

# **ASSET STATUS AND CONDITION REPORT 2006**

## **AFFORDABLE HOUSING INDUSTRY CITY OF PORTLAND**

- I. Description Citywide Asset Management of Affordable Housing**
- II. Description of City of Portland's Investment**
- III. Description of Affordable Housing Units**
- IV. Risk Analysis Methodology**
- V. City of Portland Asset Status and Condition Report – December 2006**

### **Report Appendix**

- a. Appendix 2 – Current Replacement Value December 2006**
- b. Appendix 3f – Current Condition of Capital Assets**
- c. Appendix 4 – Annual Funding Gap**
- d. Confidence Levels**
  - i. 6a Current Replacement Value of Capital Asset**
  - ii. 6b Current Condition of Capital Assets**
  - iii. 6c Projected Condition of Capital Assets**
  - iv. 6d Annual Gap in Capital Maintenance**
- VI. Appendix 7: Affordable Housing Observations**
  - a. Asset Management Goal**
  - b. Description of Advisory Committee**
  - c. Leveraging Effect of City Investment**
  - d. Annual Funding Gap Analysis**
  - e. Confidence Levels**
- VII. Definitions**

## **I. Description of Citywide Asset Management of Affordable Housing**

The City of Portland, inclusive of Bureau of Housing and Community Development (BHCD) and the Portland Development Commission (PDC), and herein referred to as the “CITY” supports and delivers affordable housing that best meets the needs and priorities of the local area. Since the mid 1980’s the CITY has invested resources to support this goal by providing financial assistance to local housing developers and providers (Borrowers), creating a stock of affordable housing units in which the CITY has an interest in managing as an asset. The CITY does not own these assets, but has made significant public investment to ensure this housing continues to be available. To ensure affordable housing is available for community residents, in 1998 the CITY passed policy mandating a minimum use restriction of 60 years as a benchmark. Borrowers own the projects where some or all may be affordable housing units. Because of the long term agreements, the CITY has invested in the long term asset management of its investments in affordable housing. PDC and the Borrowers enter into regulatory agreements establishing compliance responsibilities to the owners for ongoing management and affordability of the housing.

### **Affordable Housing**

For purposes of this report, only affordable rental units with direct CITY investment and a PDC regulatory agreement will be reflected in this analysis. A snapshot of regulated projects and units taken on June 30, 2006 are captured in this report. Within the City of Portland, three groups of multi-family rental affordable housing units exist:

- Public housing rental units owned and operated by the Housing Authority of Portland (HAP)
- Projects owned by private developers and owners with mortgages from the Department of Housing and Urban Development (HUD)
- City-subsidized housing owned and operated by non-profit and private developers with subsidy from the CITY

The CITY does not have any direct investment or regulatory interests in the first two groups of projects. For the purpose of this report, only affordable rental units categorized in the third group – those projects with direct CITY investment and a PDC regulatory agreement – will be reported.

The affordable housing portfolio contains 44 non-profit project Borrowers and 33 for-profit private Borrowers. The City of Portland also invests in providing single-family homeownership; however, the majority of these units are not regulated and therefore are not reflected in this report.

## **II. Description of the City of Portland’s Investment**

The CITY’s financial investment in these projects leverages other financing necessary for the construction or rehabilitation of the project junior to the first mortgage. This leverage provides the equity financing (gap) needed to make the project financing whole and restricts projects to the desired level of affordability. These affordability restrictions are documented with regulatory agreements.

To meet rental housing affordability goals, the CITY loans or grants funds from various sources. The following resources are examples of the CITY’s investment:

- *Federal funds:*  
Community Development Block Grant (CDBG)  
HOME Partnership Investment Funds
- *Local Funds:*  
Tax Increment Financing (TIF)  
Housing Opportunity Bond (HOB)  
Housing Investment Funds (HIF)

PDC's Financial Products Manual describes all the various financial products available to Borrowers and the Borrower's Asset Management Guidelines detail the Asset Management System in place to monitor, track and evaluate the affordable housing portfolio. These Guidelines and related reporting tools are available on PDC's webpage at: <http://www.pdc.us/assetmanagement>

In addition to complying with local goals and objectives set forth in project regulatory agreements, projects must also meet numerous compliance standards set forth by each funding source.

