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The City Club of Portland Report

AFFORDABLE HOUSING IN PORTLAND



The City Club membership will vote on this report on Friday, February 8, 2002. Until the membership vote, the City Club of Portland does not have an official position on this report. The outcome of this vote will be reported in the City Club *Bulletin* dated February 22, 2002.

The City Club of Portland Mission

To inform its members and the community in public matters and to arouse in them a realization of the obligations of citizenship.

Layout and design: Stephanie D. Stephens

Printing: Ron Laster, Print Results

About the front and back covers: The Housing Authority of Portland's Columbia Villa public housing development will undergo a major revitalization over the next several years with the help of a \$35 million HOPE VI grant from HUD that will anchor the project financing. The current housing will be transformed into a mixed income development that reflects the new urbanism pictured in the preliminary concept drawings on the front and back covers of this report.

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AFFORDABLE HOUSING IN PORTLAND

EXECUTIVE SUMMARY

Since 1970, Portland has gone from being one of the most affordable housing markets in the nation to one of the least affordable. Average household income has risen 42 percent while housing costs have risen 100 percent. About 17 percent of households and 38 percent of renter households cannot afford adequate housing. They either live in sub-standard housing or pay over 30 percent of their meager incomes for decent housing. At the same time, the “affordable housing system” serving Portland and Multnomah County provides assistance to only about one-third of eligible low-income households.

SCOPE OF OUR REPORT

Our report focuses on housing for low-income renter households, e.g. households earning less than 80 percent of the area Median Household Income (MHI). We do not address homeownership because households most in need cannot qualify for homeownership programs. Also, our report does not attempt to examine the unique and complex issues relating to homelessness.

Although the lack of affordable housing is a regional, indeed a national, issue, we focus primarily on Portland, Gresham and Multnomah County where nearly two-thirds of the region's eligible low-income households reside.

DEFINITION OF THE PROBLEM

Affordable housing is an income problem. Low-income households do not earn enough to afford the adequate housing available in the private housing market.

For our study, we use the Department of Housing and Urban Development's (HUD) definition of affordable housing, e.g., households that earn less than 80 percent of median household income (MHI) for the Portland region and spend more than 30 percent of their household income on housing, including mortgage or rent, and

utilities. For example, a household with an annual income of \$20,000 would exceed the standard at a rent plus utilities cost exceeding \$500 per month.

We estimate that, in 2000, about 36,300 renter households in Portland earned less than 80 percent of the median household income for our metropolitan area and spent more than 30 percent of their income on housing.

We define “adequate” housing as housing units that meet basic safety, health and building codes.

DISCUSSION

Need

Metro identified a need for over 90,000 additional units of affordable housing in the Metro region between now and 2017 for households earning less than 50 percent of MHI (rather than 80 percent). We estimate the cost to build these units at approximately \$400 million per year for 17 years (Year 2020).

Affordable housing providers within just the City of Portland would need to invest approximately \$19 million annually over the next five years to meet Metro's reduced but "more realistic" five-year goal 1,791 additional new units for Portland, according to our estimate. Yet, even this substantial increase would satisfy less than one-third of the estimated need for Portland through year 2020.

Rent Subsidies

An effective rent subsidy usually pays the difference between 30 percent of household income and the average rent for an apartment appropriate for the household type. We estimated that the annual cost of subsidizing the rents of the more than 36,000 Portland households in need would be about \$195 million per year.

Efforts to reduce the cost of housing by changing land, construction

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and permit regulations are unlikely to have a significant effect. Construction costs are generally fixed by code and convention. New Land Trusts may be able to subsidize land costs to some extent. At this time it is unclear how great their effect will be.

Current Funding

Our Committee estimated that in 1998, overall funding for all housing assistance programs in Portland was \$123.5 million. The majority of this funding comes from the federal government. About \$70 million went to subsidize construction of low-income housing and about \$49 million was spent to subsidize rents. This level of spending was adequate to serve only about one-third of the households in need in our community.

We found that building more housing units alone will not solve the affordable housing problem. Rents for much of the “affordable housing” being built in Portland are not affordable to most low-income households. Rental costs are driven by development costs and the local market for rental housing. Even a household lucky enough to move into a new, dedicated low-income apartment, usually has to pay well more than 30 percent of its income for rent. Thus many low-income households have to compete for scarce rent subsidies even after moving into so-called affordable housing. The remaining Federal Section 8 project housing, however, does provide rent subsidies for all residents.

The Affordable Housing System

Inefficiencies: The federal government has been, and continues to be, the major funder and driver of housing policy and programs nationwide and in Portland. However, the State of Oregon, Multnomah County, and the cities of Gresham and Portland all operate affordable housing programs, although on a small scale compared to Federal programs.

Over the years, a complex housing assistance “system” has evolved that includes a bewildering array of programs, agencies, and providers.

Federal housing policies have changed significantly over time. New programs are often layered on top of existing programs or strategies. Older programs often continue to exist in some form even after they are superseded—as do the projects and providers associated with them.

The complexity of the system causes a number of inefficiencies. We found that non-profits and private developers often use their scarce resources to compete against each other for relatively small pots of public funding. To finance a project, developers usually must secure funding from multiple sources—each with its own requirements. The complexity of this approach to financing imposes significant delays and additional costs on the development process.

Current System Like a Lottery: The demand for affordable housing greatly exceeds the supply, and the needs among households also vary greatly. Yet, the current “system” allocates assistance pretty much by chance and not based upon a systematic assessment, such as which households have the greatest need. One program actually uses a lottery. Once every two years or so, The Housing Authority of Portland (HAP) opens a rental voucher waiting list of about 2,000 households for about 500 rental units. Some households with lesser need receive assistance while others in desperate need receive no assistance.

Setting Priorities

A system of priorities for different levels of need would allow scarce affordable housing dollars to be targeted to households with the highest need first. Other categories of households could progressively receive help as higher priority needs are funded or as more funding becomes available. The establishment of such priorities would require our community to make some tough choices among different types of low-income households, all with clear needs.

Difficult Choices: After much discussion our committee chose families as the highest priority for rental housing vouchers because of the stability required for children to attend schools and because of our societal values to nurture the next generation. It would cost about

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\$66.3 million annually to serve both large and small families in this low-income group. To serve only large families, those with fewer housing options and requiring larger housing units, would cost \$16 million.

The elderly would be our next priority because other single people have more mobility to find housing throughout the city. Elderly often seek housing in the areas where they have access to specialized services. The annual cost to serve the low-income elderly population would be \$22.4 million.

With only \$49 million allocated annually to rental subsidies the choices become very difficult. At the current funding level, allocating assistance according to need means only large families (\$16 million) and the elderly (\$22.4 million) and about one-fifth of small families (\$10.6 million) would be served.

Although the funding for affordable housing is clearly inadequate to meet stated public goals, Congress has never provided more than about one-third to one-half the necessary funding in the sixty years since it passed the Public Housing Act in 1937. One reason is that the public is generally unaware of the affordable housing problem. Most low-income households manage to find housing in some way such as sharing housing with families or friends, sleeping in basements attics or vehicles, or simply paying half or more of their income for rent. Therefore, despite their large numbers, the plight of inadequately housed families is invisible to the average citizen.

Land Use Issues

Concentration of poverty: Efforts to build affordable housing often are met with resistance from neighborhoods. Residents worry that the housing will be unattractive, cheaply built, and that low-income neighbors will cause problems in the neighborhood. Housing for low-income residents has been concentrated in a few areas. This concentration of poverty leads to ghettoization and a decline in the level of services available in the area.

Gentrification: Gentrification drives up land and housing costs and is

forcing low-income residents out of some more affordable neighborhoods. Some gentrification is market driven, some is spurred by public investments such as urban renewal projects. Public goals for economic revitalization often conflict with public goals for affordable housing. The City of Portland is trying to alleviate some of the negative impacts on affordability of its current urban renewal projects.

MAJORITY CONCLUSIONS

Our conclusions, taken as a whole, are critical of affordable housing programs, but we emphatically state that our criticism is of programs, not of people. In fact, the committee emerged from its study with admiration and respect for those who work to provide affordable housing in Portland. The folks we talked with showed a high level of creativity, determination and humor in the face of a complex and frustrating system.

We concluded that:

- The system is ineffective because it is significantly underfunded.
- The system is inefficient because of its unmanaged complexity and its emphasis on construction.
- The system's benefits are distributed essentially by chance and not by thoughtful public policy, and
- The current system's unintended consequences include stigmatization of the poor and negative impacts on neighborhoods.

MAJORITY RECOMMENDATIONS

1. Restructure the “system” by creating new long-term rental vouchers.

We recommend the creation of a long-term, market-based rental voucher to guarantee apartment developers a long-term cash flow that they can use to leverage financing. The vouchers would give developers cash flow proportional to the share of affordable housing provided in a project.

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We propose that long-term vouchers eventually become the primary method to encourage the creation of rental units and to make them affordable to low-income households. We do not advocate a decrease in current funding for construction subsidies, but rather that future increases in funding for low-income housing assistance be directed to rental vouchers.

Long-term rental vouchers will increase efficiency by reducing the high transaction and administrative costs of the current complex funding packages for affordable housing projects. Long-term vouchers could also encourage the development of more mixed-income housing that would give low-income households more choice of where they live and reduce the stigma of, and neighborhood resistance to, current low-income housing projects.

Short-term: The Portland City Council and the Housing Authority of Portland should work with Oregon's Congressional delegation and the Federal government to obtain a waiver to implement a demonstration project in Portland for long-term rental vouchers. This demonstration would feature direct rental assistance to all of the region's neediest households for a period of five years. Such a program would accelerate the benefits for Portland and serve to prove the concept to Congress.

Long-term: The U.S. Congress should implement a nation-wide long-term rental voucher program.

2. Increase funding for rental vouchers to meet the need.

We calculate an unmet "need" for rental vouchers in Portland to be \$95 million annually. However, we recognize that the actual demand for rental vouchers, while much greater than the current funding available, will be something less than this total amount. We therefore recommend a national effort be initiated to significantly increase funding incrementally over time.

Our recommendation would require Congress to increase funding for rental vouchers by about 200 percent, plus inflation, over ten to 15 years. We would expect Recommendations 1 and 2 to be implemented

in tandem. However, we hope Congress would increase voucher funding in the short-term followed by further incremental increases in funding to achieve the long-term goal.

We believe additional funding of rental subsidies should come from three sources.

- The U.S. Congress should pass legislation-proposed in the 2001 session-to increase funding for rental vouchers by 20 percent over five years.
- The U.S. Congress should transfer, to long-term rental vouchers, funds made available as existing Section 8 projects drop out of the program.
- The Oregon Legislature should pass a bill similar to Oregon House Bill 3400 in the 2001 Session, which would authorize the Metro region to vote on a real estate transfer tax. However, the full amount of revenue generated should be made available to fund rent subsidies.

3. Set Priorities.

While increased funding is our preferred strategy for repairing the inadequacies in the system, we recognize that funding is unlikely ever to be adequate to serve all low-income households in need.

The Portland City Council should:

Admit the need is not being met. City Council should admit that the need is not being met and that—under the current system—many households with lesser need receive assistance while others in desperate need receive no assistance.

Make the tough choices. The City Council should establish priorities for allocating scarce affordable housing dollars—with top priority going to direct rental assistance to households with children, the elderly, and the disabled—and work with appropriate agencies to implement these priorities.

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4. Focus construction on special-needs populations and mixed income housing.

Construction subsidies should still be used for construction projects that serve special-needs populations. As a population requiring medical and support services, the handicapped and disabled are well served by group housing. But note that we do not include the elderly in the special-needs category.

The construction of apartment houses dedicated entirely to low income residents—"dedicated projects"—promote concentrations of poverty that stigmatize residents and neighborhoods alike. They also limit mobility for the working poor, forcing them to settle in poverty pockets rather than close to employment centers.

Local authorities are already taking advantage of system flexibility to develop mixed-income housing, for example, the redevelopment of Columbia Villa. Changing the Federal government bias toward dedicated low-income projects might be hastened by adopting a policy permitting rather than requiring mixed-income developments.

- The U.S. Department of Housing and Urban Development (HUD) should amend its policies to direct all construction subsidies first to low-income special needs populations.
- HUD should adopt a policy to direct remaining construction subsidies to the development of mixed-income housing rather than dedicated low-income projects.

5. Portland should take the lead in reform.

The Portland City Council is already a leader in addressing affordable housing issues in the City. The Council should take leadership in reforming the "system."

- The Portland City Council should work cooperatively with local housing advocates in Portland and the region, our Congressional delegation and the Federal Department of Housing and Urban

Development to create an effective team to lobby for changes in Federal housing policies and programs.

- The Portland City Council should work with these partners to get Federal approval for a demonstration project in Portland for low-income housing assistance reform.
- The Portland City Council should ask HAP to collect and publish affordable housing information for all the housing programs in Multnomah County.
- The Portland City Council should continue to support HAP's use of exemptions from HUD rules to create innovative solutions to system problems, such as the "Welfare to Work" vouchers.

MINORITY CONCLUSIONS

The minority of the Committee generally agrees with the Committee's findings but hesitates to recommend restructuring the affordable housing system to emphasize vouchers without a more sophisticated analysis of the long-term economy of vouchers versus construction subsidies.

The minority is concerned about the stability and long-term economic efficiency of a rental voucher system. Public investment in housing stock creates a stable inventory of housing for low-income populations. Public investment in construction may be more expensive than private sector development but is more cost effective over time. Construction investments create a housing system that is more resilient and less affected by future funding fluctuations than vouchers. Establishing an inventory of housing stock is also the best solution to preserving diversity in neighborhoods subject to gentrification.

The minority is concerned that a disruption of funding for the construction of low-income housing could undermine our community's valuable system of community development corporations (CDCs). CDCs play a valuable role in creating housing stock available for low-income households. The loss of these organizations would make

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development of affordable housing much more difficult and more costly in the future.

The relative long-term costs of a voucher system versus a system of subsidies for housing construction and acquisition are unclear. A more sophisticated and comprehensive analysis is needed before the current systems emphasis on construction subsidies is diminished.

MINORITY RECOMMENDATION

The minority of your committee recommends that, before the Housing Authority of Portland or the Portland City Council take any significant action to substantially redirect the housing system toward rental vouchers:

- The Housing Authority of Portland or the Portland City Council should commission a study to compare rental voucher systems to construction subsidies for affordable housing. This study should include feasibility, relative short-term and long-term costs, and the likely impacts on the availability of affordable housing in our community.

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AFFORDABLE HOUSING IN PORTLAND

I. INTRODUCTION

Over the past decade, Portland has gone from being one of the most affordable housing markets in the nation to being one of the least affordable. Most of our low-income citizens who need affordable housing do not find it. They face a choice between unsafe or unhealthy units, overcrowding or cutting back on food, heat, and medicine to pay for rent. They live in substandard housing, such as slums, attics and basements, or crowded in with relatives or friends. Or they find decent housing by paying more than 30 percent of their meager incomes.

In fact, many of the residents of so called "affordable housing" projects pay more, often much more, than 30 percent of their income—the current generally accepted definition of housing affordability. Our existing "affordable housing system" assists only one-third to one-half of the people who need help in Portland.

The problem is becoming worse. In the late 1990s, the Portland region's economy experienced unprecedented growth. At the same time, three trends worked together to significantly reduce the affordability of housing to lower-income households in our community:

- **The poor became poorer:** The economic advantages of the region's economic boom went largely to middle- and upper-income households. Consequently, low-income households found themselves at an increasing economic disadvantage in the housing market.
- **Housing costs increased:** The economic boom and its companion increase in immigration drove housing prices up and pushed marginal income earners into the "needy" column.
- **The number of low income apartments dropped:** The supply of "affordable" housing units declined for a number of reasons: some low income housing was demolished to make way for new development; some was converted into market-rate housing for middle- and higher-income households; and a number of apartment building owners, who had maintained their buildings for

low-income housing under the Federal Section 8 housing program, chose not to renew their participation in the program.

Given the growing severity of the housing affordability problem in our community, the City Club Research Board and Board of Governors initiated this study.

A. THE STUDY CHARGE

The City Club charged our study committee with the following broad objectives:

- Describe the current need for and supply of low-income housing.
- Identify the barriers to providing low-income housing and the effect of likely future trends.
- Describe and analyze the current affordable housing system, its programs and initiatives.
- Make recommendations for needed actions to private sector and not-for-profit organizations, public agencies, and the City Club.

B. STUDY SCOPE

Housing is a complex policy area with a wide range of human needs, services, and related issues. We narrowed the scope of our report in a number of ways—partly to make the study more manageable—and partly to more effectively target our attention on serving people who have the greatest need for assistance.

Low-income Households: Although, we initially considered the need for affordable housing across the entire range of income levels, we soon recognized that middle- and upper-income households operate in a free market system driven by discretionary income. They are not subject to the same fundamental quality-of-life tradeoffs faced by low-income households

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Our report focuses on households earning less than 80 percent of Median Household Income (MHI) for the household, the standard set by the Department of Housing and Urban Development (HUD) to define the segment of society eligible for affordable housing assistance.

Rental Assistance not Home Ownership: In looking at possible solutions, we chose to concentrate exclusively on subsidized rental programs and did not consider programs that encourage home ownership. People most in need of housing assistance—households earning less than 50 percent of median income—are rarely eligible for subsidized home ownership programs. We were most interested in programs that most directly and effectively get people into affordable housing. Home ownership programs are better at serving broader community development goals than meeting basic housing needs for large numbers of people with low-incomes.

Portland vs. the Metropolitan Region: We limited ourselves to a review of affordable housing in Portland rather than the entire Portland metropolitan region. The majority of the need and available housing assistance services are in Portland.

Homelessness: Finally, this is not a report on homelessness. The City Club has recognized homelessness as a serious problem. The lack of affordable housing is only one of the reasons people are homeless. However, an analysis of the special needs of people who are homeless is beyond the scope of this report. This report focuses on the much larger segment of society represented by individuals who live in inadequate housing or who have to pay more than 30 percent of their income for affordable housing.

C. STUDY METHODOLOGY

The City Club screened committee members to ensure no committee member had a conflict of interest on the issue being studied. Our committee convened on September 9, 1999 and met weekly through November 9, 2000. Committee members interviewed more than twenty individuals, including: advocates for low-income and special needs housing, government, non-profit and for-profit providers,

developers, builders and advocates for free market approaches. We monitored the work of Metro's Affordable Housing Technical Advisory Committee, whose efforts greatly aided our own and of the Governor Kitzhaber's housing replacement task force. We also reviewed a wide range of relevant studies, reports, books, articles, and statistics.

D. PRIOR CITY CLUB POSITIONS ON HOUSING ISSUES

The City Club has actively tracked, reported on and advocated for affordable housing in Portland since the inception of "public housing" in Portland in 1938. Our Committee identified and reviewed 18 previous City Club reports on housing topics. The reports show that the City Club has consistently:

- supported the provision of affordable housing assistance,
- called for affordable housing to be provided throughout our community,
- argued that housing should comply with land use laws and community standards, and
- spoken out strongly against invidious racial discrimination in housing programs.

(See Appendix D for a description of each of the City Club's previous reports on housing.)

Our report carries on the tradition of the City Club's interest in housing issues, and provides a current look at affordable housing problems and possible solutions in our community.

E. REPORT STRUCTURE

Our report begins with a background section that describes the benefits of housing, general obstacles to meeting the need for affordable housing, and the history of national-level and local housing assistance efforts. The report continues with a detailed description of the number and characteristics of households in need, funding, the

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existing housing assistance system, and land use issues.

In the discussion section we delve more deeply into issues around specific challenges related to these areas and examine and attempt to answer the following questions:

- Can adequate funding be provided?
- Can need be reduced to match scarce resources?
- Can need be reduced by increasing incomes?
- Can need be reduced by reducing construction costs?
- Can "system" performance be improved?
- Can affordable housing be compatible with neighborhood livability?
- Can concentrations of low-income housing be avoided?
- Can affordable housing be retained in gentrifying areas?

The report ends with our conclusions and recommendations.

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II. BACKGROUND

In this section, we provide some basic context with which to understand the affordable housing issue, what has been done to provide affordable housing in the past, and the need today in Portland.

A. THE BENEFITS OF HOUSING—WHY SHOULD WE CARE?

Adequate housing provides a range of important benefits—to individuals and families and to the larger community and society. At its most fundamental level, the need for housing is about basic health and safety. The significant health benefits of shelter should be understood and appreciated by us all, for to be homeless or to dwell in unsanitary or unsafe housing is often to live in danger. Humankind's current predators, tuberculosis and cholera, for example, still live among us, held at bay only by the simple sanitary systems available to the "adequately" housed.

