Chapter Four: Strategies for Increasing and Preserving the Supply of Affordable Housing

I. INTRODUCTION

As stated in the previous chapter, there is an overwhelming need for more affordable housing in the Metro region. According to a National Home Builders study, the Portland metro area was the eighth least affordable housing market in the nation as of the first quarter of 1999. The median household income for a four-person household in the region has increased by 41% in the last 10 years. However, during the same period, the median sale price of homes increased by approximately 100%, while the average rent has increased by over 34%. While these statistics may seem to indicate that renters are better off, the supply of housing for households at lower income levels has actually decreased, while the number of households in those income groups has increased. According to the 1995 American Housing Survey, approximately 30% of residents in the region are paying over 30% of their incomes on housing (30% is the national standard for housing affordability). About 82% of households earning less than 30%MHI and 65% of households earning 30-50%MHI are paying more than 30% of their income on housing. This data indicates that households with the highest need for affordable housing are not able to locate decent, affordable housing and thus pay much more than they can afford.

The housing situation in the region leads to other problems. Workers often have to commute long distances to work in areas where they cannot afford to live. Many low-income residents must forego other basic needs like health care and childcare due to the large percentage of their income that must be devoted to rent. The lack of affordable housing is also a cause of homelessness. When housing costs continually outpace incomes, people will have to work harder just to make sure they do not lose ground – which can make it difficult to realize dreams like a college education for a child, or homeownership.

In the development of affordable housing production goals, H-TAC determined a need for 90,479 additional affordable units for households earning less than 50%MHI in the region over the next 20 years. In an effort to develop a reasonable but ambitious goal for housing production in the region, H-TAC developed a five year affordable housing production goal of 10% of the total benchmark need, or 9,048 homes. Even a more realistic production goal will not be feasible without additional resources, the removal of barriers to affordable housing construction, strategies to reduce the cost of production, and key land use regulations.

H-TAC members spent many hours identifying and evaluating the strategies described on the following pages. The strategies are organized by the following categories: Land Use Strategies; Non-Land Use Strategies; and Regional Funding Strategies. In the process of developing the RAHS, H-TAC formed three subcommittees[1] to address these topics, including for-profit and nonprofit developers, local government planners, local elected officials, housing advocates, representatives from the housing authorities in the region, and other interested parties. H-TAC held focus group meetings bringing in outside expertise to evaluate their work and to identify any potential pitfalls.

After much analysis and evaluation, H-TAC determined that the majority of their efforts should be focused on addressing tools and strategies aimed at increasing the supply of housing for people with the highest need – households earning 50% or less of the region's median household income. However, many of the land use and cost reduction strategies identified by H-TAC can be used to increase the supply of affordable housing at the other H-TAC identified income groups: 50-80%MHI and 80-120%MHI.

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[1] Land Use and Regulatory Subcommittee; Cost Reduction Subcommittee; and Regional Funding Subcommittee.

Local jurisdictions can use these tools in a way to best address the specific needs of their residents, such as housing for first time homebuyers or affordable rental housing.

Evaluating, adopting, and implementing strategies, tools, and funding programs to encourage the development of affordable housing takes time and a certain amount of staff expertise at the local level. This section of the RAHS is intended to serve as a "cookbook" of tools and strategies that can facilitate the development of affordable units. Local governments must determine which of these tools and strategies make sense in their communities, as a "one size fits all" approach will not work to address the affordable housing needs of the diverse cities and counties in the Metro region.

Table 11 below includes the strategies that are provided in the RAHS for local government consideration. Each strategy includes an overall description, examples of the strategy in use on the ground, other considerations or potential limitations, and recommendations for implementation at the regional and local levels. Complete versions of the reports on each strategy may be found in Appendix C.

Table 11. Strategies Addressed by H-TAC

Cost Reduction	Land Use & Regulatory	Regional Funding
• System Development Charges • Permit Fees • Property Tax Exemption • Local Government and State Coordination • Land cost and availability, including donation of tax foreclosed properties and land banking or land assembly, and construction type (size, design) • Off-site Improvements • Local Regulatory Constraints and Discrepancies in Planning and Zoning Codes, and Local Permitting or Approval Process • Building Codes Requirements • Parking	• Long-term or Permanent Affordability • Density Bonus • Replacement Housing • Inclusionary Zoning (voluntary & mandatory) and urban growth boundary considerations • Transfer of Development Rights • Elderly and Disabled Housing • Regional Housing Resource/ Database	• Maximize Existing Resources – Training Program – Consistent Consolidated Plans in the Region – Allocation of HOME Funds – Promote changes in HUD and other Federal Programs – Enterprise Foundation Regional Acquisition Fund • New funding Source – Employer Sponsored Housing – Real Estate Transfer Tax – Uses and Administration of a New Regional Housing Fund.

Through the public involvement process, H-TAC identified other strategies that are crucial to the successful development of affordable housing that is well integrated into surrounding neighborhoods. Neighbors of proposed affordable housing developments are often concerned that the new housing will "…negatively impact their neighborhood with increased criminal activity, increased loitering, increased traffic, stress on schools and city services, changes in neighborhood character, and decreased property values."[2] Some strategies that are currently used to address these fears include neighborhood involvement in the design of the housing, providing good management, keeping grounds and structures well maintained, and signing good neighbor agreements. These are very important strategies that are used by housing providers. There are many good examples of affordable housing; in fact many residents do not realize that "affordable" housing exists in their neighborhoods because it has been designed and managed so well.

The strategies described here should be considered in a fashion similar to a "cookbook." Local jurisdictions may choose from the array of tools to develop a menu that makes the most sense to meet the affordable housing needs of local residents.

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[2] *Siting Affordable Housing in Oregon Communities*, CPW, June 1998, pg. 6.

II. LAND USE STRATEGIES

Introduction

The Land Use Strategies described on the following pages include a number of tools that could be used by jurisdictions to increase the supply of affordable housing. Some of the strategies were identified in Metro's Regional Framework Plan as important tools for H-TAC to consider. Other tools were identified by H-TAC members as having the potential to be successful in this region.

Many jurisdictions in the Metro region are already utilizing some of the tools identified by H-TAC. To better evaluate potential tools and strategies, H-TAC wanted to consider and recognize existing local efforts to encourage affordable housing. Metro sent a survey to all local jurisdictions in the region to gather information on tools and strategies currently in use. The survey was sent out in September 1999 and responses were accepted until February 2000. Eighteen jurisdictions responded, a 67% response rate. Table 12 below shows the types of tools currently in use by jurisdictions in the Metro region.

Table 12. Affordable Housing Tools Now In Use by One or More Jurisdictions in the Metro Region

Tools	**Number of Jurisdictions**
Land Use Tools	
Accessory Dwelling Unit	14
Density Transfer	4
Density Bonus for Affordable Housing	3
No Net Loss Provisions for Housing	3
Increased Density in Transit Corridors	2
Replacement Housing Ordinance	2
Conversion of Rental to Owner Occupied Unit	2
Requirements for the Relocation of Mobile Home Parks	2
Linkage Programs	1
Incentive Based Inclusionary Zoning	1
Cost Reduction Tools	
Programs for Seniors and Disabled	7
Land Banking	3
Long-term or Permanent Affordability Requirements	3
Property Tax Abatement for Housing	3
System Development Charges Abatements for Affordable Housing	3
Tax Foreclosed Properties Donated for Affordable Housing	3
Building and Land Use Fee Waivers	2
Funding Tools	
CDBG Funds Dedicated to Housing	7
General Funds Dedicated Specifically to Housing	3
Other Financial Incentives	3

Source: *Affordable Housing Tools Survey*, Metro, 2000.

As shown by the survey results, local jurisdictions use a variety of tools and strategies to encourage affordable housing production right now. However, H-TAC's analysis of the need still shows a tremendous gap between the housing stock available and the households searching for affordable housing. Thus, local jurisdictions and Metro must work to implement additional tools to enable the production of the housing necessary to meet the needs of residents of the region. A stable, affordable housing stock benefits the community and region in a number of ways, including contributing to a continued strong economy. The strategies and tools described in this section are land use and regulatory tools to be used to encourage affordable housing production. Some of the tools may work better in larger cities, while others could be successfully implemented anyplace. Whenever possible, a local example of a jurisdiction utilizing a strategy has been included to provide further clarification on how a strategy could be implemented. For more detailed information on the strategies, see Appendix C.

Description

A density bonus is a land use incentive that allows a developer to construct more units than would otherwise be allowed in a specified residential zone in exchange for the provision of affordable housing units. The assumption is that with additional units the developer is able to achieve a higher profit level on the housing development. When density is increased, the marginal costs per unit are generally lower, since the land prices, soft costs, and foundation costs can be amortized over more units.

A density bonus could be used as an incentive for increasing the production of affordable housing units. Various restrictions may apply, such as the income level at which the units must be affordable, the time period when the "bonus" units must be developed, and design standards requiring affordable units to appear similar to the market-rate units.

Regional Issues Related to Density

Many affordable housing tools considered innovative in other states (outside of Oregon) are tools that may be taken for granted in Oregon. For instance, including a housing element in a comprehensive plan has been identified as an important step in providing more opportunities to create affordable housing. Comprehensive plans, including a housing element, have been required in all Oregon cities and counties since the early 1970's.

Density is a tool that is used as an incentive to produce affordable housing in many jurisdictions outside Oregon. In many cases, base zoning does not allow for many multi-family or small lot single family units. Allowing increased density in such cases provides a developer with needed incentives to produce more units. In other cases, such as high demand for multi-family housing and economies of scale, density bonuses can provide an incentive to develop housing that otherwise is not feasible.

In the Portland metro area, efforts to meet the region's housing needs within the existing urban growth boundary have led to denser development standards than many other places. The state's Metropolitan Housing Rule requires all jurisdictions in the Metro region to provide an opportunity for 50% of new housing to be multi-family. Metro's Functional Plan mandates minimum and maximum density standards, whereas outside of the region many jurisdictions only identify a maximum density standard. These efforts have led to zoning in the region that does not provide much opportunity for a density bonus to serve as an incentive to development. In general, base zoning already allows for as much density as the market (developers, buyers, and renters) will bear, with the exception of certain locations in the Metro region.

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Clackamas County, OR. Clackamas County has had provisions in the zoning code since 1980 that allow an increase in density if affordable housing is provided. The percentage increase in density varies with the Comprehensive Plan category as follows:

- for low-density (single-family) zones, incentive increase is up to 5%;
- for medium or high-density (multi-family) zones, incentive increase is up to 8%.

The increase is allowed at a rate of one additional unit per assisted housing unit provided, up to the maximum allowable density increase. *(Clackamas County Zoning and Development Ordinance, 1012-6)*

Portland, OR. The City of Portland has provided density bonus incentives for elderly and disabled housing since 1993. The regulations allow for increased density in specific multi-family residential zones, and only apply to new developments and projects that involve major remodeling. *(Title 33, Planning and Zoning, Chapter 33.229)*

The units are restricted by a covenant with the city, which lasts for the life of the project.
A number of subsidized HUD 202 projects have utilized the density bonus allowed here, which has increased the supply of elderly and disabled housing in Portland.

Other Considerations

- In most cases, there is enough density provided by the base zone. In suburban areas like Clackamas County, developers have historically underbuilt, although the trend has recently changed as smaller lots become more acceptable and land prices have risen. A density bonus in this case is not much of an incentive, if developers believe demand for density higher than currently allowed does not exist.
- A density bonus may not be effective in encouraging the development of more affordable housing in the region except in specific circumstances. Using a density bonus to target specific populations, similar to Portland's ordinance, may be more effective.

Recommendation for Implementation

Since a density bonus is tied to land use, Metro has the authority to implement regionwide density bonus incentives for affordable housing. However, a mandatory density bonus for affordable housing is not likely to be effective in this region. Thus, H-TAC recommends that density bonus provisions be determined at the local level. A voluntary guideline or model ordinance for providing density bonus incentives may be considered by local governments to facilitate progress towards affordable housing production goals.

Regional	***Local***
A. Model Ordinance Develop a voluntary guideline for a density bonus, including a model ordinance, for varying percentages tied to certain income groups and permanent affordability. For example: • 20 percent of the units affordable to households at 31% - 50% MHI; or • 10 percent of the units affordable to households at less than 30% MHI; or • senior or disabled housing; • permanently affordable housing. A density bonus may not be effective in the region due to high densities already required in local comprehensive plans. However, if local jurisdictions are not already maximizing available land capacity, they would be encouraged to provide a density bonus if a developer agreed to provide a certain percentage of affordable units targeted to income groups outlined in affordable housing production goals. Local jurisdictions could implement the density bonus in a way that best fit local conditions. *B. First Time Homebuyer* Recommend that a density bonus proposal, whether local or regional, include some type of density bonus to developers that provide opportunities for households earning less than 120% MHI to purchase homes. *C. Best Practices* A compilation of "best practices" in implementing density bonus incentives should be compiled to enable jurisdictions to determine what models would work best locally.	Encourage local jurisdictions to implement a density bonus incentive to facilitate the development of affordable housing. Local jurisdictions could consider tying the amount of bonus provided to the targeted income group to encourage the development of affordable units to meet affordable housing production goals.

Replacement Housing *Land Use Tool*

Description

The purpose of replacement housing strategies is to prevent the involuntary displacement of low-income (less than 50%MHI) residents from existing affordable housing which is lost from the inventory due to demolition, conversion to market rate units, or price inflation. A replacement strategy is often part of a three pronged approach to deal with displacement that includes preservation and mitigation strategies. Preservation strategies, which can include long term affordability commitments, and mitigation strategies, which include tenant based relocation assistance, are discussed elsewhere. The focus here is on low-income housing replacement strategies.

