

Portland Planning and Sustainability Commission
November 8, 2016
12:30 p.m.
Meeting Minutes

Commissioners Present: Jeff Bachrach, Andre' Baugh, Mike Houck, Katie Larsell (arrived 12:38 p.m.), Gary Oxman, Michelle Rudd (by phone; left at 1:50 p.m.), Katherine Schultz, Chris Smith, Eli Spevak, Teresa St Martin, Maggie Tallmadge

City Staff Presenting: Susan Anderson, Michele Crim, Ingrid Fish, Joe Zehnder, Tom Armstrong, Tyler Bump; Kurt Creager, Matt Tschabold (PHB)

Chair Schultz called the meeting to order at 12:29 p.m. and gave an overview of the agenda.

Documents and Presentations for today's meeting

Items of Interest from Commissioners

- *Commissioner Smith:* As an update on Vision Zero, I've been giving you all updates on the death toll on city streets. We now have had 35 fatalities in Portland on the streets this year. The most recent was on the St Johns Bridge the other weekend. This one is most troubling because 10 years ago ODOT could have created a dedicated bicycle lane on the bridge. We still have a long way to go to implement out policies and Vision Zero policy. here was a memorial ride / protest last Thursday evening.
- *Commissioner Spevak:* Justin Buri, Director of CAT, died last week. He was a great advocate for affordable housing.

Director's Report

Susan Anderson

- Each of you have in front of you a hard copy of the CC2035 documents for review. We will have a work session on November 16. It also includes a memo that highlights a few changes from the packet you received electronically last week.
- Also, it's we have 3 items at Council this week:
 - First, tomorrow we have a hearing for the Residential Infill Project. Kat and Theresa will be there to represent the PSC and others are welcome. I will ask the Mayor to invite any additional PSC members to come up at the beginning of testimony.
 - Also tomorrow, Council will have a second reading and vote on the Mass shelters code changes.
 - And on Thursday, Council will have a hearing in the Fossil Fuel Infrastructure ordinance. Gary will represent the PSC. Similarly, anyone else from the Commission who wishes to testify will be invited up at the beginning.

Commissioner Houck noted the fossil fuel letter from the PSC to Council and the conversation for opportunity for the future hazard planning process would force the issue on seismic upgrades. Was this discussed and just not included, or did we just forget?

- This would have been an accidental miss, but *Commissioner Oxman* could mention this at Council on Thursday.

Consent Agenda

- Consideration of Minutes from the October 25, 2016 PSC meeting.
- RWA #7940: SW Moody south of the Ross Island Bridge

Chair Schultz has a conflict of interest with the RWA item and recused herself from the Consent Agenda. *Vice Chair Smith* presided.

Commissioner Baugh moved to approve the Consent Agenda. *Commissioner Spevak* seconded.

The Consent Agenda was approved with an aye vote.
(Y8 – Bachrach, Baugh, Houck, Oxman, Smith, Spevak, St Martin, Tallmadge)

Commissioner Spevak noted that in discussing the street vacaiton with staff, we might want to look at selling right-of-way instead of transferring it. This is already an income-generating property for the City, but we're not allowed to sell it under statutory rules. But it could have real value.

Commissioner Smith noted that the Burnside-Couch couplet was a similar issue.

We would like to make a push to change the state statue, but this is what we have for now. *Commissioner Spevak* would encourage that legislative push.

Chair Schultz returned to the meeting.

Electric Vehicle Strategy

Briefing: Michele Crim, Ingrid Fish

Michele introduced the project and how it relates to and forwards goals in the Climate Action Plan.

Ingrid gave the overview of actions in the Climate Action Plan that the EV strategy is specifically addressing. Switching to a low-carbon fuel, e.g. electricity, is a key part of reducing transportation emissions.

Portland's approach to personal mobility is grounded in the idea that the private gas-powered automobile is the least desirable mobility option. The City of Portland is working to create policies and make investments to encourage complete communities that support walking, biking, transit use before accommodating automobiles.

EVs are here now, and the number of electric cars will likely grow exponentially over the next 10 years. Oregon has committed to a goal of having all new cars that are sold in 2050 and after to be electric vehicles.

As of January, 2016 there were about 9,000 EVs in Oregon, 6,000 EVs in the Portland Metro Region, and 3,000 EVs in Portland.

Twenty-six EV models are now available and most of them can be purchased in Oregon. There is a large price range as well as range of distance a car can travel on a single charge. Range is quickly increasing: the Tesla Model 3 which is Tesla's first economy car, will be out in 2017, will be selling for \$35,000, and will have a 215-mile range; and the Chevy Bolt is also due to come out in 2017, will be selling for \$37,000 and has a range of 230 miles.

We are addressing these actions in an updated EV Strategy. The first strategy was created in anticipation for the launch of the Nissan Leaf in 2010. Now we are updating the strategy to synch up with the current EV landscape. We have been working for the last year and a half researching EV policy, attending conferences, reaching out to EV stakeholders and writing the EV section of the draft

Smart Cities proposal. We now have about 50 actions that have been sent out to City bureaus and external stakeholders for review. The next step is to seek Council approval on December 14.

Car sharing is great way to move people in an efficient way and electric vehicle car sharing will cut carbon emissions and eliminate the need for people to own cars. We are shifting our plans and policies to support the concept of moving people rather than cars. Some of the things the City is doing include:

- Working with Hacienda CDC and Drive Oregon on an EV car share pilot.
- Seek funding to electrify BIKETOWN and extend the boundaries of the program.
- Incentives for car shares could include discounted or tiered prices for car share permitting or parking that favor electric vehicles over gas vehicles.

