OREGON HOUSING and COMMUNITY SERVICES
725 SUMMER STREET NE, SUITE B | SALEM, OR 97301
503-986-2000 | www.oregon.gov/OHCS

Date: February 3, 2023

To: Housing Production Advisory Council

From: Natasha Detweiler-Daby, Director Affordable Rental Housing Division

Re: Oregon Housing & Community Services Background Materials

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The following materials are being provided to the Housing Production Advisory Council as background on potential recommendations for consideration.

1- **ARH NOFA Process – December 2022**
   a. This document overviews current funding processes and evaluates impact of potential shifts in process.
2- **4% LIHTC PAB Memo to Housing Stability Council August 2022**
   a. This document provides information about the impact of the Private Activity Bond constraints and actions OHCS has taken to mediate the impact.
3- **OHCS Private Activity Bond Committee Presentation Oct 2022**
   a. This document provides detail of work done to prioritize the use of limited Private Activity Bond authority.
4- **Market Cost Offset Funds Status – Feb 2023**
   a. This document provides an overview of OHCS efforts to address funding gaps that are preventing projects from moving forward into construction.
5- **Black and Latino Real Estate Developer article from NYT March 2023**
   a. https://www.nytimes.com/2023/03/03/realestate/real-estate-developers-black-latino.html
   A racial wealth gap and discrimination that sets a higher bar for would-be developers seeking loans have contributed to the lack of representation.
   b. Oregon is ranked #22 in the country for the number of Black and Hispanic Developers. https://icic.shinyapps.io/black-and-hispanic-developer-directory/
6- **Oregon's Affordable Housing Cost Study; Analysis of the Factors that Influence the Cost of Building Affordable Housing in Oregon**
   a. http://static1.1.sqspcdn.com/static/f/675504/28163179/1564080440837/OR_Affordable_Housing_Cost_Study_FINAL.pdf?token=yxFSlvCeEa027hNRPUwT42FWeOk%3D
7- **Oregon System Development Charges Study: Why SDCs Matter and How They Affect Housing**
   a. https://www.oregon.gov/ohcs/development/Documents/Oregon%20SDC%20Study_FinalReport_121422.pdf
8- **Oregon Housing and Community Services Affordable Rental Housing Dashboard**
   a. https://public.tableau.com/app/profile/oregon.housing.and.community.services/viz/AffordableRentalHousingDashboardupdated152023/Story1

12/14/2022

# *OHCS NOFA Processes & Alternatives*

Oregon Housing and Community Services' (OHCS) Affordable Rental Housing Division (ARH), the State of Oregon's Housing Finance Agency (HFA), distributes funding allocated from state and federal programs for the new construction, rehabilitation, and preservation of affordable rental housing statewide. OHCS currently manages upwards of fifteen active development funding programs including but not limited to 9% Low Income Housing Tax Credit (LIHTC), 4% LIHTC, Private Activity Bond Conduit Loans, HOME, National Housing Trust Funds, Local Innovation & Fast Track (LIFT), Permanent Supportive Housing (PSH), General Housing Account Program (GHAP), Housing Development Grant Program (HDGP), Oregon Affordable Housing Tax Credit (OAHTC), Agricultural Worker Housing Tax Credits (AgWHTC), Veterans GHAP, & Oregon Rural Rehabilitation (ORR).

Funding individual projects generally requires layering federal and state resources, each with their own complex requirements, along with the resources of other public funders, private lenders and investors. Resources through OHCS, with the guidance and direction from the state Legislature and Oregon Housing Stability Council further layers in policy objectives[1] to prioritize those projects that best meet the agency and program policy priorities.

State funded projects generally include a minimum of 60-year affordability for the majority of our resources. This means that the properties we fund must have long term viability; to that end, our financial modeling requires a long-term look, careful assessment of resource use, and rigor around physical rehab standards. These practices have continued to evolve, incorporating substantial lessons-learned from prior generations of affordable rental housing funded without adequate resources or reserves for addressing critical repair needs to ensure tenant safety and long-term viability.

Within this document are details of project development timelines, current NOFA processes, and strategies for consideration in updating these practices.

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[1] For example some of the policy objectives incorporated would be to ensure that: engagement with contractors includes the use of Minority Women and Emerging Small Businesses; engaging community includes historically underserved populations, BIPOC individuals as well as those with lived experience; project location allows the future property residents to have access to grocery stores, schools, and transit; project teams include local and culturally specific or responsive partnerships; projects create unit mixes which support families as well as those with extremely low incomes wherever possible.



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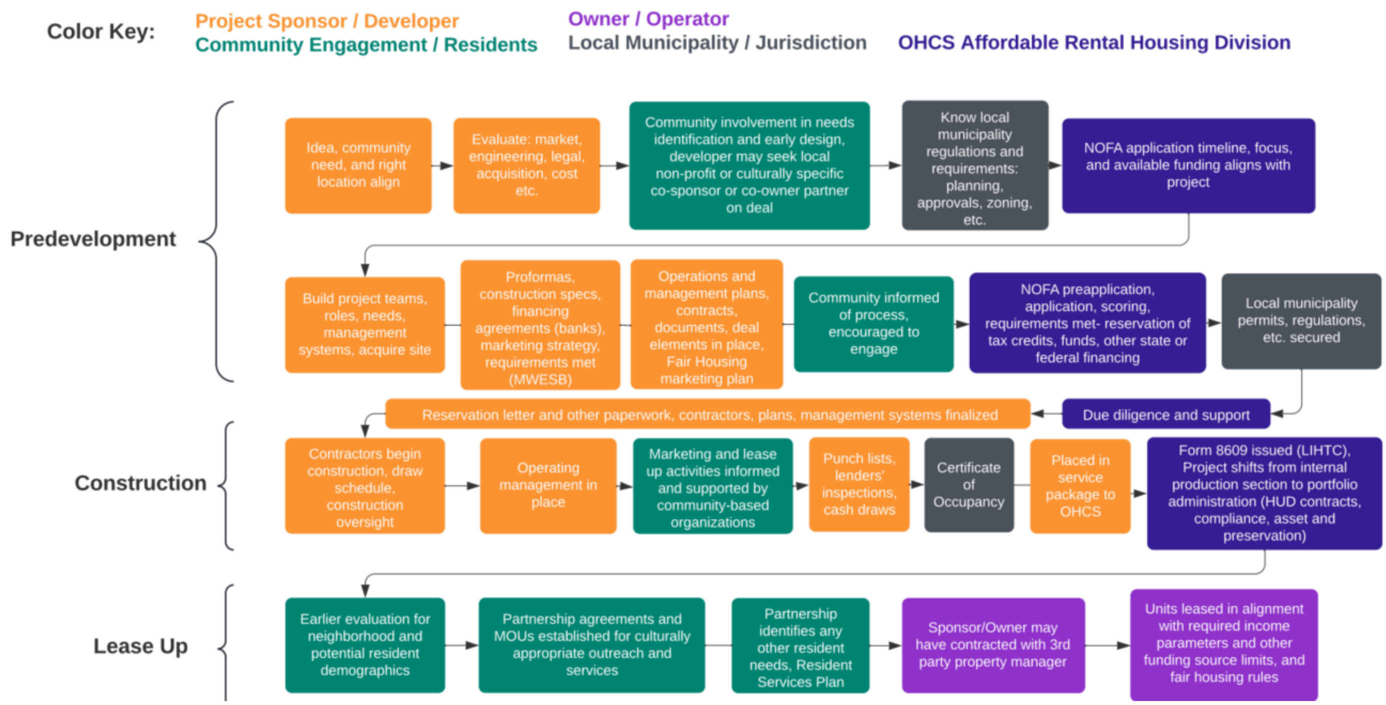
## PROJECT DEVELOPMENT TIMELINE




The Predevelopment stage alone commonly takes two or more years from initial project idea to initial construction. Prior to beginning construction, projects require comprehensive funding to ensure project success; this means coordinating among all project funders, investors, and legal counsel. Construction generally can take another 12-18 months, depending on the size and complexity of the building strategy. Together this brings project development timelines upwards of three-years from project concept to project lease up in an ideal circumstance. OHCS regularly encounters project timelines expanded beyond that in order to navigate through local or even jurisdictional NIMBY barriers that layer costs and unrealistic scopes of project work in order to prevent or delay project development.

