OREGON HOUSING and COMMUNITY SERVICES

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March 26, 2021

Senator Lee Beyer, Co-Chair
Representative David Gomberg, Co-Chair
Joint Ways and Means Subcommittee on Transportation and Economic Development
900 Court Street NE Salem,
OR 97301-4048

Re: Additional information related to Oregon Housing and Community Services 2021-2023 budget

Dear Co-Chairs Beyer and Gomberg and Members of the Committee:

Thank you for the opportunity to share the work we do at Oregon Housing and Community Services (OHCS). We appreciated your attention as we discussed the historic investments outlined in the Governor's Recommended Budget. During the two days we presented, the committee raised a number of important questions. Our responses are below.

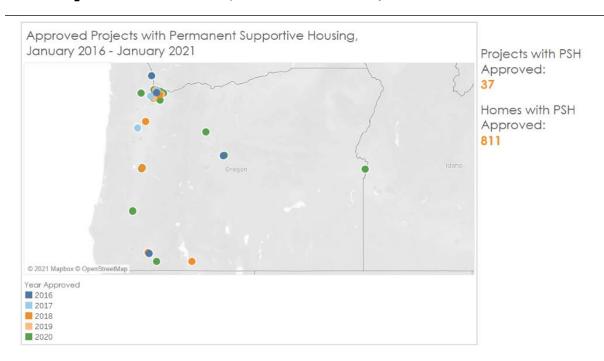**AFFORDABLE HOMES FOR OREGON COMMUNITIES**
Permanent Supportive Housing v. Other Regulated Affordable Housing
Affordable rental housing is a broad term used by OHCS to refer to regulated, publicly supported housing. These homes are affordable for those living at or below 60% of the Area Median Income (AMI), though AMI levels vary based on the funding source. This housing serves Oregon families, seniors, and low-wage workers. OHCS is seeking development resources under Policy Option Package 103.

Co-Chair Beyer asked how Permanent Supportive Housing (PSH) differs from other affordable housing. PSH is a subset of rental housing for people who need more support than just an affordable home. PSH includes rental assistance to serve those living at or below 30% AMI and it provides wrap around services to keep them in stable housing, this can include services for addiction recovery, mental health, and more. This program is a three-legged stool of capital development, rent support and services. PSH requires partnerships between a housing developer, property manager, and service provider to be successful. OHCS supports PSH projects across the state.

Approved Projects with Permanent Supportive Housing, January 2016 - January 2021

Projects with PSH Approved: 37

Homes with PSH Approved: 811

Year Approved
- 2016
- 2017
- 2018
- 2019
- 2020

US Department of Housing and Urban Development (HUD) Section 8 Program

Co-Chair Beyer also asked for information about HUD's Section 8 program, which is housing voucher program for low-income Americans. This is not an entitlement resource, and not all that are eligible receive a voucher. Section 8 includes tenant-based vouchers administered by local Public Housing Authorities. Voucher holders find their own housing and directly pay the landlord a portion of the rent, and HUD pays the remainder of the rent so the home is affordable. These vouchers can move with the tenant.

OHCS is the HUD Performance-Based Contract Administrator (PBCA) for project-based Section 8 housing. These vouchers limit a tenant's rent to 30% of their income and are tied to the home, not the tenant. Each property keeps a wait list, and an applicant may apply to each property they would like to reside in. OHCS performs contract administration activities for approximately 260 contracts in HUD Section 8 properties in Oregon. OHCS provides technical support to owners, managing agents, site staff, and residents. In addition, we help provide information to persons seeking housing, who might already be living in Section 8 housing, or who may be experiencing housing problems.

Construction Costs

In 2019, OHCS contracted with Blue Sky Consulting Group to conduct a study on the costs associated with developing affordable housing in Oregon (read the study). The study used a portion of OHCS federal funded new construction projects that had completed construction and received cost certifications at the point of closing. Of the sample of 172 projects, 123 had complete enough data to be included in the study. Because the most recent project included in the study was completed in 2017, the study dataset does not include cost factors from 2018 to present. Some key findings included:

- Costs increase over time: When compared to 2004, the average cost per unit in 2017 was $88,000 higher in real (adjusted for inflation) dollars, an increase of about 3.4% annually. The

study also performed the analysis net of land, at which point the increase was reduced to an average of 2.7% annually.

- Cost components have not grown at equal rates: While they make up one of the smaller overall components of the total development cost in the study, permits and System Development Charges (SDCs) grew at an 8.9% annual rate compared to the 2.7% increase of projects overall (net of land). These costs are now averaging in line with architectural, engineering, and survey costs, as well as demolition and site prep work. Overall SDCs are a small component of development costs, making up approximately 4% of development costs.