One of the biggest barriers to EV uptake is the lack of awareness about EVs in the general public. So there are several actions in the draft strategy to increase education and outreach efforts.

In order to support the increase of EVs on the road the city needs to have sufficient charging infrastructure. We are looking at EV-ready requirements for new construction; increasing number of electric charging pods around the city; developing public ROW policies to figure out where the infrastructure will be.

The City of Portland fleet is currently at 20 percent EV with a goal go to 30 percent in 2020. Freight has huge opportunities for electrification, but the biggest problem now is model availability and comparable prices. TriMet was awarded \$3.4 million in federal grant to purchase 4 buses and associated infrastructure. We are encouraging them to place e-buses in areas of the city with the highest air quality issues.

Commissioner Tallmadge asked if the policies are listed in order of priority.

- They are not. So many organizations are doing different things on the list, so we didn't want to rank the list. They are marked by double star for the actions the City is responsible for itself.

With the electric bikes, is there evidence that reduces trips made by single-occupancy vehicles?

- It has the potential to do this but we don't have actual numbers.

Some low-income households in California are being paid to exchange their old cars for EVs, but that's not necessarily working.

- Oregon will be considering a rebate program, which we're urging to be an instant rebate.

Can you consider outreach and marketing through other organizations?

- We're working with utilities on this already.

Commissioner Larsell: I was excited to see you mention ebikes. I can attest that I drive less because I have one, and it's quite different from a non-electric bike. They seem to have an image problem (i.e., cheating). TriMet needs to be more welcoming and have more safe bike parking. And ebikes are more expensive... but much less than a car.

Commissioner Spevak has an off-street parking space. I don't like to encourage this, but some people want curb cuts just to charge their EV. I am not sure how we'd operate without having a place to plug in. What about those who don't have an off-street spot?

- Lots of cities are dealing with this, which is one reason we want to have more pods around the city. We're also looking into the requirement for new construction. San Francisco has some allowances for putting electricity in the ROW.

Commissioner Smith fully supports the action items. In 2010 in the Bike Master Plan, we added some routes based on our expectation of increasing ebikes. We've seen the adoption ramping up here. I look at it as another tool to get to the 25 percent bike mode share that we have in the TSP. It gives more options for people with ability issues. I appreciate Ingrid and PBOT because we have a bike parking strategy underway, and we're now coordinating.

Commissioner Baugh: I fully support this. I would encourage outreach to actually go to East Portland where minorities and low-income are predominantly located to give opportunities there. I would encourage you to increase how we get charging stations at current multifamily buildings in particular too.

- We are focusing outreach and education on East Portland. We are helping to be able to put charging infrastructure in the ROW out outer areas as well.

How will you measure success?

- We're slated for a 2020 progress report to highlight how we're doing on the actions. We're also proposing about 7 measurable 2020 goals.

Commissioner St Martin: What about scooters and golf carts people with mobility issues use? Are they considered in the EV strategy?

- We can go back and look at this. to the degree the devices are used, we should look at this.
- *Commissioner Smith:* They are classified as pedestrians in our code.

Susan proposed an annual report on mode split and EVs and autonomous vehicles, etc can be included.

Inclusionary Housing

Work Session / Recommendation: Joe Zehnder, Tom Armstrong, Tyler Bump; Kurt Creager, Matt Tschabold (PHB)

Tom introduced the topic. There will be a Council work session on November 29 with the first reading and hearing on December 9. Today we want to hear from each commissioner to say where you're at, and then from there we can either go into some of the development feasibility analysis in the staff memo, or we can look at the policy framework or direction.

Chair Schultz noted a report back from staff could influence the commissioners' statements. I'd like to hear from staff first then have our go-around.

We had started at the hearing with a number of questions. Staff reported back on these in the memo and staff report, particularly around development feasibility, gap for different inclusion rates. There isn't more information about the incentive package though.

Tyler noted building permits don't reflect land use review permits. But there is a significant chunk of permits in the pipeline right now. There are about 9800 total residential units in the pipeline right now. For units 3+, of these 83 percent are in mixed-use zones with about 40 percent of the total in the "under inspection" category and 4500 under review. We're starting to see more buildings with fewer units than in the last few years, but only marginally. This data was pulled yesterday (slide 15).

Susan reiterated that 17 percent of these units are in the Central City meaning 83 percent are not in the Central City. We have so much more being developed in the mixed-use zones. Think about how much might be left on the table if we don't have IH in these areas.

There are 3000-5000 units being built per year in this "high build" cycle. This doesn't include land use applications that may be in process right now. But we don't yet have this information. There are about 2 years' worth of permits in the pipeline.

Commissioner Tallmadge: About the 16000 in the pipeline number we've heard about. Does this factor in commercial permits as well?

- This is a very time-dependent number that can change. We won't know fully until the BDS information is available and complete.

Commissioner Larsell noted we had a plan with a 20/80 split. Then we had lots of testimony against rolling out IH in the way it was presented. Now we have a more conservative plan, and I'm trying to get

at the heart of what happened. Did you agree with the testimony? The former plan was endorsed by you, but now we have a different plan. What caused this shift?

