

OREGON OPPORTUNITY NETWORK WORK SESSION WITH OHCS HOUSING COUNCIL



The Watershed @ Hillsdale

December 4, 2009

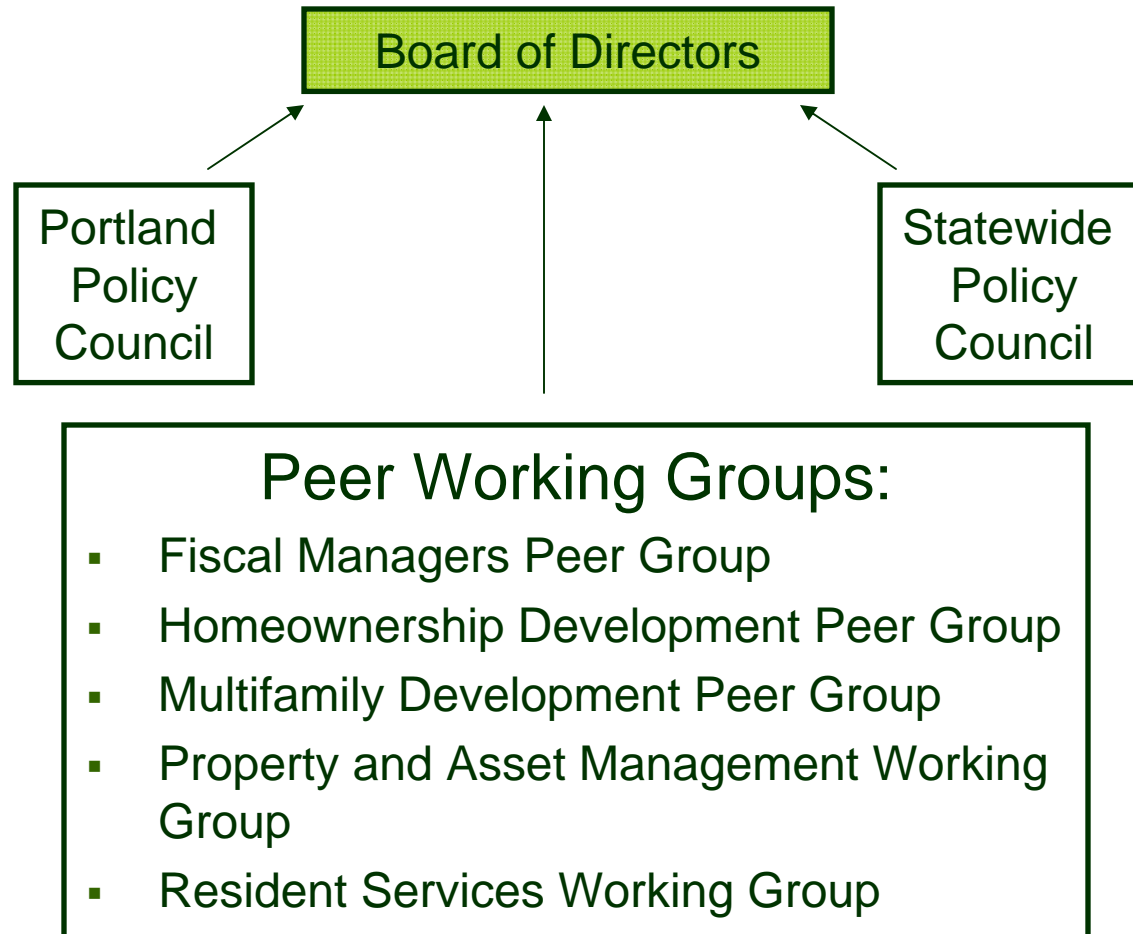
1. Introduce

Oregon Opportunity Network

- 42 affordable housing and community development organizations across the state
- 60 affiliate members
- Oregon ON supports and strengthens our members through advocacy, peer learning, and best practice development
- Members have developed over 13,000 units of affordable housing including over 1,500 single-family homes for purchase, and provided counseling and education to over 10,000 new home buyers annually.

**Board Chair: Margaret Davidson,
Community Connections of NE Oregon, Inc.
Vice Chair: Robin Boyce, Housing Development Center
Treasurer: Sean Hubert, Central City Concern**

Oregon ON Structure



Visit us @ www.oregonon.org

AGENDA

1. Introduction to Oregon ON
2. Review of Agenda
3. How we Got in this Housing Hole
4. Leave Behind Messages for Today
5. The Quick Pocket Guide (reminder) of Affordable Housing Finance
6. Cost Factors Affecting Development & Operations of Affordable Housing
7. The Non-profit Business Model
8. Discussion/ Questions



2. How we Got in this Housing Hole

- Incomes of Low Income Oregonians Falling
- Relative Relationship of Wages and Housing Costs has Gotten Worse
- Disinvestment by Federal Government
(reduction of rent subsidy and other programs)

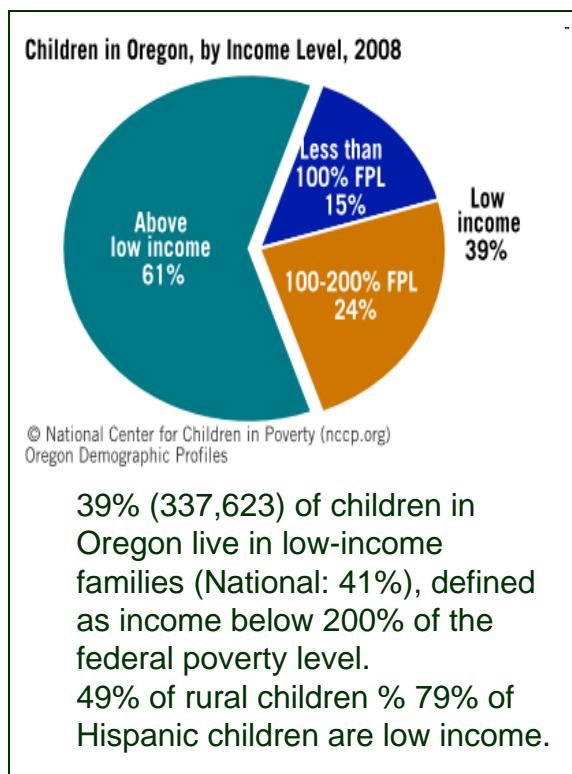
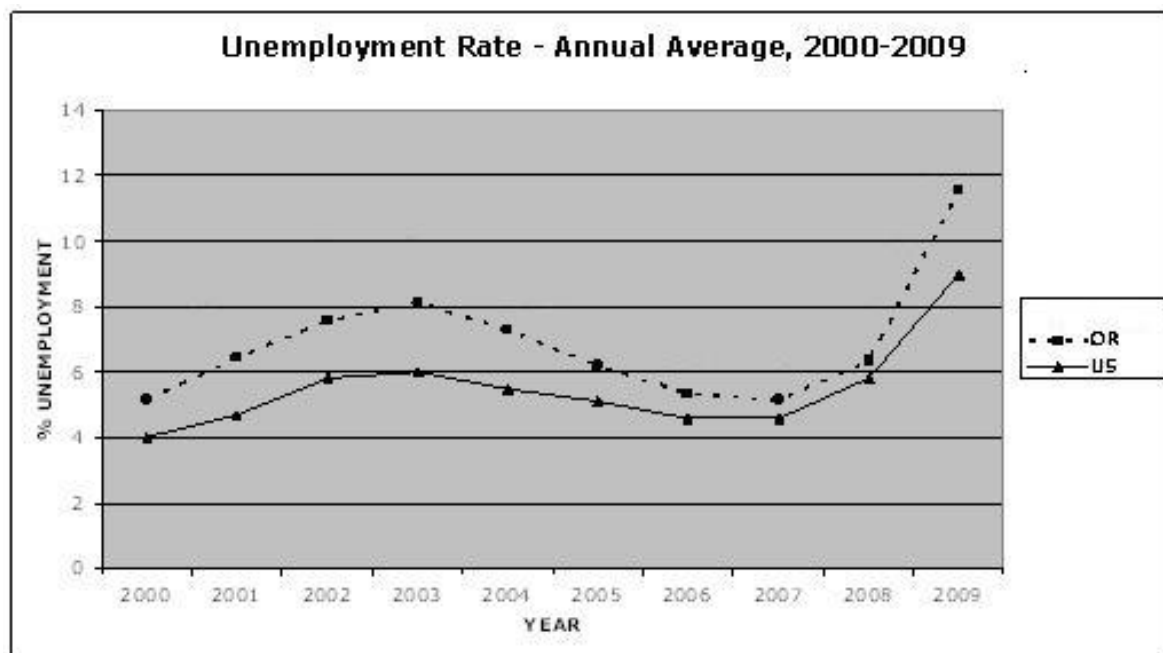
Low Income Oregonians:

- Real income has decreased
- Unemployment has been higher than national average
- Among the top ten states in growing disparity of incomes

OREGON Inflation-Adjusted Change in Incomes: Late 1970s to Late 1990s

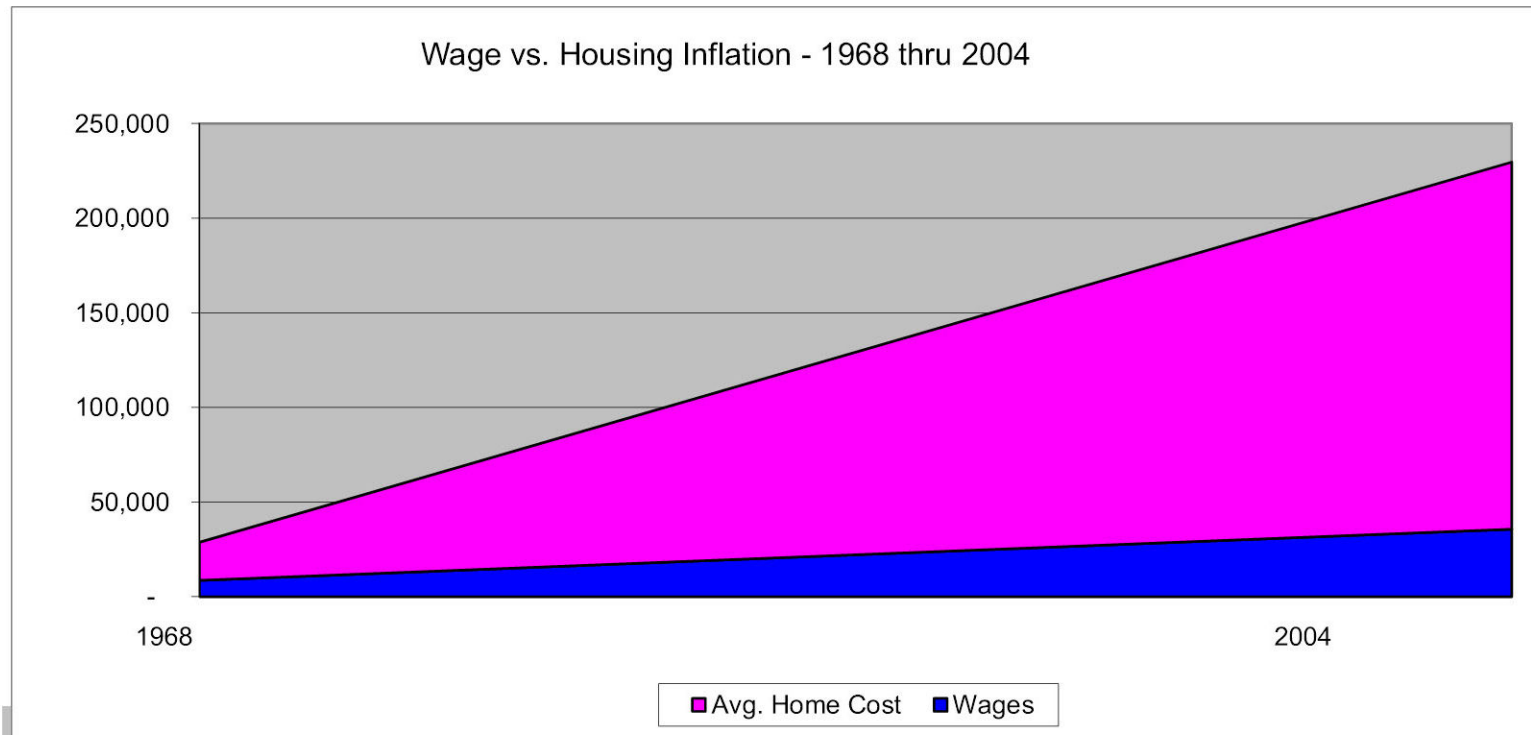
By Fifth of Population	Dollar Change	% Change
Poorest Fifth	(\$1,930)*	- 13%
Middle Fifth	\$190	0%
Richest Fifth	\$49,520*	+ 52%

Economic Policy Institute/Center on Budget & Policy Priorities



The primary reason Oregon has such a high rate of hunger is that the cost of living has increased dramatically while wages for workers with limited education and training have stagnated or lost ground. Over last decade, Oregonians have seen dramatic increases in the cost of housing, energy and healthcare. Often a family's food budget is the only place to cut and families begin reducing their food purchases.