But housing in our modern society provides benefits—even necessities—well beyond health and security. Housing provides a stable address without which both participation in civic affairs and receipt of due benefits is difficult to impossible. Housing is a key factor in securing the benefits of our public schools. Housing provides us with the privacy necessary to conduct our lives without the undue interference of neighbors, strangers and the government. The ancient notion of home as castle, enshrined in the Fourth Amendment to the Constitution, grants us security against unreasonable searches and seizures in and of our homes as well as of our persons. The security and tranquillity we find in our homes is thought to be so great that witnesses discussing mental health issues with the committee said the first and best prescription for treating mental illness is to provide decent housing.

Children suffer the most from inadequate housing. They may be denied the food, warmth and safety necessary for good health and physical and emotional development. Lack of adequate and stable housing may also deny children a good education, which is so vital to

future success in our society. Because today's children represent both the future hopes and challenges of our society, we deny them succor at our own peril.

The situation becomes more dire when individuals and families become homeless. They become wanderers whose life is consumed by the need to find shelter each night and who therefore are unable to devote time to secure other needs or any but the merest "wants."

The housing benefits we enjoy as individuals are multiplied for society as a whole to the extent that we all benefit from full civic participation of a diverse citizenry, from the fruits of a well educated society, from the production of a healthy population, and from the peace and tranquillity accorded a society willing to meet the essential needs of its most dependent citizens.

B. OBSTACLES TO AFFORDABLE HOUSING

Effective, long-term solutions to affordable housing problems face some fundamental barriers.

Income: The affordable housing problem is at its core an income problem—people do not have enough income to afford the housing available in the private sector. Solving this problem generally requires either increases in job opportunities and wages for low-income workers or significant transfers of wealth through government subsidies.

Housing Supply: The supply of housing units in a community has a major impact on housing affordability. As the demand for housing increases and the number of available vacant housing units grows smaller, the cost of housing goes up. One solution to this problem is to provide incentives to developers to build more housing.

In Portland as in many communities, much of the affordable housing is found in older houses and apartment buildings. Lower cost housing units are lost over time as older structures are demolished to make way for new development. Some units are lost because they no longer meet evolving code requirements. One solution is to preserve older housing stock.

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The type of housing being built also makes a difference. Developers often receive greater return on their investment by building larger and more expensive homes for middle- and upper-middle income households rather than building smaller, more affordable units. Some government programs seek to overcome this barrier by reducing the cost of construction for private developers or by guaranteeing a certain level of revenue from the property over a period of time.

Visibility: The public is generally unaware of the nature and scope of the affordable housing problem. The greatest share of low-income households is under-housed rather than homeless—they live in inadequate housing or have to pay too much for rent. In contrast, the small number of people in our community, who are actually homeless, about 2,500, are highly visible and therefore much in the public consciousness. Low public awareness of the affordable housing problem contributes to low public support for solving the problem.

Political Will: Cultural barriers also impede the ability to solve the affordable housing problem. Some say our society has the resources to solve the affordable housing problem, but not the political will. Governments at all levels have adopted goals calling for adequate housing for households of all incomes. Yet, our survey revealed that those same governments appropriate only enough funding to meet one-third to one-half the need for affordable housing assistance. Why is this? Some advocates we talked with suggested that many people in our society have mixed feelings about helping people in poverty. Most citizens feel an obligation to help other citizens in need but do not want to make poverty too comfortable. Changing cultural and political attitudes toward poverty is very challenging.

Keep these barriers in mind as we explore the nature of the need for affordable housing in Portland and discuss meaningful and effective solutions to the problem.

C. WHAT DO WE MEAN BY "AFFORDABLE" HOUSING?

The term "affordable housing" is defined by the Federal Department of Housing and Urban Development as housing which costs the house-

hold less than 30 percent of their income for households earning less than 80 percent of the area's Median Household Income (MHI). "Cost" includes principal, interest, taxes, insurance and utilities.

Currently the City of Portland uses an income standard of 60 percent of MHI and a rent payment standard of 33 percent of household income. Because most of the data reviewed by the Committee is from Federal sources we have adopted the Federal standards for our analysis.

In addition the housing must be "adequate", e.g. meeting applicable health and safety codes. It should also be appropriate to the size and type of household.

Most housing is provided by the housing industry in the free market and is affordable to households earning more than about 80 percent of MHI. Because need varies by family size and circumstance, analysts segment the housing population into classes to determine affordability. Most of the reports studied by the Committee used the segmentation adopted by the Census Bureau; singles, small families (two to four people), large families (five or more people) and the elderly.

Understanding affordable housing issues is made more difficult because of the wide range of circumstances affecting the low-income population. Indeed, because the cohort of persons lacking affordable housing is large, about 35 percent of the population, their characteristics pretty much echo those of the general population except, of course, for income.

Among the group comprising "singles," for example, will be found college students, widows and widowers, and many in the special needs category. Although a "small family" of two adults working two full time minimum wage jobs will probably find affordable housing on the market, a small family comprising a single mother and a child probably cannot. Worse off, of course, are "large families" whose housing needs rise with family size while their income does not.

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Because the media pays particular attention to the plight of the homeless, most people equate the affordable housing issue with homelessness. The homeless are, however, a subset of the poor represented in all of the standard categories. Of the 2,157 homeless persons counted in shelters in the semi-annual census of March 17, 1999, 72 were youth, 1,006 were single adults, 24 were childless couples and 1,055 were families with children.

D. THE EVOLUTION OF THE CURRENT AFFORDABLE HOUSING ASSISTANCE PROGRAMS

The private sector has been—and continues to be—the principle source of housing for individuals and households with low incomes. However, the private sector has not found it profitable to meet 100 percent of the need for adequate, affordable housing. For many decades, government housing assistance programs have sought to bridge this gap.

The government's approach to housing assistance has changed significantly over time. The Federal government, historically, has been the largest source of local housing assistance funding, and has therefore set the agenda and direction of local public housing programs across the nation and in Portland. Since World War II, the Housing Authority of Portland has been the primary local agency responsible for implementing federal housing policies in Portland.

The evolution of housing programs over the last sixty years has resulted in a complex and often overlapping system of federal, state, and local government programs that are implemented through public agencies, non-profit organizations, and private investors, developers, and property owners. Earlier programs often continue to operate, even as the direction and philosophy of housing policy changes.

1. Learning the Lingo: Federal Housing Programs

Housing issues first entered the public policy realm in the United States during the progressive movement at the beginning of the 20th Century. Local governments adopted health and safety regulations in

an attempt to remedy terrible conditions in crowded urban tenements. The Federal government became involved in housing policy in response to the shortage of housing for World War I shipyard and factory workers. Federal agencies such as the Navy, Merchant Marine and Labor Departments became direct providers of housing.

It was not until the "dirty thirties," when legions of homeless men and boys rode the rails and lived in hobo camps and shantytowns, veterans marched on Washington, and impoverished farmers were chased from the land by drought and the Depression, that Congress awakened to the need for a public role in low-income housing. In 1937, Congress passed Public Law 412, the United States Housing Act.

The Act created the predecessor agency to what is now the Department of Housing and Urban Development (HUD). The 1937 Act authorized and provided funds to local housing authorities charged to create housing for the poor and low-income families ravaged by the Depression. Portland responded in 1941 by creating the Housing Authority of Portland (HAP).

Over time, the federal housing policies have shifted from a highly centralized government role as a direct provider of public housing to policies that rely on market-based approaches and private sector incentives and rental subsidies. *(See Appendix C for a table of these programs and their characteristics.)*

Public Housing "projects": In 1937, the Federal government began providing funds to local public housing authorities, which then hired private sector builders to construct housing projects. The local housing authorities owned and managed the facilities. Examples in Portland include Vanport and Columbia Villa. HUD has not provided funds to build new Public Housing projects since 1994.

Section 23—Non-Profit Housing Projects: Next, the Federal government created the "Section 23" program. Local housing authorities provided funding to non-profit organizations, which developed, owned, and managed the resulting housing projects. HUD discontinued this program in the 1980s.

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Section 8—Private Developer Housing Projects: The Federal Section 8 program succeeded the Section 23 program. Congress created the program to encourage private developers to build apartment buildings dedicated to low-income residents. Under Section 8, private developers signed fifteen- to twenty-year renewable contracts to build, own and manage affordable apartment buildings. In exchange for their participation in the risky low-income market, Congress promised to pay

Figure #1: Clay Towers

Clay Towers illustrates the Section 8 projects. These were the principal form of new affordable housing projects from the mid-1970's through the 1980s. Like many Section 8 projects, Clay Towers is dedicated to senior, disabled and handicapped residents which are viewed by landlords as a preferred clientele.

We talked with an elderly woman on the waiting list for Clay Towers. She lives in the Hamilton West and has to pay the full amount of her rent, about \$320 per month. She said, "I'll be o.k. if I can get into Clay Towers"—where she would receive a rent subsidy.



the owners the difference between 30 percent of a low-income tenant household's income and the market rents. Most of those contracts have expired or will expire in the next few years. HUD no longer funds new Section 8 housing projects.

At the beginning of our study, it was widely anticipated that most owners of the remaining Section 8 projects would not renew their contracts, because Congress failed to provide enough funds to cover market-rate rents. A walk-around survey by our Committee of four HUD Section 8 projects and four comparable market rate apartment houses in November 2001, revealed that Section 8 rents had been raised to, and even above, market rates. For example, HUD Section 8 studio apartments were listed at over \$900 per month. As a result, there should be less pressure for owners of HUD Section 8 units to convert them to market-rate units.

Section 8 Rental Vouchers: In the 1980s, the Reagan Administration sought to reduce the direct role of government in housing policy and shifted the emphasis away from construction and management of housing projects to a more free-market approach using rent subsidies. Two types of vouchers were created. Project based vouchers paid rental assistance to residents of existing projects. Tenant based vouchers were issued to individuals to subsidize rents at any apartment at which the landlord would accept the voucher.

Restriction on Eligibility: The Reagan Administration also significantly reduced the number of people eligible for assistance. A household was required to spend at least 30 percent of its income on housing, instead of the earlier 25 percent standard, to be eligible for housing assistance.

Section 8 Housing Choice Vouchers: In 1998, the Federal government replaced Section 8 projects, project based vouchers, and tenant based vouchers with the new "Housing Choice Vouchers" program. The purpose of this change was to consolidate the voucher programs for rental assistance under Section 8 into "a single market-driven program that will assist in making tenant-based rental assistance more successful at helping low-income families obtain affordable housing

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and will increase housing choice for low-income families." (HUD, www.hud.gov:80/cfda/2001/14871.cfm)

Subsequently, rules were amended to allow 20 percent of housing choice vouchers to be dedicated to specific buildings, a use similar to the previous project based vouchers.

Community Development Block Grants (CDBG): In the 1970s, Congress created the Community Development Block Grant (CDBG) to facilitate inner-city revitalization and to bypass what it perceived as recalcitrant, inefficient or incompetent city governments. At the same time, Congress authorized the creation of numerous Community Development Corporations (CDCs). CDCs have been major players and partners in developing low-income housing in Portland and elsewhere. The CDBG remains a mainstay funding source for housing authorities and non-profit affordable housing developers nationwide. Because of the wide range of uses permitted for CDBG funds, housing typically accounts for less than one-third of CDBG spending.

HOME Block Grants: HOME (amazingly not an acronym) is a block grant program to states for grants to affordable housing developers to lower the cost of construction. Oregon received \$4.7 million in HOME grants in 2000-2001.

It is important to note that under the Section 23 and prior Section 8 programs, residents of government housing paid 30 percent of their income for rent, and the government paid the difference directly to the landlord. Under current programs, residents are liable for their entire rent and must compete for scarce rental vouchers to make their rents affordable.

Low Income Housing Tax Credits: The major incentive now provided for private sector investment in low-income housing is the sale of Low Income Housing Tax Credits (LIHTC). Although the sale of tax credits has brought some private investment to the affordable housing market, government funding still falls well short of meeting half of the affordable housing need. As a result, more than half of households lacking affordable housing find their housing in the private market and

either pay more than 30 percent of their income or settle for substandard dwellings.

One lesson from this overview of the evolution of federal housing programs is that political philosophy matters in this country. Housing assistance strategies change dramatically to reflect current political policy. For example, the Bush administration of 2001 has increased emphasis on home ownership at the expense of rental assistance. History also shows that it is hard to get rid of programs once they are in place.

2. The History of Public Housing Assistance in Portland

The Housing Authority of Portland (HAP) has been the primary public housing assistance agency in Portland since WWII. HAP was created on December 11, 1941, just three days after the United States entered the war. Thus, even though many Portland households were suffering under a severe housing shortage in the Depression, HAP's first mission was to create housing for 78,000 shipyard workers and their families, many of them coming from outside Portland.

HAP successfully met that challenge, becoming not only the largest housing authority in the country but also building the single largest federal housing project in the nation at Vanport. At its most populous—40,000 residents—Vanport was the second largest "city" in Oregon.

Unfortunately for those who would need affordable housing after the war, HAP's wartime housing was prefabricated, temporary units on leased land which were dismantled and sold off after the "war emergency" (with the exception of Columbia Villa and Iris Court). Thus wartime housing only delayed Portland's affordable housing crisis.

HAP initially relocated the displaced residents of Vanport in temporary camps. Postwar attempts to relocate displaced war workers, many of whom were recent black immigrants from the South, foundered in the face of deep-rooted and institutionalized racism that had been held in abeyance by the exigencies of war. Leaders of Portland's real estate

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community joined forces with like-minded city officials to pack the HAP board with members opposed to publicly supported low income housing in general, and housing for blacks in particular.

In the mid-1960s—despite pointed criticism by the City Club (see Appendix D) and thirteen other civic groups—the Portland City Council slashed funds for low income housing programs and restricted the use of the remaining, limited resources to the neighborhoods of inner Northeast and North Portland. Efforts to build low-income housing in other parts of the city met strong resistance for many years. A disproportionate percentage of Portland's low-income housing continues to be concentrated in North and Northeast Portland today.

In the late 1960s, the easing of racial tensions and the implementation of the new Federal Section 23 and the subsequent Section 8 programs allowed HAP to build mid-sized apartments for low-income elderly in several Portland neighborhoods. HAP's development of higher-density buildings allowed the agency to provide low-income housing more efficiently and at lower cost.

In the 1980s, the addition of vouchers offered a number of advantages to low income renters including the opportunity to live in mixed-income buildings and to select housing to meet their needs for access to work, schools and public facilities.

Some landlords have been reluctant to accept tenants with rental vouchers, partly because of a perception that these tenants cause more problems than tenants who do not receive rental assistance. Concerted efforts by HAP have improved the acceptance rate for "tenant based" vouchers to near target levels.

HAP responded to funding cuts in the 1970s and 1980s by broadening its funding base. HAP created alliances with the City of Portland's Portland Development Commission (PDC), state agencies, non-profit and for-profit developers and providers.

During the decade from 1989 to 1999, HAP reports that it assisted the creation and preservation of over 4,000 housing units for households

Figure #2: Hamilton West (right) and 12th Avenue Terrace (left)



These three apartment buildings illustrate some of the complexities and commonalties in affordable housing programs. They are all located on the single block bounded by S.W. Clay and Market Streets and 12th and 13th Avenues. The Hamilton West provides 173 "affordable" housing units. However, because it was designed and built to market standards, its rents are at or close to market rents. It is only affordable to residents lucky enough to obtain rental vouchers. Other residents pay well over 30 percent of their incomes.

About half of the apartments replaced units lost when the Hamilton Hotel was torn down for the new Federal Courthouse on SW Third Avenue, so that resources that could have gone provide 74 new units were needed just to offset lost units.

The 12th Avenue Terrace provides 53 studios dedicated to low income elderly persons. This REACH project managed to capture the last available Section 8 project based vouchers in Portland so that it is affordable to its lucky residents.

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Figure #3: The Paulson



The Paulson is a 93-unit apartment featuring small "efficiency studios" to house persons who cannot qualify to reside in places like the Hamilton West. The City operates the "Fresh Start" program here to help people with bad credit or problematic behavior transition into permanent housing. Many of its residents, however, are simply waiting for their name to come up on waiting lists for more desirable buildings.

Although its lower construction cost keeps rents somewhat below market, like other "affordable housing" projects, it is only affordable to the few tenants lucky enough to have rental vouchers.

The Paulson, like other similar facilities—the Ritzdorf and the Estate—provide the type of special needs housing that the committee feels is best provided in specialized structures and for which construction funding should continue to be provided.

earning from 0 to 80 percent of the median household income for our region. (See Table 1 below.)

Table 1

Summary of HAP Activity, 1989-1999

NEW UNITS ADDED	0 to 30% of median	31 to 60% of median	61 to 80% of median	TOTAL
• Development or Co-development	392	760	328	1480
• Rent Assistance	120	0	0	120
• Conduit Financing	0	404	0	404
TOTAL	512	1164	328	2004
UNITS PRESERVED				
• Acquisition	606	402	544	1552
• Rent Assistance	356	0	0	356
• Conduit Financing	0	120	0	120
TOTAL	962	522	544	2028
TOTAL UNITS ADDED & PRESERVED WITH HAP PARTICIPATION	1474	1686	872	4032
Percent	37%	42%	22%	100%

Note that of the 4,032 units provided, 250 (6.2 percent) are targeted to persons with special needs while 206 (5.1 percent) are dedicated to serving the homeless.

Source: HAP's Historical Summary, April 1, 1989-March 31, 2000, page 1.

The 1990s also saw the Portland City Council take an active role in setting and promoting affordable housing policy in Portland. Faced with the loss of affordable housing units because of gentrification, the Council adopted ordinances and established trust funds giving itself, in essence, a right of first refusal to acquire affordable housing properties as they come onto the market. The Council has also assumed the role of principal housing policy director by leveraging its relationship with the Housing Authority of Portland and the Portland Development Commission. Perhaps most significantly, the Council added affordable housing to the portfolio of the Portland Development Commission, which has become a major supporting partner in affordable development projects throughout the City.

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The Federal government's significant change in approach over the decades is well illustrated by the planned redevelopment of Columbia Villa—Portland's oldest public low-income housing project and Oregon's single largest subsidized housing complex with about 1,200 residents. In September 2001, HUD awarded a \$35 million grant to HAP to redevelop the 70-acre subsidized housing complex in North Portland into a mixed income project. The new housing units will serve not only low-income households but also households that earn up to about 100 percent of MHI.

The Oregonian, on April 16, 2001, reported that: “The \$35 million of federal money wouldn't pay for the whole project. Developers taking advantage of tax breaks for low-income housing would put up more than \$100 million to meet costs expected to hit about \$150 million. When completed the project would replace its 470 existing subsidized units with new units and add 350 to 400 new market-based units including apartments and town houses.”

“The source of the funds, a HUD program known as HOPE VI, seeks to reduce the isolation of low-income housing projects and to help the housing better blend in with surrounding neighborhoods. HAP plans to replace the existing housing with higher-density two- and three-story structures. In a move to break the isolation of the housing project, HAP plans to develop a street system that will connect the community with the surrounding neighborhood.”

3. Who Funds Housing Assistance in Portland?

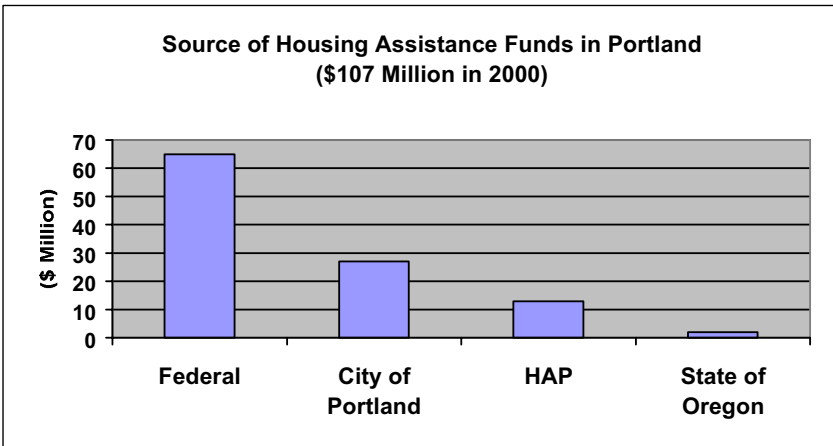
Identifying funding sources proved a major challenge for the committee because no one agency compiles city wide, inclusive data. The Committee conducted its own survey. (Detailed results are summarized in Table 5 on Page 51.)