Briefly defined, replacement strategies require restoration of lost housing units by, typically, an equal number of similarly sized, priced, and located units by an agency or individual deemed responsible for loss of the original units. Such strategies can be broadly applicable or more narrowly associated with a particular funding source, geographic area, or a particular housing type.

In the purest example, a jurisdiction could require that all housing affordable to a defined income group must be replaced in kind by an entity engaged in public or private development that results in the loss of this protected housing. Such a strategy could mandate that the replacement housing match the lost units by location, size, cost, etc. Such a strategy could also require that the replacement housing be reserved for those households displaced from the original units.

Other Considerations

The major limitations on replacement housing strategies in their purest form, as described above, are political controversy and legal uncertainty. As a recent example of political backlash, the fairly limited replacement components of Portland's Housing Preservation Ordinance ignited sufficient controversy to result in the passage of a State legislative prohibition on the assignment of per unit replacement fees for expiring Section 8 projects whose owners did not wish to sell to the city.

Regarding legal issues, contradictory court decisions have resulted from challenges to replacement ordinances enacted in various cities. The challenges cite the unfair assignment of responsibility for a community wide problem to individual owners of low-income housing; that such strategies constitute a tax on the owners beyond the legal authority of a local government; and a general accusation of an unconstitutional taking by the government. It is not known how a replacement

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By funding source

Federal Funding. Federal law requires that low-income housing demolished by CDBG or HOME funded activities be replaced by housing units with the same number of bedrooms, in the same or proximate neighborhood, and affordable to a households of comparable incomes. This law pertains was established to prevent widespread demolition within low-income neighborhoods by publicly funded activities, often as part of urban renewal programs, without development of replacement units.

Local Funding/Incentives. The City of Seattle requires any new construction project applying for property tax exemptions that is built on a site that contained 4+ occupied dwelling units to replace any units that were rented to tenants receiving a tenant relocation assistance payment *(Seattle Municipal Code 5.72.040)*. The new units must be affordable at or below 50%MHI for the first ten years.

By location

Minnesota. There is a state requirement that cities of a certain size (over 100,000 people) that adopt neighborhood revitalization programs must replace demolished housing in redevelopment areas with comparable housing units.

By housing type

San Francisco, CA. The Hotel Conversion Ordinance (HCO) has been in place since 1979, and has persevered through several legal challenges including a case as recently as 1997. The HCO prevents the conversion of existing residential hotel units to tourist hotel units without one-to-one replacement of the units. Units are replaced either by adding replacement units to San Francisco's residential housing stock, or by paying an amount equal to costs of rebuilding an equal number of comparable units.

housing strategy would fare in Oregon courts.

In a discussion of recommended replacement housing strategies before HTAC, members expressed concern that such a strategy not result in a "changing of the rules" for property owners by imposing regulations that limit or negate the uses of the property allowed under current zoning. H-TAC's recommendations address these concerns.

Section 8 Vouchers are vouchers provided by HUD through the Housing Authorities that allow qualified households to rent market-rate homes wherever they can find a landlord that will accept the voucher. While these vouchers play an important role in providing people in need with affordable housing, they are not a long-term solution as the vouchers may not be available on a permanent basis. H-TAC members expressed concern that Section 8 Vouchers not be viewed as an adequate replacement housing strategy since these depend on individual household qualification rather than ensuring a new unit of housing be added to the region's affordable housing stock.

Recommendations for Implementation

Metro does not have the authority to require local jurisdictions or other government entities to adopt a replacement housing ordinance. However, a regional recommendation that affordable units that are lost be replaced could be included in the Functional Plan for voluntary adoption by local governments.

A No-Net-Loss housing policy approach for local jurisdiction review of comprehensive plan changes focused on affordable housing would be based on land use and would therefore fall under Metro's land use authority. Possible strategies are described below.

Regional	***Local***
1. Regional Recommendation to Adopt Replacement Housing Strategies Include replacement housing strategies as part of a menu of voluntary affordability tools in the Regional Affordable Housing Strategy plan. Jurisdiction's replacement strategies that are closely associated with a specific funding source may have the most chance of success. *2. No Net Loss Housing Policy* Encourage the use of a No-Net-Loss Housing Policy for local jurisdictional review of requested quasi-judicial Comprehensive Plan Map amendments with approval criteria that would require the replacement of existing low-income housing that would be lost through the Plan Map amendment. H-TAC is sensitive to the concern that this strategy not result in a "changing of the rules" for property owners by imposing regulations that unreasonably limit or negate the uses of the property allowed under current zoning. This recommendation pertains to zone changes requested by the property owner that would result in a loss of existing affordable housing. Adopting the replacement housing criteria as part of the review process for considering a quasi-judicial zone change or Plan Map amendment would not be a change in the rules when the change in zoning is sought by the property owner.	*1. Replace Housing Lost in Urban Renewal Areas* Local jurisdictions could consider developing policies to prevent the loss of affordable housing through demolition in urban renewal areas by implementing a replacement housing ordinance specific to urban renewal zones.

Description

Inclusionary housing is the term most frequently used to describe a wide variety of techniques that link construction of low- and moderate-income housing to the construction of market rate housing. Typically, the lower-income units are included in an otherwise market-driven development. The principal objective of inclusionary housing is to increase the supply of affordable housing while also fostering greater economic integration.

Inclusionary housing can be defined as a city or countywide mandatory requirement or voluntary objective that assigns a percentage of housing units in new residential developments with a specified minimum number of units, to be sold or rented to lower- or moderate-income households at an affordable rate (usually below the market rent).

Most inclusionary housing programs, whether voluntary or mandatory, rely on a combination of incentives to ensure that affordable units are constructed. Some incentives frequently used in conjunction with inclusionary housing programs include density bonuses, financial subsidies, development fee waivers, option to produce inclusionary units off site, relaxed development standards, reduced impact fees, and donations of land or fees in lieu of providing affordable units.

The Oregon State Legislature passed and the Governor signed House Bill (HB) 2658 in the 1999 legislative session. This bill has the effect of prohibiting mandatory inclusionary housing programs in Oregon. However, voluntary inclusionary housing programs are permitted.

Other Considerations

- Inclusionary programs may reduce potential opposition from neighbors expressing NIMBY (not-in-my-back-yard) concerns. Under an inclusionary housing program, lower income units are often constructed and occupied concurrently, which reduces opposition to the affordable units.
- Developers tend to oppose inclusionary housing programs for several reasons. First, many see it as a governmental interference in their business of providing housing. Secondly, developers argue the losses they incur by providing below market rate housing are passed on to purchasers or renters of market rate housing in the form of higher prices, decreasing housing affordability for middle income people.

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Regional Inclusionary Housing Programs

State of California. California State law requires local jurisdictions to prepare housing elements that provide a plan to accommodate the existing and projected housing needs for residents at all income levels. In response to this requirement, many jurisdictions have developed inclusionary housing programs.

Voluntary Inclusionary Housing Programs

City of Camarillo, CA. The City of Camarillo adopted a voluntary inclusionary housing program to further enable the city to meet the housing needs of its residents. To qualify for a density bonus and other incentives, a developer must provide:

- at least 20% of total units for lower income households; or
- at least 10% of total units for very low income households; or
- at least 50% of total units for seniors.

Mandatory Inclusionary Housing

City of Bellevue, WA. Bellevue enacted a mandatory inclusionary housing program under the mandate of the State Environmental Policy Act and Washington State's Growth Management Act that required cities to consider the housing needs of all economic segments of the community. The inclusionary housing requirements apply to all new residential development, all subdivisions, and all rezone applications.

Montgomery County, MD. In 1974 the County Council adopted the Moderately Priced Housing (MPH) Law. The legislation addressed inclusionary zoning and density allowances. Builders of residential housing must make some housing units available at below-market rate sales prices or rental rates. This program is believed to be the first mandatory inclusionary zoning law that specified a density bonus allowance to builders for providing affordable housing.

- *Linkages:* The prohibition of direct mandatory inclusionary housing by HB 2658 increases the need to develop a regional funding source and regulatory incentives to achieve the region's affordable housing production goals.
- One of the important values of inclusionary housing programs is the ability to decrease concentrations of poverty and increase the mix of incomes in new developments.

Recommendation for Implementation

Since inclusionary housing programs could be tied to land use, Metro has the authority to implement a regionwide voluntary inclusionary housing program for affordable housing. However, due to differences in housing needs and development standards across the region, the incentives needed to create a successful program are not likely to be the same in all jurisdictions. Thus, H-TAC recommends that voluntary inclusionary housing programs, especially the type of incentives that are offered, be determined by local jurisdictions. A regional voluntary guideline or model ordinance and performance standards for a voluntary inclusionary housing program should be developed to facilitate progress towards meeting the region's affordable housing goals.

Regional	***Local***
1. *Voluntary Inclusionary Housing Guideline and Model Ordinance* Develop a regional voluntary inclusionary housing guideline, including a model ordinance, for varying percentages tied to certain income groups and permanent affordability. Developers of new construction in housing projects over a certain size may be provided with incentives if they agree to provide a certain percentage of: • units affordable to households at 31%-50% MHI; ***OR*** • units affordable to households at less than 30% MHI; ***OR*** • senior or disabled housing. However, local jurisdictions could implement a voluntary inclusionary housing program in a way that best fits local conditions. 2. *Tie Inclusionary Housing Requirements to a Regional Fund* If a regional funding source is established, some of the funds could be used as a tool to encourage mixed income projects and to encourage more market-rate developers to participate in the production of affordable housing. 3. *Consider Inclusionary Housing when Amending the Urban Growth Boundary* Decisions on the designation of certain urban reserve areas and urban growth boundary (UGB) expansions currently allow for consideration of special land needs such as for affordable housing. However, no enforcement mechanisms are in place. One possible strategy could be if a developer applies for inclusion in the UGB based on a special need for affordable housing, the decision should be conditioned on inclusionary housing requirements. 4. *Best Practices* Develop a compilation of "best practices" for implementing voluntary inclusionary housing programs to enable jurisdictions to determine what models would work best locally.	1. *Voluntary Inclusionary Housing Program Tied to Incentives* Encourage local jurisdictions to implement a voluntary inclusionary housing program to facilitate the development of affordable housing, using the regional voluntary inclusionary housing guideline and model ordinance. Local jurisdictions could consider tying a variety of incentives to the targeted income group to encourage the development of affordable units to meet affordable housing production goals. 2. *Zoning requirements that lead to affordable housing* Encourage local government housing requirements such as minimum densities, maximum square footage limits, single-car garage requirements, percentage of accessory dwelling units, percentage of attached or multi-family development, which tend to result in affordable housing. 3. *Tie Inclusionary Housing Requirements to Zone Changes* Encourage local governments to consider the impacts on affordable housing as a criterion for any legislative or quasi-judicial zone change, which could potentially be expanded to include approval of conditional use permits for a non-residential use in a residential zone. 4. *Tie Inclusionary Housing Requirements to Urban Renewal Zones* Encourage local governments, when creating urban renewal districts that include housing, to tie inclusionary zoning requirements to redevelopment agreements for public investment, use of condemnation power, and/or financial support.

Description

The simplest definition of a transfer of development right (TDR) regulation is a zoning strategy designed to direct development from one site to another to preserve a publicly valued resource. Examples of such a resource include agricultural land; natural environments such as coastal mountain ranges, forests, wetlands; historic structures; cultural institutions; or affordable housing. The premise is that excess development rights that would otherwise encourage the destruction or redevelopment of the resource at the “sending” site constitute a marketable commodity that can be sold to a “receiving” site that places a value on additional development density. Within this regulatory framework the public benefits derived by the preservation of the resource work in concert with private goals of greater return on investment generated by increased development opportunity at the receiving site.

The bundle of development rights is usually expressed as the additional air rights granted under existing zoning to a structure or site that does not currently take advantage of these rights. These potential development rights such as additional height, floor area or housing units may pose a threat to the current land use that the local government may wish to preserve. By allowing the marketability of these excess rights, it is hoped that the transferable value of this development potential may be an incentive to preserve the current land use.

TDRs are distinguished from floating development rights such as those associated with planned unit developments (PUDs) in which development permitted under the base zone can be clustered or dispersed on contiguous and commonly owned sites to preserve open space, protect environmental resources, carry out transit orientation policies or take advantage of physical infrastructure efficiencies. TDRs, on the other hand, typically involve separate sites under separate ownership.

Other Considerations

- A major advantage of a TDR strategy is, assuming the local government does not institute a TDR pool, that owners of sending and receiving sites decide between themselves the value of the transferred development rights. The local government’s role is limited to reviewing the terms of the covenants to ensure that basic regulations are recorded with the deeds of both properties. On the other hand, the local government needs adequate legal resources to ensure that the covenant is clear and enforceable.
- The alternative approach, such as that used in Seattle, is to require the office developer to make a cash payment to

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Seattle, WA. The City of Seattle effectively requires all new office development built within the downtown core at a floor area ratio (FAR) between 15:1 and 20:1 to obtain development rights from a housing TDR pool. The housing TDR pool is collected from sending sites of existing and rehabilitated low- and moderate-income rental housing. The sending site must retain the housing at a specified affordability level for twenty years. The sending sites can be located in most areas of downtown, but the receiving sites are limited to the office core and the mixed/commercial sector near the Denny Regrade.

