OREGON STATE HOUSING COUNCIL

February 26, 2010

Rogue Retreat, Medford, OR (11 Units; Acquisition/Rehab; Homeless)

Oregon Housing and Community Services
725 Summer Street N.E., Room 124 A/B
Salem, OR 97301
(503) 986-2005

OREGON STATE HOUSING COUNCIL

February 26, 2010

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Oregon State Housing Council

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STATE HOUSING COUNCIL MEETING

February 26, 2010

9:00 a.m.

Oregon Housing and Community Services
725 Summer Street NE, Room 124 A/B
Salem, OR 97301

AGENDA

I.	**CALL TO ORDER**	**M. LaMont**
II.	**ROLL CALL**	**M. LaMont**
III.	**PUBLIC COMMENTS**	**M. LaMont**
IV.	**APPROVAL OF MINUTES** **A.** Minutes of January 22, 2010 Meeting	**M. LaMont**
V.	**RESIDENTIAL CONSENT CALENDAR** None	
VI.	**SPECIAL REPORTS** **A.** *Connections Between Housing and Hunger: An Update on Progress and Next Steps,* **Patti Whitney-Wise** and **Anna Geller** **B.** *Green and Sustainable Development,* **Cylvia Hayes and Gary Langenwalter of 3-E Strategies**	
VII.	**NEW BUSINESS** **A.** *The Knoll @ Tigard* (Tigard, OR), Request for Additional TCAP	**M. Negoita**
VIII.	**OLD BUSINESS** None	

IX.	**REPORTS**		
	A.	Neighborhood Stabilization Plan Update	**R. Malloy**
	B.	Special Session Legislative Update	**L. Joyce**
	C.	2010 Gubernatorial Debate Discussion	**L. Joyce**
	D.	Federal Stimulus Plan Update	**J. Fletcher**
	E.	Housing Council Strategic Plan Updates	**M. LaMont**
	F.	Report of the Chief Financial Officer	**N. Cain**
	G.	Report of the Deputy Director	**R. Crager**
	H.	Report of the Director	**V. Merced**
	I.	Report of the Chair	**M. LaMont**
X.	**FUTURE AGENDA ITEMS**		**V. Merced**

OREGON STATE HOUSING COUNCIL
Minutes of Meeting
Oregon Housing & Community Services
Large Conference Room, 124 A/B, First Floor
725 Summer Street N.E., Suite B, Salem, OR 97301
9:00 a.m.
January 22, 2010

MEMBERS PRESENT
Scott Cooper
John Epstein
Stuart Liebowitz
Nancy McLaughlin (via phone)
Jeana Woolley

MEMBERS ABSENT
Maggie LaMont, Chair
Francisco López

GUESTS
Tom Cusak, Oregon Housing Blog
Julie Garver, Innovative Housing
Leo Laptook, Oregon ON and CASA
Shawn Michael, TACS
Janet Byrd, Neighborhood Partnerships

STAFF PRESENT
Victor Merced, Director
Rick Crager, Deputy Director
Bob Gillespie, Housing Division Administrator
Bill Carpenter, Chief Information Officer
Marlys McNeill, Asset & Property Management Division Administrator
Lisa Joyce, Policy & Communication Manager
Dave Summers, Multifamily Section Manager
Roberto Franco, Director's Office Liaison
Jack Duncan, GHAP Program Coordinator
Dona Lanterman, Single Family Section Manager
Craig Tillotson, Loan Officer
Mike McHam, Appraiser & Market Analyst
Cheryl Resendez, Loan Officer
Joyce Robertson, Loan Closer
John Fletcher, Financial Management Division Policy Advisor
Theresa Easbey, Loan Closer
Carole Dicksa, HOME Program Manager
Carol Kowash, Loan Officer
Shelly Cullin, Senior Loan Officer
Roz Barnes, Loan Officer
Tony Penrose, Resource Coordinator
Betty Markey, Housing Division Policy Advisor
Karen Clearwater, Regional Advisor to the Department
Deb Price, Regional Advisor to the Department (via phone)
Bruce Buchanan, Regional Advisor to the Department
Vince Chiotti, Regional Advisor to the Department
Jo Rawlins, Recorder

I. CALL TO ORDER: Interim Chair Scott Cooper calls the January 22, 2010 meeting to order at 9:15 a.m.

II. ROLL CALL: Interim Chair Cooper asks for roll call. **Present: John Epstein, Stuart Liebowitz, Nancy McLaughlin** (via phone), **Jeana Woolley and Interim Chair Scott Cooper. Absent: Maggie LaMont, Chair, and Francisco López.**

III. PUBLIC COMMENT: Tom Cusak of Oregon Housing Blog distributes a handout entitled "FHA Oregon CY 2009: $5.7 Billion in Spending," and gives an update on the FHA single family activity. In 2009, there were 26,175 FHA single-family loans and $5.7B in single-family activity. He explains that, unlike some of the Recovery Act dollars that are planned and semi-committed, but have not been spent, these dollars have been spent already and represent closed loans. This is a significant level of activity compared to any other Recovery Act programs. He says the one piece of data that jumped out at him was that during the year for every work day there was 105 FHA loans that were made, representing $23M. Based on his experience and knowledge, those are by far the largest numbers that have ever been recorded in Oregon. Between 2008 and 2009, the actual lending activity increased by 8,000 loans and $1.9B. The most significant increase was in the home purchase category with an increase of 60%. The average loan amounts also increased, which was primarily driven by changes in the home equity conversion mortgage program.

