

CITY OF PORTLAND, OREGON

PLANNING
COMMISSION



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June 13, 2008

Mayor Tom Potter and Portland City Council
Portland City Hall
1121 SW 4th Avenue
Portland OR 97204

RE: Recommendation for Approval of a 21-Year Extension of the Term of the Tax
Exemption for the Hazelwood Retirement Community

Dear Mayor Potter and City Commissioners:

On June 3, 2008, the Planning Commission held a public hearing on a request to extend the ten-year term of the tax exemption for the Hazelwood Retirement Community for 21 years. City Council originally granted a tax exemption for this project in 1997 under the City's New Transit Supportive Residential or Mixed Use Development (TOD) program and it is scheduled to expire June 30, 2008. The project owner, the Hazelwood Group LLC, has requested an extension of the exemption on the entire project to preserve the financial viability of the project for the duration of the required period of affordability for 80 percent of the units, which ends in 2029.

The Planning Commission heard testimony requesting that the 21-year tax extension be granted to 100 percent of the units to ensure affordability of an apartment building that provides numerous public benefits. The Planning Commission supports the preservation of this project and recommends that a 21-year extension be granted to 80 percent of the project that is rent-restricted. The Commission considers this a compromise to varying federal, State, and City definitions of affordability and to Multnomah County's concerns about foregone revenue. The Commission finds that this project carries out the purpose of the TOD program because it provides housing for elderly households in an area that is close to a MAX light rail station and is convenient to shopping and services.

The Commission urges the City to work with the State Legislature to develop tools to avoid continuous need for extensions for other expiring projects and to agree on levels of affordability required for such projects.

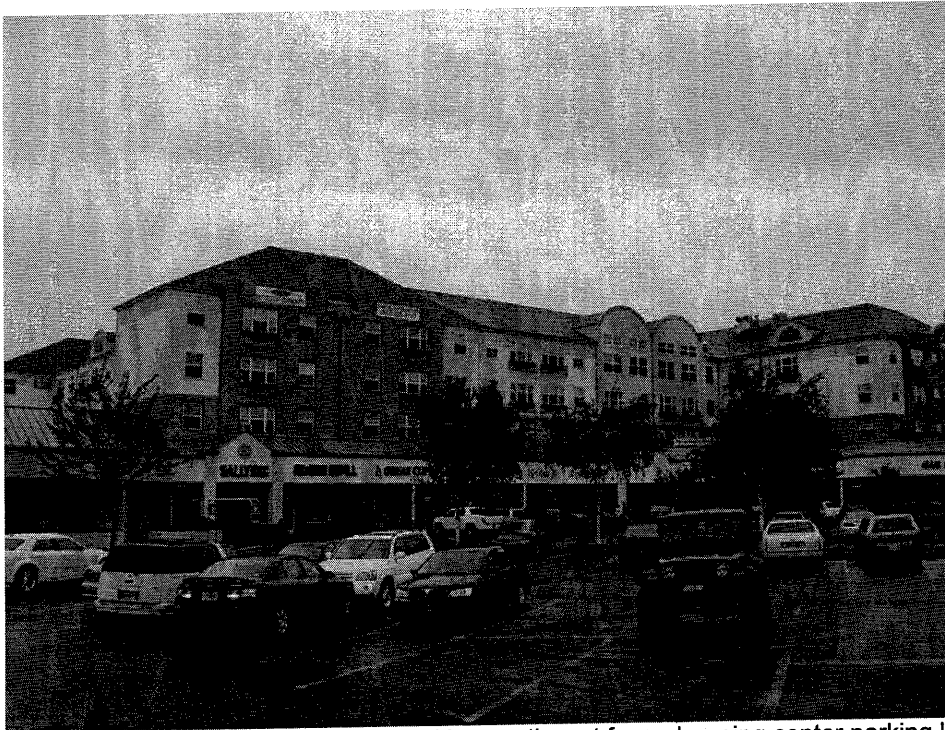
Recommendation: Approve the requested 21-year extension of the tax exemption for the Hazelwood Retirement Community for portion of the project that is rent restricted to households at or below 75 percent MFI.

