

Portland Planning and Sustainability Commission
October 25, 2016
4:00 p.m.
Meeting Minutes

Commissioners Present: Jeff Bachrach, Andre' Baugh (arrived 4:06 p.m.), Mike Houck, Gary Oxman, Michelle Rudd, Katherine Schultz, Chris Smith, Eli Spevak, Teresa St Martin, Maggie Tallmadge

Commissioners Absent: Katie Larsell

City Staff Presenting: Joe Zehnder, Susan Anderson, Morgan Tracy, Todd Borkowitz, Tyler Bump; Matt Tschabold, Kurt Kreager (PHB); Matt Wickstrom (BDS)

Chair Schultz called the meeting to order at 4:00 p.m. and gave an overview of the agenda.

Documents and Presentations for today's meeting

Items of Interest from Commissioners

- *Commissioner Rudd:* Update on the Lents Stabilization and Jobs project. We're working on addressing and preserving affordable housing in Lents. Flood plain insurance rates are climbing up, and we're looking to help and figure out how we can get more resources targeted to people who are in existing affordable housing to stay there. On the environmental side, we're looking at ways to improve ecological benefits in the flood plain as well as on the economic side making development capacity of industrial lands higher. There is lots of commitment from state agencies and the City, businesses and residents, so this is a good thing going on.
- *Commissioner Smith:* As an update on Vision Zero, I've been giving you all updates on the death toll on city streets. We have had 34 fatalities in Portland on the streets this year. The two most recent are drivers of automobiles.

Director's Report

Susan Anderson

- We had our first Council work session this morning after 2 hearings on Task 5 Implementation Package. This is a testament to the work the PSC did, and Council is taking about 95 percent of the PSC's recommendations and asking good questions. There will be amendments of course, but we're trying to get Council members to come to agreement so we can get this through by the middle of December. Amendments will be out a week from Friday.

Consent Agenda

- Consideration of Minutes from the October 11, 2016 PSC meeting.

Commissioner Bachrach moved to approve the Consent Agenda. *Commissioner Smith* seconded.

Commissioner Houck is pleased with the direction on the Fossil Fuels project. Will there be a letter from the PSC to Council? And to confirm, there is a separate process regarding hazard planning, correct? [Yes.] We could include something in the letter about being aggressive about retrofitting current terminals to respond to earthquake hazards.

The Consent Agenda was approved with an aye vote.

(Y9 – Bachrach, Houck, Oxman, Rudd, Schultz, Smith, Spevak, St Martin, Tallmadge)

Residential Infill Project

Briefing: Joe Zehnder, Morgan Tracy, Todd Borkowitz

Joe introduced the project. We are developing concept approaches to how we want the code to work, getting consensus sign-off at Council, then we'll work to develop the specifics of the code.

Joe highlighted the background issues including dramatic price rises in housing in Portland; our housing growth has not been keeping up with population growth. Demand for single-family houses in close-in neighborhoods has been the most dramatic.

We are focused on growing in centers and corridors in the new Comp Plan, but 45 percent of our zoned land is in single-dwelling areas. We also have the concept that, in addition to our centers and corridor areas, are housing opportunity areas. We know we also want to grow in these areas.

The project goals included figuring out how to adapt single-dwelling zones to meet the needs of current and future generations. We had an Advisory Committee assisting in the work, and *commissioners St Martin* and *Spevak* participated on that group.

Morgan noted the three primary topic areas the project addresses:

1. Scale of houses
2. Increase the range of housing choice
3. Improve narrow lot development

Scale is defined by a combination of maximum building coverage times height. The recommendation would limit houses in the R5 zone on 5,000 square foot lots to 2,500 square feet.

The maximum size house allowed would vary by two key factors: size of the lot and the zone that it is located in. FAR limits house size while offering flexibility in form. Additional FAR is allowed for detached accessory structures. We are hoping to encourage more ADUs and to break up the mass into two structures.

The second part of the proposal is about height limits. Current code sets the height limit at 30 feet and measures the bottom of the house at the high point on a lot. These two requirements can sometimes have the result of homes that are 3 or 4 stories tall. The recommendation would limit homes to 2½ stories and would better relate height measurements to the street.

Maintaining a pattern of established front setbacks is important to established neighborhood streetscapes. Some single dwelling neighborhoods have larger front setbacks that current code requires, so the recommendation is to increase the front setback, but also acknowledges that in some areas, the established setback is smaller. This proposal would permit homes to reduce the setback to match the adjacent house, where setbacks are smaller.

Commissioner Bachrach: I noted a report that says the average home size was 2600 square feet on 5000 square foot lots. So why 2500 square feet as a maximum?

- The intention is to have an established FAR (.5), which is consistent with other cities where single dwelling FAR is applied. Also, the additional floor area allowance for detached structures makes up this difference.

Commissioner Houck: If you have 2500 plus the ADU, you have more square footage.

Commissioner Rudd: Do basements count?