IV. APPROVAL OF MINUTES

A. Interim Chair Cooper asks if there are any corrections to the December 4, 2009, and December 18, 2009 Minutes. Epstein asks that the December 4, 2009 Minutes be amended on page 7 of the packet, line 20, to read: "**Epstein** says that Wells Fargo has many transactions with Innovative Housing, but he does not have a direct conflict with this project." The Motion was read:

MOTION: Epstein moves that the Housing Council approve the Minutes of the December 4, 2009 Council meeting, as amended.

VOTE: In a roll call vote the motion passes. Members Present: John Epstein, Stuart Liebowitz, Nancy McLaughlin and Interim Chair Cooper. Abstaining: Jeana Woolley. Absent: Maggie LaMont, Chair, and Francisco López.

MOTION: Woolley moves that the Housing Council approve the Minutes of the December 18, 2009 Council meetings.

VOTE: In a roll call vote the motion passes. Members Present: John Epstein, Stuart Liebowitz, Nancy McLaughlin, Jeana Woolley and Interim Chair Cooper. Absent: Maggie LaMont, Chair, and Francisco López.

V. RESIDENTIAL CONSENT CALENDAR: None.

VI. SINGLE FAMILY REPORT: Dona Lanterman, Single Family Section Manager, and Craig Tillotson, Loan Specialist.

Lanterman reports that through 2009, there were 381 loans, for a total of $58,805,510. There are 40 active reservations at about $6M, with 10 on the waiting list. She says that last month Council asked how Oregon's program faired in comparison to the other HFAs, and distributes a report entitled "State HFA Delinquency & In-Foreclosure Rates, Whole Loan Bond Programs. The total delinquency was up 5.83% (which includes those in foreclosure), with foreclosures at 2.5%. **Epstein** points out that Oregon delinquencies are in the middle of the pack out of 20 states, but is number 3 in foreclosures. He says that may be misleading since the department's report is year-end and the State HFA report goes to the end of June. **Tillotson** says that at the end of June, the department's total delinquency was 4.41%, and the percentage in foreclosures was 1.75%. **Epstein** asks if FHA is tightening up its underwriting and whether that is good or bad for the department. **Tillotson** says he thinks, in general, all single family housing is tightening up their underwriting.

VII. <u>SPECIAL REPORTS</u>:

A. *Communicating More Broadly w/ Rural Oregon.* **Leon Laptook,** Special Projects Manager for Oregon ON and CASA of Oregon, and **Shawn Michael**, Technology Director at TACS, give a presentation on the barriers faced by the rural affordable housing and community development partners, and distribute a copy of the PowerPoint presentation. **Merced** asks how much participation is required on the presenter's end to make sure the video conferencing opportunity is successful. **Michael** says there are some technical requirements on the client end, such as internet connection. Audio can be handled in two different ways, using a traditional teleconference line or a computer with a microphone. If the receiver has an internet browser they are able to view. **Cooper** points out that 31 counties are covered and asks what the five remaining counties are. **Laptook** says it is the four metro area counties and Marion County. He says there are not many unserved areas in Oregon. **Cooper** says that one of the populations that is unserved are the tribal partners, and suggests it may be worth their while to take a quick survey of what their internet capacities are. **Woolley** asks what a nonprofit would need to get set up. **Laptook** explains that each nonprofit would have one license at a cost of $60 a year. They would need one webcam at $50-$70, broadband internet access and training. OHCS would need several licenses due to several meetings that occur at the same time. Public sector pricing is unknown at this point. **Michael** adds that for the web-conferencing capability, only the presenters need to have a license, the attendees do not. **Woolley** asks if there is any opportunity for collaboration for the nonprofits. **Laptook** says they will check back with them, and that One Economy was intrigued by this concept. **Bill Carpenter**, the department's Chief Information Officer, says that on March 12 the department will be providing a training to its partners for the next CFC cycle and will be using technology like this. **Laptook** says it is good to hear that they are heading in the same direction.

VIII. <u>NEW BUSINESS</u>:

A. *Clifford Apartments* (Portland, OR), Housing PLUS Allocation Increase Request and Trust Fund Increase Request. **Mike McHam**, Appraiser and Market Analyst, introduces **Julie Garver**, Housing Developer with Innovative Housing, Inc., and **Vince Chiotti**, Regional Advisor to the Department. **McHam** says the request before Council is to approve an increase of $100,000 in Housing PLUS, and $97,000 in Trust Fund for the Clifford Apartments. The project is an acquisition rehab in southeast Portland. Upon completion it will provide 88 units of affordable housing targeting homeless, chronically mentally ill, and previously incarcerated persons. He gives an overview of the write-up contained in Council's packet. He explains that the current request is the second request on the project. Several funding gap challenges have confronted the project, especially during the past year. The three most significant of these related to underwriting changes by the permanent lender, difficulty securing the tax credit investor, and the difficulty of the financial market conditions. With all other financing finally committed and in place, the funds requested in this increase should allow the project to start construction promptly.

Garver says they really tried not to have to come back to the department with all their funding gaps, and thanks Mike and Vince, who she said provided her with a lot of technical support over the last year and half. She stresses that they do have commitment letters from all the other funders, and a closing date is set for February 24. She says Hunter Davison, a heating contractor in Portland who did two other projects with them, heard they were having trouble with this project and asked his employees if they would like to participate in an employee giving campaign. 45 of them signed up to have money taken out of their paychecks, collecting $5,000 to provide fresh air to every unit. Consultants and architects also reduced their fees to help out. **Cooper** asks about the remaining contingency. **Graver** explains that the only remaining hard cost contingency is $210,000 on a construction budget of $2.1M. They also have $100,000 of soft cost contingency remaining.

Epstein states that he will need to abstain from voting on this project.

