



Metro

600 NE Grand Ave.
Portland, OR 97232-2736

Meeting minutes

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.