Basements and low-ceiling attics don't count toward the FAR. If the ceiling height is less than 80", that doesn't count as floor area.

The detached structures could be garages, ADUs, a combination of both.

Even though we have some specific numbers included in the report, they are really to help us show the concepts. We're still at the concept level, so there is additional analysis we'll do as we develop the code formally.

Todd highlighted the recommendations for housing choice. Generally, single-dwelling zones mean one house per lot. But there are already some exceptions to this: In addition to a single house, the code allows a house plus one ADU, as well as duplexes on corner lots and next to commercial zones.

The proposal would increase this range in specific areas by bumping up one unit: house with 2 ADUs, duplex on all lots, duplex with an ADU, and triplexes on corners. But the caveat is that the size of these structures does not get any larger than what would be allowed for a single house. What the recommendation essentially proposes is a modest step toward some of the additional missing middle housing types: those that are appropriate within the scale of a single dwelling house.

Adding significant purpose and guidance was the Council amendment to the Comp Plan. A quarter-mile buffer around centers, frequent bus corridors, and MAX stops, as well as housing opportunity areas. These layers all come together to form a conceptual "housing opportunity" geography. The additional range of housing types mentioned would be allowed in these select areas by designating an overlay zone. David Douglas School District (DDSD) is currently being excluded until such time that district enrollment capacity issues are addressed.

Further refinement to the boundary will be a part of this upcoming year's work to hone the edge of the boundary to reflect property lines, physical barriers, natural features like topography, and other practical considerations.

In addition, the recommendations allow for cottage clusters on larger lots, which are currently allowed through a planned development process. They are currently not allowed ADUs, which this proposal seeks to change. They would be subject to the same FAR limit for the site overall. The size of each cottage would be capped at 1,100 square feet.

Overall Housing Choice Recommendations:

- Allow more housing types in select areas and limit their scale to the maximum size for a house
- Establish a Housing Opportunity Overlay Zone in select areas
- Increase flexibility for cottage cluster developments on large lots citywide
- Provide flexibility for retaining existing houses

Commissioner Smith: What's the difference between an internal ADU and a duplex?

- ADUs are allowed up to 800 square feet or 75 percent of the main unit.

Commissioner Rudd: Does anything change in a historic district?

- We have the same types of flexibility, but with a building alteration, it will be subject to historic review. If there are no external changes, there isn't historic review, but adding a detached structure will require the review.

Commissioner Houck: I've lived in a four-plex in NW for the past 37 years. Is this allowed? I would think these should be allowed. You cannot tell our 4-plex from a single family home.

- These are currently not allowed in single-dwelling zones.
- For an existing house on a corner you could do a fourth unit.

Commissioner Houck: They should be allowed.

Commissioner Spevak: You can currently subdivide a duplex on a corner. Can you now do this mid-block?

- Currently if you have a corner lot, you can split it to do a pair of attached houses. We'd have to see what that would do in terms of a triplex.

- How many lots are in the DDS chunk?
- About 6000 that would otherwise be included in this overlay.

Commissioner Tallmadge: With the quarter-mile radius, does that exclude lots of neighborhoods? Do we want to go that way?

- It does omit Brentwood-Darlington, parts of North Portland and parts of East Portland in DDS.
- We want to make complete neighborhoods accessible and make it easier for people to live there.

If you need to justify a transit investment, it's a similar thing.

- Part of what we're counting on is using growth to make sure we have investments in centers and corridors to make those succeed. However, this type of housing is a housing choice; it's opening up smaller, less-expensive units in high-amenity neighborhoods.

The pace of change will still be dependent on the market. The more area we include will keep rapid wholesale change that people fear in single-family neighborhoods.

Commissioner Bachrach: The economic report we have says we're going to lose housing under this package, and we won't hit housing capacity targets we established.

- This will be addressed as part of the next portion of today's discussion.

Chair Schultz: What about existing homes and flexibility and limiting FAR. Why would we limit their FAR to, for example, update their attic to make it habitable without changing the roofline?

- There is a bit of balancing when we're talking about scale and differentiating between a new and existing house. We are including some flexibility of FAR for this particular issue.

When you say "some additional limiting" if we're converting space inside the house to habitable floor area and not changing anything on the envelop.

- If the area meets dimensional requirements for being habitable (regardless of whether it is "conditioned space ") it would be considered pre-existing floor area and would be grandfathered.

It's the mix of units, staying in a single-dwelling house form that still brings a new type of unit into the marketplace, that can on its face address baseline concerns about context and change that led us to this. There are still issues swirling about parking requirements.

This is a starting point for the conversation at Council.

Commissioner Tallmadge: The concern about "pace of change". Is this perception from the neighborhood?

- It is an argument that will be used.

Commissioner St Martin: The SAC was a large group, vocal and very divided on things. Kudos to the staff who experienced this vocal opposition and fear of change in the neighborhoods directly during the outreach sessions. This is a compromise plan, which still has vocal opponents to it. But we can continue to refine and move forward.