Woolley asks if they expect to come back at some point in the future for additional funding. **Chiotti** comments that these are 88 units of homeless housing for about $800,000 of Housing PLUS funds. Many of the department's projects will get four to five years of homeless housing, but they will get a minimum of ten out of this project. He says they may come back to apply for low-income housing tax credits. **McLaughlin** says that one of the comments in the write-up is that it is a substantial rehab in an old building and it is possible that they could be coming back for resources sooner, rather than later, and asks what kind of construction contingency budget they have. **Garver** answers that they have $210,000 on $2.1M hard cost construction budget. They then have another $100,000 soft cost contingency, and they are capitalizing $170,000 of replacement reserves. **Liebowitz** says she mentioned they were trying to make this "livable," and asks what is being deferred. **Garver** explains that the biggest deferred item is a full seismic upgrade. The roof will be fully seismically upgraded and the elevator shaft has already been done. **Liebowitz** asks if the lenders are not requiring that at this point. **Garver** states that the lenders were not thrilled that they did not do it now, but with the level that it already has and with the roof being done in the rehab, they said they were comfortable. **McHam** states that originally, they knew that this was the plan, and the only thing that has changed is that the permanent loan was 20 years and now it is 10 years. He says that Innovative Housing and Julie should be complimented. This has been a very long and frustrating project. It changed on nearly a monthly basis. **Cooper** asks what would happen if Council didn't approve their request. **McHam** answers that one of the major concerns they have is the building carrying costs. It has taken $20,000 out of their pocket on a monthly basis. **Chiotti** adds that the only other source they could look at are federal low-income housing tax credits, and with the current market, this is not the kind of building that equity investors would be looking at. The City of Portland has stepped up with $1M additional funds, for a total of $4M invested in this project. **Woolley** says she applauds them for their tenacity in trying to get this to work.

> **MOTION: Woolley moves that the Oregon State Housing Council approve an increase in Housing PLUS of $100,000 (to a total maximum of $790,000) and Trust Fund of $97,000 (to a total maximum of $197,000) for the Clifford Apartments Housing Projects.**

> **VOTE: In a roll call vote the motion passed. Members Present: Stuart Liebowitz, Nancy McLaughlin, Jeana Woolley and Interim Chair Cooper. Abstaining: John Epstein. Absent: Maggie LaMont, Chair, and Francisco López.**

B. *Putnam Pointe Update.* **Dave Summers**, MultiFamily Section Manager, and **Bob Gillespie**, Housing Division Administrator. **Gillespie** explains that in the past the legislature took funds from the department's reserves and then the next session replaced some of that money. There were instructions from the legislature that the money be put to use. The money was put that into the predevelopment loan program, which is part of what had been funding that program. $1.5M remains unspent. The department would like to take that remainder and use it for purposes other than the predevelopment loan program. He says it will impact that program, but there are still funds in the program through outstanding loans. It may have some impact in the future on the department's ability to do some predevelopment funding. He says they have some information they are still analyzing, and it will be a time-is-of-the-essence situation. He says the department wanted to give Council an advance idea of what they will be bringing to Council.

Summers explains that Putnam Pointe was a joint venture between Housing Works, which is a long-time sponsor and partner of the department, and the Pubic Housing Authority in Bend, Oregon. They are a manager of a large portfolio of both public housing and tax credit units. Their partner was Tom Kemper, who has a for-profit company and is also an experienced tax credit investor. Putnam Pointe, also known as Lava Court in the past, is a new five-story building in downtown Bend. The ground floor is retail, with three floors of affordable housing. This was a 9% tax credit transaction. The affordable housing is completely full and has permanent financing. The project consists of three types of funding: retail, affordable housing, and condo units that were originally intended to be for-sale condos on the top level. The problem is that the market in Bend has deteriorated to the point that it is stressing many real estate transactions and forcing financial restructuring. There is a construction loan on the 10 condo units. One unit has been sold. The department is trying to find a solution to use the funding source to exchange for construction loan funding and provide a time to work out the condo component. The retail component will not be included in what will be brought to Council. Details are being worked on to adequately leverage and collateralize a loan, to find collateral outside of the subject building that can be used as security, and to identify the sources of repayment. The sponsor is anticipating applying for the 2010 CFC cycle to request 9% credits. They have an investor that is looking at the credits, and the local bank that did the construction loan is being negotiated with for a source of permanent funding. If the department can mitigate the decline in value and the liquid nature of the for sale units, a request will be brought before Council to exchange the bank debt in conjunction with the $1.5M to give the sponsor time to work this out.

Woolley asks what the orientation of those condos is and who owns them now. **Summers** answers that the joint venture of Housing Works and Kemper own the building, and that one of the condo units has been sold to a third party. **Woolley** asks how those units are supposed to be directed. **Crager** explains that the low-income housing that was funded with 9% has been very successful and has been closed. The intent is to take the top floor for-sale units and flip them into low-income housing, making a total of four floors of low-income housing. If the department is able to provide some financing to take out the construction loan, it would enable Housing Works and Kemper to then put together a strategy in which they would come back and do some form of permanent financing. **Woolley** asks about the quality of the condos versus the affordable units. **Summers** says they were aimed at the mid to upper end condo market for Bend, and are lofts with higher ceilings, better finishes, higher-end appliances, etc. The department may be able to put together a permanent financing structure with tax credits, or they may need to be financed on the basis of 80% AMI rentals. Another source of repayment might be to sell the condos with some sort of deed restrictions. **Woolley** asks what impact this will have on the rest of the building. **Summers** explains that the bank has a construction loan and that it shouldn't have an impact on the balance of the building because that is separate ownership. The sponsor is a party to the legal entity owning the affordable units. **Woolley** asks what would happen if the department doesn't work with Housing Works and the Kemper partnership to fix the problem. **Summers** explains that the units the ownership has been trying to sell can be viewed as an illiquid asset and there is no market for them. The department is trying to help the sponsor find time to identify a better use than a fire sale for those units. **Woolley** asks what the consequences would be for the partners if we don't help. **Cook** explains that the top floor was originally planned as affordable tax credit units. In order to get the project to work, they had a series of obstacles. They turned the top floor into for sale condos in order to make the three floors of affordable housing work. The project was built at the peak of the market and when it was delivered the market had totally collapsed. The market for the affordable brought 150 applicants for the 33 units. If they do not get an extension and it is not paid, there is not adequate liquid capital between Housing Works and Kemper Co. to write a check for $2.2M. She says they have enough collateral in real estate to secure the loan, but their ability to write that check is not there. They have a pipeline of developments that have been in place for over 25 years and they have been the largest affordable housing provider in Central Oregon. This will significantly compromise their ability to continue with their mission. They have $1M of their own funds invested in the project. **Woolley** asks what Kemper has invested. **Cook** says the same amount including his personal residence. **Woolley** asks if they are 50/50 partners. **Cook** says yes, for over 20 years. **Epstein** asks if they are 50/50 on the retail. **Cook** says yes. That is the way they got this deal done. She says they knew it was a tough project, and they had challenges with BOLI. The city put up the land, they gave them $500,000 urban renewal funds, and they went through a competitive proposal against some significant opposition. **Woolley** states that this troubles her because it raises some policy issues and the precedent it may set.