Sincerely,

Don Hanson, President
Portland Planning Commission



Hazelwood Retirement Community Photos and Site Map

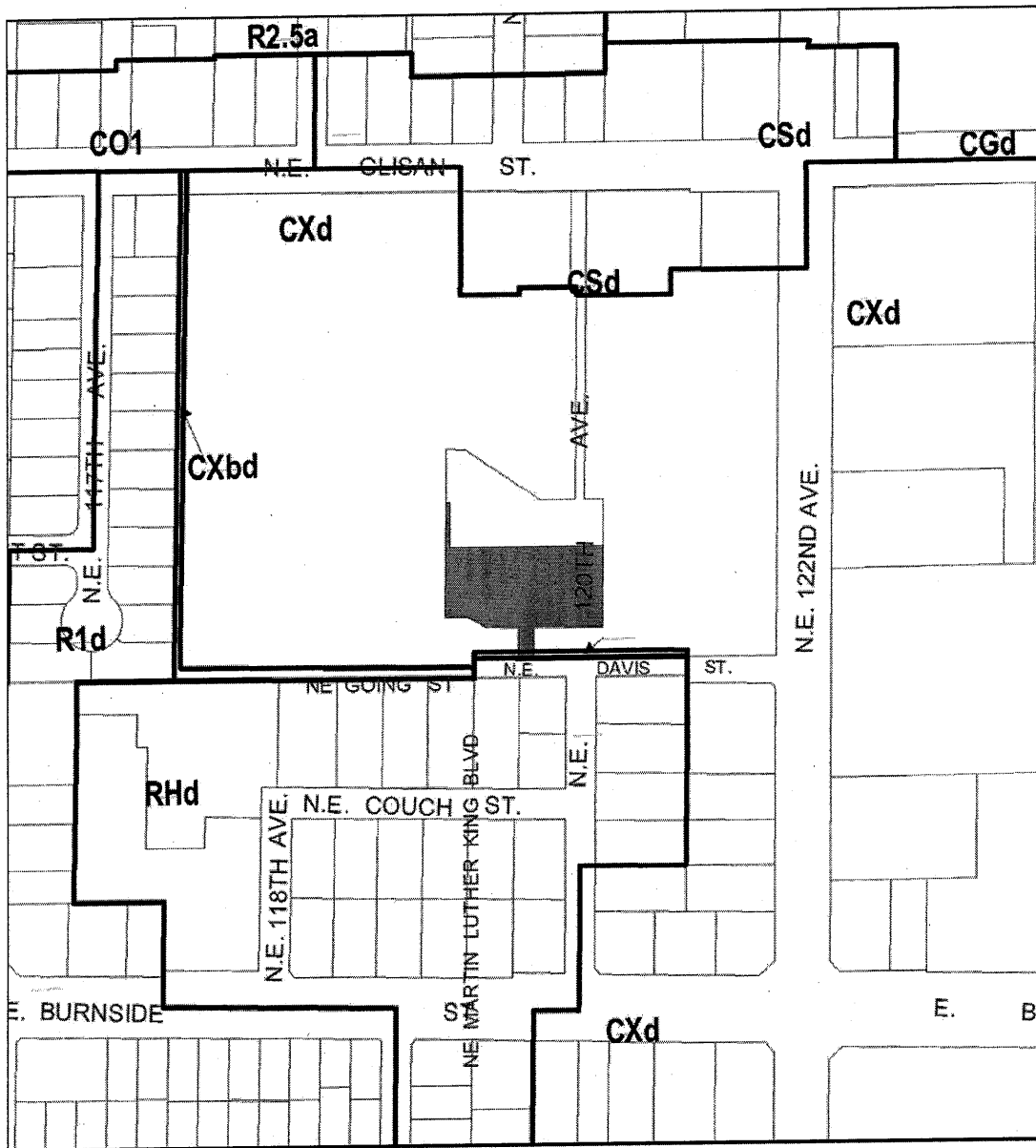


Hazelwood Retirement Community looking southwest from shopping center parking lot.



