Wednesday, July 17, 2019

Tai Dunson-Strane, Tax Credit Programs Manager
Natasha Detweiler, Multifamily Programs & Policy Coordinator
Oregon Housing and Community Services
725 Summer St. NE
Salem, OR 97301

Dear Tai and Natasha:

Thank you for the opportunity for Housing Oregon to share comments and recommendations on the Qualified Allocation Plan (QAP) update. After the May 22 Housing Developers forum OHCS organized and conversations with Natasha, Housing Oregon reached out to our member organizations in early June to solicit feedback and volunteers to help synthesize input. Our goal was to reflect the collective wisdom of the nonprofit affordable housing development community, reflecting both rural and urban voices.

In total 30 people shared written comments, were interviewed, and/or participated in one of two meetings where comments and recommendations were generated and synthesized including:

- Eleven people shared written comments.
- Ten people participated in a non-Portland/rural meeting, Monday, July 8.
- 17 people participated in a Portland Metro Policy Council meeting, Wednesday, July 10.
- Eleven of the 30 participants worked for organizations outside of Portland.

These comments and recommendations were approved by the Housing Oregon Board of Directors at their July 15, 2019 meeting.

The overall theme of Housing Oregon member feedback: **Do not let the perfect get in the way of the good.** Set and communicate goals and priorities, and let developers respond flexibly and creatively. The more restrictive QAP requirements are, the more difficult it is to deliver well on individual goals or multiple priorities.

P.O. Box 8427, Portland, OR 97207
Special thanks to the following who helped consolidate and summarize comments and recommendations:

- Mercedes Elizalde, Central City Concern
- Joni Hartman, Housing Development Center
- Travis Phillips, Catholic Charities
- Lydia Slocum, Housing Development Center

The following people either provided written comments, were interviewed, or participated in one of the two meetings.

- Brooke Barnhart, Bridge Housing
- David Brandt, Housing Works
- Rachael Duke, Community Partners for Affordable Housing
- Jason Elzy, Housing Authority Jackson County
- Destin Ferdun, NW Housing Alternatives
- Jacob Fox, Homes for Good
- Julie Garver, Innovative Housing Inc.
- Sherry Grau, Bridge Housing
- Patty Holmes, Housing Works
- Brian Hoop, Housing Oregon
- Maggie Jonsson, Cascadia Behavioral Healthcare
- Kristen Karle, St. Vincent de Paul Lane County
- Diane Linn, Proud Ground
- Rachel Loftin, Portland Community Reinvestment Initiatives
- Paul Lumley, Native American Youth and Family Center (NAYA)
- Joel Madsen, Columbia Cascade Housing Corporation
- Tyler McInnis, Welcome Home Coalition
- Chrislyn Prantl, Integrated Supports for Living, Inc.
- Arielle Reid, Neighbor Works Umpqua
- Lisa Rogers, CASA of Oregon
- Emily Schelling, Housing Development Center
- Brian Shelton-Kelley, Neighbor Works Umpqua
- Sarah Stevenson, Innovative Housing Inc.
- Sheila Stiley, Northwest Coastal Housing
- Holly Vander Schaaf, Human Solutions
- Ryan Winterberg-Lipp, Human Solutions

Please feel free to contact me at brian@housingoregon.org or 503-475-6056.

Sincerely,

Brian Hoop
Director, Housing Oregon

Sheila Stiley
Board Chair, Housing Oregon
Director, NW Coastal Housing

Housing Oregon QAP comments and recommendations

July 17, 2019
Housing Oregon members collective feedback and recommendations on OHCS Qualified Action Plan (QAP) update

Below is consolidated feedback and recommendations on the QAP update effort solicited from Housing Oregon members.

**OHCS Update Goal #1: Alignment with the 5-year Statewide Housing Plan priorities, goals and strategies**

1. **Intentionally act to advance equity and racial justice**

   In light of inclusion of an intentional commitment to advance equity and racial justice in the Statewide Housing Plan, we are interested in better understanding if OHCS has reviewed past budget cycles to identify funding gaps to meet this need and opportunities for increased funding to culturally-specific communities in the future? Housing Oregon is ready to work with OHCS to advocate for such proposals.

   - **Provide clarity and transparency about the Department’s expectations for equity.**
     - Include the Department’s definition of equity in solicitations to ensure all parties have common understanding.
     - Recommend that the Department consider measuring equity by who is served and housed (long-term) in addition to who are the contractors (short-term).
     - Request additional transparency around how the Department does and will measure progress towards equity and racial justice. At a minimum, publish how previous projects have or have not met equity goals.
     - Ensure that barriers are not created such as unnecessary capacity or readiness-to-proceed requirements that disadvantage culturally-specific and other smaller organizations.