- The proposed draft was based on Commissioner Saltzman's proposal, so we deferred to that as the first step in the process.
- Through this hearing process and analysis done by PHB's consultant and testimony and the work Tyler has done, there were concerns about the development and financial facility analysis. Based on all that and the panel of experts, in this memo we tried to clarify.

For the inclusion rate and incentive package, with the 20/80 proposed, there is a significant feasibility gap. In the memo is an option for the PSC to consider: is there an incentive package that doesn't put a detrimental cost burden on private developers? One thing we can do is bolster the incentive. Or we can bring down the inclusion rates. Given the uncertainty around the County agreement, we think the inclusion rates with have a better opportunity to get at our goals. BPS concurs with many of the testifiers and their concerns, which is what led us to considering a lower inclusion rate and more incentive options.

Kurt noted that some assumptions on cost of land are lower than what people are quoting at this high market. People have their own motivations, and I know lots of people are looking at this for the first time. Many are mixed-use market-rate developers who haven't served the affordable housing market before. We feel the current inclusion rate is good with the incentives as noted.

Chair Schultz: What was the funding rate you modeled with the lower inclusion rate?

- The incentive package inside the Central City for 10 at 60 is good to go (with full tax abatement). When we looked outside in the mixed-use corridors, it depends on which measure you use. But we were seeing (charts on page 6 of the memo) was depending on which mixed-use zone you're looking at, 8-10 percent at 60 is where it gets you more to the break-even point.

Commissioner Tallmadge: When you say break-even, is this a one-to-one offset?

- We didn't calculate for different development scenarios. We looked at 10/60 with a 25 percent gap as proposed, which would be a drag on building in MUZ.

Throughout the time of the Panel of Experts, we kept hearing developers saying they're over-bidding for land, it won't hold, prices for land are all over the board, and we can easily cherry-pick numbers for what works in a pro forma and what doesn't. I'm wary to take a number since there are still so many questions. How and why are we selecting the developers' numbers?

- We didn't use developers' numbers. We used trends and concerns. The tables are based on PHB's consultants' numbers.
- We were responding to the questions from PSC members after the hearing and going into today's session. We want to recalibrate at least every few years since we know the market goes through cycles.

Commissioner Spevak: I'm seeing this in terms of our supporting goals in the 2035 Comp Plan. We can work within available funding constraints, or we can do 80/20. But we can't do both. We can either do what staff proposes and scale back the percentage goals, or we can go 80/20 even if that means sucking resources from other areas, even if we don't know if those resources are there. In terms of downtown is set, that's because of the subsidy. That was in an earlier draft, but it could have been the reverse, making MUZ all set at the beginning. How many years of full tax abatement on the property was a question I asked, with a range? MUZ would need 3-6 years; Locus said about 10 years. For the Central City, it was about 10 years by each analysis. I have a concern that if we don't have more denominations, then we'd be spending more than necessary. If we go to a proposal of the full 80/20, I feel like the PSC could discuss those resources even though that's out of our purview. Can we do a more calibrated subsidy method?

- Kurt noted that when the housing element for the Comp Plan was before Council, we did an analysis. We've updated that to represent the current available tools, so that shows every tool we might have. New units are noted in the Portfolio and Production section. We are assuming

25 percent of projects using 10 percent at 60 percent AMI to a high of 75 percent of projects using the 20 percent at 80 percent AMI option.

- The current MULTE would not exist as a free-standing program; it would only be used as an off-set once IH is approved. We are aligning the resources to utilize land use incentives to the greatest extent possible.

Commissioner Spevak: Landmarks Commission raised the concern about alternate options.

- We don't yet have options. Both with historic and plan districts, we are considering a recalibration project for different districts and historic districts, which could come next year. It's still an open question that we're looking for the CC2035 Plan process to address about bonuses and an IH obligation. As written, the burden would still fall on Landmarks to weigh housing versus historic compatibility.

Commissioner Oxman: In the November 4 memo, there was mention of starting with a modest in-lieu fee. As you back this fee down, this creates a disincentive to build affordable units. At what point does the modest fee become a disincentive for development?

- We were surprised that the Locus proposal was within the realm of reasonableness. Some of our Portland developers are also in Seattle, but they are currently revisiting this fee. We would essentially accumulate the fee, procure new development to satisfy unit count. We'd have to acquire land or fund developers to acquire land. If the fee is significantly less, we have a gap that has to be filled with another resource (e.g. through SDC waivers, CET funds or another off-set). We've only isolated the public funds available to make this work. The actual public cost to subsidize a unit is about \$23-28 per square foot.
- There is a maximum justifiable fee schedule that can be put into place. The calculation is the difference in capital value and availability in the building. The recommendation to opt out of IH we set the fee at a rate we could recoup the cost to allow the City to build the number of affordable units that would have been built on-site.
- We as staff didn't make a recommendation about where the fee should be set; this was a question from the PSC. It is a policy choice where to set the fee, and we've been consistent that we want the fee to be higher than the cost of providing units on-site. You could initially set a lower fee so more developers would pay it, and ramp up the fee over time. If you recommend a fee schedule, it could increase 25 percent per year over the next few years.
- What we heard from developers is that they're buying land (or have stopped buying land), so there are projects in the permit, planning and acquisition/conceptual phase to give developers a way to ramp up. If there is a cost to development, it will either come out of profits or what they pay for the land. From fee to on-site units is a way to allow the market to adjust to this requirement.

