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TO: Portland Planning & Sustainability Commission

COPIES: Susan Anderson, Director, Bureau of Planning & Sustainability

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SUBJECT: Affordable Housing in the North Macadam and Central Eastside Urban Renewal Areas

This memorandum provides information as requested by the Portland Planning & Sustainability Commission (PSC) following their December 9, 2014 briefing on a proposed package of urban renewal area (URA) amendments, including substantial amendments to the North Macadam and Central Eastside URAs.

The Portland Housing Bureau (PHB) and Portland Development Commission (PDC) acknowledge that the PSC is proposing the goal of maintaining 30% of the housing in the Central City as affordable at 0-80% median family income (MFI) within the Central City 2035 plan. This memo outlines how the proposed changes to the North Macadam and Central Eastside URAs will help to achieve this goal by:

- Providing additional tax increment finance (TIF) resources for affordable housing;
- Affirming and advancing the July 2003 North Macadam URA Housing Strategy goals as approved by City Council Resolution No. 36160, as Amended; and
- Securing opportunities for affordable housing on additional properties through the development agreements (DAs) with Portland State University and ZRZ Realty.

Question I. How will the URA amendments contribute to affordable housing production? How many units? How likely?

The proposed URA package would increase TIF housing resources available and thus significantly contribute to affordable housing production by adding approximately \$37 million in the North Macadam and Central Eastside URAs combined as follows:

North Macadam URA

- Estimated affordable housing resources without the amendment: \$9 million
- Estimated affordable housing resources with the amendment: \$40 million

Central Eastside URA

- Estimated affordable housing resources without the amendment: \$4 million
- Estimated affordable housing resources with the amendment: \$10 million



The amendment package also adds approximately \$5 million in funding for affordable housing in the South Park Blocks URA. This is in response to a known concentration of housing preservation opportunities. While the closure of the Education URA, there is a loss of housing funds of approximately \$46 million over the life of that district; in total the amendments produce a net present increase of \$7 million additional resources for affordable housing. TIF funds almost always supplement other public incentives for affordable housing administered by the State of Oregon and PHB.

North Macadam. With the proposed amendment to the North Macadam URA and projections of approximately \$40 million in Set Aside available for affordable housing, the City is able to reaffirm the current affordable housing goals for the South Waterfront Area as adopted by City Council in 2003:

Affordable Unit Goals for South Waterfront Area

	Total	Achieved to Date	Net Remaining
0-30% MFI	166	42	124
31-60%MFI	313	167	146
Subtotal	479	209	270
61-80% MFI	103	0	103
81-100% MFI	172	0	172
101-120% MFI	34	0	34

As a next step toward meeting these goals, PDC and PHB have established a project team and are developing conceptual plans for a mixed-use project that could provide 200-400 affordable housing units within the next three years on RiverPlace Parcel 3 (Parcel 3). PDC owns this approximately two-acre undeveloped lot at 2095 SW River Parkway in the North Macadam URA. Given the site’s Central Commercial (CXd) classification, it is estimated that roughly 450 housing units could be constructed.

PHB currently has \$4 million in fiscal year (FY) 2015/16 and FY 2016/17 to fund the development of affordable housing in the next three years as shown below in Table A. As such, additional resources will be needed to increase density and number of units on Parcel 3 in the near term. The number of units will thus depend of the ability either to bring forward additional TIF resources or to identify other bridge funds to support the development.

In addition to the above project on Parcel 3, PHB needs three things to meet the goals:

1. An alignment of TIF availability and land development, which means identifying potential sites in addition to Parcel 3 that can be preserved until sufficient funds are available or can be brought forward to develop most of the goal units;



2. While \$40 million of TIF is anticipated to be sufficient to cover the TIF-eligible capital cost of unit development, non-TIF operating resources will be required to contribute to the ongoing support of that number of 0-30% MFI units; and
3. Access to tools other than TIF for 61+% MFI units, which could include an incented interest by private developers to use property tax exemptions or an opportunity and need to buy floor area ratio in exchange for an in development incentive zoning program.

Central Eastside. In the Central Eastside, based on a \$10 million forecast, PHB has committed to a project that includes 102 units and estimates at least an additional 55 new affordable rental units would be created. This estimate is for a scenario in which affordable units could be developed as part of the Clinton Triangle station area redevelopment.

