A Review of the Efforts and Accomplishments of City Housing Programs: 1996–2000

June 2002

Office of the City Auditor
Portland, Oregon

CITY OF
PORTLAND, OREGON
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June 5, 2002

TO: Vera Katz, Mayor
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SUBJECT: *A Review of the Efforts and Accomplishments of City Housing Programs: 1996–2000,* Report #274

Attached is Report #274, an audit of the housing programs in the City of Portland. The study was included in our annual Audit Schedule published in July of 2001. Written responses to the audit are included at the back of the report.

As a follow-up to our recommendations, we ask that the Executive Director of the Portland Development Commission, and the Director of the Bureau of Housing and Community Development provide a status report in six months, detailing steps taken to address the report's recommendations. This status report should be submitted to the Audit Services Division and coordinated through the Commissioner in Charge's Office.

We appreciate the cooperation and assistance we received from staff in many City and County agencies in reviewing and preparing this report.

Gary Blackmer

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A report by the Audit Services Division
Report #274

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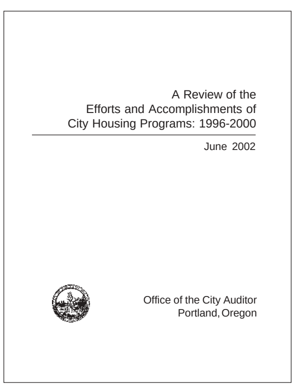
Portland, Oregon


A Review of the
Efforts and Accomplishments of
City Housing Programs: 1996-2000

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Production/Design

This report was produced in-house using desktop publishing software on Pentium III personal computers, and a Hewlett Packard Laserjet PCL/Postscript laser printer. It was printed at the Printing and Distribution Division of the City's Bureau of General Services. Adobe PageMaker 6.5 Plus was used to design and layout the finished product. Tables were created and drawn manually using PageMaker. Some text was initially written in Microsoft Word, then imported into PageMaker for formatting and layout.

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Summary

The City of Portland supports a number of efforts to assist people with housing costs and to build and rehabilitate housing units. These efforts serve two major purposes: to help low income residents find affordable housing and to ensure sufficient housing is available to serve a growing population at all income levels. This report provides the first comprehensive review of the accomplishments of Portland's housing efforts and the degree to which specific spending and policy objectives were achieved.

Over the four year period from June 1996 to June 2000, the City of Portland's twenty-five housing related programs provided $100 million to assist over 11,700 housing units. Over half of the financial assistance ($62 million) went to constructing new units for the homeless and for low-income and middle-income renters and homeowners. An additional $27 million was directed to rehabilitating rentals and homes for low-income households. Less than $10 million of subsidies went to middle and higher income households through support for new construction and property tax exemptions in designated parts of town.

Our analysis of these efforts indicates that the City is making significant progress in accomplishing housing production goals and has been relatively successfully in providing resources to low-income households in areas targeted by the City Council. Some of the most significant results include:

- The City's three Consolidated Plan priorities have been addressed by spending over 80 percent of housing subsidies for developing and rehabilitating housing for low-income renters, homeowners, and buyers.

- Over 30 percent of all new units built within the Urban Growth Boundary during the four year period ending June 2000 are in Portland, exceeding the City and Metro's planning goal of 20 percent.

- Housing assistance has been distributed to low-income and distressed City neighborhoods throughout City neighborhoods consistent with City and federal plans.

- About 41 percent of all new housing units constructed in Portland were supported in some way by a City housing subsidy.

- Although the City puts forth considerable efforts in developing and preserving low-income housing, the Housing Authority of Portland is the biggest provider of housing assistance to low-income households. Over the four-year review period ending June 2000, HAP provided $119 million in vouchers to 5,600 low-income Portlanders.

We also found that housing spending and accomplishments fell slightly short of targets in some areas. Specifically, spending for rental units was slightly less than Council guidelines while homeowner assistance was slightly higher. Also, spending for extremely low income households (0% to 30% of median family income) was also slightly below target – 28 percent actual versus 33 percent planned. While Council's recent decision to move more funding to extremely-low-income rental assistance may help better match the City's affordable housing needs, it will be difficult to achieve unit production goals because it costs significantly more to help the lowest income households. A combination of additional housing assistance and income enhancements may be needed to meet the goal of producing 1,791 extremely low income housing units within the City in the next five years.

As housing funding sources change and evolve, the City and the region will continue to experiment with various housing activities and programs. In order to monitor and report on the successes of these efforts, we believe improvement is needed in the quality and availability of housing information. We make several recommendations in this report to improve housing data and record keeping by the Portland Development Commission (PDC). We also urge the Council to designate one organization to maintain the baseline data collected in this report and continue future reporting of housing efforts and accomplishments.

This report provides significant detail on the programs, efforts, and accomplishments of City housing activities. The Introduction offers an overview of housing goals and policies, and a description of the 25 City programs we evaluated in this report. The Introduction also defines the report scope and methodology, offering some suggestions for future analytical work. Chapter 2 contains the results of our analysis – total housing spending by construction and assistance type, the number of housing units assisted by income level and geographic location, and the degree to which housing goals and targets were achieved. Chapter 3 provides specifics on four topics: PDC's Housing Department, the use of property tax exemptions to support housing, the use of fee waivers and exemptions of systems development charges to support housing production, and the role of the Housing Authority of Portland. Chapter 4 discusses weaknesses in management information and the need for additional information for future monitoring and reporting. Finally, Appendices A through F offer a glossary of terms, and additional detail on individual programs, projects, and funding sources.

This report was prepared by the Audit Services Division of the Office of the City Auditor. Work was conducted in accordance with generally accepted government auditing standards. Written responses to the report are included at the end of the report.

Additional copies of the report can be obtained by calling the Audit Services Division at 503-823-4005 or visiting our web site at www.ci.portland.or.us/auditor.

Chapter 1 Introduction

The City of Portland has more than two dozen separate programs that help construct new housing, rehabilitate existing housing, and assist people with housing-related costs. The programs provide a variety of subsidies to improve neighborhoods and to help the homeless, renters, and homeowners.

Considerable information is available to decision-makers on the individual housing programs, but it is generally tracked separately and reported independently by the managing bureaus. While bureaus can report how well they meet their specific goals, it has not been possible to know the overlap among the programs, or to combine them for a consolidated measure against the broadest housing policies the City has adopted.

This report provides the first consolidated view of the spending and accomplishments of all City housing programs. By providing detail on the amount and type of housing assistance funded by the City between July 1996 and June 2000, the report enables policy makers to compare housing accomplishments to local housing policies. The report also offers suggestions to improve the monitoring and reporting of housing efforts and accomplishments in the future.

This audit was included in the City Auditor's 2000 audit schedule. We conducted the audit in accordance with government auditing standards and limited our work to those objectives noted in the scope and objectives section in this chapter.

This report differs from the recently released City Club report on affordable housing in that it does not offer policy recommendations on what housing activities the City of Portland should fund in the future. Rather, it provides a unique, unduplicated accounting of total spending, the number of units and people assisted, and the geographic areas and income groups served. Because the Housing Authority of Portland (HAP) plays the biggest affordable housing role in Multnomah County, their rental assistance program is also described and overlaid on City program subsidies.

Continuum of housing activities

The need for housing can be conceptualized along a continuum of populations starting with housing the homeless and ending with middle-income rentals and homeowners. The City of Portland and the HAP support these populations with three major types of activities:

- the construction of new housing units,
- the rehabilitation and preservation of existing housing units,
- direct subsidies that assist low-income households in paying rent, purchasing homes, and paying for City-related homeowner expenses like mandatory sewer connections and property taxes.

Figure 1 presents a simplified overview of the types of City and HAP programs within this continuum of housing needs. Not shown in the figure is a fourth important activity: social services. Multnomah County plays an important role in providing housing-related social services, such as case-management for special needs populations. The County also funds the Strategic Investment Program, which awards a small amount of funding for low-income housing development, and operates the Affordable Housing Development Program which transfers tax-foreclosed properties to non-profit housing developers.

In addition, private developers play the primary and essential role in creating new housing stock. Well over half of all new houses and rental units are built by the private sector without government support or subsidy. Non-profit organizations and faith-based groups also contribute to developing and maintaining affordable housing in Portland by constructing and rehabilitating housing units, and managing units as landlords. Finally, the federal government and State of Oregon assist homeowners through property tax and mortgage interest deductions on income taxes.

This report focuses only on housing units or individuals that received one or more subsidies from the City of Portland or the Housing Authority of Portland. Programs that provide social service housing related activities, such as outreach to homeless individuals, housing placement for special needs populations, and homebuyer education are not included in this report.

Figure 1 Continuum of people served and housing activities: City of Portland and Housing Authority of Portland

PEOPLE SERVED →

HOUSING ACTIVITIES	Homeless	Low-income rentals/renters	Low-income homeowners	Middle+ income rentals & homeowners
NEW CONSTRUCTION	Loans and grants for homeless shelters (City) Develop (HAP)	Loans and grants (City) Waivers and credits on fees and system development charges (City) Develop (HAP)	Loans (City) Waivers and credits on fees and system development charges (City)	Loans (City) Credits for system development charges (City)
REHABILITATION	Loans and grants for homeless shelters (City)	Loans and grants (City) Waivers and credits on fees and system development charges (City) Lien waivers for County property transfers to CDCs (City) Acquisition of existing units (HAP)	Loans (City) Waivers on fees and system development charges (City)	Loans (City)
ASSISTANCE	* (City)	Property tax exemptions to owners of rentals (City) Rent assistance (HAP) * (City) ** (HAP)	Property tax exemptions to homeowners (City) Local improvement district waivers (City) Loans for purchase down payments or sewer hook-ups (City) Home repair programs (City) * (City)	Property tax exemptions to homeowners and owners of rental housing (City)

SOURCE: Auditor analysis

* Social service housing related activities are not covered in this report. Examples: outreach to homeless individuals, operational support to shelters, technical assistance to community development corporations, homebuyer education classes, and homeowner security and weatherization workshops.

** HAP also maintains and operates 2,800 public housing units in Multnomah County.

Housing policies and issues in Portland

Housing policy in Portland is directed at achieving four primary goals:

- First, build a sufficient number of housing units to keep pace with the region's growing population.
- Second, provide *affordable* housing to Portland residents. Housing is considered "affordable" if the cost, including utilities, consumes no more than 30 percent of a household's income. Low-income households are most in need of affordable housing.
- Third, encourage the development of mixed-income neighborhoods that are diverse and offer a range of housing choices to the population.
- Fourth, ensure that all housing is safe and built to endure.

Numerous policies, resolutions, and ordinances establish goals and guide housing program spending. These policies set general priorities and specific targets based on family income, occupant type, family size, geographic location, and project type (e.g. mixed-income, mixed-use). In addition, policy requires that rental units receiving City funding maintain affordable rents for sixty years. Figure 2 presents an overview of these policies.

Overall, the policies are driven by a desire to alleviate the housing cost burden for low-income households and to prevent urban sprawl by capturing regional growth inside the City. Metro, the regional government of the Portland metropolitan area, estimated that the region's growing population requires that Portland have 280,528 housing units by 2017 - an increase of 43,221 units from the 2000

Figure 2 Major housing policies affecting City housing activities

Metro Urban Growth Management Functional Plan (1996):

Portland agrees to add 70,704 housing units between 1994 and 2017

Metro Regional Affordable Housing Strategy (2000):

Portland's allocation of new units affordable to households at or below 30% of median family income is 1,791 by the year 2005

Consolidated Plan 2000-2005 (submittted to the US Dept. of Housing and Urban Development):

1. Provide affordable rental housing for:
   - homeless
   - very-low-income and households with extreme housing cost burden
   - special needs
   - preference to extremely-low-income and 3-bedroom units
2. Maintain and preserve housing stock for low-income, stabilize low-income neighborhoods, and provide services for low- and very-low-income
3. Assist low-income, first time homebuyers purchase homes

City of Portland Comprehensive Plan Goal 4: Housing (updated December 1998):

Enhance Portland's vitality as a community at the center of the region's housing market by providing housing of different types, tenures, density, sizes, costs, and locations that accommodate the needs, preferences, and financial capabiliites of current and future households.

Housing strategies for Urban Renewal Areas (PDC):

Downtown/Waterfront (1998; updated 2001)
South Park Blocks (1998; updated 2001)
Oregon Convention Center (1998)
Central Eastside (1998)
River District (1999)
North Macadam housing "goals" (1999)
Lents (2000)
Interstate (in process)
Gateway (in process)

City Code Title 30 Affordable Housing (November 1998):

Properties that receive City subsidy for the creation or preservation of rental housing affordable to 80% MFI or below, are subject to a minimum of 60-year affordability requirement

Area, Neighborhood and Community Plans (Bureau of Planning)

Resolution 35968, allocation guidelines for federal funds and Housing Investment Fund (updated 2001):

Housing type	% of funds	Targeted income
Rental	81%	see table below
Owner rehab	11%	0-80% MFI
Home buyer	6%	0-100% MFI
Innovative	2%	No targeting

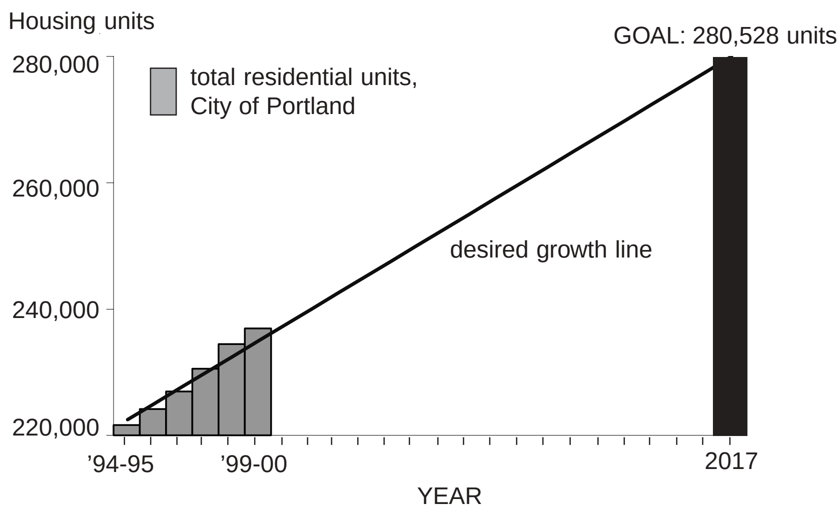
Income (rental housing)	% of funds
0-30% MFI	35%
31-50% MFI	40%
51-60% MFI	18%
61-80% MFI	7%

SOURCE: Auditor summary

Census count of 237,307. The Affordable Housing Technical Advisory Committee, created by Metro to address housing need in the Metro region, concluded that almost half of these new units need to be affordable to households making 30% or less of median family income (MFI).[1]

Progress towards meeting the target level of housing units in the City can be determined by tracking the number of new residential housing permits issued by the Office of Planning and Development Review. Based on permits issued by OPDR, the City added approximately 16,800 dwelling units between FY 1994-95 and FY 1999-00. Figure 3 shows that this progress was generally in line with the level of desired growth.

Figure 3 **Growth in Portland's housing units, FY 1994-95 to FY 1999-00, compared to desired growth**

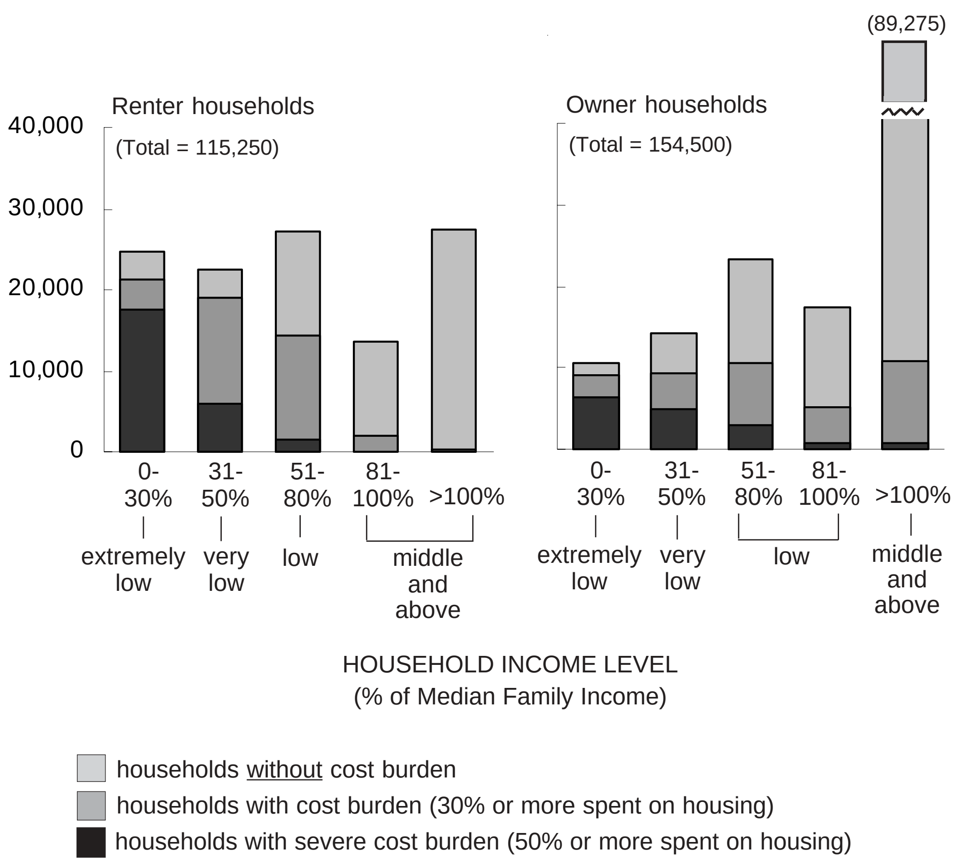


SOURCE: New residential units permitted (Office of Planning and Development Review) and Metro's Urban Growth Management Functional Plan goals

[1] Median family income is calculated annually by HUD; in 2002, the MFI for a family of four was $57,200 and $40,050 for one person. Thirty percent of MFI for a family of four, therefore, was $17,150 and $12,000 for one person.

Housing needs are often identified by determining the percent of household income used for housing. Households spending 30 percent or more of their income on housing are said to have a housing cost burden. Figure 4 shows the distribution of renter and owner households at different income levels within Multnomah County. This data from the 1998 American Community Survey (the most recent release of income by household size and housing costs) shows that approximately 32 percent of low-income households spent more than half of their income on housing. Approximately 22 percent of all renter households have a cost burden, compared with 10 percent of owners.

Figure 4 Renter and owner households, with and without housing cost burden, by income level, adjusted for household size: Multnomah County, 1998



SOURCE: 1998 American Community Survey, U.S. Census Bureau

The map in Figure 5 show the distribution of renter households with cost burdens across Portland. Sections of Northeast and Southeast Portland have the highest percentages of renters with a severe housing cost burden.

Figure 5 Portland census block groups with concentrations of renters with a severe housing cost burden

* excluding sparsely populated block groups

SOURCE: 1996 American Community Survey (U.S. Census Bureau); Regional Land Information System (Metro)

City of Portland housing agencies

Within the City of Portland, two City agencies—the Portland Development Commission (PDC) and the Bureau of Housing and Community Development (BHCD)—have primary responsibility for implementing City housing programs and distributing housing funds. In addition, seven other City bureaus participate in distributing, tracking or authorizing housing subsidies. Figure 6 lists the nine City bureaus and the 25 different programs that directly subsidize Portland housing units.