Commissioner Tallmadge: For the cost to developers to build on-site, they don't have to wait for the City to catch up with subsidies. Did you compare the fee-in-lieu and factor this in?

- We would essentially be paid the fee-in-lieu at permitting is what you're suggesting, and then we'd have a few years to get the off-site units built.

This is not built in, so it's still at a cost to the City.

- There is definitely a time-cost to the City. In terms of an economic outlook, we've calibrated the fee-in-lieu being less attractive to developers.

Commissioner Larsell: On page 9 of the memo, we have a list of future options. Under #4, I wanted to ask about East Portland and how the IH policy would work there. And what are you worried about in terms of other parts of the city?

- Under the 20/80 inclusion rate, a fear is that we could subsidize market-rate housing in Cully where they are above market rate currently. We'd prefer to calibrate the incentive to TOD areas, other corridors, etc. There are foci within the corridors where we want to ensure affordability and use the land use designations at these Centers.

- PHB's proposal to implement a citywide program all at once is something we're still advocating for. This is what Commissioner Saltzman's proposal is too. The memo is simply explaining and detailing from BPS staff after the hearing.

Commissioner Bachrach: There is a feasibility gap in MUZ and lower-density zones. In October you said you'd have some programmatic changes to offer, but we didn't see these. We heard a direct cash subsidy could be used. I'm assuming that's now off the table? In MUZ and lower-density zones? Is there another proposal? I think the November 4 memo from BPS addresses this, but I don't see anything from PHB.

- Our consultant will be working with Council as they go into work session. In terms of the incentive packages, nothing is off the table at this point, but they include fee waivers and direct subsidy, among other options. A calibration will take place at Council.
- When the legislature crafted the SB, the industry wanted a dollar-for-dollar subsidy. But we'd have to basically set standards for overhead and profit, so they took this off the table in terms of a complete and full off-set of costs. We are expected to do our best to address this and have available tools to show we're attempting to off-set costs as best as possible.
- Susan clarified that in terms of financial incentives, we know that it's politically easier to look at revenue that hasn't come in yet versus trying to take money out of the General Fund.

Commissioner Smith asked about the in-lieu fee. This is required by legislation, but the policy choice of where to set that fee is a question. Encourage production of units. Provide a relief valve?

- We'd agree with all. We put a policy framework out in April that said the City's goal is to prioritize a deeper affordability and units on-site. This is how we've calibrated.

Chair Schultz: There was a comment at the hearing about if the tax abatement cap being met we would suspend the program. How would that happen mid-year?

- It would operate like the current voluntary program. We'd notify the public that the incentive is not available for the rest of the calendar year.

In a mandatory program, a number of development permits will wait until the last minute, which creates an unnatural cycle. This is what I'm concerned about.

Commissioner Spevak: Would a developer still get the 3:1 FAR bonus if the funds run out?

- We still need to explore this relationship and the coordination between Title 30 and Title 33.
- We will be having something of a rolling fund to allow carryover from year to year. We'll be planning "upstream" about 3-4 months, making tentative offers for projects with an ability to recapture if the project doesn't get built. We need to adapt to a pipeline and not have the pipeline adapt to a program.

Based on our analysis of current level of tax exemption through the MULTE program and modeling, we don't anticipate the cap as it stands as an issue. We can look to increase the cap for high-development cycles. It may be a concern in about 10 years with the URAs go away.

Commissioners' Roundtable

Chair Schultz: It seems as a Commission we feel like we don't have the time we would like to do our best work. As a part of sharing our thoughts, I'd like to use this as a way to build consensus. Do you support the IH concept? How do you feel about PHB's current proposal?

Commissioner Houck: I've had the steepest learning curve on this issue than on anything else we've dealt with while I've been on the Commission. This feels all too familiar, similar to environmental regulations being put up and developers calling it Armageddon. I did read the Lincoln Land Institute (LLI) report, which addressed all the issues we've been discussing. I would like to adopt the proposal as was given to us, but I do have concerns. We worked hard to get Metro to adopt IZ back in 1994 through the Coalition for a Livable Future and were not successful, , so I'm very supportive. LLI refuted the fact that a slow-down in production would necessarily occur across the board. The most important thing was to have a fine-tuned program. I'm concerned about the "vacuum cleaner" effect in terms of

incentives. We have lots of other priority programs that I don't want revenue taken away from. We also heard, like with environmental issues, that developers will move to build elsewhere. Why aren't we looking at this regionally and working with Metro to have develop a regional IH program?

Commissioner Tallmadge: IZ's strength is creating affordable housing in high-opportunity areas built by market-rate developers. Right now we're seeing market rate luxury apartments being built. It will be decades before these lose value; it's the neighborhood that changes, not the building. Our goal right now is to create housing now and quickly. A phased or reduced inclusion doesn't work. I support PHB's proposal. I'm skeptical about providing additional incentives to developers. By fully subsidizing, we're going to see resources funneled away. I ask Council to be very concerned about whether we need to do a full tax abatement in MUZ. I want to see the 20/10 inclusion rate. We already have parameters and I don't want to see it reduced.

Commissioner Oxman: I'm supportive of the concept of IH. I've met with Locus and Professor Lisa Bates. I see there is a relatively small benefit to doing IH, but it's a tool to work in our community. There is a public cost. IH has been implemented so widely, so it's hard to know what to put your stake on. It's important to be reasonable and amenable to rigorous recalibration. Family housing is not well-addressed, and I'm concerned that in effect we're getting affordable apartments for singles. The economic integration issue is that a well-run IH program increases economic integration, and we need to be sure not all the investment can be off-site. I'm open to starting at some point, but I don't know what a reasonable starting point is. This has to allow the best developers to be creative and make solutions that work.