City of Portland. Since the adoption of the 1988 Central City Plan, Portland has employed a TDR designed to preserve existing single room occupancy (SROs) hotels by allowing the sale and transfer of excess FAR to a receiving site within the Central City. Since the adoption of this strategy there has been one successful use of this tool. The former Athens Hotel at NW Everett and Sixth Avenues was purchased by a local nonprofit development corporation for rehabilitation into housing and treatment services for very low-income individuals. The excess development opportunity on the site of the Athens amounted to 50,000 square feet of floor area. This floor area was sold to the adjoining owners of the rest of the block. The rehabilitated SRO, now called the Sally McCraken Building, is required by a covenant signed by both parties to remain as very low-income housing indefinitely.

nonprofit housing developers in which case the value of the transferred rights is established by the local governing body.

- The use of TDRs may work best with a variety of other strategies that serve the purposes of preserving or increasing the supply of affordable housing. H-TAC also observed that TDR strategies work best in a contained area planned with this strategy in mind rather than applying it throughout a jurisdiction. The reason for this is that the transferred development rights must be utilized in a fashion that does not negatively impact the receiving site.
- The local government must plan the overall base level of permitted development to ensure that development made possible at the receiving site does not exceed the intensity envisioned for that site resulting in structures that violate other goals to preserve views, light, or promote other aspects of design compatibility.
- This strategy may be less effective under a regulatory scheme with already generous base height and floor area zoning. TDRs adopted in central business districts are often preceded by a downzoning of development potential.

Recommendations for Implementation

Regional	***Local***
1. Include on List of Recommended Tools Metro should include TDRs as part of the list of recommended practices to help carry out regional affordable housing production goals. There are a variety of TDR approaches that can be tailored to the conditions of a particular jurisdiction. In a brainstorming session, H-TAC members suggested using TDRs in low density neighborhoods where residents wish to preserve the character of the neighborhood by selling off potential development rights to a nearby development proposal. Some H-TAC members felt that such a strategy may conflict with policy goals for socially and economically integrated communities or minimum density requirements. H-TAC members concluded that such approaches should be examined and, if found to be legally or administratively sound, promoted as models for local jurisdictions. *2. Housing TDRs Coordinated with Regional Goals* The use of TDRs should also be considered in conjunction with open space and environmental preservation strategies to further overall development capacity goals. *3. Best Practices* A compilation of "best practices" in implementing TDR programs should be compiled to enable jurisdictions to determine what models would work best locally.	Encourage local jurisdictions to implement TDR programs to facilitate the development of affordable housing when planning for Main Streets or Town Centers involving upzonings. Local jurisdictions could take into account the utility of TDRs in the ultimate zoning pattern of these districts.

Description

The local development permit approval process is meant to ensure that new development meets established standards that enhance community characteristics and property values. The process is driven by a number of ordinances, standards and regulations that are geared towards: a) acceptable structural design and characteristics; and b) environmental enhancement and protection. The structural-oriented regulations include new building construction to rehabilitation codes, adequate water and sewage disposal standards, and handicapped provisions, among others. The environmental-oriented regulations include zoning codes for minimum lot sizes, density and open spaces, subdivision standards, and planning codes for tree preservation, parking, growth controls.

Those regulatory constraints related to the permit approval process and the environmental issues are described further below. The regulatory constraints related to the structural issues have been addressed in other strategy reports.

Permitting Approval Process

According to a report by the President Bush Advisory Commission on Regulatory Barriers to Affordable Housing[3] in most jurisdictions across the country the permit approval process is not a logical point-to-point process. The process leads to delays that force builders and developers to pay extra interest on borrowed money and therefore increases the overall cost of housing. Some studies found that the point-rating system approval process in Orange County, California typically added $20,000 to the cost of a single family home, and in New Jersey, permitting time increased from few months to three years in some jurisdiction. According to Debra Bassert of the National Association of Home Builders, some studies in the 1980s found that every month of delay in the approval process added one to two percent to the final price of a home.

Discrepancies in Planning and Zoning Codes

Discrepancies between local comprehensive plans, zoning codes, and Metro's Urban Growth Management Functional Plan can impact the cost of producing affordable housing in a variety of ways. While a city's comprehensive plan may have been adopted several years ago, the zoning code may be constantly evolving. Ordinances may be adopted over time to address specific issues that arise through the development process, such as a tree cutting ordinance to preserve valuable

EXAMPLES

Portland, OR. The City of Portland permitting process was viewed by some citizens and the press as an anachronistic and inefficient process that was in need of modernization. The modernization process was initiated through a Stakeholders Team recommendation (Blueprint 2000) submitted to the City Council in April 1998. The City Council's goal was to "create a system that presents a predictable, seamless delivery of City development review functions and provides a clear point of accountability for the performance of review responsibilities."

The recommended improvements in the City's development review system and process were organized as follows:
- Core business process that establishes the primary entry point or location for information and application intake for projects, provides a process "roadmap" for project approvals and requirements, including inspection and enforcement process and methods for resolving conflicts early;
- People interactions-oriented system that reinforces a culture of customer service and identifies coordinated review teams including primary point of contact, technical review teams and project approval teams;
- Integrated computer system accessible to all stakeholders that provides real time and accurate information;
- Co-locate all staff with primary responsibilities for development review activities;
- The effectiveness and impact of proposed regulations and existing regulations should be analyzed, reviewed and modified if necessary with public input.

[3] *Not in My Back Yard" Removing Barriers to Affordable Housing* , HUD, 1991.

urban forests. The incremental adoption of a variety of ordinances, some of which may have conflicting goals, can have a significant impact on the cost and feasibility of developing affordable housing.

While a city's zoning code may contain a variety of items focused on meeting the community's goals, sometimes the code can conflict with itself. A city may have adopted a setback requirement that conflicts with the level of density the jurisdiction wants to obtain using minimum lot sizes, or the local density goals may conflict with those outlined by Metro. For example, a city may have adopted minimum lot sizes that do not allow for the construction of a single-family house due to setback requirements (the distance a structure is set back from a street, another structure, or the rear end of the lot).

These discrepancies can impact the cost of development by reducing the number of units that can feasibly be built on a parcel. This also may impact the ability of builders to provide small houses under the current regulatory system in some communities. Due to setback distances and minimum lot size requirements, small houses may not be economically feasible, as well as possibly precluding "new urban" developments of small bungalow type houses with front porches close to the street.

The need for strategies to address the above issues will grow as more development is expected to occur in this region to accommodate the projected increase in population and employment.

Recommendations for Implementation

<table>
<tr><th>Regional</th><th>Local</th></tr>
<tr><td>1. Regional Guidelines for the Permitting Process
Develop regional guidelines for the permitting process, with the goal of creating a regionally consistent permitting process to enable developers to more easily produce housing in all parts of the region.

2. Metro as a Technical Resource
Metro may serve as a technical resource for local jurisdictions, including the development of a regional model for objective design review criteria.</td><td>1. Revise permitting approval process
Encourage local governments to revise their permitting approval process as follows:
Provide a single contact person to shepherd each project through the process
One stop permitting
Cross training of staff
Interdepartmental review committees
Clearly stated time frames for reviews, approval and extensions
Computerized tracking system
Concurrent rather than sequential reviews
Coordinated public hearing
Concurrent (or combined) hearing by different sections or departments
2. Review existing codes
Encourage local governments to regularly review existing codes to:
determine their usefulness and impact on new housing developments, and
identify conflicts between local code and state or regional goals as well as internal conflicts (e.g., between setback and minimum lot size requirements).
3. Reduce number of land use appeal opportunities
Encourage local governments to work towards reducing the number of land use appeal opportunities for each development.</td></tr>
</table>

Description

Elderly

The nation's elderly population, or seniors, (age 60 years and above) is increasing rapidly. Most seniors typically live on a fixed income, including Social Security Benefits (SSB), pensions, and retirement investments. According to Multnomah County Aging and Disability Services, nearly half of elderly renters in Oregon spend over 35% of income on rent, often making a choice between food, utility bills, and even medication to afford housing.

People with Disabilities

The household budgets of many people with disabilities are so low as to make apartment rental extremely difficult. A majority of people with disabilities are at 30 percent or less of the median household income. Accessible and affordable apartments available in the region for this population are not sufficient to meet the need. Additional information may be found in Chapter Two, Section IV and Appendix C.

Recommendation for Implementation

While some strategies for seniors and people with disabilities could be tied to land use, these strategies would be difficult to implement regionwide. Strategies to address the needs of these specific groups may be best implemented at the local level. Regional guidelines could be developed to further enable local jurisdictions to make progress towards meeting regional affordable housing production goals.

EXAMPLES

Shared Attendant Model

This model is utilized by the Multnomah County Aging and Disability Services Department (in conjunction with the Housing Authority of Portland) to address the needs of clients who need services to stay independent in their housing. Many seniors and people with disabilities need assistance with taking complex medications, bathing, or getting to medical appointments. Without the services of an attendant, they would need to be in a care facility. However, finding competent attendants is very difficult, as they earn minimal wages, receive no benefits, and the job is physically and emotionally demanding.

The objective of this model is to stabilize the Client Employed Provider (CEP) – an attendant to assist in the activities described above – and increase the job retention time of the CEP by providing stable housing. The CEP receives an apartment (with utilities paid) in exchange for caring for 4-6 residents, in addition to a salary.

Regional	*Local*
1. If a regional fund is created, consider the needs of vulnerable populations, including seniors, people with disabilities, and other populations when allocating funds. Affordable housing goals focus on housing needs for households earning less than 50 percent of the regional median income; many of these vulnerable populations fall into this income level.	1. Encourage local governments to tie the use of funds for these types of housing to locational decisions, such as: a) focusing development of housing for low and moderate income seniors and people with disabilities in transit-friendly areas to encourage continued independence and mobility; and b) encouraging the development of integrated communities, while discouraging enclaves of housing for elderly or people with disabilities in isolation from the surrounding community. 2. Encourage local governments & nonprofits to utilize the community land trust model as a tool to stop rent increases for seniors in mobile home courts. 3. Encourage local governments to use other planning tools and strategies (such as density bonus, transfer of development rights, etc.) to increase affordable housing opportunities for seniors and people with disabilities. 4. Encourage local governments to examine their zoning codes for conflicts in meeting locational needs of seniors and people with disabilities (i.e., allowing mixed-use developments in commercial and residential areas).

Parking *Land Use Tool*

Description

Parking can be a very large component of the cost of developing housing. Parking spaces are expensive to build, especially where land values are high. The cost of providing structured parking in high density areas such as downtown can add $20,000 to $30,000 or more to the cost of a housing unit. Conversely, minimum parking requirements in suburban areas can increase the cost of individual units be decreasing the amount of land available for housing. Parking in suburban areas is typically surface parking, which is relatively cost-effective but not efficient in the use of land. Environmental impacts of increased impervious surface are also important.

While it is important to minimize the impact of providing housing with fewer parking spaces on existing neighborhoods, there are types of housing that justify lower parking requirements. Assisted housing for seniors, many of whom do not drive, may require a minimum number of spaces for residents and guests. Housing for people with certain disabilities may require less parking. Additionally, housing located in transit efficient neighborhoods that do not require use of a car for everyday activities also justifies lower minimum parking requirements.

Parking is an important cost consideration in the provision of affordable housing. The requirements for parking are not found at the local level, but are placed on developments by lenders. Many lenders will not fund a project that they believe may not be successful due to insufficient parking. However, much work has already been done in the region to address the costs associated with the provision of parking.

Metro's Functional Plan Parking Requirements

The State's Transportation Planning Rule calls for reductions in vehicle miles traveled per capita and restrictions on the construction of new parking spaces as a means of responding to the transportation and land use impacts of growth. The Metro 2040 Growth Concept calls for more compact development as a means to encourage more efficient use of land, promote non-auto trips and protect air quality. Additionally, the federally mandated air quality plan adopted by the state relies on the 2040 Growth Concept to fully achieve its transportation objectives. The air quality plan relies on reducing vehicle trips per capita and related parking spaces through minimum and maximum parking ratios. Title 2 of Metro's Urban Growth Management Functional Plan addresses these state and federal requirements.

Title 2 of the Functional Plan requires local jurisdictions to amend their comprehensive plans and implementing regulations to meet or exceed specific minimum standards. Cities and counties are allowed to vary from these standards if they provide findings to show substantial compliance.

Recommendation for Implementation

Regional	*Local*
1. Encourage lenders to consider unique parking needs Encourage lenders to consider parking needs for proposed housing on a project by project basis, accounting for the special needs of residents, when evaluating funding applications.	*1. Review parking requirements* Encourage local governments to review parking requirements to ensure they meet the needs of residents of all types of housing. *2. Coordinate strategies* Encourage local governments to coordinate strategies with developers, transportation planners and other regional efforts to reduce costs of providing parking for affordable housing. *3. Evaluate off street parking requirements* Encourage local governments to evaluate off street parking requirements for infill housing developments, ensuring that their requirements are not greater than what currently exists.

III. NON-LAND USE STRATEGIES

Introduction

The Non-Land Use Strategies described on the following pages include a number of tools that could be used by jurisdictions in the Metro region to increase the supply of affordable housing. The basic goal of these strategies is to reduce the cost of producing housing, thereby making it more affordable.

Most of the non-land use strategies would help to reduce the cost of all housing, not just "affordable" housing. However, the many of the strategies identified on the following pages can be targeted to help developers produce housing affordable to households at specific income levels, such as households in H-TAC's determined highest need group, those earning less than 50%MHI. For example, some strategies can help reduce costs by speeding up the development process and allowing projects to move through the permit approval process more quickly, thereby reducing costs. This type of strategy benefits all development in a community. In order to target the highest need population, a project aiming to serve that group could be "fast-tracked" through the development process. This example shows how a strategy can be tailored to meet the needs of specific communities.