The Bureau of Housing and Community Development

BHCD was created in 1994 and is guided by four strategic directions: safety net for those most in need, access to individual opportunity, affordable housing preservation, and changing neighborhoods. BHCD manages the City's federal funding from the U.S. Department of Housing and Urban Development (HUD) through formal contracts with a variety of organizations. The majority of HUD funds dedicated to housing (Community Development Block Grant and HOME funds) are distributed by PDC's Housing Department.

In addition to managing the PDC contract, BHCD's housing program manages contracts for other programs directly related to housing. These programs develop housing for the homeless, people with AIDS and other special needs populations, and provide home repairs for low-income homeowners. Though not included in this report, BHCD also manages contracts for programs that provide social service housing related activities, such as outreach to the homeless.

BHCD's housing program spending increased 10 percent between FY 1996-97 and FY 2000-01. The housing program's spending of $18.7 million for FY 2000-01 was 57 percent of BHCD's total spending. This spending includes federal funds distributed to PDC.

The Portland Development Commission

The PDC was created in 1958 to address the City's housing and economic development priorities. The PDC is governed by a five-member Commission appointed by the Mayor and approved by City Council, and maintains administrative systems and financial records separate from the City. The PDC is responsible for urban renewal planning and development, and currently manages 10 urban renewal areas. PDC's Housing Department operates on revenues from urban renewal funds, federal HUD funds it receives from BHCD, the City's general fund, loan repayments, and private funds it leverages from public funds.

Total spending within PDC's Housing Department has increased 71 percent between FY 1996-97 and FY 2000-01. Its adopted budget at $54.6 million for FY 2000-01 is currently about one quarter of PDC's total budget.

Other city bureaus

Other city bureaus play both large and small roles in supporting housing activities. These activities range from offering 10-year property tax exemptions to providing one-time building permit fee waivers that support low-income housing development.

Figure 6 lists the bureaus that provided some level of housing support over the past four years.

Figure 6 City housing programs, financial assistance, and target populations: FY 1996-97 to FY 1999-00

BUREAU (administering bureau)	Programs	Financial assistance (millions)	Home-less	Low-income		Middle-income rentals & owners
				Rentals/ renters	Owners	
PDC	• Housing Development Finance (loans and grants for new construction, refinance or rehab of multi-family housing)	$64.5	3	3	3	3
	• Neighborhood Housing Program (loans and grants for single-family home purchases and rehabilitation)	$13.5		3	3	
	• PDC/BHCD Shelter funding (shelters for homeless and transitional people	$4.4	3			
	• Portland Housing Center loans (funds to PHC for homebuyer loan programs)	$1.8			3	
	• Sewer-on-site loans (0% interest deferred loan for sanitary sewer hook-up)	$0.3			3	
	• Local improvement district (LID) grants (grant for homeowners to pay LID fee)	$0.1			3	
BHCD	• Manages contract for federal housing funds distributed to PDC's Housing Department		see PDC programs above			
	• Housing for People with AIDS (HOPWA)	$2.3		3		
	• HOME Special Needs Housing	$1.9		3		
	• Home repair training program	$1.4			3	
	• Homeowner repair programs (3 programs)	$0.3			3	
Bureau of Planning (PDC - 5 of 6 programs)	• Property tax exemptions ranging from non-profit housing to owner rehabs (6 programs)	$5.9		3	3	3
OPDR (PDC)	• Development Fee Waiver	$1.2	3	3	3	
Office of Transportation (PDC)	• Transportation System Development Charge (SDC) Exemption	$0.7		3	3	
Parks & Recreation (PDC)	• SDC Credit	$0.5		3	3	3
	• Park SDC Exemption	$0.2		3	3	
Auditor's Office	• Lien waivers on property transfers to community development corporations	$0.6		3	3	
Environmental Services (PDC)	• Sewer SDC Exemption	$0.3	3	3	3	
Water Bureau (PDC)	• Water SDC Exemption	$0.1	3	3	3	
TOTAL		**$100 million**				

SOURCE: Auditor analysis of data provided by bureaus listed above, Multnomah County Assessment & Taxation, City of Portland Office of Management and Finance, Portland Housing Center and Multnomah County Community Programs & Partnerships

Housing Authority of Portland

The Housing Authority of Portland (HAP) is a public corporation created in 1941. The HAP receives the majority of its program funds directly from the federal Department of Housing and Urban Development (HUD), but also receives some federal funds from the City of Portland to support construction of its low-income housing projects. Of all programs reviewed in this report, the HAP provides the greatest support to low-income renter households through rent assistance. HAP also provides operating and maintenance support for public housing and develops affordable and special needs housing projects. The HAP issues bonds, and receives funding from the PDC and other sources for its development projects.

Policy and oversight groups

The City also helps staff the Housing and Community Development Commission and its subcommittees, including the Housing Evaluation Group.

The Housing and Community Development Commission

The HCDC is a citizen volunteer commission established in 1992 by Portland, Gresham, and Multnomah County to coordinate housing policy recommendations and oversee planning. The HCDC advises Portland City Council on housing policy, and is the primary public forum addressing affordable housing issues in the County.

The Housing Evaluation Group

The HEG is a subcommittee of HCDC that is charged with evaluating the PDC's use of federal funds obtained through BHCD, City general funds allocated to the Housing Investment Fund, and revenues from tax increment financing.

The HEG works closely with PDC to produce annual reports which evaluate PDC's housing spending by income group and type of units assisted.

Housing system funding

The City spent $100 million in "direct" housing assistance between FY 1996-97 and FY 1999-00. "Direct" housing assistance means grants, loans, or waived fees or taxes that go to developers and property owners, in order to construct new housing, rehabilitate existing units, or assist owners with expenses related with home ownership. Figure 7

Figure 7 **Source of funds used by the City of Portland for housing programs with expenditures*: FY 1996-97 to FY 1999-00**

Federal funds (46%)	
Community Development Block Grant, RLF, RRPI	$34.0 million
HOME	$10.7 million
Housing for People with AIDS	$2.3 million
City General Fund (32%)	
Housing Investment Fund	$20.8 million
General Fund (for homeless shelters)	$2.5 million
Foregone revenue	$8.0 million
Tax increment financing (22%)	
Tax increment financing	$21.7 million
FOUR YEAR TOTAL ALL FUNDS	**$100 million**

* expenditures only include loans, grants, fee waivers and tax exemptions; CDBG includes $4.4 million in leveraged private funds; program administrative costs <u>not</u> included; see Appendix C for more detail on funding sources.

NOT SHOWN: Preservation line of credit (no activity 1997 - 2000), Smart Growth Fund (new program in 2000), City Lights (new program in 2001).

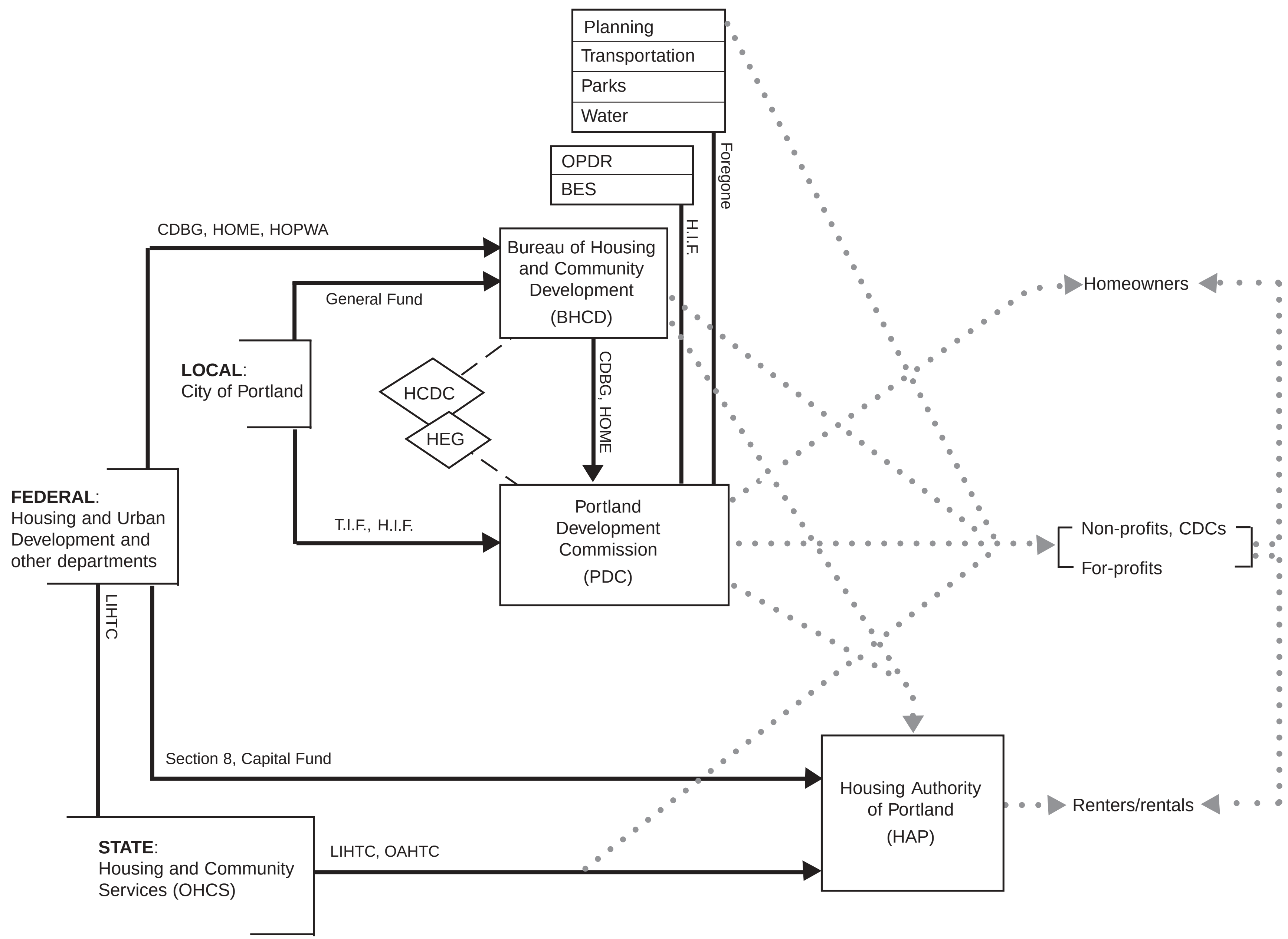
SOURCE: Auditor analysis of data provided by City bureaus, Multnomah County Assessment & Taxation, City of Portland Office of Management & Finance, Portland Housing Center, and Multnomah County Community Progams & Partnerships shows spending by fund type. Appendix A details spending by program among these funds.

Costs to administer the programs are in addition to the expenditures reported in Figure 7. We estimated that administration cost over the four-year review period were $24 million. PDC administrative costs were $21.5 million, and BHCD administrative costs were $2.8 million. Together, these costs add 24 percent to the $100 million. (In Chapter 4, PDC project costing is discussed further).

Current trends indicate that less general fund monies may be available for housing in the future. In FY 2001-02 Council significantly decreased General Fund allocations to the Housing Investment Fund, which was established in FY 1994-95. Moreover, while newly created urban renewal areas could potentially generate more tax increment finance revenues for housing projects, a recent ruling by the Oregon Supreme Court could reduce the amount of urban renewal funds collected and result in tax refunds to property owners. The recent ruling poses a funding problem for the City which had looked to TIF revenues as a significant future housing resource.

However, the City recently initiated two new mechanisms to fund housing. The Smart Growth Fund is a $6 million line of credit from the private Enterprise Foundation that can be used for affordable housing property acquisition. The City Lights program enables the City to issue bonds to finance specific housing projects. Our report does not include any projects funded by these two new programs because there was no activity in these programs during the years we reviewed.

Figure 8 Funding flow to renters and homeowners (City and HAP)



SOURCE: Auditor summary

The delivery of housing subsidies involves federal, state and local governments. As shown in Figure 8, federal funds such as CDBG may transfer between housing entities three times. PDC coordinates the delivery of most of the City of Portland's housing subsidies.

Scope and objectives

The overall objective of this report is to summarize the City of Portland's housing accomplishments in ways that make easy comparisons to general housing policies. We identified and collected data from all the City programs that help build or rehabilitate housing, preserve affordability, or subsidize renters or owners. We excluded housing social services from our review because the City contributes comparatively little funding in this area.

The City has never before issued a comprehensive report on its housing spending and programs. Chapter 2 of the report provides the following information on the accomplishments of City of Portland housing programs:

- the dollars spent and the number of units which received assistance, categorized by type of housing activity and occupant,
- how these expenditures align with general policy objectives,
- how spending aligns with City Council resolutions that direct spending of federal funds and the City Housing Investment Fund,

- how subsidized units align with area incomes,
- the geographic distribution of subsidized units.

In addition, we looked at how many units receiving subsidies from the City also received assistance from HAP. Since we combined data from the different bureaus by comparing addresses, we were able to determine which units received subsidies from several programs. Consequently, we are able to report an unduplicated count of units which received more than one subsidy.

Chapter 3 provides more detail on selected housing programs: PDC's multi-family housing development program, Portland's property tax exemption and waiver programs, and the activities of the Housing Authority of Portland (HAP). HAP plays a major role in developing and managing affordable housing, and providing rent-assistance to low-income households. A picture of housing expenditures in Portland would not be complete without including HAP's accomplishments.

Finally, Chapter 4 reports on the quality and availability of information on housing programs. We spent considerable time reviewing PDC program files because PDC is the conduit for all tax increment monies and the majority of federal and City general funds allocated to housing. Although PDC has extensive systems in place to track its spending, we found the need for better and more complete information relating to project cost tracking and tenant income verification.

We conclude with recommendations to improve the reporting of housing information so that future iterations of this report may continue to add to the City's tracking of housing accomplishments.

During the course of our review, we recognized two areas that warrant further audit work but were not included in the scope of this report. These are a review of PDC's methods for estimating projected income from all loan repayments associated with housing expenditures, and a review of how well PDC's Asset Management system, which is currently being developed, meets its intended objectives. These two areas are important to, and will enhance, PDC's reporting on the housing projects it funds.

Research methods

To gain an understanding of housing subsidy programs in Portland, we interviewed 20 individuals involved in housing policy and program delivery. We collected data on the expenditures and accomplishments of twenty-five housing programs funded by the City of Portland between FY 1996-97 and FY 1999-00. Until this report, the information presented here resided within the different bureaus, and not always in electronic format.

We categorized housing subsidies into three types: those that helped create new units, rehabilitate (or preserve) existing units, or assist with ongoing rental or homeowner expenses. We assigned an income range to each property based on actual program data or the housing subsidy's targeted income range.

Income ranges are expressed as a percentage of the area median family income (MFI) updated by HUD each year. The base income cutoff is assumed to apply to a household of four. Adjustments to MFI are made for larger and smaller household sizes. The following income labels follow HUD income categories:

- **extremely low-income**: renters and homeowners with incomes at or below 30 percent of MFI.
- **very low-income**: Renters and homeowners with incomes between 31 and 50 percent of MFI.
- **low-income**: renters with incomes between 51 and 80 percent of MFI, and homeowners with incomes between 51 and 100 percent MFI. Because some programs we reviewed target homeowners at or below 100 percent MFI, we defined low-income homeowners accordingly.
- **middle-income / non-targeted**: renters with incomes above 80 percent MFI, or homeowners with incomes above 100 percent MFI. (HUD separates middle-income from upper-income at the 120 percent of MFI cutoff, but we did not make that distinction.) Some programs do not have income criteria and are counted under this category.

We created a data table with over 3,500 addresses that represents 11,700 housing units that received City funding. Each address record shows type of housing activity, occupant type, number of units, intended or actual income range, and the amount of funds received from each program reviewed. Because we had address data, we were able to identify those units that received subsidies from multiple programs. This enabled us to report an unduplicated count of units receiving subsides, and to map the geographic distribution of these subsidies.

We also collected data from the Housing Authority of Portland (HAP) on its housing development, preservation and rent assistance activities. We did not include maintenance and operating costs of the 2,800 units of public housing operated by HAP throughout Multnomah County. We included a field in our database that identifies those units that received rent assistance from both the City and HAP so that we could estimate the degree of overlap between these two housing providers.

Because a significant portion of housing funds is expended as low-interest loans, it is important to clarify what we counted as housing expenditures and as units assisted. We counted only projects that were funded by grants and *closed* loans. We did not count projects that were in the “reserved” or “committed” loan phases. Counting only closed loans is a departure from the method the Housing Evaluation Group uses to evaluate PDC’s annual spending compliance with City resolutions. The HEG counts funds from both committed and closed loans. In multi-year analyses such as ours, a loan could be double-counted, once in the year it was committed, and again in the year it was closed. Counting only closed loans ensures that a project’s funding is only counted once.

Pre-development loans and grants precede project financing and are usually paid back within 24 months. We reviewed the pre-development loans closed between FY 1996-97 and FY 1999-00 and did not include them in our analyses because all but a small portion had been repaid.

We verified project information in PDC's databases. For our evaluation of how PDC verifies income for homeowner loans, we retrieved loan documents from a sample of homeowner loans. To evaluate how PDC verifies occupant incomes for the rental projects it assists, we located and reviewed tenant surveys taken at these projects. To check that the electronic information reported on PDC's multi-family housing projects was accurate, we reviewed the finance, construction, and/or loan documents that we could locate for the multi-family housing projects that received funding between FY 1996-97 and FY 1999-00.

Unless otherwise noted, expenditures represent four-year totals. We did not adjust dollar amounts for inflation.

Chapter 2 City housing accomplishments align well with intended policy goals

City housing programs are making significant progress in meeting housing goals and addressing housing policies. The City has focused the majority of its spending on very-low and low-income renters and helped increase the number of new housing units to meet the demands of the City's growing population.

Our comprehensive review of twenty-five housing programs funded by the City showed that $100 million in expenditures over the four year period ending in June 2000 assisted over 11,700 units of housing for the homeless, renters, and homeowners in Portland. Specific accomplishments of City housing programs over this four year period include:

- $67 million of City housing spending supported the production or rehabilitation of low income rental units,
- About 42 percent of spending assisted the construction or rehabilitation of rental units for "very low" incomes,
- City housing programs supported in some way about 41 percent of all new housing units constructed,

- Housing assistance is dispersed throughout the City's neighborhoods but mostly in low-income and distressed areas identified by City Council.

While the City has been reasonably successful in concentrating spending on units that are affordable for low-income households, efforts have fallen slightly short of targets for spending and producing rental units for very-low-income households. Despite intentions to direct the great proportion of spending to these households, more City resources are spent on moderately low-income renter and homeowner households than desired. This is largely due to the economic constraints of producing housing for very-low-income households — it costs significantly more to subsidize units that are affordable to the households below 30% of median family income than it does for other low-income groups. Our analysis shows that it will be difficult for the City to meet the goal of producing 1,791 units of extremely-low-income housing in the next five years without additional funding and production independent of City funding.

Overview of City housing efforts

Figure 9 summarizes total housing efforts of the City of Portland over the four year period ending June 2000. As shown, City housing programs provided $100 million to assist about 11,700 units.

