GCDC Work Group Meeting12/04/18

In this meeting Ross, covered terms, financing and other matters we will encounter during the development process. There is a lot of new terminology here. The terms you see in bold, all caps I have attempted to define more completely at the end of this report with some help from GOOGLE.

Attending: Martin Elfort, Ross Cornelius, Andrew Eshleman, Curt Germundson, Nancy Entrikin, Paddy Tillett

1. Carleton Hart Architecture Bubble Diagram meeting will be 12/19 @2:30 in the Mason Burnham Room. This meeting will include a massing diagram and ground floor layout. Ross has also asked for the square footage of the apartments which will allow us to fun a **PRO-FORMA** which will be an early look at the cost of the project.

2. We talked about the Convention Center **URA** which has money for affordable housing and potential money for the first floor of the project. If we can get our block included in the URA, it could help with the shortfall of money needed to complete the first floor. Ross was able to get another project moved into the URA and was able to get $2,000,000 of **"SOFT MONEY".** The convention center URA ends at 16th, so we are exactly on the edge. Ross says they are looking for projects.

Ross has talked to Commissioner Saltzman who he worked with in above mentioned project (who is going off the council) and he referred us to Chloe Eudaly who could potentially be an advocate for getting our block in the URA. Curt Germundson might also have a contact who could arrange a preliminary meeting with Chloe.

NOTE: Below is from a call I had with Ross after the meeting:
Prosper Portland is the organization we would work with in the URA. Father Stephen's daughter is the head of this organization and has indicated that because of her connection with Grace she will not be able to be involved. What we can do is let her know our vision and then work with members of staff who don't have a conflict. Prosper Portland has pre-development funds.

To learn more about Prosper Portland and the Convention Center URA, follow this link:

https://prosperportland.us/portfolio-items/oregon-convention-center/

3. **NOI** (net operating income) was discussed. Replacement reserves are part of NOI. They would be $400-450/year/apartment. This question was asked: If a charitable organization builds the affordable housing would there be an exclusion of taxes.

4. Where will the money for the affordable housing piece of the development come from?

The lions share of the revenue will come from **LIHTC** or Low Income Housing Tax Credits. There are **4% and 9% tax credits.** The institution that purchases the tax credits would use them over a period of 10 years to offset their tax liabilities. For example, $10,000,000 of tax credits would be used at the rate of $1,000,000 per year. However, the development would received the $10,000,000 at one time.

4% tax credits are fairly easy to get. The State of Oregon would issue the tax credits for our development (they would cost nothing) and the credits would then be sold to a large financial institution to offset their tax burden. The 4% credits are more focused on work force rent levels of 60-80% of **AMI.** Financing using tax credits puts a restriction on the top rent you can charge

9% tax credits are more difficult to get. There is a 3/1 oversubscribe for these credits. In other words, for every 33 applications, 11 are accepted. These credits are for extremely low income housing and come with more restrictions than 4% tax credits.

GAP financing (explained more below) will also be needed to fund the affordable housing units.

5. **Metro Bond** (just passed in November). The Metro Bond stipulates that 1/2 of the units they build would be 2-3 bedroom units for families. 40% of total units would serve families of 30% AMI and below.

If Quad, Inc. brought their 20 units to our development, it would result 20% of our units qualifying at this lowest level.

6. **Portland Housing Bond** (passed in the previous election). Because of the constitutional amendment passed this November, the rest of the Portland Housing Bond money will be used for GAP financing. Paddy Tillett pointed Ross and I to an article in the Oregonian that reported that they are also turning over two properties they had acquired to private developers. This will allow them to use the bond money for GAP financing and will increase the number of units that can be built with the bond money. This money will come out in a **NOFA** at some point.

Note: Metro Money and PHB money will have different requirements.

7. **Other things discussed:**

After we have our conceptual design in Mid-January we will engage in an Early Assistance Conference with the City of Portland. All Bureaus would be represented and we would get a reading on their requirements.

Then, once we have gone through a schematic design, we will have a pre-application conference.

Most of the predevelopment money goes to the architect. 7-8% of total project cost.

If the City is involved we would be able to get permits in 2 months. If not it would be 6 months.

Once we know we are feasible it will cost $1,000,000 to move into the next phase.