- A regression analysis was also conducted to determine which cost factors are associated with higher (or lower) costs of developing affordable housing. Key statistically significant results of this regression analysis, with excerpts from the study, included:
  - Unemployment rate: "Our regression results indicate that if the unemployment rate were to rise, for example from 4.4 percent to 5.4 percent, the average cost to build an affordable unit would decrease by approximately $12,000."
  - Community opposition: "Our analysis indicates that projects with four or more community meetings were on average were about eight percent more expensive to complete relative to projects with fewer than four meetings."
  - Economies of scale: "For a typical project, if the number of units increased by 10 percent, from 42 to 46 units, cost per unit would fall by about $2,000, from $226,000 to $224,000," and; "Specifically, our analysis suggests that, when controlling for other factors, housing units in buildings that were four stories or taller were about 7% more expensive to build than projects with 3 or fewer stories."
  - Building quality and durability: "Increasing the composite quality score by ten percent to 2.2 is associated with a two percent increase in the cost per unit for an average project, or approximately $4,600 per unit."
  - Prevailing wages: "Our regression results indicate that projects that paid prevailing wages cost 9% more per unit than those that did not pay prevailing wages, holding all other factors constant."

Trends related to Oregon's cost of construction when compared to RS Means (nationwide construction data) lags behind. Oregon has generally been in line with RS Means national data, shifting with national trends about a year behind the national averages. A notable exception is 2009. Oregon's cost per unit spiked 37% from 2008 to 2009 but cost per unit remained approximately constant for RS Means. Given the economic shock of the 2008 housing crisis, it is reasonable to assume that Oregon's costs spiked as a result of the macroeconomic landscape, while the RS Means data at a national level simply remained flat likely due to its larger sample size making it less reactive to those shifts.

Oregon's data lags behind slightly as it catches up with the broader economic trends, but data is also more elastic when compared with a large national level indicator and thus will shift more dramatically. The recession of 2020 marked a similar trend where our costs spiked above a flat national average but cost factors in this situation are more likely related to the

availability of material due to delays in manufacturing and less about the cost factors used in Blue Sky's regression analysis. This warrants further investigation, as it is unlikely that manufacturing productivity will resume to pre-COVID levels in the near future. Thus, cost increases are likely to continue to impact construction in the near term and likely beyond.

Supporting Development in Rural Communities

Representative Leif raised an important question about development in rural communities. There are barriers to building in rural Oregon - rents are lower and the scale is smaller, making it difficult for developments to pencil out. There are several ways that OHCS incentivizes affordable rental housing development in rural regions. Rural Communities are a priority in our Statewide Housing Plan and as such, we use a rural lens to help guide our programs and policy considerations. How we address these rural considerations varies depending on program and ranges from setting resources aside to target rural areas to customizing the resources and scoring to work for rural Oregon projects as described below.

The most common technique used in our Notice of Funding Availability (NOFA) processes is to have a specific resource set-aside, or allocation for rural areas to ensure the availability of resources, as well as to ensure that rural projects are competing against other rural projects for resources. The Low-Income Housing Tax Credit Program (LIHTC) and the Local Innovation and Fast Track (LIFT) program are two examples of programs that have these specific set asides. The LIFT program targets half of its resources to rural areas of the state, and it has been a gamechanger for rural development. The Qualified Allocation Plan (QAP), which directs LIHTC resources, establishes a funding region for rural Oregon in addition to a 10% set-aside for development on tribal trust land.

Another way we prioritize rural areas in NOFAs is to customize funding specifically to work better for rural areas. This year's LIHTC NOFA includes a boost that effectively increases the amount of credit a project is able to access, specifically for projects located in rural areas. OHCS also scales scoring criteria differently for rural vs urban projects, and we include higher project gap resources for rural projects than those in urban centers. In the LIFT program, there are higher per bedroom subsidy limits in rural areas than in urban areas. For the federal HOME Program, this year's NOFA includes a deliberate push to rural Oregon, with five additional points offered specifically for that any project located in a rural area.

In addition to the above, OHCS capacity building efforts have put a deliberate focus on the training and technical assistance for rural areas. While COVID has sidetracked several of our planned investments, we are currently sponsoring a rural preservation academy, where five teams in rural Oregon are gaining access to targeted training to foster leverage of USDA Rural Development Resources to ensure ongoing affordability of housing in rural Oregon.

OHCS provides capacity building to rural communities to spur development, but the multitude of crisis has paused this work. We anticipate continuing this work later this year. While the

efforts described have been impactful for rural developments, OHCS recognizes we need to expand our work to better support rural communities. To this end OHCS is seeking more LIFT resources under Policy Option Package 103. We're eager to learn more and partner with you to improve our services to rural communities.