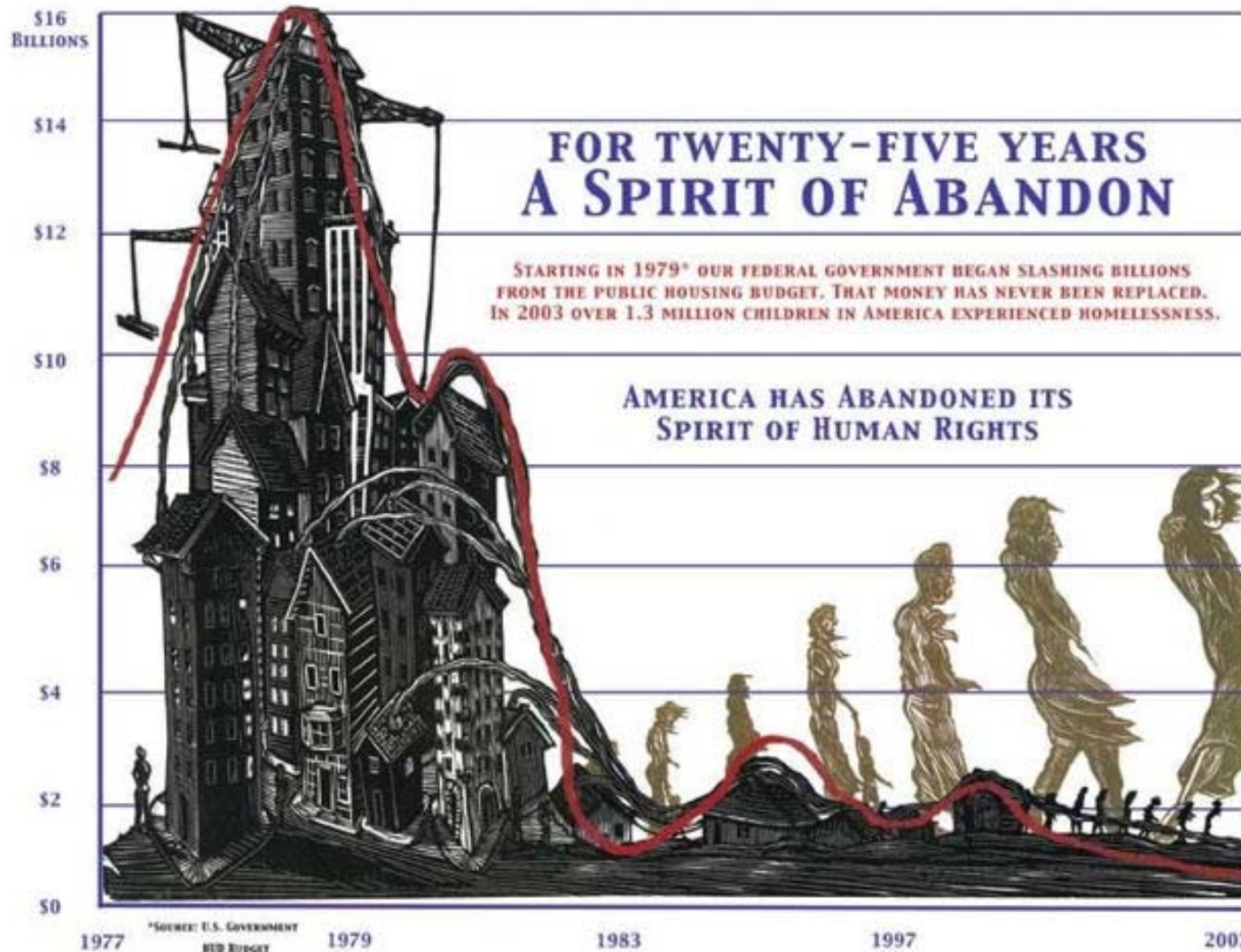
The Oregon Food Bank (2009)



Year	Average Annual Wage	Wage as % of Home Cost	Average Home Cost	Avg. Oregon 2008 Home Cost	Oregon Avg. Home Cost vs. US Avg.
1968	8,630	43%	20,100		
2004	35,648	18%	193,991	273,300	+ 38%
% Increase	413%		965%		

Data from SS Administration tables and Marketwatch.com

Disinvestment by Federal Government



3. Leave Behind Messages for Today:

- ❖ “80/20” Rule: “Affordable” or “Assisted” housing fills the gaps that the private market does not.

- ✓ Special Needs
- ✓ Very Low Income
- ✓ Accessible Housing
- ✓ Locations



❖ Defining Success:

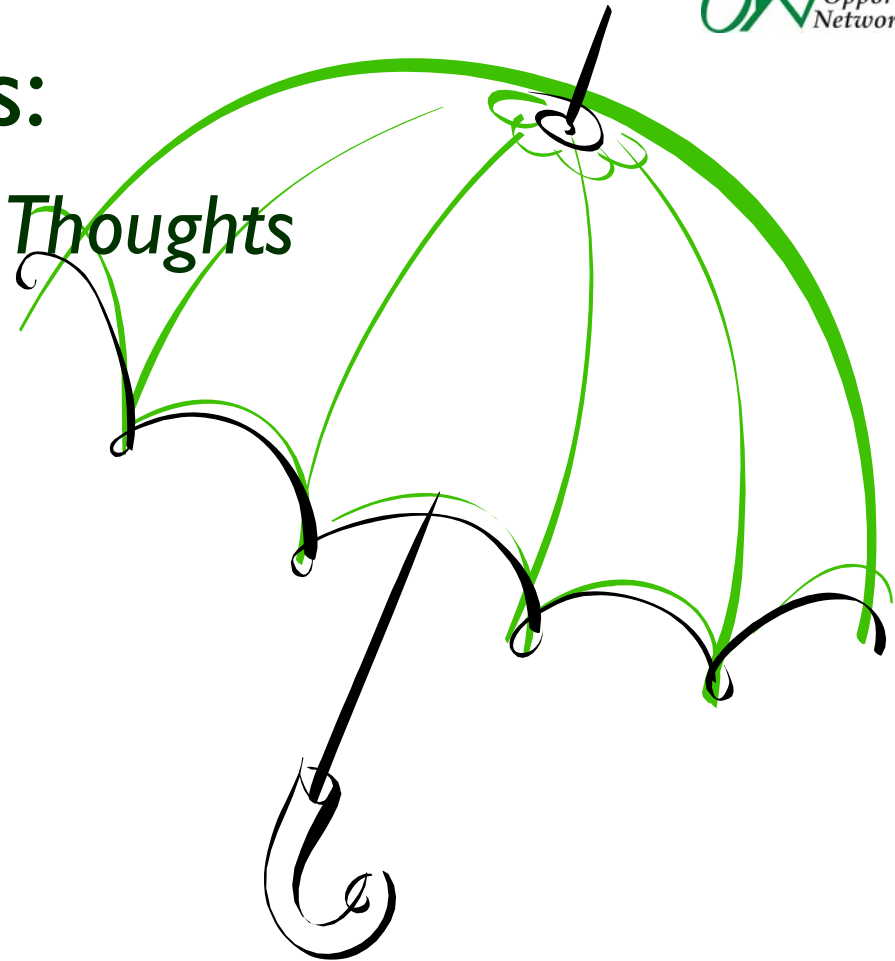
Reminders & New Thoughts

Success Umbrella:

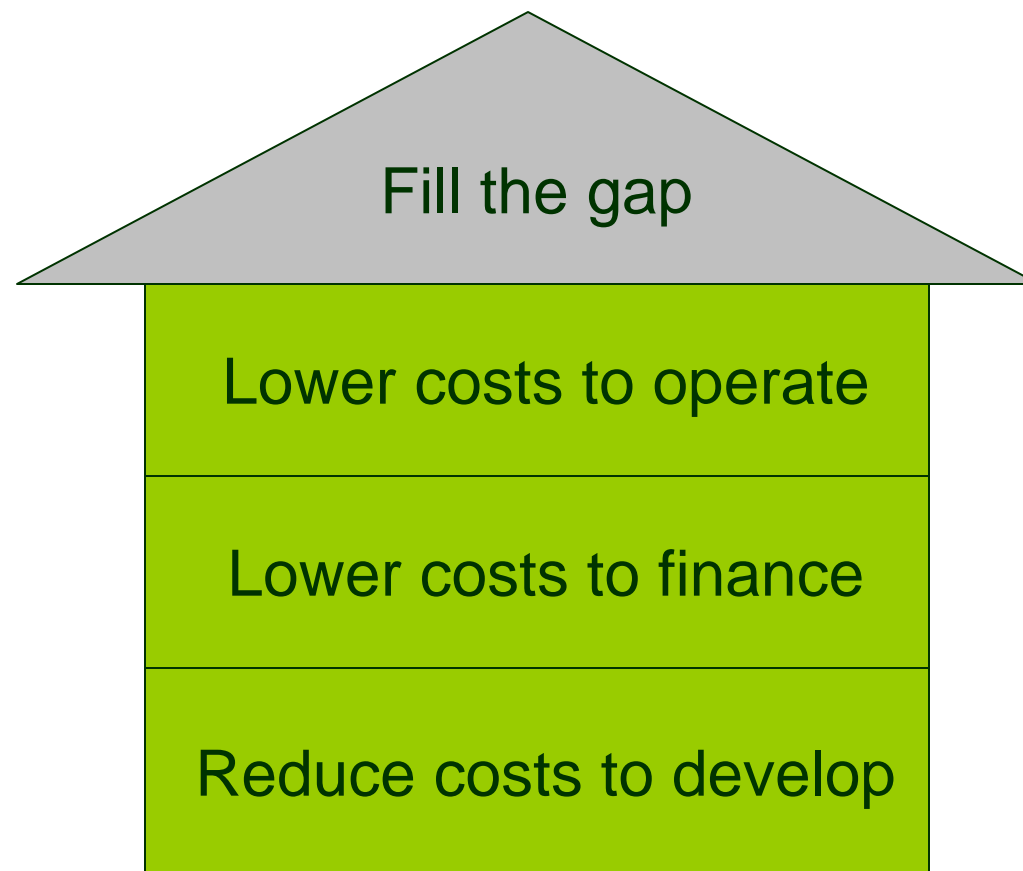
- Healthy residents
- Sustainable projects
- Healthy communities
- Sound sponsors

Measures:

- *Rent saved (for tenants) compared to market – depth of affordability*
- *Not just units produced, but unit years*
- *What you leave behind in terms of community capacity*



❖ Affordable Housing Finance: *four approaches*



❖ Balancing Public Cost & Public Benefit:

Large



Senior

Farmworker



*Special
Needs*

*Each project has a unique context of goals,
needs, benefits & costs*

4. The Quick Pocket Guide (reminder) of Affordable Housing Finance

AFFORDABILITY:

HUD Definition: Tenants pay no more than 30% of their income for housing expenses (rent plus tenant- paid utilities)

39% of renter households in Oregon with incomes of 80% MFI or below spent more than 50% of household income on housing costs in 2007. (*National Low Income Housing Coalition*)

“41 % of owner households & 50% of renter households in Oregon were over-burdened by housing costs”
(*2008 American Community Survey*)

Joe: \$9.05 x 30 hrs. x 52 wks = \$14,118 a year

Carmen: \$8.40 x 16 hrs. x 52 wks = \$ 6,989 a year



Joe and Carmen have 2 kids:
Family size = 4 People

Family Income per Year:

\$14,118

\$ 6,989

\$21,107



• *The Federal poverty rate for a family of four is \$22,025.*

Median Income – Multnomah County*

% MFI	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
30%	14,790	16,890	19,020	21,120	22,800	24,510	26,190	27,870
40%	19,720	22,520	25,360	28,160	30,400	32,680	34,920	37,160
50%	24,650	28,150	31,700	35,200	38,000	40,850	43,650	46,450
60%	29,580	33,780	38,040	42,240	45,600	49,020	52,380	55,740
80%	39,440	45,040	50,720	56,320	60,800	65,360		

* HERA Special Income Limits 2009 per OHCS

Joe and Carmen have an “Area Median Income” of 30% for the area.

Affordable Rents*

Bedrooms	30%	40%	50%	60%
SRO	212	304	395	487
0	304	426	549	671
1	308	439	570	702
2	366	523	681	838
3	416	598	780	962

An affordable rent for their family would be no more than \$416 per month plus utilities.

* Housing costs = rent + tenant paid utilities, not to exceed 30% of income target of unit

THE FUNDING CHALLENGE

SOURCES AND USES BUDGET

Three Bedroom Unit

	30% MFI	50% MFI	60% MFI
USES			
Land	20,000	20,000	20,000
Soft Costs *	48,000	48,000	48,000
Construction Costs	<u>157,000</u>	<u>157,000</u>	<u>157,000</u>
TOTAL COSTS	225,000	225,000	225,000
SOURCES			
	30% MFI	50% MFI	60% MFI
Private Mortgage Supported by Unit (30 years @ 6.75%)	<u>\$5,268</u>	<u>\$52,035</u>	<u>\$75,419</u>
FINANCING GAP	\$ 219,732	\$ 172,965	\$ 149,581

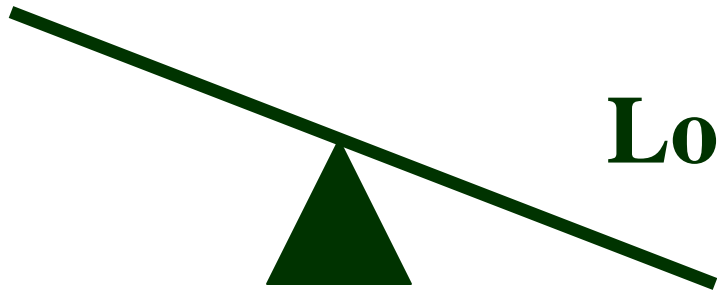
THE DETAILS

MONTHLY OPERATING BUDGET

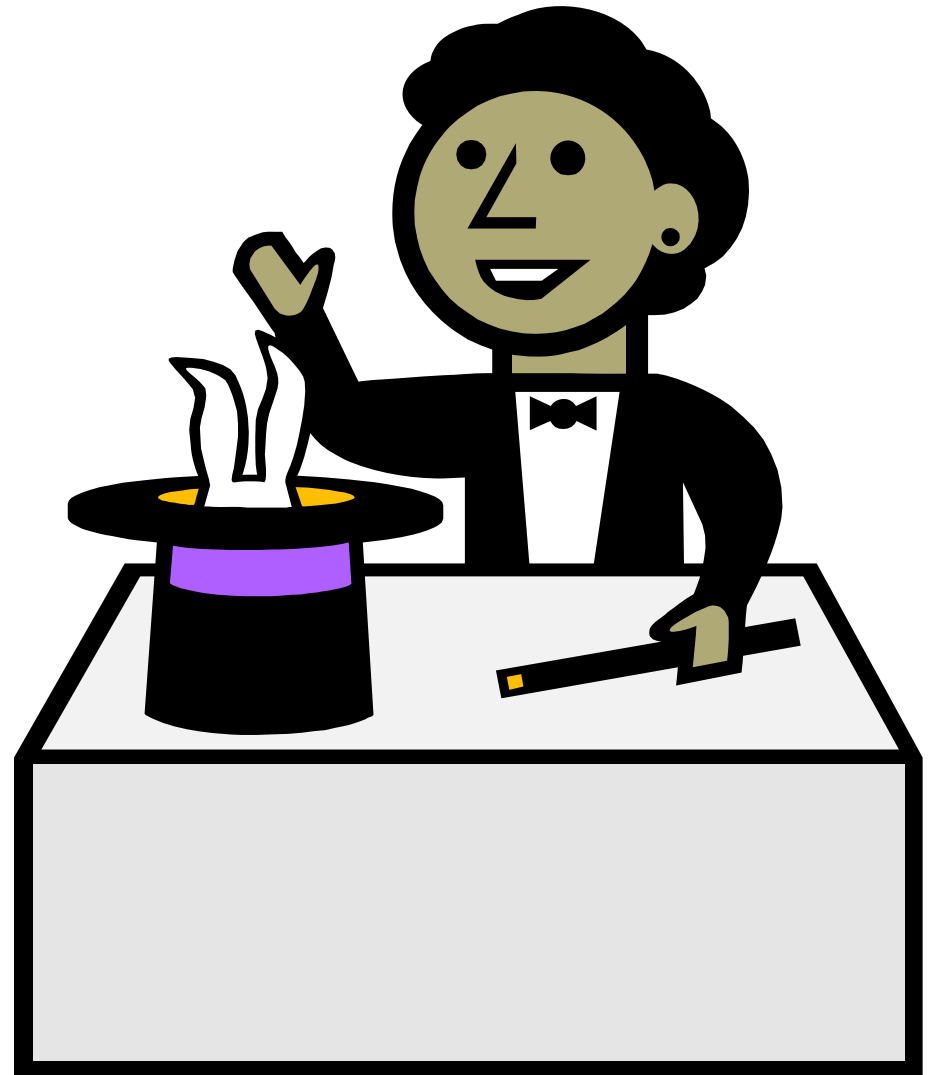
	THREE BEDROOM UNIT		
	<u>30% MFI</u>	<u>50% MFI</u>	<u>60% MFI *</u>
Maximum Allowable Rent (net of utility allowance)	416	780	962
Operating Expenses/Month (@ 4,500 per yr.)	<u>(375)</u>	<u>(375)</u>	<u>(375)</u>
Available for Debt Service/Month	\$41	\$405	\$587
Supportable Loan Amount (30 years @ 6.75%)	\$5,268	\$52,035	\$75,419

