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Report on Housing Bonds for the Elderly (State Measure No. 3)

City Club of Portland (Portland, Or.)

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REPORT  
ON  
HOUSING BONDS FOR THE ELDERLY  
(State Measure No. 3)  

Purpose: “Authorizes bonds up to one-half of one percent of true cash value of property in the state to provide funds for advances to lending institutions and qualified housing sponsors to stimulate the state's economy and provide multifamily housing for the benefit of elderly households, such bonds to be paid from revenues generated by the advances and ad valorem taxes.”

To the Board of Governors,  
The City Club of Portland:

I. INTRODUCTION

The measure is a constitutional amendment permitting the state to incur an additional indebtedness by issuing bonds to provide for mortgage lending in the area of multifamily housing for the benefit of elderly households. The program will make financing available for both new and rehabilitated projects. Total indebtedness under the program cannot exceed one-half of one percent of the value of taxable property in the state (currently $180,000,000). The bonds are expected to be paid with principal repayment and interest revenues generated by the program. The state will fully guarantee the bonds and will be obligated to use the general fund or to levy new real estate taxes to repay them if required.

II. BACKGROUND

The concept embodied in this measure is the same as that utilized in Oregon’s existing veterans’ loan program. The state would pledge its credit in order to develop a source of low interest mortgage financing and would apply this advantage to a worthy sector of the population.

The proposal was developed during Governor Straub’s 1974 campaign and was put forth by him as a means of stimulating the state’s economy while significantly aiding needy elderly households.

In the legislature the measure took the form of House Bill 2054 and House Joint Resolution 6. HB 2054 describes in detail the bond program and in general how the monies are to be utilized. It also instructs the State Division of Housing to develop procedures for the administration of the housing finance program. HJR 6 places the measure on the ballot as a constitutional amendment authorizing the sale of general obligation bonds and describes the ways in which the state will pay them back.

The legislative bodies which held hearings on the bills were the House State and Federal Affairs Committee and the Joint Committee on Ways and Means. The majority of the significant testimony occurred in the State and Federal Affairs sessions. The final version of HB 2054 passed the Senate 25 to 1 and the House 50 to 7. HJR 6 passed 26 to 2 and 54 to 5 respectively. The program will become operative upon the passage of State Ballot Measure No. 3 in the May, 1976 election.

1“Elderly household” is described in the legislation as, “a household whose head is over the age of 62, residing in this state, which cannot obtain in the open market decent safe and sanitary housing, including the cost of utilities and taxes, for 25 percent of the gross income of the household.”
III. OPERATION AND EFFECTS OF THE ELDERLY HOUSING FINANCE PROGRAM

A. Need and Projected Results

Statistics presented to the Committee from both state and City of Portland sources indicate that there is a severe housing shortage, particularly in the metropolitan areas. This is made particularly evident by the low vacancy rate reported in the Portland area (two percent or less). Also evident are the increase in the number of one and two person households and the rising cost of construction. These factors combine to make it increasingly difficult for elderly persons on relatively low fixed incomes to find suitably located housing which is appropriately priced. It is predicted that the situation will become much more severe in the near future.

The following table shows the annual incomes of elderly households as abstracted from the 1970 census. Nearly two-thirds of these are seen to be below $5,000. Over 40 percent are below $3,000 and almost one quarter are below $2,000. If it is assumed that many of these would desire multifamily accommodations and would be able to pay approximately one-quarter of their income for housing, then the units which they could afford should have monthly rents no greater than $105, $63, and $42 respectively. Under open market conditions, it is impossible to provide new housing which will generate these rents, particularly the lower figures. A 500 square foot unit (efficiency or one bedroom) will cost between $11,000 and $16,000, depending on location and construction type. Monthly return to justify this investment would have to be over $150 for the least expensive units and considerably more than $200 for the higher priced units. These rents are clearly beyond the range of most elderly households.

