

Chapter Three: Regional Housing Goals

I. REGIONAL AFFORDABLE HOUSING IMPLEMENTATION PRINCIPLES

H-TAC identified the following four principles to guide in the development of tools and strategies to meet the need for additional affordable housing in the Metro region.

1. Maintain the existing supply of affordable housing in the region.
2. Increase the supply of affordable housing in the region.
3. Provide sufficient affordable housing opportunities to households of all income levels that have a member living or working in each jurisdiction or subregion.
4. Enhance the success of the affordable housing production goals.

Successful application of these principles will require the efforts of all citizens, neighborhoods, local, state, and regional agencies, nonprofit and for-profit housing developers, and the financial and business communities. The effectiveness of the tools and strategies to encourage the production and retention of affordable housing will be measured against the above principles.

II. AFFORDABLE HOUSING IMPLEMENTATION OBJECTIVES

The Metro Council gave H-TAC the charge of developing affordable housing production goals for all jurisdictions in the region. The objective of the affordable housing distribution method is:

To achieve an equitable distribution of housing opportunity among local jurisdictions in the region by working toward a similar distribution of household incomes within each Metro jurisdiction that reflects the regional income distribution as a whole.

Five objectives define “equitable distribution”:

1. A diverse range of housing types is available within the region and within cities and counties inside the urban growth boundary.
2. Sufficient and affordable housing opportunities are available to households of all income levels that live or have a member working in each jurisdiction and subregion.
3. An appropriate balance of jobs and housing exists within subregions.
4. The current and future need for and supply of affordable housing in the region is addressed in the distribution.
5. Concentrations of poverty are minimized.

H-TAC determined that the focus of affordable housing production goals should be on households with the greatest need – households earning 50% or less of the regional median household income (a family of four in 1999 at 50% MHI earns \$26,200). As described in Chapter Two, affordable housing goals are based on the region’s current and future affordable housing need. Housing units are allocated to jurisdictions on the basis of established criteria. A mathematical allocation formula was used to determine each jurisdiction’s need for additional affordable housing units.

III. AFFORDABLE HOUSING PRODUCTION GOAL (5-YEAR GOAL)

Affordable housing production goals were developed by first estimating the total need (or “benchmark”) for affordable housing, as described in Chapter 2: Affordable Housing Needs. H-TAC estimates that if all households with incomes 50%MHI and less paid no more than 30% of income for housing through 2017 there will be a need for 90,479 affordable units in the region. Currently, the annual average production rate for assisted rental units is approximately 1,146 units for households earning 80%MHI and less. At this rate, it would take many years to meet the region’s affordable housing need, and it costs even more to provide units for households at the lower end of the income scale. Due to the exceptional cost of meeting

the total housing need, H-TAC developed a more realistic five-year affordable housing production goal, based on 10% of the total need for households earning 50%MHI and less. The five-year production goal is 9,048 units, or 1,810 units annually for households earning 50%MHI and less.

The region-wide production goals are then apportioned to each city and county in the region based on trying to achieve a mix of household incomes in each community that is similar to the current mix of household incomes region-wide. Table 5 below shows the five-year affordable housing production goal distributed to the local governments in the region. The local affordable housing production goals could be addressed by individual cities or counties or by consortiums such as those formed to develop Consolidated Plans for federal resources.