## CURRENT NOFA PROCESSES

OHCS funding processes have evolved over time in response to feedback from our development partners and other funding jurisdictions. Our current fund offerings are delivered through Notices of Funding Availability (NOFA), and generally have the following characteristics:

- **Competitive**: with a focus on achieving policy outcomes and understanding that development resources are inadequate to support all funding applicants, these resources are competitively awarded with detailed resource set-asides and scoring strategies.
- **Early Funding**: projects apply and are funded during the Predevelopment phase, after all associated resources have been identified (though not fully secured) but before permits and comprehensive due

diligence items are finalized.[2] The reason for funding projects this far ahead of readiness to proceed was in response to development team insistence that they did not want, nor do they have the ability, to invest in these needed due diligence items before they had final resources secure.

- **Customized**: with deliberate policy objectives for pools of resources, OHCS has conducted customized offerings to meet variable intent.

NOFA Timeline: A typical competitive NOFA timeline will allow 75-days for developers to complete and submit an application and two months for scoring and review by OHCS before submitting for approvals from Housing Stability Council the following month. This means an average of 6 months from the publishing of a NOFA to formalizing a funding reservation with the Housing Stability Council. After funding reservation, projects then must move forward to accomplish needed due diligence items, which can take another 9-18 months before they are ready with complete financing, architectural, and building permits.

Given that the majority of our resource offerings occur annually, it is the case that if an applicant is unable to meet a NOFA deadline or is unsuccessful in getting an award in a given year, they need to wait another six months before applying again.

NOFA Format: In 2019 OHCS implemented an electronic application, which includes a detailed excel document used primarily to collect critical information about the proposed development, including project details, narratives describing what the developer plans to do and how they plan to do it, information about the development team, proposed development schedule, a proforma, required forms and documentation, and scoring criteria for the NOFA. Additional documentation that applicants provide in their electronic response typically includes supporting evidence, such as funding commitments from other jurisdictions, letters of intent from lenders, or memorandums of understanding with service providers.

NOFA Applicant Support: Standard to any NOFA offering is an up-front NOFA overview and training offered live virtually and published as a recording. During an open NOFA process, applicants may submit questions which are responded to and then documented in a broadly accessible Frequently Asked Question (FAQ) document which is updated regularly.

**Challenges and Successes**

From OHCS's perspective, the competitive NOFA process gives the state the critical information for making difficult decisions with public resources. The scoring factors and criteria effectively allow the agency to prioritize the investment of limited development resources to achieve policy outcomes, incentivize small and culturally specific development partners, and reach geographies across the state. We have seen that having clear priority points can encourage development teams to work to meet the policy intent; including low-barrier access to housing, inclusion of culturally specific and responsive service partnerships, setting aside units to serve those with extremely low incomes, and reaching very rural communities across Oregon.

[2] These final due diligence items would include, for example, market studies, final architectural drawings, local permits and approvals.

The challenges with the timeliness are largely tied to the fact that resources are only sufficient to be offered annually and failure to be successful or meet those application deadlines means additional wait time to secure resources. Additionally, because we are providing funding reservations before fundamental project due diligence occurs, there is a significant body of work awaiting developers following a NOFA reservation.

| | Typical OHCS NOFA |
|---|---|
| Timeliness | Annual open application periods; 6 months+ for application process; followed by project due-diligence |
| Policy Objectives | detailed & customized |
| Culturally Specific Access | set-asides and planned; continuing work to expand capacity investments |
| Geographic Distribution | detailed location set-asides |
| Quality Control | reservation oversight |
| Program Compliance | program controls in place/federal cross-cutting regulations |
| Jurisdictional Coordination | calendared offering; pro-active engagement |
| Process Navigation | complex resources and numerous offerings |
| Development Success | diligence item oversight and performance |

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| Strong |
| OK / Neutral |
| Weak |

**POTENTIAL OPTIONS TO CHANGE**

Given what we know about funding processes and desired outcomes, there are a few operational levers that could be changed (alone or in combination) that could impact perception and ability for OHCS funding processes to unnecessarily delay project development.

1- **Timing of Fund Reservation / Readiness**: instead of standing up a project selection process before needed project due diligence, OHCS could re-align the offerings to occur once those readiness elements have been accomplished. This would mean that upon project selection OHCS would issue funding agreements instead of funding reservation and the project could swiftly move to construction.
   a. Needed Programmatic Change / Supports / Challenges:
      i. In order to manage this change and support small, rural, and culturally specific development organizations to have resources to get through due diligence and the holding of property, it would be advisable to invest in a pre-development program with related capacity investments to ensure ability for lower capacity resource constricted organizations to be successful.
      ii. Our current process allows our legal counsel months to oversee documentation and agreements for property investments; this change would require much shorter turn-around time with predictability.
      iii. Some funding sources, such as Article XI-Q bond funded resources, require projects to be identified in advance of the bond sale; this strategy will require careful navigation

and potentially a resource that could be used temporarily to bridge funding needs before the bond sale occurs.

2- **Consolidate Offerings**: with fifteen operating development funding resources and a large variety of policy objectives, the structure currently in place means that each resource is offered individually which poses some challenges navigating fit and resource. Instead, OHCS could consolidate these resources into one annual or semi-annual offering which would effectively allow applicants to put forward the project they want to build and have OHCS work to align with available resources. This would have the benefit of improving navigability and allowing greater controls to allow OHCS to meet project needs.
   a. Needed Programmatic Change / Supports / Challenges:
      i. To a large extent there are several state resources which have prescribed distinctions in statute that make them difficult to offer generically; would recommend statutory updates to align resources.
      ii. Would be interested in procuring an application system that would better navigate developers through navigating an application with several policy and program resources.

3- **Project Review Panel**: oftentimes at the end of a NOFA process there are relatively small point differentials between proposed projects that dictate which are going to receive funding. Another strategy for reviewing project proposals could be to require that projects meet minimum standards in support of policy and program objectives, and then have a statewide panel convene to review project presentations. This project review panel could then be charged with determining which projects should move forward to funding reservation. This would have the benefit of engaging leaders statewide in the decision-making process and would expedite the review process.
   a. Needed Programmatic Change / Supports / Challenges:
      i. A named Project Review Panel charged with spending the time annually or semi-annually in reviewing and prioritizing project funding recommendations; this has been considered to be too significant a time commitment for our Housing Stability Council to take on in addition to regular duties.
      ii. Clear support for Equity and Racial Justice and anti-bias training and strategies to ensure equitable outcomes.

4- **Open Offering**: if resources were sufficient to meet developer demand, OHCS could prescribe minimum expectations that allow for support and alignment with policy outcomes and take and process application on a first-come, first-reviewed basis. Effectively this could allow the resource commitment to be available when the developer is ready to move forward; it would best work where we are aligned with providing resources when project had accomplished due diligence. This strategy could provide surety of access to other funding jurisdictions.
   a. Needed Programmatic Change / Supports / Challenges:
      i. In addition to a pre-development resource would require that OHCS were staffed to provide project and pro forma technical assistance; this could likely be structured by subject areas so that those interested in developing different housing types could receive support and guidance from financial and programmatic experts that could work to resolve any potential barrier to final funding approval.

ii. A concern around first-come strategy is that it has historically disadvantaged small, rural and culturally specific organizations; proactive strategies would need to be incorporated to off-set this potential unintended consequence and could include setting resources aside, establishing geographic and organizational set-asides, etc.

iii. Some funding sources, such as Article XI-Q bond funded resources, require projects to be identified in advance of the bond sale; this strategy will require careful navigation and potentially a resource that could be used temporarily to bridge funding needs before the bond sale occurs.

