Meeting minutes

Metro
600 NE Grand Ave.
Portland, OR 97232-2736

Meeting:	HB Oversight Committee Work Session
Date/time:	Monday, Oct. 18, 11:30 AM – 1:00 PM
Place:	Zoom Meeting
Purpose:	Work session on cost efficiency and developer fee

Attendees
Steven Rudman, Nicole Stingh, Jenny Lee, Melissa Erlbaum, Mitchell Hornecker, Ed McNamarra

Metro
Emily Lieb, Alison Wicks, Valeria McWilliams, Jonathan Williams, Patricia Rojas, Allison Brown

Facilitators
Allison Brown, JLA Public Involvement

Minutes
Jimmy Oporta, Metro

Note: The meeting was recorded via Zoom and therefore details will be focused mainly on the discussion, with less detail in regards to the presentations.

Welcome

Brief introductions of Metro staff and Oversight Committee members were made.

Staff presentation on cost efficiency

Emily Lieb, Metro Housing Bond Program Manager, welcomed the committee members and provided an overview of the Housing Bond's role in ensuring program costs are reasonable and appropriate. The presentation also included recommendations to the committee on proposed cash developer fee guidelines.

Q & A

Mitch – Are the Portland projects applying the PHB fee schedule? Emily: Yes, those fee schedules have been in place for decades and apply to PHB Metro Bond projects.

Ed – There is a distinction between project costs and metro bond subsidy. There is no correlation. Keeping project costs down doesn't always reduce subsidy. There are things in development where spending more, saves money for the project. We can't just look at the costs. I'm not sure what problem we're looking to solve. Why do we care how much money the developer is making, if they're bringing us a better project?

Ed (continued) it is not rational to restrict the developer fee. If we want to encourage more housing, setting up formulas for developer fee doesn't get us there. When we put a cap on developer fee, all the developers have figured out how to split the project into 2 or 3 phases. Now there are duplicative costs on permits, attorneys, etc. Construction costs will go up. The second problem is the cap and percentage. You're not giving anyone incentive to lower costs. It's a lot of work. It takes more work to bring a similar project at a lower cost. People will game the system and present smaller projects. It also takes a lot more work to do a project with a partner (for-profit and non-profit partnership). For profit developers have to buy properties at market rate. We're trying to discourage for profit developers, so it makes no sense to focus on how much money somebody is making.

Nicole – Wanted to understand difference between developer fee and cash developer fee.

Steve – One of the challenges is making a rational decision in a complex system. We don't want to dissuade for profit developers. It seems some of the for-profit ventures are delivering on the goals we set. In some ways, there is room for different approaches. We should take thought and time to build a system to sustain this. It's important to ruminate and not rush into a decision.

Jonathan – One of the dynamics I'm concerned about is that PHB is sophisticated and we have partners who are less experienced in this area. But having a system where 100% cash fee is the expectation could be an issue.

Ed – If you have a project using excessive amount of bond money and getting a large cash fee that could be an issue. But if they can deliver the product, in the way we asked for, is for the hard work. Are we over subsidizing projects?

Emily – Total developer fee includes deferred fee, and part of the reason…public perception is that developer fees are really high. The higher your total fee, the higher your tax credits. What we're looking at is the net cash of the developer fee. If there is an influx of additional resources, should the developer fee automatically go up?

Ed – I'm with you on that, but that's a separate issue in my opinion.

Nicole – Was the focus on total fee or just the cash fee?

Emily – We were looking at cash fee in this proposal…but looking at developer fee as a whole as well throughout the bond.

Ed – Rather than capping a fee, our focus should be that the developer takes the maximum fee possible.

Steve – Are we looking at Metro investments, or are we looking at how Metro investments work with the rest of the region out there? Yes, there is an optics issue, but the issue is so complex and sometimes makes no sense. Let's not add another set of rules. Let's raise a sophistication level on all of us and not rush the process.

Mitch – Having a hard time following do more with more and this proposal. All of these projects are competitively won. They are competing against other projects all pitching for the same project. At some point in the process, a group of people decide the selected project was meeting the goals of units and doing the most for costs. It's dangerous to do comparisons, without unwinding the financials. If we really wanted to maximize, we would be directing jurisdictions to rehab available projects. Before supporting this, I'd like more information.