Table 5. Five-Year Affordable Housing Production Goal Allocated by Jurisdiction

Jurisdiction	Benchmark Need – 90,479 ¹ (2017)		Percent of Benchmark Need by Income Group		Five Year Affordable Housing Production Goal – 9,048 ²		
	Benchmark need	Percent of benchmark need	less than 30%	30-50%	less than 30%	30-50%	Totals*
Beaverton	6,567	7.24%	65%	35%	427	229	655
Cornelius	497	0.55%	80%	20%	40	10	50
Durham	92	0.10%	61%	39%	6	4	9
Fairview	734	0.81%	58%	42%	42	31	73
Forest Grove	645	0.71%	85%	15%	55	10	64
Gladstone	532	0.59%	82%	18%	43	10	53
Gresham	5,580	6.15%	82%	18%	454	102	557
Happy Valley	573	0.63%	51%	49%	29	28	57
Hillsboro	5,148	5.68%	59%	41%	302	211	514
Johnson City	0	0.00%	0%	0%	0	0	0
King City	51	0.06%	91%	9%	5	0	5
Lake Oswego	3,392	3.74%	55%	45%	185	154	338
Maywood Park	0	0.00%	100%	0%	0	0	0
Milwaukie	1,019	1.12%	100%	0%	102	0	102
Oregon City	1,585	1.75%	78%	22%	123	35	158
Portland	17,948	19.79%	100%	0%	1,791	0	1,791
Rivergrove	27	0.03%	52%	48%	1	1	3
Sherwood	1,231	1.36%	54%	46%	67	56	123
Tigard	3,205	3.53%	68%	32%	216	103	320
Troutdale	1,310	1.44%	57%	43%	75	56	131
Tualatin	1,904	2.10%	63%	37%	120	69	190
West Linn	1,700	1.87%	58%	42%	98	71	170
Wilsonville	1,797	1.98%	56%	44%	100	80	179
Wood Village	175	0.19%	93%	7%	16	1	17
Clackamas County Uninc.	11,053	12.19%	66%	34%	729	374	1,103
Multnomah County Uninc.	1,349	1.49%	60%	40%	81	53	135
Washington County Uninc.	22,582	24.90%	58%	42%	1,312	940	2,253
Totals	90,695³	100.00%	72%	28%	6,420	2,628	9,048

¹The Benchmark Need (90,479 units) includes a need at 30%MHI that is cancelled out by a lack of need (or surplus) in Maywood Park at 30-50%MHI; while in Johnson City there is a lack of need in both of the lower income categories. It is important to note the fact that Johnson City consists of a mobile home park on one tax lot, which impacts the data.

²Calculated by multiplying the “percent of benchmark need” by the Five-Year Affordable Housing Production Goal of 9,048 units. The result is multiplied by the “percent of benchmark need by income group” to get the goal by income group for each jurisdiction. *This goal should be recalculated when data from the 2000 US Census becomes available.*

³The total shown here (66,000 for less than 30% and 26,343 for 30-50%) is based on excluding the projected “surplus” of affordable housing at less than 30%MHI for Johnson City, and 30-50%MHI in Johnson City, Maywood Park, Milwaukie, and Portland.

*Totals may not add up to due rounding.

A basic assumption of the affordable housing production goal and the distribution method is that the goal and allocation numbers will be evaluated when the results of the Year 2000 U.S. Census are available. H-TAC recommends that the Benchmark Need and the Affordable Housing Production Goal be reassessed when the results of the 2000 Census are available. This includes:

- checking the estimates to see how accurate they are;
- comparing actual unit affordability to the incomes of households living in the units;
- recalibrating the Benchmark Need and the Affordable Housing Production Goal;
- fine tuning the estimation process for future calculations; and
- comparing income to housing tenure to identify barriers to homeownership.

IV. ESTIMATED COST OF MEETING THE AFFORDABLE HOUSING PRODUCTION GOAL

Many H-TAC members identified a need to describe the potential cost of meeting the need for affordable housing in the region. While it is possible to produce a basic estimate of the total cost, it is virtually impossible to actually cost out the production of such a wide variety of units, especially when the cost of producing, acquiring, or rehabilitating units can vary so much throughout the region and will change over time. However, basic information on the general cost of producing housing in the region are provided for illustrative purposes and the amount of current resources available are provided below to help determine how large the need for additional resources may be.

Cost of Producing Housing

Creating housing units to meet the Affordable Housing Production Goals will be costly. Determining how much it could cost to meet the regional needs depends on several factors. Tables 6 and 7, below, show the actual price associated with the creation of housing units. Information below includes typical cost of new construction from a study conducted by the Housing Development Center in Multnomah County and the cost of acquisition and rehabilitation in Washington County provided by Washington County Housing Services.