WHAT TO DO?

Costs

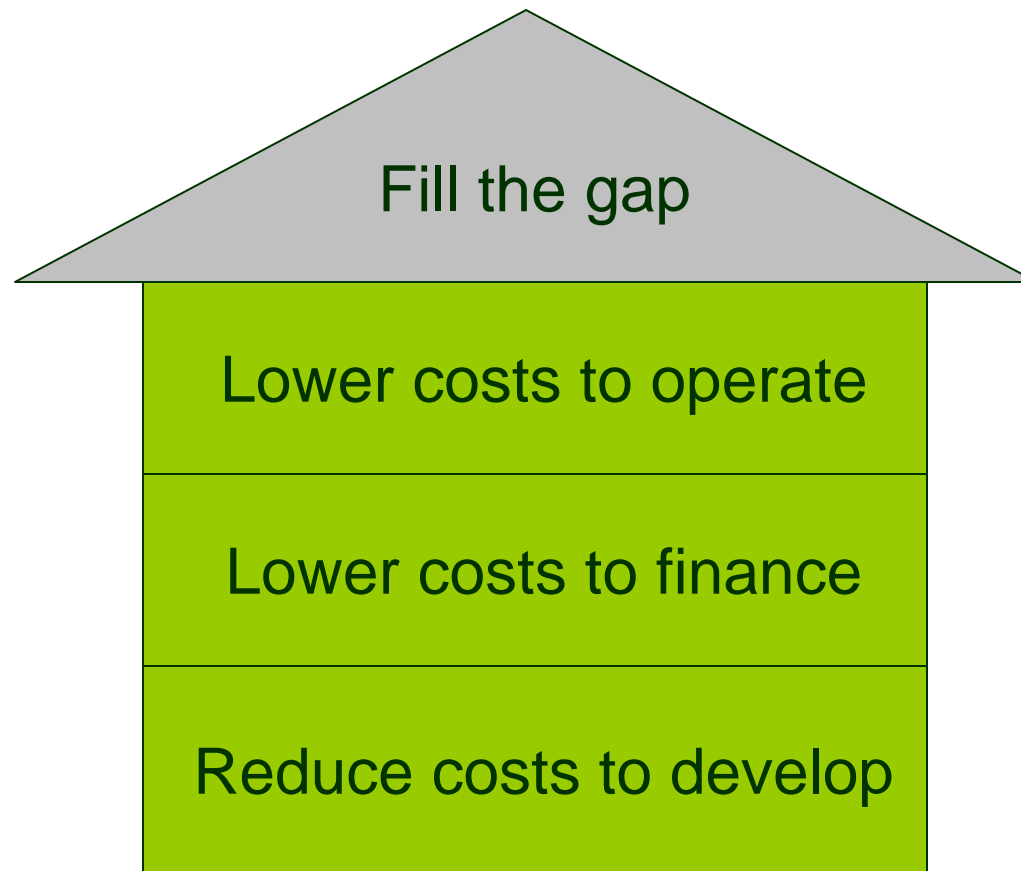


Loan





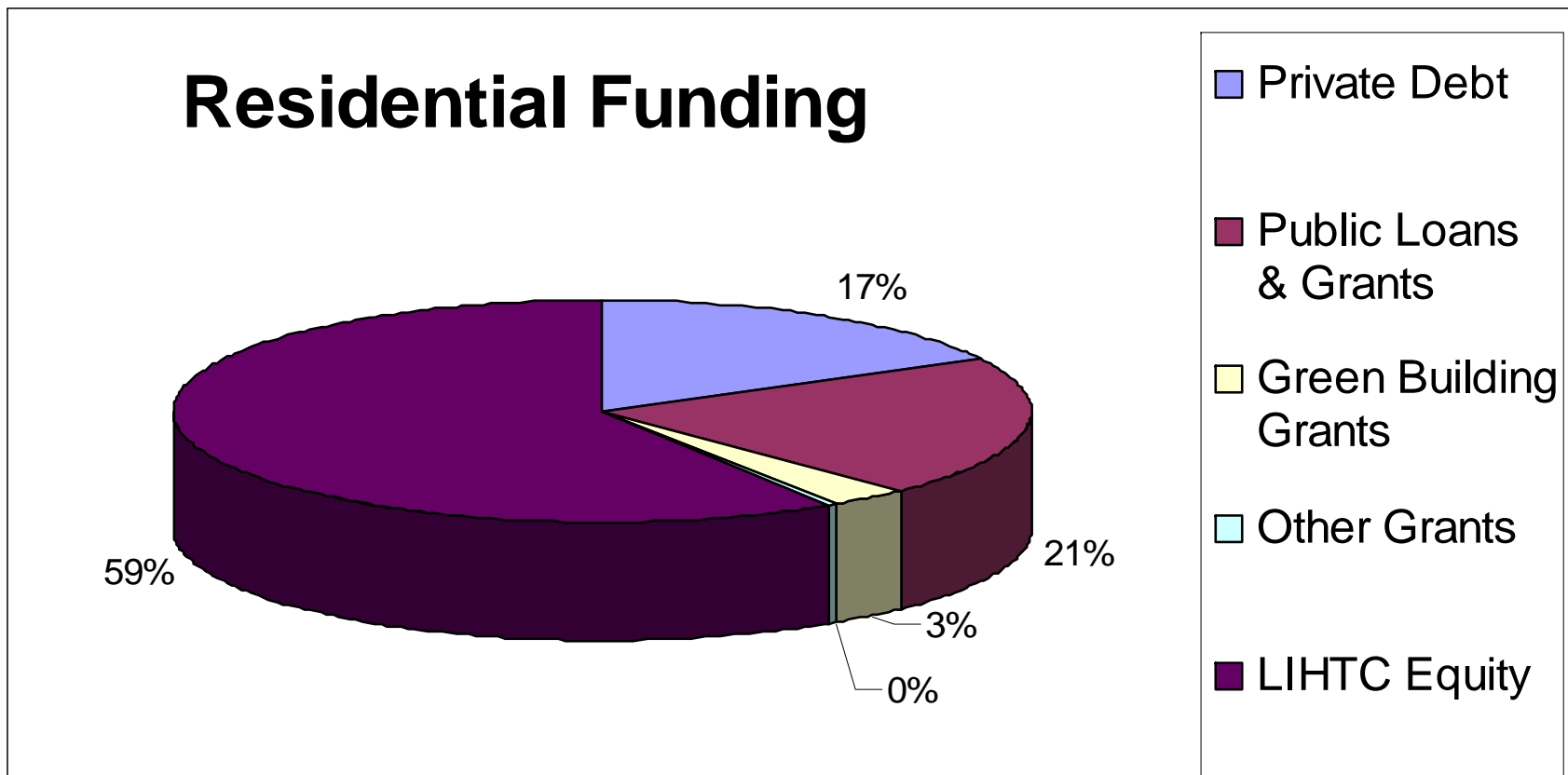
Affordable Housing Finance: *four approaches*