The largest Federal housing program is the combined home mortgage interest and property tax deductions from income taxes. Unlike funding for low-income housing, these middle -and upper-class housing subsidies are open ended, serving 100 percent of homeowners—regardless of income level—and costing the Federal Treasury about \$97

billion in 2000. By comparison, the National Housing Conference estimates that the Federal government spent about \$27 billion on low-income housing programs in 2000.

The Federal government continues to be the largest source of funding for housing assistance programs in Portland. The City of Portland and HAP provide additional funds. A small portion of the funding comes from the State of Oregon.

The Federal government provides funding for construction and acquisition of buildings, operation and maintenance of apartments and rental payment subsidies. Some federal funds from the Department of Housing and Urban Development (HUD) are expended locally by HUD and some are channeled to local non-profits through national affiliates. Most federal funds flow to states who in turn disperse the funds within the state. Some programs, such as the HOME program, require a local match.



Source: Committee's analysis of funding information—see Table 5, page 51.

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Federal funding for low-income housing is limited by Congress, either in the form of a state capitation limit (e.g. \$1.25 per state resident for the Low-Income Housing Tax Credit program) or in annual appropriations.

The State of Oregon funds some housing assistance activities through general fund expenditures and tax credits. The City of Portland occasionally appropriates general fund revenue to the City's Housing Trust Fund. The Portland Development Commission raises money through tax increment financing in urban renewal projects. The Housing Authority of Portland raises some construction funds by issuing bonds.

E. THE LOCAL AFFORDABLE HOUSING "SYSTEM"

Our local housing assistance system is complex and confusing. Many different public agencies are involved in setting housing policy. The implementation of housing assistance programs involves public agencies, non-profit organizations, and private sector developers.

Two primary strategies are:

- Incentives or subsidies for construction of low income housing, and
- Rent subsidies.

1. Federal Government

The U.S. Congress sets national housing policy. The U.S. Department of Housing and Urban Development (HUD) is the lead federal agency that implements the policy.

As a condition for funding, HUD requires local governments every five years to develop a "Consolidated Plan" addressing housing needs and impediments to fair housing. Since 1999, housing authorities who have partnerships with HUD, including HAP and the Washington and Clackamas County housing authorities, must also complete five-year plans. The current plan, released in May of 2000, covers 2000 to 2005 HUD allocates funds for rental vouchers through HAP.

Low Income Housing Tax Credits (LIHTC) are the principle means of attracting private capital to the affordable housing market for construction. Tax credits are sold in exchange for equity investments in approved projects thereby avoiding a portion of debt financing (i.e., borrowing). LIHTC is administered by the U.S. Treasury Department and U.S. Internal Revenue Service.

A number of other well-known Federal programs—the Federal Housing Administration (FHA), Government National Mortgage Association (GNMA), and Federal National Mortgage Association (FNMA)—provide access to home loans for first time home buyers and other qualified applicants. Our report does not examine these programs because they target home ownership rather than providing rental assistance.

2. State of Oregon

The State of Oregon plays a role in funding for affordable housing in several different ways. In Oregon, the state agency responsible for implementing state housing policy is the Oregon State Housing and Community Services Department (HCSD).

Pass through of Federal LIHTC Funds: The state is the conduit for the Federal Low Income Housing Tax Credit Program (LIHTC). The state does not provide any of its own funds for this program. When the legislation was passed in 1986, Congress set a LIHTC allotment of \$1.25 per person per state. Thus, Oregon currently receives and distributes about \$4.1 million per year. The tax credits are intended to attract equity capital for projects throughout the state. In 2000, the portion allotted to the Portland region was approximately \$1.7 million.

In addition to the Federal pass through programs, Oregon funds affordable housing projects through a tax credit program, state bonds, and a state housing trust fund.

Oregon Affordable Housing Tax Credit Program (OAHTC): This program is available only to nonprofit organizations that in turn pass the credits to eligible lending institutions. In 1998 the Housing and

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Community Services Division granted banks \$4.59 million in tax credits. Rather than making expenditures from its treasury, the state makes a "tax expenditure," foregoing annual corporate state income tax revenue that lending institutions would ordinarily pay for a period of twenty years. In return, lending institutions must reduce the interest rate on the loans they make for affordable rental housing projects. As an example, in 1998, the interest rate was reduced from 8 percent to 4 percent.

The reduced interest rate results in lower operating costs for the project. The program requires that the interest cost savings be passed on to the tenants in the form of lower rentals. For the twenty-year period starting in 1998, tenants will save an estimated \$2.8 million in rent. However, the benefit of this tax credit program extends beyond lowering operating costs. Like the Federal Low Income Housing Tax Program, this is a tax policy tool used to leverage private investment capital for acquiring, rehabilitating, or building new low income housing. It is estimated that for 1998, an additional \$17.2 million dollars of debt capital was made available for affordable housing in the Portland region than if the program was not in place.

Tax exempt Bonds: Oregon also attracts financing for low income housing construction through the sale of tax exempt bonds. The majority of the proceeds that are derived from the sale of the bonds go towards multifamily housing. There is also a certain amount available for single family housing. Again the state does not provide funds directly, but guarantees payment of principle and interest and foregoes state income tax revenue from investors of these bonds. Because the state can sell bonds in the open market at a lower interest rate than the private sale of bonds, developers of affordable housing will derive the benefit of lower financing costs.

However, Congress limited the amount of housing bonds that can be issued when it passed the act in 1986. The amount is \$50 per capita per state with a minimum amount of \$150 million per state. This amount has not been changed since the act was passed, and probably represents a loss in purchasing power for housing of up to 50 percent. In 1998, the Metro area used a combined single family and multifamily amount of \$47 million of tax exempt bonds.

Housing Trust Fund: Oregon also provides some direct funding through its Housing Trust Fund, although it represents a relatively small amount of affordable housing funding. The Housing Trust Fund subsidizes capital construction and in 1998 amounted to \$746,912 for the Portland Metro area. There are a variety of other loan and loan guarantee programs but they do not provide significant funding for affordable housing.

Ironically, although the State of Oregon's financial contribution to affordable housing is well below the national average, the Oregon Legislature has recently denied the Metro region access to potentially valuable affordable housing tools. At the behest of real estate and development interests the legislature prohibited the use of regional property transfer taxes and the use of inclusionary zoning.

3. Housing Authority of Portland (HAP)

As we enter the new century, HAP continues to be the community leader in providing housing for the low-income population in Portland. The agency now serves all of Multnomah County, and provides assistance to the full range of populations needing housing assistance, including people with special needs, the homeless, low income renters, and low income first time home buyers. HAP continues to package funding from many sources to maximize the use of the scarce funds available.

HAP's board is appointed by the City of Portland and serves Multnomah County through an intergovernmental agreement. It operates Public Housing (when capitalized Public Housing refers to a specific Federal program) and Section 8 and other affordable housing programs. HAP also has its own bonding capacity, which it is using more frequently.

HAP provides about 8,000 housing choice vouchers, about 2,500 low income rental units and 380 units of special needs housing that it either owns or manages for social service agencies. Although the City of Portland established HAP, it is an independent public corporation authorized by state law. In 1992, HAP was expanded to include Multnomah County and the City of Gresham.

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HAP's mission of the Housing Authority of Portland is "to assure that the people of the community are sheltered. HAP provides housing solutions to individuals and families who cannot find affordable and adequate housing due to income or special need. In partnership with public, private and nonprofit agencies, HAP develops and manages a continuum of affordable housing options from special needs housing to large apartment communities. HAP also provides rent assistance to households who prefer to find their own apartments."

HAP's operating budget is \$61 million dollars. The Department of Housing and Urban Development (HUD) provides the major source of funding. This HUD funding is in the form of operating funds, capital maintenance/improvement funds, low-rent public housing support, and HUD-funded rent assistance passed through to private landlords (Section 8 Program). HUD has not provided construction funding for low income housing since the Tax Reform Act of 1986 that established the LIHTC program as the primary source of construction funding. HAP also has the ability to sell private activity (PA) bonds or Mortgage Revenue Bonds (MRB) which also provide revenue.

Another source of revenue is rental income from the apartment units that HAP owns and operates. Finally, HAP competes with Community Development Corporations (CDCs) and private developers for grants such as Community Development Block Grants (CDBG), tax credits, fee waivers, System Development Charge (SDC) exemptions and housing revenue bonds for new or rehab projects.

County wide housing authorities also operate in Clackamas and Washington counties.

4. City of Portland

The City of Portland has become more active in affordable housing issues in the past few years. The city created and spent a special low-income investment Housing Fund, adopted policies to disperse public housing for indigents, and took the lead in trying to find a solution to the loss of affordable apartments due to the expiration of Section 8 contracts and gentrification.

The City Council's role in appointing the Housing Authority of Portland Board and overseeing the work of the Portland Development Commission gives it a great deal of influence over affordable housing policy and practice in Portland.

The City's **Housing and Community Development Commission** (HCDC) advises the City Council on housing policy. Housing policy is the province of the City Council and, under the current administration, has been given increased status by being assigned to one of the commissioner's portfolios. The **Bureau of Housing and Community Development** (BHCD) is the City agency that administrates Federal formula block grants from HUD and loan programs within the City and provides operating support to community nonprofit developers.

Housing Investment Fund: The Portland City Council funds the Housing Investment Fund, although the Fund is currently depleted. The Housing Investment Fund has contributed primarily to projects intended to replace low cost housing lost to older single-room-occupancy hotels displaced by new government buildings or gentrification. The City can also issue taxable and tax exempt bonds for multifamily housing projects at below market rates.

Fee Waiver Program: The City waives some development fees for low-income housing projects. Development fees are collected to recover the costs of services to developers such as processing building permit applications. The program is available only to non-profits. System Development Charges (SDCs) may also be waived. SDCs are charged to developers to compensate for the increased demand their projects will place on the city infrastructure including streets, parks, water, and sewerage. The exemption is now available to non-profit developers, HAP, and private developers.

Property Tax Abatement/Exemption Program: The other and perhaps largest source of low-income housing funding by the City is the Property Tax Abatement/Exemption Program. Through various property tax abatements and exemptions, non-profit developers, HAP, and private property owners can take advantage of a variety of programs that target low-income renters, and the rehabilitation of

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owner-occupied housing. Examples include urban renewal areas, and tax increment financing. It should be noted however, that urban renewal areas are not always required to provide affordable housing because they are generally considered economic development tools.

The Fee Waiver program, SDC exemptions, and the Property Tax Abatement/Exemption program have been around in one form or another for some time. Most have undergone changes of some kind since their inception. The value of these various subsidies is unknown. The PDC is currently assessing this issue. The payback for programs that have deferred payments such as the Tax Abatement Program or Tax Increment Financing will not be known for many years. Notwithstanding the unknown value of these various city programs, the city has obligated itself to help fill in some of the financing gaps for affordable housing projects that otherwise might not have been built.

Portland Development Commission (PDC): PDC, while continuing its primary mission as an urban renewal agency, has increased its affordable housing investments in recent years. In addition to providing loans for housing rehabilitation and grants for housing equity, its tax increment financing has become an element in many of the current crop of affordable housing projects.

The Portland Development Commission supports affordable housing policy through a variety of programs. In some cases it is the clearing-house and administrator of federal programs such as HOME and Community Development Block Grants (CDBG) in areas where they operate. PDC also provides direct financing for first-time homebuyers earning less than 80 percent MHI, as well as low-interest loans, deferred-payment loans, and equity-gap investment programs. These programs appear to be funded through the recycling of funds that are being paid back from previous loans.

5. Metro

Metro had not played a major policy role in affordable housing until its 2040 plan goals took on the challenge of making low income housing available in each part of the region as a way to implement Oregon's

land use housing goals. It created the Affordable Housing Technical Advisory Committee (H-TAC) to recommend appropriate actions. H-TAC released its report in June of 2000 recommending that each city and county adopt affordable housing land use goals proportionate to their population as required by Oregon land use goals. They also recommended a regional affordable housing fund.

In addition to the City of Portland, the Metro region has other governmental entities that receive funds for affordable housing through programs similar to those already mentioned. These include Clackamas County, Washington County, and the cities of Beaverton, Gresham and Hillsboro. Note that while Metro has recently adopted the Regional Affordable Housing Strategy as a proposed guiding policy for the region's land use, it is not a housing agency and neither receives nor distributes housing funds.

6. Community Development Corporations (CDCs)

For the past twenty years, CDCs have grown to become another major element in providing affordable housing. CDCs (more formally known as "Community Housing Development Organizations") are non-profit corporations dedicated to housing and community development and therefore eligible for an array of federal, state, and local housing funds. Individual CDCs usually target their activities in a certain neighborhood (e.g. Sabin CDC) or serve a particular niche (e.g. Housing our Families, which focuses on female headed households). CDCs are directed by volunteer boards and receive technical assistance from other non-profits such as the Housing Development Center. The Community Development Network is an association of CDCs with 25 voting and 54 affiliate members. Since the early 1980s, 24 CDCs have provided 4,055 low-income rental units and 434 private homes in the Portland area.

CDCs may, but do not usually, manage construction. They will often partner with for-profit developers and social service agencies. CDCs compete with each other and other agencies such as HAP for funding, tax credits, fee waivers, SDC exemptions and other sources of funding. Most CDC projects are on a small scale. An Affordable Housing Cost

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Study done in 1997 for the Portland area showed that CDCs were the most cost efficient builder of single family homes, probably because they build the least-cost type of housing (e.g., single family houses and 'plexes').

7. Multnomah County

Multnomah County participates in the Housing Authority of Portland and also provides housing assistance of its own.

Strategic Investment Program: While the funding made available is relatively small, about \$500,000, it plays an important role in the affordable housing market. The \$500,000 is used for the county's Strategic Investment Program (SIP). The funds are generated from property tax abatement agreements and contributions from employers, for example Fujitsu and LSI Logic. The program purpose is to help increase the affordable housing serving low-income persons earning less than 50 percent of the area median income. However, the condition for accessing this program is that there must be at least 5 non-SIP dollars for every dollar awarded. The SIP funded projects must remain affordable for low-income families for at least 60 years. The county's goal is to create low income housing around employment centers.

Affordable Housing Development Program: Multnomah County also runs the Affordable Housing Development Program. In this program, the county transfers title of tax foreclosed property to non-profit developers. The developer has 12 months to obtain financing which is made easier by holding title to the land, and 24 months to complete the project. In 1999, the County supported four multi-family and 12 single family projects. The availability of tax foreclosed lots has decreased markedly in the past few years because of rising land values that encourage owners to hold onto or sell their undeveloped lots. Eligible applicants include housing agencies, and non-profit developers providing homeless shelters, special needs housing and low-income rental and owner occupied housing. The program is intended to serve low income rental households earning less than 60 percent of the Area Median Income (AMI) for at least 60 years. Home

ownership projects are expected to remain affordable for households earning no more than 80 percent AMI for a minimum of 30 years.

8. Other Programs

Network for Oregon Affordable Housing (NOAH): A state level non-governmental agency is the Network for Oregon Affordable Housing (NOAH). NOAH is a non-profit consortium of 18 Oregon banks created to provide long-term financing for multi-family rental housing to low-income populations. Acquisition and rehabilitation loans as well as preservation of existing affordable housing in projects of 5 or more units are eligible for funding. At least 51 percent of the rental units must go to persons or families earning at or below 60 percent MHI. The housing must remain affordable for at least 30 years. Interest rates are fixed for 30 years and can be locked in for 12 months. This reduces the cost of a project by a substantial amount. For 1998, NOAH either closed or had loan commitments outstanding in the amount of \$11.86 million.

Enterprise Predevelopment Loan Program: Another state-level non-governmental program is the Enterprise Predevelopment Loan Program. This is a \$20 million regional acquisition fund administered by the Enterprise Foundation available to jurisdictions outside Multnomah County. This fund allows jurisdictions to acquire quality development sites and hold the property for up to five years prior to development.

Gresham Community Development Department (CDD): The Gresham Community Development Department (CDD) is the lead agency for implementing the Consolidated Plan and administering Federal housing grants and loans within the city of Gresham.

9. Non-Government Developers And Managers

Non-Profits: Unions, churches and fraternal organizations have traditionally been providers of retirement housing, and many have joined in partnership with public and private developers to the affordable housing market. For example, the St. James Apartments, the

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Alder House Downtown, and St. Anthony Village in Southeast Portland were developed by nearby churches

Private Developers: The private sector provides much of Portland's non-subsidized low-income housing. In addition, some private developers also compete for the array of affordable housing construction funding available to them in addition to the LIHTC, often in partnership with non-profit developers. In the same study cited above, for-profit developers had the lowest multi-family cost per unit. However, their units were smaller and housed fewer people.

10. Technical Assistance

A number of agencies provide technical assistance to low income developers. These include: the Enterprise Foundation which also provides predevelopment loans, the Oregon Corporation for Affordable Housing (OCAH), the Neighborhood Partnership Fund, the Portland Energy Office and the Portland Housing Center providing assistance to housing consumers.

11. Social Services

Low-income residents often require public services in addition to housing. Some agencies, such as Central City Concern and Transition Projects provide housing as part of their social service mission. Some housing agencies provide social services through partnership with social service agencies such as the Multnomah County Community and Family Services Division.

Affordable housing programs cover a variety of needs. There are programs to cover the various special needs populations such as the mentally ill, persons in drug or alcohol rehabilitation, the physically impaired, and persons with AIDS.

The truly homeless are encouraged to move into barracks-like shelters that also serve to screen and refer for treatment. The elderly have received special attention since the inception of Section 8 due to their vulnerability, frailty and need for services.

12. Coordination And Cooperation

Given the large number of agencies, their multiple and conflicting roles, overlapping jurisdictions and lack of central control, the conglomeration of housing agencies cannot honestly be characterized as a “system” at least in the common meaning of that term. Yet, the Committee found that a high degree of coordination and cooperation exists among the agencies serving the Metro area including the local office of the federal Department of Housing and Urban Development,

Figure #4: The Estate, Central City Concern



The Estate is managed by Central City Concern (CCC), a major provider of affordable housing for the lowest income residents of the central city and in a few other neighborhoods. In addition to the general low-income population, CCC provides transitional housing for special needs parolees and for recovering alcoholics

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Figure #5: Transition Project, Inc. Men's Shelter



Transition Projects Inc. Men's Shelter is one of two 90-bed transitional shelters operated by the organization. The shelter is one of the few programs targeted directly to providing shelter for the homeless.

Oregon State Housing and Community Services Division, HAP, PDC, and Portland's Bureau of Housing and Community Development. Community Development Corporations have their own coordinating entity, the Community Development Network, which assures that CDCs are effectively represented in discussions with and among the other players. Representatives of all the affordable housing agencies meet regularly in informal session under the auspices of BHCD to assure that ongoing and emerging issues are fully aired by all concerned parties.

HUD rules requiring five-year housing plans from agencies they fund also help assure that local agencies share an understanding of common issues and goals.

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III. ANALYSIS OF THE PROBLEM

We found that the affordable housing problem in Portland has four basic elements:

Need: About 39 percent of Portland renter households and 22 percent of Portland owner households are paying more than the standard of 30 percent of their income for housing.

Funding: Although our society embraces a policy of affordable housing for all, it has consistently provided only enough funding to meet one-third to one-half of the need.

System Complexity: Excessive transaction costs and administrative inefficiencies consume funding that should be used to make rents affordable.

Land Use Issues: Affordable housing programs have both positive and negative effects on land use goals while land use planning is having both positive and negative effects on affordable housing programs.

A. NEED

In this section, we identify current trends affecting the need for affordable housing. We then discuss Metro's Affordable Housing Technical Advisory Committee (H-TAC) assessment of the need for affordable housing in Portland and estimate the cost of meeting that need through the construction of new housing units. We then present our own assessment of the need and our estimate of the cost of meeting the need through rental subsidies.

1. Recent Trends that Affect the Need for Affordable Housing

The need is increasing: Since 1970, average household income has risen about 42 percent while the cost of housing has risen about 100 percent. Such a divergence between income and housing costs is a cause for concern. But averages mask an even more startling trend.

Higher-income households are enjoying increasing housing affordability. Median income households face a slow erosion of affordability. However, lower-income households are suffering a rapid and continuing decline in housing affordability.