Energy Efficiency and Assistance in Multifamily Housing
The Oregon Multifamily Energy Program (OR-MEP) and Energy Trust of Oregon (ETO) have a formal Memorandum of Understanding for the exchange of data and information for developers and project owners (applicants) of affordable housing. The ETO and the OR-MEP program work collaboratively with affordable housing developers and project owners to maximize incentive benefits and get the best project improvement packages possible. The ETO is a general and energy efficiency program geared towards building structures and technologies, not a bill payment assistance programs. OHCS does not work with ETO on billing assistance programs.

CREATING & SUPPORTING HOMEOWNERS IN OREGON
Qualifications for Homeownership Assistance
Co-Chair Beyer asked about the qualifications for Oregonians to access OHCS homeownership services. To purchase an OHCS funded home, Oregonians must live at or below 80% of the area median income. OHCS is seeking $10 million for new down payment assistance resources paired with OHCS lending in Policy Option Package 107. Those resources will serve Oregonians in many income ranges up to 120% of the area median income, recognizing that moderate income Oregonians also face barriers in achieving homeownership due to rapidly increasing home prices.

For down payment assistance funded through the Document Recording Fee, the Homeownership Assistance Program (HOAP), income limits are higher and can serve those living at or below the area median income. HOAP also includes the Restore Health and Safety Program, which provides financial assistance to homeowners to repair and modify their homes for better health and safety. The program includes repairs that affect the house structure and/or repairs that include but are not limited to accessibility/adaptability modifications, updates to code compliance, emergency repairs, and repairs for structural integrity.

Manufactured Housing
Manufactured housing provides affordable homeownership opportunities across Oregon. Co-Chair Beyer asked how we can support this housing within existing programs. OHCS' federally supported Oregon Residential Bond Loan Program can be used to purchase manufactured housing, and in 2020 this housing represented more than 10% of homes purchased. OHCS is standing up a new Flex Lending Program, this program will also allow for purchase of manufactured housing. However, these homes have to be fixed to fee simple land, meaning the homeowner must also own the land.

OHCS additionally administers a manufactured home replacement program, which can help homeowners replace older, unsafe or energy inefficient homes with new manufactured homes. This program would be amended under HB 3218 to allow for additional flexibility, and OHCS is seeking additional resources for this in Policy Option Package 113. Additionally, Oregonians can use the Individual Development Account (IDA) matched savings program to purchase or replace a manufactured home (Policy Option Package 109). OHCS Energy Service Section, working with Energy Trust of Oregon, has also creatively deployed funds for home replacement with weatherization resources (read more).

Homeownership Development Resources
OHCS is seeking two separate and distinct resources to build affordable homes for purchase. Co-Chair Beyer and Representative Fahey asked about how many homes could be developed with these investments. The first investment is in the Local Innovation Fast Track (LIFT) Homeownership Housing Program. OHCS is requesting flexible Article XI Q Bond funding totaling $250 million (Policy Option Package 103), with $20 million as a soft set aside for LIFT Homeownership. We anticipate that 240-260 homes can be developed with that investment.

LIFT Homeownership is limited by the funding source, and is not a tool that works well for rural communities with lower land costs and does not easily allow for higher-density developments. Additionally, LIFT only works with a land trust model which ensures long-term affordability but does not readily allow for other strategies. OHCS is seeking $10 million in General Fund to develop homes using a new homeownership model (Policy Option Package 114) inclusive of cooperative housing approaches and other innovative models. With this program, OHCS anticipates an ultimate subsidy of $75,000 - $150,000, which would result in 65-135 homes. However, OHCS will design this new pilot with the Governor's Racial Justice Council and others including an advisory committee, and the ultimate subsidy and pilot design will likely change with additional feedback.

WILDFIRE RECOVERY
Manufactured Housing
More than 1,600 manufactured homes were lost in the Labor Day wildfires. Rebuilding and recovery requires intentionality to support these residents and ensure they're welcomed back in their community. OHCS is chairing the Oregon Housing Disaster Task Force, which has established a Manufactured Housing Workgroup of industry experts to draft strategies specific to manufactured housing recovery. These strategies will be included in Oregon's Disaster Housing Recovery Action Plan, which will be finalized in late April.

Co-Chair Beyer asked about partnerships with manufactured home makers. A few strategies within the draft Disaster Housing Recovery Action Plan include analyzing supply chain issues facing manufactured housing production, authorizing the use of modular homes in

manufactured housing parks, and assessing viability of a factory to develop affordably priced manufactured homes that would avoid competition with industry manufacturers. These draft strategies are currently under analysis, and OHCS is exploring their viability as well as additional options with our partners.