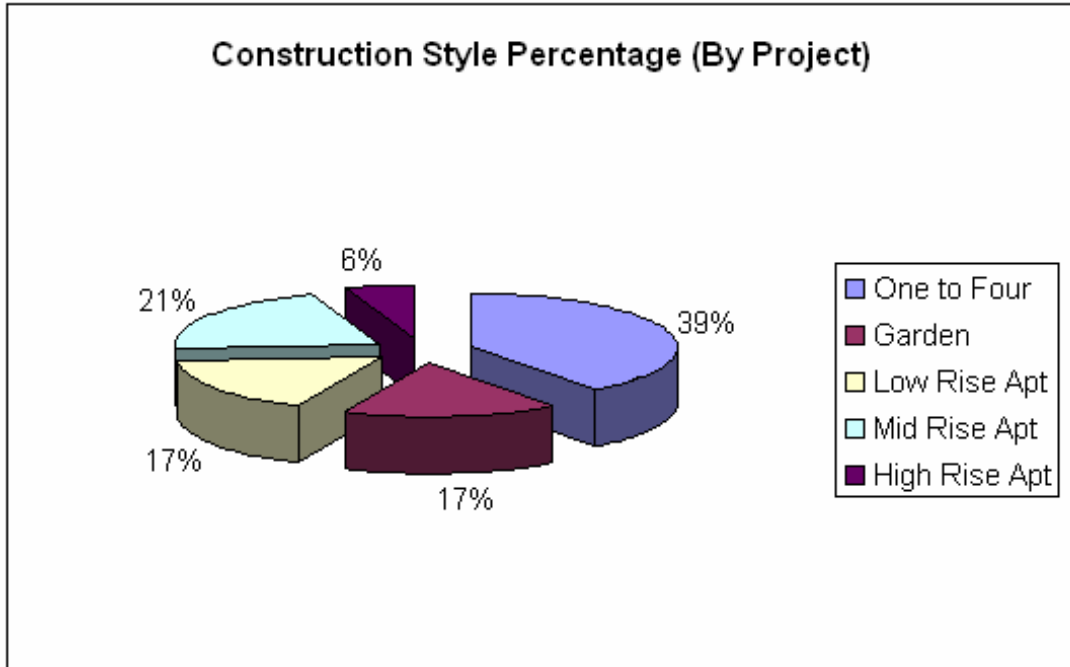
### **III. Description of the Affordable Housing Units**

The CITY has made direct investments in over 9,000 units. These units are comprised of 229 projects built over the past 10 years. For this report, a snapshot of the regulated portfolio as of June 30, 2006 was used. PDC issues regulatory agreements that restrict projects to certain affordable rent and income levels based on U.S. Department of Housing and Urban Development established median family income (MFI) for the Portland Metropolitan Area.

The following is an overview of the regulated PDC portfolio. The 229 projects are classified by construction type, and identified for tracking purposes by Median Family income levels and then by bedroom size.

Construction styles were categorized as follows:

- One-four units - Single-family houses used as rental, Duplex, Tri-plex and Four-plex apartments
- Garden - Low Rise grouping of buildings situated on a sizeable landscaped plot, under one management
- Low Rise - Fewer than 3 stories, includes walk-up
- Mid Rise - 2 - 4 stories
- High Rise - Elevator-served over 4-stories