Commissioner Larsell: I'm in favor of IZ but have become more familiar with its limitations. Even when it's working, it doesn't create a huge amount of new units. But over time, it can have a very positive effect: a mixture of people in every building. I was startled by rhetoric from the development community, and I don't know how seriously to take this. We need to make sure that this doesn't end up working against fighting displacement.

Commissioner Smith: I have met with people on both sides of the issue. I had to go back to the fundamentals. This is a tool but won't solve all problems. The greatest benefit is it creates affordable housing alongside market-rate units. Value capture to apply to affordable is important. Don't discount Cortright's ideas, which I don't entirely buy into, but there is a question of mobility of the stakeholders (people versus developers versus investment capital). We need to maximize reward: hold inclusion rate. Maybe do the phasing on the value-capture side and be willing to experiment with this over time. Let's put the program with the max number of units where we think they need to go but be more gentle with incentives and fee-in-lieu. Here's how you get the most number of units, but if you don't think we can afford it, that's Council's determination. I don't think the incentives are right from PHB. And a heads-up, I will offer a parking amendment later too.

Commissioner Spevak: I agree with lots of what *Commissioner Smith* noted. I love the IZ program for what people have described. Need a level playing field for housing development. Don't over-subsidize developers. The 20/80 is a target, and I don't want to go that way. My concern on the resource side is that this could suck available money for housing up the income string. I really want affordable housing advocates to be on guard to be sure this is what they want instead of spending money on higher-income folks. Voluntary program even if under 20 units per building. I'm concerned about the Landmarks Commission's authority here, and I don't want them to be able to trump this program.

Commissioner Baugh: This is a frustrating process because we've usually received enough information to make very good recommendations. today we really have nothing. I'm very supportive of the 20/80 10/60 being in the zoning code. But the resource side is Council's purview, but we have to think about resources and the rate. This is a long-term tool. My view is that I'd like to send Council a revenue package, and that will make that discussion happen. Let Council pare it down, but let's make sure we have the other side. At the end of the day, I'm pretty sure it will get pared down at Council with a discussion about SDCs and other options. TIF is a fungible source. We have the power to change this

discussion about resources if we want to. Let's be bold and push forward the maximum resource option.

Commissioner St Martin: I support IZ as one of the tools in our tool basket that will help with our affordable housing problem. But it's only a good tool if it produces results. The LLI study indicated that there are over 500 locations that utilize IZ programs, ranging from a 1987 start to a 2007 date (for purposes of the study) and the study covered 20 in depth. And the results varied widely in those 20 locations, from low production to medium, it did not appear that any programs stimulated overbuilding of housing due to an overly generous incentive package.

At the end of this 108-page study, they made the specific point, that policies need to be studied to see which are effective. This points to the difficulty to find the "right formula" and varies by geographic location and with the overall health of the economy.

This brings me to the policy before us, if our goal is to produce or to stimulate the production of affordable housing, we need to be very careful about how we do it. We need a partnership, a public-private partnership. In a partnership, both sides need to be willing and able and find benefit to participate. That means that the housing authority needs to be sure they are spending their money in the right place, they are getting the best bang for the buck and so over incentives are an issue. Developers need to be sure that they can continue to operate a business or they won't want to build here.

The other element is the negotiation, a good negotiation process means that both parties leave the table not getting everything they wanted, but both received enough to move forward. The policy needs to be balanced so we have a program that will produce affordable housing.

My last point is that I don't believe we have had enough time to analyze and fine tune the program. There are many things we can do within the policy to stimulate areas of concern, for example more family sized units vs studio units within the policy that could really benefit us.

We are also going to continue to add programs, we have to, this is not enough, and in order to add those programs we need willing partners. So it's not just this program, we need to look at it in aggregate and create a program that will produce units and some partnership opportunities for whatever our next program will be.

Commissioner Bachrach: I support a well-crafted IH program, but we don't have that yet. Staff did an excellent job presenting and analyzing the data we have. What's our planning policy objective here? That's my main question in figuring out what we tell Council. We should be clear and not punt. The information we have is not sufficient to support PHB's proposal. What's lacking is not just developers being "the opposition". We received articulate testimony from developers. I'm well-involved and care about affordable housing. I support what staff has laid out for us. We have so many concerns and unanswered questions. I disagree about putting an inclusion rate into Title 33. If we're going to adopt any inclusion rate in Title 33, we have to be able to articulate the incentive package that goes with it. Adopt the framework plan and give a back-up and lower inclusion rate.

Chair Schultz: I also am in support of the concept of IH. I want to focus on getting family housing being developed throughout our city. Developers need to be our partners, and the minute their desire to build slows, we slow the option for affordable housing. Reducing density because construction costs have gotten so high and smaller units are being built... this is what I'm seeing with the voluntary program today. this can't happen. A monitoring program is incredibly important and we need to continue to look at the inclusion rate. We need to include something tied to the inclusion rate for the PSC to get reports and we can change inclusion rates accordingly.

Commissioner Houck noted staff has looked at this as a potential consequence in the LLI study, and I'm interested in coming up with something that makes a strong statement about IH.

