Limited Tax Exemption BIG LOOK
Policy Review Committee

Friday, February 25, 2011, 1:30-3:30pm
Multnomah County Office Building
501 SE Hawthorne Blvd – Room 315

MEETING NOTES

IN ATTENDENCE: Chair Jeff Cogen, Commissioner Nick Fish, Commissioner Deborah Kafoury, Margaret Van Vliet, Cathey Briggs, Doug Obletz, Jill Sherman, Megan Steele, Marissa Madrigal, Beckie Lee, Daniel Ledezma, Uma Krishnan, Kate Allen

<u>Welcome & Introductions</u> Chair Cogen opened the meeting and welcomed attendees to the County Headquarters.

<u>Review materials sent in advance of meeting, Questions, Comments?</u>

- 10/25 Meeting Notes
- Final EcoNW Report
- Review LTE Annual Report
- Committee Actions and Timeline

Chair Cogen asked if the final EcoNW report differed materially from the version reviewed previously, Kate Allen responded that the final report included the case studies, which were not reviewed previously, but otherwise was not different. None of the conclusions or recommendations changed.

<u>Presentation – Jill Sherman, Mixed Income development finance model</u> (presentation attached)

The attendees appreciated Jill's simple, clear presentation of the financial analysis of the impact of tax abatement tools on a project. She illustrated this with an actual project – located at SE 20th & Hawthorne. The project was built to LEED Gold green building standard, with small units and very little parking which reduces development costs.

Q. Affordability target for this project? (80% units @100%mfi; 20% units @ 80%mfi)
A. Workforce housing – perception is that means anything non-subsidized, term "workforce housing" can be used as term to mask NIMBY (not in my back yard).

Can use example of wage earner to be more clear: hotel service worker earns 40%mfi; entry level teacher earns 60%mfi, etc.

Issue is often rent burden – especially low wage workers who want to live in high cost/high amenity areas.

Q. How is the developer fee reflected in the project expense? How is it paid?
A. As an expense item at approx. 4% of development cost – typical for the level of risk the developer is taking (4-6%). The fee is paid out through the course of development and covers the developer out of pocket costs, often advanced to start the project. Lenders treat developer fee as a contingency until the project is completed and the permanent financing is in place.

Feasibility of the project is determined by analysis of the *rental constant* - Net Operating Income (NOI)/Total Project Cost.

Securing conventional financing for the project requires a rental constant of at least 7%.

- Without the LTE project achieves 5.9% rental constant – no go
- With the LTE project achieves 7%

Q. What are other options, if no LTE?
A. Grants of no-cost $ such as Metro TOD, Tax Increment Financing (TIF) or land contribution – most of which are not available for this income level (80-100%mfi), or in this location (TIF is only available in URA's)

Q. What would it take to buy greater affordability? (20% of units @ 60% mfi)
A. $1 million debt free $ up front

Another option would be to work with a non-profit to bring in additional non-debt capital

Q. What is the impact of Systems Development Charges (SDC's)? (> $1,000,000)
A. Project is located in highly developed metro area, systems are already in place. Impact of small units w/ low parking ratio is arguably low. Current methodology has a greater impact on residential construction than non-residential, even with efficient, low impact design. Lessons could be learned from the experience of Accessory Dwelling Units, which have been an allowed use, but underutilized due to cost prohibitive SDC's. Portland has temporarily suspended SDC fees for ADU's, in order to incent more development of this dwelling type.

A better model for mf residential would be fees based on usage, especially when project reduces impact on systems through efficient design. Could also consider lower fees for affordable units in a mixed income project, similar to the current non-profit developer program.

Q. What is the rent differential between the 100%mfi and 80% mfi projects
A. $1,300 per month to $1,000 per month

Q. Are these rents too high? Does it drive renters towards homeownership?
A. It depends who is the market for the units.

Also need to consider the benefit of location and reduction of need for car – emerging index for cost burdened household: Housing + Transportation Cost = >45%

Discussion of rent psf:

Project presented – SE Hawthorne:	\$2.12
Bookmark Apts. – Hollywood:	\$1.68
Belmont Lofts – SE	\$1.70

The Ramona – NW/Pearl: \$.87 psf for large 3 br unit (138 units @ 60%mfi)
This results from investment of \$19 million in TIF and 60 year affordability requirement

Q. In the example, 20% of the units are bought down by +/-\$200 per month (80%MFI), through public Investment (foregone revenue) of \$1,800 per unit per year = \$207k X 10 yr = \$2 million. Is this sufficient benefit for the public investment?

If public is subsidizing at this rate for some 80% units, why not just use rent assistance (project based)?
A. LTE Investment buys benefits beyond affordability – density, location proximate to jobs/transportation(reduction of auto reliance), high performance building.

It's important to match the tools to the goals we're trying to achieve.

The analysis of comparative costs to different tools in very useful. TIF is very expensive and relatively inefficient – many high priority (high asset) development areas are not in URA's.

Analysis provides opportunity to better understand the LTE tool – goal of this committee will be to analyze the most strategic use of the tool, as one among others in the housing/community building toolbox.

<u>Next Steps</u>

Defer discussion of Preliminary Recommendations until after presentation at the next meeting of a comprehensive overview of the housing development policy and resource toolbox. To include highlights from Portland Plan, PHB Strategic Plan and Multnomah County policy goals and budget.