	3Br, 1Ba

<sup>1</sup> Price to be repaid to PHB at time of sale to homebuyer.

<sup>2</sup> Estimated price to homebuyer

6111 Se 86th	B	130,000	56,088	134,960	1981	962	3Br, 1Ba
6317 SE 89th	B	130,000	61,691	137,200	1973	980	3BR, 1Ba
6109 SE 90th	B	130,000	61,877	147,000	1979	1050	3BR
10105 SE Pardee	B	130,000	64,036	123,760	1957	910	3BR, 1 Ba
		780,000	377,706	820,120			

All homes are vacant and are in need of varying amounts of repair and rehabilitation, and have been transferred to PHB. All homes are required to be sold to a qualifying homebuyer at or below 80% MFI.

The Portland Housing Center will provide down payment assistance to qualifying homebuyers and confirms availability of funds sufficient to accommodate the expected \$61,288 identified by the developer

#### **SOURCE AND USES (Estimated)**

<b>Sources</b>		<b>Uses</b>	
PHB Lents	388,000	Acquisition	780,000
Purchase and Sale Agreement	780,000	Construction	286,801
PHB Lead funds	0	Remediation <sup>3</sup>	10,000
		Holding costs	6,000
		Dev Fee	48,000
		Sales <sup>4</sup>	37,199
	1,168,000		1,168,000

PHB staff has confirmed that lead funds may be used in the affected homes provided that a mention of families with children under the age of 6 is made in the marketing materials for the home. Lead funds may differ from initial estimates.

#### **TAKEOUT:**

Sales <sup>5</sup>	820,120
Repay PHB Acquisition	(780,000)
Potential surplus <sup>6</sup>	40,120

#### **PREVAILING WAGE:**

<sup>3</sup> Allowance is \$10,000, though identified amount in attached detail is \$8,600. Staff rounded up to align the budget. Unutilized amounts in the remediation line item are ineligible for cost savings

<sup>4</sup> Sales costs include net DPAL assistance of \$294 (indicating DPAL probably will not be utilized), seller contributions of \$8,201, and marketing costs of \$28,704

<sup>5</sup> Includes \$61,288 in Portland Housing Center down payment assistance

<sup>6</sup> Provides a cushion for sale price decrease

This project meets the tests for projects which are exempt from BOLI. No federal funds are being structured into this closing.

#### **ENVIRONMENTAL:**

Several of the properties have lead or asbestos issues. Properties with lead issues may apply for supplemental lead funding, which is administered by PHB's Neighborhood Housing Program.

According to a limited scope (no interior evaluation or cleanup lien search) environmental Phase 1 report prepared by Professional Service Industries, Inc. of Portland, OR on 5/21/08 for the Portland Development Commission, and the staff testing results, the following environmental issues exist by site.

#### **THIS SPACE LEFT INTENTIONALLY BLANK**

	<u>Heating Oil<sup>7</sup> Tank (HOT)</u>	<u>Lead<sup>8</sup></u>	<u>Asbestos<sup>9</sup></u>
8037 SE Duke	No HOT	N	Y - ceiling
6325 SE 86th	No HOT	N	n
6111 Se 86th	No HOT	N	n
6317 SE 89th	No HOT	N	Y ceiling
6109 SE 90th	No HOT	N	Y flooring
10105 SE Pardee	No HOT	y	Y duct tape

Since PHB will be transferring the property without remediating it, and without indemnification, a separate line item source and use in addition to the rehabilitation budget is identified. In a market transaction, either HAP or PHB would have been required to clean up the property prior to sale.

#### **PREDEVELOPMENT LOAN:**

There is no predevelopment loan.

#### **FEDERAL COMPLIANCE:**

Not applicable, funding is TIF.

<sup>7</sup> Phase 1 Environmental Site Assessment by Parametrix, dated May 23, 2008

<sup>8</sup> If "y", property is eligible for lead funds because lead testing found issues. Estimated at \$1,000 per unit affected, but PHB NHP staff will determine actual amount. Lead testing conducted by lead certified PHB NHP staff in January 2008.

<sup>9</sup> Hazardous Building Materials assessment report by AMEC Earth and Environmental Inc dated May 23, 2008

**DEVELOPER FEE AND EQUITY:**

The Developer Fee will be \$8,000/home, or 4.2% on a total project basis, which is within guidelines. The Developer Fee shall be earned as follows: one half (50%) of the Developer Fee shall be earned during construction. Based on the proposed schedule, fee payments will be split evenly by month. If the construction portion of the project runs longer than the projected schedule (8 months), there will be no additional developer fee payable above the 50% during any additional construction period. If the project is completed early, the portion of the 50% developer that has not been paid may be requested as a lump sum by the Developer. Upon successful sale and closing of each home, the Developer will earn and be entitled to payment of the remaining 50% of the Developer Fee on a pro-rata basis.

Though developer equity was not a requirement of the RFP detailing the HAP sites for sale, policy dictates a 2% equity contribution. Non-PHB grants/credits/rebates qualify as equity.

**MW/ESB:**

There will be a goal of 50% Minority, Women and Emerging Small Business (MWESB) utilization on the project for the construction contract. Goal includes trade-items self-performed by the general contractor. Use of Oregon certified MWESB contractors or subcontractors is preferred, but not required.

**DEVELOPMENT TEAM:**

General Contractor – Amethyst Development LLC

Developer – same, Portland Housing Center reports good experience with them as a developer/contractor

**PROPERTY TAX EXEMPTION:**

No property tax abatement on this project.

