MINUTES
HOUSING ADVISORY COMMITTEE OF WASHINGTON COUNTY
and
HOUSING AUTHORITY BOARD OF DIRECTORS
October 7, 2011, 1:00 PM

Housing Advisory Committee Retreat
Jenkins Estate, 8005 SW Grabhorn, Beaverton, OR 97007

COMMITTEE MEMBERS PRESENT

Ramsay Weit
Laurie Butler
Peter Hainley
Juliet Parrott
Ron Lehr

COMMITTEE MEMBERS ABSENT

Donna Pottle
Renee Bruce
David Nase
Carol Gakin

STAFF PRESENT

Val Valfre, Executive Director
Kim Armstrong, Management Analyst
Gary Calvert, Asset Manager
Michael O'Neill, Financial Manager
Annette Evans, Homeless Services Coordinator

GUESTS PRESENT

Robin Boyce (Housing Development Center)
Cyndy Cook (Housing Works)
Bob Davis (Washington County CAO)
Andy Duyck (Washington County BOC)
Rob Massar (Washington County CAO)
Roy Rogers (Washington County BOC)
Dick Schouten (Washington County BOC)
Greg Malinowski (Washington County BOC)
Geoff Wall (Housing Works)

I. Welcome and Introductions

Val Valfre called the meeting to order at 9am. Mr. Valfre welcomed the HAC members, speakers, and guests attending the meeting.

Mr. Valfre spoke briefly about the Housing Authority's role as an affordable housing provider and advocate in the county. The Housing Authority has participated in long-range planning efforts for sustainable communities that include affordable housing, as well as discussions of regional efforts to support affordable housing and equitable, sustainable communities. Housing Services is the lead agency for the Washington County Continuum of Care and McKinney-Vento Homeless programs, and works in partnership with many nonprofit and private partners to support affordable housing, homeless services, and other programs to assist low-income households stabilize and achieve self-sufficiency.

II. HAWC Financial & Asset Indicators

Michael O'Neill presented a slideshow discussing Housing Authority finances and programs.

The majority of Housing Authority funding streams are restricted—funds may not be transferred out of their program categories for use in other programs or activities.

The Housing Choice Voucher program is the Housing Authority's largest program, and is funded through HUD Housing Assistance Payment (HAP) grants and Administrative fees. These funds are restricted and must remain in the voucher program. HAP funds provide rental assistance payments to landlords for clients in the Section 8 Housing Choice Voucher program. Administrative costs for the program must be covered with Admin fees. HUD Admin fees cover part of the cost of administering the program—the remaining cost of running the program must be absorbed by the Housing Authority. Admin fees have been reduced in Federal budgets for FY 2010 and 2011, and are projected to continue to be reduced in FY2012. This will be a challenge for the Housing Authority.

The Public Housing program is funded through HUD Operating Subsidy and HUD Capital Fund grants. Funds in this program are restricted and must remain within the Public Housing program. A portion of the accumulated assets in the Public Housing program will be recaptured by HUD in 2012.

The voucher program and public housing programs are required to remain separate programs—vouchers may not be used in public housing units.

The Housing Authority has a restricted cash balance resulting from the sale of public housing units in FY2007-2009. These funds will gradually be transferred to the Affordable Housing program, to cover capital improvements and operations expenses for those housing units.

The Affordable Housing/Local Fund programs have a large cash deficit balance. The Housing Authority has significantly reduced its expenses by refinancing with County bonds. The Affordable Housing and Local Fund programs are currently operating near break-even, and transfers from the Public Housing program will gradually pay down the deficit balance in these programs.

Once the deficit balance and debt service are paid off, the Housing Authority will be in a stronger cash-flow position, with more discretionary, unrestricted funds.

III. Financial Sustainability Tools and Strategies

Robin Boyce from the Housing Development Center led a presentation and discussion on balancing financial sustainability and the goals and mission of the Housing Authority. Developing additional affordable units, promoting policies and initiatives that support affordable housing, supporting economic growth and resident support and service programs, are all valuable aspects of advancing the Housing Authority's mission.

Cyndy Cook commented that resident services are costly, but should ideally be considered as a normal cost of providing affordable housing—similar to utility costs, property maintenance, etc. Ron Lehr also suggested emphasizing that developing larger projects are generally more cost-effective than smaller projects (e.g. per unit costs are lower).

