

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: November 9, 2011

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 11-70
Adopt Updated Tax Increment Financing Set Aside for Affordable Housing Policy, Policy Implementation Plan, and Income Guidelines

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6908

ACTION SUMMARY

On November 9, 2011, the Portland City Council is scheduled to consider for adoption an updated Tax Increment Financing (TIF) Set Aside for Affordable Housing Policy (the Set Aside Policy), along with a Policy Implementation Plan and Income Guidelines. The action before the PDC Board is to adopt the same updated set of Set Aside Policy documents.

At the time of the original adoption of the Tax Increment Financing for Affordable Housing Set Aside Policy in 2006, it was contemplated that the City Council and the Portland Development Commission (PDC) would conduct a thorough review of the policy and its impact on tax increment revenues, city housing, and other goals. PDC staffers have been involved in this review process as participants in both the Technical Review and the Stakeholder Review committees. A public hearing on the Set Aside Policy was held on August 2, 2011, to obtain input on draft recommendations for improvements and enhancements to the policy.

At the PDC Board meeting, PDC staff will provide an overview of the update process, and present the updates for the Board's consideration. Specifically, structural changes are being recommended to improve administration, transparency, and reporting, as well as to align the policy with priorities set by the PHB Strategic Plan, the Portland Plan, Urban Renewal Area (URA) Plans, and current and future Portland housing needs. The aggregate citywide minimum of 30 percent of TIF collected under the Set Aside Policy would be dedicated to supporting the development, preservation and rehabilitation of housing affordable to households with incomes below 100 percent of median family income. This 30 percent would be calculated in the aggregate, across all urban renewal areas in existence as of July 1, 2006 (other than the Airport Way and Willamette Industrial Urban Renewal Areas), and future URAs created after the adoption of this policy.

PUBLIC BENEFIT

Adoption of the updated Set Aside Policy will ensure a continuation of dedicated funding to the development, preservation, and rehabilitation of affordable housing in URAs.

This action will support the following PDC goals:

- Strong Economic Growth and Competitiveness
- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

A Set Aside Policy Process Charter is attached as Attachment A.

A Technical Review Committee, comprised of finance leadership from PDC, PHB, the Office of Management and Finance, and City Debt Management, met to recommend changes to improve administration, transparency and reporting, as well as to align the policy with priorities set by other guiding plans. Following this committee's work, a Stakeholder Review Committee was formed to meet and consider specific programmatic recommendations during four meetings in May, June, and July 2011. A charter, minutes and recommendations of the Stakeholder Review Committee are available online at <http://www.portlandonline.com/phb/index.cfm?c=54691>. Members were:

- Jesse Beason – Proud Ground/ Portland Housing Advisory Commission (PHAC)
- Traci Manning – Central City Concern, PHAC
- Arlene Kimura – East Portland Action Plan
- Kimberly Branam – Portland Development Commission
- Daniel Ledezma – Commissioner Fish's Office
- Peter Parisot – Mayor Adams' Office
- Guillermo Maciel – Multnomah County Chair Cogan's Office
- John Miller – Oregon Opportunity Network
- Kate Allen – Portland Housing Bureau
- Joni Hartmann – Network for Oregon Affordable Housing

PHB held a public hearing on the Set Aside Policy on August 2, 2011, to obtain input on draft recommendations for improvements and enhancements to the policy. Public testimony and letters received are available at the above link. Additional outreach was conducted by PHB staff, including to Urban Renewal Advisory Committees and the Portland Business Alliance.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Comprehensive Plan Housing Policy provides the overall policy framework for City housing goals, programs, and funding decisions. The City of Portland has adopted several specific housing priorities, including “Home Again: A 10-year Plan to End Homelessness in Portland and Multnomah County,” No Net Loss for Affordable Housing in the Central City, the Affordable Housing Preservation Ordinance, and Operation HOME, the campaign to increase minority homeownership rates in the city.

On April 26, 2006, the City Council adopted Resolution No. 36403, declaring its intent to establish a TIF Set Aside for affordable housing and asked PDC to present research and implementation options that would create such a set aside or other dedicated funding source for development and rehabilitation of housing affordable to households with incomes at or below 80 percent median family income. On October 16, 2006, the PDC Board adopted Resolution No. 6398 approving the original Tax Increment Financing for Affordable Housing Set Aside Policy and Implementation Plan, which was later updated on October 25, 2006, through Resolution No. 6402. The original Implementation Plan stated that Income Guidelines would be developed to guide investment of TIF for affordable housing. This occurred on February 28, 2007, through adoption of Resolution No. 6398.