   - **Increase efforts at the state level to increase the pool of MWESB certified contractors.** While MWESB participation is valuable and important, the extremely tight labor market makes it is extremely difficult to find the few qualified subcontractors in the market. In addition, the time and financial requirements for certification keep other subcontractors who would qualify from becoming certified given the strength of other market work.

   - **Broaden the approach to equity beyond MWESB percentages.**
     - Allow self-certification by subcontractors.
     - Include local hiring as a metric for equity. This is especially important in rural areas with even more limited lists of MWESB firms.
● **Ask for more specific targets within an AFHMP narrative.** Criteria for an AFHMP must make sense for a specific project and its specific community, not a generic set of metrics.

● **Evaluate rural projects differently than urban.** MWESB and AFHM strategies are different in the Portland metro area than in the rest of the State. (see #3 below)

2. **Increase Permanent Supportive Housing (PSH) in Oregon**

We strongly agree that PSH is a critical need within the entire State. However, unlike “traditional” affordable housing, PSH requires a long-term commitment of operating and rental subsidy and capable service providers in order to be financeable and successful. At the same time, PSH in rural settings will and must look differently than PSH in urban settings. We strongly recommend that the Department invest in complimentary financial supports and increased capacity for PSH in addition to capital funding.

● **Pair capital funding for PSH with operating support or service funding.** The model put forward in the pilot program of pairing OHA rental assistance with PSH funding is good and should be expanded. **Methods for soliciting/offer funding could include:**
  - Set-aside of funding within LIHTC NOFAs, paired with a viable long-term source of operating support and services subsidy;
  - Have a separate NOFA or carve out from NOFAs to fund a certain number of demonstration projects per year in each of the major geographic areas;
  - Fund PSH services separately from project operating costs (dedicated funding). In this model, require applicants to build a PSH service budget separate from the project proforma.

● **Commit operating and rental subsidy on long-term contracts to align with development capital.** Subsidy should at least equal the time the units are expected to be operated as PSH. (tax credit investors expect minimum 15 years to align with tax credit period)

● **Avoid a point preference for PSH.** A point preference encourages everyone to try to develop PSH even if they do not have the experience/capacity to work with a skilled service provider. It increases the risk on projects and has the potential to impact overall project success unless implemented carefully.

● **Avoid mandating a strict percentage PSH in all projects.** Non-urban areas have a lack of scale for new PSH units and low number of qualified PSH case workers available outside of urban areas. Acknowledging this, rural projects should be able to score well even if only including a few PSH units. (assess number of units against identified PSH population in the community)

● **Continue efforts already underway to expand PSH.** Great work has been done over the past year to address the need for PSH: pilot/demonstration projects and working with multiple agencies to align service resources (i.e. OHA rental assistance).
● **Invest in capacity-building.** The State should develop or support significant capacity building efforts in order to deliver this needed housing, especially outside of the large urban areas where there are limited providers to begin with.

● **Define PSH populations.** Ensure that OHCS is not using HUD’s overly restrictive definition of chronically homeless to capture additional eligible populations.

3. **Target investment in rural communities**

In order to support the important goal of increased housing production in rural areas, there is a strong need to ensure that the requirements and available resources for rural projects reflect the unique nature of rural development. In light of inclusion of rural community investments in the Statewide Housing Plan, we are interested in better understanding if OHCS has reviewed past budget cycles to identify funding gaps to meet this need and opportunities for increased funding to rural communities in the future? Housing Oregon is ready to work with OHCS to advocate for such proposals.

**Funding solicitations:**

● **Reconsider or remove location-based scoring metrics.** Current scoring that is based on census tracts and City/County location excludes large areas of the State. In addition, these analyses and criteria do not account for the difference between cities with diverse, dense and varied neighborhoods and smaller cities and rural areas with more distance between them, more homogeneous neighborhoods, and fewer services.
  o Recommend replacing location-based scoring criteria with scoring based on how strongly a project serves priority populations or meets a SHP priority.
  o Keep a preference for projects that are located in areas of the State with an extreme lack of housing.

● **Establish different geographic areas for funding within ‘rural’ (frontier, tourist hubs, small/large communities, etc).** This concept is reflected in the July 12th HSC memo and we look forward to hearing HSC’s feedback.

**Available resources:**

● **Invest more per-project for rural projects than urban.** Rural communities have very few local sources of funding yet face the same, if not more, cost pressures as urban projects.