5- **Developer Allocations:** in order to navigate around application processes, OHCS could be removed as a reviewing entity altogether and pass-through resources received directly to developers. This would likely function as a formula-based allocation or annual solicitation for resource requests from developers that are not tied to specific project investments. It would give developers dollars right away instead of needing to come seek it out from the state. There are many risks to this option, including the lack of oversight and accountability with the use of public resources. Policy objectives, geographic distribution along with racial justice intentions would be difficult to implement and measure. It would be much harder to tie these dollars to costs of construction; where resources allocated end up insufficient to meet project needs once the project is identified, it would leave OHCS without clear opportunity to problem solve and navigate challenges. Further, there is risk that without a connection to program expertise and oversight that we would struggle to have clear pathways on legal structures or long-term compliance.

a. Needed Programmatic Change / Supports / Challenges:

i. Without robust set-asides and directives around the geographic and equity goals of developer projects, we would struggle to maintain a policy role in driving toward outcomes and OHCS advisory bodies would need to alter expectations, including achieving the equitable distribution of funding to culturally specific, new and very rural project sponsors.

ii. While OHCS has several developer organizations that are regularly funded , it is also the case that staff change regularly at organizations and there is not guarantee that future staff will share the same expertise or performance. Meaning that current levels of capacity cannot be guaranteed over time.

iii. Without oversight and accountability, it is difficult to ensure that a project investment will be prioritized; additionally it is through navigation of priorities and preferences that innovation is fostered and resources are leveraged to support production goals.

iv. Some of the funding sources that OHCS uses (ex. LIFT, HOME) have associated spending timelines. It would be hard to track whether funds were being spent according to federal and state requirements.

v. It would be hard to track and audit how public tax dollars were being spent and if they were being spent in accordance with federal and state requirements.

vi. Federal cross-cutting regulations (environmental assessment, uniform relocation act, lead-based paint and federal prevailing wages) hold the state liable for missing any of these applicable regulations without the oversight and enforcement.

| | Adds #1/Readiness & #2/Consolidation to our current NOFA process | Adds #3 / Project Review Panel to Current NOFA Practices | Adds #1/Readiness & #2/Consolidation and #4 / Open Offering to update current NOFA process | Eliminates NOFA in support of Allocation Resources to Developers |
|---|---|---|---|---|
| | **Consolidated Readiness NOFA** | **Consolidated Panel Review NOFA** | **Open Consolidated Readiness NOFA** | **Developer Allocations** |
| Timeliness | Annual open application periods; 6 months+ for application process; straight to building | Annual open application periods; 4 months+ for application process; followed by due-diligence | Annual open application periods; 1 month for application process; straight to building | Awards to developers without project specific vetting |
| Policy Objectives | detailed & customized | informed by Project Review Panel member selection process | minimum expectations outlined | difficult to ensure expectations will be met without vetting process |
| Culturally Specific Access | set-asides and planned; continuing work to expand capacity investments | informed by Project Review Panel member selection process | risk if resources insufficient or not set-aside | difficult to align developer selection with culturally specific access; set-asides needed |
| Geographic Distribution | detailed location set-asides | detailed location set-asides | risk if not including detailed location set-asides | difficult to ensure distribution when resources not tied to viable projects |
| Quality Control | development team driving QC | reservation oversight | development team driving QC | development team driving QC |
| Program Compliance | program controls in place | program controls in place | program controls in place | program compliance risk |
| Jurisdictional Coordination | calendared offering; pro-active engagement | calendared offering; representation on Project Review Panel | always available if resources sufficient | jurisdictions would need to negotiate with developers |
| Process Navigation | clear point of entry | potential for perception that relationships inform decisions | clear point of entry | unknown details |
| Development Success | diligence item oversight and performance | diligence item oversight and performance | diligence item oversight and performance | unclear performance accountability |

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| Strong |
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**RECOMMENDATION**
OHCS Affordable Rental Housing Division has identified several potential strategies to update our strategies for allocating development funding in order to support expanded development across the state. As is clear, the funding processes alone will not fundamentally expedite development without needed support in expanding the construction workforce, investing in capacity statewide, and fostering innovation among developers. However, given the information about our priorities and the analysis of impact laid out here, and outlined in the graphic above, there are two top recommendations we would offer as our priority for initial discussion and consideration.

1- **Open Consolidated Readiness NOFA**: in a situation where development resources are sufficient to meet the developer demand[3], which would mean that every eligible project would have resources that could meet the need, then in an update that implements an open / first-come first-reviewed offering of all OHCS resources for projects when they have accomplished all pre-development activities, in conjunction with pre-development resources and internal technical consultants and program advisors to foster needed capacity, OHCS could effectively balance our objectives of being stewards of public resources accountable for short- and long-term compliance and policy objectives, along with timely demand-based application processes.

**2- Consolidated Readiness NOFA**: in a situation where resources are likely to continue to be insufficient to meet developer demand, we would recommend that OHCS work to consolidate offerings, focus on funding projects that are ready to proceed along with launching a pre-development and technical assistance strategy to fast track project investments, additional supports for streamlining application experience, while balancing program performance, compliance, and policy objectives.

Both of these proposed recommendations focus on an updated strategy aligned with final commitment of resource to projects when they are ready to move forward. This is the same pivot made with our 4% LIHTC program; having assessed that it is of critical import to have any available resources deployed into community through projects ready to be built. This focus on readiness is a careful balance with our non-negotiable intent to have these resources not only support historically underserved BIPOC Oregonians, but to also be a source of racial justice for organizations and people. OHCS has been a national leader in building equity and racial justice into our affordable housing funding efforts, and this is not the time to take steps back in our path toward progress and accountability. As such, any transition in our funding strategies will need to carefully and deliberately keep equity and racial justice at the center.

Lastly, these shifts in processes and engagement will require that OHCS business practices, operational flows, and staffing be updated to align and meet the needs of the new structure. This work is doable but will take positions, resources and time to execute; with clear direction we would begin work toward implementing beginning with our 2024 program delivery.

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[3] In the previous two years OHCS received over $600 million in project applications; given Private Activity Bond constraint it is likely that resources upwards of $800 million to $1 billion could be deployed over the course of a biennia with current developer capacity.

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Date: August 5, 2022

To: Housing Stability Council Members;
Andrea Bell, Executive Director

From: Roberto Franco, Assistant Director of Development Resources and Production
Natasha Detweiler-Daby, Director of Affordable Rental Housing Division

Re: 4% LIHTC / Private Activity Bond - Decision

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**Motion: to approve the programmatic direction as laid out within this memo [or with noted revisions] in order to move forward with:**

- **drafting needed programmatic updates into the Qualified Allocation Plan (QAP) for public comment,**
- **utilize existing authority within the QAP to use up to one year of 9% LIHTC allocation to support the 4% LIHTC and Private Activity Pipeline,**
- **waive organizational resource caps and align the affordability period of the 9% LIHTC deployed for this use with funding sources to maximize affordability terms and ability to leverage existing commitments of gap resources,**
- **update the 2023 Funding Calendar to incorporate these updates, and**
- **work toward updating and launching the existing Loan Guarantee Program by 2023 and launching a new Pre-Development Loan program in 2023 in order to support small and culturally specific development organizations in meeting readiness thresholds.**

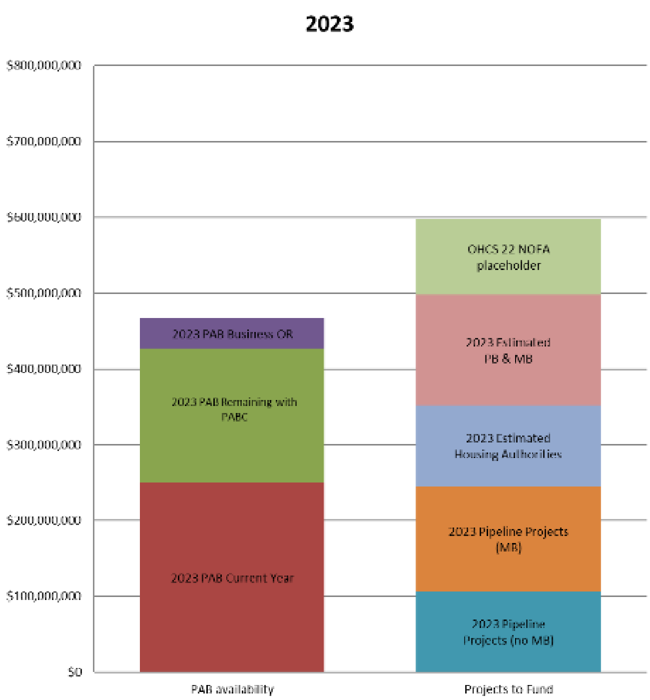
**Overview:** This month the Affordable Rental Housing Division will be bringing forward a motion to allow staff to work toward implementing the programmatic updates that have been presented to Housing Stability Council (HSC) and are contained within this memo, in reference to the 4% LIHTC and Private Activity Bond resources. Following approval, staff will be able to move forward with incorporating needed language updates into the Qualified Allocation Plan (QAP) which guides the LIHTC resources. The QAP will return to HSC for official adoption following formal public comment in the last quarter of 2023. In addition, the approval we are seeking will allow staff to move forward with near term interventions to re-cast the pipeline, using a year of 9% LIHTC to lessen demand for Private Activity Bonds while supporting projects that are ready to move forward if they can access affordable housing resources.