According to year 2000 HUD estimates, Metro households meeting HUD eligibility criteria increased by 10,894 during the decade of the '90s, from 44,655 in 1990 to 55,549 in 1999, an increase of 24 percent. By county the percentage increases are: Clackamas, 29 percent; Multnomah, 22 percent; and Washington, 28 percent. Although the increase in unmet affordable housing need rose slightly faster in Clackamas and Washington Counties, in 1999 Multnomah County accounted for 65.1 percent of the Metro region's unmet affordable housing need.

Another indicator of the gap between need and funding are the waiting lists. For example, as of June 1999, there were 2,008 households on the Low Rent Public Housing (LRPH) waiting list. For Section 8 housing, the waiting list is 3,500. It typically takes two years for persons on waiting lists to find housing. Many of course, drop off the list during the wait. The demand for vouchers is so great that they are distributed in a biennial lottery. Once every two years or so, The Housing Authority of Portland (HAP) opens a rental voucher waiting list of about 2000 households for about 500 rental units. Names are added to the list by lottery. Households that make it onto the list receive vouchers according to their position on the list, not according to their need relative to other households in need.

Housing Supply is growing more slowly than the need: During the past decade it has been difficult to maintain, much less increase, the number of units available for low-income housing. A major problem has been the loss of existing low-income housing units. A number of factors have contributed to this loss.

One factor has been the conversion of existing Single Room Occupancy (SRO) hotels and small apartment buildings to more upscale, market-rate housing. For example, Susan Emmons, director of the Northwest Pilot Project told us that since 1978, Portland's

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downtown area has lost 1,492 apartments that once were affordable to very low-income persons.

Another factor is the demolition of older buildings to make way for new development. For instance, hundreds of low-cost rooms were demolished to make way for the Federal Office Building and the Federal Court House on S.W. Third Avenue.

In addition, apartment buildings built under the HUD Section 8 program are nearing the end of their fifteen-year terms. Some building owners are unwilling to extend their contracts. They say the Federal government does not provide adequate subsidies to compensate building owners for the difference between what the low-income tenant pays and what the owner could rent the apartment for on the private market. HAP, PDC and the City of Portland have rallied and purchased a few Section 8 project buildings that would otherwise have been converted to market-rate housing.

These trends have forced HAP, PDC, the City of Portland to target resources on preventing the loss of existing housing units rather than on increasing the overall inventory of affordable housing. Continued exceptional efforts will need to be made to keep the approximately 2,000 units at risk available for low-income renters.

New low income rental units coming on line partially offset the continuing losses. For example, during the 1990s, HAP, PDC and housing non-profits created about 8,000 new or rehabilitated affordable housing units in Multnomah County.

The residential rental real estate community is aware of the loss of affordable housing caused by gentrification and sensitive to the criticism that the profits they earn from new development come at the expense of our poorest citizens. As a result some local developers have created the Portland Affordable Housing Preservation Trust (PPT).

Portland Affordable Housing Preservation Trust (PPT): Portland Affordable Housing Preservation Trust was created by local developers to mobilize industry expertise and practice to find, purchase and rehabilitate if necessary older apartment houses that may come on the market. Their hope is that private industry expertise will allow them to seek out and purchase buildings faster and at a better price than non-profit and government housing agencies. After being purchased, the PPT will transfer the buildings to HAP. The buildings will be managed by the private sector on contract in the belief that private sector management would be more efficient. Lines of credit have been established to provide bridge financing allowing PPT to move quickly when opportunities arise. The initial financing will be repaid with low-interest tax-exempt housing bonds. Because of the debt financing, the cash flows required will limit the market served to households earning 50 to 60 percent MHI. PPT is a new, unique and creative approach to stemming the loss of existing affordable housing units and is already drawing attention and scrutiny by housing authorities in other cities.

NOTE: Due to circumstances discussed later in this report, and with a few exceptions, the cost to of low-income housing is about the same as market-rate housing, between \$75,000 and \$100,000 per unit. It is not surprising, therefore, that most of the low-income residents of so-called "affordable housing projects" pay more than of 30 percent of their income for rent.

2. Defining the Need

Affordability of housing is directly linked to how much a household can afford to pay for housing and the price of housing on the market, which is driven by financing, construction and operating costs.

How much can a household afford to pay? The amount a household can afford to pay for housing depends upon the income of the household and the need of the household for goods and services other than housing. The widely used HUD standard of 30 percent represents the portion of household income that can be spent on housing, leaving

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70 percent for all other expenses of the household (food, clothing, health care, education, etc.).

An analysis of the 2000 Census data reveals that, on average, American households spent 27 percent of their household income on housing during the 1990s. Most households spend less than 30 percent of their income on housing. A surprising number of households (mostly the poor) spend more than 50 percent of their income for housing. Our analysis found that, in the City of Portland, in 2000, an estimated 54,762 households (homeowner households—18,499; renter households—36,313) earned less than 80 percent of the region's median income and spent more than 30 percent of their income for housing.

How much will a household have to pay to rent an adequate housing unit? This depends upon the type and size of home a household needs, and the cost of building and operating a housing unit adequate for that household.

The characteristics and size of a household usually determine the type and size of housing unit needed. Larger households require larger units that cost more to build and operate. Elderly households usually need less space than families with children. Generally speaking a studio unit is deemed sufficient for a single person, a one-bedroom unit for a couple and an additional bedroom for each two children.

The cost of constructing new housing varies according to a number of factors including the cost of the land, type of construction and subsidies. Currently the construction cost of a single apartment unit ranges from \$75,000 to \$100,000.

Construction costs vary considerably according to land cost, the nature of the site, method of construction, amenities beyond code requirements, and, of course, size. Economies of scale can reduce cost per square foot but are limited because building costs rise sharply with building height. Current building codes allow up to five stories of wood frame construction on a one-story reinforced concrete foundation. Buildings higher than six stories, which must be constructed of concrete and steel, therefore suffer a cost penalty. Construction costs

rise with inflation and also with the constantly increasing, albeit well-intentioned, increases in building code standards.

Construction costs are usually financed through borrowing and paid off over time through mortgage payments. Interest rates can have a significant impact on the cost of a project.

Operating cost contributes significantly to monthly housing costs. Operating costs include taxes, insurance, and utilities. Some affordable housing programs are tax exempt (non-profits are exempt from property taxes) and some utility costs can be ameliorated by proper building design and construction. In recognition of the need to maintain the affordable housing stock, HUD provides separate maintenance grants to housing authorities to reduce operating costs.

The amount of rent charged for an apartment or house usually reflects the prevailing price on the market. The major components of the price are the owner's monthly mortgage or financing payments, operating and maintenance costs, and profit. Typically, about half of the rent goes to pay the owner's mortgage.

3. Two approaches: Construction vs. Rent Subsidies

Housing advocates often favor investing resources in building and acquiring new buildings because there is a shortage of units affordable to low-income households, a shortage of rental vouchers to place households in market units, and a reluctance by part of some landlords to accept rental vouchers. Units owned by affordable housing agencies can be shielded from market driven rent increases and gentrification.

Advocates of rental subsidies say that the construction of housing units for low-income people is not enough—low-income people still need help paying the rent. They say rent subsidies will encourage the private sector to build new housing more quickly and efficiently than through the current complex system of construction incentive programs. Rent subsidies give low-income people more choice over where they live, and spread out low-income housing in the

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community. This reduces concentrations of poverty and the problems that this concentration sometimes poses for surrounding neighborhoods.

4. Metro's Estimate of Need

H-TAC in its Housing Affordability Study estimated a need for over 90,000 additional affordable rental units in the Metro region between now and 2017 for households earning less than 50 percent of the Median Household Income. H-TAC estimated a need for 19,864 units in the City of Portland.

H-TAC arrived at this estimate of need by a three-step process. First, H-TAC estimated the number of renter households in the region in 2017. The committee then projected the number of renter households in the region in 2017 earning less than 50 percent of the HUD Area Median Family Income. Finally, the committee estimated the number of housing units that would be needed to house those households at rents that would be less than 30 percent of their income.

The H-TAC report grossly underestimated Portland's share of need in the region. With about 45 percent of the region's population, Portland, Multnomah County and Gresham currently provide about 65 percent of the region's low-income housing. As part of a "fair share" strategy, H-TAC assumed that each jurisdiction in the region should serve a proportion of the low-income housing need equal to the jurisdiction's share of the total population of the region. Under this strategy, the percentage of affordable housing units would go up in all jurisdictions, except Portland/Multnomah County/Gresham. The number of the region's low-income housing units in Portland/Multnomah County/Gresham would drop from 65 percent to 45 percent.

In the face of strong resistance from many jurisdictions, Metro has abandoned the "Fair Share" strategy. Thus, Gresham, Portland and Multnomah County will continue to bear a disproportionate share of the region's low-income housing needs. Portland's projected share of the regional low-income housing need in 2017 would be about 40,500 new units, not the 19,864 calculated in the H-TAC report.

5. The Cost of Meeting the Need through New Construction

H-TAC did not calculate what the report called the "exceptional cost" of meeting the full rental housing need through new construction. But if we were to conservatively estimate the cost of building a new unit at \$75,000 per unit, the total cost of producing the 90,479 units estimated by the Metro Housing Task Force would approximate \$6.8 billion. To meet that need, the region would have to receive \$400 million annually over the next 17 years—approximately five times what the region now spends for new low-income housing construction.

Furthermore, H-TAC assumed that, the affordable housing problem would be solved solely by building new units and therefore did not include in their calculations the subsidies required for the new units to be affordable to their low income renters.

H-TAC then offered a "more realistic five-year production goal" of 10 percent of the regional need estimated above, or just over 9,000 units in each five-year period until 2017. Portland's share of this goal is 1,791 units in each five-year period until 2017.

H-TAC then estimated that to meet this regional five-year goal, a subsidy of \$96 million annually would be needed over the next five years—all in addition to the annual subsidies now available to the region (estimated at \$27 million).

The City of Portland was assigned approximately 20 percent of the regional goal of 9,048 affordable housing units to be built in the next five years. At that proportion, Portland alone would need to invest \$19 million annually to meet its goal of 1,791 units over the next five years, all in addition to the annual subsidies now available to Portland.

Even this substantial increase in investment in housing for the lower income households would satisfy less than one-third of the estimated year 2017 need in the region and in the City of Portland.

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6. *The Cost of Meeting the Need through Rent subsidies*

Our Committee chose to take a different approach to defining the need for affordable housing in Portland. We focus on the cost required to provide rent assistance to all needy households rather than on the cost of constructing new rental units.

Our Analysis: The U.S. Census estimates the number of households in Portland paying more than 30 percent of their income for housing. Furthermore, it offers these data for different types of households: elderly, large families, small families and individuals. This differentiation of households by type and rental versus ownership is important in establishing need and in estimating program cost. The U.S. Census count is available every 10 years from the U.S. Census of Population, by type of household and by income of the household. Our Committee used the count for 1990. Because the 2000 count will not be available in sufficient detail until 2002, a reasonable updated estimate of the affordable housing problem for the year 2000 was the first challenge for the Committee.

Though a year 2000 count of households by tenure, type and income was not available, sample surveys of household characteristics were available for the years 1996, 1998 and 1999 from the American Community Survey. These sample surveys estimated the number of households that rent or own their home in the City of Portland, for those three years. Using the mid-decade estimates and the U.S. Census 1990 count, we established a "least squares" trend line, which provided an estimate of the number of owner and renter households in the City of Portland for the year 2000. (See Table 2. below.)

Table 2

Estimated Number of Households—Rental and Homeowners
City of Portland, 2000

Household Type	1990 Census	1996 Sample	1998 Sample	1999 Sample	2000 Estimate
Owner	100,484	107,584	123,727	125,042	125,877
Renter	86,778	89,503	97,884	94,354	96,514
Total	187,262	197,087	221,611	219,396	222,391

This projection provided an estimate of about 126,000 owner households, and about 97,000 renter households residing in the City of Portland in the year 2000.

The Committee then assumed that the distribution of households by type, income and percentage of income spent on housing had remained the same since 1990. There are certainly a number of ways in which this assumption could be wrong. However, with no official information available indicating otherwise, we chose to make the assumption and to report it here (see Table 3, below).

Table 3

**Estimated Number of Renter Households in the City of Portland
By Income and Type of Household, 2000**

Type of Household	Income as % of HUD Area (Regional) Median Income					All
	0-30%	31-50%	51-80%	81-95%	>95%	
ELDERLY	5,914	3,817	2,799	803	2,253	15,586
Paying <30%	2,218	972	1,609	648	2,150	7,597
Paying 31-50%	1,090	1,875	971	131	89	4,156
Paying >50%	2,606	970	219	23	14	3,833
LARGE FAMILIES*	1,385	1,293	1,477	574	961	5,690
Paying <30%	198	399	1,223	564	946	3,331
Paying 31-50%	277	682	254	10	14	1,237
Paying >50%	910	212	0	0	0	1,122
SMALL FAMILIES**	5,325	4,893	7,288	3,456	9,755	30,717
Paying <30%	726	1,052	5,408	3,300	9,658	20,150
Paying 31-50%	805	2,967	1,821	156	91	5,835
Paying >50%	3,794	873	60	0	6	4,732
SINGLE, UNRELATED	9,153	7,378	10,853	4,270	12,867	44,521
Paying <30%	1,942	1,831	7,685	3,948	12,747	28,150
Paying 31-50%	1,457	4,286	3,030	321	120	9,218
Paying >50%	5,755	1,261	138	0	0	7,154
TOTAL	21,777	17,381	22,418	9,102	25,836	96,514
Paying <30%	5,081	4,256	15,926	8,483	25,522	59,228
Paying 31-50%	3,632	9,808	6,075	596	315	20,446
Paying >50%	13,064	3,317	417	23	20	16,841

* Families with 5 or more related individuals

** Families with 2-4 related individuals

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Characteristics of Different Household Types: A significant variation exists between the size of the need in the four classes of renter households.

Note that, because Small Family households have at least two members, that class has the largest number of people in it.

From Table 3 we see that the total number of households paying more than 30 percent of household income for rent is 37,287 or 39 percent of all Portland households.

Households having the choice seldom spend more than 30 percent of their income on housing. Our analysis of the Total Households figures reveals the dramatic impact of low income on rent payments:

- Almost 60 percent of the renter households earning less than 80 percent of area median income pay more than 30 percent of income for rent.
- Less than 3 percent of the renter households earning more than 80 percent of area median income pay more than 30 percent of their income for rent.

Classification of Household	Household Size (individuals)	Number of Renter Households
Single Unrelated	1	16,372
Small Families	2-5	10,567
Elderly	Usually 1 or 2 individuals	7,989
Large Families	5 and above	2,359

Owner households are in a better position than renter households in terms of housing. Still, just over 28,000—or 22 percent of—owner households in the City of Portland are paying more than 30 percent of their income for housing. The difference between the impact of low income on renters and owners is simply the result of the fact that

persons earning less than 50 percent of area median income are rarely eligible for home mortgages.

Characteristics of Need by Household Type: We summarize below significant characteristics of different types of low-income rental.

Elderly Renter Households: Elderly heads of households have unique needs. Because a large portion of the elderly are retired, they tend to live on fixed incomes that do not keep pace with housing cost inflation. The elderly population is increasing rapidly due to aging of the baby boomers and to increasing life expectancy. Although many of the elderly will dispute the perception, the elderly are considered and are treated in public policy as a particularly frail and vulnerable population. Housing policy, therefore, considers larger multi-family apartments and condominiums to be the suitable form of housing for the elderly because both security and services can be more efficiently provided in those settings.

Currently, an estimated 7,731 elderly renter households earning less than 80 percent of the median income, pay more than 30 percent of that income for rent. A surprising number of these elderly renters (2,606) make less than 30 percent of the median income and pay more than 50 percent of that income for rent.

Large Renter Families: These are households of five or more related persons. Undoubtedly a number of single mothers with children are included in these households. A total of 2,335 of these families are making less than 80 percent of the median income and paying more than 30 percent of that income for rent. Close to 40 percent of that total (910) make less than 30 percent of the median income and pay more than 50 percent of that income for rent.

Small Renter Families: These are households of 2 to 4 related persons. There are currently an estimated 10,320 of these households making less than 80 percent of the Portland median income and paying more than 30 percent of their income for rent. Just over 36 percent of these households (3,794 in number) make less than 30 percent of the Portland median income and pay more than 50 percent of that income for rent.

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Single, Unrelated Renters: These are households of unrelated single individuals. There are currently an estimated 15,927 of these households making less than 80 percent of the Portland median income and paying more than 30 percent of their income for rent. Just over 36 percent of these households (5,755) make less than 30 percent of the Portland median income and pay more than 50 percent of that income for rent.

7. The Committee's Estimate of the Cost of Fully Funding Low Income Housing Programs in Portland

Our committee explored the approach of providing households with long-term rental subsidies as the focus of affordable housing programs rather than the current focus on construction. Perhaps, we thought, long-term subsidies would both provide affordability and create a dependable revenue stream that would encourage more investment in affordable housing.

For this part of the study, the committee compared the rent that, on the average, a household of each type would have to pay in Portland today, with the rent they could afford, given their income. When 30 percent of a household's income was less than that required to rent a unit adequate for the household, a rental assistance payment was calculated for that household. This provided the Committee with an estimate of the number of households in need, and an estimate of the cost of meeting that need.

Table 4 shows the preliminary results of this analysis. The full annual subsidy for affordable housing for all of the 36,313 qualifying renter households in the City of Portland in 2000, would exceed an estimated \$195 Million a year. This is about \$100 million more than the total funds spent in Portland annually on all affordable housing programs, including construction funding.

Table 4

Full Annual Cost, All Renter Households in City of Portland, 2000

Type of Household	Base Monthly Rent	No. of Qualifying Households	Total Assistance Payments Needed
Elderly Households	\$500	7,731	\$30,217,000
Large Families (5+ Persons)	\$1,125	2,335	\$21,103,000
Small Families (2-4 Persons)	\$875	10,320	\$68,913,000
Single Unrelated Individuals	\$625	15,927	\$75,602,000
Total		36,313	\$195,835,000

B. FUNDING

Table 5 (right) summarizes the sources and amounts of funding for low income housing in the City of Portland in 1998 resulting from our survey of providers.

Table 4 shows that \$195 million would be required annually to subsidize rental housing for all eligible households in Portland. Table 5 shows current rental subsidy funding of nearly \$49 million, a difference of about \$146 million. But note that when construction and "other" funds are included, the total funding for affordable housing in Portland in 1998 was about \$123 million, narrowing the difference to \$72 million.

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Table 5

**Estimated Total Federal, State, Local Resources
available to subsidize affordable housing
in the Portland Metro Region - 1998**

Program	Construction	Construction	Construction	Rent Subsidies	Total
	Equity	Debt	Other		
FED. FUNDS					
Federal Grants					
• CDBG		1,829,788	4,364,216	1,567,572	7,761,576
• HOME		3,625,000	870,000		4,495,000
• OTHER*			12,284,238		12,284,238
Federal Tax Credits					
• LIHTC (9%)	4,300,658				4,300,658
• LIHTC (4%)	1,061,890				1,061,890
Section 8 Vouchers				47,345,600	47,345,600
Other HAP Expendit.	4,000,000	5,000,000	4,015,700		13,015,700
STATE FUNDS					
• HELP		100,000			100,000
• Housing Trust Fund		746,912			746,912
• OR Aff. Hsng. TC		141,156			141,156
• Multi-Fam. Loans		903,423			903,423
LOCAL FUNDS					
PDC Tax Increment Funds	6,331,866	20,435,556	4,528,795		31,296,217
City of Portland General Funds					
TOTAL	15,694,414	32,781,835	26,062,949	48,913,172	123,452,370
% of Total	12.7%	26.6%	21.1%	39.6%	100%

**Includes non-housing programs and all expenditures beyond equity and debt assistance*

C. SYSTEM COMPLEXITY

Our earlier description of the various affordable housing programs illustrates the complexity of the current affordable housing "system." The transaction costs generated when systems become too cumbersome are very real. Complexity diverts resources of small agencies into wasteful competition for funding, seizing and protecting turf, building and maintaining alliances, training and retraining unskilled and inexperienced staffs and doing government-required paper work. For example, while some Community Development Corporations have proven amazingly creative and productive, others have floundered in the relentless pursuit of scarce resources.

Complexities in the funding of construction are especially costly because of the due diligence required and the fact that many small funding programs must be assembled and coordinated to complete a single project. The complexity of the funding structures is perhaps the most striking difference between for-profit and non-profit developers. Months are added to non-profit development projects by the need to assemble complex financing packages.

The system is now so complex and dispersed among so many agencies, levels of governments and types of developers that accountability and even program monitoring are generally lacking.