Cook says that from a business standpoint, the department has offered 5% interest, and a 1.1% loan fee secured with additional collateral of Housing Works. In the event the project is not converted, they have enough collateral to take out the OHCS loan. The bank that they have the loan with is under a cease and desist order, so if the bank and their regulators put pressure on them, then this gives one level of assurance that they have been given some additional time so they can reposition the properties. In two years, if they have not worked this out, then they have enough real estate assets to secure the note. She says they have never been in default and have a very good credit rating and are not without some risk.

Crager says he understands Jeana's concerns, and assures her that they will not present a loan to Council that does not have collateral or a way out for the department. **Gillespie** states that this is a mixed-use, mixed-income, public/private partnership, which is not common. The project was developed in a market that was incredibly strong, but more than anywhere else in the state the bottom has fallen out of that market. In this case the department is looking at a project and an organization that has been in Central Oregon for a long time and has other assets that are also at risk. The department needs to look at what resources it has to help them solve the problem due to the unusual circumstances in the market. **Woolley** states that perhaps public should not be doing for-sale high end units and should not be partnered in a deal to do them because it does put OHCS at risk. She says she doesn't feel very good about shoring up Kemper. **Gillespie** comments that they are both at risk. It was not initially the intent to make these affordable housing, but because of cost increases, that was the solution that was brought to the department. **Epstein** asks if the $2.2M just relates to the condos. **Gillespie** answers yes, it does not relate to the retail. **Epstein** asks what they think the condos are worth. **Cook** says they are going to need to be reappraised. This is an opportunity to put 10 units and possibly 11 back into affordable housing which was the original intent. If they do not make the next CFC round they at least will make the list if some credits come back. If after that they still do not have a deal, then they will have a two year period to work out with all of their partners. They will have options in two years that they do not have today. **McLaughlin** states that this is a very difficult situation. While the department would be helping partners, it would also be backstopping conventional lenders, which she has a concern with. She asks what capacity the department has going forward to enter into this kind of transaction for other organizations who come forward. **Gillespie** says that with these resources, this would be a one-time event because the department does not have the resources to do this again. The department may be able to do fixes with other housing programs, but we often look at existing assets as something that we have to preserve. **Crager** states that he agrees with what Bob said, that this is a one time shot. This will be a common occurrence that we will see in the future with other projects, so the department needs to be prepared for it. There are plans within the Document Recording Fee strategies to have money set aside for these types of things.

Epstein asks where the $700,000 gap is coming from. **Cook** says they are currently in discussions with their bank and with OHCS on just where the appropriate placement of gap should be, what the bank is able to do, and how that would fit with OHCS and their mutual assets. **Summers** adds that the bank is going to have to make some structure for consolation to transfer some of this debt from the residential to the retail, and they are trying to work that situation out now. They are coming at this transaction to structure an instrument that looks more like a bank loan. They are going to have to identify adequate bona fide sources of collateral to put the department in an adequate collateral position, and have multiple sources of repayment to adequately address their viability in a down market.

IX. OLD BUSINESS:

A. *Period of Affordability Policy Discussion.* **Bob Gillespie,** Housing Division Administrator, and **Betty Markey**, Housing Division Policy Advisor. **Markey** distributes a document entitled "Term of Affordability." She says that last month Council discussed looking at extended periods of affordability on preservation projects. The discussion moved to wanting to look at that on all the developments that the department does. Currently, the department has quite a variety of affordable terms with its programs ranging from five to 30 years, depending on the type of resources that are invested. A lot of the sponsors elect a longer affordability term, and the documents are written for that period of affordability. For projects that have been funded since 2007, either through the CFC or with bonds, affordability ranges from 40-43 years. She then gives an overview of the affordability term used by other localities and states, and four possible options for Council to consider.