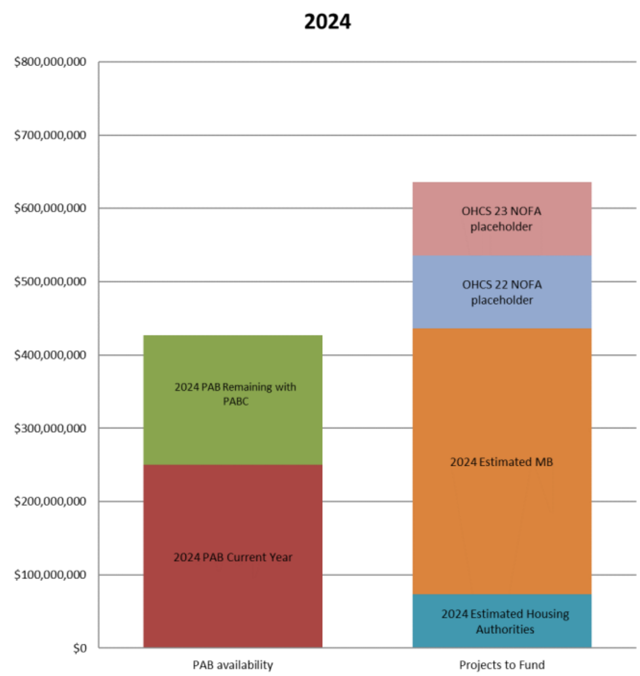
The role of this memo will be to lay out key features of this programmatic update for adoption and support of the Housing Stability Council.

EQUAL HOUSING OPPORTUNITY

**Challenge:** Private Activity Bonds (PAB) are necessary in order to generate a 4% Low Income Housing Tax Credit (LIHTC or "Tax Credit") to fund affordable rental housing with leveraged Tax Credit equity investments. PAB authority is a limited resource allocated to states and while in the past we had ample resources to meet demand by using prior year's unused PAB (carry forward), we are now in a position where we are spending as much PAB as is available to us and the demand exceeds that supply. In short, the success we have found in the past few years of utilizing this previously underutilized resource has resulted in its oversubscription which we now must adjust to.

**Current Situation:** The existing pipeline of projects with commitments in both 2022 and 2023; with demand for resources that far exceeds supply for several years. Substantial resources from state investments (LIFT, PSH, Preservation) as well as Portland Metro area voter approved resources that are dependent on the 4% LIHTC leverage.




## <u>KEY PROGRAMMATIC UPDATES AND STRATEGIES:</u>

**Key Programmatic Updates:**

- <u>Extend 60-year affordability</u> to all 4% LIHTC transactions to align with other programmatic investments (note: with the exception of the Article XI-Q bond resources which are designed to work with a 30-year affordability period that is extended for another 30 years in order to satisfy the loan).

- Require cultural responsiveness and strategies to align with furthering equity and racial justice that goes beyond base expectations for affirmative marketing and tenant selection processes.
- Prioritize readiness to proceed and performance for project investments. Since the demands for resources exceed the supply, when we make the decision on what projects to fund, we should be investing in those that will be successful in moving forward timely. Further, this approach will add predictability around deploying resources into the community; ability to ensure all available resources are used to further affordable rental housing investments. Where projects are not successful in meeting readiness benchmarks, we would further seek to have projects leave the pipeline and re-enter when ready.

In order to offset the future impact of readiness to proceed thresholds for accessing Private Activity Bonds for small and culturally specific organizations, we are also seeking HSC directive to:

- Update the Loan Guarantee Program to ensure the program is effective in supporting small and culturally specific development partners in seeking needed third party permanent debt.
- Develop a Pre Development Loan Program focused on projects with funding awards through OHCS to access resources before closing in order to meet project readiness criteria.
- Once implemented, continue to evaluate the effectiveness of these interventions, along with the existing Land Acquisition Program in supporting small and culturally specific development partners.

**Resource Buckets:** Last month we introduced a strategy by which, after considering pipeline needs for the Housing Authorities, we would establish resource buckets targeting 70 percent of resources where there are substantial local funding investments; the remaining 30 percent would allow OHCS to ensure coverage of rural communities as well as preservation projects. We heard from HSC a discomfort with this resource use as not broadly representing the need to invest in rural communities. The first shift we have incorporated is to specifically attribute the resource bucket to Portland Metro Counties vs the Balance of State.

To further follow up on this we shared the following data with development stakeholders and polled the group for preferred resource attribution:

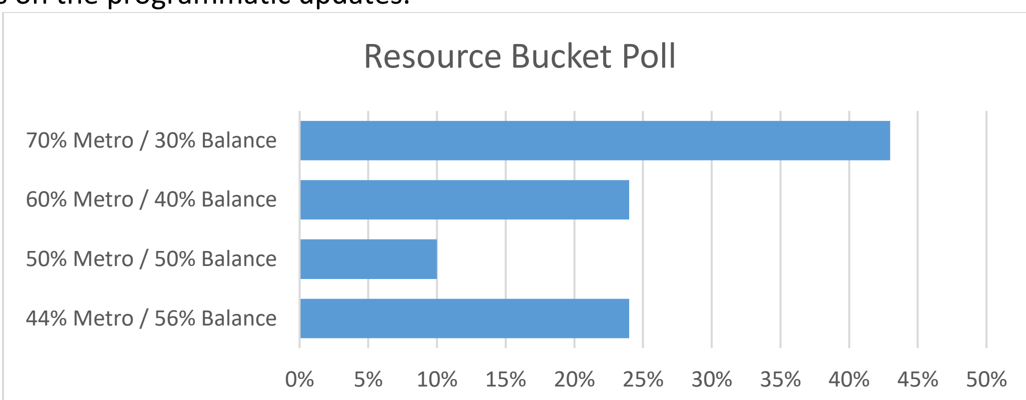
- In the last three years within the non-competitive PAB structure:
  - ~ 85% of the projects using PAB and
  - ~ 67% of the PAB have been invested in Portland metro counties (Clackamas, Multnomah & Washington ).
- ~ 44% of the state population is in the Portland metro counties

- ~ 50% of the states 60% AMI Renters with BIPOC head of household & severely rent burdened with BIPOC head of household are in Portland Metro counties

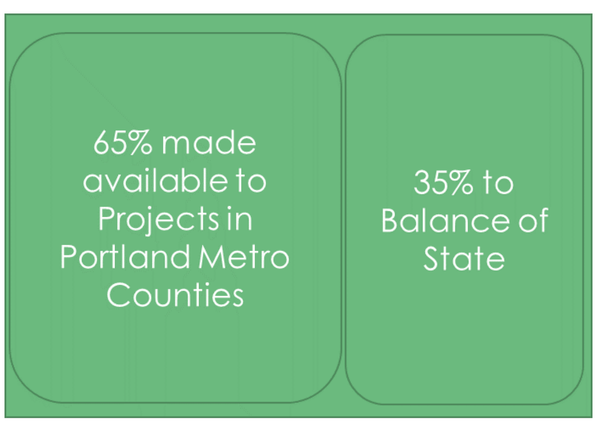
In addition, as we discussed last month, it is important to note that 4% LIHTC tends to be the most effective funding structure when the scale of the project is large enough to offset the costs inherent to issuing bonds.