Hazelwood Retirement Community looking north from NE Davis Street.

Hazelwood Retirement Community Photos and Site Map



Zoning and Site Map of Hazelwood Retirement Community

June 11, 2007

— Zone Boundary
■ Property Location

0 100 200
Feet




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MEMO

June 11, 2008

To: Mayor Potter and City Commissioners

From: Barbara Sack, City Planner

Cc: John Marshall, Portland Development Commission

Subject: **Planning Commission's Report and Recommendation on the Requested Extension of the Tax Exemption Granted to the Hazelwood Retirement Community**

On June 3, 2008, Planning Commission held a public hearing and made a recommendation on a requested 21-year extension of the tax exemption term for Hazelwood Retirement Community. They recommended an extension of the tax exemption for the portion of the project that is rent restricted and covered by affordability agreements with PDC and the State of Oregon until 2029. City Council approved the original ten-year tax exemption under the City's New Transit Supportive Residential and Mixed Use Development (TOD) tax exemption program for the entire improvement value of this project on November 12, 1997 by Resolution No. 35735. The exemption is set to expire June 30, 2008. (*See Planning Commission Transmittal letter.*)

The project owner, The Hazelwood Group LLC, requests an extension of the tax exemption on the entire improvement value of the project. The reason for request is to preserve the financial viability of the project for the duration of the required period of affordability for 80 percent of the units, which ends in 2029. Twenty percent of the units are not rent restricted and can be rented for market rate rents. The Planning Commission did not recommend extending the tax exemption for the 20 percent of the project that is market rate and is not covered by an affordability agreement.

Site Information

The Hazelwood Retirement Community is located at 11933 NE Davis St. near NE 122nd Avenue and Glisan Street on a 35,000 square foot rectangular site, which is part of a 17-acre a mixed-use shopping center. It is three blocks from the 122nd Avenue and E Burnside MAX light rail station. The site is zoned Central Commercial with a design overlay (CXd). (*See Hazelwood Photos and Site Map.*)

Project Information

The project is the upper three stories of a four-story structure over small retail shops between a Safeway and Target department store. It has 120 units of congregate housing for people



62 or older. The project provides additional services including: meals, on-site activity director, van transportation, 24-hour attendant, and 24-hour security.

Affordability of Rental Units

This property will be subject to two affordability agreements after June 30, 2008. They are the PDC regulatory agreement that expires in 2028 and a State of Oregon regulatory agreement which expires in 2029. The financing package for this project included a PDC loan and a State of Oregon Elderly and Disabled Bond loan. The affordability requirements are summarized in the table on the next page. (The same units can meet both the PDC and State of Oregon affordability requirements.)

Current Unit Mix and Affordability

Unit Type		Rent restriction	Term of Required Affordability
Studio	28	28 @ 50% MFI	2028 by PDC Regulatory agreement
One BR	8	8 @ 50% MFI	
One BR	4	4 @ 60% MFI	
One BR	56	56 @ 75% MFI	
Two BR	24	Unrestricted	None
Total Units	120		
Studio or 1-bedrooms	24	24 @ 50% MFI	2029 by State of Oregon Regulatory agreement

(For more financial information, see the PDC Loan Committee Approval for Hazelwood Retirement Community with attached staff memo. For area median income information, see 2008 MFI Chart.)

The Property Tax Exemption

The Hazelwood Retirement Community has a 10-year limited tax exemption allowed under City Code Chapter 3.103, the TOD tax exemption program. This program is available in MAX light rail station areas and other transit-oriented areas. This exemption applies to the improvements but not the land. Both the State Statutes that enable this program and City Code Chapter 3.103 allow a tax exemption to be granted [or extended] to existing projects that are subject, or will be subject, to a public assistance contract to provide low income housing through June 30 of the year that the contract expires.