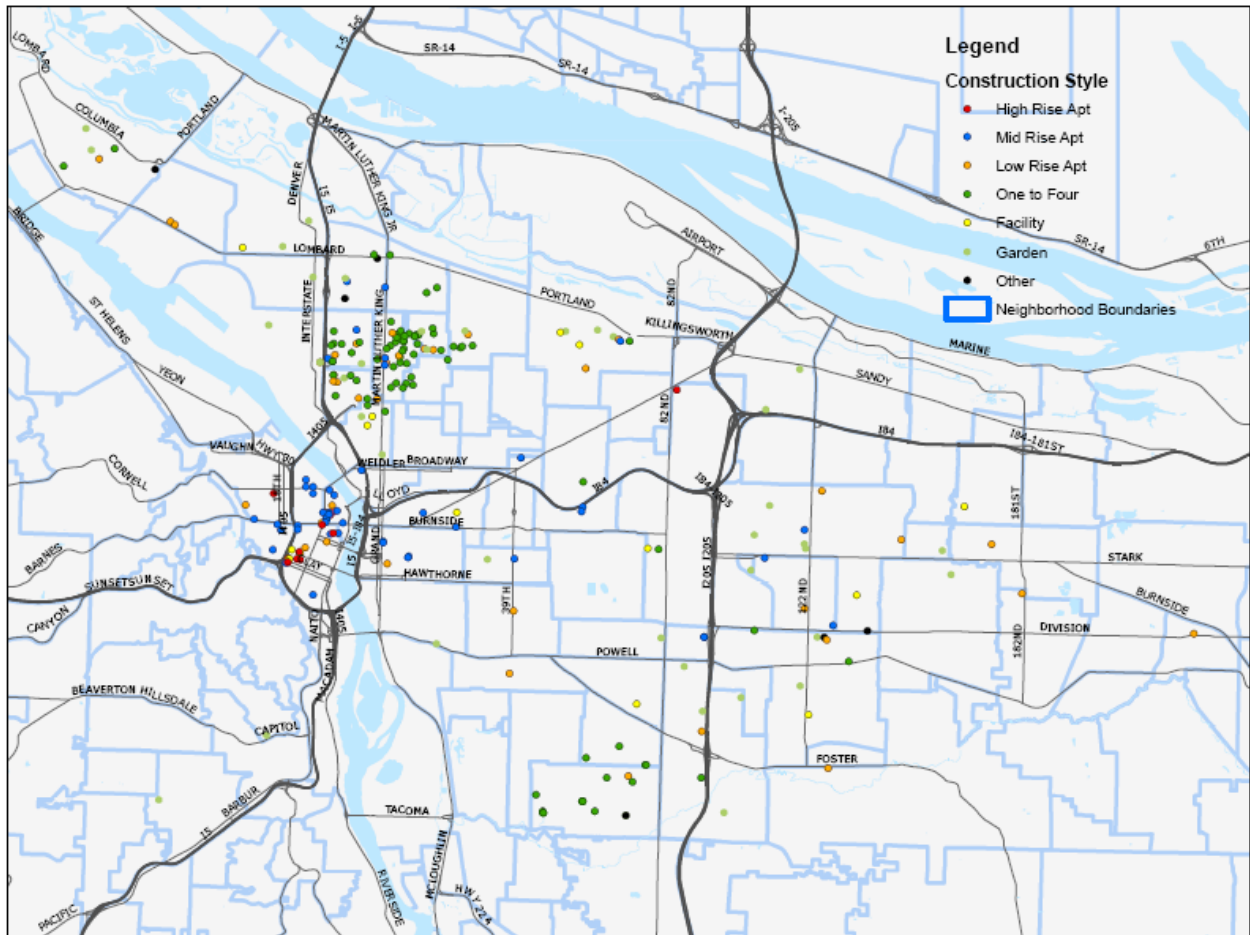
Construction Style	One to Four	Garden	Low Rise	Mid Rise	High Rise	
# of Projects	91	39	39	47	13	229 projects
% of total Projects	39%	17%	17%	21%	6%	100.00%
# of Units	183	1393	1311	4598	1670	9155 units

Table Summary (6/30/06 portfolio):

- Mid Rise projects have the largest number of units and represents 21% of the total projects in the 6/30/06 portfolio.
- One to Four projects have the smallest number of units, however, the highest number of projects, 39%
- Taken together, Low, Mid and High Rise represent the majority of the construction style projects in the 6/30/06 portfolio (44%). These projects are predominantly located in the downtown Portland area. The remaining projects are located throughout City neighborhoods.

The following dot map indicates location of each project, by construction style throughout the City.

6-30-06 Universe of Projects by Construction Style

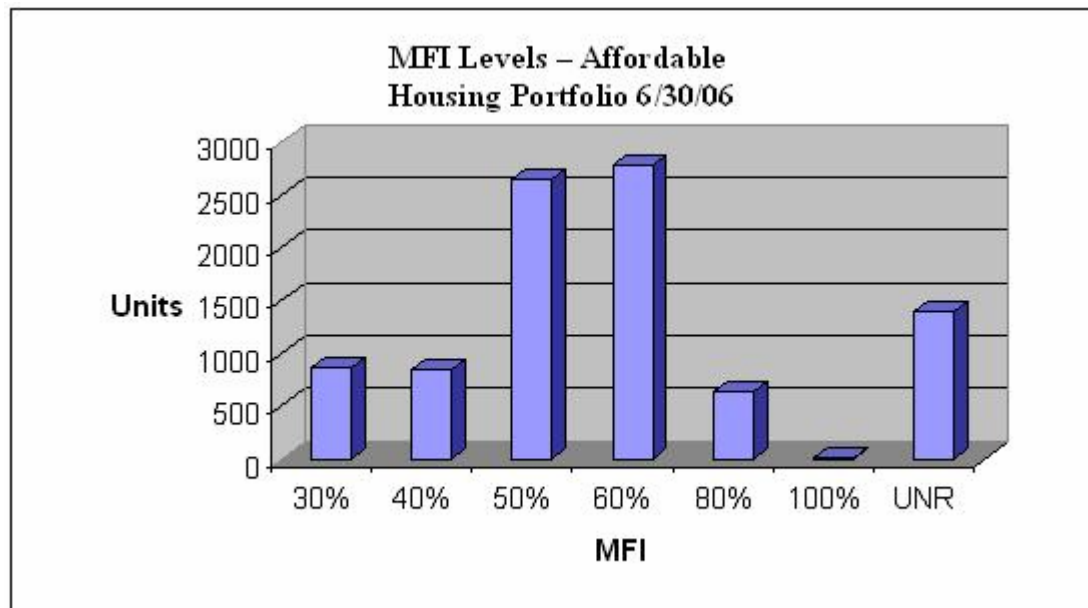


The following information shows units broken out by regulated MFI and bedroom size. Data illustrates that the most commonly underwritten MFI level across all bedroom size are 50 and 60%, representing 59% of the portfolio. In 2006, the 50% MFI level for a family of four is \$33,950 and \$40,750 for the 60% MFI level.