Commissioner Spevak: Staff wove a line between different perspectives, and people in the group cohered around a vision that would be flexible inside the house.

Morgan highlighted the final topic which was about improving narrow lot development. This recommendation acknowledges that the skinny lots in R5 zone are not intuitive and don't reflect the lot size pattern. These lots are also located in areas close to centers and corridors and provide additional options for smaller fee-simple homeownership. The proposal would rezone these historically narrow lots to R2.5.

There are four variants of R2.5 houses under the proposed changes:

1. Where a house is being retained, new rules would permit a property line adjustment to create flag lots.
2. In places where a house is demolished, new houses would be required to be attached.
3. On large vacant sites (at least 5,000 square feet) two units would be required, either a duplex or a house with an ADU.
4. And on vacant sites, pre-existing lots could be confirmed or large lots divided for detached (or attached) houses.

The recommendations include additional height provisions for the R2.5 zone. Like other zones, single houses on standard lots would be limited to 2½ stories. Detached houses on narrow lots would be limited to 2 stories. Attached houses would be allowed to be 3 stories.

The final proposal relates to garages and parking where narrow houses are allowed to address some issues relating to their form. On these narrow detached house lots, driveways occupy most of the front yard, remove available on street parking and take up space for street trees. Additionally, on these narrow houses, the width of the garage door dominates the front facade. The proposal would be to no longer allow street-facing garages (rear garages or shared driveways would be allowed but not required). While front loaded garages would not be allowed on detached skinny houses, for attached houses, garages would be allowed if driveways are combined and tucked under the first floor.

Narrow Lot Recommendations:

- Rezone historically narrow lots to R2.5 in select areas
- Citywide improvements to the R2.5 zone
- Revise parking rules for houses on narrow lots

Tyler introduced the pro forma example and feasibility to see the predicted impact on overall utilization over the next 20 years. Generally there was a lower overall rate of redevelopment in the proposal. 6750 square feet down to 2500 square feet. When demolition does occur, we're likely to see multiple units rebuilt on the site.

We looked at the value of a new single-family home built under current regulations. Value of the home will be significantly more than the value of the land. It shows a reduction in units as a result of decreasing the number of overall units, the yield. Conceptually we'll see less one-for-one replacements, which doesn't help the housing supply. And we'll see marginally more of these come in as duplexes. So where we see demos, we'll typically see two-for-one replacements. Far and above, it makes more sense to do multiple units than a single house redevelopment. The proposal does check lots of the objectives of the project.

We're seeing more ADUs being built with new construction, likely due to current SDC fee waivers.

Commissioner Houck: I've been thinking about this from a different direction. ADUs and other ways to increase the number of units is an opportunity for people's wealth-creation. Home ownership is the most important way to creating wealth. To the extent we're coming up with policies for people to have ADUs, I think this narrows the wealth gap in the city.

The other piece is the intergenerational equity and having multiple generations in a single home.

Commissioner St Martin: Another opportunity for the future is a policy option, if we wanted to incent more duplexes or triplexes, this could be done with additional FAR.

Commissioner Baugh: How many ADUs have been produced in the past couple years?

- About 300 ADUs per year since 2014; 125 before that. But it's continuing to increase.
- It's about 10-15 percent of new construction.

Next steps

- November 1: City Council Briefing
- November 9 and 16: Public Hearings
- 2017: Begin legislative process

There is an opportunity for the PSC to send some feedback or suggestions to Council.

From 2010-16, 1341 ADUs were permitted in Portland.

Commissioner St Martin: Staff did a fantastic job. This was a really difficult project, with disparate ideas and a big universe to work with. It does represent a step forward and maybe it doesn't go far enough, we'll see what we hear in public testimony and what we get back from Council, but it's a step in a direction.

Commissioner Smith: Creating more smaller units can help improve affordability. But parking regulations will be part of this, and if we require them, it will have an effect on gentrification and the economics of building more units. When this comes back to the PSC, I'll poke for the parking regulations to be reviewed simultaneously.

Commissioner Baugh: My issue is around ADUs and duplexes. I'm not concerned about the one-for-one tear-downs. This is an opportunity for wealth-creation, particularly in minority neighborhoods. So I'm a bit concerned about having ownership and a way to create wealth. How do we provide a clear path for them to stay in their neighborhoods with family?

- Lots of people are in too-large houses, and they want to be surrounded by family and people who can help care for them. This project is aimed to provide flexibility and options.

Commissioner Spevak: I hope that the PSC will write a letter of support for this initiative and the direction staff has taken. It's a positive step, though I still think things could go further. I shared a one-pager today that could be part of our letter:

- Put into code a real incentive for affordable housing. An FAR unit bonus.
- Drop DDSD from the exclusion area. We covered their concerns in the Comp Plan, and I don't think school districts should be driving land use.
- Some incentive for accessible housing... but this could be building-code related.
- Internal conversations: this should be allowed citywide, not just in opportunity areas.
- Increase tree canopy and try to protect it.
- Subdivision code: I would encourage some modification of this code.
- If we're losing unit count, we'd want to tune the FAR or geographic area to be net positive in terms of number of units.