D. LAND USE ISSUES

1. Relationship between Affordable Housing and Land Use Planning

Portland's land use vision is of a highly livable city with a diverse and growing population accommodated by moderate increases in housing density. The Committee identified three issues relating to the nexus between affordable housing programs and Portland's land use planning.

Compatibility of affordable housing projects and neighborhood livability. The Committee heard testimony that resistance to low income housing is increasing among neighbors and neighborhood

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associations. We were told that there are several reasons for their concerns, some explicit, some not.

Generally their opposition stems from fears about the impacts that low-income housing will have on community quality. Residents seem to feel that "low income" housing is cheap housing so that the new buildings will be unattractive and reflect shoddy construction and skimpy maintenance.

Neighborhood representatives and housing advocates told us residents fear that poor people will not be responsible neighbors, that they will not maintain their yards, will allow junk cars to accumulate and the neighborhood tranquillity will be violated by loud noise and undesirable activities. Some residents also associate low-income citizens with high crime rates and generally anti-social behavior. Neighborhood activists point to crime statistics to bolster their claim that large low-income housing facilities receive disproportionate attention from the police.

Large projects draw the most opposition because of their larger impacts. If new apartment buildings increase neighborhood population, the schools may become overcrowded, raising not only the fear of lower quality education for resident children, but the specter of increasing pressure for higher taxes. The prospect of tax increases are especially worrisome to retired folks and others living on fixed incomes because of Oregon's heavy reliance on the property tax.

Neighborhood resistance seems to grow in proportion to the number of new projects. Metro's H-TAC estimate that the Portland area will need 8,953 new affordable dwelling units within the next five years, a goal we feel is well short of the need. New medium-rise affordable housing units now being built include about 150 apartments. Meeting even H-TAC's modest goals will require 8 new 150 unit apartments houses each year for the next five years.

Concentration of affordable housing projects in certain neighborhoods. The normal development pattern in American cities is for neighborhoods to develop according to economic class because of the relationship of income to housing cost. Portland's policy during the forties and early fifties was to reinforce the pattern by restricting public housing developments to the low-income area of inner North/Northeast Portland. But it became apparent that concentration of poverty leads to ghettoization, a condition in which low-income citizens—having been concentrated in a well defined area—are then

Figure #6: The Ritzdorf



The Ritzdorf, developed by REACH Development, is the last in a series of projects built to provide transitional housing for homeless people. The fact that it is the last project while the need remains so high clearly illustrates the significant underfunding that the committee has identified as the prime affordable housing issue.

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marginalized by low levels of public services. It took an outcry by Portland civic leaders in the late fifties and early sixties to overcome the City Council's restrictive policy and allow the Housing Authority of Portland to implement its plan to develop projects in other neighborhoods.

Overcoming this once wide spread practice of segregating poverty and racial minorities became a national social and political goal during the 1960s. The result was a number of remedial programs including urban renewal, model cities programs and public housing, each with varying results. Although HAP and the CDCs have long since broken the pattern of restricting development to the inner North/Northeast area, concentration of poverty in housing development was a problem frequently mentioned to the Committee.

The example most cited to the Committee is the recent proliferation of low-income apartment buildings in the "West End" section of downtown Portland. Within five years, at least six apartment buildings and one condominium providing housing for about 1,000 low-income households will have been added to the two dedicated low-income apartment buildings and the County restitution center already located in a three block radius from Southwest 11th and Jefferson. Ironically, this heavy concentration of dedicated low-income housing units is being completed at the same time that City planners are wondering how the West End should be developed.

Some developers with whom we discussed the issue felt that once low-income development reaches a certain critical mass, the neighborhood becomes characterized as low-income and construction loans for middle- and upper-income projects become difficult or impossible to obtain.

It seems that as long as the primary strategy of affordable housing providers is to construct new buildings in target neighborhoods, the system will be hounded by accusations that it is creating the "slums of the future."

Impacts of gentrification on affordability and supply of low income housing. Gentrification is the term applied to the displacement of lower-income residents of a neighborhood by higher-income residents and the accompanying changes in the commercial base, and in attitudes and lifestyles. Gentrification is driven by rising land values. Real estate and infrastructure investments in a deteriorated neighborhood make the neighborhood more attractive, thereby raising land values.

Typically, when land values rise, many existing residents cannot afford the resulting increase in rents and taxes and are forced from their homes. They move either to lower cost and less decent housing within the neighborhood or to other low cost neighborhoods which have not yet enjoyed the blessings of economic development. Gentrification refers, of course, to the newly arrived "gentry" who are able to improve their lifestyle by buying into the neighborhood when prices are too high for the poor but below more fully developed areas.

To the extent that low-income renters and homeowners are forced from their homes, there is no net gain to the community. The low-income population and its societal costs are merely shifted to other areas. For example, for the past ten years gentrification of North/Northeast Portland has been driving its lowest income residents out of the city to deteriorating apartments and motels on the east fringe of Portland and to Gresham. If existing residents could somehow remain in their neighborhood to enjoy improved housing, employment and neighborhood livability gentrification would be avoided or lessened. The City of Portland is making a sincere effort to provide assistance to soften the negative impacts of gentrification on low-income residents. One example is the City's planned assistance to low-income residents in the North Interstate Urban Renewal Area. How successful these efforts will be, only time will tell.

Although gentrification can be a strictly market driven phenomenon, it is usually abetted by government. Community development efforts such as urban renewal and enterprise zones are intended to drive up land values. In addition, government often displaces low income housing in the act of building new government facilities as occurred with the Justice Center, the Federal Office Building and Courthouse on South West Third Avenue.

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IV. DISCUSSION AND CONCLUSIONS

During the course of its interviews the Committee duly noted the various issues raised. Speakers before the Committee mentioned the growing need, inadequate funding and system inefficiencies. We also learned of collateral issues such as concentration of poverty, public resistance to low income housing projects and the effects of gentrification in reducing the stock of low-income housing. After five months of interviews, the Committee met in work sessions to identify key issues and organize the analysis. After comparing and structuring the issues we identified four general areas of interest and eight specific issues that cover the scope of the testimony we heard and read.

The Committee as a whole reviewed the issues, occasionally seeking out additional information to clarify important points. Issues were assigned to individual members or small sub-committees for drafting. We realized that the mere act of identifying key issues in a system as prominent as affordable housing was tantamount to challenging the community to action and therefore chose to call the critical issues "Challenges".

Our analysis resulted in the following table of organization.

<u>Issue Areas</u>	<u>Challenges</u>
Funding	Can adequate funding be provided?
Need	Can need be redefined to better use scarce resources? Can need be reduced by increasing incomes? Can need be reduced by reducing construction costs?
Efficiency	Can system efficiency be improved?
Land Use	Can affordable housing be compatible with neighborhood livability? Can concentration of low income housing be avoided? Can affordable housing be retained in gentrifying areas?

Because our conclusions, taken as a whole, are critical of the current state of affordable housing programs we want to clearly state again that our criticism is of programs and not of people. In fact, the committee emerged from its study with both admiration and respect for the people who toil in the “system.” Those with whom we talked displayed a high level of creativity, determination and humor in the face of a system whose complexity and confusion make their jobs frustrating and difficult.

Our general conclusions:

- The gap between need and funding is large and growing.
- Rental assistance is allocated essentially by chance and not according to need.
- Construction provides some new and decent but not necessarily affordable housing.
- The system's unmanaged complexity results in excessive overhead and transaction costs, difficulty in monitoring, and lack of accountability.
- The clustering of new subsidized housing promotes the concentration of poverty and faces increasing community resistance.
- The stock of affordable housing is being depleted by gentrification.

A. FUNDING

Challenge No. 1: Can adequate funding be provided?

CONCLUSION: Partially. Full funding of the defined need is probably not possible due to the high cost, but significant increases in funding are possible.

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DISCUSSION: Affordable housing programs fall into two types, programs to build or rehabilitate housing units and programs to help pay the rent. They are not necessarily coordinated. Renters in the old Section 8 projects will continue to have their rent subsidized as long as their buildings stay in the program. Residents of new "affordable" apartments may or may not get rent subsidies. A limited number of rental vouchers are available to low income renters.

Housing programs provide construction funding for two reasons. They add or preserve units that the private sector has not provided and they reduce the cost of housing to make it more affordable. As the system has evolved, however, most funding provided for new affordable housing is debt financing with the result that the cost of building affordable housing is nearly the same as other housing. In other words, "affordable housing" is not necessarily affordable to households with low incomes.

Despite the inefficiencies in affordable housing construction programs, and despite the fact that affordable housing construction is not significantly cheaper than market housing, housing advocates support construction subsidies so that housing for low-income tenants stays available over time. They therefore advocate conditioning low cost loans to private developers on long term availability or to placing the units in non-profit or government ownership.

While the amount of funding to construct new affordable housing units falls well short of the total need, it is more than adequate to support construction of projects devoted specifically to special needs households, such as the disabled. Currently about six percent of HAP's construction are for special needs units.

Funding available for rent subsidy programs in Portland covers only 25 percent of the need (See Table 5, page 51). Thus, filling the gap would require Congress to increase funding by 300 percent. An increase in funding by Congress of that magnitude was not deemed likely by anyone the Committee interviewed. Increases proposed, but not acted on, during the 1998-1999 Congress would have eventually increased funding by about 20 percent.

Metro's H-TAC recommended the creation of a region-wide real estate transfer tax of 0.75 percent which would provide \$20-40 million in new revenue, which, when combined with a potential increase from Congress, would at least move available funding to about 50 percent of defined need.

Changes to public policy of the magnitude to fully fund the need for affordable housing occur only rarely because of the enormous skills and commitments of time and energy they require. Furthermore, history shows that unless social welfare programs are funded off budget, as with Social Security, they are almost always significantly underfunded, as with food stamps.

When Congress abandoned the Section 8 construction program, HUD lost much of its ability to leverage long term construction funding for private sector developers. The Low Income Housing Tax Credit program provides a small amount of equity that helps developers obtain loans but cannot fill the void left with the end of Section 8. The creation of long-term project based rental vouchers would once again draw private sector investment into the affordable housing market.

Under our long-term voucher proposal, Congress would authorize the issuance of long term commitments to fund rental vouchers. Housing authorities would be issued the long-term vouchers and in turn could bundle them to support specific projects. Lenders could accept evidence of the vouchers to support construction loan applications. For example, HAP could dedicate 30 long-term vouchers to a 30-unit apartment building or pledge them in a one-third partnership in a 90-unit mixed-income project.

A major hurdle in creating long-term vouchers is Congress' inherent inability to bind its future sessions. This limitation can be overcome with creation of a trust fund, similar to the trust fund for Social Security. The greater challenge is finding a continuing source of funding, once again as with the separate income tax for Social Security. Our Committee identified at least three possible sources for continuing funding of a "Long Term Rental Voucher Trust Fund."

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One would be an internal tax on the homeowner's mortgage interest and property tax deduction. These are direct subsidies to America's homeowners; they cost the Federal Treasury about \$80 billion each year. A 10 percent tax would add enough to a national trust fund each year to allow Portland to increase low-income rent subsidies by \$50 million, i.e. to double current funding. Although the homeowner's income tax deductions are considered as sacrosanct as the social security benefit, and might therefore be considered inviolable, we feel linking the massive homeowner's housing subsidy with the unmet needs of low-income renters makes social if not political sense.

Construction funding is currently subsidized by selling tax credits. A similar and probably simpler program could be created to help fund the trust fund. The fund could also be supported by the sale of specific bonds. The obligation to repay the bonds becomes a future mandate that Congress would have to meet.

Filling a funding gap for the Metro region on the order of \$143 million (see Table 5, page 51) will require a major, skillful and focused effort. Unfortunately, critical factors to achieve such a massive public policy goal seem to be lacking, including:

Public support: The public is not much concerned about affordable housing because it is not a highly visible issue. Most low-income people are, in fact, housed, albeit in homes that are inadequate or too costly. Yet, public support is a precondition for the provision of adequate funding.

Leadership: Large changes in public policy, especially costly public policy, require skilled and determined leadership. It seems that in our democratic system leadership of the required magnitude must come from elected officials. The affordable housing system is so fragmented locally and so dependent on Federal largess that no single elected official has the power to take the lead.

The failure of the region's local governments to support the Metro H-TAC recommendation to establish "fair share" housing goals, which are part of state land use goals, illustrates the problem. The emergence

of "Oregon Home," a coalition of local government officials, concerned developers and housing advocates provides a possible solution. The coalition came together in the wake of H-TAC's report, determined that a regional tax sharing approach to funding was needed, and introduced subsequent legislation in the 2001 Oregon Legislature. HB3400, had it been adopted, would have reversed the legislature's 1999 prohibition against using regional taxes to fund affordable housing.

Vision: Should the essential leadership emerge, its first task must be to develop a vision of how the affordable housing system should evolve. Creating a simple, powerful vision for such a complex issue is problematic. Your Committee states its vision for an efficient and effective affordable housing policy in the Recommendations section following.

Valid Process: Finally, a valid process must be developed, one that protects critical stakeholder's claims and allows an effective plan to be created, monitored and implemented.

B. NEED

Challenge No. 2: Can eligibility be reduced to match scarce resources?

CONCLUSION: Yes, if Congress, state and local governments are willing to make tough choices.

DISCUSSION: In this section we confront the realities of our failure to fully fund affordable housing programs.

We recognize that the housing assistance system is significantly underfunded. Given this fact, our community has a responsibility to make rational choices of how best to use the limited funds that are available.

Mathematically the gap between need and funding can be filled by decreasing eligibility as well as by increasing funding. Socially and

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politically, however, a strategy of reducing need is rife with difficult choices and perilous pitfalls. In this section we discuss the potential, and the consequences, of lowering the number of households defined as needing affordable housing assistance.

We then address the difficult corollary issue—assuming that funds will remain insufficient, how should they be allocated among a population of households in which all of the households are defined to be in need?

We then develop a triage scenario based on the policy assumption that limited housing resources should be targeted to those most in need and that households with children have greater needs than households with single residents. It is a zero sum scenario. The dollars transferred to the lowest income residents come out of the pockets of other low-income residents.

Reduce the pool of eligible households. The first step in our scenario is to redefine the threshold of eligibility downward from 80 percent Median Household Income (MHI) to 50 percent MHI. We note that the H-TAC report made the same reduction, although without detailed discussion. A similar reduction was made during the 1980s when the Reagan administration raised the rent-to-income ratio from 25 percent to 30 percent of household income. Some witnesses stressed that the greatest need for assistance is among households earning 50 percent or less of Median Household Income.

We believe that a reduction in eligibility may be justified, given the lack of funding, by the small benefits provided to persons on the margin of poverty, their displacement of more needy households and the reduction in administrative burden that would be achieved by reducing the total number of clients served.

Reducing the eligibility threshold from 80 percent to 50 percent MHI cuts annual program cost from an estimated \$195 million to \$179 million. Clearly, even with reduced eligibility the need far exceeds available resources.

Table 6**Full Funding, Neediest Renter Households @ <50% MHI**

	Base Monthly Rent	No. Est. Households	Total Assistance Payments
Elderly Households	\$500	6,541	\$27,982,800
Large Families (5+ Persons)	\$1,125	2,081	\$20,061,000
Small Families (2-4 Persons)	\$875	8,439	\$62,823,600
Single Unrelated Individuals	\$625	12,759	\$68,233,500
Total		29,820	\$179,100,900

Table 7**Partial Annual Cost (80 percent of need)
All Renter Households in City of Portland, 2000**

Type of Household	Base Monthly Rent	No. of Estimated Households	Total Assistance Payments Needed
Elderly Households	\$500	6,541	\$22,386,000
Large Families (5+ Persons)	\$1,125	2,081	\$16,049,000
Small Families (2-4 Persons)	\$875	8,439	\$50,259,000
Single Unrelated Individuals	\$625	12,759	\$54,587,000
Total		29,820	\$143,281,000

In addition to its impact on renters, the strategy of reducing the eligibility cap would also profoundly impact low-income homeowner programs because virtually no one would qualify for low-income home ownership with an income at or below 50 percent MHI.

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Reduce benefits for households that survive the cut in threshold eligibility. In the section above, the pool of eligible households was reduced. In this step we show the effect of an across-the-board reduction in payments for the surviving households. If we reduce the rent assistance payments by 20 percent, for example, the total cost of the program drops from \$179 million to \$143 million. See Table 7.

Given that current spending for rental subsidies is estimated at about \$49 million (see Table 5, Page 51), this dramatic drop is still not enough to meet the need.

Allocate scarce funds by priorities that reflect societal values. The advantage of an across-the-board cut, as illustrated in Table 7, is that all households receive some funding. Its disadvantage is that treating all eligible households equally assures that the most needy households will not find affordable housing.

The allocation of limited affordable housing benefits is now accomplished essentially by chance, with some programs operating on a first-come-first-served basis and others using a lottery to pick the winners. Can an allocation method better attuned to societal values be devised? What would that be? In the search for an answer to that troubling question, the Committee continued to examine the impact on low-income households of a systematic reduction in benefits that would assure that at least the neediest households receive some assistance.

After considerable discussion, the Committee adopted the general principle that, to the extent that adequate funding for affordable housing support cannot be provided, scarce housing dollars should be allocated to those most in need and where the greatest public benefit is obtained. We adopted the following system of priorities:

First, Households earning less than 50 percent of MHI. Because of the large funding gap and the fact that many of the poorest households receive no benefits under current programs, the Committee reluctantly concluded that the limited available resources should be distributed to households whose median income is less than 50 percent, rather than

80 percent, of Median Household Income. This change only saves about \$16 million per year, because folks in the 50-to-80 percent MHI bracket do not receive large subsidies. However it would open up about 8,000 rental units for lower income households and reduce the administrative burden on the system.

Second, Special needs populations. These are people who suffer disabilities that prevent them from earning a living wage and who require in-home care. This is the group that Dennis West, Former Director of the Housing Authority of Portland, identified as a “permanent” constituency. They are the population who benefit from group housing and for whom subsidized construction programs are justified. The homeless are included in this category.

Third, Families with Children. The Committee identified families with children as eligible for the next tier of support. We felt that families with children have fewer alternatives for housing than do couples or singles, that children need special protection and that society will realize long term benefits from investments in its youngest members.

Fourth, The Elderly. The Committee felt that low-income elderly persons should be the next priority because many of the low-income elderly have fewer options and are more vulnerable than non-elderly couples and singles. Because much subsidized elderly housing is in the form of tightly managed apartment houses, they provide increased security.

Last, Couples and Singles. The last priority was assigned to low-income couples and singles because they are generally in better health and less vulnerable than the elderly they tend to have more options for alternative—even if unsatisfactory—housing.

Tables 8 and 9 show the effects of a triage approach to reconciling inadequate funding with current need. First, all Single, Unrelated Individual Households were eliminated, leaving only large and small families and elderly households as qualifying. This option reduced the cost to \$88,693,920 annually. Then elderly households were eliminated from qualification entirely, reducing the cost to \$66,307,680 annually, still about \$16 million more than is now spent in the region.

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Table 8

**Partial Annual Cost, Renter Family Households Only
Except Singles, City of Portland, 2000**

	Base Monthly Rent	No. of Estimated Households	Total Assistance Payments
Elderly Households	\$500	6,541	\$22,386,000
Large Families (5+ Persons)	\$1,125	2,081	\$16,049,000
Small Families (2-4 Persons)	\$875	8,439	\$50,259,000
Single Unrelated Individuals		0	\$0
Totals		17,061	\$88,694,000

Table 9

**Partial Annual Cost, Renter Family Households Only
Except singles and elderly in City of Portland, 2000**

Type of Household	Base Monthly Rent	No. of Qualifying Households	Total Assistance Payments Needed
Elderly Households	\$500	0	\$0
Large Families (5+ Persons)	\$1,125	2,081	\$16,049,000
Small Families (2-4 Persons)	\$875	8,505	\$50,259,000
Single Unrelated Individuals	\$625	0	\$0
Total		5,855	\$66,308,000

These decisions resulted in a scenario where all elderly are cut off and some childless couples are left in the program. A more politically realistic approach might have been to eliminate all couples-only households, leaving families with children and some elderly as the surviving beneficiaries. However, census data does not distinguish between small families with and without children.

Table 10 summarizes examples of reductions in cost that might be obtained by setting priorities. It is intended to give the reader an idea of the scope of the problem and the consequences to our community.

