

# OWNER'S GROUP RECOMMENDATIONS

***WE NEED TO HAVE ECONOMICALLY VIABLE PROJECTS THAT PRODUCE ADEQUATE CASHFLOWS TO SUPPORT:***

- ✓ SUCCESSFUL RESIDENTS
- ✓ STABLE PROPERTIES & PORTFOLIOS &
- ✓ THRIVING ORGANIZATIONS

## ***SUMMARY OF KEY OWNER'S GROUP RECOMMENDATIONS:***

### **1. Underwrite to assure adequate cashflow to cover true costs.**

**ISSUE:** Current underwriting structure does not allow adequate cash flows to cover all of the following costs (especially over time):

- Operating Expenses of Property,
- Debt payments, PLUS
- Share of organizational infrastructure costs to support staffing and systems needed to oversee stable properties and support organizations able to sustain and grow social housing portfolios.

**RECOMMENDATION:** City's priority for "return on investment" from social housing loans should be stable portfolios, thriving organizations, and ultimately, successful residents, not ability to repay public loans. Increase amount of net cashflow to owners to assure adequate funding of critical staffing and infrastructure. Repayments terms should prioritize project and organizational sustainability.

### **2. Provide rent or operating subsidies for lowest income targeted units.**

**ISSUE:** Rents from 30% MFI and below units often do not support operating expenses in year one of projects (see attachment). With operating expenses accelerating more quickly than revenues, projects that barely break even in year one will be under water in very few years. Even 30% MFI, non PSH units need rent subsidies or need to be cross subsidized from higher income units' rents.

**RECOMMENDATION:** All projects that include units at 30% or below need rent subsidy or cross subsidy (mixed income with reduced debt) structure to cover true costs and assure long term viability.

### **3. Revise strategy to fund long term capital improvements.**

**ISSUE:** The market rate model of periodic sale of property and recapitalization at sale or transfer does not work for the affordable housing portfolio because properties are held by non-profits for the long term. Affordable projects do build replacement reserves through annual contributions from rental revenues (\$275 - \$300 per unit per year), but this level does not fully cover long term capital needs. For new construction, this level of contribution (assuming no construction defects), generally can cover replacement needs through year 13 – 15. On partial rehab projects, this level often cannot support costs beyond year seven to ten. Higher annual reserve contributions would make operating expenses exceed revenues on many/ most projects. Larger initial capitalization of reserves would leave significant public dollars sitting in reserves, at lower earning rates than development cost increases, and would also increase initial development costs.

**RECOMMENDATION:** Set aside public resources annually for recapitalization of projects at major capital improvement milestones of property operations (e.g. Year 15, major rehabs). Use replacement reserves to bridge re-capitalization events. Recognize this as usual and expected.

#### 4. Adequately fund resident services:

**ISSUE:** Approximately 65% of the residents living in Portland's social housing have incomes at or below 30% MFI. Many of these residents face multiple barriers that can impact their ability to be successful in housing. Minimum levels of resident services increase tenant retention, reducing evictions that contribute to homelessness and raise operating costs. Increasingly, housing organizations are also providing higher levels of resident services directed to increasing residents' earning ability, mental or physical health, and/ or cash assets, with the goal of successfully transitioning residents to market rate housing. HAP's and other owners work in this area is an important strategy to help effectively utilizing our affordable housing and reducing rent subsidy costs.

CDCs raise significant dollars to support resident services expenses. (Estimated 65% of total resident services costs come from owner's fund development or net cashflow.) PSH and other initiatives targeting the lowest income residents increase the non-profits role in either providing or linking residents to resident services, case management, and treatment. At the same time, private foundations are growing increasingly weary and are hesitant to fully carry these ongoing service needs.

**RECOMMENDATION:** Address costs of resident services, and with PSH, case management and treatment services, as a systems issue. The public sector must be a key partner in outlining and implementing a strategy to address these costs over time. Do not mandate resident services beyond those funded through property income.

#### 5. Reduce increasing costs of public reporting and compliance.

**ISSUE:** Owner's asset and fiscal managers spend increasing amounts of time and resources on duplicative reporting and compliance requirements required by public funders. This duplication also adds to costs at public agencies. (See *LISC report on Bay area for analysis of cost burden of reporting.*) Compliance reports back to owners from PDC/ City are not timely and are frequently inaccurate, requiring more follow-up by owners with less productive outcome. Information collected is not analyzed and made readily available to owners and policy makers.

**RECOMMENDATION:** Consolidate required reports and inspections across all public entities in the state. Prioritize required information to reduce reporting requirements. Provide findings (portfolio wide) such as average operating expenses, tenant profiles, and occupancy back to owners.

#### 6. Support strategies to assure non-profits have development opportunities & generate adequate developer fees to support sustainability and growth.

**ISSUE:** Developer fees are a key revenue for most developers/ owners. Many CDCs and HAP rely on developer fees to support basic organizational infrastructure essential to sustain the existing portfolios, support resident services for existing residents, and sustain and grow social housing portfolios in our region. The 9% LIHTC queue is significantly over-subscribed, increasing risk and timelines of projects. PDC developer limits are lower than all other researched jurisdictions in the west.

**RECOMMENDATION:** Increase PDC's allowed maximum (non-deferred) developer fees to match state. Support mixed income projects to increase ability to use 4% LIHTC/ bond, OAHTC and other funding strategies, and/or substantially increase local gap dollars per unit on 30% MFI projects. Create opportunities for CDC to access more projects in urban renewal areas.