● **Include a voluntary basis boost for 4% LITHC projects as well as 9%.** This would greatly increase the financial feasibility for all projects and especially rural 4% projects.

● **Acknowledge and accommodate extremely low incomes in rural Oregon.** Many communities in rural Oregon have extremely low median incomes. This results in 1) tax credit rents being proportionately higher than in urban communities; and 2)
owners needing to maximize rents in order to maintain stable building operations. We recommend that the Department acknowledge this condition by:

- Allow for zero/low debt service in order to minimize the need to maximize rental income.
- Allow or encourage projects to set income limits above rent limits (i.e. 60% income limit but setting rents at 50% of AMI) in order to broaden target market.
- Allow for income-averaging.

- Reserve or prioritize non-LIHTC resources for smaller projects. Consider focusing state non-LIHTC resources (HOME, HTF) for smaller projects that cannot achieve the scale to be feasible for LIHTC investment. These resources should be made available stand-alone (for projects that don’t achieve scale needed for LIHTC) and as gap resources for 9% LIHTC projects that need these resources to make a project feasible. In doing so, the Department will also be recognizing that bundling urban and rural projects to achieve scale and financial feasibility isn’t often practical, particularly for organizations who focus primarily on development in non-urban areas.

- Invest in a pre-development / technical assistance fund
  
  - Work with developers, especially culturally-specific and small organizations with limited resources, to identify environmental review issues and/or begin environmental review for projects pre-application. (Vermont’s housing agency has a good model)
  
  - Invest in funding for increased staffing at culturally-specific and small organizations to help improve efficient project delivery.

  - Explore hosting ‘pre-app’ meetings with developers to identify challenges and avoid delays post-award. Doing so would minimize delays for OHCS before allocating valuable resources and minimize financial risk for owners.

**Goal #2: Adopt National Best Practices to ensure timely delivery and viable subsidization**

1. Ensure preservation of affordable projects

   - Preservation should not be limited to projects with rental subsidy.
     
     - Although projects with rental subsidy have a better chance of penciling in a 4% deal, 9% credits are only set aside for projects with subsidy.
     
     - Consider voluntary basis boost for 4% projects (also correlates to OHCS Goal 1 recommendations).
     
     - Need tools other than LIHTC to preserve projects – this is particularly true
for rural projects (also correlates to OHCS Goal 1 recommendations)

- **Reduce critical repair threshold for preservation projects** – Investing in preservation sooner will require fewer resources and have less impact on residents. In addition, critical needs identified in CNA’s may lower appraisal values, impacting project basis.

- **Need assurance of some availability of 4% LIHTC by non-metro projects** if the state approaches its bond cap due to increased use by Portland/Metro housing bond deals.

2. **Integrate income averaging**

   - **Continue to prioritize resources to serve the lowest income Oregonians** and focus use of income averaging to avoid displacement of residents who are slowing gaining financial stability or existing residents in ack/rehab projects who are between 60-80% AMI.

   - **Where income averaging is utilized to cross-subsidize 30% units with 80% units**, care needs to be taken to ensure like-sized units are averaged to the greatest degree possible and/or how it can reduce the need for other resources on comparable projects.

   - **More information is needed regarding how OHCS will score ‘mixed income’ projects** compared to all very low-income projects.

   - **OHCS may not need to develop detailed rules at this time, but should build in language to “allow once IRS guidelines are in place.”**

   - **Related: need better collaboration between underwriting and asset management teams** regarding income levels to be used (particularly in rural areas where there are differences between area incomes and state/national non-metro incomes).

3. **Incentivize reasonable development costs**

   - **Do NOT use RS Means as a metric for evaluating cost.** It doesn’t consider up-front durability costs that are meaningful for affordable housing developers who will retain long term ownership.

     - Alternately, consider development costs on a relative basis with other projects submitting for funding (adjusted for or evaluated against projects in similar geography, with similar unit/construction types, and wage/contracting requirements).

   - **“Reasonable” development costs need to consider benefits of higher first cost against durability/operating costs** and needs to account for escalation as well as layered policy requirements from OHCS and local jurisdictions, such as
green building, minimum unit sizes, MWESB utilization and prevailing wage requirements, and so on.

- Be careful of making cost containment a scoring criteria, which can incent “cheap” projects, lack of consideration for escalation, or other compromises in the provision of accurate, realistic information.

- Durability could potentially be incentivized via points.

- Ensure unit costs are based on unit size (likely number of bedrooms), not per door.