Commissioner Baugh: The only concern about the letter that I have is the decrease in units, because this only looked at one issue (not duplexes or ADUs).

Commissioner Rudd: I would like to skip the DDSD item that *Commissioner Spevak* noted. We are in a good partnership, and we need to support them and have a discussion if we're going to step back from commitments we've already made. *Chair Schultz* concurred.

Commissioner Smith: I would like to send a letter in support. But Council is creating the scope, it comes back to us as a legislative project. So I want to limit what we include in this letter to things we might not get back from Council to discuss in the next step.

Commissioner Bachrach: I'm concerned that by sending a letter we're taking an issue with controversy without having a public hearing to inform our recommendation.

Commissioner Spevak will work with staff to draft the letter, then we will discuss at an upcoming PSC meeting or will send via email if there's not a need for deliberation.

Susan will relay information to the PSC about Council's hearings and deliberations as they happen in the next month.

Inclusionary Housing

Hearing: Tyler Bump; Matt Wickstrom (BDS); Kurt Kreager, Matt Tschabold (PHB)

Tyler provided a process update and referred to a few changes that are included in the memo and updated proposal. Staff is continuing to work on density bonuses in historic districts in the Zoning Code amendments.

Kurt provided an overview of inclusionary housing in Oregon and in other parts of the country. Commissioner Saltzman has asked for an evidence-based plan to develop an IZ program without impairing existing policies or pipeline. This has been a partnership between PHB, BPS and BDS, as well as the Panel of Experts. The Panel doesn't have a position; they were asked to provide expertise to staff, not to come to consensus.

Matthew gave an update on program development elements. In terms of mixed-use zones, we will be committing a direct subsidy. We're calibrating this level, and this will be given prior to the November 8 work session. There have been concerns about property tax exemption limitations, and based on our voluntary program, within the program, rules and regulations in City code, should areas not have a tax exemption, a building wouldn't be subject to the inclusionary requirement or fee-in-lieu. Development communities in terms of the construction of new units: people are comfortable that we build in financial penalties if the units don't come online on time. Staff are making final calibrations, and this will be available in advance of your work session.

Chair Schultz: In Seattle, understand it was a lengthy process to gain community consensus on their IZ policies. It seems like this process has been quite abbreviated. Are there concerns about the quick timeline this project has been on?

- Kurt: The Portland process on IZ has been open and it comports to the state bill. As we considered whether or not to phase it in, we decided to advance this fully. Commissioner Saltzman's clear goal has been helpful. If we have an interest in achieving more tenant protections, then our IZ policy needs to be done before the next legislative session in Salem.

In terms of vesting, does the effective date stay as February 1?

- Yes, we don't expect a retrospective process.

Kirk Ranzetta, Historic Landmarks Commission: Kirk highlighted some concerns, particular the IH FAR bonus and potential impacts in areas that have a FAR and potential for disproportionately tall buildings. A second concern is the imposition on historic buildings and redevelopment. Finally, we are concerned about increased FAR that could result in a demolition of historic building. We haven't had time to think about options. We've been a partner in developing affordable housing options. But there is a potential to create disproportionately-sized buildings in historic districts. A fee-in-lieu system could be designated to the particular historic district, which would ultimately create incentive to build affordable housing in historic districts. *see written testimony.*

Julie Livingston, Design Commission: Concerned about the limited briefing time with staff to the DC. We hope that the economic impact of IH on production of multifamily rental has been thoroughly vetted and housing ratios proposed don't compromise Comp Plan goals. IH code should provide floating subsidy in each building. DC believes revisions about building massing or height should be modeled at all different block sections. *see written testimony.*

Commissioner Baugh appreciates the PHLC comments, and it's important to try to find a solution to having affordable housing in historic districts while recognizing distinctive historic districts. The DC's concern is the same as mine. Is the lesser standard a design issue in terms of quality of products?

- For design review process, we were concerned there would be differences in quality. Now we're more concerned about the difference in the characteristics of the housing units. We don't want to see ground floor units as designated affordable housing with 80 percent plus at higher levels. We want to be sure this has been considered.

Commissioner Tallmadge confirmed this is included in the proposal.

Commissioner Baugh asked for staff to coordinate with the DC to ensure they understand what's included in the proposal. If there are issues that are outstanding by November 8, we need to hear about that for our deliberations.

Commissioner Bachrach: Design review doesn't look at the interior of the building. So is there no yielding or adjusting in your perspective?

- It will be different in every building, and if we apply Fair Housing Law, there would be a variety of units in the building available.

Commissioner Spevak: If there is a proposal to use one of the 3:1 FAR bonuses and PHLC says it's too big, what happens in that scenario?