Tying Funding to Strategies

	Lower the Cost to Build	Lower the Cost to Finance	Lower the Cost to Operate	Fill the Gap
OHCS		<ul style="list-style-type: none"> ▪ <i>OAHTC</i> ▪ <i>Bonds (interest rate, longer term)</i> 	<ul style="list-style-type: none"> ▪ <i>Rent Subsidies (Housing Plus)</i> ▪ <i>Emergency Shelter Grant Program</i> 	<ul style="list-style-type: none"> ▪ <i>Housing Development Grant</i> ▪ <i>LIHTC</i> ▪ <i>HOME Grants (statewide)</i> ▪ <i>HELP</i> ▪ <i>Farmworker TC</i> ▪ <i>Doc Fee</i> ▪ <i>BETC s</i>
Private				<ul style="list-style-type: none"> ▪ <i>Equity Investment</i> ▪ <i>Grants/ contributions</i>
Other Public	<ul style="list-style-type: none"> ▪ <i>SDC or Fee Waivers</i> ▪ <i>Free Land</i> ▪ <i>Waive zoning/ other requirements</i> 	<ul style="list-style-type: none"> ▪ <i>Low interest Must Pay Loans</i> ▪ <i>RD Loans</i> 	<ul style="list-style-type: none"> ▪ <i>Property Tax Exemptions</i> ▪ <i>Rent Subsidies</i> 	<ul style="list-style-type: none"> ▪ <i>HOME/ CDBG in Participating Jurisdictions</i> ▪ <i>Tax Increment</i> ▪ <i>Local Tax Dollars</i> ▪ <i>RD Grants</i> ▪ <i>HUD 202/ 811</i>

Typical Funding of a Residential Project Serving Primarily 50% MFI & Below



Based on \$.70 on the dollar for LIHTC – used to be more like 66% @ \$.92

Improved Debt Terms Reduce Gap:

Oregon Affordable Housing Tax Credits

<u>RENT LEVEL</u>	Three Bedroom Unit		
	<u>30% MFI</u>	<u>50% MFI</u>	<u>60% MFI</u>
Loan amount per unit without <u>OAHTC</u> (6.75% interest)	\$5,268	\$52,035	\$75,419
Loan amount per unit with <u>OAHTC</u> (2.75% interest)	<u>\$8,369</u>	<u>\$82,672</u>	<u>\$119,823</u>
Increase to loan amount using OAHTC	\$3,101	\$30,636	\$44,404

Property Tax Exemptions

Example: 50% MFI, 3-BR UNIT:	With Property Tax Exemption	Without Property Tax Exemption	Difference
50% MFI rent revenue, per month	915	915	0
<u>lower operating expenses,</u> <u>per month</u>	<u>335</u>	<u>375</u>	<u>- 40</u>
<u>Net cash available for debt</u> <u>service per month</u>	580	540	40
Private Loan Supportable With and Without Tax Exemption	\$118,394	\$110,229	\$8,165

- *Property tax exemption savings estimated at \$480 per unit per year, not available in all jurisdictions.*
- *Loan calculated including OAHTC on both examples.*

Property Tax Exemptions Make a Difference



Units in Project	30	50	80
Total Additional Debt Per Project	\$ 244,950	\$ 408,250	\$ 653,200