Table 10

**Cost of Optional Programs of Rent Assistance to Households in Need
City of Portland, 2000**

<u>Program Characteristics</u>	<u>Annual Cost</u>
Current Rent Assistance Program for City of Portland, 2000	\$47,346,000*
Full funding, All Renter Households in Need, Portland	\$195,835,000
Partial funding, Reduce Eligibility Cap to 50% MHI	\$179,101,000
Partial funding, Reduce subsidy to 80% of defined need, all renters	\$143,281,000
Partial funding, Neediest Family and Elderly Households Only, Portland	\$88,694,000
Partial funding, Neediest Family Households Only, Portland	\$66,308,000
Partial funding, Neediest Large Families Only, Portland	\$16,049,000

* Source: Housing Authority of Portland and Department of Housing and Urban Development.

As is clear from the results, the need to be met can be "redefined" downward to equal the level of funding made available by elected officials. But that will require our community to adopt some awfully tough priorities among types of households, all with clear needs.

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Challenge No. 3: Can need be reduced by increasing incomes?

CONCLUSION: Yes, if Congress acts to increase income maintenance programs.

DISCUSSION: In its charge to the Committee, the Research Committee limited this study to "an examination of the availability of affordable housing options rather than how to remedy economic or social problems." While we have largely acceded to that charge, we feel we would be remiss in our duty to readers of this report not to explain the critical connection between income and housing.

As we have said, the so-called housing crisis is in fact an income crisis and is defined as such. Households earning less than 80 percent of their area's median household income are defined as members of the class of persons lacking affordable housing.

The American economic system does not provide, and has never provided, affordable housing for the least wealthy 25 percent of our population. Further, the trends are not favorable. Two recent reports expose an increasing income gap that each year pushes a higher proportion of Americans into inadequate or unaffordable housing. In its October 2000 report "The State of Working America," the Economic Policy Institute of Washington D.C. documents the decade-long growing gap between the rich and the poor. In most areas of the country, incomes of the rich are rising faster than incomes of the poor.

Unfortunately, in the West, low-income wages continue their twenty-year decline in real dollar terms. The report also notes that where low-income household wages have increased, the increase is due as much to increased overtime and two income households as to salary increases.

At the state level, the Oregon Center for Public Policy notes in its recent report "Prosperity in Perspective: The State of Working Oregon 2000," that the poverty level in Oregon has more than doubled, from 7.3 percent to 15.2 percent over the last twenty years.

The implications of prolonged and increasing poverty on both affordable housing and our society is obvious. Equally disturbing to the Committee, however, is testimony raising the specter of a sharp rise in poverty for mothers with dependent children who could drop off welfare rolls and other assistance programs when the five-year deadline imposed by "Welfare Reform" is reached in 2001.

It is certainly beyond our scope to speculate on the chance that the American economy might someday unilaterally extend its blessings to all Americans. However, the government does operate a number of income enhancing programs that contribute greatly to solving the affordable housing problem. Most often mentioned to us were Social Security, the Earned Income Tax Credit, and minimum wage laws.

If living wage programs are increased, more Americans can find their housing on the open market and the adverse consequences of affordable housing projects, such as government sponsored ghettoization and neighborhood conflict, can be proportionally reduced.

***Challenge No. 4:
Can need be reduced by reducing
land, construction and permitting costs?***

CONCLUSION: Not significantly. Construction costs are fixed by code and convention and cannot be reduced to provide "low cost" housing, although the cost of land can be shifted to land trusts.

DISCUSSION: The initial strategy of the Federal affordable housing system was to build low-cost housing and pass the savings on to low-income residents. The early program claimed a number of efficiencies subsequently lost in its evolution.

Because the funding came in the form of grants instead of loans, Housing Authorities avoided mortgage payments. Furthermore, they gained valuable weeks and even months of construction time that are now lost in the search for financing. Moreover, interest cost was avoided in both construction and operating costs. Although the interest cost is minor as a cost of construction, it is the single greatest

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operating cost for apartment owners, consuming about two dollars of interest for every dollar of construction over the term of a thirty-year mortgage, depending on the interest rate.

In addition, because the first government housing projects were diverted to the World War II emergency, they were built on a large scale using standardized, pre-fabricated components thus capturing great economies of scale. In addition, the units were mostly single family dwellings, duplexes and wood frame apartment houses, which are the least costly forms of construction. Land was provided free for the war's duration by the government or leased from private owners. Lease costs were low because large areas of land, vacant in the early 1940s but not vacant now, allowed large cost-effective subdivisions and even, in the case of Vanport, an entire city, to be built within a few miles of Portland's city center.

Construction costs were also kept low by building low-quality houses that were uninsulated and used coal stoves for heating.

It is no longer possible to build "low cost" housing because of a number of factors. These include inflation in land cost, building type, project scale, design quality, and construction codes. They are discussed below in addition to the potential for reducing costs with mass production, shared facilities and acquisition of existing housing.

Land Cost: Land cost is a major factor in any housing development, constituting 15 to 30 percent of the total developed cost. Land cost includes the cost of infrastructure such as sewer and water for the site but is most affected by its suitability for its intended purpose. The intended purpose is reflected in the zoning but individual parcels vary in value according to their location advantages.

Lots in inner North/Northeast that were practically worthless ten years ago now sell for \$12,000 to \$15,000 or about \$3 to \$5 a square foot. The same square foot of land supporting a new apartment house in the West End runs about \$55 or about \$2 million for a quarter block.

Affordable housing developers are aware of the high cost of land. Many benefited from the recession of the 1980s when counties acquired large portfolios of tax foreclosed lots, with no market value, which could be passed on to CDCs. With the economic boom of the 1990s, those days have passed, but a new strategy has been developed. The Portland Community Land Trust has been established to buy and hold land for affordable housing. With the land held by the trust, developers costs are reduced about 20 percent, a savings passed on to the low-income renter or home buyer. However, the effectiveness of land trusts is limited by their ability to marshal the required capital.

The rising cost of land continues to be a problem for affordable housing developers. Causes cited to the Committee include the economic boom of the '90s, Portland's density policies, gentrification and the Urban Growth boundary. We learned that Portland's land costs grew during the 1990s from below the average for comparable cities up to that average. However one assigns the impacts of the various cost factors, it is apparent that continued strong economic growth alone is sufficient to push land costs upward and that nothing short of a recession will relieve the pressure.

The committee received testimony concerning the effect of the Urban Growth Boundary on land cost in the region during the 1990s. We conclude from that testimony that the unprecedented economic growth of that period is the major cause of the increase in land values and that the Urban Growth Boundary contributes very little upward price pressure on land within the area. However, the UGB probably does affect the distribution of land values in the way one might expect, i.e. land values stay about the same in the central city as before the UGB, higher at the inside edge and lower just outside the UGB. Readers wanting a statistical evaluation of those effects are directed to "Growth Management and Housing Prices: The Case of Portland, OR," Philips and Goodstein.

Several witnesses described ways in which Portland's pro-density policies might drive up land costs. For example, allowing row houses on what would once have been a single family lot would increase its value. Also, Portland aggressively uses urban renewal to improve target

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neighborhoods. Because the purpose of urban renewal is to increase land values, it is hard not to conclude that that is the effect.

We further conclude that policies intended to promote higher density must increase land values when the impacts are perceived by the market as positive. Thus, policies that promote large, carefully planned urban infill projects are likely to increase land costs. Conversely, projects that increase density without mitigating its negative effects, such as school overcrowding and traffic jams, probably do not raise land values.

Building type: Perhaps the single most significant characteristic affecting construction cost is a building's scale. In general, smaller, simpler buildings tend to be less expensive on a cost-per-square-foot basis. According to the Affordable Housing Cost Study (AHCS) completed by William L. White, Robert Bole, and Brett Sheehan in 1997, "the cost of developing housing, when measured per person housed or per square foot built, is lowest for single family residences. The cost is slightly higher for townhouses or small plexes, and increases significantly for multi-family and mixed-use developments. If housing development costs are calculated on a per-unit basis, on the other hand, multi-family projects are the most cost effective because the majority of multi-family units are small studio or one-bedroom units."

Strong evidence exists that with the increasing cost of land in the Portland metropolitan area, the cost effectiveness of some of the smaller building types has shifted since 1997. Specifically, small plexes and townhouses are now more cost effective than single family houses in many locations because of the reduced land cost per unit afforded by higher densities. Because of policies promoting density, developers can now, for example, place three units on land previously zoned for two. But the underlying principles still hold—taller buildings, which require sophisticated structural, fire protection, and exiting systems, as well as elevators, are more expensive to construct.

Project scale: though larger buildings remain more expensive to construct, they may provide scale economies that partially offset their

added costs. For example, these buildings often offset increased construction cost with reduced land cost per unit and more efficient utilization of infrastructure. Higher-density buildings can also provide operating benefits not included in a developers pro forma calculation. For example high-density buildings provide an efficient setting for providing social services and, when sited in urban centers, offer opportunities for living comfortably without a car.

Opportunities to capture economies of scale are becoming limited by the shrinking availability of large parcels for development. The small remaining sites are not only inherently more expensive to build on, but often offer additional challenges such as slopes and irregular shapes.

These extra costs of small lot construction are incurred on several levels, but basically are all by-products of production scale. Because these projects are small and dispersed they do not enjoy the economies of larger developments where buildings are built in quantity. With quantity comes the well-known advantage of quantity discounts for materials, consolidated management, shared design costs, and lower overhead.

Design quality: Many infill projects are on difficult building sites and would benefit from unique design but are too small to support the cost of intensive design services. Moreover, with building sites getting smaller and more complicated, builders are less able to refine and recycle their designs. Because of this, many smaller one-design projects do not gain the advantage of improved quality and reduced cost available to more thoroughly designed projects.

A complicating factor in the issue of design quality is "life cycle" costing. Building codes are focused on protecting life and providing safety. Buildings built only to code provide safe and decent, but not the longest lasting housing. We were told of, and the public has been made aware of, numerous cases across the nation where low-income housing has become blighted because of both inadequate design and deferred maintenance. Most low-income housing developers want their projects to be preserved for low-income housing for as long as possible, well beyond the twenty-five to fifty years estimated for

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buildings built only to code. Building life can be as much as doubled economically with good design and proper construction, but the marginal cost adds to monthly rents.

Construction codes: Government-mandated construction codes do not differentiate between market and low-income housing. No one we talked with advocated reducing low-income housing costs by reducing building code requirements. Therefore, the Committee did not consider a recommendation to reduce building code standards.

Mass production: There are certainly some construction economies in pre-fabricated housing but builders are aware of them and utilize them when appropriate. Testimony from builders convinced us that on-site building techniques compete favorably with factory techniques. The principal advantage of factory production is in lower wages paid to less skilled workers. Although large scale pre-fabricated homes, (i.e. modular homes) can be produced at less cost than on-site homes, moving them through a city is so costly that they are utilized almost entirely in semi-rural areas. One system that has enjoyed some success in the private sector is constructing modular housing in temporary on-site factories, although the scale required is on the order of hundreds of units.

A further disincentive to the use of factory construction is the bad reputation of the "mobile home" industry. A series published by the Oregonian in July and August of 2000 revealed a number of practices that result in a high rate of foreclosed loans and abandoned mobile homes. The key policy issue seems to be the government's, the industry's and the banks' decision to treat mobile homes as vehicles, not houses. This results in lower quality construction standards. The practice of renting rather than owning the underlying property and financing with personal property loans rather than real estate mortgages adds to the market instability of mobile homes.

To provide both customer and community acceptance, large scale use of factory produced housing would probably have to be conducted by new organizations that produce housing built to the residential building code on land owned by the homeowner or a non-profit

agency. There is little doubt that factory housing is a potential method of reducing construction costs, at least marginally, as evidenced in Sweden's private market housing system which is almost entirely based on factory-built and branded housing.

Shared facilities: A significant part of the cost of housing construction is in kitchens and bathrooms. The low-income housing sector offers unique opportunities for housing configurations, such as single room occupancy living. Buildings with shared bathrooms, for example, offer the opportunity of increasing personal living space and decreasing overall building cost. These savings are quite notable given the high per-square-foot cost of kitchens and baths and the spatial and equipment requirements of the American's with Disabilities Act (ADA). While bathrooms can readily be shared, it is useful to maintain kitchenettes within each housing unit, because these help occupants to live economically and independently.

Unfortunately, shared facilities among unrelated households are often, in some cases unintentionally, precluded by zoning or building codes.

Acquisition of existing housing: Building construction is only one technique for acquiring dedicated low-income housing. During our study the practice of acquiring existing buildings was also discussed. Generally, the acquisition of buildings for low-income housing offers little or no savings if, as is usually the case, the building requires extensive renovation. The cost of meeting new seismic codes and the ADA provisions have greatly added to the costs of renovation.

The acquisition of buildings for affordable housing requires analysis on a case-by-case basis, and is probably best suited to providing housing in areas where open land is not available or too costly.

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C. "SYSTEM" PERFORMANCE

Challenge No. 5: Can "system" performance be improved?

CONCLUSION: Yes, but efforts to effect efficiency improvements should be incremental.

DISCUSSION: Several witnesses speaking with the Committee identified issues and opportunities concerning system performance. The issues fall into two categories, funding inefficiencies and the complex structure.

Funding: The funding issue is covered in detail in Challenge 1 above. We note here, however, that in addition to funding adequacy, the efficiency of the funding system is at issue. The "system" for funding affordable housing is so arcane and Byzantine that it is inherently inefficient. For example, developers lose both time and money negotiating intricate funding packages because single funding sources are insufficient to cover a single project. A project that might require a developer and a bank in the private sector, usually requires a consortium of five or six entities in the non-profit sector.

Furthermore, each non-profit funder has its own set of rules and restrictions. Thus, non-profit consortia sometimes carry additional transaction costs because the rules of one partner may limit the utility of the entire project, for example, by setting limits on the range of allowable tenant income.

Most public funding sources have high transaction costs in the form of elaborate, labor-consuming presentation and reporting requirements. Ironically, the system even requires non-profit developers to dedicate limited resources to elaborate competitions for grants. We were told that the cost in labor, materials and travel to compete for Low Income Housing Tax Credits is about \$75,000 per grant. Assuming an average number of five competitors means that the system loses about \$375,000 for each grant, when grants average less than \$1,000,000 each.

Another negative result of such complex process requirements is that the skills and resources needed to manage them become a strategic advantage for larger and more experienced developers and a barrier to entry for smaller developers who would like to grow into the affordable housing market.

The Low-Income Housing Tax Credit (LIHTC) program is highly valued by affordable housing developers even though it provides relatively little capital because, unlike other forms of financing, it provides equity and not debt. However, the LIHTC, which is a tax credit that is sold to investors, is discounted from 15 to 25 percent, depending on who is making the estimate. That means that when the Federal Treasury gives up \$1,000,000 in tax credits, low-income housing developers receive only \$750,000 to \$850,000 in capital. Adherents argue, correctly we think, that the discounts are required by the risks involved in developing the projects and in meeting the strict standards set by the Internal Revenue Service. However, if the construction funds came not as tax expenditures but as Congressional appropriations both the discounts and the risks would be eliminated.

The rental voucher system has the potential to become a major tool to attract both private and non-profit construction capital if it can be structured as a long term commitment of cash flow instead of annual allocations. If developers were issued a certificate guaranteeing, for instance, 30 years of rent subsidies for a specific number of units, the certificates could be used to support pro formas with lenders or possibly pledged as collateral.

Using rental vouchers to support construction and rehabilitation of affordable housing would greatly simplify the system and might increase participation by private developers. Long-term vouchers could be pledged by Housing Authorities as partners' contributions in multi-income projects. Low-income renters could then shop for their housing on the open market at locations meeting their needs and avoiding the stigma and community resistance that attends exclusively low-income housing projects.

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Restructuring the affordable housing system would be a major undertaking for Congress. Establishing a system of long-term rental vouchers runs afoul of Congress' inherent limitation on binding future Congressional action. Because Congress meets in two-year terms, any action taken by one Congress can be overturned by a future term, making it difficult to create long term commitments.

However, there are examples to follow, most notably the Social Security Trust Fund. By establishing a Trust Fund with a dedicated funding source, Congress is less likely to bring the program to an untimely end. Such a fund would allow HUD to issue to Housing Authorities long term rental voucher certificates backed by the trust fund.

Structure: Over the sixty years of its continuing existence, Congress has encumbered the program with internal policy conflicts based on the political needs of both Democrats and Republicans. Starting with the Kennedy administration in the early 1960s, the housing program was expanded into a community development program. Responding to growing demands for equal opportunity for blacks and the poor, Congress sought not only to create programs to revitalize blighted communities, but to bypass many big city governments that were seen as impediments to civil rights and economic reforms.

HUD was created to direct a new and complex program of grants to many untried and politically driven inner-city agencies. Laws granting development authority and access to Federal funding to the newly conceived CDCs further expanded the reach and complexity of the program. These new agencies, despite the best of intentions, were not equipped to serve as efficient developers, because they lacked both capital and skill.

The complex American affordable housing "system" reflects both our changing values over sixty years and the inherent inefficiency of our system of government. It is a blend of public, for-profit and non-profit organizations and agencies, with Federal, State and local elements, structured piecemeal over many years, directed by arcane, uncoordinated and often unspecified policies. Periodically it is radically altered, but not overhauled, by new Federal administrations.

One cause of those major policy shifts is Congress' struggle to define the role of the private sector in the affordable housing system. At first glance it seems odd that for-profit enterprises should be involved in a market which, by its nature, cannot provide a profit. But private developers, real estate managers and affordable housing agencies alike argue that the affordable housing system benefits from the private sector's more efficient business practices. And, indeed most of the persons who discussed the issue with the Committee agreed that in construction and apartment management the private sector is more efficient than either non-profit or government developers.

Over the years, Congress has experimented with several programs to involve the private sector in affordable housing. Unfortunately, Congress' inherent inability to turn off programs has left the system encumbered with vestigial remains of several programs. For example, the Section 8 projects of the 1980s and 90s, which once provided the lion's share of new low income housing, have been left to wither and die. The transaction costs of maintaining a dying system are, of course, quite high.

Presently, for-profit developers and managers are active participants in several programs, as partners in LIHTC funded projects, as contractors in bond financed construction projects and as landlords providing apartments subsidized by rental vouchers.

Changing a large, complex government system, especially one rooted in the Federal system, is a major task requiring foresight, energy, resources and, especially leadership. Ironically, the system is so fragmented that effective leadership cannot be expected to emerge spontaneously. However, the growing notoriety of the affordable housing issue and the attention that the Portland City Council has given it over the past few years indicates that the region may be willing to accept the challenge of reforming or participating in the reform of the affordable housing system. The close working relation that exists between HUD, HAP, PDC and the City Council certainly could form the basis for such an effort. Expanding the force of reform across the region may be more difficult. One suggestion we heard is to create an informal regional body that would serve as a forum for elected officials

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and agency representatives involved in affordable housing to evaluate housing needs in the region and make recommendations to policy makers. A model for such a body could be Metro's Joint Policy Advisory Committee on Transportation (JPACT).

Housing advocates would be well served by adopting a vision of a simpler, more efficient system with construction subsidies dedicated to special-needs housing and adequately funded rental vouchers providing the bulk of affordable housing subsidies. With that vision in mind, system inefficiencies can be eliminated over time.

D. LAND USE

Challenge No. 6:

Can affordable housing be compatible with neighborhood livability?

CONCLUSION: Yes, but there is probably a limit to how much one neighborhood can take.

DISCUSSION: The convergence of national policy favoring large construction projects through the Low Income Housing Tax Credit program and local policies promoting higher density development has resulted in a rapid and highly visible increase in the number of low income apartment buildings in Portland. The Committee notes an irony in recent development patterns. While the current rate of constructing new apartments is woefully short of the need, their physical prominence causes many citizens to believe that the city is being overrun with new low-income housing. The result has been a perceptible increase in the amount and strength of neighborhood opposition to new affordable apartments and condominiums.

The intensity of the debate over the effects of affordable housing construction on neighborhood livability is bound to increase. Your Committee has identified a very large unmet regional need for, new housing units, about 5,000 each year for 17 years. The current regional rate of subsidized housing construction, which is already drawing public opposition, is less than 1,000 units per year. The most economically efficient size for a low-income apartment house is about 150 units. The

creation of 1,000 new units per year would require about seven new apartment buildings per year. If the community achieves H-TAC's modest goal of 2,000 units per year (only about 40 percent of the need), the number of new subsidized apartment buildings would double to about 14 per year, every year, for 17 years. Given current land use practices that encourage high density infill development, and the reality that low-income projects will be concentrated in low and middle class neighborhoods, many neighborhoods will come to feel that they are being overrun with low-income housing.