- Unless we have an alternative "safety valve", there aren't options. That's why we want to seek an alternative policy to meet the affordable obligation and incorporate it into historic districts.

Testimony

1. Cary Watters, NAYA: Consider anti-displacement as a pillar of climate resilience. IH provides opportunities for low-income community members and helps to prevent emissions to help with climate goals. It promotes social cohesion. Recommend the proposal for City Council adoption.
2. Sam Rodriguez, MCRT: There hasn't been enough discussion of potential unintended consequences. We might be rushing into a program that won't achieve the goals that it's set out to do. We need to be able to finance and develop these deals. My fear is that we end up pushing people to the outside, which is exactly what we don't want to do. We love the inclusion of affordable housing into our projects, like the MULTE program we've used. But we won't get what we want with this proposal. The MULTE program has become difficult to use, so the problem for a developer is that the more risk and procedures you detract from developers building units.
3. Madeline Kovacs, Portland for Everyone: We support abundant and diverse housing options for all Portlanders and support the proposal in its current form. Prioritize housing for historically and currently under-served populations. Need to leverage for all Portlanders, not just for those who can afford. Portland's zoning roots have harmed specific populations, and the current proposal addresses policies that have done harm in the past. IH policy has a full suite of tools to achieve successful housing options. In terms of parking, it can destroy affordability in housing projects. *see written testimony.*

Commissioner Smith: Would removing parking requirements in mixed-use zones (MUZ) generally help with affordability?

Yes. And it doesn't mean you're not going to get parking. Developers will do what pencils for the units they're building. But as we are trying to transition to a low-carbon economy, eliminating parking requirements will be necessary.

4. Sarah Zahn, Oregon Locus: Member of the PHB Panel of Experts and PHAC. We want to achieve the greatest number and options for affordable units without compromising City goals. At 60

percent MFI and voluntary, it appears to work with the exception for mixed-use zones. If we don't change this, we'll have lower housing production, particularly in lower-intensity zones. For the mandatory 80 percent MFI, we don't see the return. *see written testimony.*

5. Doug Burges, Oregon Locus: We need alternative options calibrated to meet housing needs and maintain housing production. Offsets must be available to ensure housing production is delivered. Both Title 30 and Title 33 need to reflect this. Update in-lieu fee proposed. *see written testimony.*
6. Noel Johnson, Oregon Locus: Ramp this program up and be predictable. 60 percent MFI: start at about 3 percent inclusion rate for mixed-use and lower-density zones; 10 percent for higher-density. For the proposed required 80 percent MFI, 3 percent and 11 percent to get to goal inclusion rates. The City needs to raise the cap on tax abatements to about \$10M to not constrict housing supply in non-URA areas. *see written testimony.*
7. Gwenn Baldwin, Oregon Locus: We don't have off-site recommendations yet. The off-site option for existing buildings should be considered separately from this IZ program because of the income certification mismatch. We don't want to see any unintended consequences. This can be a valuable tool, but we should start with a moderate program that ramps up over time. The number of new affordable units produced is what should be used. *see written testimony.*

Commissioner Smith: PHB has a model, you have a different model to calibrate incentives. What's the difference in the models? In terms of ramping, how quickly could we ramp?

The DRA model is a bit difficult to completely compare. Models are based on assumptions. We feel solid that these are market conditions on the ground.

In terms of ramping, we think about a 3-year timeline would work.

Commissioner Spevak: If you've tuned the incentive packages to not impact the residual price of the land, why do we need a ramping up period?

Investor jitters are our main concern. So we need to start slow and ramp up.

Commissioner Tallmadge: You're first saying to set a ramp, and that's how you decided the inclusion rate?

Part of it is that we're starting with an assumption of offsets are what PHB is proposing. Looking at what's available currently. We were looking at what the max we can get to is. But this is all numbers and looking at how we can achieve the strongest production overall.

8. Cyd Manroe: How can we help people stay in their neighborhoods where they have built community? I can no longer afford to live in the neighborhood where I've been for 12 years. I support IH for as much as we can get.
9. Vivian Satterfield, OPAL: Member of the Panel of Experts. IZ was a tool we identified in 2009 at OPAL and have worked a long time on this issue. Portland home prices grew at a faster rate in August included in the index. This is an urgent issue and we want this to go forward to Council, particularly the inclusion rates as identified in the current proposal.

Chair Schultz: Do you believe that the supply of production of housing units at the current rate will continue? Locus says that at 20 and 80 we'll slow supply. Is this a concern for you?

No. This is based on S&P's price home index from this last week. Looking at other jurisdictions,

this is pretty average and achievable.