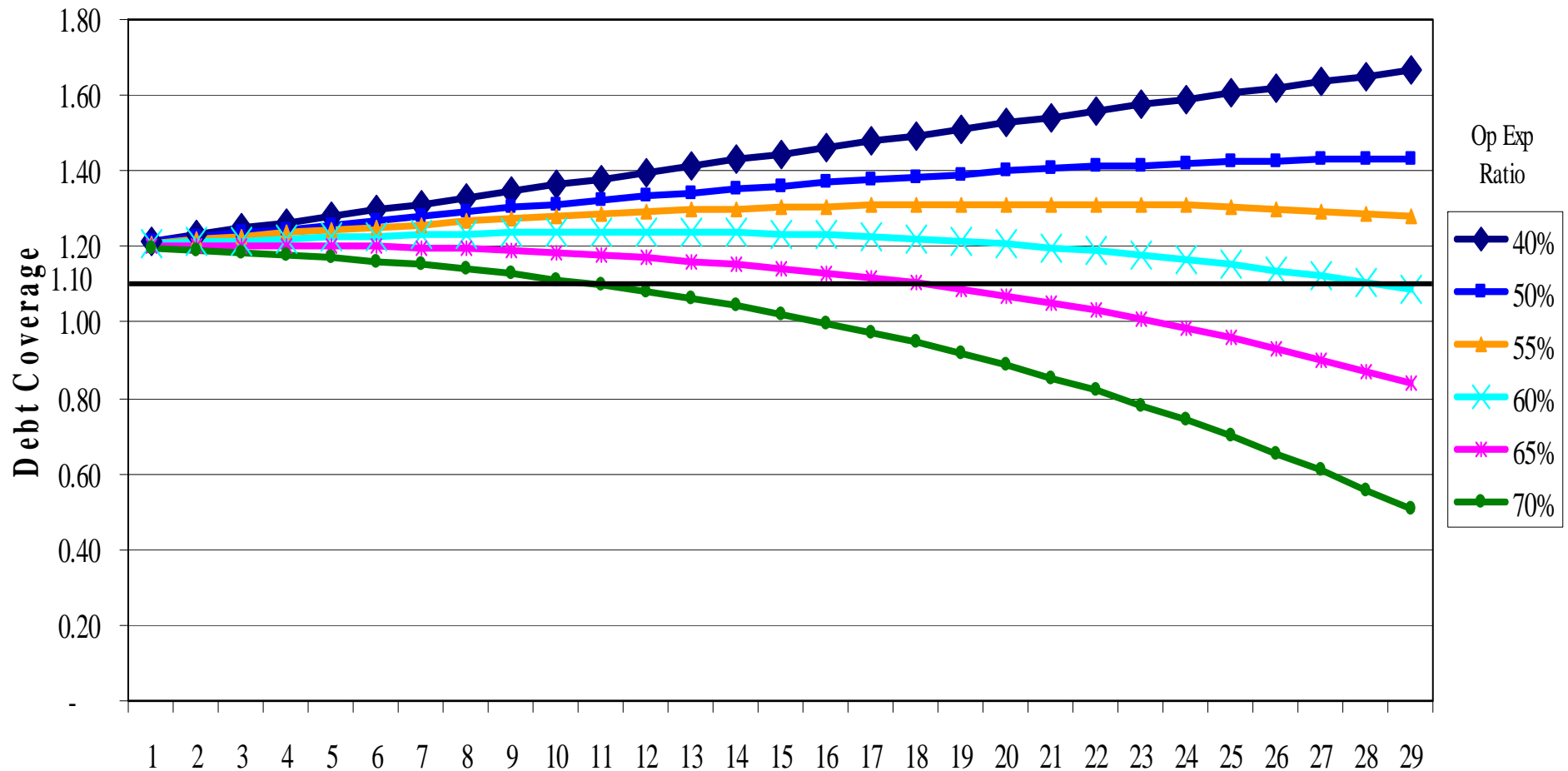
Impact of Income Targets on Cash Flow

SAMPLE: TWO BEDROOM APARTMENT, ONE UNIT				
Median Income Served	@ 30%	@ 40%	@ 50%	@ 60%
Annual Net Revenues (7% Vacancy)	\$5,078	\$5,597	\$9,408	\$11,216
less Operating Expenses (per unit per year)	\$4,200	\$4,200	\$4,200	\$4,200
Net Operating Income per unit per year	\$878	\$1,397	\$5,208	\$7,016
Available Debt Service at 1.15 DCR	\$763	\$1,215	\$4,529	\$6,101
Net Cash Flow Per Unit Per Year at 1.15 DCR	\$114	\$182	\$679	\$915
Operating Expense to Net Revenues Ratio	83%	75%	45%	37%
Net Cash Flow as % operating expenses*	2.7%	4.3%	16.2%	21.8%
Net Cash Flow as % net rents**	2.3%	3.3%	7.2%	8.2%

*Percent variance possible on operating expenses before project cannot meet required debt payments

**Percent variance possible on rental revenues (rents less than maximum, bad debt or vacancies over 5% before project cannot meet required debt payments)

Operating Expenses as a Percent of Revenues and Its Effect on Debt Coverage Ratios



Inflator on income = 2%/year

Inflator on expenses = 3%/year

AGENDA ITEM 5.

Cost Factors in Development & Operations

- Pressures that Counter Affordability
 - Public Goals
 - Financing Partners
 - Project Sponsors



Wetlands Restoration
Oleson Woods, CPAH/HDC

Lower AMIs = Less Ability to Carry Debt



	30% AMI		50% AMI		60% AMI	
Household Size	1 person	4 person	1 person	4 person	1 person	4 person
Portland Metro	\$14,700	\$21,000	\$24,500	\$35,000	\$29,400	\$42,000
Bend	\$13,350	\$19,050	\$22,250	\$31,750	\$26,700	\$38,100
Tillamook	\$10,700	\$15,250	\$17,800	\$25,400	\$21,360	\$30,480

Project Size:

Scale to fit location or population

- Impact on Development:
 - Less able to spread soft costs
 - Land per unit are higher
- Impact on Operations:
 - Onsite property management more expensive per unit
 - Reporting/ financial management more expensive per unit
 - Impact of one vacant unit is greater:
 - 2 vacant units/ 25 total units = 8%
 - most properties underwritten at 7% vacancy

Special Needs Housing:



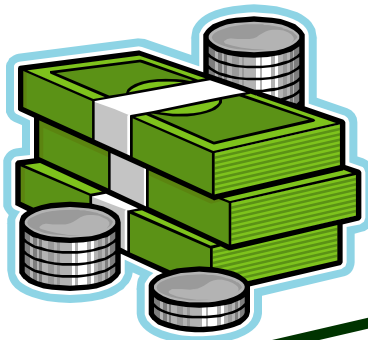
- Impact on Development:
 - Many special needs households have very low incomes = project can support less debt
 - Some populations may be better served in smaller projects
 - NIMBY = time, design compromises
- Operations:
 - Resident Service coordination costs
 - Some populations require more on-site staff (e.g. 24 hour desks)
 - Some populations increase maintenance costs
 - Some populations have more turnover



PUBLIC BENEFITS

Pressures That Operate Counter to Affordability

PUBLIC COSTS

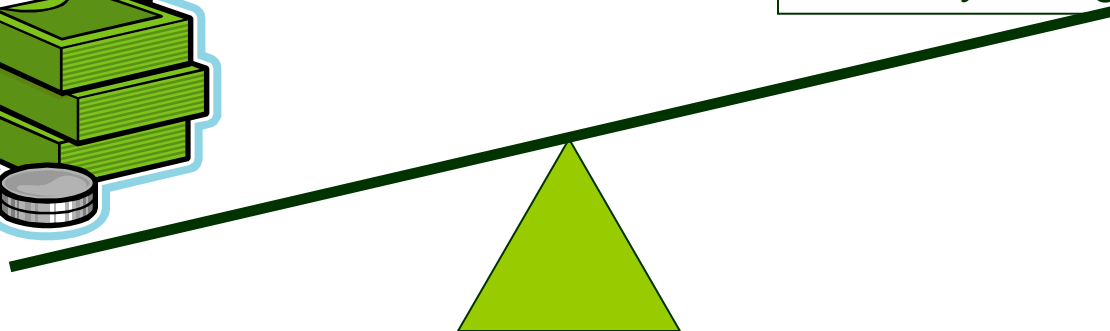


Financing:

- Multiple funding sources = multiple attorneys, studies,...
- Little cashflow = fund reserves up front

Building

- Siting by transit
- M/W/ESB
- Prevailing Wage
- URA Requirements
- Green building/ energy efficiency
- Quality Design/ fit/ durability



RURAL / URBAN:

The cumulative effect

- Area Median Income
- Property Tax Exemption
- Jurisdictions Don't Generally Provide Fee Waivers
- Few/ no Gap Funding Sources

AGENDA ITEM 6.

The Nonprofit Business Model

The CARBS that drive “Capacity”

- Organizational Strength = Capacity
 - Cash
 - Attitude – Can do, conservative & competent
 - Relationships – vendors, lenders, community, etc.
 - Board – Knowledgeable, committed & focused
 - Skilled Staff – The bedrock of capacity

ORGANIZATIONAL SUSTAINABILITY =

THE "FOUR LEGGED STOOL":

REVENUE
STREAMS FOR
HOUSING NON-
PROFIT
ORGANIZATIONS

Operating Support

Cashflow:
Revenues from Portfolio

Cash Developer Fees

Fundraising

Balancing Business with Mission

- Cash generating activities
- Cash absorbing activities
- Serving as an alternative to governmental programs



Community Partners
For Affordable Housing
Homework Club



Human Solutions
Providing Emergency Housing



Reach CDC
Paint-a-Thon



Farmworker Housing
Development Corporation
Classes

Non Profit Business Model

Typical Income Statement

COST CENTER APPROACH	Housing Development*	Property Management	Asset Management	Resident Services	Total
Revenues:					
- fees from projects	X	X	20%	50 – 65% **	X
- grants				X	X
- individual contributions				X	X
Expenses:					
- personnel	X	X	X	X	X
- occupancy	X	X	X	X	X
- other	X	X	X	X	X
- administration					
Net Cash	Positive*	Varies*	(Negative = 80%)	(Negative)	BALANCE+

* Large projects = Positive; Small or special needs = Questionable

** Studies underway now. Costs appear to be around \$250 per unit per year for basic resident services coordination

Balancing Mission with Business

- Balance of Projects:
 - Mission: small, special needs, very low income
 - Business: large projects, 60% AMI only
- Selection of Sponsors creates impacts:
 - On residents
 - On communities

Northwest Housing Alternatives
Housing for Adults with
Developmental Disabilities



Case Study: Post-Development Capacity Remaining in Communities Pays Off:

Capacity left in the community makes the community more efficient and allows “finger in the dike” projects of many types:

- A comprehensive view of community needs and solutions and the capacity to address them;
- Human services;
- Community-based early project planning;
- Special projects serving the “20%”.