Chair Schultz: I've heard consensus on IH is what we have. It seems we want as high an inclusion rate as possible, but I don't see consensus on how to tie this to incentives.

Options:

- Full inclusion rate.
- Discuss and work back from incentives to what inclusion rate should be.
- Other?

Commissioner Smith: I'd like to see us go for the maximum inclusion rate with 80/20 and 60/10. What we should do is work backwards to see the incentives needed to make this happen, but that's what I think is missing for us. Someone has to answer that question before Council. I want an independent analysis; is this possible between now and Council? If not, what else would you need to do that?

- The incentive package is Title 30 and PHB's work to do that. BPS doesn't have the tools to analyze with any degree of confidence. We can back into numbers, but that's not a high degree of confidence.

I want an informed second opinion. What's the best way to give this to Council?

Chair Schultz: Is your concern about what is a feasible funding gap or the incentive package that's available to work from?

Commissioner Smith: Advice on how to close the gap on the categories where the gap is far too large.

Susan: At a minimum, we could come up with the maximum number, which the PSC could forward to Council... and put the number high.

Chair Schultz: It's approximately \$16M to fund the gap close to or at zero. That came from Locus, but if it's high, at least we're covered.

Commissioner Baugh shared his proposal (slide 3). Look at if you set a maximum, it puts it on Council to figure out the right level of funding and incentives to meet the 20/80 and 10/60 policy objectives. At some point, there is an evaluation from a number of people about what the right level is, which is the data we don't have. If we get to zero fully funded, we're pretty sure it's going to work. The fee-in-lieu is to lower this, and Council will have to say if that "escape hatch" matches. It's an entire package, not just one item. And we need to have an annual report.

Chair Schultz: If we want to support of full inclusion, my concern about understanding the gap today is that we have a number of things on the table that we've talked about and the cumulative effects... which are not in anyone's review. And then those won't get included in the discussion about IH. We can adjust as we're monitoring every year.

Commissioner Tallmadge is hesitant to increase an incentive package further. I'm concerned it will eat away again at programs that target under 60 percent MFI. I don't think we should reduce the fee-in-lieu. I might even lower inclusion rate rather than increase further incentives.

Commissioner Oxman: I'm also hesitant to fully fund the off-set because of all the uncertainties in the market. We don't know the expectations are realistic in this proposal. We're better off choosing a certain approach that gets us a to close the gap, not entirely. Time is our friend knowing we have a couple years before things in the pipeline start into construction phase.

Commissioner Spevak: How do we avoid overspending? It's ok for people to absorb some of the cost, but how do we guard against a windfall program out of what's supposed to be an affordable housing program. In MUZ, it takes 3-6 years property tax abatement versus what Locus says is 10 years. This is a big discrepancy.

- Matt: It's a subsidy on a per-affordable-unit basis. Building in MUZ can be more profitable. So you'd put the subsidy so it scales as the building scales.
- Kurt: Most of the mature IH programs only provide density bonuses, not all the financial tools we're proposing here. You could see if a classification of type of building is over-subsidized, but only after everything has been built and paid.

- Susan: This is what you do with utilities... you go back in time to set rates for the future. If we have 9000 units sitting there, they're going to roll in, so in year 1 we won't know anything. But we could work with PHB to try to do this.

Chair Schultz: I would hope we could incentive current in-process buildings to be included to "test" IH with a voluntary program first. The MULTE program somewhat gets there.

Commissioner Houck noted the framework staff laid out as an option. And at the end, there are Title 33 amendments offered. So this is also on the table.

Commissioner Baugh: Council would prefer us to do something relative to sending more than just a framework; we should send some sort of package.

Chair Schultz: Part of the packages is deciding on an inclusion rate. And a policy about the gap and incentives.

Commissioner Bachrach: I understand the desire to give Council an IH program. But staff has said they don't have enough information to make a good decision. Calibration is important. But again, we don't have enough data. This is a very uncomfortable recommendation. We can guess, but we're guessing on incomplete information. Staff did a great job laying out the framework. Other than the political desire to do this today, we have time. So I think we should not be beholden to a timeline that we don't know why it's important. Council can reject our recommendation if they want. We should do the framework plan then collectively come up with a fact-based inclusion rate. Adopting today has a high-risk in the short-term of developing more affordable units. I would recommend we endorse the concept, not PHB's proposal, and that Council create the program based on the framework proposal.

Commissioner Larsell: Would *Commissioner Baugh's* proposal change substantially if we had different inclusion rates as staff has recommended?

- No, but we'd still want to fully fund it.

I would be willing to go at a lower inclusion rate and follow *Commissioner Baugh's* proposal.

Commissioner Bachrach: If we recommend *Commissioner Baugh's* proposal, are we saying "turn on" IH immediately while you work on these things?

- We would turn it on immediately.

Commissioner Baugh: Council's work session is on November 29. And then a hearing on December 9. They will move forward before the end of the year, regardless of what we send them. so I agree we should have more time, but they will make a decision with little more than what we have today.

Commissioner Tallmadge: The rush is that we're in a housing crisis. We need every tool at our disposal as soon as we can. People say we need more data, but it will change over time. We don't need more data. The policy didn't come out of a vacuum. There is a time constraint even if we have 2 years of development in the pipeline. We need to address the pipeline after that.

Commissioner Bachrach: I understand to have the program quickly and hope it works. Part of the flaw is that we've been focused on pro forma numbers that they didn't look at other fundamental programmatic issues.