Co-Chair Gomberg asked about clean up efforts in manufactured housing parks. As this committee likely knows, property owners were required to opt-in to the clean up by providing a Right of Entry (ROE). We have heard that some manufactured park owners did not opt in or did so later in the process. This week, a park from the Echo Mountain Fire began clean up efforts. Property owners have additional time to provide a ROE to clean up crews.

In Policy Option Package 113 OHCS is asking for $6 million towards manufactured home park acquisition and preservation and in conjunction with HB 3218 would allow money to be directed towards rebuilding parks and homes destroyed in this past year's wildfires.

HOMELESS INFORMATION MANAGMENT SYSTEM

The Homeless Information Management System (HMIS) is a local information technology system used to collect client-level data and data on the provision of housing and services to homeless individuals and families and persons at risk of homelessness. Every state utilizes the HMIS data entered by participating agencies, and all federally established Continuums of Care must use an HMIS. However, not every state is an HMIS Administrator. Currently, OHCS is only utilizing data from HMIS systems being administered in Oregon. OHCS is not a HMIS Administrator. However, following the recommendations of the HMIS Budget Note Report, OHCS is embarking upon the creation of a new HMIS Implementation for four Continuums of Care, this will make OHCS an HMIS Administrator.

HMIS makes reporting to federal partners more efficient, streamlined and accurate. All federal partner reports, that require data entry into an HMIS implementation; such as the HUD Continuum of Care Annual Performance Report or the HUD Emergency Solutions Grant Consolidated Annual Performance and Evaluation Report, are included with HMIS software. Reports that are included with all HMIS systems also have data quality flags and error reports to ensure end-users can update data and correct errors. Policy Option Package 104 will support OHCS in implementing the HMIS Budget Note Report recommendations and increase data-driven decision making in Oregon's homeless system.

BUILDING CAPACITY TO MEET OREGON'S NEEDS

Internal Capacity

Representative Evans asked about OHCS internal capacity and staffing needs. Over the last year, OHCS has been asked to become a crisis response agency and that has stretched our capacity to operate our programs and help Oregonians. We have always prided ourselves on

our low operating costs, but we now see that this has limited our flexibility in responding to the crises of 2020. In the Governor's Recommended Budget we have requested 22 FTE to build our capacity and meet the needs of all of our current programs (Policy Option Packages 101 and 102). However, with the American Rescue Plan, OHCS will need staff to stand up the new programs and expand existing programs. Relief funds come in waves and this has made it difficult for OHCS to create a holistic plan, as a rough ball park these programs could require 20-30 positions, though the precise numbers won't be known until OHCS fully digests the contents of the federal package.

Partner Capacity in Delivering Rental Assistance

Co-Chair Beyer asked about local capacity and operating costs for our service delivery partners, Community Action Agencies (CAAs) and their subgrantees. It goes without saying that 2020 put a strain on many organizations, requiring new partnerships and streamlined processes. OHCS reported back regularly to the Legislature on the status of Coronavirus Relief Fund rental assistance. These reports detailed challenges in providing relief:

- Ramping up and planning for intentional delivery strategies was difficult for a limited duration, six month program. These program typically operate over a longer time period with much less resources.
- There is limited to no flexible administration funding requiring substantial process changes to accommodate the delivery of Coronavirus Relief Funds. This is also true for the new federal Emergency Rental Assistance Program.
- As expected, it was identified that certain grantees had to reconfigure the mechanics of how they get money out of the door in order to increase production and efficiency; this reality was verified in feedback we received from households describing their personal experience in accessing assistance. One example, a CAA went from mailing materials back and forth to hosting drive-thru applications.
- There were also many challenges related to service delivery during the pandemic, including a swell of resources against a rising swell of need, mitigating fiscal risk in moving from paperwork to self-attestation processes, staff working remotely, and limited or no in-person appointments to help facilitate transfer of required documentation. Many CAAs reported increase calls from Oregonians in crisis and struggled to keep up.

OHCS is currently programming the new federal Emergency Rental Assistance Program, which is will open in May. We're weaving in lessons learned and working to centralize an application system to address some of these challenges. To be clear, capacity for OHCS, CAAs, and other partners will continue to be a challenge in operating rental assistance. Resources in 2021 will dwarf resources in 2020 and there is inadequate investment in administrative resources and inadequate time to scale up operations. OHCS and our partners are working hard to improve emergency assistance programs and application process.

Please let us know if we can provide any additional information. We look forward to listening to Monday's public testimony with you.

Sincerely,
Margaret Salazar
Oregon Housing and Community Services, Executive Director