- As such, nationally these resources tend to work better in larger urban areas. OHCS has managed to generate 4% investment in rural communities in our use of the state LIFT resources; however even with those in place over the past few years 67% of PAB has been used in the Portland Metro Area.
- Structurally, as OHCS builds our biennial funding calendar we intentionally align more gap resources to support small project development to rural areas in order to off-set the reality of the 4% LIHTC and economies of scale.

The following reflects the result of the polls submitted in our July 20th 2022 engagement with partners on the programmatic updates.




As such, our recommendation is to revise the resource bucket as follows, with biennial evaluation of the practice given that after Metro Bond resources are deployed the demand in Metro Counties for the resource will decline.



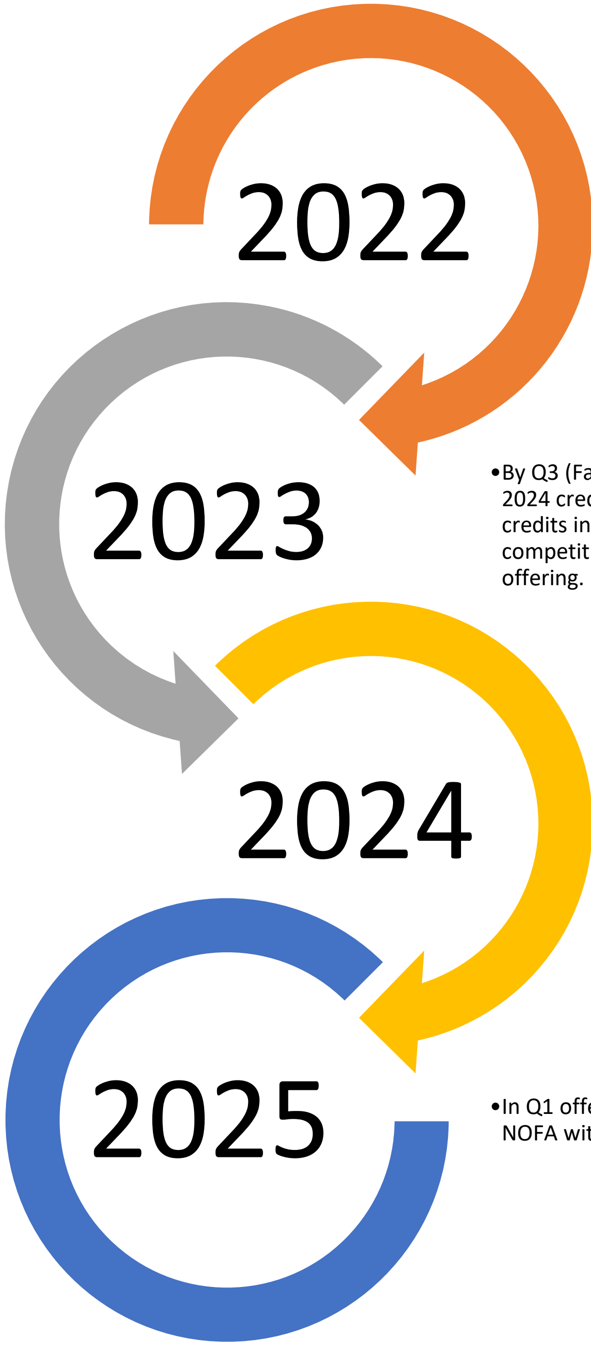
**Prioritization Criteria:**

- PAB project commitments and assignment on the closing calendar will be made in this order for each resource bucket:
    1. Housing Authority Owned Projects
    2. Projects with significant local funds (loans/grants)
    3. OHCS & Federally Funded Projects
    4. Projects without public subsidy
- If set-asides are over-subscribed projects requesting resources will be prioritized in the following order:
    1. Culturally specific projects/partnerships (likely based on QAP/LIFT NOFA parameters)
    2. Highest % of units serving Extremely Low-Income households
    3. Permanent supportive housing rent assistance + supportive service funding for people experiencing chronic homelessness

**9% LIHTC Consideration:** one of the key strategies to decompress the current constraint of resources for 4% LIHTC is to use an annual allocation of 9% LIHTC (already competitive) for 4% projects already in the pipeline. Essentially switching the source of LIHTC for those projects already in our pipeline.

- While this resource is not a fit for all projects (it would be a good fit generally for smaller, policy rich projects), we believe this strategy could reduce reliance on PAB by $90 - $120 million.
- This would be deployed with a lite application made available to pipeline projects which updated pro forma modeling to use a 9% LIHTC; OHCS would have discretion to prioritize projects that are a best fit and will maximize the reductions to PAB use.
- Based on stakeholder feedback we further understand that:
    - Given the variety of gap funding within these projects, including Article XI-Q bonds, we would need to have the authority to align affordability terms with the goal of ensuring the ability to use the gap funding while maximizing affordability terms.
    - The use of the 9% LIHTC resource in this deployment should not be considered as incorporating projects into our traditional 9% LIHTC organizational caps, but instead be treated as an exception to that policy.
- The following is the anticipated timeline associated with incorporating this strategy is displayed in the following graphic:

## 9% LIHTC Strategy Implementation Timeline




- By Q4 (end of year) deploy a "lite" application to the 4% pipeline for an allocation of 2024 9% credits.

- By Q3 (Fall) offer remaining 2024 credits (if any) and 2025 credits in a traditional competitive 9% offering.

- In Q1 bring recommendations for allocations of remaining 2024 and 2025 9% Tax Credit projects would go to HSC.
- No additional 9% LIHTC offerings would be made

- In Q1 offer traditional 9% NOFA with 2026 tax credits.