Question II. How much could be available for affordable housing development in North Macadam and CES? After the initial infrastructure investments needed to support private TIF generating investment? Under future growth scenarios?

North Macadam. The amount and timing of TIF resources depend on the amount and timing of private development in the district and the rate of growth in tax revenues from existing private development in the URA. Based on projections within the ZRZ and PSU DAs, the allocation of the 30% set aside of TIF resources would yield approximately \$40 million for affordable housing development over the life of the URA.

Table A on the next page shows the forecast revenues under a scenario where ZRZ and PSU add taxable development to the district in the envisioned timeframe¹. The table also shows the uses of TIF resources already planned for the district. These include investments in streets and other infrastructure needed to enable the private development to take place. They also include commitments for public improvements that have been made in past plans for the district or as part of DAs.

¹ Shifting resources forward would impact cost of debt and could reduce the overall amount of resources available for projects.



Table A

	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Resources										
TIF Proceeds	\$0.7M	\$6.5M	\$7.0M	\$7.9M	\$9.6M	\$21.2M	\$22.6M	\$24.1M	\$25.0M	\$22.7M
Other Income	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M
Beginning Balance	\$7.1M	\$4.5M	\$2.0M	\$5.2M	\$2.5M	\$2.9M	\$4.8M	\$13.2M	\$21.2M	\$35.0M
	\$8.0M	\$11.2M	\$9.3M	\$13.3M	\$12.2M	\$24.3M	\$27.5M	\$37.5M	\$46.4M	\$57.9M
Expenditures										
Parks & Open Space					\$0.1M	\$8.1M	\$3.5M	\$5.0M		
Bond Street	\$0.7M	\$1.5M	\$2.4M	\$3.7M						
PSU DA		\$2.0M		\$5.0M	\$4.6M	\$3.4M				\$4.0M
ZRZ Ec Dev Investments		\$2.5M					\$2.0M*	\$2.0M*	\$2.0M*	
Housing	\$2.0M	\$2.0M		\$0.3M	\$2.8M	\$6.1M	\$6.5M	\$7.0M	\$7.2M	\$6.5M
Target Industry Recruitment							\$0.5M	\$0.5M	\$0.5M	\$0.5M
Staffing/Indirect	\$0.8M	\$1.2M	\$1.6M	\$1.8M	\$1.8M	\$1.8M	\$1.8M	\$1.8M	\$1.6M	\$1.0M
Total Project Expenditures	\$3.5M	\$9.2M	\$4.0M	\$10.8M	\$9.3M	\$19.5M	\$14.3M	\$16.3M	\$11.3M	\$12.1M
Ending Balance	\$4.5M	\$2.0M	\$5.2M	\$2.5M	\$2.9M	\$4.8M	\$13.2M	\$21.3M	\$35.0M	\$45.8M

If TIF resources were divided 50/50 between PHB and all other uses in the last few years of the district, instead of 30/70, approximately \$20 million of additional resources (for a total of \$60 million) could be available for affordable housing development through the end of the district.

In the event that taxable development does not materialize as anticipated, it is estimated that approximately \$32 million will be available for affordable housing within the life of the district.

The 1999 North Macadam Framework Plan projected that the total district housing production would be between 1,500 and 3,000 units. Similarly, one of the Land Use and Urban Form Objectives from the South Waterfront Plan is to provide for 10,000 jobs and at least 3,000 housing units by 2019. The 2003 Strategy states once it becomes clear that the total build-out of district housing units will exceed the 3,000 unit target, then the affordable unit goals will need to be increased. To date, approximately 2,250 new housing units have been developed within the Central District and ZRZ’s Emery project. Should additional resources become available, such resources could contribute to pursuing an increased goal for 0-60% MFI units in the district.

Central Eastside. Based on projected growth, development in the amended area and the extension, the application of the 30% set aside would produce approximately \$10 million for affordable housing within the extended timeframe (see Table B on the next page). Even if growth exceeds projections, no additional resources would become available as this projection anticipates reaching maximum indebtedness.