A big problem in producing affordable housing is coordinating the various funding sources in terms of application deadlines, requirements and project monitoring. Costs of producing, managing, and maintaining affordable housing could be reduced by consolidating many of these requirements wherever feasible.

Whenever possible, a local example of a jurisdiction utilizing a strategy has been included to provide further clarification on how a strategy could be implemented. For further information on the strategies, see Appendix C

Long-Term or Permanent Affordability *Non-Land Use Tool*

Description

Long-term or permanent affordability requirements on affordable housing protect the investment made by the public and retain affordable units for many years of use. When governments invest public funds to create affordable housing options the goal should be to ensure that these units remain affordable for a specific period. While this type of requirement serves to preserve the value of the public investment over the long-term, some concerns have been expressed. One area of concern is the involuntary displacement of tenants that occurs when long-term affordability restrictions expire.

Although long-term and permanent affordability requirements may sound like two terms for the same concept, the basic requirements are fundamentally different. Both are used to retain affordability, but are based on different legal structures.

Long-term affordability requirements retain the affordable units for a specified period of time, such as 10, 20, 40, or 60 years. While 60 years may seem almost permanent now, in the 58th year such an affordability requirement means little to the tenant. Many HUD Section 8 projects that were built with 20 year affordability requirements are now reaching their "affordability expiration date," and some owners are "opting out" to raise rents or even convert apartments to condominiums. Long-term affordability requirements are often tied to a specific funding source.

Permanent affordability requirements are generally based on ownership or a deed restriction on the land. Nonprofit or public ownership of housing is often though not always synonymous with permanent affordability. Affordable apartments or single-family homes may have deed restrictions requiring a specific "affordable" sales price or rental rate. Another form of permanent affordability is a community land trust (CLT), which retains ownership of the land beneath a single family home, manufactured homes, or an apartment building.

Other Considerations

- Long-term or permanent affordability requirements on new rental housing may have the effect of discouraging for-profit developers from building needed units. For-profit developers often build affordable units expecting that eventually they can "roll-over" the units to rent or sell at market prices. An option may be to focus on models in which for-profit developers build housing, but ownership is turned over to a nonprofit to retain long-term or permanent affordability.
- Long-term or permanent affordability requirements on owner-occupied housing may raise equity issues for households taking part in the program. Some oppose limited equity arrangements

EXAMPLES

Long-Term Affordability

State of Oregon. Multi-family projects using funds from the Oregon Housing and Community Services Department are required to remain affordable for a period of 30 years.

Portland, OR. Under the Housing Preservation Ordinance, any units built with funds from the City of Portland must remain affordable for a period of 60 years.

Permanent Affordability

Portland, OR – Sabin Community Land Trust was the first land trust developed in Oregon. Homebuyers will purchase their home with a 99-year renewable ground lease for the land, for which they will pay $25 per month. Families must earn no more than 70 percent of the area median income to qualify to purchase a home owned by the Sabin CLT.

Clackamas County, OR – Clackamas Community Land Trust is a community based membership nonprofit organization established in 1999. Their mission is to buy and build homes to sell to lower income buyers, with the land held in trust for the community.

Portland, OR – Portland Community Land Trust (PCLT) is a new community land trust that will provide a wide array of homeownership and neighborhood stabilization strategies. PCLT is a nonprofit membership organization that was incorporated in December 1999.

on the grounds that low-income people should benefit from the increased equity in their home. Allowing households to capture the equity gain removes the opportunity to retain the public subsidy for future use, but may provide some low-income households more help in moving into market-rate housing.

- Nonprofit or resident ownership coupled with long-term or permanent affordability requirements may be an especially useful tool to mitigate the impact of climbing rents in manufactured home parks.

Recommendations for Implementation

Metro does not have the authority to require local jurisdictions or other government entities to tie long-term or permanent affordability requirements to affordable housing subsidies. However, a regional voluntary guideline for long-term or permanent affordability may be considered by local governments in order to ensure progress towards meeting the region's affordable housing production goals. For instance, if affordable units in one jurisdiction have 10-year affordability restrictions and those in another have 60-year restrictions, the relative effects on the affordable housing stock over time would be quite different.

Regional	***Local***
A. Public Investment Encourage that all new publicly funded developments in the region, especially for H-TAC defined highest need households (those in the less than 50% of the region median income category), remain permanently affordable whenever possible. In the event that this is not feasible, or that private investment and development activity is being discouraged, encourage the use of the longest affordability requirement possible. 1. If public dollars are invested, then *permanent* affordability is strongly encouraged to be required. 2. If other benefits are given to the project, such as a tax exemption, then *long-term* or *permanent* affordability requirements are encouraged to be required. 3. If a regional funding source is created, use of those funds should be tied to permanent affordability. *B. Legally Enable Local Governments and Non-profits to Utilize Certain Strategies* 1. Encourage local jurisdictions to consider adopting more flexible PUD (planned unit development) codes to allow for different structural types in the same area. 2. Encourage Metro and local governments to lobby the State Legislature to provide enabling legislation that would allow banks to underwrite mortgages for cooperative housing ventures. *C. Accounting for Progress Towards Affordable Housing Production Goals* In accounting towards progress in meeting affordable housing production goals, give different credits for units affordable for longer time periods or permanently affordable. *D. Best Practices* A compilation of "best practices" in implementing long-term or permanent affordability requirements should be compiled to enable jurisdictions to determine what models would work best locally.	*A. Strategies to Meet Affordable Housing Production Goals* Some of the long-term or permanent affordability strategies identified here are better suited to homeownership efforts, community building, and neighborhood revitalization. Other strategies can be utilized to help meet regional affordable housing production goals by providing housing for households earning 50% of regional median income or less. The strategies below can be easily tailored to meet the needs of this income group, especially if combined with a community land trust. 1. Limited Equity Cooperatives 2. Permanently affordable rental housing 3. Mutual Housing Associations *B. Strategies to Mitigate Impacts of Increasing Rents in Manufactured Home Parks* Some of the long-term or permanent affordability strategies identified here are especially well suited to mitigating the impacts of increasing rents in manufactured home parks. Key strategies in this situation include: 1. Community Land Trusts – a non-profit organization may purchase the manufactured home park in order to hold the land costs down over time 2. Cooperative Ownership – residents of a manufactured home park could purchase the land and operate as a limited equity cooperative

System Development Charges *Non-Land Use Tool*

Description

Under state law there are two types of system development charges (SDCs): Improvement Fees and Reimbursement Fees. Improvement Fees are SDCs that are applied to improvement costs associated with capital improvements to be constructed. Reimbursement Fees are SDCs applied to improvement costs for capital improvements already constructed or under construction. SDCs are generally required at the start of a project, prior to other permit approvals or construction. Jurisdictions assess SDCs differently, depending on local needs. SDCs increase the amount of up front cash a developer must have, thus increasing the total cost of the housing unit.

State law (ORS 223.299) limits system development charges to capital improvements related to:

(A) Water supply, treatment and distribution;
(B) Waste water collection, transmission, treatment and disposal;
(C) Drainage and flood control;
(D) Transportation; or
(E) Parks and recreation.

State law (ORS 223.304) also limits the methodology that may be used to impose SDCs as follows:

> *The methodology shall promote the objective of future system users contributing no more than an equitable share to the cost of existing facilities.*

Local Funding Issues

One key factor in analyzing SDC fees is to examine the larger funding base for all improvements. The sources usually include SDC fees, taxes, exactions such as local improvement districts (LIDs), and grants. Depending on the mix of funding sources, the SDC fees are adjusted to ensure sufficient funding for the improvements. If a local government has a well-established infrastructure that has been capitalized over a long period of time, one might expect lower SDC fees. However, if a city is in a rapidly growing area that has required major new infrastructure expenditures to meet the needs of new and existing residents SDC fees may be higher.

Other Considerations

- Waiving fees for affordable housing developments may have the impact of increasing costs for market-rate housing, as the cost of capital improvement projects would be born by the market-rate housing.

EXAMPLES

SDC Waiver or Exemption

Salem, OR. The SDC imposed under City Code Chapter 41 exempts a) housing provided by the Salem Housing Authority, and b) any housing unit if it receives city administered federal housing funds and is affordable to families below 80%MHI.

Eugene, OR. SDCs exempted for a) rental housing for low-income persons <60%MHI, and b) home ownership housing for persons <80%MHI. City Manager is authorized to waive base amount (totaling $115,000 annually) of SDCs for affordable housing. Unallocated portions of annual base amount are added to the base amount for the next fiscal year.

SDC Deferred

Gresham, OR. The City has a program that allows deferred payment or financing of SDCs for new development over a period of up to 10 years. The program is not necessarily tied to affordable housing developments. The objective of the program is to offer all property owners an opportunity to pay SDCs in monthly or lump sum installments as an alternative. Property owners must pay the City the SDC amount plus an interest rate.

Ashland, OR. Since 1991, the city has used deferred SDCs as an incentive to increase affordable housing supply. The deferred SDC is secured by a second mortgage which is recorded and treated as a loan and accrues 6% interest per year. The accrued interest and principal are due upon the sale of the property to a non-qualifying buyer and/or the property is sold for more than the maximum purchase price, which is adjusted every year.

SDC Graduated

Lake Oswego, OR. City Code, Chapter 39.06.105, authorizes that SDCs may be proportionately reduced if "Evidence indicates that construction, alteration, addition, replacement or change in use does not increase the parcel's or structure's use of a system or systems to the degree calculated in or anticipated by the methodology for the particular system development charge."

- Local governments need funds to pay for the cost of infrastructure that is a result of growth – funds to pay for capital improvements must come from someplace if SDCs are waived or reduced for affordable housing. Many governments are not able to fund needed projects without SDCs.

Recommendations for Implementation

<table>
<tr><th>Regional</th><th>Local</th></tr>
<tr><td>
A. Legal Opinion on Implementation
Request legal opinion from the Metro General Counsel on Metro authority on the implementation of SDC reduction strategies.

B. Guidelines for Implementation
The intent of reducing SDCs is to reduce the cost of producing and operating housing and thereby increase the affordability of housing for the “end user.” If one element of development costs is reduced (such as SDCs), it is possible that other elements of the development equation (construction costs, developers fees, etc.) could rise quickly to absorb the reduction.

Federal, State, and some local funding programs often include a review process to ensure that construction, development and operating costs conform to acceptable benchmarks. However, some local jurisdictions do not currently have a method of ensuring that cost reductions provided by the jurisdiction result in an increase in housing affordability for the “end user.” A mechanism should be developed so that a jurisdiction can be assured that the reduction in cost of one element of the development process is retained in reduced development and operating project costs, rather than being absorbed by increases in the cost of other elements of the development process.

Local jurisdictions should have their legal counsel review any potential SDC reduction programs to ensure conformance to state law.
</td><td>
A. Need Based SDC Reduction Strategies
1. Defer and Forgive SDCs: Fees could be <u>deferred</u> for affordable housing projects serving persons in the highest need income group – those in the less than 50% of the regional median household income category. The fees could be <u>forgiven</u> and canceled by the local government if the property remains in the affordable housing program for a period of time (20 years or more) to be determined by the local government. All or a percentage of the fees may be deferred and the local governments may secure the deferred fees by a second mortgage (in the form of a Trust Deed) which is recorded and treated as a loan and accrues a determined interest per year. In the event that the property is taken out of the affordable housing program early, the owner would be required to pay principal and accrued interest. (Note: State law limits the methodology that may be used in implementing SDCs).

2. Defer SDCs until permanent financing is in place: Fees could be deferred during the development of affordable housing projects. The property owner would be responsible for SDCs when permanent financing is in place (e.g., certificate of occupancy, tax credit equity arrives, etc.). SDCs must be paid in a set time frame.

3. Defer SDCs until sufficient project cash flow becomes available. Local governments may decide to charge or not charge interest on the deferred SDCs.

B. Facilities Based SDC Reduction Strategies
1. Graduated SDCs linked to the impact of the project on public facilities.
Transportation and parks SDCs for housing for elderly or people with disabilities who make fewer trips and use parks less than large families living in multi-family units may be proportionately reduced by local jurisdictions. The assumptions are that: a) seniors living on fixed incomes and people with disabilities who are unable to work to supplement their income have less need to use roads; b) elderly and people with disabilities will use parks less frequently than families with children.
</td></tr>
</table>

Description

Building construction has been regulated to protect life, health and property of citizens for many years. State law requires local jurisdictions to provide comprehensive building code enforcement services, including plan reviews and site inspections (ORS Chapter 455). Permit fees are therefore charged to support the review of construction plans and building site inspections to ensure safe buildings that comply with state and local codes.

The amount of a building permit fee is based on the construction type and anticipated market value of the proposed project. Jurisdictions often base permit fees on formulas provided by the State Department of Consumer and Business Services, Building Codes Division. However, jurisdictions do have flexibility in the amount charged for various permit fees as long as they provide the State with a surcharge on fees collected. The surcharge enables the State to administer building codes. Jurisdictions do not require permission from the State to set or change permit fees from year to year, however, jurisdictions must notify the State Building Codes Division of changes in their fee schedule. For instance, the City of Portland raises permit fees each year in accordance with the increase in the COLA (cost of living allowance).

Building permit fees include charges for all site, plumbing, electrical, mechanical, land use, fire and life safety reviews, as well as subsequent inspections and processing. In general, a permit is required to construct, enlarge, alter, move or demolish any one- or two-family dwelling or related structure.