# Oregon Housing & Community Services

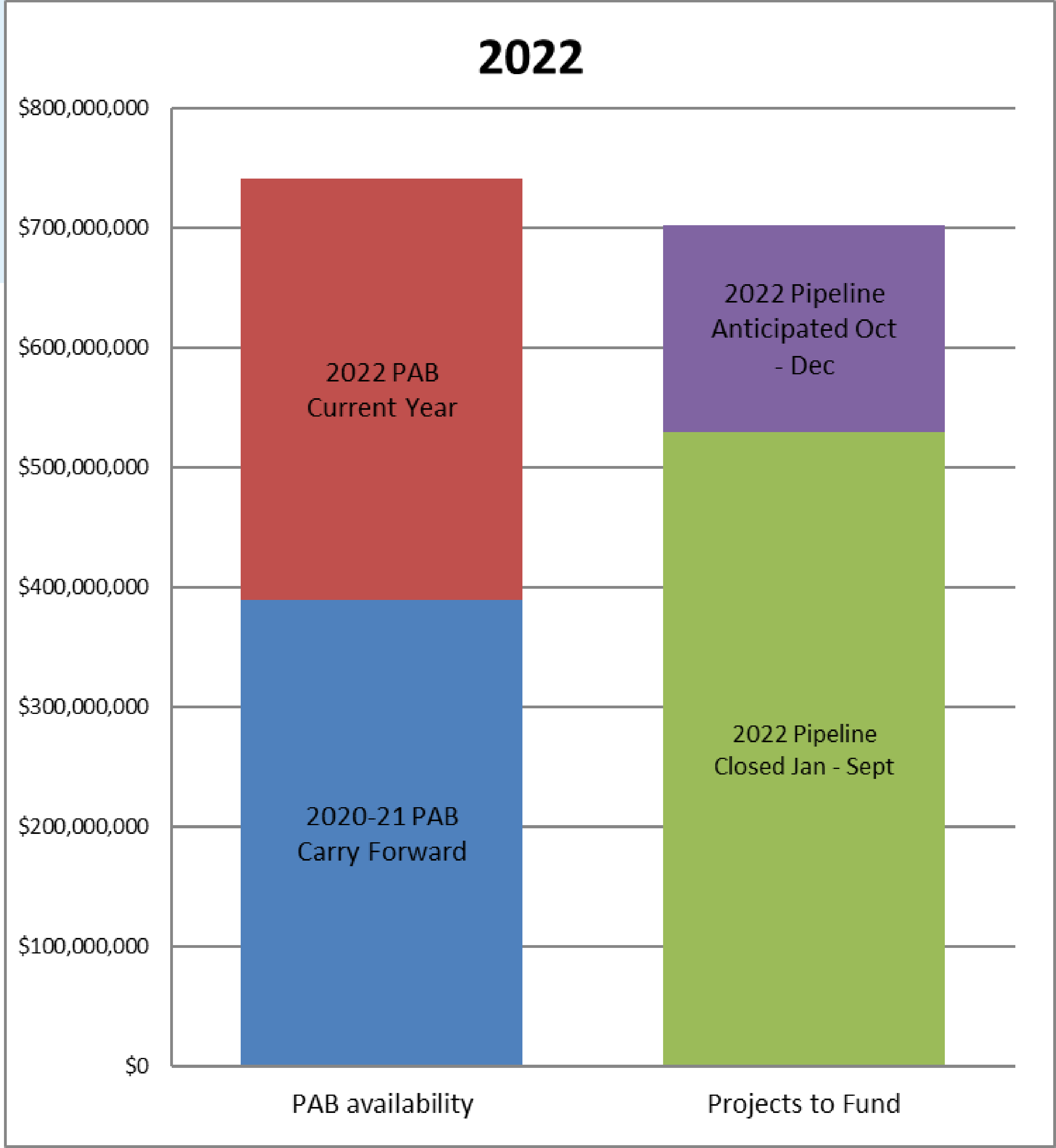
Private Activity Bond Committee

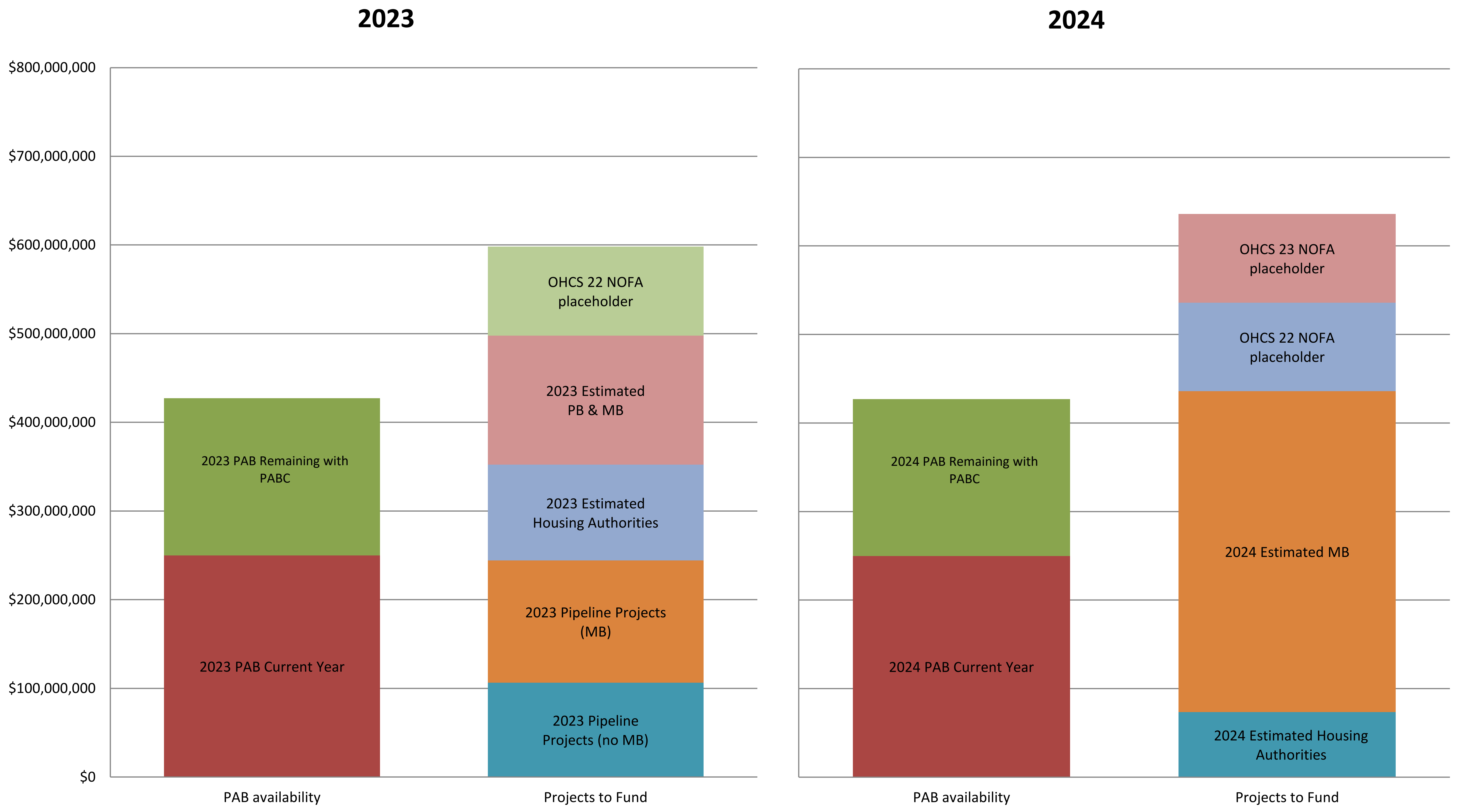
October 19, 2022

OREGON HOUSING and COMMUNITY SERVICES

# PAB Resource use for 4% LIHTC Leverage

- $529.2M in PAB by Oct 13, 2022
  - Deployed to fund 2369 units: 32 projects
- $173.1M in PAB remaining
  - Project Recipients prior to establishment of a readiness criteria
  - PAB investment will serve to fully fund remaining 2022 pipeline, including cost escalations seen.
  - Closing dates may shift into 2023 due to rapidly increasing development cost.





2023
2024
$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
2023 PAB Remaining with PABC
2023 PAB Current Year
OHCS 22 NOFA placeholder
2023 Estimated PB & MB
2023 Estimated Housing Authorities
2023 Pipeline Projects (MB)
2023 Pipeline Projects (no MB)
2024 PAB Remaining with PABC
2024 PAB Current Year
OHCS 23 NOFA placeholder
OHCS 22 NOFA placeholder
2024 Estimated MB
2024 Estimated Housing Authorities
PAB availability
Projects to Fund
PAB availability
Projects to Fund

# Efforts to Maximize Impact of PAB

- Single-Family Bond Program
  - Short-term bond to preserve recycled PAB
  - Recycling PAB
- Multifamily Rental 4% LIHTC Program
  - Using a year of the 9% LIHTC resources to reduce reliance on PAB
  - Commitment of gap resources to Portland Metro projects to reduce reliance
  - Pilot effort to recycling short-term PAB to fund projects that do not require 4% leverage

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# OHCS 4% Process Changes

- Focus on Readiness to Proceed & Performance
  - Project to be held accountable to identified Readiness to Proceed Benchmarks and closing timelines
    - Implement efforts to mitigate unintended consequences for small and culturally specific organizations
- Updated Program Policies:
  - 60-year affordability
  - Required Cultural Responsiveness beyond affirmative marketing and tenant selection processes

OREGON HOUSING and COMMUNITY SERVICES

# OHCS 4% Process Changes

- PAB resources moving forward (2023 and ahead) will be allocated after the screening of award order:
  - Two set-asides:
    - 65% to Metro (Washington, Multnomah, and Clackamas Co.)
    - 35% to Balance of State (any other counties)
  - Award order will prioritize:
    - 1 - projects that are "Housing Authority Owned" projects
    - 2 - projects that have a significant amount of local funds
    - 3 – project with OHCS and/or federal funding
    - 4 – projects without any other subsidy source

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# OHCS 4% Process Changes

- Second tier priority (tie breaker)–
  - 1st priority will go to projects that have a culturally specific sponsor as outlined in the definitions of the QAP
  - 2nd priority will go to projects that are serving the highest percentage of units that are designated to serve Extremely Low Income (30% AMI) households.
  - 3rd priority will go to projects that have been awarded OHCS Permanent Supportive Housing resources either rental assistance or supportive funding.