Table B

	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Resources								
TIF Proceeds	\$3.0M	\$3.0M	\$6.7M	\$4.5M	\$4.8M	\$5.4M	\$3.0M	\$2.3M
Other Income	\$0.1M	\$0.1M	\$0.8M	\$0.4M	\$0.1M	\$0.1M	\$0.1M	\$0.1M
Beginning Balance	\$7.5M	\$7.0M	\$1.6M	\$2.8M	\$3.5M	\$3.7M	\$5.3M	\$5.3M
Expenditures								
Strategic Sites	\$0.5M	\$0.5M	\$2.0M					
Storefront/DOS	\$0.4M	\$0.4M	\$0.4M	\$0.4M	\$0.4M	\$0.4M	\$0.4M	\$0.4M
CPRL	\$0.5M	\$0.5M	\$0.5M	\$0.5M	\$0.5M	\$1.5M	\$1.5M	\$1.5M
Washington Monroe		\$1.0M						
Transportation Improvements		\$0.5M	\$2.0M	\$2.5M	\$1.0M			
District Parking	\$1.5M	\$1.5M						
Housing	\$1.1M	\$3.5M	\$0.8M	\$0.1M	\$2.3M	\$1.5M	\$0.9M	\$0.7M
Staffing/Indirect	\$0.6M	\$0.6M	\$0.7M	\$0.6M	\$0.6M	\$0.4M	\$0.4M	\$0.3M
Total Project Expenditures	\$3.6M	\$8.6M	\$6.3M	\$4.1M	\$4.8M	\$3.8M	\$3.1M	\$2.9M
Ending Balance	\$7M	\$1.6M	\$2.8M	\$3.5M	\$3.7M	\$5.3M	\$5.3M	\$4.9M

Question III. What is the most affordable housing that the city can get through the ZRZ DA? How many units? How likely?

The ZRZ DA aligns the expected TIF generated by private development with the needed public investments in infrastructure, affordable housing, parks and open space, and economic development.

The ZRZ DA includes an opportunity for PHB to invest in affordable housing in ZRZ residential projects should PHB have the needed resources. The DA establishes a public/private partnership in which PHB is guaranteed the opportunity to choose to subsidize rental units to meet 0-60% MFI housing goals within every ZRZ residential project. The subsidized rental housing units would occur via an Affordable Housing Covenant, which would provide PHB with the ability to determine whether it is feasible and desirable to subsidize affordable housing units in a proposed development up until construction documents are initiated. At that point, the partnership either continues if subsidy is available or is dissolved until the next housing project on ZRZ property is initiated.

PHB also has the opportunity to purchase property for affordable housing development. The opportunity for PHB to purchase property would be triggered at the time that ZRZ initiates Phase 2 of Zidell Yards and if fewer than 479² units of affordable housing have been built within the North Macadam URA.

² Goal for 0-60% MFI as established in 2003



Currently, a priority for TIF resources is in the development of Parcel 3 (currently owned by PDC). Remaining resources after the development of Parcel 3 could be used for the purchase of affordability in ZRZ housing developments.

Question IV. How will other resources and use of city-owned property contribute to producing affordable housing? How many units? How likely?

As previously mentioned, PDC owns Parcel 3 and is working with PHB on a mixed-use project on that site. The site had a 2014 real market value of between \$7 million and \$9 million; however, a current appraisal has not been completed by PDC.

The Oregon Department of Transportation and Portland Bureau of Transportation also jointly own 5.1 acres in two parcels on both sides of Naito Parkway at Harbor Drive. This site, commonly known as Harbor/Naito, is zoned Central Commercial (CXd), and in 2008 the PBOT portion (60%) had a market value of \$3.5 million. The 2004 Harbor Naito Concept Plan identified a mix of uses for the property including 140 units on the West Naito site.

In addition to the above sites, currently available funding mechanisms like property tax exemptions ("MULTE") and SDC exemptions could support the creation of affordable units.

Question V. What is the gap in being able to meet this goal even after the proposed URA amendment?

In terms of the 2003 North Macadam Housing Strategy and related goals, as previously mentioned, there are four main drivers in relation to achieving those goals:

- Land availability or ability to leverage private development;
- Level of funding and/or other tools to incent 0-60% MFI affordable housing ;
- Opportunities to use tools other than TIF for 61+% MFI units; and
- Availability of continued operational subsidy for 0-30% income restricted units.

It is difficult to predict the gap associated with meeting the goal of 30% of all new units in the Central City being affordable. In the aggregate, the resources needed to meet that goal would be significant and greater than the current funding stream for affordable housing development.

The draft Comprehensive Plan forecasts that up to 30,000 units could be added to the Central City by 2035. Since approximately 30% of Central City housing units are affordable units currently that would mean 10,000 additional affordable units would need to be produced by 2035 - or 500 per year.