Commissioner Spevak: Can we hold harmless certain things? Package should include density bonus; SDC waivers for units 60 percent MFI or less; and property tax exemption. This may effectively become the cap of what the inclusion rate is, but I don't think that's what I've heard. But this is comfortable for me.

- *Chair Schultz:* What I'm hearing is that you're fine with the package if we define the incentive package so it doesn't suck money from other areas. You work back into the inclusion rate from this.

- *Commissioner Houck* seconds this.

PHB's incentive package is on the table. The key difference is where you apply the full tax exemption and how far outside the Central City this stretches. We don't know when we bump up the current \$3M cap and how high that has to be with agreement from the County. BPS' proposal notes limited exemption outside the Central City, and a more conservative rate would be 15/8. If there is political will to raise that, then you can raise the inclusion rate.

Commissioner Spevak doesn't want to support this. I would be more comfortable to make this flat across the city so the residual impacts are the same. I propose that we say we're going to provide subsidy so the residual land value is the same, regardless of being downtown or in MUZ. We don't want to use this program to shift housing capacity to different areas of the city.

Using current estimates, you'd need about \$12M per year to give full tax abatement on full buildings.

Commissioner Tallmadge: Are you suggesting all areas receive the same dollar amount or the same type of exemption? How does this make up for different costs for developing in different areas/ We're trying to promote affordable housing in higher opportunity areas.

- We need to encourage the same production of affordable housing throughout the city. If we want to encourage to a higher level, we don't want to bring down just one area's inclusion rate.

In terms of the 2035 Comprehensive Plan, the quantitative goal is the 10,000-unit target. On a policy level, we have goals as well. 30 percent of Central City housing production should be affordable.

Commissioner Bachrach: My concern is that EcoNW's suggestion is that we tailor differently based on land value.

- *Commissioner Spevak*: Yes, you have to tailor if we don't want to see changes in residual land values since land costs are different in different areas of the city. I want a way to calibrate so we're not favoring one part of the city over another.

Susan: We have a number of options and things to calibrate:

- PSC picks the lower inclusion rate based on current funding available and leave it on Council to change this and find the money if they want to raise the inclusion rate.

I think let's take it from the incentive and let Council figure out the inclusion rate.

The November 29 Council work session is just informational. PSC members could request seats at the table to articulate all the things you've been grappling with today.

Commissioner Spevak asked why we should opt for starting with the inclusion rate.

- *Chair Schultz*: My concern is that I won't be able to give you the inclusion rate. We'll argue over those numbers without information to come to consensus.
- *Commissioner Baugh*: If you look at PSC's purview and the Comp Plan, we need to stay true to these things such as density. In the past we've told Council what we want and how we want them to look at it. But we give them a starting point and sideboards to it. We have that opportunity today. It will be harder for Council to argue an incentive up. We should tell them what they need to preserve when they do incentives so we don't take from existing programs... find new revenue. We can give them lots of guidance about how they should look at it, but not just a framework.
- *Chair Schultz*: Since we don't control the incentive side, start here, go fund it. If Council believes it's an emergency, we should take funds out of future projects to help support affordable housing. This strongly supports IH instead of just saying our hands are tied.

Commissioner Smith: I think about this in terms of who will think about this in terms of what issues. Council won't overspend. At the same time, the worry that we'll rob those at 0-30 percent MFI to fund 60+. If that balance goes askew, PHB will make recommendations to course-correct this. I will vote to support *Commissioner Baugh's* recommendation. I'm trying to maximize inclusion opportunity but not screw up development. It's a three-sided thing, and we're looking for the ultimate correct balance.

Commissioner Houck: I like that I heard there are limits to incentives with *Commissioner Baugh's* proposal. The fact is if the resources aren't there, inclusion rate has to be adjusted. I feel comfortable supporting this.

Commissioner Tallmadge: If we lower inclusion rate, would that make the 10/60 more attractive?

- In our modeling, with proposed incentive packages, 15 at 80 would make the 80 percent mandatory and 60 percent optional roughly economically equivalent.
- Unless there is a different incentive package for the 10/60 package.

Commissioners confirmed with hand-raises to work from *Commissioner Baugh's* framework to start from... setting the inclusion rates at 20/80 and a higher incentive package than PHB has proposed. This says the current incentive package does not work.

Commissioner Oxman: We should have language around and incentive package to support development feasibility but staying away from the concept that it needs to be fully funded.

- *Commissioner Baugh:* At what rate would you expect this to work for developers? Do we put a range in? The issue for me is when you start talking about what a gap is, you start moving many pieces around.

I think there is so much uncertainty and variability. I don't think this is amenable to a definitive analysis. Trying to hone in on a general principle about the numeric features doesn't make sense to me. Choose something, monitor it, and make changes over time. We're trying to put some stakes in the ground before the hearing and Council's decision.

Commissioner Spevak: I propose instead of fully-funding the 10-basis-point hit to developers. And we could add sideboards on the incentive package: that it not include SDC programs beyond 60 percent MFI or CET funds. But it does include tax abatement at appropriate level per where in the city the development is located.

Chair Schultz: I would not support the 10 basis-point hit. I would ratchet this back. I'm struggling with where to provide this. Maybe 5-8 percent.

Commissioner Smith: Are talking about percentage of residual land value?