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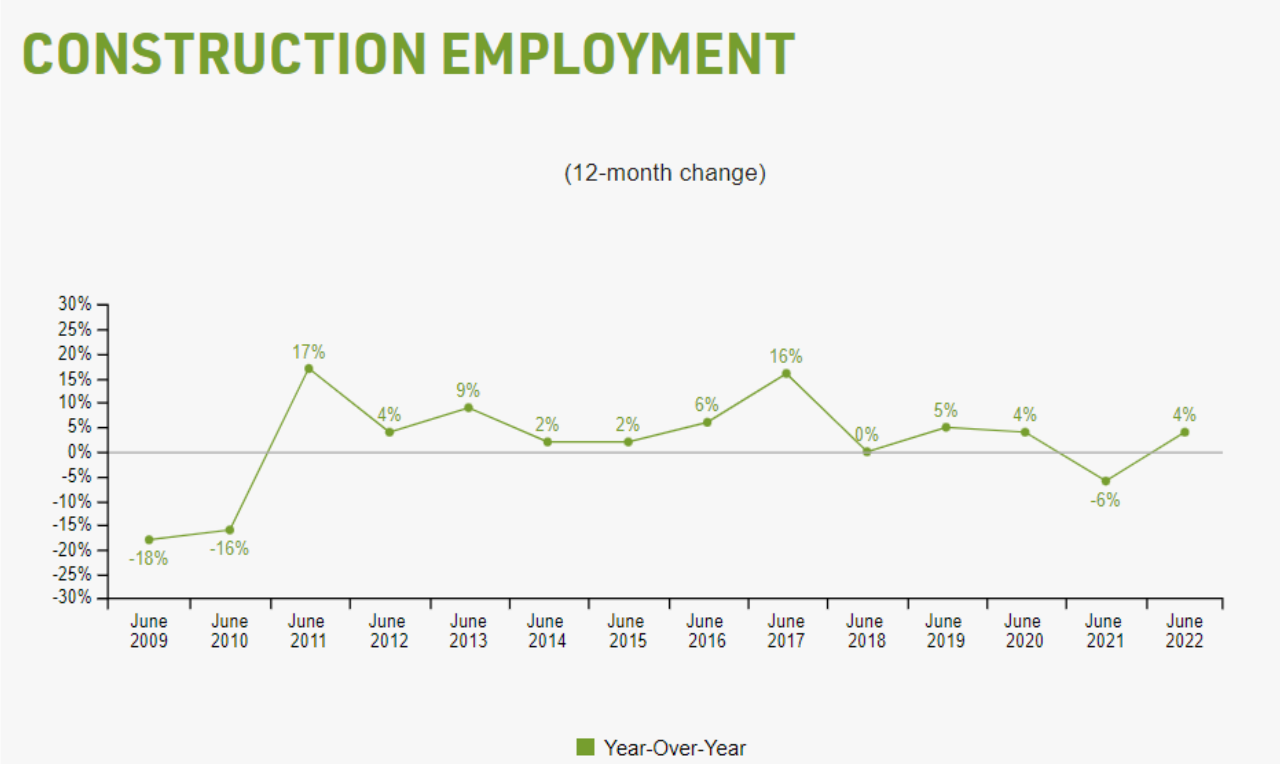
# Volatile Development Climate

- Labor Shortage - Nonresidential construction employment in the Portland metro region totaled 8,300 in June 2022. This is a 4% increase (300 jobs) compared to June 2021. Labor availability will remain a top concern throughout 2022.




Source: Bureau of Labor Statistics

# Volatile Development Climate

- Inflation–
  - The Federal Reserve raised its key interest rate by 0.75% in September in an effort to curb inflation. It was the fifth hike of the year, and the third consecutive three-quarter point increase. That means the Fed's benchmark interest rate is around 3% to 3.25%, with expectations that it will exceed 4% by the end of the year.
  - Higher rates can make borrowing debt more expensive and reduce loan proceeds, putting increasing stress on development budgets.
  - 71%, of the 21 LIHTC syndicators surveyed in August expect credit pricing to developers to hold firm, while 29% expect prices to hold or dip in the second half of this year.
  - For every full 100 basis point rise in interest rates, borrowing proceeds decline roughly 10%.

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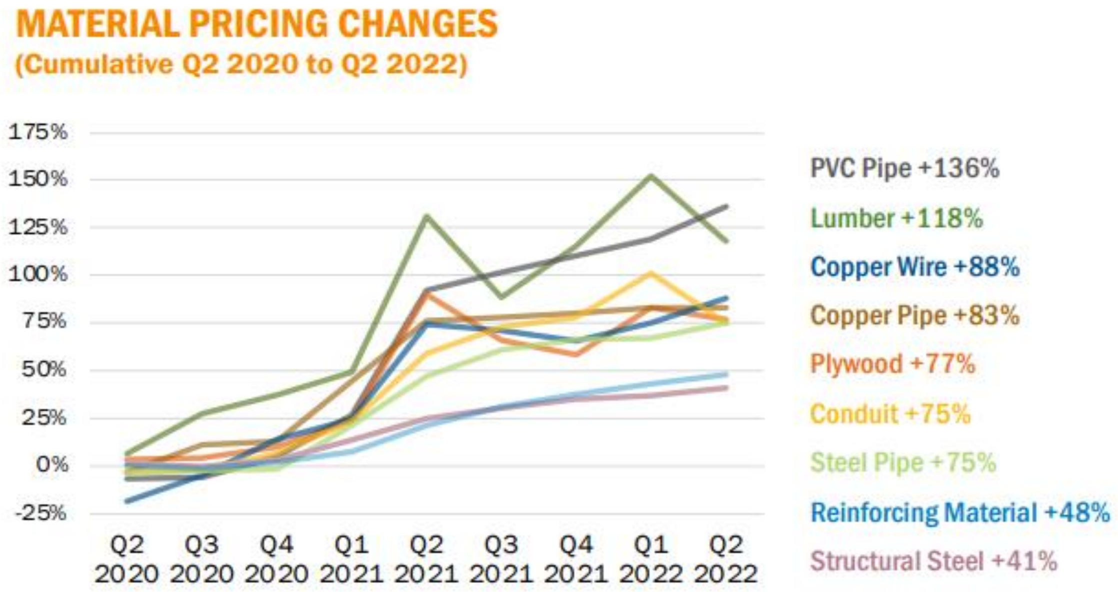
# Volatile Development Climate

- Costs for building materials remain escalated due to continued increases in shipping costs, fuel surcharges, product lead times, and material shortages.




Source: Mortenson Cost Index

# Timeline Review

**Nov 2021**

*4%/PAB program was paused to pivot.*

**Aug 25 – Oct 3, 2022**

*4% Application cycle reopened requiring updated readiness information from current pipeline projects and NEW project applications*

**Oct-Nov 2022**

*2023 QAP draft available for public comment*

**Dec 2023**

*OHCS Pipeline projects requesting consideration under the 9% LIHTC intervention, would be recommended to HSC this month.*

*Updated QAP implemented*

**April 2023**

*If additional PAB resources are available a second application period would open this month.*

**Aug 2023**

*Any remaining 9% LIHTC resources available after 4%/PAB resource intervention and swap would be offered in a NOFA slated to open this month.*

**February 2024**

*Regular Q1 9% LIHTC NOFA offering available*

***April 2024***

*Latest date of announcement for any 2024 4%/PAB application period.*

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# Thank You

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OREGON HOUSING and COMMUNITY SERVICES
725 SUMMER STREET NE, SUITE B | SALEM, OR 97301
503-986-2000 | www.oregon.gov/OHCS