Over $62 million was spent on <u>new</u> construction for the homeless, and low-income and middle-income renters and homeowners. The great majority of resources were directed to low-income households. The City also spent $27 million to

Figure 9 City of Portland: total financial assistance, in millions, and (units), FY1996-97 to FY 1999-00

		Homeless[a]	Low-income rentals/renters	Low-income homeowners	Middle income rentals & homeowners	**TOTAL**
NEW CONSTRUCTION		$5.2 (217)	$49.5 (3,232)	$2.9 (436)	$5.0 (436)	$62.6 million
REHABILITATION		$0.1 (21)	$14.5 (1,109)	$12.4 (722)	$0.01 (18)	$27.0 million
ASSISTANCE:	To people	$0 (0)	$0 (0)	$4.5 [b] (818)	$0 (0)	$4.5 million
	Property tax exemptions	$0 (0)	$3.0 (2,550) [c]	$0.2 (125) [c]	$2.7 (2,025) [c]	$5.9 million
TOTAL		$5.3 (238)	$67.0 (6,891)	$20.0 (2,101)	$7.7 (2,479)	**$100 million** **(11,709 units)**

[a] Does not include City funded programs that help individuals attain stable housing

[b] Home purchase=$3.8 million; sewer loans, LID waivers, and BHCD repair programs=$690,000

[c] These units received only a tax exemption. An additional 2,100 tax exempted units had other subsidies and are not included here, but *are* included in other categories in the table. (We estimate that 1,120 of these units were newly constructed during the review period.)

SOURCE: Auditor analysis of data provided by City bureaus, Multnomah County Assessment & Taxation, City of Portland Office of Management and Finance, Portland Housing Center, and Multnomah County Community Programs & Partnerships.

rehabilitate over 1,800 existing rental units and homes for low-income households. City efforts provided about $20 million in direct assistance to low-income homeowners in various forms, including home purchase loans, repair assistance, building fee waivers, and property tax exemptions.

City programs also assisted middle-income rentals and homeowners by providing construction assistance to 436 non-income targeted units, and by providing property tax exemptions in downtown Portland, transit corridors, and City designated “distressed” areas.

Our review also showed that of the 3,668 new, income-targeted units developed between FY 1996-97 and FY 1999-00, only 259 units were restricted to households earning 30% or less of median family income. We believe that in order to meet the Metro/City goal of producing 1,791 0-30% MFI units over the next five years, the City will need to pursue a variety of strategies. These include allocating more funding to existing programs, and exploring different funding mechanisms and incentives that will encourage non-profit and for-profit developers to produce extremely-low-income housing. Moreover, strategies that increase household income may help households afford existing rental housing.

Thirty-four percent of all the units receiving assistance from the City received subsidy from more than one program. As shown in Figure 10, 7,700 units received only one subsidy, with property tax exemptions being the single most common subsidy. Approximately 2,500 units received 2 subsidies, 1,100 received 3 types of subsidies, and 400 units received 4 or more.

Figure 10 **Units by number of subsidies received from City housing programs: FY 1996-97 to FY 1999-00**

Number of units (%)	Number of subsidies	Most common project type/subsidy mix
7,700 (66%)	1	Units in new rental properties receiving tax exemptions or PDC loans
2,500 (22%)	2	Units in rental properties receiving tax exemptions and PDC loans (new and rehab)
1,100 (9%)	3	New units in rental projects receiving fee waiver and SDC exemption and PDC loan
400 (3%)	4, 5, 6 or 7	New units in rental projects receiving tax exemption and multiple waivers / exemptions and PDC loan
11,700 (100%)		

SOURCE: Auditor analysis of data provided by City Bureaus, Multnomah County Assessment & Taxation, City of Portland Office of Management and Finance, Portland Housing Center, and Multnomah County Community Programs & Partnerships.

City spending reflects Consolidated Plan priorities

As shown in Figure 11, City spending during the four years we reviewed reflected the City of Portland's Consolidated Plan's three priorities.

- Forty-two percent of expenditures went to developing and rehabilitating housing for very-low-income (0-50%) renters. (**Priority 1**)
- Another 34 percent of expenditures helped maintain and preserve housing stock for low-income people. Rentals for low-income households received about $22 million in City funds. Low-income owners received about $12 million for assistance with major home repairs and expenses. Additionally, we estimated that half of the tax exemptions granted went to properties that housed low-income renters. (**Priority 2**)
- The City spent almost $4 million on home purchase assistance to low-income buyers. (**Priority 3)**

In total, about 80 percent of the City's housing spending between FY 1996-97 and FY 1999-00 met these three Consolidated Plan priorities. The balance of spending met other City goals, such as stimulating housing production in the Central City.

Figure 11 **Comparison of Consolidated Plan priorities to City housing spending and units: FY 1996-97 to FY 1999-00**

Priority		Units	Dollars	% of total dollars
	HOMELESS shelters	238	$5,353,000	5%
	LOW-INCOME RENTALS			
1	"Very low" loans & grants	1,778	$42,229,000	**42%**
2	"Low" loans & grants	2,563	$21,813,000	**22%**
	Tax exemptions	2,550*	$3,004,000	3%
	LOW-INCOME HOMEOWNERS			
2	Rehab loans & grants	722	$12,429,000	**12%**
2	Other assistance	466	$690,000	**1%**
3	Home purchase loans	352	$3,800,000	**4%**
	New construction loans & waivers	436	$2,863,000	3%
	Tax exemptions	125*	$198,000	0%
	MIDDLE-INCOME RENTERS & OWNERS			
	Loans & grants	454	$4,971,000	5%
	Tax exemptions	2,025*	$2,671,000	3%
	TOTAL	**11,709**	**$100 million**	**100%**

* these units received only a tax exemption. An additional 2,100 tax exempted units had other subsidies and _are_ included in other categories in the table.

SOURCE: Auditor analysis of data provided by City Bureaus, Multnomah County Assessment & Taxation, City of Portland Office of Management and Finance, Portland Housing Center, and Multnomah County Community Programs & Partnerships.

City programs adequately support new housing targets

New housing units are being constructed at a rate consistent with Metro/City growth goals. As shown in Figure 12, over 30 percent of all new units built inside the Urban Growth Boundary have been within the City, exceeding the City goal of 20 percent.

Figure 12 **New housing units built in Urban Growth Boundary and Portland: FY 1996-97 to FY 1999-00**

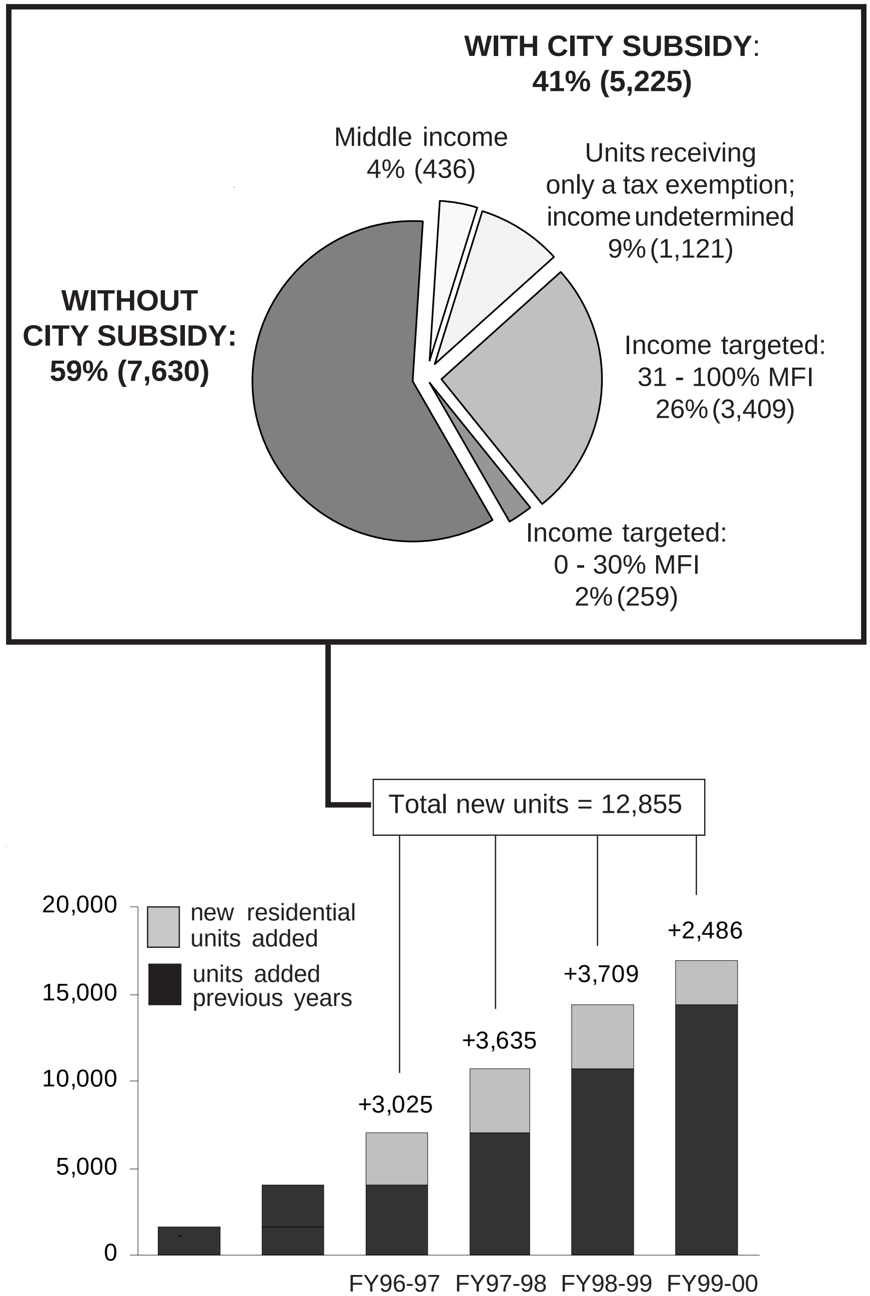
	New units		% of U.G.B.
	in City	in U.G.B.*	units in City
FY 1996-97	3,025	7,827	39%
FY 1997-98	3,635	11,388	32%
FY 1998-99	3,709	11,738	32%
FY 1999-00	2,486	7,500 est.	33%
TOTAL	**12,855**	**38,453**	**33%**
Goal			**20%**

* includes Clark County

SOURCE: New residential units permitted (Portland Office of Planning and Development Review; Metro Data Resource Center; and Clark County Assessment and GIS)

Figure 13 shows that of the 12,855 new units added in Portland between FY 1996-97 and FY 1999-00, the City contributed some sort of housing subsidy to 41 percent (about 5,225) – indicating a strong commitment by the City to stimulate the development of new housing units. Our review of the 833 units produced by HAP showed that all but 15 received City funds. Therefore most of the units developed by HAP are counted with the new units subsidized by the City.

Figure 13 New housing units in Portland, with and without City subsidy: FY 1996-97 to FY 1999-00



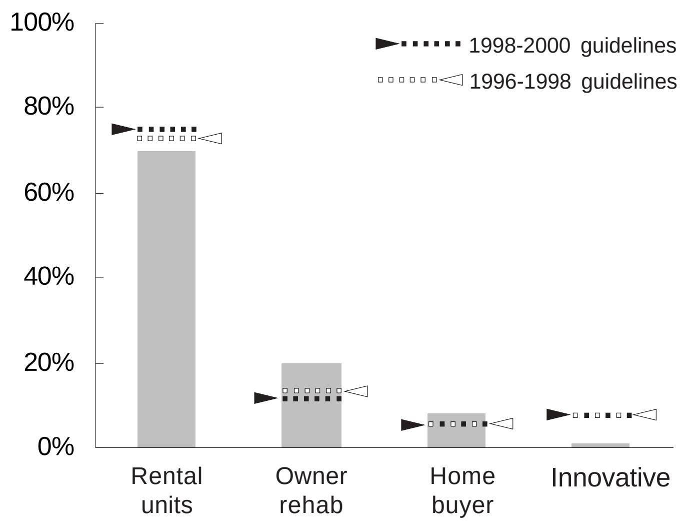
SOURCE: Auditor analysis of data provided by City bureaus, Multnomah County Assessment & Taxation, City of Portland Office of Management and Finance, Portland Housing Center, and Multnomah County Community Programs & Partnerships; new residential units permitted (Portland Office of Planning and Development Review)

Spending falls slightly short of City guidelines for very low income renters

To operationalize the Consolidated Plan's priorities, City Council has passed resolutions that direct spending of CDBG, HOME and HIF funds. The resolutions established spending guidelines by property type and income levels, and placed priority on rental units and households with incomes from 0% to 50% of median family income.

As shown in Figure 14, the percent of actual spending on rental units was slightly less than guidelines – 71 percent of funding went to rental units compared to target levels of 73 percent and 75 percent during the FY 1996-97 to FY 1999-00 period. The percent of spending on homeowner rehabilitation and buying assistance was slightly higher than expected – 20 percent for homeowner rehab compared

Figure 14 **CDBG, HOME and HIF spending by property type, FY 1996-97 to FY 1999-00**



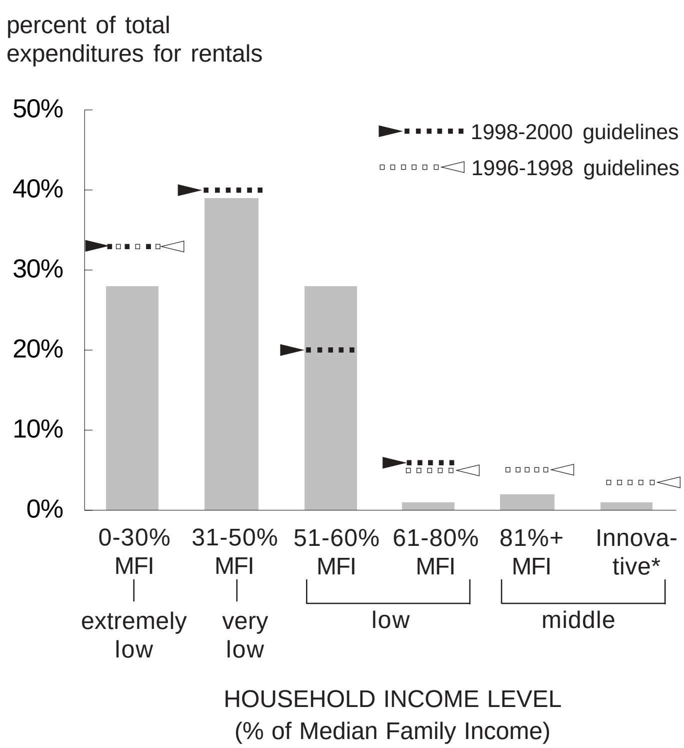
NOTE: Includes PDC Housing programs, development fee waivers, HOME Special Needs funds, Home Repair Training Program, and BES SDC waivers. Does not include funds to minor home repair programs or funds for homeless and transitional shelters. Homebuyer includes funds that assisted the development of homeowner units.

SOURCE: Auditor analysis of data provided by City bureaus, Portland Housing Center, and Portland resolutions 35521 and 35739.

to target levels of 11 to 13 percent, and 8 percent for home buying assistance versus targeted levels of 6 percent.

With respect to spending by income level, Figure 15 shows that the percent of spending directed to extremely low-income renter households was slightly less than hoped for – 28 percent versus the 33 percent target. In an attempt

Figure 15 **Rental program spending (CDBG, HIF, and HOME), by income categories: FY 1996-97 to FY 1999-00**



* Innovative applies to housing projects which meet a variety of City density and community objectives

NOTE: In the 1998-2000 guidelines, the allocation at 31-60% MFI (target was 51 percent of spending) was separated into two categories: 31-50% MFI (target is 40% of spending) and 51-60% (target is 20% of spending). Therefore, no guidelines in these categories are shown for 1996-1998.

SOURCE: Auditor analysis of data provided by City bureaus, and Portland resolutions 35521 and 35739.

to increase spending for the extremely low-income group, City Council in 2001 adopted a two percent shift from the 51-60% MFI funding allocation to the 0-30% MFI – placing the current 0-30% MFI target at 35 percent.

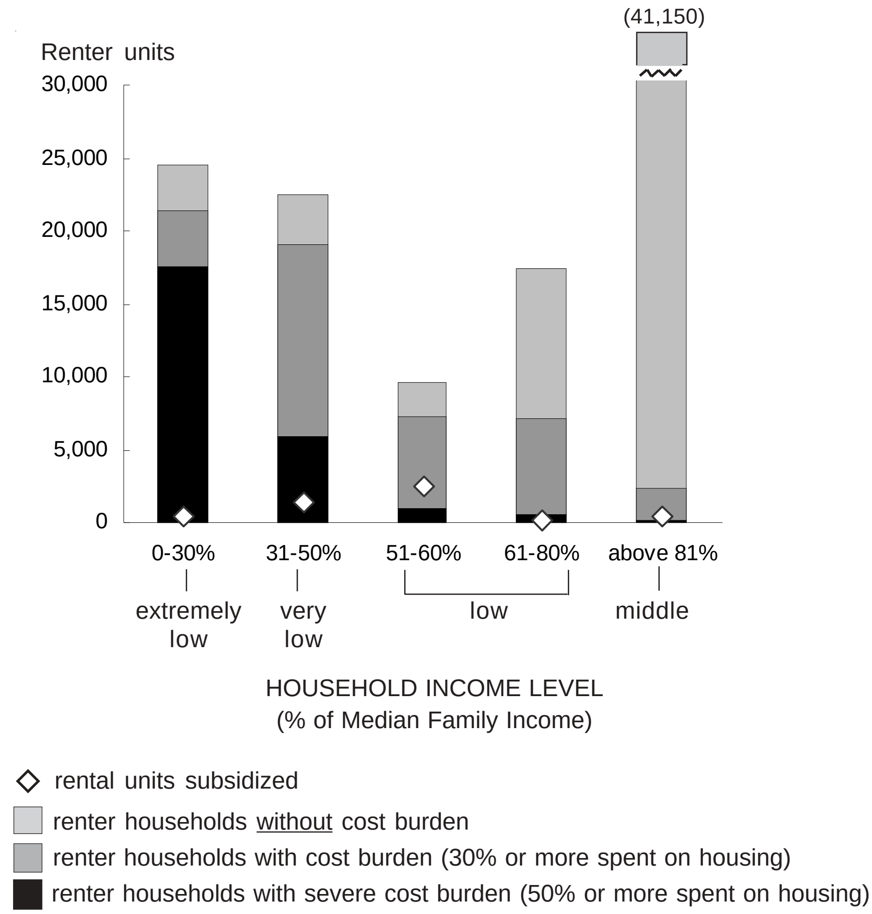
The City also met or exceeded targets for the percent of spending allocated to two other low-income groups. Spending at the 31-50% MFI level was nearly achieved (39 percent versus 40 percent planned) and spending at the 51-60% MFI level exceeded the target (28 percent actual versus 20 percent planned). Spending in the middle income target level was less than planned over the four year review period – 1 and 2 percent versus 7 and 6 percent planned. In 2001, City Council eliminated funding in the 81%+ category.

Shifting resources to 50% MFI better matches affordable housing need

The City Council's decision to move funding away from the 60% MFI threshold better matches the area's affordable housing needs. Further restricting funding and program guidelines to the 50% MFI target may be warranted.