Ed – I know there's a perception problem. Do we work to educate public officials? Or do we continue to feed that kind of perception? It's a lot less work to do Acq/Rehabs, but we're actually not producing more net new housing. Although it takes longer, it's better to produce new housing. As public funders, we're not buying the building, but rather buying the long-term affordability of the built units. The focus should be "what are we getting for our money?"

Emily – the two rehab projects we have are residential care and a hotel. The most likely scenario is hotel conversions. We'd welcome thoughts on providing structure on developer fee, is there a way to align with an approach that is between the state and PHB. Do we do a flat fee cap?

Patricia – This is why we pulled the group together – to get a wide variety of perspectives. Are we focusing on the right area for the issue we're trying to solve for? Part of the concern is public perception and wanting to see us be good stewards of public dollars.

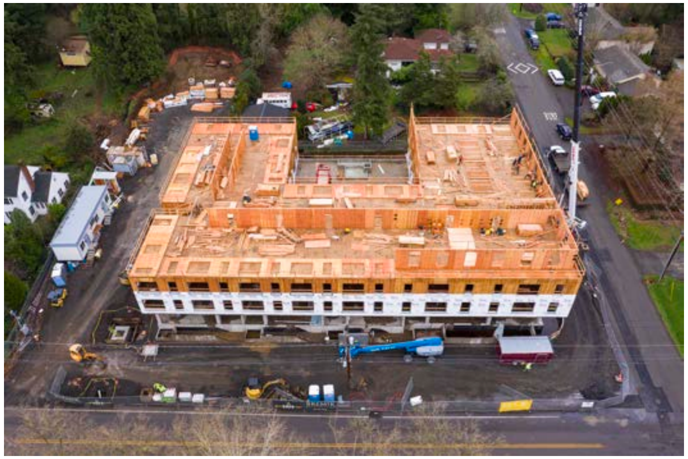
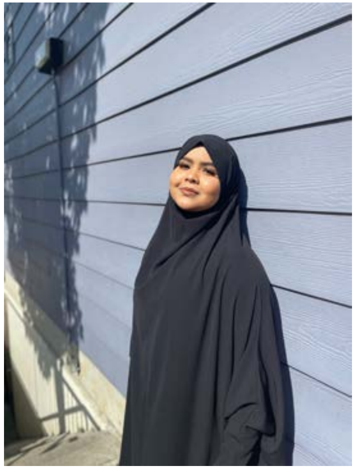
Steve – there are ranges in here and it would be worth a discussion. Also, permanent supportive housing should be at the top of priorities.

Mitch – we don't have consensus on this. Why don't we report that out to the committee and keep working on it?

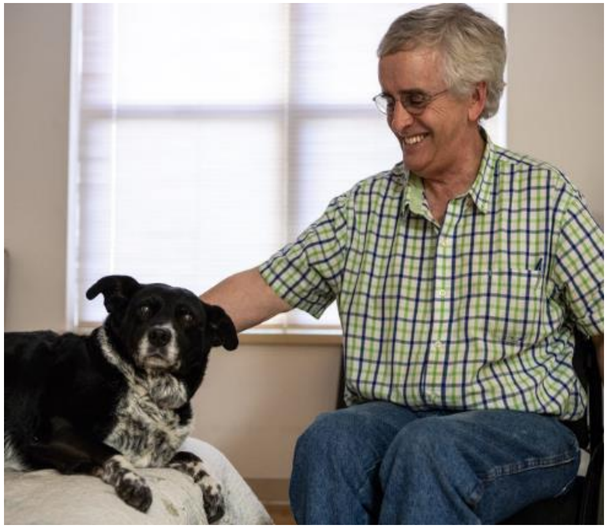
Emily – many of the remaining solicitations will be going out in 2022. In terms of timing, we would like to have something in place in preparation of solicitations going out in January of next year.

Next steps

Steve will report out to the larger group.


Metro



Housing Bond Oversight Committee Working Session: Cost Efficiency

October 18, 2021

Guiding principles

- Lead with racial equity.
- Create opportunity for those in need.
- Create opportunity throughout the region.
- Ensure long-term benefits and good use of public dollars.

Metro role in efficient use of funds

- Regional modeling determined 2018 production goals and funding allocation.
- Metro role includes:
  - Monitoring trends and providing oversight and accountability for policy and production goals
  - Reviewing projects at concept and final stage to confirm alignment with program goals and adopted local strategies.
  - Maintaining procedures to support fair and consistent consideration of funding requests, clear standards for reporting on outcomes, and continuous improvements.