Date: February 3, 2023

To: Housing Stability Council Members;
Andrea Bell, Executive Director

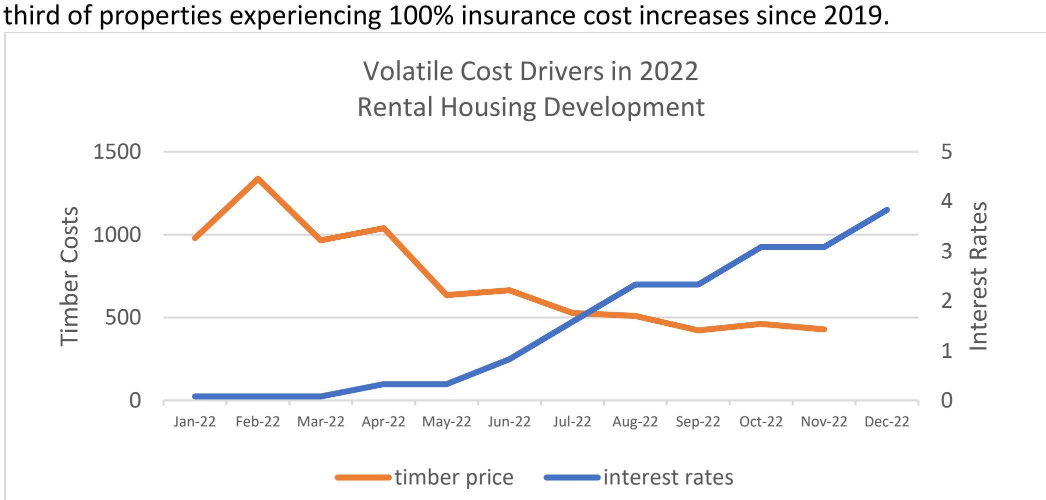
From: Roberto Franco, Assistant Director of Development Resources and Production
Natasha Detweiler-Daby, Director Affordable Rental Housing Division

Re: Market Cost Offset Fund (MCOF) Status Briefing

**Background**
At the April 1, 2022 meeting, the Housing Stability Council (HSC) approved the framework and criteria for the deployment of collective resources – 2022 general fund appropriation ($50 million) and other available OHCS resources, through a Market Cost Offset Fund (MCOF).

MCOF is a mechanism to pool and deploy various resources to address multifamily affordable housing development and construction over runs due to volatile costs. There are numerous drivers for cost fluctuation and volatility in the current market; among them are:

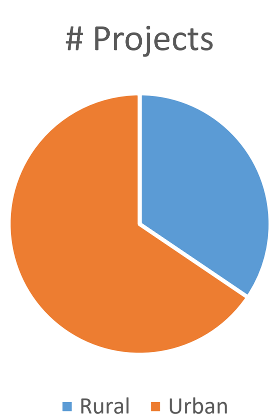
- Construction Materials: material supply chain challenges and costs have been volatile since early 2021; lumber calmed in 2022 at the same time as interest rates increased. (see chart below)
- Construction Labor: Bureau of Labor Statistics indicates that construction worker shortages are likely to persist into 2023; these shortages drive up costs.
- Interest Rates: there has been dramatic increase in interest rates over 2022 which began at a fed interest rate of 0.08 and ended 2022 at 3.83. (see chart below)
- Insurance: projects across the state are reporting dramatic increases to insurance premiums with drives up the cost of operations and allows projects to take on less debt. OHCS has conducted a survey which shows a median insurance cost increase upwards of 40% with over a third of properties experiencing 100% insurance cost increases since 2019.

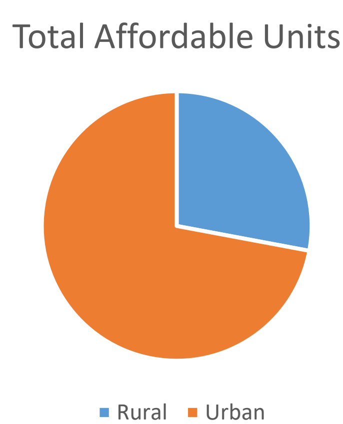


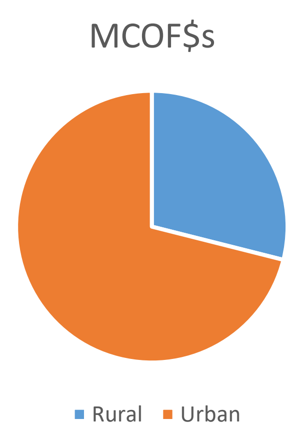
In addition to the allocated $50 million in resources, we have been able to make use of small amounts of other un-used or returned OHCS resources, primarily LIFT, GHAP, HOME and National Housing Trust Funds that have been added to the MCOF pool to address critical funding gaps preventing projects from moving forward. In each case, we worked with developer partners to identify the most appropriate funding gap source to use.

**Current and Near-term Funding Gap Outlook**
Significantly, at this point in time, there are not sufficient resources remaining to allow us to robustly support pipeline project cost increases moving forward. We provided notice to partners in the fall of 2022 that the resources set aside for addressing cost increases were over-subscribed and should not be relied upon. Our 2023 4% LIHTC pipeline has been prioritized with those projects indicating they do not have funding gaps and are projects that intend to go to financial closing in the first 6 months of 2023. As we bring forward NOFA project funding recommendations, we are emphasizing with applicants that they should be modelling in the current market of rising costs, with some allowable escalation rate so that they can be resilient to potential cost increases as they move through their final steps of due diligence.

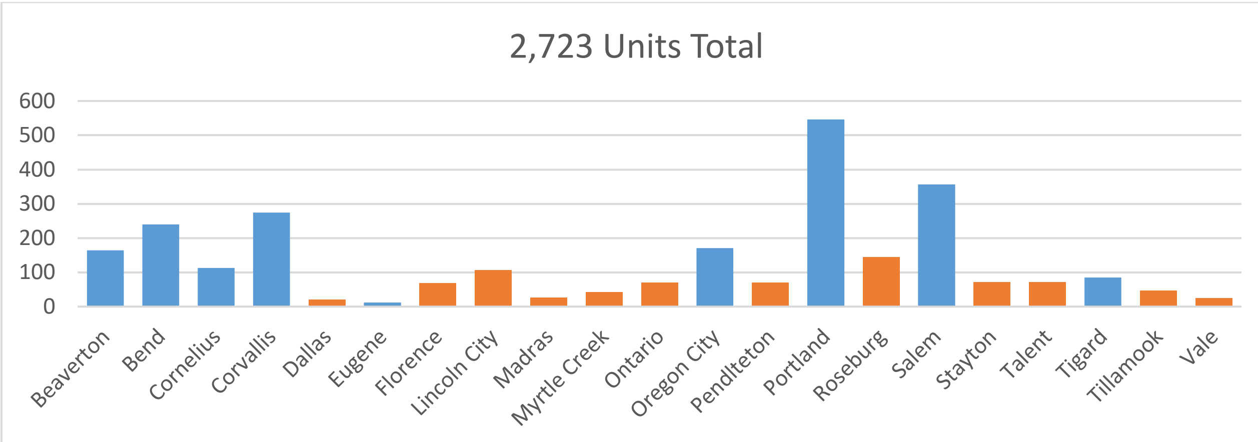
**2022 Market Cost Offset Fund Use Report**
The following is a brief update on the performance of our use of resources to support projects move forward with construction closing. The graphs below provide an overview of the communities and projects that received funding gap assistance through the MCOF.




| | Grant / Loan Funds |
|---|---|
| **Total State Resources** | **$70,151,558** |
| General Funds/GHAP | $51,551,586 |
| PSH | $7,726,570 |
| LIFT | $10,873,402 |
| **Total Federal HOME & HTF** | **$6,144,372** |
| **Total MCOF Supports** | **$76,295,930** |




| | # with Metro Bonds | Did Incorporate Value Engineering | Did Re-Scale Project | Developer Fee Adjustment |
|---|---|---|---|---|
| Rural | | 9 | 6 | 6 |
| Urban | 6 | 15 | 4 | 9 |
| **Total** | **6** | **24** | **10** | **15** |

| | Changes to Debt | Successful in Adding Subsidy | Did Increase Tax Credits / PAB | Did Negotiate Higher Tax Credit Pricing |
|---|---|---|---|---|
| Rural | 7 | 2 | 6 | 3 |
| Urban | 9 | 8 | 4 | 4 |
| **Total** | **16** | **10** | **10** | **7** |