Table 6. Typical Development Cost of New Construction- 1997

	Single Family Dwelling	Multi-Family Dwelling
Per Unit Cost	\$85,706 - \$124,167	\$68,662- \$88,274
Per SF Cost	\$69 - \$95	\$95 - \$98

Source: *Affordable Housing Cost Study*, Housing Development Center, 1998.

*Housing could be produced by community development corporations, housing authorities or for-profit corporations.

Note: Land costs are included in the development cost.

Production costs can also vary according to the type of developer. The main reasons for this as identified in the *Affordable Housing Cost Study* are as follows:

- **Single Family Dwelling Units.** Nonprofit organizations were able to develop single family units for less than for-profit developers. Nonprofits frequently built units on tax-foreclosed lots, thus keeping costs down.
- **Multi-Family Dwelling Units.** For-profit developers were able to develop multi-family units for much less per unit than nonprofits, although the square foot cost is almost equal. Most of the for-profit units were less dense, while nonprofits developed buildings four to five stories tall and included more bedrooms per unit.

Table 7. Costs of Rehabilitation/Acquisition & New Construction – Washington County (1996 – 1999)

Acquisition/Rehabilitation		New Construction	
Number of Units	Total Development Cost per Assisted Rental Unit	Number of Units	Total Development Cost per Assisted Rental Unit
6	\$33,333	40	\$51,250
59	\$57,941	78	\$59,308
5	\$43,733	33	\$73,935
5	\$39,735	20	\$63,833
15	\$49,333	49	\$75,874
84	\$68,065	120	\$63,425
Average Cost per Unit = \$48,690		Average Cost per Unit = \$64,604	

Source: Washington County Housing Services, 1999.

Note: Land costs are included in the total development cost.

Table 7 highlights the differences in the cost of producing housing through acquisition and rehabilitation or new construction. In light of this information, several factors arise for consideration in decisions to produce new housing units or to acquire and rehabilitate existing housing:

- Is there a difference in the effectiveness of producing more affordable housing if an existing unit is acquired and rehabilitated for affordable housing than if a new affordable unit is constructed?
- There may be other benefits to new construction aside from creating an affordable unit, such as revitalizing a neighborhood, directing development to beneficial areas, and possibly mitigating overall housing prices.
- There are also benefits accrued by rehabilitating units such as acquiring more affordable units for less cost, reducing the impact of gentrification, preserving neighborhoods, and preventing the loss of existing housing stock.

Current Resources Available

Historically the federal government has taken the lead in providing funds for the provision of affordable housing. H-TAC identified a need to catalogue the existing resources currently available in the region that could be used for housing production (more information on existing resources may be found in Appendix C). Table 8 identifies the total dollar amount of resources coming into the region from the federal and state governments. Many assumptions were made in determining how many dollars might be available to produce housing for households earning 50%MHI and less; these assumptions are described in the notes under the tables below. A change in any of the assumptions could have an impact on the amount of resources that could be used to meet affordable housing production goals.

Table 8. Federal and State Programs and Estimated Resources Available for Housing in the Metro Region - 1998

Program Name	Source of Funds	Form of Assistance	Project Selection/ Administering Agency		Total Amount of Funds	Estimated Funds Available for Housing Production at <50%MHI
			State	Local		
CDBG ^{1.}	Federal	Flexible*		x	\$18,371,000	\$3,674,200
HOME ^{2.}	Federal	Flexible*		x	\$5,786,000	\$5,207,400
LIHTC (9%) ³	Federal	Tax Credit	x		\$17,219,850	\$12,914,888
LIHTC (4%) ⁴	Federal	Tax Credit	x		\$15,944,288	\$3,188,858
Multifamily Revenue Bonds ⁵	Federal	Tax Deduction	x		\$903,423	\$903,423
HOPWA	Federal	Flexible*	x		\$803,000	\$200,750
HELP	State	Cash Grant	x		\$100,000	\$100,000
Oregon Housing Trust Fund ⁶	State	Cash Grant	x		\$746,912	\$746,912
OAHTC ⁷	State	Tax Credit	x		\$141,156	\$141,156
Total					\$59,212,629	\$27,077,586
Federal Funds					\$58,224,561	\$26,089,518 (97%)
State Funds					\$988,068	\$988,068 (3%)

Source: US Department of Housing and Urban Development, Oregon Housing and Community Services Department, Metro, 1999.
* Could be cash grant, low-interest loan, contingent obligation, funding of reserves, or other form of assistance.