- *Matt:* We looked at residual land value and internal rate of return. Traditionally residual land value is what's used. This is what the charts from staff are based on.
- *Commissioner Spevak:* I was more thinking about residual land value.
- *Chair Schultz:* I would then need someone help us figure out what the equivalent in residual land value would be.
- *Matt:* Residual Land value is the value in land after developing, inclusive of the developer's profit. A development is infeasible if this falls below the price of land.

Is there an assumption about what drop or gap in land value was too much?

- *Matt:* You're looking at change compared to market rate scenario and price of land when the development went through permitting process. We calibrate with incentives, trying to prioritize 10/60 without too significant of a drop-off.

Commissioner Larsell: Is it too simple to say, "begin with a full-funded incentive package" to ease developers into the new program... and we could see how this goes.

Commissioner Houck: What about "offer a fully funded incentive package to reduce the gap"?

- *Chair Schultz*: What's ambiguous is that we're not giving Council a full package as a recommendation.

Commissioner Spevak: I'd be ok with saying start with it fully-funded (no change in residual land value) to have it ramp up. Have the incentive package about equal to the loss of income developers would have from building affordable. Let these match to get the program started, a one-to-one off-set.

- *Commissioner St Martin*: I like that this keeps our rate of inclusion as high as it can be for now. By starting out with a no-gap incentive program, we can see if builders go for this. If it works too well, we turn it down; if it doesn't work at all, they we return to the drawing board and calibrate.
- *Commissioner Tallmadge*: We can't claw back from a one-to-one start if there is over-funding.
- *Commissioner Houck*: Isn't this all predicated on evaluation over time? And we'll change and evaluate and calibrate. Let's start out big.

Commissioners gave head nods for this structure.

After discussion, a revised proposal would be:

- Set inclusion rates at 20/80 and 10/60 in the Zoning Code.
- Begin with a fully-funded incentive package so there is no gap in development feasibility.
 - hold harmless residual land value, regardless of geography
- Fund the incentive package through a combination of density bonus, full tax exemption up to 10 years, SDC waivers up to 60 percent MFI and CET funds.
- The City should start negotiations with Multnomah County to raise tax exemption cap amount.
- If there are not enough incentives, then revisit the inclusion rate.
- Set fee in lieu at \$15/sf until the incentive package is fully funded.
- Provide an annual report to the PSC to review inclusion rate and policy objectives.

Susan suggested to set the fee-in-lieu "in a manner that [does everything we want the fee to do]" above the equivalent incentive package.

Commissioner Oxman: I'm concerned we are creating a package that's based on developers' requests. Looking at this single measure doesn't make sense, and then we could be potentially overfunding this.

- *Commissioner Tallmadge* concurs. We've already heard that development community can take a hit.
- *Commissioner Baugh*: I don't want Council to forget fee-in-lieu. I'm comfortable with getting rid of the dollar figure and saying that a fee be set to get to an objective instead.

Commissioner Oxman: "A fee contemplated to support the cost of development of alternatives to do inclusionary units."

Chair Schultz: Do we need the fee-in-lieu to be the alternative for the developer to still produce housing instead of deciding not to, to somehow produce affordable units? We need a compromise to ensure we don't have developers walking away. I don't know what the number is, so I'd support just stating the intent.

- \$17-23 per square foot is what Locus suggested.

The concern is the current fee schedule is too high at the \$24-28 range. It needs to be adjusted and calibrated across the city (which it does by zone). It needs to be a relief valve, at least to start, and higher than proposed in this package so we're actually incentivizing building houses.

Commissioner Smith: At Council, the Mayor has just proposed an amendment in the Task 5 Package to eliminate parking minimums near mass transit. If we do it here, it goes into effect a year earlier. And we've heard getting rid of parking minimums makes building housing easier. I propose we amend 33.266.110 so there is no minimum parking required close to transit (and match with the Mayor is proposing). *Commissioner Houck* seconded.

Commissioner Tallmadge: I would offer this as a priority incentive in lieu of some of the other incentives.

Commissioner Houck moved:

- Set inclusion rates at 20/80 and 10/60 in the Zoning Code.
- Begin with a fully-funded incentive package so there is no gap in development feasibility.
 - hold harmless residual land value, regardless of geography
- Fund the incentive package through a combination of density bonus, full tax exemption up to 10 years, SDC waivers up to 60 percent MFI and CET funds.
- The City should start negotiations with Multnomah County to raise tax exemption cap amount.
- Adopt Title 30 incentive package and Title 33 amendments together. If there are not enough incentives, then revisit the inclusion rate.
- Set fee in lieu at lower but still higher. [final language to be provided by staff]
- Provide an annual report to the PSC to review inclusion rate and policy objectives and recommend adjustments as appropriate.
- Provide incentives to current projects and smaller projects.
- Eliminate parking minimums close to transit.

Commissioner Larsell seconded.

Commissioner Smith: Do we want to say something about family-friendly incentives?

- It can be something we include in our conversation at Council and in our letter.

Commissioner Bachrach: So we are going to recommended Council amend Title 33 with the first bullet point and the last bullet point. [yes] How do we turn on the inclusion rate in Title 33 if the other points are not updated in Title 30 simultaneously? We need to tie these together with Title 30.

(Y10 – Bachrach, Baugh, Houck, Larsell, Oxman, Schultz, Smith, Spevak, St Martin, Tallmadge)

Adjourn

Chair Schultz adjourned the meeting at 4:46 p.m.

Submitted by Julie Ocken