

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 five (5) single family houses located in the Lents Town Center Urban Renewal Area to ROSE Community Development Corporation. and approve tax increment funding to benefit income-eligible, first-time buyers.

2) Purpose of the Proposed Legislation:

Allow for the sale of five single family homes owned by PHB and located in the Lents Town Center Urban Renewal Area (LENTS URA) to Rose CDC (ROSE) with tax increment funding of \$985,000 to benefit income-eligible, first-time home buyers. A portion of the financing (\$335,000) will be used to increase affordability to eligible households and will not be repaid. The balance, \$650,000, 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 \$8,500 for all five 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 \$650,000 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 ROSE 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 ROSE amount to \$985,000. The loan amount and expenses are provided for in the LENTS URA FY 2010/2011 budget. Of this, current estimates are for repayment of \$650,000 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

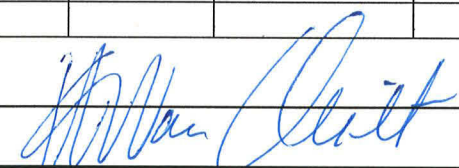
6) Will positions be created or eliminated in future years as a result of this legislation?

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

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COVER SHEET for
ORDINANCE, RESOLUTION, REPORT TO COUNCIL

184601

Today's Date: May 11, 2011
Expected Date to Council: May 18, 2011
Title of Ordinance/Report: * Authorize the sale of five (5) single family houses located in the Lents Town Center Urban Renewal Area to ROSE Community Development Corporation 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**

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. ROSE Community Development (ROSE) responded to the RFP and was awarded the opportunity to purchase, rehabilitate and market five homes located in the LENTS URA. ROSE will acquire the homes from PHB for a purchase price of \$650,000 with a \$650,000 loan from PHB. ROSE will also receive a renovation loan of \$335,000. ROSE 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 ROSE will be repaid to the city as the homes sell. The renovation loan will be forgiven, in order to make the homes permanently 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 five 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 owned 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.
- ROSE will work with local community partners including Proud Ground and Community Visions to market the homes to eligible homeowners. One of the homes has accessibility modifications and a household that needs mobility modifications will be given the first opportunity to purchase.

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 ROSE 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 – ROSE CDC

ACTION REQUESTED:

Approve disposition and loan terms for purchase and rehabilitation of five (5) homes in the Lents Town Center Urban Renewal Area (ICURA) by ROSE CDC, as part of the Single Family Homes Renovation Project. Of the total amount of funding, \$335,000 is actual new funding required, the remaining \$650,000 is the sale price from PHB to the developer.

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. ROSE CDC (ROSE) bid on and won the "A" bundle of Lents Town Center URA (LTC), which contain five (5) 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.

Two homes are required to be sold using ProudGround'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. When ROSE sells two of the rehabilitated homes, at the time of the sale to the eventual homebuyer, ProudGround will divide the land from the improvements and take the land into a land trust. Land trust homeowners only pay a percentage of the assessed property tax, since property taxes are based on the assessed value of the house, plus a small amount of the land value.

PROPERTY AND AFFORDABILITY:

The homes in Bundle A are:

	<u>Acquisition/ Resale price¹</u>	<u>Develop ment Budget</u>	<u>Year</u>	<u>Sq Ft</u>	<u>Type</u>
6719 SE 86 th	140,000	77,141	1977	1,166	3BR, 1.5 Ba
6801 SE 86 ^{th2}	125,000	49,521	1977	1,100	3BR, 1.5Ba
8730 SE Rural	135,000	78,138	1977	1,166	3BR
8732 SE Rural	135,000	78,294	1977	1166	3BR, 2Ba
6936 SE 91 st	115,000	81,906	1963	1,059	3Br, 1Ba
	650,000	365,000			

All homes are vacant and are in need of varying amounts of repair and rehabilitation, and have been transferred to PHB. All homes must be sold to a qualifying homebuyer at or below 80% MFI. Two homes will become land trust homes; 6936 SE 91st, and 6801 SE 86th which is fully ADA accessible and will serve a Community Vision client. Founded in 1989, Community Vision is the largest nonprofit organization providing individualized housing, supported living, employment and homeownership services to people with disabilities and their families in Oregon.