Gillespie comments that another topic that has been discussed and pertains to this discussion is life cycles and when developments need to be recapitalized. If a nonprofit is being required to do 60 years of affordability and they know that they have to recapitalize the project at year 30, there is a bit of inherent conflict as there is a lifecycle of roughly 30 years in projects. Most of the department's projects do not have the cash flow to finance the big repairs at a 30-year cycle. He says he likes the 30-60 option because owners can sign up for the 30-60 cycle, and if they do not choose to recapitalize the project they can repay OHCS for invested subsidy and remove the restrictions. **Cooper** asks if it wouldn't give for-profit developments a competitive advantage over the nonprofits, who never have the capital to buy out at 30 years, by being able to request more tax credits to rehab a project or they will take it to market. **Gillespie** says that both for-profit and nonprofits should look at the 30 years as an opportunity. For-profits can always say they have the ability to flip to market. On the nonprofit side, they have a property that has aged for 30 years, so with the 30-60 option they have the ability to come back to the department with an understanding that they signed up for 60 years, but at 30 they have an option that does not put their organization at risk. **Liebowitz** asks where the numbers are coming from, and if they are tied to the longevity of the building, or if it is just an arbitrary number. **Gillespie** explains that the lifecycles of buildings and the need to recapitalize numbers come from three different sources. One is the experience the department has had with the preservation properties. Second, industry representatives, such as Tom Walsh, have been very vocal about lifecycle. Third, there has been a working group that has toured properties to look at the scope of work that has been done to see if buildings are adequate to last another 30 years. **Liebowitz** says he would like to avoid the situation the department is in now where expiring use properties are coming back after 30 years asking for money, and he is not sure this gets the department out of that cycle. Theoretically, when someone comes in for a project now there is enough replacement reserves set aside so when they need the major repairs and upgrades, there should be money to deal with that. He says it feels like the 30-60 does not get the department out of the cycle it is now in. **Gillespie** states that he wants to get away from the expectation that the projects need to be recapitalized at the end of their initial compliance period. Most are saying that this needs to be pushed to 30 years. They can have replacement reserves with the theory being that they put enough aside to cover the depreciable cost of the property and it is in a savings account that inflates at a rate that will make up for inflation, which he does not think is happening. In order for that to work we would have to do more, such as capitalizing funds up front, which takes more away from development. All that aside, things can last for 30 years and then it reaches a threshold point. For example, the landscaping is tired, and the parking lot needs to be replaced. Energy upgrades are another area. Most current technologies in 30 years will be obsolete. **Liebowitz** says that while he understands the point about incentivizing for-profits, it is a philosophical question of "what are we here for?" We are here to develop affordable housing, not to make profits for certain entities. He says that is the balance he is struggling with. **Gillespie** explains that what he was trying to get across is that there are times and places in the state where there is no capacity. The people that do have the capacity to go statewide are for-profit entities. His objective is that the department have the capacity to develop affordable housing throughout the state. His comment about for-profits was directed at the fact that in some places there is still a reliance on for-profits to do that.

Cooper says he wants to favor the 30-60 option, but is concerned that it would be counterproductive to the department's goals. **Gillespie** says that to some extent there is the potential to lose affordability at year 30. However, unlike the current preservation properties, there is a disincentive to opt out in that department resources would need to be repaid. **Epstein** says the other difficulty is weighing public policy versus capitalism, and getting a balance between the two. Even nonprofits need to make a profit sometimes. **Cooper** asks how a buy-out option would work when there are multiple streams of funding going into a project. **Gillespie** answers that when the department is the primary funder in a project, most of the restrictions would be gone at loan payoff, by statute. There would be an agreement between the department and the applicant to continue the affordability. Even in the second 15 years of a tax credit project, the IRS does not care about it any more, and it is our agreement with the participant and our ability to sue for breach that is our leverage to keep someone in for the second 15 years. **Liebowitz** asks, as it pertains to the disincentivizing of for-profits, what the average commitment is. **Markey** says she does not have that information, but she does know that on the loan side, it is usually 30 or 40 years with the bond financing, because that is the term of the loan. She says she could get that information for him. **Liebowitz** says that would tell him more as to how real that concern is. If they are all putting down the very minimum, then your point is well taken. If they are putting up 45 years and it does not really matter to them, that is a totally different way of looking at it. **Gillespie** adds that some of the other options get to what he is talking about, and that they could establish a minimum threshold as well.

Markey says that on the 30-60, if they sell between year 31 and 60, we would be looking at prorating the amount that was due back; reducing it every year until year 60. At that point the recoverable grants would be forgiven. Option 3 and 4 are both more flat rates. The last option would be doing something like 50-60 years, which we have seen in other states and in the Portland area, and locking all projects into that. It would provide the maximum affordability, but there would be all the same issues of disincentives. If they needed to recapitalize at year 30, since there would be a 50-60 year requirement, it would be most of the sponsors' expectation that we would help pay for it. **Crager** states that both the last two options are just terms and one is the basis that the department is already doing. **Markey** says that if Council decided to do some type of flat rate for every project, they may want to look at rehabilitation projects being slightly less.

Cooper says this is such an interesting issue, it may be best to have a good handle on whether we found the anomalies or what the majority is to try and keep us somewhere in the middle of the pack. **Liebowitz** states that he would be curious to know for those who have longer periods of affordability, what their experience has been on disincentives and whether they have noticed a reduction in participation because of that. **Markey** says that it may be too early to know. In talking with the states it has been fairly recent, within the last five years at most. **Cooper** says he would also be interested in gettomg partner input from both for-profit and nonprofit partners. **Woolley** says she agrees that it would be helpful to talk to our partners. **Cooper** says he thinks there is agreement in that the department does not want to disincentivize development of affordable housing, and it does not want to advantage any one particular segment or region of the state in terms of outreach. **Epstein** suggests that around year 15 or 30 to create flexibility and still maintain affordability, perhaps having more restrictive rents for the first 30 years. After that time, being allowed to go to 60% AMI, which would allow bringing in more private debt to try and refinance the property and keep it affordable. **Gillespie** says he and Betty will come back in a few months with the research they have come up with. **Crager** suggests that they use the department's website and have other states respond, and to also research what surveys NCSHA has.

Liebowitz says he wants to reinforce his thoughts, in that the expenditure of public dollars and his position on Housing Council is to maximize the period of affordability. We are here to make sure that affordable housing is not only constructed, but that it serves for as long as possible.