Local role in efficient use of funds

- Local implementation strategies include development plans with 'cost containment strategies'
- Local role includes:
  - Developing and administering competitive funding solicitations to select projects and development teams for Metro bond funding awards.
  - Negotiating project funding agreements with development partners.
  - Releasing funding to project; monitoring construction and reporting on outcomes

Cost containment in local strategies

- Commitment to ensure that costs are reasonable and appropriate, with primary focus on amount of bond funds rather than total costs
- Average bond subsidy of $143,000 across portfolio, with project by project range
- Focus on efficient design and durable construction; cost-effective green building to create efficient use of energy and water
- Materials to create healthy living spaces; aligned to future residents' needs in terms of space, amenities and services.

Metro evaluation criteria for efficient use of funds

- Utilizing available non-competitive leveraged funding sources appropriately (or otherwise justified)
- Appropriately leveraging permanent financing (or otherwise justified)
- Total public subsidy in line with comparable projects (or otherwise justified)
- Project costs are generally in line with typical regional costs (or otherwise justified)

2020 Annual Report findings on efficient use of funds

- Development costs are consistent with costs for similar affordable housing across the region and nationally. Policy goals for larger bedroom sizes, deep affordability, and equitable contracting/workforce impact costs. Other cost drivers include project size, construction type, and parking.

- Variation in local practices suggests that stronger regional coordination may be needed to optimize Metro bond and leveraged public subsidy.

- Policy and market changes, as well as swift action by partners, have enabled the program to exceed expectations in early phases of implementation. December 2020 federal relief bill significantly increased the value of 4% Low Income Housing Tax Credits (LIHTC).

- Local tools/strategies such as SDC waivers, property tax abatements, density bonuses, and land and funding contributions vary across the region.

HOC Recommendation:
Do more with more.

With the region on track to exceed the unit production goals established for the measure, and new resources coming online, we believe there is not only an opportunity, but an imperative, to do more with these resource**s** – whether that means **going broader to achieve more overall units and/or going deeper to support the most challenging-to-fulfill needs such as permanent supportive housing and larger, family-sized units.**

There are also opportunities to look for synergies that allow housing bond investments to **leverage state/federal/other local funds and to be integrated with complementary investments**, such as digital equity and co-location with early learning facilities. We need to ensure that, as a system, we are working toward “doing more with more.”

Program adjustments

- Clarifying and sharing Metro evaluation criteria/process
- Proposed developer fee guidelines
- Providing guidance and recommendations for adapting projects to additional LIHTC equity
- Supporting alignment with leveraged funding, starting with SHS program

Proposed developer fee guidelines

Why needed? Why now?

- 4% LIHTC floor has generated additional leveraged funds
- Significant variation in fees across Metro bond portfolio, and higher average fees for for-profit developers
- Housing Bond Oversight Committee recommended that we “do more with more”
- Feedback from Metro Auditor, developers, LIPs regarding need for greater transparency and clarity in Metro project review

Proposed developer fee guidelines

Research and Analysis

- Analysis of fees in existing pipeline
- Analysis of fee standards in 30 jurisdictions
- Racial equity considerations
- Impact analysis
- Alignment with PHB and OHCS

Proposed fee standard (new construction)

- Maximum net cash developer fee: Lesser of $3M or below percentage
- Range (percentage of developer fee basis)
  - 1-30 units: 8% to 14%
  - 31-75 units: 6% to 10%
  - 76-100 units: 3% to 7%
  - 101 units and above: 2% to 6%

Proposed fee standard (acquisition/rehab)

- Maximum net cash developer fee: Lesser of $3M or below percentage
- $4,000/unit PLUS (percentage of developer fee basis)
  - 1-30 units: 13% to 22%
  - 31-75 units: 12% to 20%
  - 76-100 units: 8% to 18%
  - 101 units and above: 5% to 16%

Alignment with state and local standards

	Metro (proposed)	OHCS	Portland
Net cash developer fee limit	Lesser of $3M or below percentage: 1-30 units: 8-14% 31-75 units: 6-10% 76-100 units: 3-7% 100+ units: 2-6%	N/A	1-30 units: 8-12% 31-75 units: 6-9% 76-100 units: 3-6% 100+ units: 2-5%
Total developer fee limit		1-30 units: 20% 31-75 units: 18% 76-100 units: 16% 100+ units: 14%	15%

Definitions

Cash developer fee: net paid fee after the deferred fee and contributed fee/sponsor contributions, consultant fees, and third-party construction management fee. This is consistent with the methodology used by Portland Housing Bureau (PHB).