Because we will be working with many different entities in our funding, we will have a pretty hefty attorney fee to work out all the contracts. Probably $100,000 to $200,000.

8. If we create a MOU (memorandum of understanding) with Quad., Inc. to act as the developer, Portland Development Center would run the Pro-forma.

Quad Inc. could also potentially manage the apartments and the ground floor.

9. Ross says that funding and building the apartments is completely doable. However, the ground floor is more difficult. An early pro-forma run for us by Home Forward shows a $2-$3,000,000 shortfall. How do we fund this? Some possibilities:

-Soft Money from Prosper Portland if we can get included in the Convention Center URA.

-Fundraising by Grace, GI, PHAME and Oregon Children's Theatre?

Ross drew a chart of how this process is structured. I haven't figured out how to put that in a digital form yet, but once I do I will send it out.

GAP FINANCING Because affordable housing doesn't "pencil" you need to find money to finance the GAP. Affordable Housing rents are much lower that market rate rents. With market rate rents you can build housing and make money on the project. With affordable housing rents you need to borrow to close the GAP and break even.

AMI **Area Medium Income**

PROFORMA

A pro-forma analysis is a set of calculations that projects the financial return that a proposed real estate development is likely to create. It begins by describing the proposed project in quantifiable terms.

URA **Urban Renewal Area**

NOI

What is Net Operating Income - NOI

Net operating income (NOI) is a calculation used to analyze real estate investments that generate income. Net operating income equals all revenue from the property minus all reasonably necessary operating expenses. NOI is a before-tax figure which excludes principal and interest payments on loans, capital expenditures, depreciation and amortization.

NOFA **Notice of Funding Availability**

City of Portland Releases Unprecedented Funding Amount for Affordable Housing

The Portland Housing Bureau (PHB) announced today that it has $61.6 million in local and federal funds for affordable housing project proposals – the largest Notice of Funding Availability (NOFA) to date. This investment of public funds is expected to generate another $150 - $200 million in economic activity and produce at least 600 new affordable housing units.

The annual NOFA process is the primary means through which PHB solicits and funds affordable housing projects. This year's NOFA includes five sites owned by the Housing Bureau, Multnomah County, and the Portland Development Commission (PDC). In addition to the sizeable amount of funds, the NOFA also draws from a broad diversity of sources, including City and County General Fund, Tax Increment Financing from six of the city's urban renewal areas, and federal HOME and Community Development Block Grant (CDBG) funds, as well as 100 Project-Based Section 8 vouchers from Home Forward.

LIHTC

What you need to know about LIHTCs in Oregon.

The impact of LIHTCs. Congress created the low-income housing tax credit in 1986 as tool to encourage private investment in the development of affordable housing. Since then, LIHTCs have become a hugely important source of funding for affordable housing, contributing to the development of an estimated 2.5 million rental units across the country, including more than 36,000 units in Oregon. Without the program, affordable housing construction "would quickly grind to a halt," the *New York Times* has written.

How LIHTCs work. Every state gets an annual allocation of LIHTCs from the federal government. Each state, in turn, distributes the tax credits on a competitive basis to affordable housing projects. The sponsors of those projects partner with investors, who use the credits to reduce their tax liabilities and, in exchange, contribute equity—at least two-thirds of development costs in projects funded by 9% competitive LIHTCs—for affordable housing construction or rehabilitation.

LIHTCs in Oregon. In Oregon, Oregon Housing and Community Services (OHCS) is charged with distributing low-income housing tax credits—and, importantly, with setting project selection criteria and program rules matched to state housing policies. LIHTC funds bring essential equity to many of our clients' projects, and enable these projects to provide quality affordable housing to low-income Oregonians. HDC has historically provided development services for about one-quarter of projects around the state that have received competitively awarded LIHTC funds.

LIHTCs and the future. Nine-percent competitive LIHTCs are kind of like barrels of oil. They're good to have, but you don't want to get too dependent on them, because the supply is limited and insufficient to meet the entirety of our communities' housing needs. HDC, like many of the industry partners we worked with on the QAP response, believe that four-percent LIHTCs, which are available in relatively large supply, offer great potential for expanding our region's affordable housing production.