- Re-assess current rural limits (which are 15-20% less than urban). Recent experience is that rural costs are often consistent with urban due to higher transportation costs and limited contractor/workforce availability.

- Ensure up-front costs aren’t severely inflated by readiness to proceed requirements (also correlates to OHCS Goal 3 recommendations).

- Related: OHCS limits for operating costs are low, and potential issues will be more acute as more 30% and PSH units in projects, as well as increased fees proposed by OHCS. Similarly, Resident Services and Asset Management need to be allowed above the line.

- We strongly encourage OHCS to hold future dialogue with development community on the PDM, and how its requirements impact project costs. Fewer requirements for projects should be considered in favor of more recommendations, and requirements that do not achieve intended outcomes should be eliminated/dialed back.

**OHCS Update Goal #3: Streamlining QAP project selection and funding processes to leverage new data system**

1. Increase transparency through new data system
   - With census tract data now at the end of its life cycle, OHCS could look to include more updated data that more closely reflects the current state of communities. OHCS can potentially look to data used in creating local housing plans and needs assessments. OHCS should ensure data that is used in scoring criteria is publicly available prior to application processing and that it reflects the current conditions by updating data as regularly as possible. Development is often driven by upcoming trends and future community planning, not by past data and trends. In order to adequately address gentrification and supporting vulnerable communities forward planning is needed and should not be limited by overreliance on old data.
Regarding “location efficiency” question in current application, add new standards for urban, suburban and rural areas so as to adequately measure whether a site is a good site for that community.

- **OHCS should do ample beta-testing for the new online application system** with potential applications before the system goes live to identify any issues or any areas that may require additional technical assistance. Additionally, OHCS can look to using a single application format for many of the other funding opportunities (HOME GHAP, LIFT etc.)

- **OHCS should minimize the “plan alignment” type essay questions** as they are extremely subjective and add an unneeded political component to what otherwise would be an objective process. The Statewide and Regional Plans are rarely specific with regard to affordable housing, and too many of the current NOFA sections are an invitation to “pitch” projects based upon the completely subjective discretion of volunteer reviewers. The Department should be able to evaluate the degree a project meets State objectives in an objective format.

2. **Prioritize readiness to proceed**

- **Before establishing new standards OHCS could consider revisiting its 240-day requirement** and engaging in more intentional and facilitated pre-application review processes.

  - Increase transparency about projects that do not meet 240-day requirement and don’t move forward. Transparency adds a disincentive for developers to move forward with a project that isn’t ready. OHCS could even score the development team capacity reviewing past performance (how many projects have they developed, have they closed within 240-day limit, etc.) and identify technical assistance opportunities to ensure OHCS is getting the kind of applications they are seeking.

  - Develop a meaningful pre-application/review process so developers can get feedback well before formal application process. OHCS needs to have some staff person/team process for developers to contact in the early stages of project concept to get some feedback prior to proceeding with obtaining site control and developing plans/specs for application. Many developers have no idea what staff they can discuss a project with prior to investing time, money, and staff resources.

- **OHCS must also be aware, while a higher “readiness to proceed” framework might allow OHCS to “count” more units completed in a shorter horizon, it will not improve the quality of housing that is delivered or enhance partnerships in the community.** Requiring more “readiness to proceed” in applications means an expectation of greater investment of time and financial resources before the state will consider a project. This means that developers without significant cash flow will not have their projects fully considered. This puts smaller organizations, including some culturally specific organizations and organizations attempting their first project, at a significant disadvantage. The State could also be limiting
its own ability to capitalize on favorable partnership opportunities and ability to influence projects in early stages.
  o More capacity building efforts will be needed in order to deliver PSH, especially outside the large urban areas. Putting too much weight on a “readiness to proceed” could ultimately delay the state’s ability to deliver new PSH units with new partners.

3. Consistent NOFA schedule with a pre-application
   ● Need additional clarity about the proposed schedule changes. When does OHCS expect projects to reach various milestones? Also, January pre-application deadline with March full application deadline seems a bit tight. Not enough time to get meaningful feedback after pre-app.
   ● We would recommend that the Department avoid either the outright requiring or providing scoring points to applicants for the use of certain federal or State resources. While we understand the interests of the Department in having resources utilized, there are unintended consequences of pairing different resources which can make projects less efficient or sometimes even infeasible. For example, use of certain federal resources can complicate Subsidy Layering Review as well as trigger State and Federal Prevailing Wage requirements which can add significant expenses to projects. In a One Application format, we are confident that there will be projects that will utilize difficult to use resources even if explicit incentives or disincentives are not included.