Developer fee basis: total project cost minus acquisition costs, total developer fee (paid, contributed, and deferred), consultant fees, third-party construction management fee, and capitalized reserves. This is consistent with the methodology used by Oregon Housing and Community Services (OHCS) and PHB.

Considerations for where fees fall within allowed ranges

Metro will require that LIPs describe in project narratives how proposed fees reflect project complexity and considerations related to racial equity.

- Project complexity/risk (e.g. PSH)
- Project team (e.g. culturally specific or CBOs; demographics of staff/board; partnership structures and financial agreements)
- Plans/track record of working with BIPOC communities on culturally responsive design/programming.
- Plans/track record for achieving fair housing outcomes (e.g., resident demographics for previous projects)
- Plans/track record to achieving equitable contracting and workforce outcomes

How guiding principles relate to proposed standards

- **Lead with racial equity:** Provide sufficient compensation to support the continued growth of small, community-based and BIPOC housing providers/partners, and strengthen the ability of all developers/providers to sustain investments that are guided by and support BIPOC communities and other underserved groups.

- **Create opportunity for those in need.** Ensure that developer fees accurately reflect the level of complexity and risk involved in serving the most vulnerable and incorporating community-informed, culturally responsive design and programming.

- **Create opportunity throughout the region.** Support fairness and consistency in how developers are compensated across the region; provide level-setting to provide adequate compensation for small projects/developers and cap maximum compensation for larger projects/developers.

- **Ensure long-term benefits and good use of public dollars.** Ensure fiscal stewardship and appropriate use of public funds to provide long-term benefits to those in need.

Metro guidance on adapting to additional equity

1) Consider add-backs or upgrades to improve sustainability, durability, or livability

2) Look at opportunities to reduce Metro bond subsidy (proportionate with reductions in other subsidy sources)

Projects impacted by additional LIHTC equity

Five projects with recent Final Approval impacted by LIHTC 4% floor

- Range of LIHTC equity changes: -$1M to +$6.3M
- Cumulative increase in LIHTC equity: $10.4M (Average per project $2M)
- Cumulative Bond subsidy reduction $2.5M: (Average reduction of $500,000)
- No projects have increased bond subsidy
- Additional investments included:
  - Solar photovoltaic installation
  - Packaged terminal heat pumps
  - Internet infrastructure to provide free internet to tenants
  - Construction cost increases
  - Additional reserves

Questions & Feedback

- Proposed developer fee guidelines
- Changes in response to increased LIHTC equity
- Other opportunity areas

00:22:55 Melissa Erlbaum: My internet has been a little shaky and seems to work smoother with camera off so I may be on/off today

00:23:30 Jenny Lee (she):I had 10 hours of Zoom meetings over the weekend alone

01:10:46 Melissa Erlbaum: No questions/comments at this time, I am listening to learn more about an area of less experience for me.

01:10:52 Patricia Rojas: Steve, I appreciate you honing in on jurisdictional alignment. Such an opportunity for impact and systemic change.

01:10:54 Allison Brown: Thanks, Melissa.

01:11:08 Jenny Lee (she):Same. Really appreciate folks sharing their insight.

01:16:00 Nicole Stingh (she/her): Thanks, Emily. This is helpful, a lot of nuance in this issue

01:24:57 Emily Lieb (she/her): It's a really good point, Mitch. So much of the opportunity for maximizing the use of our resources is happening at the local solicitation level.

01:25:12 Patricia Rojas: Excellent point.

01:39:14 Patricia Rojas: Agreed. Sounds right to me.

01:39:15 Nicole Stingh (she/her): I think there may be consensus around taking more time for this conversation

01:42:50 Patricia Rojas: Thank you, Steve. :)

01:44:02 Emily Lieb (she/her): Thank you everyone for the good discussion. We appreciate the good questions and recognition of complexity.

01:44:24 Melissa Erlbaum: Thank you