

City of Portland, Oregon

**FINANCIAL IMPACT STATEMENT
For Council Action Items**

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

| | | |
|--|--|--|
| 1. Name of Initiator Karl Dinkelspiel | 2. Telephone No. 3-1354 | 3. Bureau/Office/Dept. Housing Bureau |
| 4a. To be filed (date) 4/5/2011 | 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: 4/5/2011 |

1) Legislation Title:

* Authorize the sale of nine (9) single family houses located in the Interstate Corridor Urban Renewal Area to RENEW Kenton Homes LLC and approve tax increment funding to benefit income-eligible, first-time buyers (Ordinance).

2) Purpose of the Proposed Legislation:

The legislation will authorize loans for home acquisition and rehabilitation totaling \$2,032,000. The legislation will also authorize the sale of the homes to Renew Kenton. The homes are currently in PHB's portfolio and are vacant. Renew Kenton's rehabilitation will make possible the sale of the homes to first time homebuyers and will lead to the homes being back on the tax rolls.

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. Prior to Housing Bureau (PHB) ownership, all nine homes were owned by the Housing Authority of Portland (HAP) and paid no property taxes. The successor owner, the Portland Development Commission (PDC) also paid no property taxes. Currently, under PHB ownership, no property taxes are paid.

At an estimated market value of \$160,000 per home using Multnomah County's "change property ratio" of 0.6040 and a "millage rate" of \$21.73, each house would pay \$2,100/year in property taxes or \$18,900 for all nine homes. These revenues would be divided up amongst the taxing jurisdictions, including the city of Portland, according to formula by Multnomah County.

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 fiscal year '10-'11, costs to the Portland Housing Bureau are estimated at \$100,000 which includes maintenance, repairs and security. 100% of this funding comes from Interstate Urban Renewal Area Tax Increment Financing (TIF). In FY '11-'12, costs to the city are estimated at \$2,017,000 also 100% from Interstate TIF. Of this, current estimates are for repayment of \$1,440,000, resulting in a net cost in FY '11-'12 of \$577,000. Because repayments are dependent on home sales, some repayment may be pushed forward to FY '12-'13. Net costs are associated with significant repair to each property, making them safe, livable and more energy efficient. Homes will be permanently affordable using the Proud Ground

land trust model, thus protecting the City's financial investment.

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 |
|------|-------------|-----------------|-----------------|----------------|-------|-------------------|--------|
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

Margaret Van Vliet, Director

APPROPRIATION UNIT HEAD (Typed name and signature)



CITY OF
PORTLAND, OREGON

PORTLAND HOUSING BUREAU

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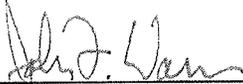
**COVER SHEET for
ORDINANCE, RESOLUTION, REPORT TO COUNCIL**

Today's Date: April 5, 2011
Expected Date to Council: April 20, 2011
Title of Ordinance/Report: * Authorize the sale of nine (9) single family houses located in the Interstate Corridor Urban Renewal Area to RENEW Kenton Homes LLC and approve tax increment funding to benefit income-eligible, first-time buyers (Ordinance).

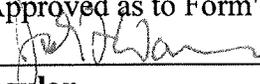
Contract Manager's Name & Number: Karl Dinkelspiel 503-823-1354

Preparer's Name & Number: Same as above

Manager's Name: John Warner

Manager Approval: 

If this is an Agreement/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**

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?)

The Portland Housing Bureau (PHB) currently has control over twenty (20) single family homes scattered in the Interstate and Lents Urban Renewal Areas (URA). These homes were originally purchased from the Housing Authority of Portland and were the subject of a request for proposals (RFP) issued July 16, 2010. Renew Kenton Homes, LLC (Renew) responded to the RFP and was awarded the opportunity to purchase, rehabilitate and re-sell all nine homes in the Interstate URA. Renew will acquire the homes from PHB using a \$1,440,000 PHB loan. Renew will also receive a renovation loan of \$592,000. With these funds Renew Kenton will perform various work to correct life/health/safety issues, upgrade and make the homes more energy-efficient. Upon completion the homes will be marketed to first-time homebuyers through a community land trust non-profit corporation that will insure the homes' permanent affordability; affordability defined as 80% or less of area median family income. PHB's acquisition loan will be repaid as homes sell. The renovation loan will be forgiven, which is key to making the homes permanently affordability.