To determine if City housing funding is helping produce units for households most in need, we compared the number of units produced or rehabilitated with City funds to Census data showing housing cost burden for renters. Figure 16 shows that the number of renters with a cost burden in the extremely- and very-low-income ranges far exceeds the number of households with a cost burden at the low and middle income ranges. However, City funding has subsidized more units for the higher income groups (3,017 units) than the lowest income groups (1,778).

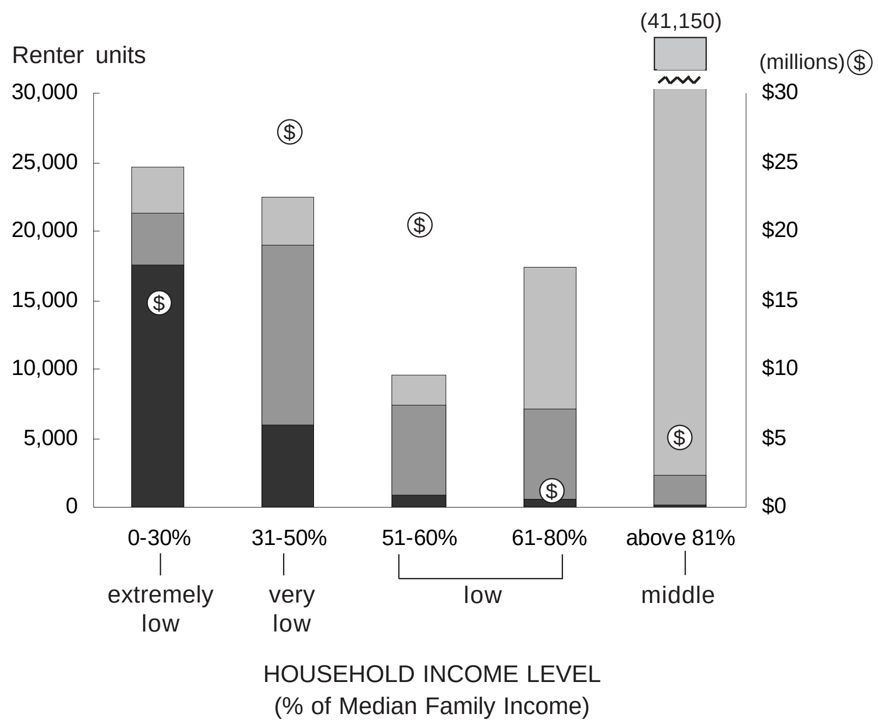
Figure 16 **Number of rental units subsidized, by income designation, compared to distribution of renter households in Multnomah County: FY 1996-97 to FY 1999-00**



SOURCE: Auditor analysis of data provided by City bureaus, Portland Housing Center, and Multnomah County Community Programs & Partnerships; 1998 American Community Survey (US Census Bureau)

Despite the apparent mismatch in the number of rental units assisted compared to the number of extremely- and very-low-income households with a severe cost burden, spending levels are more closely aligned with these households. As shown in Figure 17, approximately $15 million supported units produced or rehabilitated for extremely-low-income renters and about $27 million assisted units for very-low-income renters. In comparison, almost $27 million assisted units in both the low and middle categories.

Figure 17 Spending on rental units, by income designation, compared to distribution of renter households in Multnomah County: FY 1996-97 to FY 1999-00



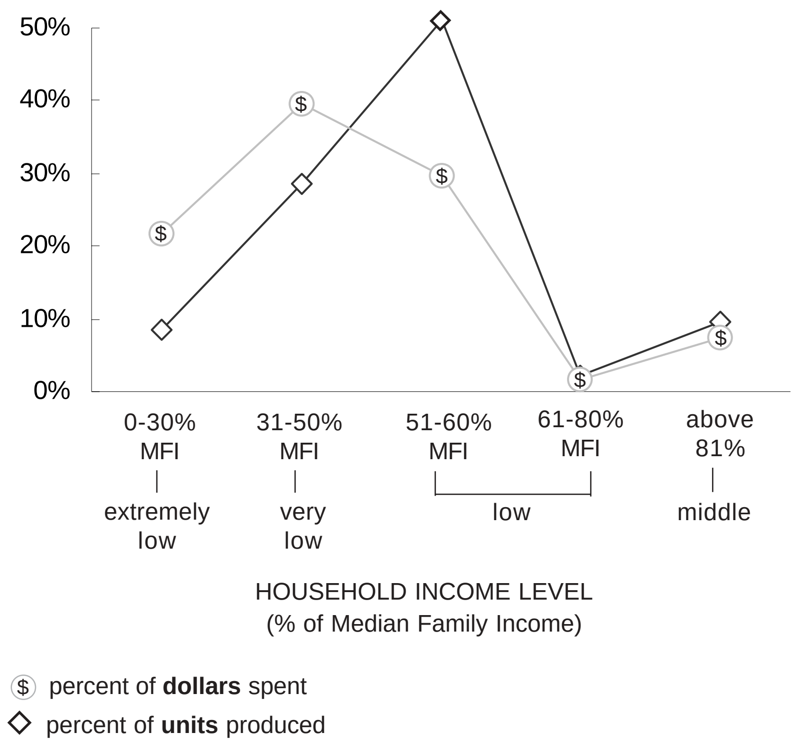
$ dollars spent on rental subsidies
- renter households <u>without</u> cost burden
- renter households with cost burden (30% or more spent on housing)
- renter households with severe cost burden (50% or more spent on housing)

NOTE: Spending includes tax increment finance and foregone revenues from SDC waiver programs. Tax exemption programs are *not* included because not enough data is available to accurately depict tax exemption by these levels of income categorization.

SOURCE: Auditor analysis of data provided by City bureaus, Portland Housing Center, and Multnomah County Community Programs & Partnerships; 1998 American Community Survey (US Census Bureau)

Figure 18 demonstrates the reality that it takes greater subsidy to construct or rehabilitate units for extremely- and very-low-income households, than for low or middle incomes. Over half (62 percent) of all City spending on rental units was directed to extremely- and very-low-income units, but it went to less than half (37 percent) of the rental units receiving City assistance. Conversely, a little over one-quarter (30 percent) of all spending was directed at rental units in the 51-60% income group, but this spending assisted half of all the rental units receiving City assistance.

Figure 18 **Percent of rental units assisted compared to percent of spending, by income designation: FY 1996-96 to FY 1999-00**



SOURCE: Auditor analysis of data provided by City bureaus and Multnomah County Community Programs & Partnerships

Spending and units assisted in higher income categories, reflect the City's efforts to meet new housing production, density and urban renewal goals.

We did not evaluate how well the size (e.g. studio versus three bedroom) of the units assisted matched household size at each income level. Further research is necessary to determine how well City housing programs meet need by income *and* household size. The size and targeted income level of units receiving City assistance is important in determining how well the City is supporting family-sized units.

Spending is greatest in Downtown and Northwest Portland

City housing expenditures and the number of units assisted have been dispersed throughout the City but have focused on distressed and low-income areas. The NW/Downtown area received the most assistance, about $27 million between FY 1996-97 and FY 1999-00, while the Southwest area received the least. The Old Town/Chinatown and Downtown neighborhoods overlap urban renewal areas where a little over $18 million of TIF revenue was spent on housing projects. Inner Northeast, Inner Southeast and East neighborhoods also received significant assistance, with over 5,000 units receiving $51 million.

City housing assistance has been provided mostly in those neighborhood areas that have certain demographic and physical characteristics such as a high poverty rate, economic underdevelopment, or a need for revitalization.

Figure 19 City housing expenditures by Portland areas, FY 1996-97 to FY 1999-00

Area (top neighborhoods)	Expenditures (millions)	Units assisted	% of dollars supporting rental units
NW / Downtown (Old Town/Chinatown, Downtown)	$27.3	4,090	99%
Inner Northeast (King, Humboldt)	$21.6	2,540	60%
Inner Southeast (Buckman-East)	$17.0	1,310	88%
East (Hazelwood, Lents)	$12.5	1,230	83%
North (St. Johns)	$6.8	950	53%
Outer Southeast (Brentwood-Darlington)	$5.1	880	39%
Central Northeast (Cully, Rose-City Park)	$4.2	530	55%
Southwest (Markham)	$0.1	10	4%
TOTAL	**$94.6**	**11,540**	

NOTE: Does not include shelters or lien waivers on vacant land transfers.

SOURCE: Auditor analysis of data provided by City bureaus, Multnomah County Assessment & Taxation, Portland Housing Center, and Multnomah County Community Programs & Partnerships; neighborhood boundaries from Portland Police Bureau, auditor approximation of neighborhood coalition (area) boundaries.

The three primary designations used to direct housing spending are:

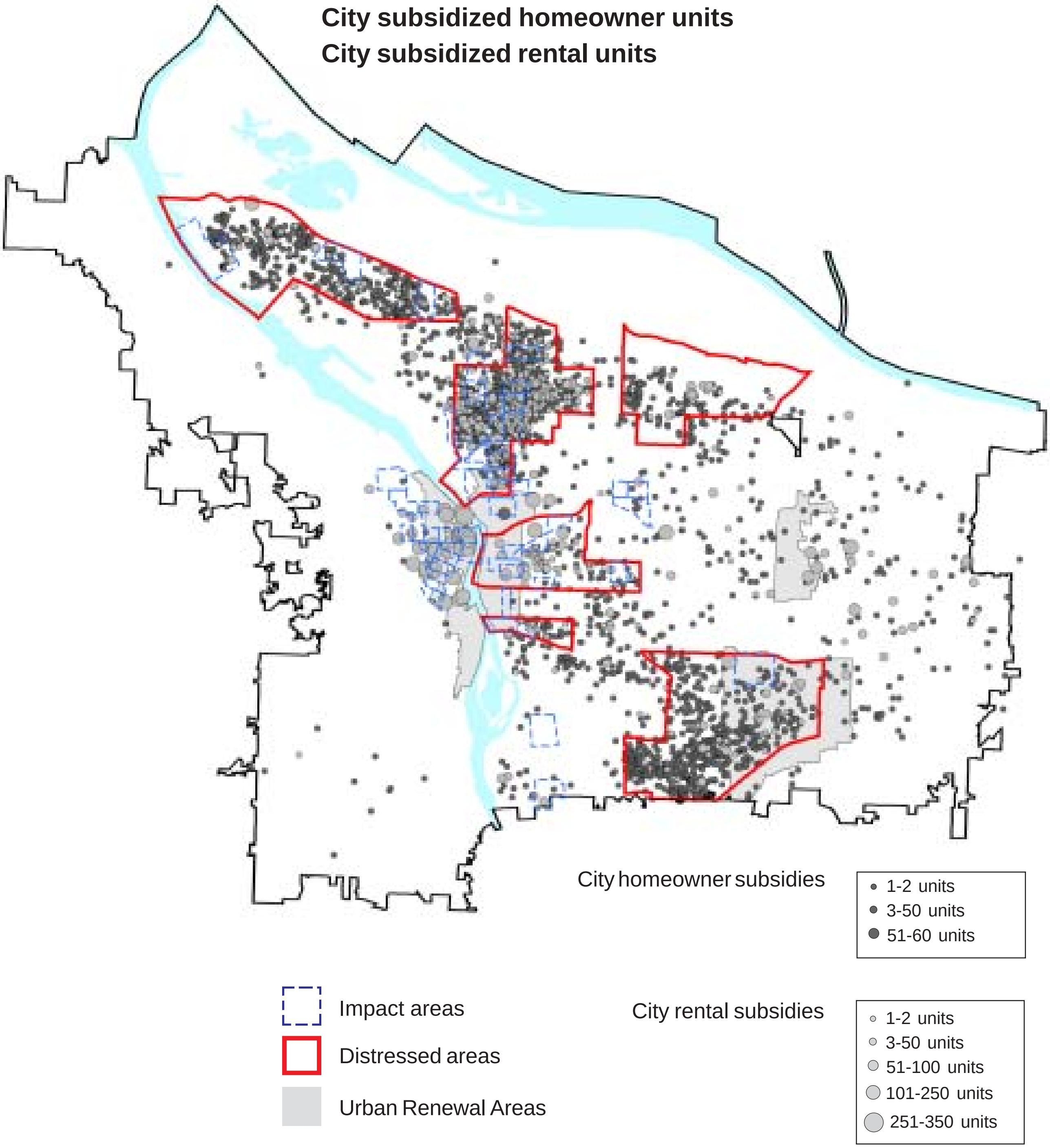
Impact Areas – identified by HUD to direct the spending of City-controlled federal housing fund spending. These areas generally are characterized by low-income residents with high housing cost burdens. To avoid the further concentration of poverty in these areas, the City restricts the use of CDBG, HOME and HOPWA funds to rehabilitation and special needs projects, and to existing homeowners.

Distressed Areas – designated by the Bureau of Planning to stimulate and rehabilitate housing through provision of various property tax exemptions. A little over half of the tax exemptions granted were in distressed areas.

Urban renewal areas (URA) – designated by City Council to improve "blighted" or underdeveloped areas. URAs are eligible for a variety of infrastructure, housing and economic development efforts funded by tax increment financing in order to attract private investment in the area. Properties in these areas are also eligible for tax exemptions.

The map overlays in Figure 20 show the geographic location of all renter and owner assisted units within the City. As shown, the units are largely concentrated in impact areas, distressed areas, and two urban renewal districts. These designated areas help to explain the concentration of units assisted by City funds in the Downtown and Inner Northeast areas of Portland.

Figure 20 City of Portland, FY 1996-97 to FY 1999-00: Impact, Distressed, and Urban Renewal Areas
City subsidized homeowner units
City subsidized rental units



SOURCE: Impact Areas – BHCD; Distressed Areas – Bureau of Planning; Urban Renewal Areas – PDC & Bureau of Planning

Auditor analysis of data provided by City bureaus, Multnomah County Assessment & Taxation, and Portland Housing Center.

Auditor analysis of data provided by City bureaus, Multnomah County Assessment & Taxation, and Mult. Co. Community Programs & Partnerships.

Chapter 3 Profiles of four housing programs

In order to improve the overall understanding of Portland's housing system and to provide information to decision makers, this chapter provides greater detail on four specific housing programs:

- the composition and funding of PDC's multi-family housing projects,
- the nature and level of property tax exemptions,
- subsidies provided by waiving fees and charges and,
- the impact of the Housing Authority of Portland.

We are highlighting these programs because they contribute significant resources to housing developers and renters, and also in response to requests for more detailed information on these activities.

PDC's housing programs

The Portland Development Commission's Housing Department is organized into programs that assist different populations. The Neighborhood Housing Program (NHP) provides loans and grants to low-income homeowners for major rehabilitation projects and down payment loans for first-time home purchases. Between FY 1996-97 and FY 1999-00, about 850 low-income homeowners received NHP loans. The Housing Development Finance (HDF) program provides loans, grants, and technical assistance to developers of rental and homeowner projects. Between FY 1996-97 and FY 1999-00, the HDF department closed loans for 105 projects containing 4,396 units, of which 3,865 received subsidy. Appendix B lists the HDF projects we counted in this report.

HDF loans leverage a large amount of other funding

The HDF projects range from the rehabilitation of single family rental homes owned and managed by non-profit organizations, to the development of housing projects that contain over one hundred units targeted to a variety of incomes. In the projects we reviewed, the HDF funding ranged between 2 percent and 100 percent of total project costs, depending on the type of the project and number of other funding sources.

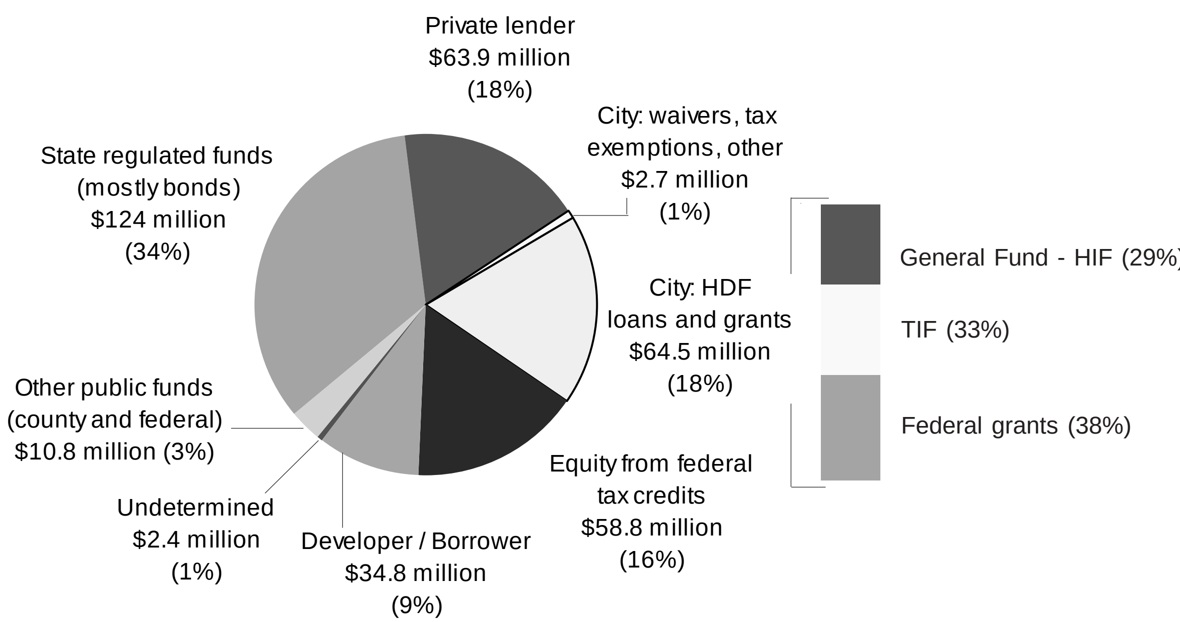
The variation in the percent of the total project funded by HDF loans or grants is due to the program's role as a "gap financier". "Gap financing" essentially means that PDC provides the final subsidy needed to cover the project's debt. This is an important role particularly for projects that include rental units for low-income households, because the rental income from these units generally cannot support the construction or rehabilitation costs.

Overall, the HDF projects we reviewed got about 19 percent of their funding from the City. Figure 21 shows the total dollars and percentages coming from each source.

Private activity bonds regulated by the State accounted for about 34 percent of project subsidies; equity raised through federal tax credits comprised 16 percent; private lenders provided 18 percent; and the projects' developers contributed 9 percent of project funding.

Of the 19 percent contributed by the City and disbursed in the form of loans, grants, fee waivers, and property tax exemptions, the largest source of funding was Federal grants, followed closely by tax increment revenue and General Fund sources. Appendix C provides an explanation of the different funding sources.

Figure 21 Summary of funding sources for 105 PDC Housing Development Finance projects



SOURCE: Auditor analysis of data provided by the PDC Housing Department (based on 105 projects "closed" between FY 1996-97 and FY 1999-00).