Permit fees increase the cost of building housing, and are generally required up front which increases the amount of money a developer needs to start a project.

Other Considerations

- Waiving or reducing permit fees for affordable housing may reduce the ability of local governments to carry out their duties.
- Equity issue – is it fair to reduce permit fees for a specific class of people and not others?

EXAMPLES

City of Portland
The Portland Development Commission administers the City of Portland's program for waiver of city development fees for nonprofit developers of affordable housing. Fee waivers are available for items including building permits and zoning fees. Each year the City sets aside a dollar amount to be used for permit fee waivers (recently the amount has been $500,000).

The Bureau of Buildings has a separate policy that supports non-profit agencies that are doing projects with volunteer labor. Fees normally charged for inspections, plan review and other services are waived for qualifying agencies within certain guidelines. For example a maximum of $500 per project and $2,500 per agency per fiscal year will be waived for approved projects.

City of Eugene
The City of Eugene waives planning and development permit fees (building permit, etc.) for affordable housing projects, up to a total of $50,000 each year. The amount of money allocated to permit fee waivers must be used during each fiscal year, and does not roll over to the next year. The program began in 1998 with an administrative decision and did not require City Council approval.

Recommendation for Implementation

Regional	***Local***
1. Guidelines for Implementation The intent of reducing permit fees is to reduce the cost of producing and operating housing and thereby increase the affordability of housing for the “end user.” If one element of development costs is reduced (such as permit fees), it is possible that the other elements of the development equation (construction costs, developers fees, etc.) could rise quickly to absorb the reduction. Federal, State, and some local funding programs often include a review process to ensure that construction, development and operating costs conform to acceptable benchmarks. However, some local jurisdictions do not currently have a method of ensuring that cost reductions provided by the jurisdiction (such as deferred and forgiven permit fees) result in an increase in housing affordability for the “end user.” A mechanism should be developed so that a jurisdiction can be assured that the reduction in the cost of an element of the development process is retained in reduced development and operating project costs, rather than being absorbed by increases in the cost of other elements of the development process. Local jurisdictions should have their legal counsel review any potential permit fee reduction programs to ensure conformance to state law. *2. Legal Opinion on Implementation* Request legal opinion from the Metro General Counsel on Metro authority on the implementation of permit fee reduction strategies.	*Need Based Permit Fee Reduction Strategies* *1. Defer and Forgive Permit Fees:* Fees could be deferred for affordable housing projects serving persons in the highest need income group – those in the less than 50% of the regional median household income category. The fees could be forgiven and canceled by the local jurisdiction if the property remains in the affordable housing program for a predetermined period of time. A local jurisdiction could consider designating a set amount in their budget each year to be used for permit fee waivers for low-income housing. After the set amount has been used up, then no additional waivers would be provided. Forgiven permit fees are paid for by the local jurisdiction from other funds. (Note: A local government is not required to pay the State a surcharge on fees not collected. In other words, the State surcharge only applies to fees that are *collected*). *2. Defer permit fees until permanent financing is in place*: Fees could be deferred during the development of affordable housing projects. The property owner would be responsible to pay the permit fees when permanent financing is in place (e.g., certificate of occupancy, tax credit equity arrives, etc.). The property owner would also be responsible to pay the permit fees within a defined time frame. *3. Defer permit fees until sufficient project cash flow is available.* Local governments may decide to charge or not charge interest on the deferred permit fees.

Property Tax Exemption *Non-Land Use Tool*

Description

All real property within the State of Oregon is subject to assessment and taxation in equal and ratable proportion (ORS 307.030) unless exempted as provided by State law. Local governments and the State collect percentages of the property tax collected, which is subject to voter-approved limits such as Measure 5 and Measure 47/50.

Property tax is one of the factors affecting the supply of affordable housing, hence some jurisdictions allow property tax exemptions to owners of housing units targeted for low-income residents, which in turn allows the owners to reduce rents or allows homeowners to reduce monthly housing costs.

There are several types of property tax exemptions for affordable housing that are available in Oregon by law. Statutes relevant to evaluation of this strategy are outlined below.

1. **ORS 307.242** The State offers funded property tax exemptions for elderly housing furnished by private nonprofit corporations.
2. **ORS 307.250, ORS 307.370** The State offers property tax exemptions for veterans or their spouses, and homes provided to veterans.
3. **ORS 307.515** Local governments may provide property tax exemptions for low-income rental housing, subject to restrictions. The tax exemption applies only to the tax levy of the jurisdiction unless approval of other governing bodies is obtained, which together equals 51% or more of the total combined rate of taxation levied on the property. A property tax exemption may be provided for a period of 20 years.
4. **ORS 307.540 to 307.547** Local governments may provide property tax exemptions for low-income rental housing owned by a nonprofit corporation. The tax exemption applies only to the tax levy of the jurisdiction unless approval of other governing bodies is obtained, which together equals 51% or more of the combined rate of taxation levied on the property. A property tax exemption under these provisions must be applied for each assessment year.
5. **ORS 307.600 to 307.690** Local governments may grant property tax exemptions for newly constructed multiple unit rental housing located in proximity to central business districts, transit oriented areas and light rail station areas. The exemption only applies to multi-unit housing, and may only be provided for 10 years. The tax exemption applies only to the tax levy of the jurisdiction unless approval of other governing bodies is obtained, which together equals 51% or more of the combined rate of taxation.
6. **ORS 458.005 to 458.065** Local governments may provide property tax exemptions for single family housing in distressed areas. A city must identify the "distressed areas", and the total area may not exceed 20% of land in the city limits. The tax exemption applies only to the tax levy of the city unless approval of other governing

EXAMPLES

Portland, OR. The City of Portland has collaborated with the Portland School District and Multnomah County to gain the 51 percent valuation needed to authorize property tax exemptions for various programs. The City has developed a program that provides an array of property tax exemptions for affordable housing and transit-oriented development.

Tigard, OR. The City of Tigard, after adopting ORS 307.540 to 307.547, has offered a property tax exemption for low-income housing owned by nonprofit corporations since 1996. The program is provided to further enable the city to meet affordable housing goals. To qualify for the tax exemption, a property must be owned by a nonprofit or by a partnership in which the nonprofit corporation is a general partner. The property tax exemption must be applied for each assessment year.

Eugene, OR. The City of Eugene, after adopting ORS 307.600 to 307.690, offers a property tax exemption for multi-family low-income rental housing. The program is provided to enable the city to support the concept of a compact growth form, and increase multi-family development in the core business district. The property tax exemption is available for housing on eligible property within the city that is owned by a nonprofit corporation, and that is actually and exclusively occupied by low income people (at or below 60% MFI).

bodies is obtained, which together equals 51% or more of the total combined rate of taxation levied on the property.

7. **ORS 308.450 to 308.481** Local governments may adopt legislation to provide property tax exemptions for rehabilitated residential property, single family and multi-family units that are located in distressed areas. A city must identify the "distressed areas", and the total area may not exceed 20% of land in the city limits. The tax exemption applies only to the tax levy of the city unless approval of other governing bodies is obtained, which together equals 51% or more of the total combined rate of taxation. The taxation rate on a property under this program shall not be more than its assessed value prior to any rehabilitation improvements, and this reduced rate may be assessed for no more than 10 consecutive years.
8. **ORS 456.225** All property owned by a public housing authority is automatically exempt from property taxes.

Other Considerations

- It may be difficult for some local governments to form partnerships with other taxing authorities in order to reach the 51% needed to provide a full property tax exemption for low-income housing.
- Many jurisdictions are facing budget cuts after Measure 50, and may not be interested in foregoing additional revenue even for affordable housing.
- Phased in property taxes could address the "cold turkey" shock of paying taxes after reaching the end of a 10 year (or other time period) tax abatement. The 1999 Legislature passed HB 3211, which amended portions of ORS 307.600 - 307.691 to allow local jurisdictions to extend tax abatements past the 10-year time period.

Recommendation for Implementation

Regional	***Local***
1. Provide information. Some local governments do not know how to use their authority to provide property tax exemptions for affordable housing. *2. Guidelines for Implementation* The intent of providing property tax exemptions for affordable housing is to reduce the cost of producing and operating housing and thereby increase the affordability of housing for the "end user." If one cost factor is reduced, it is possible that the other elements of the development equation (construction costs, developers fees, etc.) could rise quickly to absorb the reduction. Federal, State, and some local funding programs often include review processes to ensure that construction, development and operating costs conform to acceptable benchmarks. However, some local jurisdictions do not currently have a method of ensuring that cost reductions provided by the jurisdiction (such as a property tax exemption) result in an increase in housing affordability for the "end user." A mechanism should be developed so that jurisdictions can be assured that the reduction in the cost of an element of the development process is retained in reduced development and operating project costs, rather than being absorbed by increases in the cost of other elements of the development process. Local jurisdictions should have their legal counsel review any potential property tax exemption programs to ensure conformance to state law.	*1. Consider property tax exemptions for highest need housing – for households 50%MHI and less.* This would further enable the region to reach affordable housing production goals. *2. Consider providing property tax abatements or exemptions for renter and owner occupied housing preservation and rehabilitation.* Preserving and rehabilitating existing affordable housing is often the most cost effective method available to provide affordable housing in this region. *3. Consider providing property tax abatements or exemptions for owner occupied housing* • *Senior housing:* For seniors living on fixed incomes from social security, pensions, or retirement plans who are in danger of being displaced from neighborhoods due to increased property taxes. • *H-TAC defined income groups:* Housing based on H-TAC defined income levels. ❑ 51-80% of MHI ❑ 81-120% of MHI *4. Consider extending tax abatements after the 10-year time period in return for a commitment by the property owner for long-term affordability.* This could provide additional units of affordable housing for lower income households that would not otherwise be available.

Land Cost and Availability *Non-Land Use Tool*

Description

When the supply of land available to develop for housing is limited, the funding for public improvements lacking and demand for additional housing is high, the cost of land increases. The cost of land is generally dictated by the workings of the market, while the availability of developable land that is zoned for housing is dependent on local, regional and state governments' policies as well as public investment in roads, sewers, and other public facilities.

The urban growth boundary (UGB) delineates the area in which urban development may occur. Outside of the UGB urban services such as sewer and water may not be provided, thus making more dense development impossible. This has the impact of reducing the overall land supply, therefore reducing the amount of land available for residential development and thus increasing the cost of land, unless more efficient use of land within the UGB is allowed and marketable.

Studies have shown that housing developers currently are having difficulties with the cost of land and scarcity of large pieces of land on which to build. These conditions reduce the opportunity for builders to develop economies of scale. These impacts are likely to affect single family units more than multi-family units, as a multi-family development is able to absorb the higher land costs by increasing density.

The *Oregon Housing Cost Study* (December 1998) showed that homebuilders in Oregon operate at a smaller scale than typical for other parts of the country. There are smaller companies producing homes at relatively low volumes. The fragmented building industry also contributes to a lack of economies of scale, which potentially results in higher costs to produce housing. Small builders may be hard pressed to produce affordable housing that is appropriate for infill lots located in existing neighborhoods due to the cost of plans and designs as well as difficulty in locating potential lots. Additionally, expectations for "starter homes" have changed over the years, with many builders operating under the perception that homes will not sell without certain amenities, which also increase cost.

Strategies identified by H-TAC include public and private donation of land, land banking, and public-private partnerships.

Oregon state law grants governmental bodies the right to transfer title of developed and undeveloped property that is no longer needed for public use to a different public agency or a nonprofit corporation for another public purpose as defined by the State

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Public Donation of Land
Multnomah County, OR.
Multnomah County's Affordable Housing Development Program (AHDP), revised in 1997, was created to "foster the development of affordable housing for lower income families using the inventory of County tax foreclosed property." County Ordinance 895 allows the no cost transfer of tax-foreclosed properties to nonprofit housing sponsors and sets notification, selection and transfer requirements.

Private Donation of Land
Faith Based Organizations
The mission of faith-based organizations is often well served by providing land for affordable housing. Some faith-based organizations develop housing themselves; others either donate or lease land to nonprofit housing developers. An analysis of vacant tax exempt land shows that faith-based organizations own approximately 700 acres of undeveloped land in the Metro region.

Land Banking
Eugene, OR. The City of Eugene Landbank program was first established in 1982. The program's purpose is to have a supply of vacant land available to support development of public-purpose housing. The program is designed to ensure that builders who participate in public-purpose housing programs will have appropriate sites available. As funds become available, the city identifies appropriate parcels of land for subsidized or specialized housing projects. Once the city acquires title, the parcel is "banked" to await development proposals. The city allocates $300,000 of CDBG funds each year to the Low-Income Housing Trust Fund to be used to purchase parcels for the Landbank Program.

(ORS 271.330). The law includes "transfers without consideration of property held by counties as a result of tax foreclosures."

There are many examples of situations around the country and in Oregon where private organizations have donated land for affordable housing. Such donations, when made to a nonprofit housing provider, may frequently be written off income taxes, and may also increase the positive public image of a corporation or private organization. Some private organizations find that their mission is well served by donating land to be used as housing for those in need, such as faith based or fraternal organizations.

The development of affordable housing depends, to a large degree, on the availability of sites. Landbanking is a technique whereby a city or county, in anticipation of future development, acquires vacant land, underutilized sites, or properties with the potential for reuse or rehabilitation. Landbanking gives a community direct control over the location, timing, and type of housing built. Jurisdictions are also able to assemble smaller properties over time to create sites for larger projects.