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

- *The homes are currently unoccupied. Life/health/safety and energy-efficiency upgrades will be the focus of the rehabilitation work.*
- *All nine homes will be sold to first-time homebuyers making 80% or less of area median family income (MFI). Target incomes will be 50%-60% MFI. For a family of four, 50% MFI is equivalent to \$35,600/year*
- *The homes will be permanently affordable through a community land trust non-profit corporation.*

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

Yes.

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 Renew will be there to answer any questions from Council.

E. Will members of the community be part of the presentation or be invited?

No.



CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

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184537

DATE: March 3, 2011

TO: Jacob Fox, Assistant Director

FROM: Karl Dinkelspiel, Siobain Beddow

SUBJECT: Internal Report: Single Family Homes Rehabilitation Project / RENEW Kenton.LLC
\$2,032,000 Loan to Renew Kenton Homes, LLC for Acquisition and Rehabilitation of HAP Scattered Site Bundles C and D (Interstate URA – FY 2010-11)

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. Renew Kenton homes bid on and won the two Interstate URA home bundles, which contain nine (9) properties.

The RFP required that all development teams purchase the Interstate URA homes for \$160,000 each (on average). It also provided a maximum of \$63,000/home for rehabilitation, carrying costs and developer fee.

In its RFP response, Renew Kenton proposed a number of different activities for each home. The first broad category of activity is/was energy conservation. All homes will get upgrades that Renew Kenton projects will improve energy efficiency by 50%. To achieve this, work will focus on: insulating crawl spaces and attics, replacing windows and replacing furnaces with "mini-split" heat pumps. Other work will include replacing or repairing flooring, painting and making other repairs as needed. Plumbing and foundation work will be done to some of the homes, but the extent of the work will have to be determined through additional testing.

PROPERTY AND AFFORDABILITY:

The homes, comprising bundles "C" and "D", are:

| | <u>Bundle</u> | <u>Acquisition</u> ¹ | <u>Rehab Amt</u> | <u>Release Price</u> ² | <u>Built</u> | <u>Sq Ft</u> | <u>Type</u> |
|-------------------|---------------|---------------------------------|------------------|-----------------------------------|--------------|--------------|-------------|
| 8920 N. Drummond | C | 149,000 | 61,000 | \$146,175 | 1955 | 816 | 3 BR, 1Ba |
| 3107 N Houghton | C | 160,000 | 64,000 | 150,675 | 1955 | 1008 | 4BR, 1Ba |
| 3220 N Hunt | C | 158,000 | 61,000 | 156,175 | 1955 | 971 | 3BR, 1 Ba |
| 9020 N Chautauqua | C | 175,000 | 64,000 | 205,600 | 1964 | 2600 | 3BR, 1 Ba |

¹ Price to be repaid to PHB at time of sale to homebuyer, also called Release Price

² Release price includes proceeds from PCLT homebuyer grants. Targeted MFI is 60%, but up to 80% MFI is a Qualified Buyer

| | | | | | | | |
|-------------------|---|------------------|----------------------------|--------------------|------|------|-----------|
| 8606 North Curtis | C | 153,000 | 63,000 | 156,175 | 1973 | 858 | 3BR, 1Ba |
| 3101 N Arlington | D | 159,000 | 60,000 | 150,675 | 1958 | 894 | 3Br, 1 Ba |
| 3702 N Arlington | D | 167,000 | 55,000 | 156,175 | 1958 | 894 | 3BR, 1 Ba |
| 3325 N Halleck | D | 163,000 | 70,000 | 156,200 | 1973 | 858 | 3BR, 1Ba |
| 3309 N Halleck | D | 156,000 | 69,000 | 162,150 | 1971 | 1226 | 3BR, 1Ba |
| Total | | 1,440,000 | 567,000³ | \$1,440,000 | | | |

All homes are vacant and are in need of varying amounts of repair and rehabilitation. The homes are currently titled to the Portland Development Commission, but through an Intergovernmental Agreement, the homes will be transferred to PHB upon request.