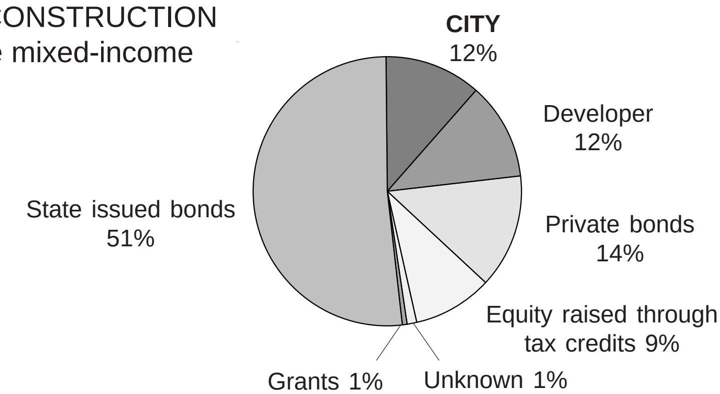
Size of City subsidy varies by project type

The summary of funding sources above masks big differences among the projects that HDF assists. Depending on the size, nature and developer of the project, the City's share of the total project funding can vary significantly. To illustrate the variation in City subsidy, we selected two distinctly different types of rental projects for comparison: 1) newly constructed, mixed-income projects, and 2) rehabilitated 1- to 2- unit rentals owned by non-profit organizations.

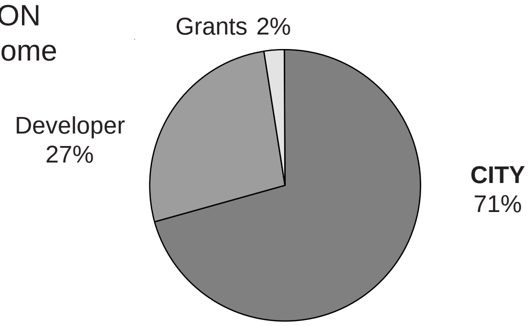
As shown in Figure 22, the projects differed in the percent of total project funding contributed by the City, and the composition of other funding sources.

Figure 22 **Example: source funding for two different types of PDC housing projects**

NEW CONSTRUCTION
of large mixed-income
rentals



REHABILITATION
of small low-income
rentals



SOURCE: Auditor analysis of data provided by the PDC Housing Department (based on 33 projects “closed” between FY 1996-97 and FY 1999-00).

New, mixed-income rental projects are supported by the largest variety of funding types, with state issued bonds contributing the majority of funding for these projects. Funds contributed by the developer or borrower, either through developer contributions, private debt, or tax credit equity, provide 35 percent of project costs. City funding sources only provide 12 percent of total project costs, with tax increment financing the largest contributor.

By contrast, smaller rehabilitations of 1- or 2-unit rentals by non-profit organizations rely most heavily on City funds, and show the least variety in funding sources. The City funds almost three-quarters of their project costs, followed by developer debt or equity.

These two different project types also differ on the number and size of the units they contain. The new mixed-income projects have many more units, but they tend to be studio and 1-bedroom apartments. The rehabilitated units for low-income households generally are single household units, but have 2, 3 or 4 bedrooms. None of the projects below included units targeted for extremely-low-income.

Figure 23 **Example: number of bedrooms in two different types of PDC housing projects**

	# of projects	Average # of units/ project	% with 2 bedrooms	% with 3 or 4 bedrooms
NEW CONSTRUCTION Large, mixed-income	11	118	13%	1%
REHABILITATION Small, low-income	22	1	58%	31%

SOURCE: Auditor analysis of data provided by the PDC Housing Department (based on 33 projects “closed” between FY 1996-97 and FY 1999-00).

The most prevalent housing subsidy– property tax exemptions

Of all the funding sources we reviewed, property tax exemptions assisted the most units, over 6,000. Of these units, about 69 percent received no other housing subsidy.

Property tax exemptions are general fund revenues that are "foregone" by a jurisdiction in order to achieve specific policy objectives. The City of Portland offers six tax exemption programs primarily to stimulate new housing development. Five of these programs are administered by PDC. Properties can receive tax exemptions for up to ten years, and the amount of assessed value exempted varies with each program. For newly developed projects, the entire assessed value of the structure is exempted. For the rehabilitation programs, only the value of the new improvements is exempted. Rental units in properties exempted under programs that do not have tenant income restrictions may not necessarily reflect the value of the exemption in their rents.

Program objectives are:

- stimulate housing in residential areas in deterioration (i.e. "distressed areas"),
- stimulate low-income housing by non-profit developers,
- stimulate multi-family housing in the Central City or urban renewal areas,
- stimulate housing along transit corridors,
- provide an incentive for owners to rehabilitate housing in distressed areas (owner-occupied or rentals).

The taxes exempted include all taxing jurisdictions that apply to the property–such as Metro, Portland Public Schools and Multnomah County. We estimated that between FY 1996-97 and FY 1999-00, a total of $16.9 million in tax revenue was exempted from properties participating in these tax exemption programs. Portland's share of foregone tax revenue was about $5.9 million, 35 percent of all foregone revenue.

Figure 24 shows the estimated number of units receiving tax exemptions, and the four year total value of revenue foregone by the City between FY 1996-97 and FY 1999-00 by program. Since properties can receive exemptions for up to ten years, we show an average number of units exempted over four years to avoid duplicate counting of units. New multi-family development, transit-oriented development, rental and owner rehabilitation exemptions cannot be listed separately because the data are aggregated.

Figure 24 Tax exemptions between FY 1996-97 and FY 1999-00, by program

Program	Average annual units	Foregone City revenue (millions, total 4 yrs)	Estimated yearly foregone revenue/unit
Low-income housing*	3,157	$2.3	$180
New multi-family housing, or Transit oriented development	1,438	$1.9	$330
New single-family construction	761	$1.2	$400
Rental rehabilitation* Owner-occupied rehabilitation	670	$0.5	$190
TOTAL	**6,026**	**$5.9**	

* programs require tenant income restrictions

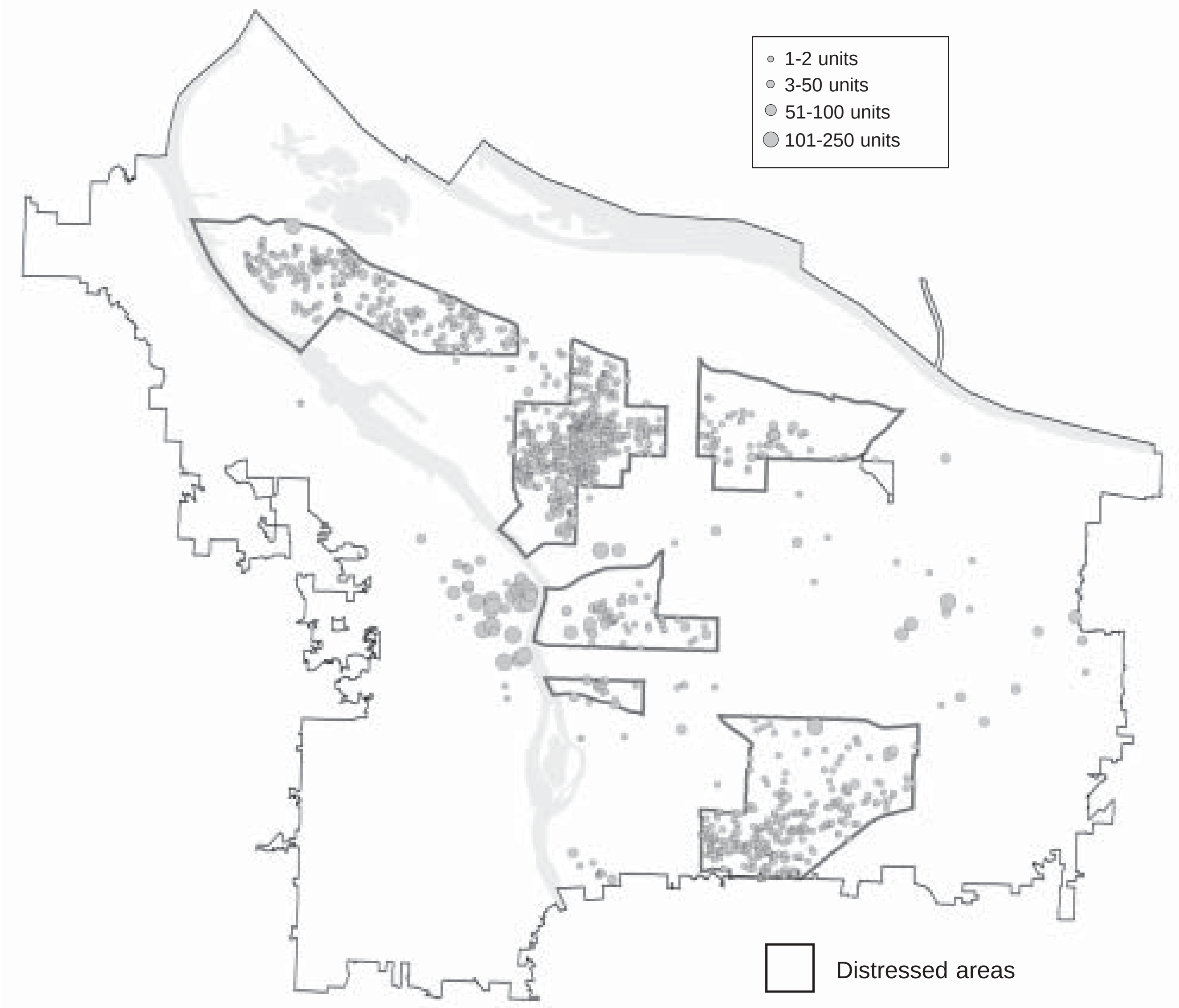
SOURCE: Auditor analysis of data provided by Multnomah County Assessment & Taxation, and City of Portland Bureau of Planning.

Overall, we estimate that about 6,000 units received tax exemptions between FY 1996-97 and FY 1999-00. The *low-income housing* exemption program assists the greatest number of units at the lowest cost. The $180 of foregone revenue per unit "cost" under this program reflects the lower assessed value for these properties. In contrast, *new single family construction*, *transit oriented,* and *multi-family construction* programs may include market-rate housing; hence these programs exempt a larger assessed value which accounts for the comparatively larger amount of revenue foregone per unit.

The individual tax exemption programs do not have numeric goals or targets. Rather, the policy objectives of the City's Comprehensive Plan and the Planning Bureau's annual review guide the implementation of tax exemption programs. For example, approximately 24 percent of units receiving exemptions in FY 1999-00 were newly developed units in downtown. These subsidies align with the Central City plan objective to produce 15,000 new units in the Central City core by 2010. Recent changes in the new-single family construction tax exemption program shifts the focus from supporting the construction of new houses regardless of occupant, to offering tax exemptions only to households purchasing homes for their primary residences and whose incomes are at or below median family income (based on family size of four or greater).

We found that the greatest number of units receiving tax exemptions are located in Downtown Portland. These units received transit-oriented, multi-family, and non-profit exemptions In contrast, newly constructed and rehabilitated single family residences are the most widely distributed tax exemptions because they can only be granted in distressed areas designated throughout the City. Distressed areas are so designated usually because these sections of Portland are in deterioration or contain many vacant homes, and they jeopardize neighborhood stability and health. Figure 25 shows the distribution of tax exempted properties in FY 1999-00. Distressed areas designated between 1996 and 2001 are outlined.

Figure 25 Properties receiving tax exemptions, FY 1999-00



SOURCE: Auditor analysis of data provided by Multnomah County Assessment & Taxation and City of Portland Bureau of Planning.

About 9 percent of units received only a waiver or SDC exemption

City Bureaus which charge fees for permitting the construction and rehabilitation of housing units offer fee waivers or System Development Charge (SDC) exemptions for qualified projects. The purpose of the waivers and exemptions is to foster affordable housing development by non-profit and for-profit developers by reducing development costs associated with building and rehabilitating housing units. Generally, homeowner units receiving waivers or exemptions are required to be sold to first-time, low-income buyers. For rental projects to qualify, tenants must have incomes at or below 60% MFI. Other than income qualifying criteria, these programs do not have numeric goals for dollars expended or units assisted by occupant or development type.

The PDC administers the Development Fee Waiver and SDC Exemption programs. The applicant receives an approval letter from PDC that is presented to participating bureaus at the time of payment for services. Each bureau granting the waiver or exemption has its own method of recording the actual amount waived or exempted, which can differ from the amount estimated by PDC at approval. The information in the tables below represent the fees actually waived or exempted - not the estimated amount approved.

Lien waivers are granted through a City Council ordinance prepared by the Auditor's Assessment and Liens Division. These waivers apply only to tax foreclosed properties transferred to low-income housing developers under Multnomah County's Affordable Housing Development Program.

Between FY 1996-97 and FY 1999-00, the City waived $3.6 million dollars in development fees, lien waivers, and system development charges. This represents almost 4 percent of the $100 million of financial assistance reviewed in this report. These waivers supported the development or rehabilitation of almost 2,900 housing units, representing about 25 percent of all units receiving subsidies between FY 1996-97 and FY 1999-00. For a little over 1,000 of these units, or about 9 percent of all units receiving subsidies in this report, the waiver or exemption was the only subsidy received. Figure 26 summarizes by program the fees and SDC charges waived. Units often receive waivers or exemptions from more than one program.

Figure 26 **Development fee, lien and LID waivers, and SDC exemptions granted, FY 1996-97 to FY 1999-00**

Bureau (Program)	Revenue source	Expenditures (millions)	Units receiving exemptions from each program
OPDR			
Development Fee	H.I.F.	$1.2	2,060
Transportation			
SDC exemption	Foregone	$0.7	1,490
Mult. County			
Lien waivers on property to non-profits	Foregone	$0.6	40
Parks			
SDC exemption	Foregone	$0.5	640
B.E.S.			
SDC exemption	H.I.F.	$0.3	270
Parks			
SDC credit pool	Foregone	$0.2	340
Water			
SDC exemption	Foregone	$0.1	190*
TOTAL		**$3.6**	**5,030**
	unduplicated number of exempted units		**2,870**

* FY 1999-00 only

SOURCE: Auditor analysis of data provided from City bureaus and Multnomah County Community Programs & Partnerships.

Figure 27 summarizes the type of housing activity supported by fee waivers and exemptions. Fifty-eight percent of waivers and exemptions assisted the development of rental units, while over $1 million in fees were waived for home construction.

Figure 27 **Types of housing assistance supported by waiver or exemption programs, FY 1996-97 to FY 1999-00**

Assistance type	Expenditures	
New, affordable rental units	$2.1 million	58%
Home construction assisted	$1.1 million	30%
Affordable rental unit rehabilitated	$0.2 million	6%
Other (lien waivers on vacant land, shelter construction)	$0.2 million	6%
	$3.6 million	100%

SOURCE: Auditor analysis of data provided by City Bureaus and Multnomah County Community Programs and Partnerships.

The Housing Authority of Portland is the primary supporter of low-income renters

During the four year period of our review, the HAP provided over $150 million in housing development, acquisition and rent assistance to over 7,100 units occupied by low-income individuals. In addition to these activities, HAP maintains and operates 2,800 units of public housing in Multnomah County.

Of the $150 million, over $119 million went to rent assistance, $19 million more than the City of Portland awarded in loans, grants, exemptions and waivers. We estimated that the HAP provides rent assistance to about

5,600 Portland renters each year. Most rent subsidies go to extremely-low income households who rent privately owned units.

During this period the HAP also contributed to twenty-two Portland rental projects that created or preserved 1,385 units. Fifteen of these projects used funds received from the PDC or BHCD. Figure 28 summarizes the HAP's accomplishments and expenditures in Portland between FY 1996-97 and FY 1999-00.

Figure 28 Housing Authority of Portland: total financial assistance, in millions, and (units), FY 1996-97 to FY 1999-00

	Homeless	Low-income rentals/renters	Low-income homeowners	Middle income renters & homeowners	**TOTAL**
NEW CONSTRUCTION [a]	$0.1 (175)	$14.7 (833)	$0	$0	$14.8 million
PRESERVATION [b]	$0	$15.9 (552)	$0	$0	$15.9 million
ASSISTANCE: Voucher	$0	$98.5	$0	$0	$119.6 million
Site based		$21.1 (5,600/yr) [c]			
TOTAL	$0.1 (175)	$150.2 (6,985)	$0	$0	**$150.3 million (7,160 units)**

[a] Except for 15 low-income rentals, all newly constructed units also received funds from the City of Portland.

[b] Funding to purchase existing rental units only. Does not include $19.0 million for the rehabilitation and upkeep of 2,800 public housing units owned by HAP throughout Multnomah County.

[c] Annual estimate of households receiving rent assistance. Actual four-year total is probably higher, but auditor did not calculate uniquely assisted units during the four-year period.

SOURCE: Auditor analysis of data provided by the Housing Authority of Portland.

Figure 29 summarizes the number of households receiving assistance by neighborhood. We found little overlap of HAP and City funding. We determined that only about 760 units received both a City subsidy and HAP rent assistance. This is about 13 percent of the number of units HAP assists in a year. This indicates that City funds and HAP funds are generally serving different households. The neighborhood area in which the greatest number of units received a city subsidy and HAP rent assistance was Northwest/Downtown.

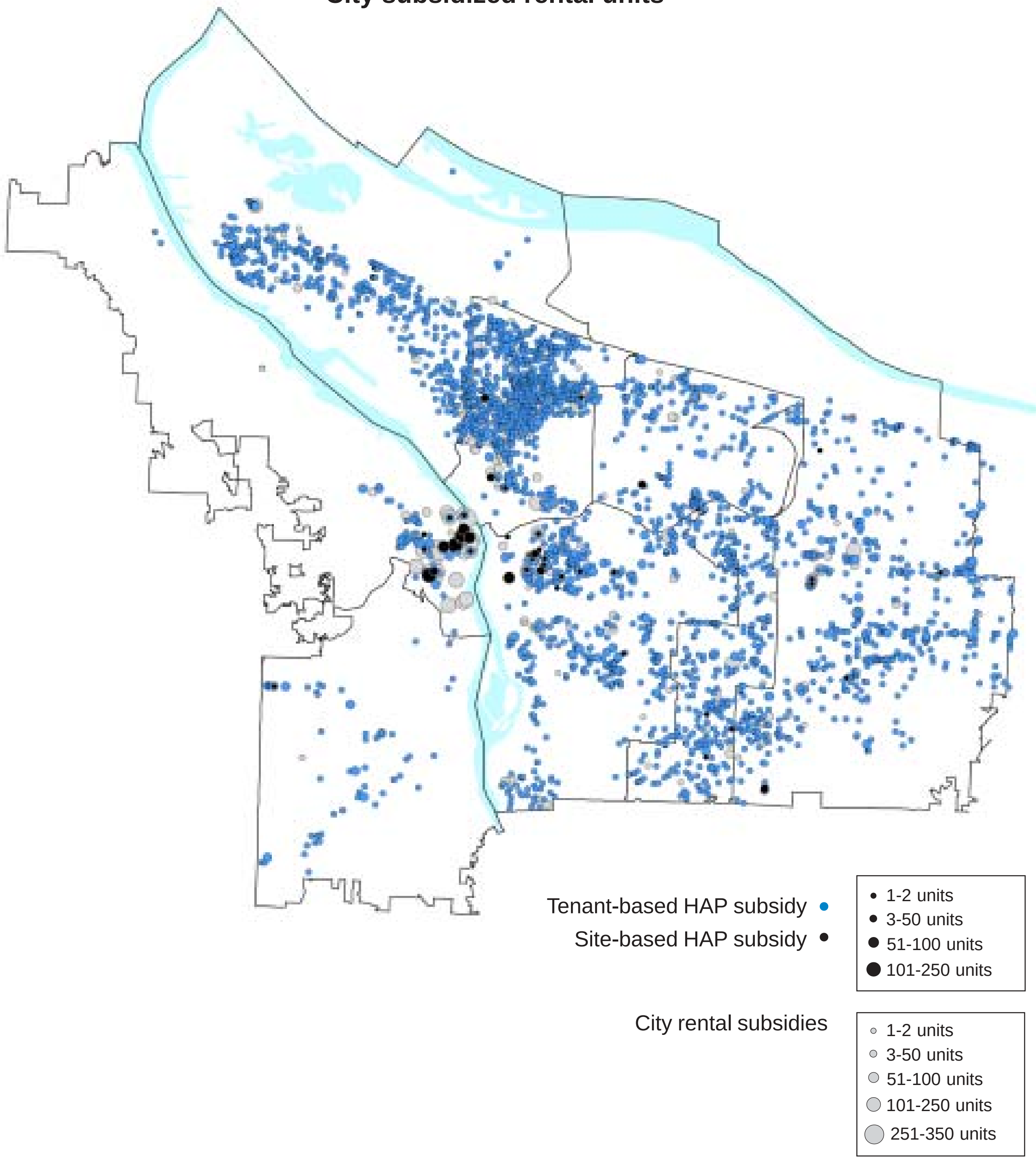
Figure 29 Distribution of HAP assistance and overlap with City subsidized rental units

Neighborhood area	HAP rent assisted units	City subsidized rental units	Units getting both HAP and City subsidy
NW / Downtown	1,000	3,970	400
Inner Northeast	1,110	1,530	140
Southeast	840	1,020	140
East	1,080	910	40
Central Northeast	400	310	20
North	670	370	10
Outer Southeast	440	360	10
Southwest	110	0	0
TOTAL	5,650	8,470	760

SOURCE: Auditor analysis of site-based and tenant-based Section 8 rent assistance provided by the Housing Authority of Portland. Data was extracted March 31, 2000 and provides an approximation of units assisted in one year.