On April 12, 2007, through Ordinance No. 180889, the City Council adopted the PDC TIF for Affordable Housing Proposed Income Guidelines, directed PDC to report on these expenditures annually, and directed the City Council and PDC to conduct a thorough review of the policy after December 2010, including impacts on tax increment revenues, city housing, and other goals. On November 9, 2011, based on this thorough review, the City Council is scheduled to consider for adoption the updated the Set Aside Policy and its related Policy Implementation Plan and Income Guidelines.

The documents proposed for PDC Board consideration at this time are in compliance with the 2007 directive and are in alignment with the City Council action on the same.

FINANCIAL IMPACT

Beginning on July 1, 2013, the 30 percent calculation will be applied to total tax increment debt proceeds revenue, net of four percent (4 percent) which PDC will retain as compensation for overhead and staffing related to debt management services performed for the benefit of PHB. This new methodology will be a departure from the current methodology that was based on 30 percent of URA expenditures, net of all PDC and PHB staffing and overhead charges. This change has the following implications:

1. The current methodology netted PDC and PHB staffing and overhead when calculating the set aside. As a result, creation of PDC and PHB staff and overhead budgets were independent from the 30 percent calculation, requiring reconciliation to total available resources as capital and operating budgets changed. The new methodology will now reserve 4 percent of TIF debt proceeds to cover TIF and URA management expenses and then split the remainder between set aside and non-set aside purposes. Each agency’s staffing and overhead requirements will be included in the 30 percent calculation going forward. There will no longer need to be annual negotiations on staffing

and overhead costs since these will now be internal management decisions based on the respective amount of URA resources to implement specific business lines;

2. Annual negotiations are still needed to fine-tune the forecast and timing of project expenditures between PDC and PHB in the five-year plan. Generally, as more resources are required sooner in the five-year plan, total borrowing capacity in the five-year plan window decreases. Major changes in project timing will therefore need to be negotiated between PDC and PHB if it has a material impact on a URA's five-year TIF forecast. PDC and PHB will annually update the budget and five-year forecast to take into account changes in project timing and updates to the TIF resource assumptions, and resulting impact to the TIF forecast; and
3. To recognize cumulative progress in meeting Set Aside Policy goals since the adoption of the original policy, cumulative set aside spending since FY 2006-07 through FY 2011-12 (current methodology) will be taken into account in determining how much of total TIF debt proceeds will be split for the remainder of the current Five-Year Forecast (FY2012-13 through FY 2015-16). This, in effect, will result in a blended methodology to reach cumulative Set Aside Policy targets by district by FY 2015-16. Since PHB spending has been relatively higher in certain districts, the total amount of TIF debt proceeds dedicated to PHB in those districts in the next four years will be less than 30 percent. Likewise, if performance has been less than the goal so far in certain districts, the total amount of TIF debt dedicated to PHB in those districts going forward may exceed 30 percent. See Attachment B for URA allocation resulting from the policy in the next five years.

The resulting, estimated impact of the recommended methodology changes is a net change of less than 1 percent in the total allocation of TIF resources between PDC and PHB between FY 2011-12 and FY 2015-16.

Beginning on July 1, 2011, program income generated from investment of TIF funds will remain with the agency making the investment. Program income will not be considered in calculation of the 30 percent set aside. Under the current methodology, the budget, forecast and housing set aside spending allocations are updated and reprogrammed annually, taking into account total resources including both TIF and program income. After subtracting resources for PDC and PHB staff and overhead costs, the current methodology generally results in 30 percent of PDC and PHB program income getting programmed to the Set Aside Policy and 70 percent to non-set aside uses based on the annual reconciliation and budgeting processes.

PHB currently reports to PDC the total monthly income in invoices sent to PDC for Set Aside Policy expenditures. However, PHB only invoices PDC for expenditures when expenses exceed program income received in a particular URA. PHB currently only remits program income back to PDC if annual program income exceeds annual expenses in a particular URA.

The impact to the PDC FY 2011-12 budget and forecast is minimal in most URAs due to the relative lack of PHB program income with the exception of Downtown Waterfront and South Park Blocks. PDC's budget and forecast currently includes approximately \$1,400,000 in program income from PHB in Downtown Waterfront and \$400,000 in South Park Blocks over the next five years as housing expenditures end, but anticipated housing loan income

continues due to the closeout nature of these URAs. (Note: 50 percent of PHB's URA loan income is from Downtown Waterfront and South Park Blocks.) These amounts will be removed from the PDC budget and forecast under this proposal, thereby decreasing the total resources in the current Downtown Waterfront and South Park Blocks Five-Year Plan. However, the current five-year plan does not include potential PDC loan payoffs, balloon payments and property sale income from assets in those districts that would be 100 percent retained by PDC under the new policy.