Development may be considered as a revenue stream and mission strategy—developer fees may provide additional unrestricted funds to support other programs that are not revenue-generating.

Development projects may be preservation of existing affordable projects, or new construction. Preservation projects are generally one of two types:

- 'Big-P' preservation—projects that seek to preserve properties and renew State and/or Federal subsidy contracts that may otherwise expire
- 'Little-p' preservation—projects that seek to refurbish and update existing housing developments

There are a significant number of low-income households who are not living in affordable, adequate housing—families are rent-burdened, or overcrowded, or living in housing with insufficient access to transit, services, etc.

Affordable housing development has a long timeline, and land costs are a significant factor. Land banking is a potential strategy to help mitigate this challenge.

There was some discussion about the value and benefits of supportive programs, especially programs that support job-search and employment skills for low-income households. Annette Evans and Juliet Parrott commented on the need to remain conscious of the "cliff effect", when low-income households are able to increase their earning income by finding or improving employment—only to lose access to other benefits and programs (such as employment-supported daycare) that those families still require to remain stable. This may result in some households becoming less stable and self-sufficient as a result of improved employment, and can serve as a disincentive for some households to seek employment.

Robin Boyce provided some examples of the costs and possible financing options for low-income housing. Affordable housing development cannot generate enough income through rents to finance development—there is always a gap that must be filled with one or more of several forms of subsidy.

Ms. Boyce clarified that most affordable housing units have set below-market rents that are established to be affordable (~30% of household income) to a theoretical household at a certain income level (e.g. 50%MFI).

This does not mean that the households living in the units actually earn 50%MFI, or that households are not rent-burdened. Households must pay the established rent for the unit, regardless of their income level—so a household earning 30%MFI may be rent-burdened in an affordable unit.

Rehabilitation can be less costly than building new construction—however, the life cycle of building systems (roofs, utility systems, appliances, etc) must be considered, as well as the efficiency of older systems and the potential cost and efficacy of upgrading those older systems. Partial rehabs are often much more costly long-term than major rehabs or new construction.

IV. Strategic Planning for Fiscally-Sound Affordable Housing Development

Cyndy Cook presented on the history, activity, and experiences of Housing Works, which serves Deschutes, Crook, and Jefferson counties.

Housing Works is governed by a citizen Board, plus one resident Commissioner, rather than by a Board made up primarily of elected Commissioners (such as the Housing Authority of Washington County's Board). Robin Boyce commented that if a Housing Authority is doing more development and affordable housing (as opposed to HUD-funded programs like the Housing Choice Voucher and Public Housing programs) that it may become important to have Board members with knowledge of risk management and real estate. Val Valfre noted that the HAC Retreat has served as one of the best opportunities to educate and inform HAC members and the Board about Housing Authority activities and efforts.

Housing Works developed a short, easily understandable mission statement (no more than 5 words, understandable to a 5-year old), supported by three broad strategic objectives. Staff works with the Board to develop an annual action plan to support these strategies, and progress is reported to the Board on a monthly basis.

Home Forward formed an affiliated nonprofit, Families Forward, to assist in providing resident programs.

Geoff Wall discussed Housing Works financials, development activity, and some lessons learned.

When considering housing authority revenues and expenses, it may be useful to remove some revenues (such as HAP payments that go directly to landlords) and/or remove some accounting debits (such as real estate depreciation).

Cyndy Cook reiterated the importance of having multiple funding sources, rather than relying on one program, such as the Section 8 Housing Choice Voucher program.

In response to a question from Peter Hainley, Cyndy Cook discussed Families Forward, the Home Forward affiliated nonprofit. The nonprofit agency has allowed Home Forward to pursue some donations and additional foundation funding for specific programs and projects. Families Forward is very focused on providing resident services to low-income households to break the cycle of poverty. Cyndy Cook also emphasized that the enthusiasm and effort of both the Home Forward and the Families Forward boards have been a major asset.

Cyndy Cook also stated that it is important to make it clear to the community that property tax exemption for affordable housing provides a clear benefit to the community—the investment provides quality housing, good resident services, and success stories.

V. Notable PHA Funding Strategies

Ron Lehr presented some basic financial information about revenue and financing for affordable housing projects.