10. David Noren, SEIU Local 49: We need to make sure workers have enough income to afford housing where they work; this is one of the important factors for us. We don't want to lose track of addressing affordable housing options including the use of the voluntary inclusionary housing incentives for non-residential development. We don't need to make assumptions about fee-in-lieu for non-residential being the same as something that's required for inclusionary housing. *see written testimony.*
11. Mark Edlen, Gerding Edlen: We analyzed the proposal on a project we've just completed. The current proposal would not pencil for the project we reviewed, and it wouldn't have been built. Design and quality of units would be severely impacted to achieve. I cannot support the current policy as written. *see written testimony.*
12. Brian R Wilson, The Mainland Companies: I support creating policy, but the proposal before you does not work. I'm sensitive to having good policy to create the affordable housing and units we need. If we reduce return on cost as proposed, units won't get built. There are viable alternatives as OR Locus as proposed. Fee-in-lieu and offsets need to be calibrated. We need better conversation about cost of compliance.
13. Paul Grove, HBA Metro Portland: We are committed to ensuring success of IZ. In terms of MUZ, the potential for a new incentive for these zones would warrant more discussion around this aspect and the overall incentive package in MUZ. Our members typically have smaller-scale projects, so we have different investors and different lenders. We want to be sure we get the program right and get the units built.

Commissioner Bachrach: What are different ways you finance a project? Do you feel comfortable with the starting pro forma models?

Brian: There is a perceived risk by investors of building in areas outside the Central City. Thresholds are higher, and banks look at these places differently. Every project has a slightly different pro forma. So you can't look at just one model aside from some basic guidelines.

Susan: In MUZ we started requiring parking again a few years back. If that was in the trade-offs to reduce costs, can you think about that and provide an answer to staff?

It depends on the area. If we don't have mass transit in the area, it won't work.

Mark: Putting parking minimums back in was a mistake and is costly.

Chair Schultz: Would more FAR help offset this?

No.

14. Vic Remmers: Local homebuilder on a range of projects. I have concerns with the current proposal, particularly that MUZ we not part of the conversation at the beginning. Smaller buildings don't have the same economy of scale as the larger buildings. We want to work to have a program that works, and we're concerned that the current proposal will stop development. I don't want this to be like the parking requirements. Without parking requirements, we'd be able to build much more.
15. Chris Bonner: I've been in real estate for 26 years and enthusiastically support the IZ proposal and plan. We don't have time to wait, and the need is urgent. I applaud PHB for moving quickly. This is an opportunity to plan for equitable development.

16. Jim Winkler: 40 years ago began building affordable housing. But this proposal reduces supply and ultimately translates to significant rent increases. There is nothing in this proposal that will actually increase density. We won't build to a loss intentionally, as would be the case in low-density zones. I think the current plan is rushed and not yet completely baked. Who's benefitted and who's harmed? The large class of those who wish to live in rental housing will be the ones who lose, and the suburbs will be winners.

Commissioner Spevak: In R1, the IZ provision only counts for a building with 20+ units.

Jim: The project I'm considering is 65 units. Current zoning is 1:1000 square feet plus a density bonus. We'd see this go to 800 square feet per unit but only half of the amenity bonus. So we wouldn't be able to build this project without appropriate incentives.

17. Allan Lazo, Fair Housing Council of OR: Investment and access to opportunity is an important part. Inclusionary tenants underlie the principles that must be included in the IZ program. In the fee-in-lieu proposal should mirror what's suggested for the off-site option. If we require affordable units to be built at market rate, we are bringing mixed-income communities together. This is our best opportunity to do this. *see written testimony.*
18. Marty Kehoe, Kehoe Northwest Properties: The goal of IZ is to increase affordable housing, but it's the opposite of what will happen with this proposal. Financing won't pencil. We need carrots not sticks to move affordable housing development forward. 20 percent is going to have negative impacts on everything we're trying to do.

Commissioner Oxman: What is the fatal flaw that would cause the units not to be built?

Cost of construction and fees. This would drop the income so the pro forma doesn't work. I'd recommend a slow phase-in process.

19. Matt Goodman, Downtown Development Group: We need to pass effective affordable housing policy. We can't get this wrong. The current proposal is lacking specifics. We need to have a thoughtful policy to support.
20. Doug Klotz: I'm concerned the current proposal will slow building in MUZ. Remove parking requirements in MUZ and then take up the difference in the direct subsidy. And adjust the subsidy so the program will work. To build more supply, there is a lot of small lot development in inner neighborhoods that could fall under the cap. I would raise the base FAR in CM2 for 7000 lots from 2.5:1 to 3:1 to get more affordable units, that would help.
21. Diane Linn, Proud Ground: It's really difficult to create affordable homeownership opportunities for low-income folks. We have to consider workforce housing and making it available to people at 60 percent MFI. This proposal is a strong start. But we want to be sure we consider that details need to be worked out. We need to do something and do it soon. Consider the families who are using 50 percent or more of their income just to live here. Portland can do this and learn from other jurisdictions. Move forward with no delays. Chapel Hill and Cambridge are places that have made this work. We can get back to you with a list of IZ programs that are working elsewhere.
22. Cassidy Bolger, Portland Lloyd Center Community LLC: We're developing 1000 units in Lloyd, breaking ground in January. I'm excited by changes in this area. It would be unfortunate if progress here would be slowed by an IH policy that isn't well-vetted and thought out. The devil is in the details about what the offsets are, which we just learned about.
23. John Mulvey: Member of EPAP housing committee, and we're strong advocates for IZ and other anti-displacement programs. We appreciate this work. A measured approach that Locus