Other Considerations

- The market plays the largest role in determining the cost of land and often its availability, while government plays a much smaller part in impacting this cost factor. There are taxation and regulatory tools that could impact the market, but these are outside the scope of this report.

Recommendation for Implementation

Metro does not have the authority to require the implementation of any of the strategies to address land cost and availability that are described above. Strategies outlined below would help jurisdictions in the Metro region move towards meeting regional affordable housing production goals and encourage the development of additional affordable housing in the region.

Regional	***Local***
1. Facilitate public/private partnerships. Jurisdictions could cooperate to create subregional or regional public/private partnerships to facilitate the development of affordable housing, focused in redevelopment or infill areas. Examples include: – *Support smaller builders.* Tools could be developed including, but not limited to, the following: ♦ Inventory of infill lots available for redevelopment/new development ♦ Design/subdivision assistance (similar to the Portland Design Center), including plans that meet codes and neighborhood expectations ♦ Design awards recognizing good infill examples ♦ Hold meetings with homebuilders/realtors/designers to coordinate more infill and redevelopment ♦ Internet or other database of possible sale opportunities	*1. Donation of publicly owned property.* Jurisdictions could cooperate with nonprofits to identify and donate publicly owned land that is no longer in use to be used for affordable housing. Temporary use of such land could be considered by jurisdictions. Encourage increased donation of tax foreclosed properties to nonprofits and public agencies to be used for the development of affordable housing. *2. Donation of privately owned property.* Jurisdictions could encourage private corporations and faith based organizations to donate land for affordable housing. *3. Land banking.* Jurisdictions could consider participating in the Enterprise Foundation's revolving fund land bank program, or consider establishing a local landbanking program using local or CDBG funds to support the development of additional affordable housing. *4. Community Land Trusts (CLTs)* Jurisdictions could encourage the development of community land trusts and other limited equity affordable housing options. *(More information on CLTs may be found in the Long-Term & Permanent Affordabilty strategy).*

Off Site Improvements *Non-Land Use Tool*

Description

Off site improvements are often required of developers to ensure that a development has adequate public facilities and services to serve the site and to extend the public facilities to provide for logical continuation of a local government or special district street and utilities systems. Off site improvements typically fall in two categories: 1) traffic or street related items, or 2) on-site storm drainage facilities. Traffic improvements may include traffic lights, sidewalks, and general street improvements. Storm drainage improvements may include storm drainage, on-site stormwater quality control, water distribution and fire protection.

In most cases a developer constructs the off site improvement. However, in some cases where the development is in a Local Improvement District, the developer may be given the option to pay the local government or special district to do the construction. It should be pointed out that when the developer chooses to pay off site improvements fees to the local jurisdiction to do the construction, such fees are not associated with system development charges and permit fees. Off site improvement fees differ from a general fee in that they are assessed for improvements that are directly related to a development site, rather than to pay for system wide improvements.

Private utilities may also assess additional charges on the development of housing. These charges must be related to the specific impact of the new development. Private utilities include telephone, electric, and gas services.

While off site improvements add to the cost of developing housing, frequently a local jurisdiction has no alternative for funding a needed improvement other than the new development. The key is to ensure that a specific development is only required to provide improvements commensurate with the level of impact imposed by the new development.

The need for off site improvements often is determined by timing – either the first or last developer into an area is held responsible for improvements that are needed for a larger area. For instance, the first developer in an area may be required to construct a road, along with street improvements, that will serve other developments. The developer may or may not be provided with credit from future developments. For the last developer in, off site improvements that should have been required of previous developments may now be necessary, such as traffic lights.

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Most cities and counties impose requirements for off site improvements on a case – by – case basis under the same general conditioning authority for on site improvements. The requirements may be worded as follows: "The [city/county] may impose conditions of approval to mitigate the impacts of the development on public facilities and infrastructure."

For example, if a development is going to generate traffic, a traffic study is typically required. If the study indicates that the traffic increase would warrant a traffic signal at an intersection up the street, the condition to install the signal (or contribute to the cost of installation) is imposed.

Very few local governments have express off site improvement requirements because the need varies from development to development, and because *Dolan v. the City of Tigard* basically precludes blanket "one size fits all" exactions.

Other Considerations

- Local governments need funds to pay for the cost of infrastructure that is a result of growth – funds to pay for off site improvements must come from someplace if requirements are waived or reduced for affordable housing.
- On site stormwater detention can be a very expensive component of developing housing in many situations. The most cost effective method of addressing the need for on site stormwater detention facilities would be to develop a regional drainage system, rather than on a site-by-site basis. However, this would require a huge public investment that may be difficult to pass through the public approval process.

Recommendations for Implementation

Regional	*Local*
1. Consider cost of off-site improvements when amending the UGB Some of the undeveloped land inside the urban growth boundary tends to be harder and more expensive to develop because of their terrain. The cost impact of developing these types of land could be considered in the expansion of the urban growth boundary. *2. Use a Regional Fund as a "Bank" for Off-site Improvements for Affordable Housing* If a regional funding source is created, use a portion of the fund as a "bank" to fund off site improvements for affordable housing developments. The fund could be provided at varying low interest rate loans depending on the amount of affordable housing provided at the site. *3. Educate Utility Commissions* Work with utility commissions to educate them on the public benefit of affordable housing, to reduce the impact fees of providing utilities to affordable housing projects. *4. Address Stormwater on a Watershed Basis* Stormwater detention/runoff should be addressed on a watershed basis when appropriate. On site stormwater detention is an important cost component of developing housing, and a water shed wide drainage system would be one of the most cost-effective method of dealing with stormwater runoff. *5. Consider Affordable Housing when Developing Natural Resource Protection Plans* Develop Goal 5 implementation policies that take into consideration the affordable housing needs of this region. *6. Legal Opinion on Implementation* Request legal opinion from the Metro General Counsel on Metro authority on the implementation of Off Site Improvement requirement strategies.	*1. Reduce the Guarantee of Completion* Encourage local governments to consider offering a reduction of the Guarantee of Completion to developers of affordable housing in the form of a reduced percentage of the estimated construction cost of the public improvement that the developer is required to secure in bond or letter of credit. *2. Reduce the Maintenance Guarantee* Encourage local governments to consider offering a reduction of the Maintenance Guarantee to developers of affordable housing in the form of a reduced percentage of the estimated construction cost required prior to the jurisdiction accepting ownership and operation of the privately financed public improvement. *3. Target CDBG Funds for Public Infrastructure for Affordable Housing* Encourage local governments to target CDBG funds for public infrastructure for affordable housing. Local participating jurisdictions could develop a policy to set aside a certain amount of CBDG funds to offset a reduction in the fees charged developers for public improvements constructed by the jurisdiction (instead of the developer). Joint development of public infrastructure by a group of developers could get reduced fee charged developers for public improvements constructed by the jurisdiction. *4. Allow Project Phasing* Encourage local jurisdictions to allow the development of projects in different phases, because phasing in of projects could save money for affordable housing developers.

Description

Building codes are a set of regulations that govern the construction of buildings and other structures. States across the country develop building codes based various model building codes. In Oregon, the State Building Codes Division adopts various model codes including the International One and Two Family Dwelling Code printed by the International Code Council (ICC) and the Uniform Building Code written by the International Conference of Building Officials (ICBO). These codes are adopted and implemented statewide by the division and local jurisdictions (ORS 455.030 and 455.040). The state building code includes over a dozen specialty codes dealing with different aspects of a building such as structure, boilers, electrical wiring, elevators, plumbing, mechanical systems, etc. Developers and builders of housing must have building plans reviewed for compliance with applicable codes before a building permit is issued to start construction.

Although the mission of the State Building Codes Division "working with Oregonians to ensure safe building construction while promoting a positive business climate," the codes and the building permit process has been criticized for contributing to higher housing costs and thus a shortage of affordable housing. Strategies for reducing the cost impact of the building permit process have been addressed in another strategy report "*Local Regulatory Constraints – Permit Approval Process & Discrepancies in Planning and Zoning Codes: Cost Reduction Factor for Affordable Housing.*" Building codes have been criticized specifically for:

a) Lack of uniform interpretation, which contributes to difficulty obtaining plan review and permits, expensive contract corrections, and increases construction time;
b) Penalizing owners of older buildings for renovations by requiring expensive upgrades;
c) Lack of a cost/benefit analysis when code changes are adopted and implemented.
d) Difficulty changing specific code standards when new technologies, building techniques and building materials could be used to reduce costs while maintaining safety.

While each individual code change may not have a large impact, the cumulative cost of increased requirements has a large effect on the cost of new construction and renovation of existing buildings.

State of Oregon Efforts

According to the Department of Consumer and Business Services, Building Codes Division, Oregon has recently taken

EXAMPLES

Codes for New Construction

State of Montana. In 1997, the Montana Building Industry Association (MBIA) recruited the Montana Board of Housing to conduct a study on potential code amendments that could reduce the cost of housing without affecting life/safety. The Montana Board of Housing provided a $20,000 grant for engineering consulting services to assist in the MBIA study. The study produced 18 separate recommendations on specific technical issues, including a request for universal code interpretation procedure, and was submitted to the Montana Building Codes Division.

According to the MBIA, these new amendments and interpretations are estimated to reduce the cost of an average home by $5,300. The association also added that if theoretically applied to the state's average annual total housing starts of 3,500 homes, the package would result in potentially $18 million in consumer cost savings annually.

Codes for Rehabilitation

State of New Jersey. In 1996 the State of New Jersey set out to develop a new rehabilitation subcode of the existing Uniform Construction Code. The new rehabilitation subcode went into effect in 1998. The subcode is one of the strategies adopted by Governor Christine Todd Whitman for the revitalization of cities. A 60 percent increase in rehabilitation of old structures has been attributed to the new rehabilitation subcode. The subcode has reduced rehabilitation cost by as much as 50%, with the average around 10%, as reported by the state community affairs department.

The New Jersey rehabilitation subcode has been cited as a national model.

steps to address the issues of code uniformity, timeliness of plan review and inspection, and other related customer and industry concerns. Two Oregon State Senate bills (SB512 and 587) were passed by the 1999 Legislature.

SB 521 created a Tri-County State Board for Clackamas, Multnomah, and Washington Counties. The board was granted authority and responsibility to standardize forms, including plan requirement checklists, and certain plan review and permit procedures. The bill also created a Building Codes Division Service Center in the Tri-County area to provide specific centralized services including the label program for minor work that provides for a reduced number of inspections.

SB 587 included several facets applicable statewide that are intended to improve the effectiveness and timeliness of local building code services. First, fees received for plan review and permits must now be dedicated to the building inspection program. Fees are also limited to those reasonable and necessary to carry out the program. Second, a revised appeal process goes into effect July 1, 2000 allowing an aggrieved party to appeal a code interpretation directly to the state code experts rather than be delayed by the current local and state appeals processes. Third, authorization for third party plan review and inspection has been created for use where a local jurisdiction is unable to provide timely service (considered to be 10 business days for one and two family dwellings).

Another activity currently underway by the Department of Consumer and Business Services and Building Codes Division is an interim study of statewide code administration. The goal is to identify an ideal system to be implemented over time to more effectively meet customer needs and protect public safety.

Recommendation for Implementation

Building codes are developed at the state level and implemented by local jurisdictions. Metro can only draw attention to the large impact that building code changes have on the cost of producing new housing and renovating older buildings. H-TAC encourages the state to consider the following recommendations.

State
1. *Analyze current building codes.* A cost/benefit analysis of the existing building codes should be conducted that accounts for the high priority placed on providing affordable housing to residents of the state. Amendments to State and local buildings codes should be based on cost/benefit of implementing additional codes, weighing the safety issues with housing affordability.
2. *Evaluate the effectiveness of SB 512 and 587 and implement appropriate standardized plan review and permit processes statewide.* Increase the use of technology and training to effectively implement more consistent code interpretations.
3. *Consider developing a separate set of codes for rehabilitation of older buildings.* Compare the current Oregon code requirements for the rehabilitation of existing buildings to models used in New Jersey and elsewhere, and develop appropriate code changes for consideration by the Building Codes Division and appropriate advisory committees and boards. This could include developing a separate set of codes for rehabilitation of older buildings, as was done in New Jersey.
4. *Improve coordination and cooperation.* Improve partnership among state and local building officials, builders and other trade groups involved in housing production with the goal of improving regulatory activities to enhance affordable housing production and improvements.
5. *Independent Review Panel* Consider setting up an independent review panel to consider the cost impact of new and existing codes.
6. *Strengthen the Educational System* The state should strengthen the current educational system for code related matters that provides opportunities for all (many community colleges currently offer related courses).
7. *Develop a Checklist* Develop a checklist of applicable code requirements for specific categories of work to be used by developers and other contractors. This would help to facilitate the permit and code approval process.

Local/State Coordination *Non-Land Use Tool*

Description

Affordable housing funding is provided by many sources, including local, state and federal governments, as well as other private and public sources. Nonprofit and for profit affordable housing developers are faced with a complicated process when applying for funds to develop housing. Funders have varying application processes, funding restrictions, and project monitoring requirements. While requirements are important to ensure that funds benefit low-income tenants and that investments are secure, they often complicate the process of producing affordable housing and thereby increase cost. Application timing and requirements often vary, and may be co-dependent. For example, applications for state and federal funds may require a local match, application deadlines may not be consistent, the result being delay.