B. *Loan Grant Approval Limits Policy Recommendation.* **Bob Gillespie**, Housing Division Administrator, and **Betty Markey**, Housing Division Policy Advisor. **Markey** explains that last month Council was looking at what dollar amounts a grant or loan should come to Housing Council for approval. Council was looking at what it would look like for grant amounts or loans over $200,000, or in the aggregate over $400,000. The question came up as to how that compared to what the department is currently doing. She distributes a summary of projects broken down into three categories: projects which did and would still require Housing Council approval; projects initially requiring Housing Council approval which now would not require Council approval; and projects which did not require Housing Council approval and still would not require Housing Council approval; and gives an overview. **Woolley** asks if she could summarize how this came up and why the proposal items were identified. **Markey** explains that there was a legislative change that allows Housing Council to set a threshold of when projects will come to them for approval. It has been $100,000 for a long period of time. **Epstein** adds that Council wanted to find out what it would look like if there were thresholds of $200,000 and $400,000. He says that what also brought it up was with the Document Recording Fee in the sense that Council might start awarding at a lower threshold and it might increase the number of projects that come before Council. Following discussion, the following Motion was made:

> **MOTION: Epstein moves that the Oregon State Housing Council approve a Grant and Loan Approval Limit Policy. For individual grants and loans to a project the limit is greater than $200,000; for aggregate grants and loans the limit is $400,000 per project. This limit is to be revisited and presented to the Housing Council on an annual basis for re-approval each January**
>
> **VOTE: In a roll call vote the motion passed. Members Present: Stuart Liebowitz, Nancy McLaughlin, Jeana Woolley and Interim Chair Cooper. Absent: Maggie LaMont, Chair, and Francisco López.**

C. *Developer Fee Policy Recommendation.* **Bob Gillespie**, Housing Division Administrator, and **Betty Markey**, Housing Division Policy Advisor. **Gillespie** explains that this policy has a maximum developer fee of 15%, and is an agreement between state housing finance agencies and the IRS. The policy includes both the cash developer fee and the deferred developer fees. He distributes a document that outlines the department's practice of using a sliding scale for developer fees, depending on the complexity and risk of the project and gives an overview. **Woolley** says that most of what she sees is a way to adjust the development fee up or keep it the same. She asks how many instances there were in the last year that would have been considered under this new proposal. **Gillespie** says there were three. **Woolley** asks whether they were private or nonprofit deals. **Gillespie** says they were mostly nonprofit. **Cooper** comments that he likes what they have outlined, but the only one that worries him is the third one because the language is very broad. **Markey** states that they can write it a lot clearer. **Liebowitz** says he is very pleased with what they have come up with, and he suggests a language change: "The lesser of the project savings <u>or the maximum percentage allowed for the type and complexity of the project.</u>" In other words if you have a project that allows 9% to 12%, that really should be the ceiling as to what you are going to allow the developer fee to go up to. **Gillespie** says another change has to do with small projects. They put a minimum developer fee of $50,000 because for projects with multiple funding sources there should be a minimum compensation. That is the one exception that they might make to the 15%. The agreement on the 15% is between the department and the IRS. **Cooper** asks if they want to redraft the language to include the discussion input. **Epstein** states that Council supports the recommendation, but they want to see the final language. **Gillespie** says they will email the revised language to Council for their final review and approval and that they are trying to get the CFC application out by February 18th.

Crager announces that he wants to recognize a long-time retiring employee, Jack Duncan, and thanks him for all his contributions to housing and community services in the state of Oregon.

X. REPORTS:

A. *Neighborhood Stabilization Program Update.* **Dona Lanterman**, Single Family Section Manager, reports that NSP1 has been slow getting started because of the changes and dealings with HUD. She says the subrecipients are doing a good job. The department did receive a grant award for NSP2 for a total of $6,829,635. The award was based on the consortium application submitted in May, which was for $26.2M. Although less than requested, the department is pleased with what it was awarded, because Oregon was the only agency in the northwest that received funding. They are working on what changes are going to be made because the amount was much less than applied for, and they are awaiting a new notice from HUD. **Merced** adds that there were nearly 500 applications nationwide, and the department was one of 56 that received an award. He points out an article in *The Bend Bulletin* that erroneously states that Bend is getting $2.8M. That number did not come from the department; that was the reporter's thinking.

B. *Housing Opportunity Bill Rulemaking Update.* **Lisa Joyce**, Policy & Communication Manager, reports that permanent rules have been adopted and can be viewed on-line. Regarding the Emergency Housing Account, the department will proceed backfilling General Fund reductions with the new Document Recording Fee revenues. As for the General Housing Account, there is $10.5M going to multi-family housing. The bulk of those resources will be in the CFC with about $1.5M minimally going to preservation efforts. In the NSP2 application, the department had committed to providing some Document Recording Fee revenues toward the development of housing for very low-income individuals, particularly those experiencing homelessness. The department does not yet know how much money will be coming or how quickly so it has to be done incrementally. There are certain activities that will receive priority at funding. There is less than $1M for capacity building for the department's affordable housing provider partners. It is expected that those program dollars will begin to be available in April or May. The biggest area of controversy was around funding for the regional housing centers. The feedback received caused the department to engage in a rather thoughtful process of looking at what the regional housing centers do and what results they achieve. The conclusion is that they are a tremendous investment. Another $800,000 will go to down payment assistance. **Crager** states that the piece that got the most discussion was "why invest in regional housing centers?", so the department wanted to analyze the outcomes. The goal of the statutes was to get people into homes. The outcomes show it is a good investment. The preference in the new statutes is to change the trends in terms of minority homeownership, and the department is doing pretty good in that regard.