Special Projects – e.g. Vernonia



Community & Early Project Planning

Columbia County Flood Recovery Plan

CCFUNC Funding Overview

Mitigation & Repair Goal	100
2008 Actual Awards	
CDBG Repair/lifts	1,000,000
HMGP (FMA)	155,000
Donations/ Sm.Grants (12/07 - 12/08)	441,000
HOME	500,000
Volunteer/Faith Group Labor	1,700,000
Other Funding (loans, FEMA, etc.)	600,000
VOAD	25,000
ICC/FEMA	-
2008 Total All Funding	4,396,000
2009-10 Actual Expected Awards	
CDBG (Buyouts) Request	1,000,000
2009 HMGP Request #3	4,500,000
Volunteer/Faith Group Labor	700,000
Other Funding (loans, FEMA, etc.)	1,200,000
VOAD	-
ICC/FEMA	375,000
HOME 2nd request	500,000
Total 2009 Home & Small Business Funding	8,275,000
Total 2008 & 2009 Awards & Matching	12,671,000

The community-based project planning difference

Planning

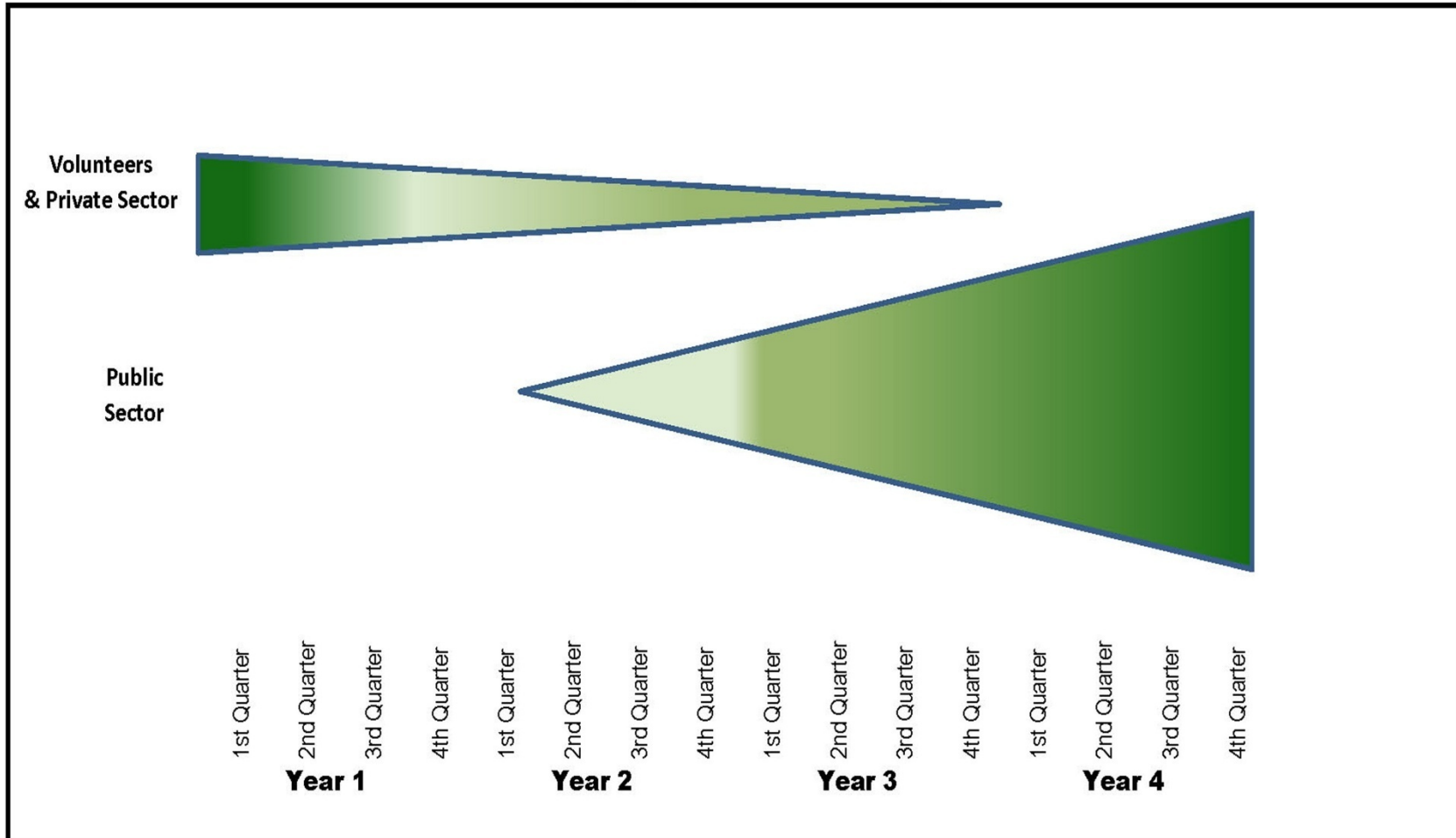
- Cooperation with local goals
- Neighborhood friendly projects
- Emphasis on community need, not ease of development or profit
- Resident-based design
- Focus on sustainability

Operation

- Strong community engagement
 - Builds volunteer base
 - Mutually beneficial partnerships with local service providers
- Available (not absentee) ownership
- Focus on engendering self-sufficiency



Private vs. Public Flood Resources (Labor, Money and Material Contributions)



Serving the “20%” within the 20%”

Strategies

- Respond to visible needs
- Target the greatest possible need
 - MH – MR/DD, Homeless, Farmworkers, Very Low Income
 - Large units as needed
 - Smaller projects when appropriate
 - “Loser” projects
 - S.F. HOME Corey Hill House
 - 2 Unit Housing Plus project
 - Sharper development/operations pencil



Thank You:

Michael Anderson, Oregon ON
Robin Boyce, Housing Development Center
Martha McLennan, Northwest Housing Alternatives
Jim Tierney, Community Action Team

I began treatment in July, school in September, and found my home at Greenburg Oaks in October. My two boys came back in November, my daughter the following summer. You see I had a lot more to prove to her, as she had lived her whole life with me in my addiction...**Moving into Greenburg Oaks helped me in many ways...**I will be graduating this June with an Associate of Applied Science degree in Alcohol and Drug Counseling, as well as receiving my certification in September..
- CPAH Resident