Additionally, sometimes State policies appear to have contradictory goals that increase difficulties for funding applicants. For instance, the State currently discourages displacement of tenants in any State-funded project, regardless of the income of the displaced tenant. While this is an important policy, there are times when it contradicts goals of preserving and rehabilitating existing affordable housing stock. Allocating scarce project funds to relocation assistance for tenants that do not meet applicable income restrictions may have the effect of making a rehab/preservation project financially unfeasible. This is a key issue in housing markets like those in the Metro region, where tenants tend to relocate voluntarily due to factors other than displacement, such as an increase in income or a change in job location.

The State sets housing policy based on priorities, goals, and criteria it develops and in compliance with Federal restrictions, as understood by the State. The State then presents this housing policy for public comment, which sometimes results in conflicts between local housing goals and State funding policies.

Other Considerations

- The requirements of many funders are not subject to change; thus local government requirements should be revised to facilitate coordination. Application forms are unlikely to be revised by various funders, as a consolidated form may not meet priorities and needs of various funders. Coordination should aim to ease the development process, but complete consolidation may not be feasible.

Recommendation for Implementation

Regional	*Local*
1. *Ongoing Policy Dialogue* Create a stable platform for an ongoing policy dialogue between local governments & the State to ensure coordination between local policies & goals & State funding decisions. • *Hold a regional forum.* Encourage a meeting to be held with the following participants: Participating Jurisdictions (jurisdictions that dispense HOME dollars), for-profit & nonprofit housing developers, housing authorities, & redevelopment agencies to discuss current coordination issues and potential solutions with the State. • *Ongoing policy dialogue.* A regular (perhaps semiannual) policy forum should be instituted among Metro region housing authorities, the State (including the State Housing Council), housing providers, & redevelopment agencies. The forum should encourage open discussion among participants with the goal of developing & refining housing policy on a cooperative basis to meet regional affordable housing needs.	1. *Project Monitoring Requirements* H-TAC recommends that local HOME Participating Jurisdictions (jurisdictions that dispense HOME dollars) meet with the State to develop a recommendation for coordinated monitoring of a project, thus reducing the burden on nonprofit and for profit housing developers using multiple funding sources to produce affordable housing. Separate project monitoring by a variety of funders places a high burden on both the housing provider and the tenant.

Regional Housing Resource/Database *Non-Land Use Tool*

Description

H-TAC developed affordable housing production goals and strategies that could be used by Metro, local governments, non-profit and for-profit developers and other entities to achieve the goals. The following questions describe the main issues that arise in terms of implementing, monitoring and evaluating strategies and progress in meeting the goals.

- How should we measure our efforts towards the goals? What kind of resources will be required?
- What kind of data currently exists at Metro? Where will other information or data come from?
- Do we need to consider some sort of reporting system?

To provide answers to the above questions, H-TAC recommends that Metro serve as a regional housing resource and develop a database that would provide information to be used as follows:

- Evaluate implementation of the RAHS, including assessment of progress towards increased affordable housing production and preservation;
- Develop and implement local governments' Consolidated Plans;
- Provide resources and/or data to help housing developers develop credible funding applications.

Other Considerations

- Local governments may be reluctant to take on additional data collection and reporting due to lack of resources. In addition, some of the data are available only at a price in the private market.
- Metro may have to budget for data that must be purchased on the private market.
- Some important sources of data, such as the US Census, are only updated every 10 years. However, the American Community Survey provides a lesser amount of data more frequently.

Recommendation for Implementation

Regional	***Local***
1. Overall Data Analysis • Metro should utilize US Census data, when available, to analyze housing needs in the region. • Use a periodic survey to determine what strategies are working/not working, including why a strategy works well in one place and not others. *2. Data Necessary to Track Progress in Meeting Affordable Housing Goals* Make efforts to collect at the regional level the following data for measuring contributions of various entities in the region: i) Multi-family rental units by size, location & rental amount • Currently existing/Newly produced ii) Single family rental units by size, location & rental amount • Currently existing/Newly produced iii) Publicly assisted rental units by size, location & income group • Currently existing/Newly produced • # set aside for elderly, people with disabilities, other special groups • Accessibility of newly produced units iv) Households by income groups and location v) Owner occupied units by size, location & value/sale price • Detached, attached and condos/coops vi) Buildable land available by jurisdiction & zoning vii) Employment by location, occupation & wage level *3. Data Necessary to Track the Cost of Producing Publicly Subsidized Housing* i) Cost of production: new MF by construction type, size (# bedrooms) & location ii) Cost of production: new SF by construction type, size (# bedrooms) & location iii) Cost of rehabbed units by construction type, size (# bedrooms) & location *4. Metro partnership with local jurisdictions* Metro staff should work with local jurisdictions to develop a reporting process so as not to increase the burden on local governments more than necessary.	Local jurisdictions should cooperate in the data collection process by providing the following pertinent information to Metro for compilation and analysis. i) Publicly assisted rental units • By size, location, income group • Number for seniors, people with disabilities, etc. • Existing • Newly produced • Accessibility of newly produced units • Rehab or new construction • Cost of production by construction type, size (# of bedrooms) and location ii) Amount of subsidy available – in cooperation with State and Federal funders

IV. REGIONAL FUNDING STRATEGIES

Introduction

Using Metro data, H-TAC has estimated the regional housing need by 2017 for new and existing households earning less than 50% of regional median household income (MHI) or less to be about 90,000 units. Currently, the average production rate for assisted rental units is approximately 1,146 units annually for households earning 80%MHI and less. However, H-TAC's determined housing need focuses on households earning less than 50%MHI, and producing housing for this income group requires a significantly larger amount of subsidy. At this rate, it would take many years to meet the region's affordable housing need, especially with the level of resources currently available.

Federal and State governments have traditionally provided the bulk of funds for affordable housing. Some local governments, especially urban cities and counties, also allocate local funds for affordable housing production. However, these funds have been declining and are not sufficient to meet the need. A regional fund would enable local governments and other entities involved in the production of affordable housing to better meet the housing needs of local residents.

The Regional Framework Plan Policy (RFP) 1.3, Housing and Affordable Housing, charged H-TAC with developing affordable housing goals for the region and identifying tools and strategies to implement the affordable housing production goals. One of the strategies identified in the RFP is regional affordable housing funding. Following is the RFP housing policy language that relates to regional funding:

> In developing the Regional Affordable Housing Strategy, the Affordable Housing Technical Advisory Committee shall also address the following:
> "D) a variety of tools to ensure that the affordable housing to be accommodated is actually built, such as: affordable housing funding programs"
> "I) consideration of a real estate transfer tax as a funding source for an affordable housing fund at the state, regional or local level when that option becomes available under state law…"

Current & Potential Funding Sources in the Region

Funding for affordable housing has been an issue for many years. Shelter is a basic human need, and since the beginning of cities it has been necessary to focus time and resources on providing affordable housing. Historically the federal government has taken the lead in providing funds for the provision of affordable housing. However, long term federal commitments from the federal government for lower income housing are declining, introducing uncertainties for tenants, owners, communities and lenders. The yearly possibility of program reductions to many U.S. Department of Housing and Urban Development (HUD) programs introduces uncertainties not found in typical tax measures that are not subject to annual appropriations, and are instead regarded as "permanent." Public housing authorities must use the private market, with support from other federal subsidies, for financing new development.

Federal government funding for affordable housing is mostly funneled through states, counties and cities. With the reduction in federal funds for the construction of new public housing units through the public housing authorities, nonprofit community development corporations have stepped in to meet local needs for the provision of lower income housing construction. Nonprofits are generally community based and form to meet the needs of specific groups in a community, such as senior citizens, disabled people, or large families. Funds used to develop housing built by nonprofits are typically competitively allocated by the state or federal government, and may be combined with private dollars as well.

See Appendix C for more information on the current and potential funding sources available in the region.

Maximize Existing Funding Sources

H-TAC identified three main areas that could help jurisdictions in the region maximize use of existing funding sources.

1. Training Program.

It takes a lot of time to learn about the various programs for affordable housing funding and to understand the application procedures. Many smaller jurisdictions, newer community development corporations, and small builders do not have the resources to devote to searching for money for housing or to develop local funding programs or tools. Much of the knowledge and expertise needed to successfully apply for and manage funding resources is typically gained over a period of years, while the need for affordable housing in many communities has skyrocketed within the last decade.

2. Coordinate and Improve Federal Programs.

A. Consistent Consolidated Plans. Although housing is a regional issue, it is not addressed consistently throughout the region. Each entitlement community[4] is required to produce a Consolidated Plan every five years in order to receive funds from HUD. The Consolidated Plan outlines the community's housing needs and priorities and identifies areas most in need of funding. Jurisdictions within a county can cooperate to complete one Consolidated Plan, and dollars for communities with a population less than 50,000 are channeled through the county. The following entitlement jurisdictions complete a Consolidated Plan: Portland, Multnomah County and Gresham (together); Beaverton and Washington County (together); and Clackamas County. H-TAC discussed the potential of completing Consolidated Plans consistently so that numbers and issues are comparable regionwide and a regional picture can be estimated from combined totals. Some of the benefits of coordinating are:

- *Innovative.* It would be innovative – this has not been done elsewhere. Such an effort might give entitlement communities in the Metro region a competitive edge in applying for housing dollars.
- *Maximize efficiency.* It would reduce duplicate efforts – the regional picture could be easily derived.
- *Consistent format.* Currently, each jurisdiction develops their Consolidated Plan in a unique fashion, using different data sources and formats. This makes it difficult to get a regional picture of housing needs. All Consolidated Plans developed in the region should use consistent data and format.
- *Coordination.* Housing programs and priorities could be consistent throughout the region, taking into consideration affordable housing production goals, jobs-housing balance, and transportation.

B. Recommend use of HOME dollars for highest need housing. HOME dollars are awarded by HUD through a formula to participating jurisdictions – each dollar of grant funds must be matched with 25¢ of local money. The funds are targeted for households with incomes less than the median income. This is one of the few sources of money still available from the federal government to develop or retain housing.

C. Promote changes with HUD and other Federal Programs. Encourage the Oregon Congressional Delegation to support changes with HUD and other Federal Programs to increase development of affordable housing and opportunities for homeownership.

3. Enterprise Foundation Regional Acquisition Fund.

The Portland Regional Land Banking Program is a partnership between The Enterprise Foundation and the Housing Development Center, with support and coordination provided by the City of Portland and other local jurisdictions. The purpose of the fund is to acquire and hold development sites throughout the region, preserving the opportunity for the creation of community-based developments. The fund will function as a revolving account, capitalized with $20 million from The Enterprise Foundation, providing local jurisdictions the opportunity to access the fund by providing loan guarantees to purchase property.

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[4] Jurisdictions that receive CDBG and HOME funds directly from the federal government.

Recommendations for Implementation

Regional	*Local*
1. Training Program Develop a training program for staff from local jurisdictions, nonprofit and for profit housing developers, and lenders to enable them to increase efficiency in producing affordable units. Possible components include: • *Management of Program.* The program could be run through an existing organization that provides technical assistance for affordable housing development, such as the Neighborhood Partnership Fund. • *Annual Training Sessions.* Annual 1-2 day training sessions focused on grant writing, resource management, effective tools and providing opportunities for jurisdictional coordination. • *Internet Resource Site.* Add to the Enterprise Foundation web site, to provide information from annual training sessions as well as resources, best practices, and grant deadlines. • *E-mail List Serve.* Compile an email list serve of those interested in receiving updates on funding opportunities, and to serve as a forum for issues related to increasing the supply of affordable housing in the region. • *Expanded Scope.* Annual training sessions and other resources could be focused specifically on funding opportunities or expanded to provide a forum for dispersing information on best practices for cost reduction and land use strategies.	*1. Coordinate and Improve Federal Programs* **A. Consistent Consolidated Plans in the Region** Entitlement jurisdictions currently working to develop consolidated plans (required by HUD) should include a letter or short memo in each Consolidated Plan that describes regional efforts to address housing issues. Efforts should be made to discuss further coordination in the future. **B. Allocation of HOME Funds** Recommended strategies for maximizing the effectiveness of HOME dollars in the Metro region. • *Coordination.* Possibility of coordinating HOME funds from cities and counties of the region – regional coordination as exemplified by A Regional Coalition for Housing (ARCH) in east King County, Washington. • *Prioritize based on highest need.* Use HOME dollars to meet highest priority regional needs, consistent with local priorities described in local Consolidated Plans. **C. Promote changes with HUD & other Federal Programs** Encourage the Oregon Congressional delegation to support changes with HUD and other Federal programs to encourage the development of affordable housing, especially as referenced below. • *Change the length of the contract.* Federal budget accounting should be changed to permit longer-term contracts for all HUD rental assistance, even in the absence of an increase in total units, which should also be supported. This would give greater parity to programs that serve very low income tenants (other federally funded programs providing benefits for higher income tenants than rental assistance programs – such as Low Income Housing Tax Credits – provide 10-30 years of federal benefits). • *Allow more discretion to local housing authorities to project base Section 8 vouchers.* Change administrative rules to permit simple project basing of vouchers, subject to 15% cap of total units. HUD estimates this would support \$90-120 million one time acquisition/construction of affordable and available units. (Note: HUD estimates that nationally 53% of units with affordable rents are not available because higher income renters occupy them). Encourage elected leaders in the Metro region to execute an intergovernmental agreement to require that all publicly assisted projects accept voucher tenants using the same screening criteria as other tenants. *2. Enterprise Foundation Regional Acquisition Fund* Encourage all participating jurisdictions to utilize The Enterprise Foundation's \$20 million regional acquisition fund. While this is not a permanent funding source, it provides jurisdictions access to capital to acquire quality development sites when they are available. This fund is low cost patient capital that will allow jurisdictions to purchase and hold property for up to five years prior to development. However, the Enterprise Foundation does require a guarantee. The counties should work with Enterprise to develop a consistent mechanism for loaning the money.