<table>
<thead>
<tr>
<th>Income</th>
<th>Elderly Household Number, 1970 Census</th>
<th>Estimated Elderly Household Number*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $2,000</td>
<td>44,500</td>
<td>38,800</td>
</tr>
<tr>
<td>$2,000 - $2,999</td>
<td>24,000</td>
<td>23,800</td>
</tr>
<tr>
<td>$3,000 - $4,999</td>
<td>30,800</td>
<td>43,300</td>
</tr>
<tr>
<td>$5,000 - $6,999</td>
<td>16,600</td>
<td>23,300</td>
</tr>
<tr>
<td>$7,000 - $9,999</td>
<td>13,900</td>
<td>18,800</td>
</tr>
<tr>
<td>Over $10,000</td>
<td>15,000</td>
<td>18,700</td>
</tr>
<tr>
<td>Totals</td>
<td>144,800</td>
<td>166,700</td>
</tr>
</tbody>
</table>

*Estimate by Oregon State Division of Housing.

The proposed Elderly Housing Finance Program is designed to provide mortgage financing at interest rates about three points below the existing market. This would produce monthly rents about 20 percent lower than would otherwise be required.

The lowest cost units could then rent for about $130 a month and still would not be within the economic reach of most of the state’s elderly population. A much deeper level of subsidy is therefore required to provide housing for the great majority of elderly people. The source of this subsidy will have to be the federal government.

The Federal Leased Housing Assistance Program (Section 8) under HUD is a relatively new program which provides rent subsidies for units made available to low income households. These subsidies would be equal to the difference between the rental rates and 25 percent of the tenants’ incomes. To date the guidelines have not allowed new

2 The Housing Authority of Portland has about 2,500 elderly households on its waiting list for low-rent housing. The normal waiting period is reported to be one year or more. HAP estimates that this number represents only a small portion of those in need of housing assistance.

3 The Committee settled on this proportion of income for housing because it is the amount which the measure designates as the qualifying point of assistance. Many of the Committee’s sources felt that one-third might be a more realistic amount since the elderly often do not have other expenses common to younger households.
housing to qualify for assistance. However, recent agreements between HUD and Congressional housing interests\(^4\) indicate that these guidelines are likely to be modified to make them easier to utilize.

It is anticipated that by combining Section 8 with the proposed state program's 20 percent rent reduction, projects will prove financially feasible and meet federal criteria for subsidy.

**B. Scope and Administration**

One-hundred eighty million dollars would be made available for low interest rate mortgages. This would finance between 12,000 and 18,000 housing units depending on unit size and construction costs. The rate at which the funds would be utilized will be determined by the ability of housing sponsors, public or private, to put together financially feasible projects which fulfill the objectives of the program. Successful implementation will depend to a large degree upon the availability of federal subsidy commitments which can be applied to these projects. The Governor's office predicts that about 1,000 units per year can be built during the first five years of the program.

House Bill 2054 states that those who are eligible to benefit from the housing provided are householders who are over age 62 and who cannot obtain in the open market decent safe and sanitary housing for 25 percent of their gross income. The program will be required by law to give priority to elderly households whose incomes are below the median, and to establish a limit on the amount of interest which can be charged on mortgages. Additional regulations and procedures will be developed prior to implementation.

The administration of the state's program will be handled by the Housing Division of the State Department of Commerce (Greg Smith, director). It is the stated intent of the Division to utilize wherever possible, existing financial institutions on a fee basis for screening projects and servicing mortgages.

The interest rate charged on mortgage loans by the state will be about one-half of one percent higher than the interest rate on the bonds sold. This differential is to be the source of monies for staffing, screening projects, servicing mortgages and building a default reserve.

Construction loans which are separate from the actual long-term mortgages, will be handled conventionally with lending institutions dealing directly with developers. Housing sponsors may be private developers, non-profit corporations, or public bodies.