The 9% competitive Low-Income Housing Tax Credits (LIHTC) can be difficult to acquire. In some cases the 4% noncompetitive credits are more useful in making a project pencil.

Ron Lehr reiterated that cash-flow-generating projects are nearly always larger projects—100+ units—because the per-unit development and maintenance costs for smaller projects are generally prohibitive. He also noted that in many cases, new and major rehab projects will only cash-flow if they are targeted at higher income levels—70-80% MFI. These projects can be converted to serve lower-income tenants over time, as the debt service is paid off and the operating costs reduce.

The presentation included a simplified overview of how financing on an example project might work. Affordable housing projects do not generate sufficient Net Operating Income (NOI) to finance enough debt to build or acquire housing units without additional gap funding. Affordable units charge below-market rental rates that are generally limited by one (or more) regulations, limiting the per-unit revenue that the project can generate. Affordable projects also are subject to a number of regulatory requirements that lengthen development time, raising the cost of development.

Bond financing and LIHTC will not currently provide sufficient funding to acquire existing units or develop new units. Additional funding options, fee reductions or waivers, and other creative strategies to increase equity or lower expenses are necessary to fund new affordable units.

Historically, housing authorities used bond financing to acquire and build projects. Ron Lehr discussed a number of strategies used by other housing authorities in the Pacific Northwest, including the Seattle Housing Authority.

The Oregon Affordable Housing Tax Credit (OAHTC) can buy down interest rates on affordable projects up to 4% for eligible projects—but this only reduces the cost of borrowing money.

Grants can provide some additional funding, but grant funds nearly always come with restrictions that do not permit projects to cash-flow.

There was some discussion of Tax Increment Financing (TIF), which has been used to develop affordable housing in Portland. TIF is generally used by cities with urban renewal areas—but there may be potential to use this tool more effectively in Washington County.

VI. Next Steps Discussion

Val Valfre led a conversation about some next steps and actions that the Housing Authority may consider in the future. There are some challenges facing the organization—continued funding cuts, an aging housing portfolio, possible changes to the HUD Public Housing program, and finding available matching funds for opportunities such as grant applications, acquisitions, etc.

Juliet Parrott commented that making creative changes to deal with coming challenges will be important. Peter Hainley suggested that considering governance changes could be valuable—additional Board members may provide increased capacity to do some strategic planning and research and develop a vision for future actions. Robin Boyce also noted that assessing current capacity and resources and setting clear goals will be very important. This could include assessing the housing portfolio and voucher programs, and determining next steps to support the high-priority programs.

Val Valfre stated that the Housing Authority has made deliberate efforts to encourage and partner with nonprofit developers. However, there are a limited number of nonprofit developers in Washington County. Some new organizations (like REACH) have begun to move into Washington County development, but existing Washington County developers are undercapitalized as a result of some historic issues in the County.

Ramsay Weit pointed out that dedicating a funding stream that could support affordable housing and provide funds to leverage for special opportunities (grants, etc) would be very helpful.

In response to a question from Greg Malinowski, Bob Davis commented that local governments and local government boards must make choices about spending their discretionary funds. Washington County has traditionally used its discretionary funding in three areas: transportation, libraries, and law enforcement. Choosing to fund a new area of activity with existing funding will require making a decision to divert resources from one of those areas. Ron Lehr stated that this is a large part of the reason why contingent loan agreements have been so popular with local governments in the past—it allowed development without the need to provide immediate funding. However, this tool is not as ‘cost-free’ as it appears. Bob Davis reminded the group that transportation and library services are provided by the County in partnership with cities—and law enforcement activity includes two additional elected positions. The County does not currently have excess funds available—changing direction or taking on new activity would require difficult reductions in current programs or identifying an entirely new funding source.

Cyndy Cook commented that the Washington County Board should consider the goals and intended purpose for the Housing Authority, and consider how the Housing Authority’s advisory groups can support those goals. In order to do this effectively, it may be necessary to do an in-depth assessment of current conditions of Housing Authority stock, active housing developers and providers in the County, etc.

There was some discussion of pending HUD recapture of unrestricted capital funds from the Public Housing program.

There was general agreement that the Housing Authority should seek guidance from its residents, advisory committee, the Board, and the community to clarify its goals and activities to support those goals.

VII. Adjournment