Housing advocates fully understand the nature of neighborhood opposition and have developed effective design standards and citizen involvement processes that have worked to smooth the rough spots so far. We saw several new low-income apartment buildings that were both attractive and designed to ameliorate neighborhood concerns about parking, traffic and other problems. We heard stories of neighborhoods whose initial qualms were salvaged by meaningful consideration and response to their issues.

It is, of course, possible that affordable housing agencies will become so skilled at meeting public opposition through clever design and mitigation that public opposition can be effectively muted well into the future. However, given the prospect that even relatively small increases in the percentage of new affordable housing projects will have great visibility, it seems more likely that neighborhood resistance will stiffen.

We therefore conclude that, while the process of siting affordable housing projects seems to be currently in hand, there is an upper limit of public acceptability for low-income housing projects for each neighborhood that will probably be exceeded as new low-income apartment houses come on line.

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Challenge No. 7: Can concentration of low-income housing be avoided?

CONCLUSION: Yes.

DISCUSSION: The practice of filling apartment buildings exclusively with low income tenants and then clustering those buildings creates at least the appearance of an undesirable concentration of poverty. We recognize that housing advocates are fully aware of that risk and may be locked into a system of land use laws and national housing policies that prevent them from acting otherwise. We recognize and applaud the thoughtful designs and coordinated social programs that have been implemented to protect new and existing residents alike from the unfortunate historic consequences of concentrations of poverty.

But the strong objections to such concentrations voiced to the Committee and repeatedly reported in the press indicate that we will face increasing resistance to the practice. Hopefully, Portland's decision to integrate low-income housing projects into large infill multiple-use developments likely will prove to be a satisfactory alternative.

While we cannot quantify the specific ratio of income to population density that triggers a reversal of fortune for an urban area, nor measure the effect of the new anti-blight initiatives, we also cannot ignore the lessons of history or the vagaries of economic cycles. We, therefore, conclude that increasing one area's low-income population beyond a certain point creates a high risk of ghettoization.

We further conclude that concentration of poverty is an inherent consequence too long imbedded in a housing strategy that attempts to mitigate poverty primarily by constructing buildings.

We have identified two strategies that would reduce or eliminate the negative effects of concentrating affordable housing projects in targeted neighborhoods. Developers could shift from building dedicated low-income projects to mixed-income apartments and condominiums, so low-income residents become better integrated into the fabric of the community.

Expansion of the rental voucher program also carries with it the inherent benefit of giving low-income renters a wide selection of locations to better meet their needs.

Challenge No. 8:
Can affordable housing be retained in gentrifying areas?

CONCLUSION: Maybe. The City is working on it but we will have to wait and see.

DISCUSSION: Gentrification has been a major cause of the decline in affordable housing stock. Gentrification is a normal market effect that seems to follow a well-documented cycle from middle class affluence to suburban flight to deterioration followed by rebuilding. The rebuilding usually starts with a few entrepreneurial pioneers who buy tax-foreclosed properties on the fringes of a blighted neighborhood then rehabilitate and resell them. If, and only if, these individuals are successful, large developers move in and the rebuilding cycle accelerates.

Although gentrification is primarily a market effect, the City is hardly blameless because gentrification rarely flourishes without direct government involvement. Land values reflect a number of variables controlled by government such as quality of sewer, water and streets; the availability of parks; and, especially, the quality of schools. The decline of neighborhoods can be avoided or at least ameliorated if cities adopt and enforce appropriate codes and maintain high service standards in low-income neighborhoods.

As decline turns into blight, local governments, pressured by voters and industries benefiting from gentrification such as developers, builders, real estate brokers and bankers, actively promote community redevelopment. Government has a number of redevelopment programs at its disposal to fund capital improvements and tax incentives for developers. In addition to low-income housing programs these include infrastructure development funds, Community Development Block Grants, enterprise zones and urban renewal.

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Thus, while local governments understand and regret the negative impacts of gentrification, they actively promote it. For example, Community Development Corporations have contributed significantly to gentrification in North/Northeast Portland by the very act of making their neighborhoods more livable. Spurred by direct Federal funding through the Jeremiah Program and other funding, CDCs constructed hundreds of new and rehabilitated housing units in the past decade. As a result, lots that were available to them free through tax foreclosure ten years ago must now be purchased at market prices. Most CDCs now are building multifamily units to better use the expensive land.

Although the units built by CDCs are dedicated to low income families, the inflationary effect on neighboring properties means that families not lucky enough to qualify for the scarce low-income units face higher mortgages, rents and taxes.

Portland has seen a number of its neighborhoods gentrify in the last several decades, including Northwest Twenty-Third Avenue, the Pearl District, the Irvington neighborhood and segments of Northeast Broadway and Fremont streets and Southeast Belmont and Hawthorne. In the Central City, the creation of a government plaza along Southwest Third Avenue in the '80s and '90s displaced hundreds of low-income, mostly unsubsidized apartments. Creating replacement housing for that number of units placed a severe strain on the City's affordable housing resources for a decade.

When government action triggers gentrification, affordable housing providers find themselves running in place trying to build or buy housing for the dispossessed and unable to meet new demands. Portland City government and housing agencies, fully aware of this dilemma, began a decade ago taking aggressive steps to offset the unintended displacement caused by its community development policies. Now the city attempts to negotiate an adequate number of low-income housing units when it fosters major developments such as the Union Station and North Macadam sites.

Gentrification has recently attained front-page status resulting from the City Council's adoption of the Interstate Corridor urban renewal

plan. In it the Portland Development Commission has committed \$50 million in urban renewal funds to create 3,300 multifamily and 320 single-family low-income homes. This commitment reflects the city's recognition of and determination to achieve the dual, but conflicting, goals of revitalizing the Interstate corridor while preventing gentrification. Current news stories describing the growing gentrification in the Alberta Street area indicate that PDC faces a daunting challenge

We hope, the City's good intention to mitigate the unintended gentrification caused by its neighborhood improvement programs will bear fruit. But it is too soon to tell.

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V. MAJORITY RECOMMENDATIONS

A. THE VISION

In this section, we present specific recommendations to address our major concerns. They are:

- that the system is ineffective because it is significantly underfunded,
- that it is inefficient because of its unmanaged complexity and its emphasis on construction,
- that its benefits are distributed essentially by chance and not by thoughtful public policy, and
- that its unintended consequences include stigmatization of the poor and negative impacts on neighborhoods.

Taken as a whole, our recommendations reflect our vision of an affordable housing system that is adequately funded, efficient and focused on priorities, albeit, perhaps serving fewer households. It would also be a system that treats our neediest citizens fairly and without creating "the slums of the future."

1. Restructure the "system" by creating long-term rental vouchers.

The current policy allowing 20 percent of housing choice vouchers to be project-based should be modified to create a new type of rental voucher—a long-term, market-based rental voucher. Use of the new vouchers should be greatly expanded. HAP has already created an in-house workgroup to explore the best uses for their project-based voucher allocation. That workgroup will be well positioned to explore our recommended expanded role for vouchers.

Housing authorities would use long-term vouchers to buy into partnerships with both non-profit and for-profit developers. The vouchers would guarantee that apartment developers would receive long-term cash flow proportional to the share of affordable housing provided. Such a guarantee could be used to leverage financing

because the bank would be assured of a high occupancy rate and a zero non-payment ratio for the affordable housing portion of the development.

Long-term vouchers would eventually become the primary method of both providing rental units and the subsidies needed to make them affordable. As the need for subsidized construction is reduced, the funding currently dedicated to new buildings would be shifted into the expanded vouchers program.

Creating long term rental vouchers addresses two of our concerns. First, creating long term rental vouchers will increase efficiency. As the use of long-term rental vouchers increases, transaction costs should decrease because complex funding programs can be reduced or eliminated and because rental vouchers have a lower administrative burden than the programs they would replace.

Second, long-term vouchers could be a powerful tool to overcome the stigma of poverty and negative impacts on neighborhoods.

Housing agencies would pledge long-term vouchers as their share of partnerships in mixed-income housing units throughout the City. Low-income renters would be allowed to choose housing in the best locations for their employment, schooling or medical needs. As mixed-income apartments become the norm, low-income households would escape the stigma associated with low-income projects and neighborhood resistance would decrease.

Perhaps many of the newer, attractive and well located low-income apartment houses could even be recast as mixed-income units.

To turn rental vouchers into effective financing instruments, Congress would have to replace annual appropriations with some form of long term funding, for example by creating a permanent "Affordable Housing Trust Fund" with a dedicated funding source.

Timeframe: Long-term—The U.S. Congress should implement a nation-wide long-term rental voucher program.

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The Committee recognizes that restructuring a major nationwide Federal program in the short term would be revolutionary and instead proposes an evolutionary approach. Changes of such large magnitude can require several terms of Congress to implement. An evolutionary approach would also allow an orderly transfer of emphasis and funding from construction to vouchers.

Short-term—The Portland City Council and the Housing Authority of Portland should work with Oregon's Congressional delegation and the Federal government to obtain a waiver to implement a demonstration project in Portland for long-term rental vouchers. This demonstration would feature direct rental assistance to all of the region's neediest households for a period of five years. Such a program would accelerate the benefits for Portland and serve to prove the concept to Congress.

2. Increase funding for rental vouchers to cover the need.

After reducing the need (*See Recommendation 3*) by lowering the threshold income from 80 percent to 50 percent of Median Household income, and reducing the subsidy by 20 percent, the City would still need \$143 million per year increase to fully fund rental vouchers.

However, our estimate of need is the cost of providing the appropriate subsidy to every eligible household. But testimony to the committee, anecdotal evidence and common sense indicate that the demand for affordable housing subsidies is less than the defined need.

For one thing, many households are content with their housing situation even though policy makers may define it as “inadequate.” For both cultural and personal reasons some people prefer sharing their homes with family or friends.

Other low-income citizens, like some of their wealthier compatriots, want as little to do with the government as possible and are willing to forego benefits to achieve that goal. Others are simply unwilling to sacrifice their independence in exchange for housing subsidies.

We have not attempted to specify the difference between need and demand for affordable housing subsidies but conclude that demand

will be significantly less than the defined need. We therefore do not recommend that funding be increased to meet 100 percent of defined need but rather that funding be increased substantially but incrementally until demand is met on a real time basis, that is, without extensive waiting periods.

We further recommend that rent subsidies not be redirected to subsidize homeownership.

We believe additional funding of rental subsidies should come from three sources.

- The U.S. Congress should pass legislation-proposed in the 2001 session-to increase funding for rental vouchers by 20 percent over five years.
- The U.S. Congress should transfer, to long-term rental vouchers, funds made available as existing Section 8 projects drop out of the program.
- The Oregon Legislature should pass a bill similar to Oregon House Bill 3400 in the 2001 Session, which would authorize the Metro region to vote on a real estate transfer tax. However, the full amount of revenue generated should be made available to fund rent subsidies.

Timeframe: Our recommendation would require Congress to increase funding for rental vouchers by about 200 percent, plus inflation, over ten to fifteen years. A Congressional increase in funding of that order will require a great deal of political effort and time.

Because our recommendations for system reform and adequate funding are inextricably linked by the new concept of long term rental vouchers, we would expect Recommendations 1 and 2 to work through the process in tandem. Hopefully however, Congress could be induced to adopt a plan starting in the short term to incrementally increase voucher funding to achieve the long-term goal.

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3. Set priorities.

While our preferred strategy for dealing with the inadequacies of the affordable housing system is increased funding, we recognize the high probability that the need, estimated by the Committee at \$195 million annually, will never be fully funded. In recognition of that fact and of the inequities in the present system we make the following recommendations relating to the method for allocating the scarce funds available.

Admit the need is not being met. City Council should admit that the need is not being met and that—under the current system—many households with lesser need receive assistance while others in desperate need receive no assistance.

We estimate that about one-half the households eligible for housing assistance receive none. More surprising to us is that the government has failed to publicly acknowledge that fact with the result that affordable housing programs operate as a kind of lottery. Many in desperate need receive no assistance while some in temporary or only small need do receive assistance.

We understand that our peculiar Congressional method of appropriating funds often results in social programs being under funded, but we cannot condone a system that ignores the desperate needs of some while rewarding those who are better off but happen to be in the right place at the right time. The first step in establishing an allocation system that reflects societal values is to admit that it is needed and we urge the Portland City Council to take that step.

Make the tough choices. The City Council should establish priorities for allocating scarce affordable housing dollars—with top priority going to direct rental assistance to households with children, the elderly, and the disabled—and work with appropriate agencies to implement these priorities.

In the interest of fairness, the Committee decided that we should not levy such an unpleasant task on our elected officials without first

trying it ourselves. For our proposed need prioritization see the discussion of Challenge 2 beginning on page 62.

Timeframe: The system allows considerable flexibility for local agencies that can be used to begin implementing this recommendation in the short term. As with Recommendations 1 and 2 above, change in national policy will take several years.

4. Focus construction on special-needs population and mixed-income housing.

Construction subsidies should still be used for construction projects that serve special-needs populations. As a population requiring medical and support services, the handicapped and disabled are well served by group housing. But note that we do not include the elderly in the special-needs category.

The construction of apartment houses dedicated entirely to low income residents—"dedicated projects"—promote concentrations of poverty that stigmatize residents and neighborhoods alike. They also limit mobility for the working poor, forcing them to settle in poverty pockets rather than close to employment centers.

Local authorities are already taking advantage of system flexibility to develop mixed-income housing, for example, the redevelopment of Columbia Villa. Changing the Federal government bias toward dedicated low-income projects might be hastened by adopting a policy permitting rather than requiring mixed-income developments.

It is critically important that non-profit developers continue to be allowed access to the multi-family mixed-income housing market to provide a safety net in the event that the private sector, for whatever reason, becomes unresponsive to subsidized renters.

- The U.S. Department of Housing and Urban Development (HUD) should amend its policies to direct all construction subsidies first to low-income special needs populations.

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- HUD should adopt a policy to direct remaining construction subsidies to the development of mixed-income housing rather than dedicated low-income projects.

Timeframe: Local authorities are already taking advantage of their flexibility to develop mixed-income housing. Significant changes in the current policy bias in Federal law for dedicated low-income projects might be overcome within a few years using a strategy to allow mixed-income developments rather than requiring them.

5. Portland should take the lead in reform.

The Portland City Council is already a leader in addressing affordable housing issues in the City. The City Council should also take leadership in reforming the “system.” The evident and singular commitment of the mayor and commissioners to making affordable housing a reality nominates them to take the lead in changing state and Federal law.

- The Portland City Council should work cooperatively with local housing advocates in Portland and the region, our Congressional delegation and the Federal Department of Housing and Urban Development to create an effective team to lobby for changes in Federal housing policies and programs.
- The Portland City Council should work with these partners to get Federal approval for a demonstration project in Portland for low-income housing assistance reform.
- The Portland City Council should ask HAP to collect and publish affordable housing information for all the housing programs in Multnomah County.
- The Portland City Council should continue to support HAP's use of exemptions from HUD rules to create innovative solutions to system problems, such as the "Welfare to Work" vouchers.

Timeframe: The recommendation can be initiated immediately.

6. Recommendation to the City Club.

We urge the City Club to establish a committee to monitor and advocate for affordable housing. We found the problem to be extensive, affecting about 38 percent of the population. We found the complex and vast “affordable housing system” to be inefficient and only partially effective. We feel that necessary improvements will come only slowly and with great effort due to the intractability of the problem and the entrenchment of its stakeholders. Positive change will require constant vigilance.

We are also mindful of the long and active involvement of the Club in promoting decent and affordable housing. Given the commitment of the Club and the time and effort required to effect beneficial change, we feel the creation of an ongoing advocacy committee is justified.

Timeframe: This recommendation can be initiated immediately.

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B. WHAT WE DECIDED NOT TO RECOMMEND

We realize that the “unaffordable housing” problem is really an income problem. We discussed a recommendation to promote increased funding for anti-poverty programs such as the Earned Income Tax Credit, Social Security and SSI, and Aid to Dependent Children and to increase the minimum wage to a “living wage.”

We decided against pursuing a recommendation, however, because the scope of the issue requires research and analysis well beyond our capacity. In addition, we frankly doubt that such a massive shift in social policy would occur within any relevant time frame.

We also decided not to recommend a regional approach to affordable housing due to three factors.

First, Portland, Multnomah County, and Gresham already work in close cooperation on affordable housing issues. Metro's "Regional Affordable Housing Strategy" estimates that, in 2017, they will house 64 percent of the region's low-income population even though they will account for only 45 percent of the general population. Therefore, Gresham, Portland and Multnomah County, working together, already have very high leverage in resolving the region's affordable housing issues

Second, after watching Metro's Affordable Housing Technical Advisory Committee (H-TAC) fail to gain support for "fair share" housing goals, we concluded that attempts to create a cooperative regional affordable housing structure would likewise fail. The failure of H-TACs fair share effort also exposed the failure of Oregon's vaunted land use planning system to deliver on its promise to provide adequate affordable housing in all jurisdictions. In the absence of effective state or regional authority and in the face of determined resistance from the region's local governments, we feel it would be futile for Portland and Multnomah County to spend time on the challenge of effecting regional fair share goals.

Finally, the current Federally-mandated system that is structured to provide services through states, counties and cities does not accommodate a regional approach.

C. OTHER RELATED ISSUES

Gentrification and the changing nature of the city. During our study we examined the widening income gap and gentrification as issues relevant to affordable housing. However, a series of disclosures during the study made us aware that those forces, and others, are affecting not just affordable housing, but the very nature of Portland.

We learned, for example, that while the economy grew nationally in the '90s, in the West and in Oregon, in particular, incomes for our poorest citizens declined. We read articles in the Oregonian and Willamette Week describing the gentrification of lower Northeast Fremont and Alberta streets. We read of the city's concern that the Interstate Urban Renewal District might accelerate gentrification, adding to the on-going exodus of low income residents from that area. We also noted the report released by the Portland Public Schools forecasting a sharp decline in enrollments because families with school age children are not settling in Portland.

Finally we note the report released in September 2000 by Portland's Bureau of Housing and Community Development that details not just the gentrification of neighborhoods but of the entire city. It describes not an incipient process but one that is well advanced and probably irreversible.

The nature of our city is changing from a middle class, family-oriented environment to an upper-middle-class oasis for childless couples and singles. Does the change reflect a shared vision of what our city should be? Or is it an unintended consequence of forces we have not reckoned with? Are we entering a future we prefer, less diverse but more secure and sociable than the past? Or do City Club members have concerns about living in a city too comfortable and too costly for the poor?

The issues relating to the changing nature of Portland are explored in detail in *Portland Metropolitica, A Regional Agenda For Community and Stability* prepared by Myron Orfield for the Coalition for a Livable Future. A copy is filed with the Committee's papers. We suggest that the Research Board and Program Committee have the report reviewed for program and research topics.

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Majority Recommendations

Respectfully submitted,

David August
Ernie Bonner
Shirley Deale
Annette Farmer
Irwin Mandel
Karen Smith Geon
Clyde Doctor, committee chair

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VI. MINORITY DISCUSSION AND CONCLUSIONS

While there is generally a consensus for the report, there is a minority on our committee that is hesitant to recommend a restructuring of the affordable housing system to emphasize vouchers. The minority is concerned about the stability and long-term economic efficiency of a voucher-based system, and believes that the data available to the committee was not adequate to support some of the recommendations. Though there is an attractive simplicity to voucher-based systems, there are also risks, some of which we feel have not been adequately acknowledged.

The first concern is for stability in the delivery and availability of affordable housing. By investing in housing stock, an inventory of housing units is developed and preserved for low-income populations. The delivery of affordable housing stock, while often more expensive than market-based projects initially, becomes more cost effective over time. The development of an inventory of housing reserved for lower income populations provides a system that is more resilient to funding fluctuations, and guarantees the maintenance of these housing units at a known cost over an extended period.

This system also ensures diversity in communities where appreciation will make affordable housing unavailable in the future. Establishing an inventory of housing stock is the best solution to preserving diversity in neighborhoods subject to gentrification, but it is essential that land acquisition for these investments be made early and strategically to maintain this diversity at the lowest possible cost. In some areas property values have already appreciated to a point where the economical development of affordable housing is impossible. This will make the development of affordable housing too costly to pursue in some areas, and we should acknowledge this to serve as many people as possible. It is projects in these high cost areas, such as downtown Portland, which have often created the appearance of inefficiency in the affordable housing system.