An important part of the review of a prospective housing sponsor's submittal is to be the analysis of the management proposal for the project. The sponsor will contract with the state to provide suitable management and to adhere to an appropriate rent schedule. This management contract is to remain in effect over the life of the mortgage and would be part of any future transfer of ownership.

The Division of Housing envisions only a small initial increment in administrative staff since project review and mortgage services are to be contracted out to local lending institutions.

Tenant selection is to be handled by the individual managers of projects and will be based on criteria established by the Housing Division. A large part of the tenant selection process is expected to be accomplished by referrals from existing public and private agencies currently dealing with the elderly.

In the event that federal subsidy commitments are slow in materializing, the Housing Division has proposed that projects be authorized which would apply the interest savings due to the reduced rate of interest to a selected percentage of the units built. This would lower the rents for these units to well below the market while raising those for the remainder to the going rate. The impact of the program under these conditions will be considerably less than if federal subsidies become available.

\(^4\)The Oregonian, April 1, 1976, “Compromise reached on low income housing” by Bill Keller.
C. Risk to the State

The state would have to use general fund or property tax money to repay bonds only if there are significant defaults on mortgages when the properties involved cannot be resold at a high enough price, and when there is insufficient money in the program’s reserve fund.

IV. ARGUMENTS FOR AND AGAINST THE MEASURE

A. Arguments For

1. A truly needy sector of the population of the state will be aided in a significant way.
2. The program will be self-supporting in that no new taxes or other state funds will be required.
3. The program is designed to be coupled with existing federal subsidy programs and can be utilized in conjunction with any other inducements available.
4. The program provides the one element which is missing in the economy for providing housing: that is, a cheap source of long-term mortgage credit.
5. The economy of the state will be enhanced by the construction generated through this program.
6. Efforts to provide housing in Portland’s center city locations will become easier as a result of this program.
7. There is a great deal of flexibility as to the nature and size of projects which will be built. Rehabilitation as well as new construction will be possible.

B. Arguments Against

1. The state will be entering into new areas of social services and housing development, areas where it should not venture.
2. Housing programs of this nature should be under local control and not be administered and funded through the state’s bureaucracy.
3. The existing state program5 for providing housing utilizing revenue bonds is better and safer for the state.
4. There is a risk that the program will have to utilize general fund monies or require new taxes in order to remain solvent.
5. The state’s credit rating could be adversely affected by any additional indebtedness because of this program.
6. There will be too much reliance on federal and other subsidy funds in order to make the program operational.
7. There are no administrative procedures spelled out in the legislation and the criteria as to eligibility are too loosely defined.
8. The administrative ability of the Division of Housing is unproven and there is no assurance that the program will be properly managed.
9. The administration of this complex program has not been thoroughly thought out and will be considerably more difficult than envisioned by proponents.
10. The program will encourage a “ghetto” solution to elderly housing, placing older citizens in isolated projects out of touch with the rest of their communities.

5House Bill 2378 (1973) Lower Income Housing Revenue Bonds: Authorized the state to issue revenue bonds for low income housing. Some units would have been made available to the elderly. Not operational as yet.
V. DISCUSSION

The Committee finds that the proposed program's goals are worthy and that there is an urgent need to actively promote construction and rehabilitation of multifamily housing for the elderly. Utilizing the credit resources of the State of Oregon to accomplish this is valid and has good precedent. The majority of the Committee has had no difficulty in accepting the state in the role of mortgage lender for elderly housing. It is felt that there are parallels between this new activity and the Veterans' Loan Program which has been a successful ingredient in Oregon's housing industry for decades.

The general obligation bond vehicle which has been selected to fund this program has a pronounced interest rate advantage over revenue bonding and appears to be the only feasible way to bring lending costs down to where they approach a workable level.