Discussion of Property Tax Exemption

The City advocated at the State Legislature in the 1990s for the change to the State statutes that authorize the City's NMUH and TOD programs to allow low income housing subject to a public assistance contract to provide low income housing to receive the exemption for more than 10 years. The City wanted to be able to offer a tax exemption to private owners providing low income housing as an incentive for continuing to participate in public housing assistance contracts such as those with the Section 8 program. The State Legislature approved this change but the City did not incorporate it into our City Code regulations for the NMUH and TOD programs at the time.

In 2006, the City amended the TOD program regulations to incorporate the change in the State statutes along with some other changes to the program regulations and boundaries. The intention was to allow tax exemption for the length of a public assistance contract in



order to preserve the City's supply of affordable housing. This is a different standard than the affordability requirement of Portland's program for the 10-year TOD exemption, which is that either 20 percent of the units be affordable to households at or below 60 percent MFI or 10 percent of the units affordable to households at or below 30 percent MFI. This intention is stated in Exhibit B: Planning Commission's Report and Recommendation on Changes to the City's TOD Tax Exemption Program that is attached to the Ordinance No. 180782 adopting the changes to City Code Chapter 3.103. (See top of Page 2 of attached Excerpt from Exhibit B of TOD Changes Ordinance No. 180572.)

PDC Review

City Code Chapter 3.103 requires PDC staff to review TOD tax exemption requests for the financial necessity of the tax exemption to the financial viability of a project and other program requirements. On May 29, 2008, PDC's staff recommended to their Loan Committee that approval of the 21-year extension of the full tax exemption was necessary to the financial feasibility of the project with its current mix of low, moderate and market-rate rents, but recognized that for policy reasons that Planning Commission may recommend to City Council only a partial exemption. If the full exemption on improvements is granted, the internal rate of return (IRR) for the project is estimated to be -1.55 percent. This is well under the maximum IRR of 10 percent allowed under City Code Chapter 3.103. If an exemption was approved that would cover only the 40 units that are required to be affordable to households at or below 50 or 60 percent MFI, the IRR would be too low to calculate. If the exemption was extended to the 96 of the units that are required to be affordable to households at or below 50 or 60 percent MFI and those at or below 75 percent MFI, the IRR would be -8.64 percent. (See PDC staff report attached to the PDC Loan Committee Approval for Hazelwood Retirement Community.)

Planning Commission Review

City Code Chapter 3.103 requires the Planning Commission to review tax exemption requests under this program for consistency with the public benefits required by this chapter. Since this exemption was approved in 1997, the program regulations were changed to add the Planning Commission review. Since there is no prescribed process for changing the term of the tax exemption, the Planning Commission was asked to review this requested change. They held a hearing and made their recommendation to City Council on June 3, 2008.

Planning Commission Findings and Recommendation

Low income is not defined in either that State statutes that enable the NMUH and TOD programs or Chapter 3.103 of the City Code and the household income ranges labeled "low income" varies. The definition of "low income" for the City's nonprofit tax exemption program is household income at or below 60 percent MFI. However, the regulations for this program are found in City Code Chapter 3.101 and the nonprofit program is authorized by different State statutes than the NMUH and TOD programs. The US Department of Housing and Urban Development defines low income as at or below 80 percent MFI. This is the federal agency that sets the yearly area median family income figures for metropolitan areas. The Commission decided to use this definition in this case.

The public benefit of granting the tax exemption extension for this project would be the preservation of the low income housing units for elderly households near a MAX light rail station. Although the applicant has requested a full exemption be extended on this project, the Commission recommends that the tax exemption be extended only for the portion of the project for 21 years that is affordable to households at or below 75 percent MFI and is subject to regulatory agreements with PDC and the State of Oregon.



Planning Commission Recommendation: *City Council approve the requested extension of the tax exemption for 21 years of the Hazelwood Retirement Community for portion of the project that is rent restricted to households at or below 75 percent MFI.*

Attachments:

Planning Commission's Transmittal Letter to City Council

Photos and Site Map of the Hazelwood Retirement Community

Excerpt from Exhibit B of TOD Ordinance No. 180572

PDC Loan Committee Approval for Hazelwood Retirement Community (without exhibits)

2008 MFI Chart