As shown in Figure 30, rent assistance vouchers are provided throughout the City, with particular concentration in Inner Northeast and Downtown.

Figure 30 Properties receiving HAP rent assistance City subsidized rental units



SOURCE: Housing Authority of Portland's site- and tenant-based rent certificates and vouchers; data retrieved March 31, 2000.

Auditor analysis of data provided by City bureaus, Multnomah County Assessment & Taxation, and Mult. Co. Community Programs & Partnerships.

Chapter 4 Opportunities to improve the availability and reliability of housing information

During our review of housing spending and accomplishments, we identified a number of opportunities to strengthen the reliability and availability of housing information. We believe more complete and accurate data will help PDC improve program management and will provide more useful information to oversight agencies and decision makers. We also believe that clearer and consistent use of definitions by all housing programs will make reporting of housing accomplishments more useful.

PDC has recognized many of the weaknesses and is taking a number of actions to improve housing data and record keeping. We believe continued efforts in four areas will help produce better information for future tracking and reporting of City housing efforts and accomplishments. These actions include:

- developing and implementing a system to record complete expenditure and revenue data on individual housing projects,
- improving automated project management systems to ensure better data reliability,
- refining asset management approaches to improve monitoring of occupancy requirements.

To ensure that comprehensive tracking of housing accomplishments will continue, we believe the City should develop standardized terms and methods for tracking housing accomplishments. City Council should assign responsibility for implementation of this task to a single City housing organization.

Mixed-income methodologies and homeowner income verification use sound methods

Despite the management information weaknesses discussed later in this chapter, PDC has some sound methods in place. We found PDC consistently applies its "mixed-income formula" (a calculation PDC uses to allocate its funding among income categories) and that PDC's Neighborhood Housing Program sufficiently checks and verifies its loan applicants' incomes.

Mixed-income methodology is reasonable and consistent

PDC uses a fairly complex method to allocate its financial assistance among different income groups within a rental project. This method, known as the "mixed-income formula," is very important because it documents how PDC meets Council goals for prioritized spending for renter households at different income levels. For five projects, we traced the steps PDC uses to determine its funding and apportion that funding among income groups. We found that PDC's assumptions and calculations were reasonable and consistent for each project.

Income information on homeowner loan applicants is sufficient

We also reviewed a small sample of PDC's Neighborhood Housing Program homeowner loan files. We found that income documentation was complete, thorough, and matched the income category recorded in the electronic data file.

Better project accounting is necessary to assess full costs

PDC uses two different systems to track expenditures related to its housing projects. MITAS is PDC's loan management software system which tracks loans and grants made by PDC. MITAS also has a project management component, and is discussed in the next section of this chapter. LAWSON, activated in July 2000, is PDC's primary financial accounting system. All expenditure and revenue transactions are tracked in LAWSON by fund, program, fiscal project, spending category and transaction detail. However, for the housing projects in our review period, PDC used several accounting systems to track financial information.[1] Changes made to some accounting codes when PDC converted to its current LAWSON system prevented PDC from retrieving accurate historical information from its financial database. Therefore, we could not obtain complete financial information for the projects we reviewed in this audit. We believe that LAWSON will be able to provide accurate summary financial information from FY 2000-01 forward.

In addition to our inability to obtain complete historical financial information, we found that PDC does not always record and compile complete financial data on a site-specific project basis. While our review produced detailed information on loans and grants on individual projects, we could not determine other costs, such as administration and capital outlay, associated with each individual housing

[1] VAX tracked financial information and loans until 1998. In 1998, Springbrook replaced the financial component of VAX and MITAS replaced the loan component of VAX. LAWSON replaced Springbrook in 2000. Some systems were run concurrently during conversions.

project we reviewed. Although there are no specific requirements to develop full costs for each housing project, we believe individual project cost information could help PDC manage projects, evaluate effectiveness and efficiency, and report on project administrative costs to City Council and HEG.

Full project costs are important because PDC has significant expenditures associated with housing projects beyond the financial assistance it provides. These expenditures, as shown in Figure 31, include personnel costs associated with funding and managing a project, materials and services associated with property assessments or other project related studies, and capital outlay such as land acquisition costs.

Because these expenditures could apply to housing projects that either did not result in actual projects, or were in loan phases prior to loan closing, simply allocating

Figure 31 PDC Housing Department expenditures in addition to financial assistance*: FY 1996-97 to FY 1999-00

	Expenditures (millions)
Personal services / indirect	$16.5
Materials and services	$5.0
Capital outlay	$18.7
TOTAL	**$40.2**

* Includes all programs. In addition, a portion of BHCD administrative costs relate to PDC projects funded by federal dollars it receives from BHCD.

SOURCE: City of Portland budgets (FY 1996-97 to FY 1998-99 actuals; FY 1999-00 revised) the total $40.2 million to homeowner loans and multi-family development projects which PDC closed during these years would yield an erroneous "per project" cost. In order to accurately assess the full costs of a project, transactions need to be tracked and compiled on a project by project basis.

Aggregate project tracking impedes single project costing

As discussed above, we were unable to obtain a detailed assessment of costs beyond loans and grants for projects we reviewed because of changes in financial accounting software. Nonetheless, even if historical information had been available to us, the lack of cost accounting on a single project basis would have impeded our ability to determine individual project costs.

Although the LAWSON system should provide better data in the future, project accounting methods may continue to hinder the ability to perform full costing on individual projects. Specifically, expenditures related to each individual housing project are not always tracked in LAWSON under unique project codes. Instead, projects funded are sometimes grouped under one "fiscal" code. Thus, expenditures related to several different projects are coded and tracked to a single LAWSON account. Consequently, it is difficult to determine which expenditures and revenues are associated with each individual housing project without sorting through pages of accounting detail.

We recognize that grouping projects, particularly small projects, enables PDC to reduce paperwork and accounting detail, but there appears to be no clear rationale to explain why some projects are tracked individually, while others are grouped together. PDC should develop and implement a protocol for grouping, or not grouping, development projects under a fiscal project. For example, large, newly constructed housing developments could always be tracked individually, while rehabilitated rentals fewer than ten units could be grouped together. Costs associated with pre-development of a project, such as personnel costs associated with determining whether a project should be funded, could be tracked similarly, or in a pre-development category. In addition, fiscal code labels should clearly identify grouped projects.

Difficulty determining net project costs

Even if projects had unique fiscal codes, it is difficult to match project expenditures and revenue to determine the net costs of PDC housing projects. Because revenues are not easily traced back to their originating projects, it is hard to assess the degree to which project spending is offset by revenue from short-term loan repayments or property sales.

In addition, using the annual budget to assess historical project costs will not yield complete information on project expenditures and revenues because the budget aggregates revenue into one “program income” line-item. Therefore, the spending itemization by housing project included in PDC’s budget is not a true picture of a project’s net costs because revenue offsets are not disclosed on a per project basis.

For example, actual expenditures shown in budgets between FY 1997-98 and FY 2000-01 show over $8 million spent on a TIF housing project called the Oak Apartments. However, revenues associated with these expenditures almost completely offset them (see Appendix D).

Complete cost and revenue information on PDC housing projects could be useful in a number of ways. The Housing Evaluation Group has requested information on administrative costs associated with PDC projects and programs in order to evaluate administrative efficiencies and monitor change in costs over time. Also, to evaluate a project's effectiveness, it would be useful to know complete costs so that projects can be compared based on different criteria, such as community goals or construction type (e.g., new construction or rehabilitation).

Housing project Information from MITAS system was unreliable

The PDC Housing Department uses MITAS software to track detailed information on its loans and grants. MITAS also has a project management module which tracks information on the housing projects and homeowners PDC assists. Since its implementation began in 1998, MITAS has been a difficult system to operate. According to PDC staff, the software is complex, difficult to use, and was implemented without sufficient user training or technical support. The PDC is aware of MITAS' limitations and continues to troubleshoot and correct system problems.

We found that MITAS project information contained inaccurate, outdated, or incomplete information on housing projects. PDC believed many of the errors we found were because the MITAS project management module was not fully implemented until July 2000, and the projects we reviewed predated full implementation. Nonetheless, these problems had not been corrected at the time we received data from the system in March of 2001.

To determine correct project information, we reviewed project files and worked closely with PDC housing staff who were very helpful in determining correct project information and making the appropriate changes in MITAS. Some of the MITAS problems we found include the following.

Problems retrieving loan and project information

MITAS stores information on loans amounts, recipients, and their related housing projects. Loans are linked to project information via a project number, so that when a project or homeowner name is queried, loan information can also be retrieved. We found two significant problems concerning MITAS' retrieval of loan and housing project information during our review of loans closed between FY 1996-97 and FY 1999-00.

First, we found eight loans totaling almost $5.2 million that were not linked to their specific housing projects. Had we only relied upon housing project information and not also reviewed the MITAS loans table, we may have under-estimated PDC's expenditures.

Second, when we were given data tables for homeowner (NHP) and housing project (HDF) loans, we found 23 loans that appeared in both tables, overstating expenditures by $4.1 million.

MITAS project information not always up-to-date

We noted numerous examples of project updates in hard-copy files that had not been recorded in the MITAS database. These updates included revised loan amounts, finalized PDC funding allocation per income category, and new project addresses. Also, we found one project that did not include a $400,000 loan, and another project with a closed loan that proceeded without the loan. Although the funds were never drawn, PDC had encumbered $705,000 of CDBG funds since the fall of 1998 for this project.

We believe that the Housing Department should develop procedures that stipulate how project data will be entered and updated to ensure complete and accurate project information. Our review of each project's finance and construction files impressed upon us the numerous interactions and changes that occur during the course of a housing project. Keeping electronic information up-to-date would help avoid time-consuming, manual review of project files to develop project information for summary reports to HEG and other groups.

PDC methods to verify compliance with income restrictions can be improved

Compliance with income requirements is important to ensure housing funds benefit those most in need, typically low income residents. Although we did not review all housing programs discussed in this report, we did review PDC's Housing Development Finance (HDF) and Neighborhood Housing Program (NHP) to determine if loans and grants were reaching applicants and occupants within allowed income ranges.

As stated earlier, the income documentation for recipients of NHP loans was sufficient because income requirements are easy to verify. The NHP lends directly to occupants of single family homes and staff can obtain the documentation to substantiate incomes directly from loan applicants.

Unlike the NHP, the HDF's verification of household incomes is cumbersome because the information is collected by a landlord or property manager, and there are multiple tenants in each project that need to be contacted.

HDF provides property managers a standardized "Tenant Survey" form for the collection of income and rent data for each subsidized unit in a PDC project. Although receipt of the tenant survey is usually a condition for final disbursement of funds, we could not locate surveys for 53 projects (73 percent) of the projects we reviewed where final funds had been disbursed. For the surveys we did locate, there was no indication that PDC reviewed the information to ascertain that the incomes and household sizes documented were within HUD guidelines.

In addition, we found no documentation to verify the incomes handwritten on the surveys, nor explanations for how household income was determined, such as tenant testimony, tax return, or social security statement.

We also noted that some loan recipients did a better job of conducting PDC tenant surveys than others. One recipient completed surveys for 83 percent of its properties with fully disbursed loans or grants, while others completed only one percent or none of the surveys.

PDC recognizes that current systems to verify incomes of tenants living in PDC supported housing are inadequate, and has addressed this issue as part of its "Asset Management" plan.

Clarifying definitions will make reports more meaningful

Inconsistent definitions of some key concepts in City housing activities can obscure basic performance reporting. Specifically, terms such as "units subsidized", "housing production", "mixed-income project" and "low-income" have not always been used by City staff consistently. In addition, we believe that incorporating information on the *recoverable* portion of housing expenditures (i.e. *loans)* that will be repaid, would be helpful for assessing net costs.

We found variations in the following categories:

Units subsidized: In some cases, projects contain many more units than just those funded by PDC. We found instances where the total number of units was reported instead of the actual number of units subsidized. This has the effect of overstating City accomplishments.

Housing production: We also found cases where PDC incorrectly categorized rehabilitation projects as "new production". In addition, the HEG reports the number of units in PDC funded projects in one "production and preservation" total. We believe that new construction should be reported separately from preservation and rehabilitation, so that the number of new units can be compared to specific targets set by Metro and by City urban renewal plans.

Mixed-income project: The City has goals to create housing projects that serve a range of income levels, and has specifically defined "mixed-income" rentals to mean those serving renters both below and above 60 percent of the median family income. Our review of the files and computer database of HDF projects showed numerous projects categorized as mixed-income when any two income levels were served, regardless of whether they were both below, or both above, 60 percent MFI.

Income descriptors: We noted that housing reports, ordinances and policies refer to different income groups when describing income levels. For example, sometimes a "low" income household is defined as at or below 50% MFI, while others define "low" as at or below 80% MFI.

Expenditures: PDC disburses a significant amount of housing funds as loans. Repayment of these loans, called "program income", offset the original expenditures and may be able to fund new housing loans. However, the current reporting of housing expenditures does not differentiate recoverable from nonrecoverable spending, nor report the amount of program income expected in the short and long term. For example, we estimated that $70 million of the financial assistance reviewed in this report was disbursed as loans, and recoverable assuming loan terms are met (see Appendix E.) About $38 million of this amount was disbursed as "cash flow" loans that based repayment on project income and may not be recovered. An accounting of housing expenditures that does not consider program income is an incomplete picture. In order to provide better and more complete information to decision-makers and evaluators of housing spending, PDC should provide an estimate of the amount and timing of expected program income.

Recommendations for future data collection on housing accomplishments

We recommend that PDC:

1. **Design and implement methods to capture and report on the full costs of PDC housing projects.**

   Cost categories to consider include administration, capital outlay, materials and services, loans and grants. This system could distinguish short-term recoverable expenditures from grants and long-term loans, and report revenues that offset short-term expenditures.

2. **Continue to improve the reliability of software systems and data entry to ensure project and program information is current, complete and accurate.**

3. **Improve monitoring and review of projects' compliance with tenant income restrictions to ensure that intended income groups are being served.**

In addition, we recommend the following for all City bureaus involved in housing activities:

4. **Define and adopt common definitions of housing activities and accomplishments.**

   For example, rental rehabilitation should be distinguished from new construction to improve monitoring and external reporting.

5. **Define and implement common data collection methods across bureaus to facilitate reporting of subsidized housing efforts and accomplishments.**

The unduplicated reporting of housing units assisted by City subsidies is important to track in order to monitor and evaluate the distribution of housing subsidies among income groups, household types, and housing developers. To create a reporting system that accounts for annual expenditures and the number of unduplicated units assisted, City Council would need to assign responsibility for central consolidation of housing subsidy information to a single housing organization. Development of such a system would involve standardizing the information tracked and reported by bureaus which allocate housing subsidies. Standardized reporting would enable the tracking of uniquely assisted units. The Auditor's Office can provide suggestions on data standardization, unit matching protocols, and reporting definitions.

Appendices

Appendix A Housing expenditures by program and fund

	Housing program	Expenditures (millions)	Units assisted[a]	Federal pass-through funds with restrictions					General Fund		Fore-gone revenue	TIF	Public/ private
				CDBG	HOME	HOPWA	RLF	RRPI	HIF	Other			
1	Housing Development Finance	**$64.5**	3,865	$7.7	$7.4		$0.6	$9.0	$18.1			$21.7	PLPA[c]
2	Neighborhood Housing Program	**$13.5**	848	$12.6	$0.9								PLPA[c]
3-8	Property Tax Exemptions (6 programs)	**$5.9**	6,828								$5.9		
9	Housing for People with AIDS	**$2.3**	113			$2.3							
10	HOME Special Needs Projects	**$1.9**	44		$1.9								
11	Portland Housing Center Loans	**$1.8**	132	$0.6					$1.2				
12	Housing Training Repair Program	**$1.4**	156	$1.4									
13	Development Fee Waivers	**$1.2**	2,061						$1.2				
14	Transportation SDC Waivers	**$0.7**	1,492								$0.7		
15	Lien Waivers	**$0.6**	44								$0.6		
16	Parks non-profit SDC Waivers	**$0.5**	638								$0.5		
17	Sewer on Site Loans	**$0.3**	145	$0.3									
18	Sewer SDC Waivers	**$0.3**	271						$0.3				
19	Parks SDC Credit Pool	**$0.2**	337								$0.2		
20	Unlimited Choices	**$0.2**	135	$0.2									
21	LID Grants	**$0.1**	40	$0.1									
22	Water SDC Waivers	**$0.1**	192								$0.1		
23	REACH Community Builders	**$0.1**	139	$0.1									
24	Christmas in April	**$0.0**	179										
25	Shelters[b]	**$4.4**	175	$1.4	$0.5						$2.5		
	TOTAL	**$100.0**	**17,834**	**$24.4**	**$10.7**	**$2.3**	**$0.6**	**$9.0**	**$20.8**	**$2.5**	**$8.0**	**$21.7**	

[a] Approximately 6,100 units received assistance from more than one program. Tax exempted units are based on FY 1999-00.

[b] Clark Center, Richmond Place, Jean's Place and Turning Point. In addition to these shelters, sixty-three shelter units were funded under PDC's Housing Development Finance program.

[c] Private Lender Participation Agreement. HDF expenditures include $1,609,852 leveraged through PLPA; NHP expenditures include $4,386,281 leveraged through PLPA.