The maintenance of funding and support for housing construction is also important for another reason. CDCs, which develop affordable housing, have in the past decade had to exist in a dynamic and complex real-estate environment. They are increasingly sophisticated and capable, and have proved their adaptability as markets, programs and urban contexts have changed. Many of these organizations are now truly maturing, and are valuable resources for the provision of housing in the future. The committee's minority is concerned that a disruption of funding for housing development could undermine these valuable organizations. If these organizations were lost, the development of affordable housing would be much more difficult and more costly in the future.

The second point of concern is the relative long-term costs of a voucher system vs. a system of housing construction and acquisition. The report states that subsidized construction "provides some new and decent but not necessarily affordable housing." While rents in some recently built subsidized projects appear high, the minority of the committee is not convinced that this is typical or inherent to subsidized construction. It is also unclear to this minority that a voucher-based system would be more cost efficient, particularly over time. In the short term, vouchers are an effective solution, and would allow our limited funding to support a larger population than subsidized housing construction. However, the long-term economy of this position is less clear, and requires a more sophisticated and comprehensive analysis. The cost of voucher programs is difficult to project due to the complex dynamics of the real estate market, interest rates, and inflation. It is inevitable that in the face of appreciating real estate values, a voucher based system will require funding increases to keep pace with changing markets. Because of the inherent structural characteristics of these systems, the per unit cost of voucher based systems tends to increase over time, where the per unit cost of built subsidized housing is stable. A more sophisticated model with better data is essential to make an accurate comparison of the relative merits of these systems.

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Minority Discussion and Conclusions

Finally, the minority would like to advocate for a comprehensive inventory of existing affordable housing in the city (one is currently under way by the City of Portland's Bureau of Housing and Community Development). This will allow for much needed detailed analysis of existing projects, and provide an invaluable planning resource. Comprehensive data is essential to assess the strengths and weaknesses of current programs. This data should include: rental rates, financing and funding structure, project scale, unit types and quantities, land costs, population served, location, and date of project construction or acquisition. It is only with better and more comprehensive information, and detailed modeling of voucher based systems over time that recommendations for restructuring affordable housing delivery should be made.

The minority would like to voice its general support for the report and the creation of an advocacy committee, but encourage caution and additional study before promoting policy changes that could diminish funding for the construction and acquisition of affordable housing, or undermine existing affordable housing providers.

VII. MINORITY RECOMMENDATION

The minority of your committee recommends that, before the Housing Authority of Portland or the Portland City Council take any significant action to substantially redirect the housing system toward rental vouchers:

- The Housing Authority of Portland or the Portland City Council should commission a study to compare rental voucher systems to construction subsidies for affordable housing. This study should include feasibility, relative short-term and long-term costs, and the likely impacts on the availability of affordable housing in our community.

Respectfully submitted,

Marc Castelnovo-Tedesco

Anne Marie Claire, research advisor
Dr. Bill Connor, research advisor
Paul Leistner, research director

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Acknowledgements

ACKNOWLEDGEMENTS

The Committee wishes to express its appreciation to the League of Women Voters of Portland, Oregon with whom we jointly conducted the first phase of our study. The League members experience and insights in housing issues were a great help in our work. A copy of their information-packed report, "Affordable Housing in Portland: A 2001 Update", may be obtained at their offices at 921 S.W. Morrison, Suite 410, Portland OR 97205, phone (503) 228-1675.

We also benefited greatly from the work of the Metro Affordable Housing Technical Advisory Committee (H-TAC) and their Report, "Regional Affordable Housing Strategy" which was issued in June 2000.

Likewise, the timely release of the comprehensive "Consolidated Plan" in May, 2000 by the Portland Housing and Community Development Commission provided us with a wealth of relevant and useful information.

IN MEMORIAM

Melvyn Bisgyer

Melvyn was new to Portland and to the City Club when he joined the Committee. Yet his concern for the less fortunate, experience and gentle humor made him a valuable contributor and a friend to us all. We remember him fondly.



Original Study Committee Members-from left to right: Committee Chair Clyde Doctor, Karen Smith Geon, Ernie Bonner, Evelyn Crowell, Michael Jacobs, Melvin Bisgyer, Research Advisor Anne Marie Claire, Marc Tedesco, Irwin Mandel, David August, and Shirley Deale.

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VIII. APPENDICES

A. WITNESS LIST

Baruti Artharee, housing director, Portland Development Commission
Helen Barney, deputy executive director, Housing Authority of Portland
John Charles, environmental policy director, Cascade Policy Institute
Don Clark, former director, Housing Authority of Portland
Tom Cusack, state director for Oregon, U.S. Department of Housing and Urban Development
Susan Emmons, executive director, Northwest Pilot Project
Jeff Fish, home builder, Fish Construction NW., Inc.
Ted Gilbert, president, Gilbert Bros./Baron Equities
Tasha Harmon, executive director, Community Development Network
Jim Irvine, The Conifer Group Incorporated
Ron Johnson, acquisition and development director, Housing Authority of Portland
Gretchen Kafoury, associate professor, Portland State University
Diane Linn, commissioner, Multnomah County
Ed Marckx, home builder, Wellmade Homes
Ed McNamara, director of development, Prendergast and Asso., Inc.
Nancy Merryman, architect, Robertson Merryman Barnes Architects
Lynn Musloff, former director, Housing Authority of Portland
Steve Rudman, former director, Portland Bureau of Housing and Community Development, current director, Housing Authority of Portland
Harold Schnitzer, owner, Harsch Investment Properties, LLC
Erik Sten, commissioner, City of Portland
O. Gerald Uba, senior program supervisor, Metro Growth Management Services
Dennis West, former director, Housing Authority of Portland
Peter Wilcox, co-director, Portland Community Design
Homer Williams, managing partner, Hoyt Street Properties

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EVOLUTION OF FEDERAL AFFORDABLE HOUSING PROGRAMS
(Public Housing Projects to Vouchers and Tax Credits)

NAME	FUNDING	DEVELOPER	BUILDER	OWNER	MANAGER	COMMENTS
Public Housing	Federal Equity Grants	Housing Authority	For-Profit	Housing Authority	Housing Authority	e.g., "Projects". Not funded since 1994. Maintenance grants continue.
Section 23	Federal Equity Grants	Non-Profit	For-Profit	Non-Profit	Non-Profit or For-Profit contractor	"Turn Key" program. Program closed in 1986.
Section 8 Projects	Conventional financing supported by Federal guarantee to pay market rent subsidies	For-Profit	For-Profit	For-Profit	For-Profit	Limited to 15-20 year contracts, which are now expiring. Program closed 1997
Section 8 "Project based vouchers"	Federal Grants to pay rent subsidies at specific projects	Non-Profit	For-Profit	Non-Profit	Non-Profit	Program closed 1997.
Section 8 "Tenant based vouchers" ("Now Housing Choice Vouchers")	Federal Grants to pay rent subsidies at specific projects	For-Profit and Non-Profit	For-profit	For-Profit and Non-Profit	For-Profit and Non-Profit	The only program that does not concentrate low-income renters in dedicated projects.
LIHTC Low Income Housing Tax Credits	Equity grants provided by sale of tax credits to investors.	Non-Profit	For-Profits	Non-Profit	Non-Profit or For-Profit contractor	Typically provides about 10% of equity in qualified projects.

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D. SUMMARY OF PRIOR CITY CLUB REPORTS ON AFFORDABLE HOUSING

The City Club of Portland has studied various aspects of housing policy since 1938. Below we summarize the findings of these studies, which were published in the City Club of Portland *Bulletin*.

Housing Authority Question, 1938, *Bulletin*, Vol. 19, No. 26

Discusses the creation of the Housing Authority of Portland. Report covers legal avenues for doing so, as well as the role of the city, state, and federal governments. The committee recommends that HAP be created to allow Portland to secure its share of federal benefits (that it is already being taxed for), and because subsidized housing is a "genuine recovery measure which will expand business and employment and improve public health and morals."

Portland's Housing Crisis, 1942, *Bulletin*, Vol. 22, No. 49

The shortage of affordable housing again became acute with the growth of shipbuilding and other national defense industries in the Portland area beginning in 1941. There is a shortage of houses for rent. "The demand now exceeds the supply and it is almost impossible to secure medium to low priced rentals anywhere in the city". HAP is planning more units, which the committee approves of.

Recommendations: "consideration always be given to problems of transportation, public utilities, proximity of schools and stores, and recreational facilities and open space". Rentals should be charged based on the full market investment value of the dwelling. The Federal Government should strive to coordinate all activities with HAP. State legislation should be enacted to provide for county zoning and building and housing codes.

Interim Report of Committee on Standard Housing, 1948, *Bulletin*, Vol. 29, No. 7

The problem of housing is not new to Portland, yet no acceptable solutions have been put forth. The Vanport disaster was the impetus for

this report. Portland's shortage of affordable housing must be addressed through stop-gap and long-range programs. The Federal government can provide the needed assistance. It is important that temporary dwellings not "degenerate into semi-permanent slum areas". Portland's housing shortage increased "during and since the war years". Neither private enterprise nor the Portland Housing Authority are meeting the demand. A survey should be undertaken by the Portland Housing Authority to assess the need. The City Council should appoint a committee "representing all segments of the community to study the problem of permanent housing for low income groups".

Housing Ordinance, 1950, *Bulletin*, Vol. 31, No. 1 (Referred to Voters by the Portland City Council)

"The voters are called upon to decide whether or not they approve of the idea of using available federal funds to erect 2,000 low-income housing units in the City of Portland". The committee concluded that "publicly subsidized housing as a permanent part of our social order is not itself desirable. Statistics show that the 2,000 units, if built, will provide only a small fraction of the amount of housing needed by low income groups (the committee hopes that) by some means it will be possible in the future to provide the additional housing necessary for low income groups on a non-subsidized basis, and in the same manner in which housing is provided for families with larger incomes".
Conclusions: There is a strong need for low income housing in Portland that is going unmet, and that the construction of 2,000 new units is a step in the right direction.

Housing for the Aging, 1960, *Bulletin*, Vol. 41, No. 16

The committee considered the need, availability, and quality of housing for the aging. The high number of elderly people in Portland face problems stemming from factors such as limited and deteriorating incomes and high housing/housing maintenance costs. Typically, housing solutions for this group include "homes for the aged", retirement homes, individual residences, foster home care, and nursing homes. The committee found that "in contrast to the prevailing

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impression, the committee did not discover any permanent catastrophic deficiencies affecting housing of the aged. Rather, it was impressed that without any master plan, normal social forces seem slowly but definitely to be providing compensations for and solutions to the housing problem of the aged individual. The Committee did discover, however, some areas in which specific actions can facilitate normal social progress in the problem of housing for the aging." Specifically, better access to housing financing, income assistance, and wider dissemination of housing information is important. Select committee recommendations include that the City Club 1) support and encourage the efforts of the State Board of Health to eliminate unsuitable nursing home facilities, 2) recommend the formation of an agency for the purpose of collection, coordination, and dissemination of information regarding housing and services for the aging, 3) urge emphasis on alternatives to institutional care, and 4) urge the State Legislature to study legislation designed to protect investors participating in homes for the aging.

Policies and Operation of the Housing Authority of Portland, 1966, *Bulletin*, Vol. 46, No. 44

HAP was created in 1941 as the local conduit of Federal Housing Authority funds. In the mid-1960s HAP faced criticism that they were consciously or unconsciously abetting racial segregation, and because of a dispute around a HAP project to provide high-rise housing for the elderly. The City Club committee's charge was to examine HAP's policies and operations in light of the controversy. The committee made a series of recommendations, including the need for HAP to respond "more forthrightly to criticism and undertake improvements where criticism is justified", HAP should consider the social aspects of the housing program, then apply the financing that is available in a creative way to accomplish the program, that civil rights and action groups support HAP's basic mission even as they point out how it should improve, that HAP coordinate more effectively with the City Planning Commission and other planning and development agencies, and that HAP work to increase racial integration in its projects.

Supervised Housing for Minors and Young Single Adults, 1966,

Bulletin, Vol. 46, No. 52

A shortage of adequate supervised housing for minors and young adults in the various public and private post-high school educational programs in Portland was the incentive for this study. The committee found that many young people were living in quarters that fell far short of building codes and/or were otherwise detrimental to the residents' well-being. The primary housing shortage was in the "downtown bowl" area, leading to the following recommendations: 1) the YWCA should study the feasibility of providing more housing for young working women, 2) all educational and training institutions should assist students with securing appropriate housing by surveying need /availability and conducting inspections, 3) Portland State College should change its mandate as a "non-domiciliary institution" and build student housing. The Oregon State Board of Higher Education should investigate financing options such as state bonds, federal loans, and private or nonprofit sponsorship for this construction, and 4) the City of Portland Bureau of Buildings (should) examine the housing facilities available to students in the downtown bowl.

Southwest Hillsdale Terrace Project of Housing Authority of Portland, 1967, *Bulletin*, Vol. 47, No. 34

Themes that resonated throughout this report: NIMBY, integration, racism, urban decay, suburban flight, and density. HAP's proposal to build a 70-unit public housing project in Hillsdale met with considerable public opposition in what was that agency's first venture into a suburban neighborhood. Neighbors' complaints focused on the perceived problems of density leading to school overcrowding, declining property values, and that "the prospective tenants, being of different social and economic background, would be ostracized in the neighborhood and in the schools and would not fit well into the community." However, there was some support in the community for the new units. A counter-group formed and argued for the dispersal of public housing out of North and East Portland and promoted the principle that people of any social, economic or racial background should be welcomed in any part of the city. The City Club committee felt that there was no sound opposition to the project, and that its opponents

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have "unarticulated racial or social-economic prejudices". The committee recommended that HAP should ensure that the projects be well (and attractively) designed so that they would blend into the community.

Housing Bonds for the Elderly (State Measure No. 3), 1976, *Bulletin*, Vol. 56, No. 53

The measure is a proposed constitutional amendment which would permit the state to issue bonds for the purpose of mortgage lending for the creating more multifamily housing for elderly households (both new and rehab projects). The committee recommend a "yes" vote on Measure No. 3 because it was deemed "important to make a start towards solving the housing needs of the low income elderly, although this program will not by itself produce rent levels which are low enough for the most needy, it will make a material impact on the feasibility of housing projects and provide a vehicle for utilizing existing subsidy programs."

Housing Bonds for Low Income Elderly (State Measure No. 3), 1978, *Bulletin*, Vol. 58, No. 53 (Note--this was amended in 1982 by State Measure No. 2, 1982. See summary below.)

Committee recommends a "yes" vote. State Measure No. 3 sought to permit the state to incur additional indebtedness by issuing bonds to provide funds for multifamily housing for elderly households of low income. "The state would guarantee the bonds and would be obligated to use general funds or to levy new state-wide ad valorem taxes to repay the bonds if the bond program is not self-liquidating." The State Housing Division would loan money to developers at lower interest rates than would otherwise be commercially available to them, thereby reducing the amortization cost of the debt. The developer could then charge lower rental rates. Committee conclusion: "The program provides the one element that is missing in the economy, an inexpensive source of long-term mortgage capital. The revenue bond program, enacted by the 1973 Oregon legislature, created a vehicle by which the Housing Division could loan funds for the construction of low income

housing generally. The passage of State Measure No. 3 will afford the State an additional financial tool to encourage construction of facilities for the elderly specifically facilities which are in short supply and desperately needed".

Veterans' Home and Farm Loan Eligibility Changes (State Measure No. 4), 1980, *Bulletin*, Vol. 60, No. 47.

The purpose of this measure was to simplify veterans' eligibility for direct home and farm loans. Its focus was on the process rather than an issue. The committee concluded that passage of this measure would substantially simplify the administrative processes determining eligibility for the Oregon Veterans' Loan Program and the attendant modifications increasing eligibility for certain veterans are beneficial and appropriate.

Halfway Houses: A Community-Based Alternative to the Cell Block, 1981, *Bulletin*, Vol. 62, No. 24.

In response to overcrowding in the Oregon State prison system in 1980, Federal Judge James Burns ruled that "confining two prisoners in a one person cell amounted to cruel and unusual punishment". The state was ordered to reduce the number of prisoners in cells, which led to the development of alternate incarceration quarters such as halfway houses within communities for some criminal offenders. The committee recommended that halfway houses be used in certain circumstances but that the halfway houses should be required to keep records that would later be used to evaluate their effectiveness as alternatives to prison.

Multifamily Housing for Elderly and Disabled Persons (State Measure No. 2), 1982, *Bulletin*, Vol. 62, No. 54.

Majority recommendation for a City Club "yes" vote. In 1982, the state could sell bonds to make loans to finance multifamily housing for the low-income elderly. Measure No. 2 sought to repeal the "low-income" restriction, as well as allow loans for multifamily housing for the disabled. In addition, it sought to allow state loans to the elderly to buy

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ownership interest in single units in multifamily housing. The measure did not seek to increase the bonding authority of the state. The Committee found no organized opposition to Measure No. 2. Arguments in favor of the measure discussed the need for group housing by the mentally and physically disabled, the need to protect the elderly (who live on fixed incomes) from inflation or other rent increases, and the belief that more single-family units would become available if the elderly could move. In addition, it was pointed out that the "average income of handicapped persons is too low to give them housing choices in the open market". A significant argument against the measure was that the economics of the program allow only those people to be served who are able to pay rent high enough to service the debts on the property-the truly needy would not benefit.

Homelessness as a "Premier Issue" for the City Club of Portland, 1986, *Bulletin*, Vol. 67, No. 11

People are homeless for many reasons. Beyond the obvious need for housing, the homeless are burdened with a variety of accompanying problems. Homelessness cannot be examined in isolation; its causes must also be studied. The homeless have an impact that is disproportionate to their ranks. Policies toward the homeless should be evaluated on the extent to which they reduce long-term societal costs as well as their responsiveness to basic humanitarian concerns for giving individuals the means to maintain human dignity and to acquire the most basic necessities -- shelter, food, clothing, basic medical care, and physical security. In fulfilling its obligations of civic leadership, the City Club is urged to focus on this issue which is of persistent and growing significance to the community.

The Mayor's 12-Point Plan for the Homeless, 1990, *Bulletin*, Vol. 70, No. 42

Over 40 percent of Portland's 17,000 homeless are women and children. Families comprise the fastest-growing segment. Housing and jobs must be available, but the solution is more complex; people must have access to social services, job training, and alcohol and drug treatment programs. The city should provide a high level of street sanita-

tion including amenities like public toilets in the downtown area. The public must participate in this effort through forums at which the problems of homelessness would be discussed and solutions offered.

Study of Racial and Ethnic Relations in Portland: Report of the Housing Subcommittee, 1992, *Bulletin*, Vol. 72, No. 40

The purpose of this study was to consider the availability of housing to members of various ethnic groups. There were two elements to the study charge: 1) identify and define racial discrimination that prevents rental or purchase of homes, and 2) identify other barriers that prevent minorities from acquiring safe, comfortable shelter.

There is little available information to identify the scope of the problem--a testing program should therefore be established. Key factors discussed include:

- There are fewer mortgage loans made to African-American neighborhoods.
- Minorities make up a disproportionate percentage of the low-income population.
- Adequate housing is an ever-increasing problem.
- There is a need for more public and private initiatives to provide adequate housing for minorities.
- Housing must be addressed in conjunction with education , training, and social services.

Planning for Urban Growth in the Portland Metropolitan Area, *Bulletin*, March 29, 1996.

In this report, the City Club of Portland established its position in favor of containing growth by steering new development into existing communities as the best way to limit suburban sprawl and to increase the vitality of Portland as the population and economic center of the region. The report also took a strong position in favor of balancing increased urban density with enhanced neighborhood livability. The

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report recommended that local government efforts to increase density include neighborhood involvement, preserve housing affordability, and encourage good planning and design. Effective and proactive planning is needed to accommodate greater density while maintaining the quality of life that makes Portland an attractive place to live.

Increasing Density in Portland, *Bulletin*, November 5, 1999.

Regional growth is inevitable; the City of Portland should plan for it in order to maximize available space and neighborhood livability. The city's past planning success and focus is eroding and needs to be revitalized. If the city does not actively plan for accommodating growth, it will be driven by development that does not necessarily take the community's best interests into account in terms of design, quality, or efficient use of space. Increasing population will require anywhere from 40,000 to 70,000 new units over two decades. This population could be accommodated by planning large, medium, and small projects. For this to happen, four criteria must be met: 1) Coordinated planning engendered by strong government leadership; 2) Development of plans in view of economic market data and conditions; 3) Maximization of public support with minimization of impacts on existing neighborhoods; and 4) Support of development projects that lead to significant increases in overall diversity.

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