SOURCE AND USES (Estimated)

| Source | | Uses | |
|---------------------------------|------------------|--------------------------|------------------|
| PHB Purchase & Sale Agmt | 1,440,000 | Acquisition | 1,440,000 |
| PHB Interstate TIF ⁴ | 592,000 | Construction | 405,000 |
| PHB Lead funds | 5,000 | Remediation ⁵ | 25,000 |
| Energy Trust | 12,000 | Development | 120,500 |
| | | Dev Fee | 58,500 |
| Total | 2,049,000 | | 2,049,000 |

All homes are required to be sold using Proud Ground's land trust model. In a land trust model owners own the improvements (the house), but lease the land from Proud Ground. Proud Ground uses the land lease to control the home's resale price and thereby insure affordability in perpetuity. Generally, owners are entitled to 25% of a home's appreciated value based on an appraisal at the time of resale.

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, and will be handled separately by NHP staff.

Rather than originating organically based upon needs of each property, available TIF budget was the primary determinant of the scope of rehabilitation. The total construction contract amount of \$430,000 includes a \$35,000 (10%) contingency.

The use categories of construction, remediation, development, and developer fee offset against PHB Interstate TIF, PHB Lead funds and Energy Trust sources.

Takeout testing:

| | |
|--|--------------------|
| Sales, net | \$1,270,000 |
| Proud Ground buyer grants ⁶ | \$170,000 |
| Total | \$1,440,000 |

³ Average is \$63,000 per home, which does not include a separate project line item for remediation of asbestos and oil tanks in a total amount of \$25,000

⁴ Includes \$25,000 total combined TIF funds designated solely for remediation costs, \$567,000 in straight rehabilitation

⁵ Pulled out of construction costs due to differential cost savings treatment

⁶ Staff confirmed amount with ProudGround

PREVAILING WAGE:

This project meets the tests for projects which are exempt from BOLI which includes:

Projects for residential construction that are privately owned and that predominantly provide affordable housing.

(A) "Affordable housing" means housing that serves occupants whose incomes are no greater than 60 percent of the area median income or, if the occupants are owners, whose incomes are no greater than 80 percent of the area median income.

(B) "Predominantly" means 60 percent or more.

ENVIRONMENTAL:

Several of the properties have heating oil tank, lead or asbestos issues. Properties with lead issues may apply for supplemental lead funding. According to testing, the following environmental issues exist by site.

| | <u>Bundle</u> | <u>Heating Oil Tank (HOT)⁷</u> | <u>Asbestos</u> | <u>Lead⁸</u> |
|---------------------|---------------|--|-----------------|-------------------------|
| 8920 North Drummond | C | Y – decommissioned, cleaned, closed but still has contaminated soil– need docs or cleanup and closure | Y | N |
| 3107 N Houghton | C | Existing – needs decommissioned – if soil contamination exists, could impact neighboring property at 8911 N Curtis Ave | Y | N |
| 3220 N Hunt | C | Y – decommissioned, contaminated, closed | y | N |
| 9020 N Chautauqua | C | No HOT | y | N |
| 8606 North Curtis | C | No HOT | Y | N |
| 3101 N Arlington | D | No HOT | Y | Y |
| 3702 N Arlington | D | Y – decommissioned, contaminated, closed | N | Y |
| 3325 N Halleck | D | No HOT | Y | N |
| 3309 N Halleck | D | No HOT, existing septic may need decommissioned | N | y |

Since PHB will be transferring the property without remediating it, and without indemnification, a separate line item sources and uses amount of \$25,000 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 the RFP 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.