C. *Special Session Legislative Update.* **Lisa Joyce,** Policy & Communication Manager, gives an update on the special session. Senator Morrisette's Rural Health Committee agreed to introduce Senate Bill 1005 on the department's behalf. She says she does not foresee any controversy. She says the election results may rewrite the legislative agenda, and the department has prepared lists of reductions in the General Fund programs. **Cooper** asks what amount of Housing Trust Fund would be targeted if the tax measures fail and the legislature goes after the reserves. **Joyce** says the department does not believe that pool would be vulnerable. **Crager** adds that the Housing PLUS program dollars are being targeted. In the beginning those units were going to be funded for four years, but with other things happening we can now go back and invest in those projects and extend the periods of time and get more than four years. The other fund that is being targeted is the public purpose charge for weatherization. **Woolley** asks about how much money is in those two programs. **Crager** says about $5M. The last analysis he saw was $3-$4M. **Joyce** distributes the timeline for Legislative Concepts and a list of probable 2011 Legislative Concepts. She also distributes a handout regarding the 2010 Gubernatorial Debate on Affordable Housing Issues in Oregon hosted by Habitat for Humanity Oregon, scheduled for April. Bill Bradbury has accepted, and Governor Kitzhaber has committed. She suggests Council may want to spend time at the next Council meeting discussing possible questions to be submitted for the debate. **Crager** adds that Council is invited and there will be a reception afterwards with the candidates.

D. *Federal Stimulus Plan Update.* **John Fletcher**, Financial Management Division Policy Advisor and ARRA Coordinator, distributes copies of two documents: the OHCS ARRA Programs Spending Status as of 1/19/10, and the Cumulative Overall Financial Status to Date, and gives an overview of each report.

E. *Report of the Chief Financial Officer.* **Rick Crager** reports on behalf of Nancy Cain:

- There were opportunities created through ARRA for bond issuance, and in December the department made some commitments in terms of how many bonds it would be able to issue of $120M. That translates into the ability to issue bonds up to $200M. The $120M represents 60% of the deal. If the department is able to go out into the market, it would mean a guaranteed buyer of 60% of the debt, which would be Freddie Mac/Fannie Mae, and then the rest of it would have to go out to retail to sell. The department was able to lock into a guaranteed rate of 3.49% rate, which puts the department today at a lending rate of 5.25%. That rate is above what the market is at this point. At this point, the department is still out of the market on the single family bond program. We are hopeful that will change, but if we aren't able to go to market at the end of the year, we will lose that authority unless there is a federal extension put on it.
- The department is in the process of putting together a Budget and Finance Workgroup made up of staff and partners to help think through the issues that need to be considered for the 2011-13 budget.

F. *Report of the Deputy Director.* **Rick Crager** reports:

- OAHTC (Oregon Affordable Housing Tax Credit) has presented challenges with banks today and being able to place the OAHTC. Many believe that going forward it is going to get worse. Bill Van Vliet is reporting that there is no interest for them. The department believes it might be time to visit expanding the use of the OAHTC out of just lending institutions, and has been considering some proposals with internal staff and external partners. He says that last legislative session he tried to float an idea where the department would take the OAHTC, to the extent where the cap is not fully utilized, and sell it similar to what is done with the IDA program. Then use the cash to reduce rents in some of the department's projects, similar to a rent subsidy project. The concept was well received by the Revenue Committee last session. He says he thinks the banks would get on board with this concept if they saw that the department was not completely abandoning their ability to still work in this program. To the extent they are not able to go out and buy these credits, then we could do something else and it would not hurt their long term participation. He says he would introduce it in

2011 and may be able to get an emergency clause placed on it so it would go into affect prior to 2012. To the extent that there are opportunities for other lenders outside a traditional bank, he thinks the department can get around that now within the current statute. He thanks John Epstein for his help on this issue.

- DAS was successful in going to market in December and did sell about $5M - $6M worth of lottery-backed bonds, so the department does have proceeds in the bank now for preservation. The plan is to have $5M to allocate to the Spring CFC and then the other $11.3M is being done through an RFA with bonds and tax credits.
- Work is moving forward on the department's internal strategic plan and he hopes to give an update at the next Council meeting.
- He says he wants to commend staff because they are working extremely hard and there have been a lot of challenges. ARRA alone is a workload, then you add the tax credits, Document Recording Fee implementation, and reductions and furloughs, it is a challenging time, but staff has been just incredible.

G. *Report of the Director.* **Victor Merced** reports:

- The private activity bond committee allocated to the department $303M of carry-forward bond authorization, which will be all for multifamily developments.
- The department had its presentation before Ways and Means to ask for expenditure authority.
- The department submitted its second round of ARRA reporting requirements, and so far it looks okay, and things are moving well.
- The North Mall Office Building received an Earthwise Award for its green and sustainability business practices. He said a few words at the presentation about how committed the department is and mentioned that one of the Council members, Stuart, had pushed the department on green and sustainability practices.

XI. FUTURE AGENDA ITEMS.

- **April** – Chief of Staff to the Governor, Chip Terhune, will give an update on the Governor's agenda.
- **May 7** – There will be a joint Housing Council and Community Action Programs of Oregon meeting.
- **Offsite meeting** – A decision needs to be made at the next meeting on an offsite meeting location, perhaps in September. **Cooper** suggests Central Oregon.

Interim Chair Cooper adjourns the meeting at 1:28 p.m.