Appendix B PDC Housing Development Finance projects reviewed

ID	Project name	Type of project	Type of occupant	Income range (% MFI)	No. of units: Assisted by PDC	No. of units: Total in project	Area	No. of special needs units	Total loan (millions)
104	RITZDORF/EASTSIDE HOUSING	new	renter	31-50	90	90	SE		$6.22
72	UNION STATION - PHASE B	new	renter	31-81+	321	321	NW		$5.47
67	HAMILTON WEST - 12TH & CLAY	new	renter	31-60	152	152	SW		$3.01
103	KAFOURY COMMONS	new	renter	31-80	92	129	SW		$2.66
47	CENTER SQUARE - PHASE I	new	renter	51-60	172	172	NE	172	$2.10
13	PEARL COURT APARTMENTS	new	renter	31-60	110	199	NW		$2.02
38	5TH AVENUE COURT APTS	new	renter	51-81+	96	96	NW		$1.84
22	UNION STATION - PHASE A	new	renter	31-60	73	158	NW		$1.80
3	WEST SHORE	new	renter	31-50	113	113	SW		$1.40
51	GLADSTONE SQUARE II	new	renter	0-60	48	48	SE		$1.20
10	GLADYS MCCOY VILLAGE	new	renter	0-50	55	55	NE	4	$1.12
31	VILLAGE AT LOVEJOY FOUNTAIN	new	renter	31-81+	198	198	SW		$1.05
129	MCCULLER CROSSING	new	renter	0-60	40	40	N		$1.05
16	CIVIC STADIUM	new	renter	51-60	115	115	SW		$1.00
39	5TH AVENUE PLACE	new	renter	51-60	70	70	NW		$1.00
119	PARK VISTA	new	renter	0-60	59	59	SE		$0.97
40	BUCKMAN HEIGHTS APTS.	new	renter	0-81+	60	144	NE		$0.95
49	CENTER VILLAGE - PHASE II	new	renter	0-60	60	60	NE		$0.90
8	ANKENY WOODS	new	renter	51-60	22	42	SE		$0.87
9	MLK/WYGANT	new	renter	31-81+	38	38	NE		$0.81
54	CASCADE CROSSING	new	renter	0-60	74	74	E		$0.80
52	SEQUOIA SQUARE	new	renter	0-60	61	62	SE	10	$0.70
4	HAZELWOOD APARTMENTS	new	renter	31-81+	96	120	NE	120	$0.70
53	IVON COURT	new	renter	0-30	8	8	SE		$0.68
83	COLUMBIA VIEW	new	renter	0-50	7	7	NE		$0.68
18	LENTS SR. HOUSING	new	renter	31-50	63	63	SE	63	$0.68
82	SCHILLER WAY	new	renter	0-60	14	26	SE	10	$0.57
66	FESSENDEN COURT APTS.	new	renter	0-60	9	9	N		$0.52
56	FEO-MASON & MISSISSIPPI	new	renter	51-60	5	5	N		$0.48
55	JUBILEE-REDWOODS II	new	renter	0-30	8	8	N		$0.44
146	ALLEN FREMONT PLAZA	new	renter	31-60	64	64	NE	64	$0.40
57	PCRI - LOMBARD	new	renter	0-30	5	5	N		$0.40
34	WEBB BUILDING	new	renter	51-80	39	39	SW		$0.39

ID	Project name	Type of project	Type of occupant	Income range (% MFI)	No. of units: Assisted by PDC	No. of units: Total in project	Area	No. of special needs units	Total loan (millions)
32	OTESHA PLACE	new	renter	0-60	11	11	NE		$0.37
142	COLLINS CIRCLE	new	renter	51-80	52	124	SW		$0.35
17	ANDREA PLACE	new	renter	0-30	15	15	N	15	$0.35
127a	HOF SCATTERED SITES	new	renter	0-30	4	4	NE		$0.34
90	VILLA DE SUENOS	new	renter	0-60	9	28	NE		$0.32
45	NELSON COURT	new	renter	51-60	7	7	N		$0.32
19	EAST PRECINCT FLOYD LIGHT	new	renter	51-81+	45	45	SE		$0.30
33	REACH - 21ST & POWELL	new	renter	51-60	20	20	SE	20	$0.25
86	ENDELEA COURT	new	renter	0-50	6	6	NE		$0.25
59	FEO-FARGO RENTAL	new	renter	31-50	2	2	NE		$0.22
89	WOODSTOCK HOUSE	new	renter	0-50	2	2	SE	2	$0.21
71	MACDONALD CENTER	new	renter	31-50	54	54	NW	54	$0.20
108	ALBERTA SIMMONS PLAZA	new	renter	31-50	73	74	NE	73	$0.18
87	HOF SCATTERED SITES - 1 UNIT	new	renter	0-30	2	2	N		$0.18
126b	SABIN - 4 SITES	new	renter	0-60	4	4	NE		$0.17
126d	SABIN - 4 SITES	new	renter	0-60	4	4	NE		$0.17
127b	HOF SCATTERED SITES	new	renter	0-30	2	2	N		$0.17
126a	SABIN - 4 SITES	new	renter	0-60	3	3	NE		$0.13
126c	SABIN - 4 SITES	new	renter	0-60	3	3	N		$0.13
88	ST. FRANCIS PLACE	new	renter	51-60	3	3	NE		$0.09
96	TAFT APARTMENTS	refinance	renter	31-50	78	78	SW	78	$0.74
81	ROSE APARTMENTS	refi /sprinkler	renter	31-50	58	58	SE		$0.31
130	DRESDEN APTS.	rehab	renter	31-60	30	30	E		$0.82
144	COUNTRY SQUIRE	rehab	renter	31-60	32	32	SE		$0.81
83096	ROYAL PALM	rehab	renter	0-30	30	30	NW	30	$0.78
131	PUB GROUP LLC	rehab	renter	51-81+	10	11	NE		$0.63
7	GRAND OAKS	rehab	renter	31-60	41	42	SE		$0.66
105	JOHNSON CREEK COMMONS	rehab	renter	0-50	15	15	SE		$0.63
76	PATTON HOUSE	rehab	renter	51-60	63	63	N	63	$0.59
141	QUEAHPAMA HEIGHTS	rehab	renter	0-50	26	26	N		$0.51
116	EVERETT STATION LOFTS	rehab	renter	51-81+	47	47	NW		$0.49
107	TISTILAL VILLAGE	rehab	renter	0-60	34	34	N		$0.47
109	HAROLD STREET MAR	rehab	renter	0-60	14	14	SE		$0.45
58	HOF NE 27TH & KLLNGSWRTH	rehab/new	renter	0-30	5	5	NE		$0.44
50	MAGGIE GIBSON PLAZA	rehab	renter	51-60	9	9	NE		$0.42
11	REACH - 5 CNTR PLEX	rehab	renter	51-80	4	5	SE		$0.24
84	FREMONT MANOR APTS.	rehab	renter	51-60	28	28	NE		$0.21

ID	Project name	Type of project	Type of occupant	Income range (% MFI)	No. of units: Assisted by PDC	No. of units: Total in project	Area	No. of special needs units	Total loan (millions)
14	JUBILEE REDWOODS	rehab	renter	0-30	8	8	N		$0.18
15	SISTER HOUSE	rehab	renter	0-30	6	6	NE	6	$0.16
30	SABIN - 5017-5020 NE 6TH	rehab	renter	31-50	2	2	NE		$0.15
154	RITAMAE MANOR/MARKET ST HOME	rehab	renter	0-30	5	5	SE	5	$0.15
70	HAMILTON PARK APARTMENTS	rehab	renter	51-81+	15	76	SE		$0.15
35	LETTY OWINGS BUILDING	rehab	renter	0-30	56	56	NE	56	$0.14
21	5020 NE 25TH - SABIN	rehab	renter	51-60	2	2	NE		$0.12
136	HARMONY HOUSE/NADINE PLACE	rehab	renter	0-30	6	6	SE	6	$0.12
28	PCRI - 3513-15 NE CLEVELAND	rehab	renter	51-60	2	2	NE		$0.10
20	EMERSON - SABIN	rehab	renter	51-60	2	2	NE		$0.10
117	MORGAN RECEIVERSHIP	rehab	renter	31-50	1	1	NE		$0.08
12	NETWORK 75th ADULT FOSTER CARE	rehab	renter	31-50	5	5	SE	5	$0.08
24	PCRI - 4533 NE 9TH	rehab	renter	31-50	1	1	NE		$0.08
93	RUSSET HOUSE	rehab	renter	51-60	1	1	NE		$0.08
27	PCRI - 1514 NE LIBERTY	rehab	renter	31-50	1	1	NE		$0.07
23	PCRI - 5033 NE 26TH	rehab	renter	31-50	1	1	NE		$0.07
94	ROSE - 80TH HOUSE	rehab	renter	51-60	1	1	SE		$0.06
110b	IHI HOLGATE	rehab	renter	51-60	48	48	SE	48	$0.06
25	PCRI - 4525 NE 11TH	rehab	renter	31-50	1	1	NE		$0.06
26	PCRI - 10146 NE POLK	rehab	renter	31-50	1	1	N		$0.06
6	RODNEY RECEIVERSHIP	rehab	renter	31-50	1	1	NE		$0.06
029	PCRI - 5330 NE 17TH	rehab	renter	51-60	1	1	NE		$0.06
110e	IHI SCOTT CREST	rehab	renter	51-60	42	42	SE	42	$0.05
110c	IHI MARWOOD	rehab	renter	51-60	40	40	SE	40	$0.05
95	MARTHA WELLS CT/ALBINA PLAZA	rehab	renter	31-50	8	8	N		$0.05
112	PCRI - 98 RFP	rehab	renter	31-50	1	1	NE		$0.04
112	PCRI - 98 RFP	rehab	renter	31-50	1	1	N		$0.04
112	PCRI - 98 RFP	rehab	renter	31-50	1	1	N		$0.04
112	PCRI - 98 RFP	rehab	renter	31-50	1	1	N		$0.04
112	PCRI - 98 RFP	rehab	renter	31-50	1	1	NE		$0.04
112	PCRI - 98 RFP	rehab	renter	31-50	1	1	NE		$0.04
112	PCRI - 98 RFP	rehab	renter	31-50	1	1	NE		$0.04
112	PCRI - 98 RFP	rehab	renter	31-50	1	1	NE		$0.04
110a	IHI KENDALL	rehab	renter	51-60	32	32	SE	32	$0.04
110d	IHI MINERVA	rehab	renter	51-60	15	15	N	15	$0.02
97	REX ARMS-SPRINKLER	sprinkler/rehab	renter	51-60	62	62	SE		$0.09
79	WILSHIRE SPRINKLER	sprinkler/rehab	renter	51-60	46	46	SE		$0.09
98	REACH -LRLHRST SPRKLR	sprinkler/rehab	renter	51-60	23	23	SE		$0.07

ID	Project name	Type of project	Type of occupant	Income range (% MFI)	No. of units: Assisted by PDC	No. of units: Total in project	Area	No. of special needs units	Total loan (millions)
120	CASCADIAN - PHASE 1	new	owner	61-100	60	60	NE		$1.00
37	KNOTT STREET HOMEOWNER	new	owner	61-81+	19	42	NE		$0.29
65	HOMEOWNER RFP-DURHAM	new	owner	61-80	10	10	NE		$0.18
60e	HOMEOWNER RFP-SABIN	new	owner	61-80	2	2	NE		$0.08
60d	HOMEOWNER RFP-SABIN	new	owner	61-80	2	2	NE		$0.08
60f	HOMEOWNER RFP-SABIN	new	owner	61-80	2	2	NE		$0.08
60c	HOMEOWNER RFP-SABIN	new	owner	61-80	2	2	NE		$0.07
60a	HOMEOWNER RFP-SABIN	new	owner	61-80	1	1	NE		$0.05
60b	HOMEOWNER RFP-SABIN	rehab	owner	61-80	1	1	NE		$0.03
123	NEW AVENUES FOR YOUTH	new	shelter	0-30	20	20	SW	20	$0.82
121	RAPHAEL HOUSE	sprinkler	shelter	31-50	21	21	NW	21	$0.11
	TOTALS				**3,865**	**4,396**		**1,074**	**$64.5**

Appendix C Summary of funding sources

Used by the City for housing programs reviewed in this report

Federal entitlement grants from the US Department of Housing and Urban Development (HUD):

- Community Development Block Grant (CDBG)
- Home Investment Partnership Program (HOME)
- Housing for People with Aids (HOPWA)

Revolving loan funds derived from loan repayments where the originating source was HUD funds:

- Revolving Loan Fund (RLF)
- Rental Rehabilitation Reloan (RRPI)

Funds borrowed from banks using federally funded loans as collateral:

- Private Lender Participation Agreement (PLPA)

Proceeds from bonds specific to urban renewal areas approved by City Council:

- Tax increment finance debt proceeds (TIF); the bonds are paid back from increased property tax revenues generated by the areas' enhanced property values.

General fund sources:

- Housing Investment Fund (HIF) - A fund created by Council in FY 1994-95 to provide financing for housing projects.
- Foregone revenue - revenues that would normally be collected through taxes or fees but that the City Council agrees to forego in order to achieve specific objectives.
- Repayments on loans funded by the above sources (program income); we did not determine what portion of loans made during our review period was funded by program income.

Funds used by <u>developers</u> of housing projects reviewed in this report

State administered sources:

- Federal low income housing tax credits (LIHTC) - Although not state funded, Oregon administers federal tax credits. The credits stimulate private investment in affordable housing by allowing private investors to take federal tax credits in return for their capital contributions to housing projects.
- Oregon Housing Trust Fund **-** Oregon provides grants for up to $100,000 to nonprofit and public developers of affordable housing, including private individuals and corporations.
- Oregon Affordable Housing Tax Credits (OAHTC) - Oregon offers state tax credits to lenders in return for reduced interest on their loans to nonprofit developers of affordable housing projects.
- Private Activity, Risk Share, and Elderly & Disabled bonds - Oregon issues tax-exempt bonds that sell in the open market. Proceeds from these bonds finance specific housing projects.

Other sources of funding:

- Housing Authority of Portland bonds (HAP projects only)
- Federal grants for economic development
- Multnomah County CDBG and HOME
- Multnomah County Strategic Investment Program (SIP)
- Private lender and grants

Appendix D The Oak Apartments cost recovery example

	FY 97-98	FY 98-99	FY 99-00	FY 00-01	TOTAL
EXPENDITURES					
Financial assistance	$0	$0	$3,497,000	$510,000	$4,007,000
Capital outlay	$3,790,577	$13,313	$0	$0	$3,803,890
Overhead:					
Materials & services	$18	$12,267	$2,630	$1,219	$16,134
Admin/indirect allocation	$3,637	$16,707	$199,677	$25,149	$245,170
	PDC property purchase, 6/98		PDC loan to Oak Street Partnership for property purchase, 12/99	PDC loans issued for project financing	
			Sale of property to Oak Street Partnership, 12/99	Oak Street loan repayment, 1/01, principal and interest	(due 2030)
REVENUES					
Property sale	$0	$0	$3,746,594	$0	$3,746,594
Loan principal &/or interest	$0	$4,174	$0	$3,608,503	$3,612,677
Rental income	$0	$4,319	$533,902	$14,026	$552,247

SUMMARY	**Expenditures**	**Revenues**	**Net gain (loss)**	
Financial assistance:				
Repaid loans	$3,497,000	$3,608,503	$111,503	
Outstanding loans	$510,000	–	($510,000)	(due 2030)
Capital outlay	$3,803,890	$3,746,594	($57,296)	
Overhead & rental income	$261,304	$552,247	$290,943	
Total	**$8,072,194**	**$7,907,344**	**($164,850)**	

Appendix E Recoverable percentage of housing expenditures

PROGRAM	City recoverable expenditures*	Examples of methods used for expending funds
PDC Housing Development Finance (multi-family housing)	87% ($57 million + interest) *Note* – $38 million of this amount is "cash flow" loans that depend on project performance for repayment	• 8 year loans at 3% simple interest • 30-40 year loans at 0-3% simple interest • 0% interest loans with repayment period based on the project's financial performance (i.e. "cash flow") • Equity Gap "Loans" & Grants
PDC Neighborhood Housing	95% ($12.9 million + interest + appreciation)	• 0% interest loans due at time of sale; shared appreciation loans require that a portion of appreciation goes to PDC • low-interest, amortized loans (terms vary) • Grants
Sewer-on–site loans (through PDC)	100% ($0.3 million)	• 0% interest loans due at time of sale
Portland Housing Center loans (funds through PDC. Recovered funds are retained by the Portland Housing Center for future loans.)	0% ($1.8 million)	• 0% interest loans due at time of sale; shared appreciation may apply for up to 15% of net appreciation.
All other programs reviewed in this report	0%	• Grants • Fee or lien waivers • Tax exemptions
	70% ($70 million)	

*assumes loan terms are met; does not consider length of time to recover expenditures

Appendix F Glossary of selected terms

The following definitions reflect the use of these terms in this report. Although generally agreed upon, they may differ from usage in other reports.

Affordable

Housing is considered affordable when a household spends no more than thirty percent of its monthly income on rent (or mortgage) and utility costs.

City housing programs require "affordability" agreements which require that property owners maintain affordable rents for up to 60 years on units targeted for specific low income groups.

Assistance

A category of housing subsidies, specifically those that *directly* benefit renters, landlords or homeowners. Examples of "assistance" are rent vouchers, property tax exemptions and home purchase loans. We included minor home repair programs in this category.

Financial assistance

A term usually used to describe loans and grants distributed to housing projects. Financial assistance does not include the costs to administer the loans and grants or other costs related to project development, such as materials and services or capital outlay.

In this report we also included the value of foregone revenue from fee waivers, and tax and SDC exemptions under the term financial assistance.

We counted only *closed* loans, in contrast to loans that were in reservation or commitment phases, because only closed loans represent a guarantee of PDC funding. Although some closed loans had not been full disbursed at the time our review, we counted the full value of these loans.

Housing cost burden

A housing cost burden is said to exist when a household spends more than 30% of its monthly income on housing costs (on rent, or mortgage and utilities). A *severe* housing costs burden exists when a household spends more than 50% of its monthly income on housing costs.

Income-restricted (or targeted) unit

Many housing programs target subsidized units to households within specific income groups. The income group is expressed as a percentage of median family income (MFI, see below), such as 0-50% MFI.

Households eligible for income-restricted units can earn no more than the specified upper income limit. However, households with incomes below the limit are eligible to occupy these units. If a household with income far below the upper limit occupies the unit and the rent is not adjusted to 30% of the occupying household's income, the units, by definition, will not be considered affordable to that household. Therefore, income restrictions do not guarantee affordability.

LAWSON

PDC's primary financial accounting system which tracks all of PDC's expenditures and revenues, including summary loan information from MITAS.

Median family income (MFI)

Each year the U.S. Department of Housing and Urban Development determines the median income for different family sizes in specific geographic areas throughout the U.S. These median incomes are used as guidelines to determine program eligibility and to track recipients.

For 2002, HUD determined that for the Portland-Vancouver metropolitan area, half of the 4 person-families made less, and half made more, than $57,200. As shown in the table below, income is expressed as a percentage of MFI, adjusted for family size.

Although, technically, families consist of only related individuals, HUD adjusts family income data using household and Bureau of Labor income statistics in its calculations (hence, HUD MFI tables include a single person MFI). Programs basing eligibility on MFI percentages usually use family and household size interchangeably.