Reducing the interest on long-term mortgages in this fashion will have a major effect on net income projections for housing projects. In addition, the rent structures for developments can be pegged at lower rates thereby reducing the risks to investors by keeping vacancies low. If the program can be effectively combined with the Federal Section 8 subsidies there is little doubt that elderly housing can be provided in sufficient quantity and at low enough rents to make a major impact.

There is reasonable assurance that the program will be self-supporting in a manner similar to the existing Veterans' Loan fund, and that there will be no need for new real estate taxes. To get to a point where taxation would be necessary would require defaults on major projects where property values had declined as a result of undue building deterioration, or a general depression of the economy. The majority of the Committee feels that these eventualities are fairly remote.

There is little need for concern about the state's credit rating since Oregon's indebtedness is quite low when measured against the national average. The effect of this new measure is calculated by the Treasurer's office to increase the interest rate of bonds only one-tenth of one percent.

Of greater concern than these fiscal matters was the issue of whether or not the program would be operational at the level intended and serving those most in need of help. The Committee feels that unless the Federal Section 8 subsidy allocations for the area can be utilized there is no guarantee that those most in need of housing assistance can be reached. The greater part of the units built would still have rent levels too high for most of the elderly households targeted.

The Committee is divided in its feelings about this issue. The majority feel that the program has enough potential for success to merit its adoption. This position has been supported by recent moves on the part of HUD to make Section 8 more workable. It is also felt by the majority that relieving the housing pressure at any point on the income scale of elderly households is better than a continuation of the status quo; and that even a small measure of new and rehabilitated housing activity would make the program worthwhile.

The minority opinion holds that there is insufficient assurance that the measure will produce housing for those most in need in great enough quantities to merit the establishment of a major state program.

In addition to Federal Section 8 rent subsidies, there are other lesser inducements which can be coupled with the proposed state program. The most significant of these follow:

1. HB 3260: property tax exemption for projects containing 40 percent low income elderly; tax savings to be applied to reducing rents.

2. H.B. 2343: ten-year property tax abatement on rental housing in downtown locations and urban renewal areas.

3. HUD Section 302 Elderly Housing Program: yet to be implemented funding for non-profit elderly housing sponsors; allocations to be quite modest.
4. Community Development Block Grants: a limited source of capital for reducing the cost of land and site improvements in urban renewal areas.

These inducements, while not adequate in themselves, can be useful as additional levers to reduce housing costs to consumers within the framework of the proposed state Elderly Housing Finance Program.

The type and location of the housing which would result from this measure can vary greatly. Most private developers are likely to continue to seek low cost land in suburban locations and construct inexpensive low-rise structures. Housing in downtown or nearby neighborhoods is most likely to be initiated by public agencies such as the Housing Authority of Portland or by non-profit sponsors.

Officials in the City of Portland identify a number of housing issues which they feel must be addressed in the near future.

1. The growth in the number of smaller households, elderly and young, and the need to suitably house them.

2. Large numbers of low income people on the Housing Authority's waiting list qualifying for publicly assisted housing.

3. The need for rehabilitation of older residential structures in the core and nearby neighborhoods.

4. The need to locate elderly households where they can have proper access to medical, recreational and shopping facilities and to mass transit.

5. The need to build a variety of new housing downtown and in nearby neighborhoods to enhance the overall viability of the center city.

The proposed State Elderly Housing Program, while not designed to address all of these issues in their entirety, will function as a vehicle which is generally supportive of the city's efforts in these areas.

Most of the projects which are likely to result from the proposed program will house elderly households exclusively. This was considered by some of the Committee's sources to be an artificial and unhealthy way of accommodating the aged. The Committee chose to disregard this as a potential problem in favor of the view which holds that a degree of concentration of elderly citizens can be very useful because it allows effective delivery of needed social services and medical care.