Notes:

- Community Development Block Grants (CDBG).** Varying amounts of CDBG funds allocated to local jurisdictions are targeted towards housing. Because of these other uses, 20% of all CDBG funds are estimated to be available for affordable housing production.
- HOME Investment Partnership Program (HOME).** Up to 10% of HOME funds may be used for administrative purposes. Thus, the estimate is that 90% of all HOME funds are available for affordable housing production.
- Low Income Housing Tax Credit (LIHTC) – 9%.** Total amount of 9% tax credits in 1998 was \$1,721,985. 9% tax credits are generally used for housing that serves people at 50% MHI and less. Tax credits are allocated for a ten-year period. The amount of equity raised from the tax credits was calculated as follows: total amount of tax credits times 10 times \$0.75.
- Low Income Housing Tax Credit (LIHTC) – 4%.** Total amount of 4% tax credits in 1998 was \$2,125,905. 4% tax credits are generally used for housing that serves people at 60% MHI; H-TAC determined that a reasonable estimate of the amount that could be used for serving people at 50%MHI and below is 20% of the total, or **\$3,188,858**. Tax credits are allocated for a ten-year period. The amount of equity raised from the tax credits was calculated as follows: total amount of tax credits times 10 times \$0.75.
- Multi-Family Bond Funds.** The value of the subsidized loan is based on the net present value of a reduction in interest on State bond financing of 1% amortized over 30 years. The reduction in bond interest rates is often more than 1% as compared to a private bank's mortgage rate. Assumptions used in calculating the savings are a private bank interest rate of 8%, bond interest rate of 7%, and a 30-year time period. The amount of Multi-family Bond Funds used in the Metro area in 1998 was \$9,682,615.
- Oregon Housing Trust Fund (HTF).** Estimate is that 100% of Oregon Housing Trust Fund is available for affordable housing production goals.
- Oregon Affordable Housing Tax Credit (OAHTC).** The total amount of Oregon Affordable Housing Tax Credits in 1998 was \$4,588,998, which is the dollar amount of loans that banks are given tax credits on. To calculate the value of the subsidy, an 8% market rate interest rate was reduced to the 4% interest rate given on loans under the OAHTC. In 1998 230 units were financed using OAHTC, which amounts to a rent reduction of approximately \$51 per month for each tenant.

Some federal resources, such as Community Development Block Grants (CDBG) and HOME dollars are allocated based on a formula to jurisdictions of a certain size. CDBG funds are allocated to jurisdictions to be used for a wide variety of purposes including housing rehabilitation, home ownership assistance, economic development, social services and physical improvements such as streets, sewers and parks. The funds must be used to benefit low- and moderate-income persons (below 80%MHI) or geographic areas (as identified by census data or neighborhood surveys), or eliminate slums and blight or meet an urgent need. The HOME program was created to expand the supply of housing affordable to low-income households. These funds can only be used for eligible activities that include new construction, rehabilitation, home ownership assistance, and assistance to community housing development

organizations. Funds must benefit households at or below 80%MHI and rental housing assistance must primarily benefit households at or below 60%MHI.

Other funds are allocated competitively to local governments and nonprofit organizations. Some programs require local governments to provide a match to receive some federal funds, and they also may fund programs through local funds. Tenant based support is channeled to low-income households through local housing authorities. On the other hand, state resources are mostly targeted to for-profit and nonprofit housing developers.

Table 9, below, provides an example of how much housing could hypothetically be provided with the resources that are currently available to help meet the Five-Year Affordable Housing Production Goals for households at 50%MHI and less.

Table 9. Example of Amount of Resources Needed to Construct New Units at H-TAC Defined Income Levels
The examples in this table are hypothetical to illustrate the trade-offs that must be made in affordable housing even if a large amount of funding were available to the region.