PREDEVELOPMENT LOAN:

There is no predevelopment loan.

⁷ Phase 1 Environmental Site Assessment report by Professional Service Industries, Inc, dated May 21, 2008

⁸ 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 which will offset against the actual remediation costs. Lead testing performed by lead certified PHB NHP staff in January 2008.

FEDERAL COMPLIANCE:

Not applicable, funding is TIF.

DEVELOPER FEE AND EQUITY:

The Developer Fee will be \$6,500/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.

Contractor overhead and project management line items in the construction budget total of \$90,000, when included with the per unit developer fee, fall to the high side of normal developer fee for single family construction (range of 20-30% on just construction, 7.8% if acquisition included).

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. Energy Trust of Oregon is expected to contribute up to \$15,750 to the project in the form of rebates, which represents a 2.8% equity contribution, while only \$12,000 is reflected out of conservatism. If these rebates do not materialize, staff recommends waiving the equity requirement.

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.

The sole purpose entity being formed for this development, Albina Construction Company will seek state of Oregon MWESB certification as it will be owned 67% by minorities and 33% by women. In addition, including work Albina self performs, the goal will be to achieve 50% MWESB participation in the construction work.

DEVELOPMENT TEAM:

General Contractor - Albina Construction Company
Developer – Cityhouse Builders LLC (Tom Walsh Jr.)

PROPERTY TAX EXEMPTION:

No property tax abatement on this project.

PHB FINANCING:

| | |
|-----------------------------|---|
| Loan Amount: | Loan 1 – (Acquisition) - \$1,440,000 Loan 2 – (Rehabilitation) - \$592,000 |
| Loan Term (both loans): | Construction Period – 11 months with three 3 month extensions upon request |
| Interest Rate (both loans): | 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: | Loan 1 - At the time of sale of each home to a qualified buyer, the amount of Release Price set forth on "Attachment A – Release Price" must be paid to PHB. |

| | |
|----------------------|---|
| | Loan 2 - At the time of sale of each home to a qualified buyer, the actual amount of Rehabilitation Amount , estimates set forth on "Attachment A- Release Price" will be forgiven. |
| Developer Fee: | The Developer Fee will be \$6,500/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. |
| Project Cost Savings | 75% of both hard and soft costs to Borrower, except that cost savings attributed to the remediation line item revert entirely to PHB. |

KEY RISKS AND MITIGATING FACTORS:

| | |
|--------------------|---|
| Market Risk | <p>There has been no worse market for single family real estate in staff's 30 years of lending memory. The Portland market has not yet bottomed. It is not possible to credibly gauge the absorption rate with roughly half of the homes for sale in the metro owned by lenders⁹, 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"> • Extended marketing period • Potentially lower sales price than estimated in RFP, creating shortfall in repayment of acquisition price. <p>Utilizing Proud Ground's pipeline of customers awaiting affordable homeownership and a significant per unit subsidy should mitigate market risk somewhat. There are currently 109 households on their list, and there have been 4 land trust home sales in the last 6 months, with another 5 pending.</p> <p>Staff has elected to seek approval for increased permanent subsidy in the form of decreased repayment of the acquisition Loan 1 in order to address market risk.</p> |
| Construction Risk | 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. |
| Environmental Risk | Any known environmental issues have been identified and quantified where possible, but without absolute certainty that budgeted amounts are sufficient. Properties will convey "as is where is" to developer/borrower, but the understanding is that the developer is not willing to take on the risk of substantial environmental contamination. PHB could have been required to clean the site prior to transfer. If cleanup costs exceed budgeted amounts, developer may amend and increase request for these amounts. |

⁹ According to realtytrac.com on 2/3/11 a total of 1,818 private seller versus 1,757 bank-owned properties for Portland, OR

| | |
|-----------------------|--|
| Marketing Plan: | 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 |
| Green Building Goals: | The developer will target a 50% reduction in energy use across the portfolio of homes. |