Portland-Vancouver Area
Median Income Percentages (2002)

Household Size	Extremely-low-income	Very-low-income	Low-income		Middle + income
	30% MFI	50% MFI	60% MFI	80% MFI	100% MFI
1	$12,000	$20,000	$24,000	$32,050	$40,050
2	$13,750	$22,900	$27,450	$36,600	$45,750
3	$15,450	$25,750	$30,900	$41,200	$51,500
4	$17,150	$28,600	$34,300	$45,740	**$57,200**
5	$18,550	$30,900	$37,050	$49,400	$61,800
6	$19,900	$33,200	$39,800	$53,100	$66,350
7	$21,300	$35,450	$42,550	$56,750	$70,950
8	$22,650	$37,750	$45,300	$60,400	$75,500

SOURCE: City of Portland Bureau of Housing and Community Development

MITAS PDC's loan and grant management system which also includes project tracking components. MITAS tracks detailed information on type, recipient, and repayment of PDC loans and grants.

Mixed-income A term used to describe a housing project that includes units targeted below 60% MFI and units above 60% MFI.

New construction A category of housing subsidies, specifically those that supported the creation of new dwelling units.

Preservation A sub-category of Rehabilitation, specifically those housing subsidies that maintain the continued existence of a low-income housing property. In 1998, the City of Portland adopted Title 30 "Affordable Housing Preservation." Title 30's intent is to protect publicly assisted affordable housing for households earning less than 80% MFI by:

- providing for notice when conversions from affordable housing uses are planned
- providing purchase opportunities for the City when such conversions are planned
- ensuring that long term (60 year) affordability requirements accompany housing units assisted with City funds

Program income Loan repayments collected by PDC or BHCD from prior loans made.

Rehabilitation A category of housing subsidies, specifically those that supported major structural improvements to existing housing units or provided financial support so a rental project could continue to operate (such as a refinance). Also includes Preservation subsidies.

Responses to the Audit

CITY OF
PORTLAND, OREGON
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May 28, 2002

TO: Gary Blackmer, City Auditor

FROM: Commissioner Erik Sten

RE:

Response to Final Draft of *A Review of the Efforts and Accomplishments of City Housing Programs: 1996-2000*

Thank you for this opportunity to comment on your recently completed audit of the City of Portland's housing program. It was a daunting task to summarize all of the housing work accomplished during the four years covered by your study (1996-2000). The Director of Audit Services Dick Tracy, Sharon Meross and the rest of the Audit Service staff did a very good job analyzing the very complicated world of housing finance and development. The final product is a clear and accurate assessment of our housing program with some very valuable recommendations for our consideration.

My first reaction to the report was a bit mixed. While I am very proud of our housing production over the past few years, your report reminded me of how much more needs to be accomplished. Not only are we meeting our housing production commitment to the region, we are creating housing that is affordable to all of our citizens. Unfortunately, providing housing for our most vulnerable citizens (below 30% median family income) is proving to be quite expensive and our production has fallen somewhat short of our goal.

In order to maintain our overall production effort and meet our targets for very low-income citizens, we must find additional resources. As your report notes: "...it takes greater subsidy to construct or rehabilitate units for extremely- and very-low-income households, than for low or middle incomes." While we can always find new ways to work more efficiently, I have little hope of meeting the housing needs of very poor families in our community without more resources.

With respect to your specific recommendations, I am happy to work with my housing partners in the community to implement them.

Generally, I support your recommendations regarding Portland Development Commission's (PDC's) record keeping standards and practices. I will discuss them with PDC Executive Director Mazziotti, Housing Director Wyman Winston and Mayor Katz. In my preliminary discussions with staff, some cost and operational issues need to be addressed as we consider ways to implement your recommendations. As your report indicates, improvements in PDC's data system are already underway and more can be expected. Nonetheless, your recommendations are timely in that further improvements are certainly possible with regard to tracking project-specific information.

In general, I am also more than comfortable with your recommendation that we adopt a set of common definitions for our housing-industry vernacular. Terminology in the affordable housing world is a bit arcane. With the involvement of multiple federal, state and local government programs comes a miasma of regulations. These regulations generally have a variety of terms and definitions that can be extremely confusing to uninitiated observers. I think a standardized list of commonly used words and definitions can be developed for our programs. (I cannot, however, promise that the federal government will not institute an entirely new nomenclature in the future.)

Finally, your recommendation to centralize and standardize reporting requirements certainly seems appropriate. The Housing Evaluation Group (HEG) of the Housing and Community Development Commission is the logical citizen group to provide the general oversight function. I would, however, like to work with the housing directors to determine the best mechanism to implement this recommendation. While the HEG can review and analyze the data, it is a citizens' oversight committee, and as such, would need staff assistance with respect to data collection and receipt of information in a timely and consistent manner. To that end, we will need to identify an appropriate mechanism to collect and maintain this information from several different sources, including PDC, the Bureau of Housing and Community Development, the Housing Authority of Portland and other City agencies. I certainly will be glad to involve the Auditor's Office in this discussion and greatly appreciate your offer of assistance in this endeavor.

Thank you again for providing me this opportunity to comment on your review of the City Housing Programs: 1996-2000. It was a positive affirmation of our accomplishments to date, and your recommendations should serve as a blueprint to make our housing development effort even more effective in the future.

PDC
PORTLAND DEVELOPMENT COMMISSION

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PORTLAND DEVELOPMENT COMMISSION

MEMORANDUM

DATE: May 24, 2002

TO: Gary Blackmer, City Auditor

FROM: Don Mazziotti, Executive Director

SUBJECT: Response to Final Draft of the Audit of City of Portland Housing Programs

We appreciate the opportunity to work with you and your staff on this audit. The information contained in the report contributes to the ongoing effort of PDC to continuously improve delivery of programs and services to achieve the City's goals for housing.

We also appreciate the enormity of the task to compile information regarding the 25 programs and 9 bureaus involved in providing some form of financial assistance for the production or rehabilitation of housing. We applaud the efforts to create the first unduplicated count of outcomes, then tying them to overall City policies and goals. This represents a great starting point for the evolution of the city's reporting processes.

Obviously, the need for housing resources is much greater than the funds available through the public sector. During the time period from July 1996 to July 2000, the city was able to commit $100 million for housing. Over the next five-year period, scheduled resources available are significantly less than over the previous period. PDC supports the need to strengthen partnerships in search for additional sources of money to help residents obtain affordable housing. Also, there is a link between economic development efforts and housing efforts to bridge the market-driven affordability gap that exists in Portland now.

We applaud the fact that the City is on track to meet Metro goals for new housing production, acknowledging that almost 60% of the new housing was produced with no assistance from the City. PDC is proud of its accomplishments in its role as "gap lender" to provide quality, affordable housing, often in mixed-income and mixed-use projects. We will continue to work to achieve Portland's vision in which economic prosperity, quality housing and employment opportunities are available to all.

It is useful to see an independent analysis that confirms the economic constraints of producing housing for very-low-income households in that it requires significantly more to subsidize the units. PDC is concerned not only with the amount of subsidy but also with the limited revenue generated by these units, the financing complexity faced by the developers, and the need for tenant support services. We intend to continue building partnerships in order to overcome these obstacles.

<u>Audit Recommendations for PDC</u>

Design and implement methods to capture and report on the full costs of PDC housing projects.

Continue to improve the reliability of software systems and data entry to ensure projects and program information is current, complete and accurate.

Historically, PDC has not recorded and compiled complete financial data on an individual project basis within our financial systems because PDC has not been the project developer. We have tracked and reported on the gap assistance provided, usually in the form of loans or grants, to make the development feasible. While some revenues do offset expenditures for housing subsidies, this should not mask the full extent of the PDC financial assistance dedicated to a project. I believe it is important to improve tracking and predictability of aggregate revenues in order to do financial forecasting.

- Financial systems track expenditures and revenues by fund (program level)
- Loan processing systems track financial assistance expenditures only (project level)

I recognize the shortcomings of having various software systems that do not easily reconcile with the organization's financial system and acknowledge that integration of the financial systems and the loan processing systems will allow for improved information of the costs associated with assisting in the production and rehabilitation of housing. Last fall, PDC undertook a complete assessment of the technological systems necessary to effectively support all our business functions. Additionally, we recently hired a new Director of Business Process Technology to ensure PDC's systems meet all of our service objectives. This month, the Commission authorized PDC staff to initiate a 6-month Loan Processing Systems Analysis project with the following objectives:

- Fully identify all the requirements for our loan processing functions, including project tracking, monitoring and compliance, as well as the optimal integration of these functions with our existing financial system;
- Determine how well our existing loan system meets those requirements;
- Identify and compare possible alternatives to the current system;
- Prepare for deployment of system capabilities that support the identified requirements.

This information should establish a foundation to perform a cost/benefit analysis of the level of program/project detail that would provide more complete funding data while at the same time accommodate the reporting needs of the full scope of business provided by the agency.

Improve monitoring and review of projects' compliance with tenant income restrictions to ensure that intended income groups are being served.
PDC has recognized this need and is addressing this through the development and implementation of an Asset Management program that includes monitoring properties for compliance to income restrictions.

<u>Other Recommendations</u>
Define and adopt common definitions of housing activities and accomplishments.

Define and implement common data collection methods across bureaus to facilitate reporting of subsidized housing efforts and accomplishments.

I agree with both these recommendations, and will continue working with other bureaus and agencies to provide consistency and accuracy in reporting the entire scope of City accomplishments related to housing production, rehabilitation and assistance. I believe a single repository for collection of this information would be of immense benefit to provide comprehensive information necessary to evaluate the effectiveness of the various programs in meeting the City's policy objectives.

Thank you again for the work of the audit team. I appreciate their thorough and thoughtful efforts. I look forward to the continued dialogue and opportunities for improvements this report will stimulate.

CITY OF
PORTLAND, OREGON
BUREAU OF HOUSING AND
COMMUNITY DEVELOPMENT

Erik Sten, Commissioner

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Date: May 28, 2002

To: Gary Blackmer, City Auditor

From: Tonya Parker, Director Tonya Y. Parker

Subject: *A Review of the Efforts and Accomplishments of City Housing Programs: 1996-2000*

Please accept BHCD's comments on *A Review of the Efforts and Accomplishments of City Housing Programs: 1996-2000*. Our staff worked closely with staff from Audit Services to help scope the review and to provide necessary information and data.

The review attempted to consolidate a myriad of housing data and information to measure efforts to achieve housing public policy goals. We are pleased that the report states that the City is meeting those goals. It validates that the collective approach of BHCD, PDC, HAP and other partners in program planning and implementation is effective and getting the job done. Our systems are in place to continue this trend, leaving us to believe that improved outcomes will largely depend on the amount of resources dedicated to housing efforts.

Working to address housing needs along the continuum as described in the review is a priority for BHCD. We continue to seek possible linkages between homeless services and permanent affordable housing, and between services to renter households and home buying opportunities. The more we can move people along the housing continuum, the more effective our programs will be at enhancing the lives of people in our community.

BHCD has played a significant role in developing the housing programs and implementation strategies to achieve the outcomes described in the review. In addition to passing federal funds to PDC, BHCD coordinates the City's response to homelessness, is the lead in addressing special needs housing, supports the capacity building of the non-profit housing delivery partners, and coordinates housing with other community development program efforts. BHCD has provided a leadership role in policy, program design and program evaluation. This leadership can be seen in the work to develop anti-displacement strategies in the Interstate neighborhoods, the establishment of long-term affordability guidelines for public investments, and the creation of new models like the community land trust and HousingConnections.org, BHCD continues to provide leadership to develop asset and portfolio management strategies to ensure that the City's investments maintain their value and service to the community.

We have worked over the years with other City bureaus and programs to effectively coordinate the delivery of housing resources. The review identifies that the layering of various subsidies insures that higher income projects receive only the sources needed to achieve affordability while units serving households below 30% of area median income receive the full array of subsidies needed to achieve that policy goal. We also note the efficiency of the housing delivery system from the perspective of the end user—the homeowner or rental housing developer. PDC functions as a one-stop source providing the recipient with a coordinated package of assistance from the many funding sources and subsidies available.

Data from the review stating that 41% of all new housing developed in the City received some form of subsidy demonstrates Portland's commitment to implementing Metro/City growth goals, exceeding the City's target to capture 20% of the region's growth. Portland's commitment to maintaining a diverse community where people and families of all income ranges can live is demonstrated by the fact that 80% of all the resources dedicated to housing was for affordable housing for lower income households.

We agree with the report conclusion that improved data and reporting is important for the housing delivery system. Improved information about performance outputs and outcomes will help the housing delivery system in future program planning and implementation. The review is a timely reminder that we need to take the next step forward in this regard.

We also agree that data should "tell the story" about City investments in projects. This will help us understand the steps of the City investment as well as the ultimate cost of subsidies required to achieve policy objectives. Data should be maintained to record project expenses in capital and financial assistance, as well as major expenses in materials and services (eg professional services related to a project such as appraisals or engineering studies). We also agree that significant revenue offsets (such as property sales) should be part of that story. However, we would caution that the finest level of detailed accounting may be expensive and tedious compared to the enhanced information that would be provided. For this reason, we would not support a requirement to account for general staff and operating expenses at the project level. Nor would we generally expect program income to be recorded at the project level.

We have worked closely with PDC on the development of their Asset Management system. We agree that obtaining information and verifying compliance with income restrictions is important work and believe that systems currently under development will meet this need. We expect the Asset Management system will also provide data that helps us understand the life cycle of our investments—not just the picture when the subsidy is first provided.

Finally, we agree that the there should be a single body assigned to report on housing efforts and accomplishments. We believe that this assignment is a natural extension of the role of the Housing Evaluation Group of the Housing and Community Development Commission The HEG already reports to Council annually on the expenditure of federal, HIF and TIF resources. We do not believe that this assignment implies a need for oversight, rather simply that the compilation of data and periodic reporting is a valuable tool for program managers and the City Council We believe that with the good communication throughout the system, agreements can be easily reached on uniform terms, data collection and reporting systems, and that the various partners will contribute to this effort.

Thank you for this opportunity to comment on the review of City housing programs. We are committed to working with the Auditor's Office and our partners in the housing delivery system to improve housing programs in the City of Portland.

HOUSING & COMMUNITY DEVELOPMENT COMMISSION

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May 28, 2002

To: Gary Blackmer, City Auditor

From: Paul Dagle, Co-Chair, HCDC
Bill Van Vliet, Co-Chair, HCDC

Subject: Final Draft of ***A Review of the Efforts and Accomplishments of City Housing Programs: 1996-2000***

We appreciate the painstaking work of the City's Audit Services Division to produce this *Review of the Efforts and Accomplishments of City Housing Programs: 1996-2000 (2002 Housing Audit).* The Housing and Community Development Commission relies on the type of information in this report to generate sound policy advice to the City Council.

HCDC will not have the opportunity to formally respond to the 2002 Housing Audit due to the timeline adopted by Audit Services. HCDC meets the first Wednesday of each month, and the drafts of this report were released, and comments were due, in between the May and June meetings. However, as co-chairs, we have prepared these informal remarks.

<u>Data and Reporting</u>

We note, first, that the 2002 Housing Audit builds on work done by HCDC's Housing Evaluation Group (HEG). At the time that City Council established the Housing Investment Fund, it had the foresight to ask HCDC to track and report on how PDC's expenditures of the HIF resource met City housing objectives. (HEG's charge has subsequently been expanded to include all City housing resources, including TIF.)

Over the last five years, using data compiled by PDC, the HEG reports have tracked production, noted successes, and flagged areas, such as 0-30% housing production and, family-sized unit production, where PDC fell somewhat short of the goals set by Council. HEG has also made recommendations to Council for changes in PDC's practices that, we believe, have helped the City to meet its goals. The 2002 Housing Audit findings about the availability and reliability of PDC housing information are consistent with findings made by HEG in its reports. Issues noted in the 2002 Housing Audit about tracking program income and administrative costs were also first raised by HEG.

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City of Portland *Multnomah County* *City of Gresham*

In the 2002 Housing Audit, the auditor calls for one entity to track and report on housing subsidy information. We believe that a public commission is the logical entity to evaluate progress against goals. HCDC and HEG have an established role evaluating and reporting to the Council annually on PDC's housing production. HCDC is not, however, funded or structured to carry out a data collection function. If data from all City agencies involved in housing production were collected by the Auditor, the Planning Bureau, or another entity, HCDC would be an appropriate body to review it and provide an expanded report and analysis to City Council.

Resources

The 2002 Housing Audit covers a period where more City general fund – in excess of $30 million dollars -- was devoted to the development of affordable housing than ever before. Given the City's current financial position, it is unlikely that we will see this level of development again for some time, unless we are able to create some new dedicated revenue source. The *Consolidated Plan 2000-2005* shows that there is still a significant gap between the supply of affordable housing and the need for such housing, especially for households with incomes at 0-30% MFI. In housing circles, discussion has centered around a real estate transfer tax or dedicated bond revenues. We urge the City Council to take action to identify additional funding for development of affordable housing.

Recommendations

Finally, we support the Auditor's recommendations that:

- PDC design and implement methods to capture and report on the full costs of PDC housing projects.
- PDC continue to improve the reliability of software systems and data entry to ensure project and program information is current, complete, and accurate.
- PDC improve monitoring and review of projects' compliance with tenant income restrictions to ensure that intended income groups are being served.
- All City bureaus involved in housing activities should define and adopt common definitions of housing activities and accomplishments.
- All City bureaus involved in housing activities should define and implement common data collection methods across bureaus to facilitate reporting of subsidized housing efforts and accomplishments.

Again, thank you for the opportunity to comment on this very comprehensive piece of work. HCDC looks forward to being an active participant in our community's continued evaluation of progress toward housing goals.

cc: Tonya Parker, BHCD
Don Mazziotti, PDC
Commissioner Erik Sten
Mike Saba, Bureau of Planning

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May 23, 2002

TO: Gary Blackmer, City Auditor

FROM: Gil Kelley, Planning Director

SUBJECT: Data Collection Recommendation of the Housing Audit (Final Draft)

I want to congratulate you and your staff on the fine job you have done on the report *A Review of the Efforts and Accomplishments of the City Housing Programs 1996-2000.* This report contains a wealth of information on the efforts of our various housing assistance programs during an especially productive four year period. We at the Planning Bureau hope that the next four years prove as productive. Given the current economy, we recognize the challenges faced by our bureaus responsible for housing assistance and wish them luck (as well as sufficient funding).

In reviewing the recommendations for future data collection, I especially agree with Recommendation 5, which states:

> "Define and implement common data collection methods across bureaus to facilitate reporting of subsidized housing efforts and accomplishments."

This, along with the previous recommendation for common definitions, would be a valuable long term outcome of your report. The collection of the data containing an unduplicated count of all units assisted by one or more City programs was a time consuming effort and I would hope that the City carries on the work begun by your staff. In that spirit, I offer the Planning Bureau as the logical agency for this ongoing activity. Continuing this data analysis, in partnership with the Housing and Community Development Commission, would help us fulfill a variety of reporting requirements to regional, state, and federal agencies as well as provide essential feedback to our citizens and elected officials. Taking on this activity would provide a good fit with our traditional data collection and research functions. After the public release of this report, I would like to discuss further what we can do to help implement this and other recommendations in your report.

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