RISK ASSESSMENT

Adopting the update ensures policy and implementation alignment with the City Council and reduces the risk of public and staff confusion.

WORK LOAD IMPACT

Staff work to participate in the Technical Review Committee and subsequent work on the policy update is largely complete. There will be work going forward to continue the annual reporting required of the Council, and annual negotiations will be needed to fine-tune the forecast and timing of project expenditures between PDC and PHB in the five-year plan and to negotiate and draft the implementing IGAs between PDC and PHB. Staff will bring an amended FY 2011-12 IGA to the Board later this fiscal year to reflect the change in program income accounting in the current year IGA.

In addition, another review of the policy is planned for June 2015. No new staff is needed to perform this work.

ALTERNATIVE ACTIONS

The Board could defer action at this time and/or direct staff to negotiate changes to the policy.

CONCURRENCE

On November 9, 2011, the Portland City Council is expected to consider the updated Set Aside Policy, Policy Implementation Plan, and Income Guidelines.

BACKGROUND

On April 26, 2006, through Resolution No. 36403, the Portland City Council declared its intent to establish a TIF set aside for the development, preservation, and rehabilitation of housing that is affordable to households with incomes below 80 percent of Median Family Income. On October 16, 2006, the PDC Board adopted Resolution No. 6398 approving the Set Aside Policy and Implementation Plan, which was later updated on October 25, 2006, through Resolution No. 6402. The Implementation Plan stated that Income Guideline would be developed to guide investment of TIF for affordable housing. This occurred on February 28, 2007, through adoption of Resolution No. 6398.

On April 12, 2007, through Ordinance No. 180889, the City Council adopted the PDC TIF for Affordable Housing Proposed Income Guidelines, directed PDC to report on these expenditures, and directed the City Council and PDC to conduct a thorough review of the policy after December 2010, including impacts on tax increment revenues, city housing, and other goals.

On January 7, 2009, through Ordinance No. 182465, the City Council consolidated the housing functions that existed at the City and PDC and established the PBH, which is responsible for implementation of the City's housing policy and all Set Aside expenditures.

Annually, PHB report to City Council on affordable housing expenditures by tenure (rental and homeownership), by income level, by unit size (number of bedrooms), and by URA. Review of the funding and implementation of the policy is considered during the annual budget process.

The directed review process occurred in three stages: a technical review was conducted by a Technical Review Committee; programmatic review was conducted by a Stakeholder Review Committee; finally, public and stakeholder review and input vetted the recommendations, culminating in City Council and PDC Board consideration in November.

ATTACHMENTS:

- A. Set Aside Policy Process Charter
- B. URA Allocation



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July 17, 2011

TIF Set Aside Review Charter

Why: 2011 marks the fifth year of the Set Aside policy that was adopted and implemented in 2006. Policy ordinance directs city to perform a review and recommend changes to Council in fifth year.

Three-Stage Review Process:

- Technical Review
- Programmatic Review
- Public and Stakeholder Input

Technical Review Committee (Completed)

Committee:

Finance leadership from PHB, Office of Management and Finance, City Debt Management and Portland Development Commission

Purpose:

Recommend structural changes that will promote more predictable budgeting, greater transparency and account for the administration of Set Aside by PHB.

Key Questions:

- Should staffing and overhead be subject to the Set Aside?
- How account for Program Income under the Set Aside?
- How to manage PHB's cash flow for Set Aside expenditures?
- Process for adopting exceptions to Set Aside to carry-out time-sensitive projects?

Stakeholder Review Committee (May – July, 2011)

Committee Roster:

Traci Manning – Central City Concern/Portland Housing Advisory Commission Member
Jesse Beason – Proud Ground/PHAC Member
Arlene Kimura – East Portland Action Plan
Kimberly Branam – Portland Development Commission
Daniel Ledezma – Commissioner Fish's Office
Skip Newberry – Mayor's Office
Guillermo Maciel – Multnomah County Chair Cogen's Office
John Miller – Oregon Opportunity Network
Kate Allen – Portland Housing Bureau

Joni Hartmann – Network for Oregon Affordable Housing

Purpose:

Provide technical advice to PHB as it develops recommended updates to the Set Aside to improve administration, transparency and reporting and to align the policy with priorities set by the PHB Strategic Plan, Portland Plan, Urban Renewal Area Plans, City Policies and current and future Portland housing needs.