THIS SPACE LEFT INTENTIONALLY BLANK**SOURCE AND USES (Estimated)**

Source		Uses	
PHB Purchase and Sale Agreement	650,000	Acquisition	650,000
PHB Lents	335,000	Construction	176,962
ProudGround	30,000	Construction (Remediation)	20,000
		Development costs	34,038
		Dev Fee ³	60,000
		Sales Costs	74,000
Total	1,015,000		1,015,000

¹ Price to be repaid to PHB at time of sale to homebuyer.

² Fully ADA accessible, will be sold to Community Vision client

³ 6.4%, which is within guidelines

Staff has confirmed that ProudGround is contributing \$30,000 for the homebuyer side of the transaction, on the following two properties:

1. 6801 SE 86th
2. 6939 SE 91st

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 proceeds	650,000
PHB repayment	(650,000)
Surplus/ (gap)	0

PREVAILING WAGE:

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

ENVIRONMENTAL:

Several of the properties have asbestos issues. The limited lead testing which was performed did not reveal the presence of lead. Should lead show up in any of the properties, the project may apply for supplemental lead funding which is administered by the Neighborhood Housing Program at PHB.

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.

	<u>Heating Oil⁴ Tank (HOT)</u>	<u>Lead⁵</u>	<u>Asbestos⁶</u>
6719 SE 86 th	No HOT	N	Y-ceiling
6801 SE 86 th	No HOT	Not tested Not likely	N
8730 SE Rural	No HOT	n	Y-ceiling
8732 SE Rural	Catch basin, low risk, needs pumped	Not tested Not likely	Y-ceiling
6936 SE 91st	Existing UST needs decommissioned	n	Y-ceiling

⁴ Phase 1 Environmental Site Assessment report by Parametrix dated May 23, 2008

⁵ 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 was conducted by lead certified PHB NHP staff in January 2008.

⁶ Hazardous Building Materials Assessment report by AMEC Earth and Environmental, Inc dated May 23, 2008

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 as remediation. In a market transaction, either HAP or PHB (or PDC) 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.

DEVELOPER FEE AND EQUITY:

The Developer Fee will be \$12,000/home, or 7% 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. Use of Oregon certified MWESB contractors or subcontractors is preferred, but not required.

DEVELOPMENT TEAM:

General Contractor - COLAS
 Developer – ROSE CDC

PROPERTY TAX EXEMPTION:

No property tax abatement on this project.

PHB FINANCING:

Loan Amount:	Loan 1 – (Acquisition) - \$650,000 Loan 2 – (Rehabilitation) - \$335,000
Loan Term (both loans):	Construction Period – six months with two 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 Attachment A 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.
Disbursements:	Draw basis
Repayment:	Loan 1 - 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. Loan 2 - 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.
Developer Fee:	The Developer Fee will be \$12,000/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 (6 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% hard cost savings to Borrower, 25% hard cost savings 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 lenders⁷, 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.
Construction Risk	Borrower is an experienced contractor. Materials pricing is relatively stable currently. Careful construction monitoring by staff will help mitigate construction risk. All change orders require PHB approval.
Environmental Risk	Any known environmental issues were identified in the RFP. Properties will convey "as is where is" to developer/borrower.
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.

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.

⁷ According to realtytrac.com on 2/3/11 a total of 1,818 private seller versus 1,757 bank-owned properties for Portland, OR

2. Executed lump sum contract 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.

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 and delegate future approval of amendments to terms which do not increase PHB funding to HDF Senior Program Manager and Assistant Director. Disposition and sale requires City Council's separate approval. Approve additional requests detailed below, which are undisclosed to 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 \$65,000.
2. Allow Senior HDF Program Manager and Assistant 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 \$125,000. 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.