Maggie LaMont, Chair **Oregon State Housing Council**	**DATE**	**Victor Merced, Director** **Oregon Housing & Community Services.**	**DATE**

TCAP - Project Submittal –Request for Additional TCAP

Project Name:	The Knoll @ Tigard	No. of Units:	48
Project Address:	8485 SW Hunziker St. Tigard	Population Served:	Elderly/Disabled
County:	Washington	Construction Type:	New
Sponsor/Developer Name:	Community Partners for Affordable Housing (CPAH)	Years of Affordability:	60
Contact:	Sheila Greenlaw-Fink	Architect:	Carleton Hart Architecture
Project Number:	2908	Contractor:	LMC Construction
		Property Manager:	IPM

	TCAP App	Current Costs		TCAP App	Current Costs
Total Project Costs:	$10,435,115	$11,431,238	Total Cost per Unit:	$217,398	$238,151
Residential Costs:	$10,435,115	$11,431,238	Construction Cost/SF:	$141	$152

Current TCAP Request	**$320,000**
Total TCAP Request	$1,604,917

Rent Information

Unit Size (s)	# of Units	% Area Medium Income	Project Rent (Net)	Market Rent from Application (Net)	Fair Market Rent (Less Utility Allowance)
1-bedroom	37	50%	587	675	677
1-bedroom (PBS8)	8	30%	677	675	677
2-bedroom	3	50%	697	800	781

Uses of Funding

	TCAP App	Current/Revised Uses	Increases in Uses
Acquisition	$919,579	$919,579	0
Construction/Rehab	$6,435,355	$7,024,933	$589,578
Development Costs	$3,080,181	$3,484,633	$404,452
Total Uses	**$10,435,115**	**$11,431,238**	**$996,123**

Source of Funds

OHCS Funds			Other Sources			Net Changes to All Sources, by Row
Source	TCAP App.	Current/ Revised	Source	TCAP App	Current	
LIHTC Equity	**$5,361,964**	**$5,734,000**	WA County HOME	$1,500,000	$1,500,000	+$372,036
OAHTC Loan	**$1,858,078**	**$1,622,801**	BETC	$29,865	$29,865	-235,277
LI Whx	$100,000	$100,000	Tigard Fee Assistance Grants	$40,000	$40,000	
Trust Fund	$100,000	$100,000	CDBG City of Tigard	**$150,000**	**$425,000**	+275,000
TCAP	$824,917	824,917	Metro TOD	**$80,000**	**$100,000**	+20,000
Add'l TCAP Request*		**$780,000**	Metro Green Fund	**$10,000**	**$40,000**	+30,000
*Information has been bolded if there has been a change from the TCAP app to now			SDC Credit	**$125,211**	**$0**	-125,211
			Enterprise GC	**$5,000**	**$39,000**	+34,000
			Enterprise COF	**$10,000**	**$0**	-10,000
			Project Cash Flow	**$35,530**	**$46,724**	+11,194
			Deferred Dev. Fee	**$204,550**	**$48,932**	-155,618
Total OHCS Sources	$8,244,959	$9,161,718	Total Other Sources	$2,190,156	$2,269,521	
Total Sources				**$10,435,115**	**$11,431,238**	+$216,124

TCAP Request Timeline and Approval History				
Date	Amount	Increase Difference	Approval Authority Used	Decision
09/25/09	$824,917		FC, HC	Approved
12/5/09	$1,200,000	$375,083	FC, HC	Approved
1/29/10	$1,284,917	$84,000	Director's Approval	Approved
Current request	$1,604,917	**$320,000**	FC, HC	
Total TCAP	**$1,604,917**			

Request Overview

From the time the TCAP application was received until now, there has been a $996,123 net increase in the uses of funding. The key cost changes were generated by the following activities:

1. Hard costs increases due to recent Davis Bacon wage determinations valued at $479,000. An additional $110,000 increase to hard cost contingency, liability insurance, and the payment and performance bond and other costs that are tied to total construction expenses.
2. Investor requirement for sufficient developer fee, which is used to mitigate development period risk. At the time of the CFC & TCAP applications, the project was underwritten with a 9% developer fee, based on guidance from the original investor. The current investor requires a 10% developer fee, with a net increase of $100,000.
3. Investor requirement that the project bring in an outside guarantor to help provide additional comfort that CPAH meets the stringent underwriting requirements during the construction period. This requirement is being met by purchasing a guarantee for only $150,000, which is considerably less than any of the other offers received by CPAH for this requirement.
4. Higher financing fees on some of the sources of funding.
5. The equity investor's underwriting necessitated decreasing the permanent loan amount and increasing the operating reserve requirement to 12 months of operating reserves. The original CFC underwriting was completed with what was, at the time, standard 6 months reserves of operating expenses and debt.
6. Last but not least, the investor indicated strong concern about the level of deferred developer fee which had been acceptable to the previous investor. The original deferred developer fee was $204,550 but did not meet the current investor's ability to meet the holdbacks they require. To address this concern, the deferred developer fee was decreased to $48,932, by $155,618.

Between the equity investor, the City of Tigard, Metro and Enterprise grants, the project's other sources saw a net increase of $216,124. This left a gap of $780,083. This gap was partially met through Housing Council pre-approval to increase the award up to $1,200,000 and the authority Housing Council provided the Director to approve an additional increase, requested and approved for $84,000. The remaining gap is $320,000 which is the sponsor's current request for funding.

If approved, this project will have a total TCAP award of $1,604,917. This is about $33,500 per unit in TCAP support. The project is expected to close the week of April 12th, and begin construction shortly thereafter. The developer estimates job creation in the area of over 60 local jobs and generate nearly $4 million of local economic activity during the construction period alone. Projects of this scale will also continue to contribute to the local economy upon completion through staffing of management, maintenance teams, project sponsor and other local vendors and suppliers. I recommend approval of this request.

Motion: Move Housing Council to approve an additional request of $320,000 of TCAP funding for the Knoll at Tigard LLC for a total TCAP Award of $1,604,917.