Key Questions:

- What should be the policy targets for an updated Set-Aside?
- How should policy targets consider geographic vs. city-wide housing needs?
- How can we simplify the policy?
- Should the Set Aside percentage vary among the Urban Renewal Areas?
- Should the Set Aside target become 30% city wide?
- How should policy apply to newly created URAs?
- How should the city's Location Policy apply to projects funded by the Set-Aside?
- What is the best process for amending or updating the policy as needed?

Meeting Schedule

May 26 – 1:00pm – 2:30pm Portland Housing Bureau

- Background on Set Aside policy
- Review of key elements of Set Aside policy
- Walkthrough most recent report and discuss 5-year policy performance
- Review of city housing policies and goals

June 9 – TBD

- Review and discussion of Technical Committee recommendations
 - Budgeting – Expenses versus revenues
 - Program Income
 - Reporting simplification and increased transparency
- Create draft recommendations for improvement in Set Aside budgeting and reporting
- Review of income guideline framework

June 23 – TBD

- Continue discussion on income guideline framework
- Discussion on need/non-need for income spending guidelines within Set Aside policy
- Discussion on intersection of Set Aside policy with city Housing Location Policy, housing trends, and city's unmet housing needs
 - Need for adjusting percentages within URAs?
 - Shift policy to apply as 30% city-wide or keep as URA-by-URA?
- Draft recommendations on income guidelines and development targets

July 7 – TBD

- Review draft recommendations and add/amend
- Finalize recommendations for presentation at two public meetings

Public Review and Vetting (July/August, 2011)

- Stakeholder Committee meetings will be open to the public.
- Meeting notes and draft recommendations will be posted for public comment.
- PHB/PHAC will hold two public meetings (Downtown and Eastside) to review PHB Recommendations and seek input in July/August, 2011.
- PHB to deliver recommendations to at public City Council hearing.

URA Allocation

30% of New Debt (after 4% Reserve)			
District and Goals		FY 2012-13 through FY 2015-16	Blended 10 Year Total
DTWF 21%	Housing	1,962,882	20,364,829
	PDC	9,683,197	76,612,822
	Total (PDC+PHB)	11,646,079	96,977,651
	Percent		21%
NMAC 39% for CD then 30%	Housing	12,171,520	31,872,273
	PDC	24,009,072	56,904,588
	Total (PDC+PHB)	36,180,591	88,776,860
	Percent		36%
RD 30%	Housing	24,800,000	90,586,515
	PDC	128,768,019	211,264,964
	Total (PDC+PHB)	153,568,019	301,851,479
	Percent		30%
SPB 30%	Housing	1,335,302	32,956,202
	PDC	1,642,835	29,891,836
	Total (PDC+PHB)	2,978,137	62,848,037
	Percent		52%
OCC 26%	Housing	6,400,000	18,210,435
	PDC	12,030,981	51,834,350
	Total (PDC+PHB)	18,430,981	70,044,785
	Percent		26%
CES 15% for first \$35M then 30%	Housing	3,112,516	8,370,877
	PDC	7,790,408	37,619,218
	Total (PDC+PHB)	10,902,924	45,990,095
	Percent		18%
Lents 30%	Housing	9,900,000	32,331,491
	PDC	36,050,427	75,429,306
	Total (PDC+PHB)	45,950,427	107,760,797
	Percent		30%
IC 30%	Housing	8,900,000	33,057,009
	PDC	25,079,986	77,236,012
	Total (PDC+PHB)	33,979,986	110,293,021
	Percent		30%
GW 30%	Housing	6,400,000	9,621,360
	PDC	10,747,720	22,414,588
	Total (PDC+PHB)	17,147,720	32,035,948
	Percent		30%
Totals	Housing	74,982,219	277,370,990
	PDC	255,802,644	639,207,683
	Total (PDC+PHB)	330,784,864	916,578,673
	Percent		30%

Note: Forecast does not include Interstate Amendment impacts or final FY 2010-11 Set Aside spending results. Total increase in affordable housing allocation increases by \$14.3 million from Five-Year forecast, however, the increase originates from the need to add affordable housing funding in Oregon Convention Center and River District URAs in the existing FY 2011-12 Budget and Forecast using the existing Set Aside methodology.