New Funding Source

Need for a New Source of Funding

There is an overwhelming need for a new affordable housing fund in the Metro region. Even if all of the jurisdictions in the region utilize all of the possible Federal and State funds available, there will not be enough money to meet the affordable housing needs of the region.

In the development of affordable housing goals, H-TAC determined a need for approximately 90,000 additional affordable units for households earning less than 50%MHI in the region over the next 20 years. In an effort to develop a reasonable but ambitious goal for housing production in the region, H-TAC developed a five-year affordable housing production goal of 9,048 homes based on 10% of the benchmark need.

Based on the data provided in Chapter Three: Regional Housing Goals, the total federal and state subsidy available annually that could reasonably be used to produce housing for households earning 50%MHI and less is **$27,077,586**. The total cost of meeting the Five-Year Affordable Housing Production Goal can be estimated to be **$124,210,944**, based on a number of assumptions described in Chapter Three. Thus, an additional subsidy of **$97,133,358** is necessary to begin to meet the housing needs of residents of the region.

In addition to a basic need for more dollars to produce housing, H-TAC also identified the importance of controlling the use of new funds at a local level. A regional fund could be used to meet regionally and locally identified housing priorities, while funds from the state and federal governments often have different priorities and restrictions.

Funding Sources Considered

H-TAC discussed several possible sources for a regional fund devoted to affordable housing. While the following funding sources are successful elsewhere, H-TAC decided not to recommend them at this time: 1) Regionwide Bond Measure for Housing and 2) Housing Linkage Fee. H-TAC chose to focus efforts on a proposed regional Real Estate Transfer Tax (RETT), as this showed the most potential for raising a large amount of money for housing.

A Real Estate Transfer Tax (RETT) is paid by the seller of a residential, industrial, or commercial property. The tax is paid is when the property is sold, and is calculated as a percentage of purchase price. There is a strong nexus between taxing transfer of property and providing affordable housing for residents in the region in need of assistance. A RETT is not regressive, meaning that the tax is less for a less-expensive sale

EXAMPLES

<u>*Employer Assisted Housing – Portland, OR*</u>
Siltronic Home Ownership Program (SHOP). In 1996, Wacker Siltronic, one of Portland's largest manufacturers, developed SHOP in partnership with two non-profit housing developers, Home Ownership One Street at a Time (HOST) and North East Community Development Corporation (NECDC) and Fannie Mae. Under SHOP, eligible employees receive a loan of up to $5,000 to be used toward the down payment or closing costs for their first home. In conjunction with SHOP, Fannie Mae will purchase loans made by local lenders. The loan is fully forgiven if the borrower remains employed at Wacker Siltronic for five years.

Legacy Emanuel Neighborhood Home Ownership Program (ENHOP). In 1992, Legacy Emanuel Hospital created a program to assist employees in purchasing a primary residence within targeted North/Northeast Portland neighborhoods. EHNOP provides loans to qualified employees within identified geographic boundaries. Loans cannot exceed $5,000 and can be used for down payment, pre-paid reserves, and closing expenses. The loan is forgiven based on 20 percent per year, and interest payments of 8.5 percent are deducted from the employee's paycheck.

Portland School District "Homeroom" Program. In 1999, the Portland School District and the Portland Teachers Credit Union created the Homeroom Program to recruit potential teachers to Portland and to keep them working in the city's schools. Under the program, full-time teachers and administrators in their first five years working in the Portland Public Schools are eligible for mortgages that will allow them to buy a house or condo with no down payment. The credit union provides an interest-free loan on top of the mortgage to cover closing costs, and also allows the homebuyer to forgo mortgage insurance. Loan recipients must remain with the school district to continue to receive the low rate and the interest free portion of the loan. This program provides Portland Public Schools with a useful incentive to attract and retain teachers, and also provides the Portland Teachers Credit Union with additional clients.

than for a very expensive sale. Thus, those more able to afford to help provide the most assistance for those in need. H-TAC is proposing that homes selling below a set "affordable" price be exempt from the tax so as to minimize impact on low- and moderate-income homebuyers. The RETT is also cyclical – when the economy is strong and property sales are up, the amount of tax collected will be higher than when the economy is in a downturn. This means funds raised by the tax will be higher when housing affordability is more of a problem, and lower when housing prices are lower.

There are many benefits to the implementation of a regional RETT. The fund would provide dollars to target housing development to those areas of the region most in need of affordable housing, and would provide homes for people with the highest need. As currently proposed, portions of the RETT would be allocated to: help first time homebuyers purchase homes throughout the region; provide affordable rental housing to households earning less than 50%MHI; and fund local infrastructure improvements for affordable housing development. This could help the region achieve our 2040 Growth Concept vision; increasing livability by putting housing near jobs, reducing congestion, and providing residents of the region with more affordable homes.

Recommendations for Implementation

Regional/Local Cooperation

1. Employer Sponsored Housing

Employer Based Programs. Local governments, community and business leaders should encourage employers to consider developing homeownership and rental assistance programs for their employees.

2. Real Estate Transfer Tax (RETT)

The RETT provides the best opportunity to raise a relatively large amount of money for housing that could be controlled locally. The concept generated strong support in a focus group H-TAC held to gather additional input from housing and financial specialists not involved in the H-TAC process. A proposal describing the RETT has been circulated among all the local elected officials in the region. Local elected officials and development industry representatives have expressed support for a RETT, with the Realtors providing the only significant objection.

Although implementation of a regional RETT does face some major hurdles, H-TAC concluded that the revenue potential and connection to affordable housing provide reason enough to pursue the RETT as a funding source. The implementation of a RETT would raise a substantial amount of revenue to be directed towards meeting affordable housing production goals identified by H-TAC.

Implementation of a RETT would require several steps prior to funds actually being collected. Most importantly, the Legislature would have to change the law that prohibits local governments from collecting a RETT. The Legislature may also choose to implement a statewide or Metro area RETT dedicated to affordable housing.

There is general consensus that a coalition of local leaders will go to the Legislature to request a change in the current law that prohibits a RETT, or exempt the Metro region from the law, and to allow a ballot measure to implement the RETT in the Metro region to be taken to the voters.

Funds raised through a RETT could be allocated in a variety of ways, but would be focused on achieving the affordable housing production goals set by H-TAC.

3. Use and Administration of a New Regional Housing Fund

A regional housing fund could be allocated in a variety of ways. Key stakeholders should be involved in decisions regarding the use, allocation and administration of a regional housing fund. Strategies identified by other H-TAC subcommittees for the potential use of a regional fund should also be considered. The following general principles are key in developing guidelines for the use and administration of a regional fund.

- ***Flexibility is crucial.*** A regional housing fund should allow for various options in the use of the funds to better meet the regional needs for affordable housing. These needs vary by jurisdiction and also may change over time, thus flexibility in utilizing the dollars is crucial to meeting regional housing needs.
- ***Target regional fund dollars to help meet specific needs.*** Guidelines for the general disbursement of the regional fund dollars should target specific housing needs in the region such as meeting regional affordable housing production goals, aiding first time homebuyers, and helping seniors and people with disabilities find affordable housing.
- ***Final decisions should be delayed until more work has been done.*** Negotiations over how a fund should be allocated and administered should not be conducted until further work has been done to get a regional fund in place.

V. STRATEGIES NOT ADDRESSED BY H-TAC

While H-TAC addressed many strategies in the *Regional Affordable Housing Strategy (RAHS)*, there are numerous others that H-TAC did not have the time to consider. Some of the key strategies not addressed by H-TAC are enumerated here for future efforts at regional or local levels. One strategy addressed separately by the Joint Policy Advisory Committee on Transportation (JPACT) is the linkage of regional transportation funding to affordable housing.

Transportation Related Strategies

Throughout the public involvement process to get citizen comments on the strategies described in this chapter, numerous participants pointed out the important link between transportation and housing. This is especially crucial for affordable rental housing, and housing for special needs populations who may rely on public transport. Some of the strategies and tools identified in this document do consider the connection with transportation, such as the *Parking* and *Elderly and People with Disabilities* strategies. Metro's JPACT also developed a policy linking transportation funding to affordable housing and forwarded its recommendations to the Metro Council in March 1998.

Metro's Transportation Policy Advisory Committee (TPAC) discussed at length the technical and administrative criteria used to allocate regional funds to projects and recommended to JPACT that the administrative criteria should include an affordable housing connection. The policy that was finally adopted states that projects that demonstrate a connection to increasing the region's supply of affordable housing, or which improve the multi-modal transportation service to existing affordable housing, will be flagged for funding consideration. In this way the housing consideration would be in evidence throughout the process of determining transportation projects that will receive regional funding.

Location Efficient Mortgage

The Location Efficient Mortgage^{SM} (LEM) is an innovative homeownership initiative that rewards homeowners who choose to live in densely populated urban communities well-served by public transit and with easy access to jobs, shopping, cultural activities, and other destinations. The reward comes in the form of the savings that results from minimizing use of the automobile (called the Location Efficient Value, or LEV) and acknowledging the increased buying power of households living in "location efficient" areas for mortgage qualification. The LEV savings has been calculated by the Center for Neighborhood Technology (CNT), a nonprofit organization based in Chicago, for the cities of Chicago, Seattle, Los Angeles County and the San Francisco Bay Area, under a pilot program sponsored by Fannie Mae in July 1998.

Evaluating the Feasibility of a LEM in the Metro Region

In September 1998, the Oregon Environmental Council (OEC) organized two briefings on the LEM featuring staff from CNT. Several discussions between the Oregon Environmental Council, Metro and CNT resulted in the formation of an ad hoc group (LEM Technical Committee) that provided the financial and resource commitment to conduct a feasibility study on the viability of implementing a LEM program in the Portland metropolitan region. The ad hoc group members included:

- Governor's Community Solutions Team
- Oregon Department of Transportation
- Portland Development Commission
- City of Portland Bureau of Housing and Community Development
- City of Portland Office of Transportation
- Metro
- Oregon Environmental Council

The *Feasibility Study Report: The Potential for a Location Efficient Mortgage Program in the Portland Metropolitan Region* was completed by CNT and the OEC in December 1999. The study determined that there is a clear compatibility between the objectives of the LEM and land use planning at the regional and local levels. A LEM Advisory Committee, consisting of representatives from local governments, TriMet, Governor's office, Oregon Department of Transportation, Oregon Housing and Community Services Department, US Department of Housing and Urban Development and Fannie Mae, also reviewed the study and conclusions.

Results of the Feasibility Study

Based on the analysis of the Metro region's transportation, household and land use data, the CNT, LEM Advisory Committee, and LEM Technical Committee concluded that:

1. The Location Efficient Mortgage[SM] would be an appropriate and useful mortgage product for some areas within the Metro urban growth boundary.
2. The LEM would increase the borrowing power of low-moderate income households as well as middle income households seeking to live in more densely populated areas of the city that are well served by public transportation.
3. Mortgage borrowers who use the LEM are likely to own fewer vehicles and drive fewer miles per year than their counterparts who live in less accessible areas within the UGB.
4. The LEM's effect on homeownership accessibility would be sufficiently large in terms of geographical distribution and numbers of units to justify the construction of a LEM model and the implementation of a LEM program.
5. The magnitude of the economic advantage created by the LEM would make it attractive to potential homebuyers who are willing to choose a location efficient neighborhood and use public transportation.
6. The LEM has the support of community leaders and organizations. Their support is based on the belief that the LEM would fit into an overall strategy that encourages efficient land use and discourages automobile dependency. LEMs could be used in conjunction with other programs currently in place in the region, such as car sharing programs to further reduce the need for automobile ownership and Transportation Oriented Development (TOD) projects that are aimed at encouraging public transit use by targeting development near transit.
7. Fannie Mae has supported implementation of the LEM in Chicago and other locations. As a result of interviews and participation in the LEM Feasibility Study by Fannie Mae, there is strong reason to believe that Fannie Mae will agree to extend its pilot program to the Portland metropolitan area. The aspect of a LEM pilot project in the Portland metropolitan area that may be most attractive to Fannie Mae is the fact that the LEM helps to achieve other regional growth management and land use planning goals.

Next Steps

Implementation of the LEM would require: a) finding sponsor/s for the development of a detailed GIS based model to be used by lenders in calculating the LEV for individual mortgage customers, including analysis of vehicle cost per household, development of the LEM software package to be used by banks, and design and implementation of a web page for use by potential loan applicants; and b) expansion of the LEM Advisory Committee[5] to help build community support, "roll out" a new mortgage product, and provide liaison with other community organizations.

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[5] Expanded Advisory Committee may include key local agencies, organizations, transit systems, Realtors, housing advocates, homeownership coalitions, lenders, mortgage lenders, and secondary market leaders.

Other Strategies

- *Air Rights.* Air rights are the rights to develop above existing structures. Many parts of the region may be "underbuilt" when taking air rights into consideration. This strategy was identified in the RFP, but H-TAC did not have the time to consider it. As the region continues to grow, this strategy could become increasingly important.
- *Faith Based Housing Initiatives.* The faith-based community has historically been involved in providing affordable housing and other services for people in need. HUD recently formed the Center for Community and Interfaith Partnerships to encourage and facilitate additional participation. A local example of a model effort by a faith-based organization to provide affordable housing is St. Anthony's Village, a mix of affordable and market-rate housing for seniors built by the Catholic Church in Southeast Portland.