

## Ongoing Housing Preservation Needs

### Background

For over 30 years, Oregon has relied on federal rent subsidy contracts to provide housing for its most needy households. As an example, the Section 8 “project based” program currently provides housing and rent subsidies that affect over 30,000 Oregonians statewide. These contracts have ensured that Oregon’s very lowest income population (30%\* area median income or less) have had a place to live.

A large number of federally subsidized contracts have been expiring – and more are scheduled to expire in the next 6 years. Oregon Housing and Community Services (OHCS) and other affordable housing partners are working with existing and new owners to renew federal contracts, rehabilitate units where necessary, and set up state contracts to ensure the housing is affordable for the next 30 years.

However, some owners have chosen not to renew their contracts. Facing regulation and rising costs, some have raised rents for higher profits while others have left the business altogether.

### Importance of Preservation

**It is significantly cheaper to preserve affordable housing units and their existing federal rental subsidy than it is to replace the units and provide an equivalent rent subsidy.**

In addition, if new contracts are not secured and the housing reverts to regular (market) housing, there may be other consequences to communities including:

- Displaced households, higher rents, and increased homelessness for low-income families
- Greater demand on existing affordable housing already in short supply (currently, existing supply of affordable housing for only 30% of eligible households throughout the state)
- Increased caseloads for community social services, emergency shelters, counseling services, etc.

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\* 30% area median income ranges from \$10,000 to \$27,000 depending on household size and the household’s location in Oregon.

The Oregon Affordable Housing Tax Credit (OAHTC) plays an important role in the state’s preservation efforts. The OAHTC lessens lender state tax liability. In return, the lenders offer lower interest rates to developers and owners that lead to lower rents for tenants. (Typically, the OAHTC lowers the interest rate by 4% for owners.)

With the help of the OAHTC and other state, private, federal, and local resources, new owners have been able to acquire and rehabilitate projects with federal subsidies that may have otherwise expired.

## Recent Legislative Efforts

### 2007 Action

In response to the threat of losing affordable housing with expiring contracts, the 2007 Legislature, through HB 3201, approved a \$2 million increase to the OAHTC annual limit. With the increase, the OAHTC annual limit was \$13 million. In additional \$8.1 million was provided for preservation gap financing (\$2.6 million from General Fund and \$5.5 million from redirecting existing department Community Incentive Fund and interest resources.) Changes were also made that enable the OAHTC to be used more readily for preservation projects with continuing federal rental subsidies.

### 2008 – What Changed

To help address the wave of “at risk” preservation projects in 2008, the Legislature raised the OAHTC annual limit to \$17 million in the February 2008 Special Session. OHCS committed all of the OAHTC resources allocated in 2007 and 2008 for addressing the affordable housing preservation in 2008. In addition, a \$1 million appropriation was made to leverage an estimated \$49 million in outside funding for an immediate response preservation pool. The pool provides short-term financing for preservation projects while long-term financing is being secured.

Unfortunately not all of these preservation efforts were successful, largely due to the dramatically changed financial markets which has made tax equity investors reluctant to invest, increased the difficulty in finding permanent funding, and caused a decrease in the value of tax credits resulting in substantial funding “gaps.”

Of the 1,848 units that needed to be addressed in 2008, 1,610 units were targeted for preservation. A total of 786 of these 1,610 units were preserved in 2008. The remaining 824 units are still in the queue to be preserved if permanent financing becomes available, and have been moved to the 2009 “units to be addressed” counts.

Calendar Year	Units to be Addressed Total Units	Units Preserved	Replacement Cost of New Units	Estimated Federal Subsidies
2008	1,610	786	\$157,200,000	\$56,592,000

## **Current Bond and Credit Conditions**

As of January, 2009, difficult bond and credit conditions have presented new challenges for affordable housing developers in Oregon and throughout the nation.

There are efforts in Congress to urge the Treasury, Federal Home Loan Banks, Fannie Mae and Freddie Mac, and the Federal Reserve to help restore the long-term housing bond market. This may be addressed as TARP funds are redirected.

The federal economic stimulus bill passed by the House and the bill being considered by the Senate do not address these critical housing bond and credit issues sufficiently. While there are minor provisions to allow tax credit carry forward and acceleration, there are no provisions to address the needed gap financing to cover the decreased value of credits.

## **2009-11 Outlook**

- There are currently 3,477 affordable housing units that should be addressed in the 2009-11 biennium.
- The replacement value of this housing is estimated at over \$695 million. The value of the associated federal rental subsidy on these projects is estimated at over \$219 million over the next 20 years.
- These projects supply affordable housing in over 55 cities throughout Oregon. Over 7,000 Oregonians may lose their housing or face higher rents if these projects are lost.

The state can act now to preserve the 3,477 affordable housing units to be addressed in the 2009-11 biennium by taking two actions during the 2009 Legislative Session.

### Increase the Limit of the Oregon Affordable Housing Tax Credit

- Increase the OAHTC limit by \$4 million, bringing the annual limit to \$21 million.
- This would largely affect tax years beginning in the 2011-13 biennium.
- The state will recover this funding over 20 years, which can then be recycled for ongoing preservation needs.
- The OAHTC funds will leverage millions in private / other capital and will preserve an estimated \$219 million in federal subsidies to low-income Oregonians.
- By using OAHTC to preserve these projects, the housing will remain affordable for 30 years.

## Provide Additional Funds for Gap Financing

- Appropriate \$16 million in Lottery Backed Bonds, of which \$13 million in tax-exempt bonds will be used for gap financing. The remaining \$3 million is in taxable bonds which will be used to finance those projects that cannot use our bond or tax credit programs.
- The financing will combine with bond, tax credit, and other outside funding to complete the permanent financing needed for preserving projects.

## **Preservation Needs for the Years Ahead**

During 2011-2015, many more projects will reach the end of their contracts. These projects provide affordable housing and federal subsidies in over 66 cities throughout Oregon.

It is estimated that these contracts represent:

- An additional 2,007 affordable units (1,657 with federal rental subsidies).
- Replacement cost of these units is estimated at about \$400 million.
- Over 20 years, the value of the federal rental subsidy associated with these units is estimated at nearly \$339 million.

The following table summarizes the affordable housing that needs to be addressed in the years ahead.

Calendar Year	Units to be Addressed Units*	Addressed PBA Units**	Replacement Cost of New Units	Estimated Federal Subsidies
2009-10 <sup>1</sup>	3,477	3,046	\$695,400,000	\$219,312,000
2011-15 <sup>2</sup>	2,007	1,657	\$401,400,000	\$119,304,000
Total 2009-15	5,484	4,703	\$1,096,800,000	\$338,616,000

\* Units listed are affordable housing units.

\*\* PBA units are affordable housing units that also carry an associated federal “project-based assistance” subsidy.

To preserve the affordable housing with expiring contracts in future years, additional resources will be needed. Otherwise millions of dollars of affordable housing and federal rental subsidy could be lost. Given the value of existing assets and federal dollars involved, the preservation issue will continue to be an important housing priority for Oregon.

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<sup>1</sup> An additional 1,144 units have been added to the “units to be addressed” numbers previously reported for 2009-10. Of these, 824 units are deferred from 2008. The remaining units were added because of improvements in the database of preservation units. The new numbers are based on Oregon Housing Acquisition Project’s data and include additional Rural Development projects; see: <http://www.preserveoregonhousing.org/database/>.

<sup>2</sup> An additional 760 units have been added to the “units to be addressed” numbers previously reported for 2011-13. Some of these units are due to the addition of 2014 and 2015 forecasted units; the rest are based on improved data from the Oregon Housing Acquisition Project’s data.