The administration of the proposed program as envisioned by the Housing Division is a complex inter-working of a number of public and private entities. The relationship which most concerned the Committee involved possible excess regulation in tenant selection, income verification and other project management affairs. Another worry was over the Housing Division's capability in selecting financially sound projects. The Committee feels that in order to guard against these administrative difficulties the state should coordinate the formulation of the program's procedures and guidelines with appropriate private financial institutions.
VI. CONCLUSIONS AND RECOMMENDATIONS

A. Of the Majority

It is important to make a start towards solving the housing needs of the low income elderly. The proposed State Elderly Housing Finance Program will utilize the state’s credit in a creative way to promote the implementation of this housing. 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.

It is the recommendation of the majority of the Committee that the City Club favor a “YES” vote on Ballot Measure No. 3 in the May 25, 1976 election.

Respectfully submitted,
Marc Kelley
Sidney Spiegel
Nedra Thatcher
Max Bolte, Chairman
For the Majority

B. The Minority

Although there exists a need to provide assistance for the low income elderly, this bill will not achieve these objectives without subsidies. Twenty-five percent of the income (the housing allowance) of those with a $5,000 income (the highest income bracket of the low income elderly) would provide only $104.17 per month for rent. Yet, estimates herein indicate a fair rental value of $150 per month for the least expensive units likely to be constructed under this bill. Even with partial federal rent subsidies and rents scaled down from market value, there is a question as to the proportion of the needy who will be helped.

If federal subsidies had to be discontinued, it would force the state to support this program in order to carry out the intent of the bill and to protect its investment. This would therefore require the use of general fund monies or the levying of ad valorem taxes. These developments would take place without a vote of the people.

A further consideration is that the false expectations likely to be generated by this program because of its failure to deliver expected housing will make it more difficult in the future to develop and sustain a truly viable program to assist the low income elderly citizenry.

It is my recommendation as the minority of the Committee that the City Club favor a “NO” vote on Ballot Measure No. 3 in the May 25, 1976 election.

Respectfully submitted,
Dale Duvall
For the Minority

Approved by the Research Board April 13, 1976 for transmittal to the Board of Governors. Received by the Board of Governors April 19, 1976 and ordered published and distributed to the membership for consideration and action.
COMMITTEE SOURCES

Greg Smith, Director, Oregon State Division of Housing.
Harvey Akeson, State Representative, Chairman, House Ways and Means Committee.
Murium McClure, Coordinator, Housing for the Elderly Committee.
Roy Johnson, Municipal Bond Underwriter, Blyth, Eastman & Dillion.
Tom Thompson, Oregon State Treasurers office.
Luella Engelter, Executive Director, Oregon Apartment Association.
Stan Goodell, Executive Director, Building Owners and Managers Association,
   Chairman, Portland Chamber of Commerce Urban Concerns Committee.
Phil Lang, State Representative, Speaker of the Oregon House of Representatives.
Rick Gustafson, Oregon State Representative, Member House State and Federal Affairs
   Committee.
Bruce Martin, Housing Planner, Portland City Planning Bureau
Louis Scherzer, Vice-President, Benjamin Franklin Savings and Loan Association, Member,
   Portland Development Commission.
Governor Robert Straub.
Marvin Fanshier, Oregon Department of Veterans Affairs.
Russell Dawson, Area Director, U. S. Department of Housing and Urban Development.
Anthony Meeker, Oregon State Senator.
Don Silvey, Portland Development Commission staff.
Diane Miller, Friendly House Senior Service Center.
Lyndon Musolf, Director, Housing Authority of Portland.
Congressman Les AuCoin, Member, U. S. House Committee on Banking,
   Currency and Housing.
Harry Stevens, Chief Estimator, Skidmore, Owings & Merrill, Architects.
Testimony before Oregon House of Representative Committee on State and Federal Affairs.
Text of House Joint Resolution 6 (1975 Session).
"Fact Sheet on HJR 6, Elderly Housing Finance Program;" prepared by the Housing Division
   of the Oregon Department of Commerce.
Text of voter's pamphlet material outlining arguments for and against Ballot Measure No. 3.