Income Level <i>Regional MHI: \$52,400 for a family of four (1999)</i>	Affordable Monthly Housing Payment by Income Level*	Amount of Resources Needed					
		Single Family Homeownership Unit Cost: \$125,000			Multi-Family Rental Unit Cost: \$80,000		
		Dollars	Percent	Number of units that could be built with \$100,000,000**	Dollars	Percent	Number of units that could be built with \$100,000,000**
Below 30%MHI	Below \$393	\$125,000	100%	800	\$80,000	100%	1,250
30% MHI	\$393	\$125,000	100%	800	\$70,000	88%	1,429
50% MHI	\$655	\$86,000	69%	1,163	\$33,000	41%	3,030
80% MHI	\$1,048	\$15,000	12%	6,666	No Subsidy	0%	NA
100% MHI	\$1,310	No Subsidy	0%	NA	No Subsidy	0%	NA
120% MHI	\$1,572	No Subsidy	0%	NA	No Subsidy	0%	NA

Source: OHCSO, Metro, 1999.

Note: Land cost is included.

*Affordable monthly housing payment is 30% of household income; including utilities and all applicable taxes.

Assumptions:

Single Family Unit:

1. Property taxes = \$156/month
2. Insurance = \$40/month
3. Utilities = \$100/month
4. 30 yr. Mortgage at 7.5%

Multi-Family Unit:

1. Property taxes = \$100/month
2. Maintenance & operation = \$170/month
3. Utilities = \$40/month for 2 bedrooms, \$50/month for 3 bedrooms
4. 30 yr. Mortgage at 7.5%

Note: Utility assumptions for multi-family units are based on utility allowances provided by the Housing Authority of Portland. In many multi-family assisted housing units the landlord pays water and sewer, while the tenant is responsible for electricity. Telephone expenses are not included.

Local Jurisdiction Resources

In addition to resources from the federal and state governments, some local jurisdictions allocate local dollars to be used for affordable housing. For instance, the City of Portland dedicates approximately \$2.3 million in General Funds to the Bureau of Housing and Community Development for specific community services such as homeless shelter support. In addition to these resources the City has allocated approximately \$30 million of General Fund over two years to the Housing Investment Fund (HIF). It is expected that the city will allocate a lesser amount to the HIF during the upcoming budget cycle with a longer term goal of finding a dedicated funding source for the HIF. Within several urban renewal districts

the City of Portland also targets tax increment financing (TIF) to specified housing activities within districts with adopted housing policies and programs. The annual amount of TIF varies greatly but plays a significant role in renewal districts with major housing rehabilitation and production needs. These examples illustrate potential resources available for affordable housing at the local level.

Additional Resources Necessary to Meet the Goal

Based on the data provided in the table above, the total federal and state resources available annually that could reasonably be expected to be available to produce housing for households earning 50%MHI and less is **\$27,077,586**. Table 10 below describes the cost of meeting the Five-Year Affordable Housing Production Goal, and compares that with the total resources currently available to determine that an additional annual subsidy of **\$97,133,358** is necessary to begin to meet the housing needs of residents of the region.

Table 10. Estimate of the Cost of Meeting Affordable Housing Production Goals

Affordable Housing Production Goals			Total Cost ¹	Total Resources Currently Available Annually ²	Remaining Annual Resources Needed
	5-Year Goal	Annual Goal			
10% Benchmark Need	9,048	1,810	\$124,210,944	\$27,077,586	\$97,133,358

¹Assuming a 50/50 split between new construction and acquisition/rehabilitation, with average cost of new construction \$105,000 per unit and average cost of acquisition/rehab \$60,000 per unit. A 100% subsidy is needed for households <30% MHI, and a 40% subsidy is needed for households at 50% MHI. The percentage of units allocated to <30% MHI and to 31-50% MHI is based on the affordable housing distribution formula: <30%MHI = 72% and 31-50%MHI = 28%.

²Assuming all available resources from State and Federal governments that could be dedicated to housing are used for that purpose, and that resource funding levels remain constant.