**PHB FINANCING:**

Loan Amount:	<b>Loan 1 – (Acquisition) - \$780,000</b> <b>Loan 2 – (Rehabilitation) - \$378,000</b>
Loan Term ( <b>both loans</b> ):	Construction Period – 12 months with three 3 month extensions upon request
Interest Rate ( <b>both loans</b> ):	0% as long as home is sold to a Qualified Buyer If a home is sold to a non Qualified Buyer, then interest on the Purchase Price portion of the loan as set forth in Property Affordability Table on page 2 above will begin accruing at 4% per annum until the home is sold. Interest is retroactive to the date the home title transferred from PHB to Developer.
Collateral:	Trust Deed in favor of PHB, properties will be cross-collateralized until their partial reconveyance at time of sale.



	Both loans will be cross-defaulted.
Repayment:	<p><b>Loan 1</b> - At the time of sale of each home to a qualified buyer, the amount of purchase price set forth on Attachment "A " must be paid to PHB.</p> <p><b>Loan 2</b> - At the time of sale of each home to a qualified buyer, the actual amount of rehabilitation costs, estimates set forth on "Attachment A" will be forgiven.</p>
Developer Fee:	The Developer Fee will be \$8,000/home. The Developer Fee shall be earned as follows: one half (50%) of the Developer Fee shall be earned during construction. Based on the proposed schedule, fee payments will be split evenly by month. If the construction portion of the project runs longer than the projected schedule (8 months), there will be no additional developer fee payable above the 50% during any additional construction period. If the project is completed early, the portion of the 50% developer that has not been paid may be requested as a lump sum by the Developer. Upon successful sale and closing of each home, the Developer will earn and be entitled to payment of the remaining 50% of the Developer Fee on a pro-rata basis.
Disbursements	Full reimbursement on materials installed, progress payments on work completed up to 90% of budget line item, processed upon receipt of invoice and any relevant/approved/signed off change orders as/if applicable. Balance of line item funds held back pending final inspections and lien waivers.
Project Cost Savings	75% hard costs to Borrower, 25% hard costs to PHB - 100% soft costs to PHB, except that the remediation line item savings will revert entirely to PHB.

#### KEY RISKS AND MITIGATING FACTORS:

Market Risk	There has been no worse market for single family real estate in staff's 30 years of lending recollection. The Portland market has not yet bottomed. It is not possible to credibly gauge the absorption rate with
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	<p>roughly half of the homes for sale in the metro owned by lenders<sup>10</sup>, with a like amount or more held back for future sale as bank-owned shadow inventory.</p> <p>Even with the entire rehabilitation portion of each home's funding becoming permanent subsidy, challenging market conditions could result in:</p> <ul style="list-style-type: none"> <li>• Extended marketing period</li> <li>• Potentially lower sales price than estimated in RFP, creating shortfall in repayment of acquisition price.</li> </ul>
Construction Risk	<p>Borrower is an experienced contractor. Materials pricing is relatively stable currently, but oil price instability due to unrest in Middle East has the potential to cause volatility in materials pricing in the indeterminate future. Careful construction monitoring by staff will help mitigate construction risk. All change orders require PHB approval.</p>
Environmental Risk	<p>Any known environmental issues were identified in the RFP. Properties will convey "as is where is" to developer/borrower.</p>

Marketing Plan:	<p>In collaboration with PHB staff, Developer will create a marketing plan. The marketing plan will focus in particular on four aspects: 1) approach to marketing to African American, Native American and Latino buyers; 2) approach to marketing to first-time home buyers; 3) approach to marketing to home buyers earning less than 80% of area median income. 4) for homes utilizing PHB lead grant funds, address families with children under 6 years of age</p>
Green Building Goals:	<p>The developer will target a 50% reduction in energy use across the portfolio of homes.</p>

<sup>10</sup> According to realtytrac.com on 2/3/11 a total of 1,818 private seller versus 1,757 bank-owned properties for Portland, OR

**CONDITIONS:**

1. All homes must be sold to a qualified first time Buyer, at or below 80% MFI.
2. If any of the properties apply for lead grant funding subsequent to the close of construction financing, marketing materials for the homes utilizing lead grant funding must address families with children under 6 years of age.

**CONDITIONS FOR CLOSING:**

1. Developer will provide detailed construction specifications for each home.
2. Executed lump sum contract for construction within the terms of this approval.
3. Marketing plan acceptable to PHB addressing:
  - a. approach to marketing to African American, Native American and Latino buyers;
  - b. approach to marketing to first-time home buyers;
  - c. approach to marketing to home buyers earning less than 80% of area median income.
  - d. Receipt of all required documentation for closing.

**EXCEPTIONS:**

1. Appraisal waived.
2. Performance bond waived.
3. Waive equity requirement.
4. Disbursements on a draw basis instead of retainage.

**RECOMMENDATION:**

Staff recommends approval of financing under the terms and conditions above. Disposition and sale requires City Council's separate approval. Delegate future approval of amendments to terms which do not increase PHB funding to HDF Senior Program Manager and Assistant Director. Approve additional requests detailed below, which are not disclosed to the borrower.

1. Allow staff to approve up to 10% reduction in acquisition repayment for each property if required to conclude sale, up to a maximum potential write-down of \$78,000.
2. Allow Bureau Executive Director to approve final repayment of acquisition price if less than Schedule up to \$25,000 in additional subsidy by reduction in acquisition repayment for each property if required to conclude sale, up to a maximum potential combined write-down of \$150,000. This request is to assure speed of response at Bureau level to any potential pending sale.
3. Allow two additional 3 month extensions to the construction period upon request of the developer in the event sales are slower than hoped for.