suggested: many of the same people who have testified today were active in ensuring that the state bill included lots of restrictions. The measured aspect of this is already baked in. We are advocating for the City to go to the maximum the state bill allows. We don't want to have the program ramp up. This is a crisis that needs to be addressed now. Offsets of taxes and SDC waivers would help assist our ability to include affordable units.

24. Jessica Rojas, NECN: Northeast neighborhoods are some of the most gentrified in the city. With more people moving here, more places are becoming out of reach. IZ can help with keeping people where they are. IZ 20 percent was a compromise, and we shouldn't stray from that. IH offers Portlanders opportunities to embrace our growing city.
25. Joren Bass, Urban Development Partners: PERS and similar investments are things we look to. We have a shortfall and a dark cloud over Oregon's finances. Public retirement funds can help to build affordable housing, but they wouldn't invest in a model if this IZ proposal is adopted.
26. Tom DiChiara, Cairn Pacific Development: We need bold thinking and aggressive action. The program can't impede housing development, and the proposed IZ program does not get to these objectives. We won't be able to attract capital and will make affordable housing options fewer. Developers are a key player. Give us the tools to make this viable with a policy that works for all. *see written testimony.*
27. Brad Schnell, Greystar Real Estate Partners: The IZ proposal is not going to have the desired outcome and will negatively impact building in Portland. There needs to be a greater menu of incentives to make building affordable housing feasible.
28. Ed McCoy, Fairfield Residential: I'm looking for clarification on applications for land use review. I'm concerned there will be a surge of applications before the February 1 timeline. I would suggest further clarification about this for the building permit applications to get our plans complete for those submitting building plans.
29. Scott Kueng: IH can affect the entire development and construction industry including people who work. I see the effects of homelessness every day. The current proposal won't help and offsets are not strong enough to keep units affordable. We should be aiming to build more affordable housing and overall housing development. We need both. We need more housing, and we should use a proposal that ramps up slowly with a moderate fee-in-lieu.
30. Brenner Daniels, Holland Partner Group: Successful IZ policy includes increasing affordable housing and increase housing as a whole. We need to do both to ensure it's successful, but the current proposal does not get us there. We need a measured and thoughtful IZ policy. A ramp up, potentially looking at 15 percent affordable to 80 percent MFI, a moderate fee-in-lieu, as well as including code language to suspend IZ if offsets are not affordable.

Commissioner Smith: Locus testified that you're willing to take a hit of 10-20 points. Who would actual bear this?

It would be looked at by developers and equity/financial partners.

31. Mark Desbrow: Greenlight Development. Have worked on about 700 units since the turn of the recession and have about a 400-unit pipeline. We work on infill development projects in particular. The testimony from developers and the Locus group is what we're experiencing with underwriting right now. But even with our large pipeline, we're not moving forward. I also don't see us getting back online until rents go up.
32. Joe Cortright: Looked in detail at IZ around the country. It does not work, and it does not lower the cost of housing. What's proposed will create a huge chilling effect on investments.

It's likely for a year or more we won't see development, which poses expensive costs and a serious disruption to housing supply. Incentives in this program will encourage people to under-build. The real problem is a huge demand for urban living that we haven't anticipated, so if we restrict supply, we're simply going to make prices rise. Time is critical, and housing markets are not regular and even. If you miss the hot window, you don't necessarily get it back. You have to build in a ramp-up period that's slow with good opportunities for people to avoid costs. *see written testimony.*

Commissioner Smith: We're trying to mix housing economics with equity. What we've heard is that people are either going to be made whole or will go elsewhere. Is there a program that could help share the burdens to create housing for Portland citizens and make people share part of the burden?

Encourage people to build. Affordability is based on more supply. People have choices to invest in other ways and other places.

Commissioner Bachrach: Are there any successful IZ programs we could look to?

We think affordability is a real issue. IZ programs produce very small numbers even in large cities that have had programs for a number of years. Costs are a big issue. and time costs actually dissuade investment as well. We need to give people certainty about how much per unit it costs to opt out.

Commissioner Baugh: The Locus proposal suggests 15 percent could work.

I haven't had a chance to look at their report. But I would say they may be looking at it for their individual projects, but my concern is the chilling effect and that some developers may simply give up or go elsewhere.

Written Testimony Received

Chair Schultz closed oral testimony at 8:18 p.m. Written testimony will remain open through Friday, October 28 at 5 p.m.

Questions for staff

Commissioner Houck: I'm stunned at the onslaught of opposition, so I'm not sure where to start or what to say.

[later] It did strike me that in every instance we've tried to put in place more progressive policies about natural resource protection, it's always doom and gloom, the world as we know it is going to end. It'll be Armageddon if we put in place new regulations. That is what I'm hearing tonight. I was interested in Locus' suggestions and analysis and hearing more about their numbers. Their proposal may well be the middle ground between Armageddon and Oz.

Commissioner Rudd: I'm concerned about the comment that part of the pressure on the timeline of the IZ program being in place by February 1 is based on the legislature and getting increased rent protections because we've adopted an IZ package. I'm concerned about moving too quickly. We heard the example of building 30-unit projects to avoid parking requirements. That's what I'm concerned about. We have to figure out what's going to be effective. To the extent the City will be spending money on other things if we don't do something here, like emergency services, that's another cost or savings we could consider in establishing the direct public subsidy.

Commissioner Smith: I'd like to see a comparison between the PHB model and the Locus model. I'm interested in a view on what the uncertainty premium is and the potential delay we'd potentially create in the market (an estimate of number of units and how to mitigate this). I'm interested in the

public costs: can you score them as total public dollars versus a number of components? Local lenders and their participation as Marty noted could be helpful.

Commissioner Spevak: I'm curious about the property tax cap issue raised by the Locus group. As part of the analysis, it was interesting to hear about the number of affordable housing units created as opposed to the percentage. What's the sweet spot to get the most affordable housing units built? I'd like to do something as quickly as possible, but we still don't have complete answers. In terms of the small unit projects, could they also get a similar package?

- About the tax cap issue, you'd first have to convince Council to take the tax loss.
- There is a voluntary option for the smaller developments.

Commissioner St Martin: Shared the concerns about the timing to get the process right. Can we make sure you talk with the Design Commission and close that loop?

Commissioner Tallmadge: We heard quite a few alarming numbers. Are other programs similar and mandatory? Did they have similar incentives to what we're providing?

- New York's program has been voluntary, and they're developing a mandatory program now. We have a comparative analysis that we can provide.

Commissioner Bachrach: Can we see a comparison of the Locus proposal and run it through the City's IRR analysis? What about alternatives to the in-lieu fee? Are there options or can you show us what happens with a reduced in-lieu fee? I'm interested in other IZ programs and if another city has a similar structure to what we're proposing and building on. We're told rushing because we have to satisfy the legislature. Do we have verification that will undermine the City's legislative program if we don't do this by February 1? In terms of direct subsidy in MUZ, maybe you could pull together developers who are focused on the 20-40-unit development and see how they feel about this. What's the right and fair incentive package?

- We can provide a model of the comparative measure of feasibility. A fee-in-lieu as an option will depend on a specific developer's work.

Commissioner Oxman: I'm intrigued by the statement that you can lower inclusion standards and still produce more units. What does this look like? Individual developers have said they ran the program through their own pro formas, but I'm wondering why they're getting such different results. How do we build on what's working here and elsewhere and adjust what's not working in future years?

Commissioner Baugh: In a sense, 62 percent of the renting households meet the 80 percent MFI in Portland. That's a big number. This is about people. We're only looking at the numbers right now, but what are costs of transportation, schools and social services that would be impacted if we delay or take a slow ramp-up? There costs if we do nothing. We need to balance this and understand those costs.

Commissioner St Martin: What if we looked at a different frame for the project, a reverse ramp. What I mean by this is, if our objective is to increase the supply of affordable housing, then give sweetened incentives that work for the next two years and the incentive decreases over time. This way you incent action in the current building cycle. This is the opposite of the current program structure that might be useful.

Chair Schultz: How do we incentivize what's in the pipeline today to get them to participate? I would like to see an analysis on the effect of family units. What is the cumulative effect of all these measures on the cost of development? We hear this is a big one, and it should be balanced and reviewed. Need follow-up on how we handle historic districts. I have developers who want to use the MULTE program, so I'm still philosophically struggling with the mandatory versus getting the voluntary program right. If we can only do so much tax abatement, and then no one else has to do inclusionary because we've capped the program, would we be better off to get the voluntary program open? Importance of implementing without exacerbating affordability is a concern, and I think the current proposal does exacerbate affordability. The calibration is so key, and we're not there yet.

Susan: Part of this is we can do more SDCs or raise tax abatement. They effect different things and on different parts of the City's budget. I want us to be able to look at which pots the money is coming out of.

Commissioner Bachrach: From a policy standpoint, we all should pay. But there is also the element that the private sector could potentially provide the same unit for less money than public funding can.

Chair Schultz: There are a bunch of apartments that already exist. How do we make this not just for new development and including already-built units?

Commissioner Baugh: Can you look at IZ from a transportation perspective as well? Is this equivalent to giving them rent reduction?

Adjourn

Chair Schultz adjourned the meeting at 8:57 p.m.

Submitted by Julie Ocken