Housing as Infrastructure - Stock of Data  
 PDC Asset Management  
 All Projects Unit Data

	30 % MFI	40 % MFI	50 % MFI	60 % MFI	80 % MFI	100 % MFI	MFI Unrestricted		
Studio	282	228	541	671	57	0	112	1891	21%
SRO	220	472	831	216	110	0	108	1957	21%
1 BD	123	60	641	1148	336	8	511	2827	31%
2 BD	114	35	313	463	64	0	233	1222	13%
3 BD	90	34	238	214	35	0	29	640	7%
4 BD	27	12	73	69	11	0	5	197	2%
5 BD	2	0	5	3	4	0	0	14	0%
UnKnown					15		392	407	4%
	858	841	2642	2784	632	8	1390	9155	
							9155		
	9%	9%	29%	30%	7%	0%	15%		

Below is a graphical representation of the same Regulated MFI and Bedroom data.



## **Regulatory Compliance**

Under the terms of the Regulatory Agreements, borrowers are required to submit annual reports demonstrating compliance with requirements of each funding source. Annuals reports and evaluations monitor projects for compliance with Guidelines and project health through the submission of tenant surveys and project operating statements.

Project and borrowers are scored Good, Fair or Poor based on the following five criteria:

- 1) Compliance with Regulatory agreements which details affordability levels
- 2) Compliance with loan agreements and project operation performance evaluated by project operating statements, reserve account funding information, evaluation of debt coverage ratio, and excess cash flow
- 3) Management Performance
- 4) Project site inspections by CITY staff for HOME funds or the submission of third party inspection reports for other fund sources
- 5) Affirmative Fair Housing Marketing verification and recertification

## **Excess Cash Flow and Debt Service**

Public funds are repaid either through amortizing loan payments or from contingent project excess cash flow payment, as detailed in individual project loan agreements and promissory notes. Typical excess cash flow payments equal 50% of the Net Cash Flow above 115% of the permitted loan payments. (For specifics refer to PDC's Housing Financial Products Manual.)

## **Project Reserves**

Standard practices in the affordable housing industry could require borrower/projects to establish and maintain Reserve accounts in the project financial structure for future project capital improvements and to provide extra assurance for project financial success.

## **Physical Condition and Capital Needs Assessments**

Typical affordable housing lending practices require borrowers to complete a capital needs assessment survey every 10 years. For renovation and rehabilitation projects, borrowers complete their own physical inspection during the application process, which includes a review of project systems providing a baseline description of the physical condition of the asset.

#### **IV. Risk Analysis Methodology:**

The CITY does not perform an in depth physical inspection or capital needs cost assessment on its affordable housing portfolio. Therefore, for purposes of aligning to the City's report, we have developed a risk analysis methodology that combines physical and financial conditions of the portfolio. These methodologies extrapolate the existing data on a subset of total projects in 6/30/06 portfolio.

A subset of 127 projects of the affordable housing 6/30/06 portfolio had current financial data available for this rating methodology. This is considered a representative share (72% of the 6/30/06 regulated units) of all units to develop Appendix 3F - Current Condition and Appendix 4 - Annual Gap.

The 229 projects identified by construction style (see page 4) were utilized in the development of the \$1,392,302,958 Current Replacement Value, Appendix 2.

#### **Risk Calculation Methodology**

In this methodology each project is assigned a risk rating score that ranges from 1 – 5 points. A score of 1 represents the Highest Risk and a score of 5 represents the Lowest Risk. To calculate risk, each project is given a baseline of 5 points and points are deducted for various Physical and Financial factors.

Risk is divided into two categories: Physical and Financial. Physical Risk is assessed by the length of time, from initial construction or the last rehabilitation, repair or remodel. Length of time is represented in years and ranges are assigned a point value. Point values correspond to the level of risk. Below is the break out of the risk rating and point deductions. An incomplete repair, remodel or rehabilitation is more risky, thus more likely to need additional funding. The CITY has defined \$15,000 per unit as the threshold between full and partial rehabilitation.

#### **Physical Condition Risk (20% - Possible 1 point deduction)**

##### **1. New Construction**

0 – 8 yrs in use	= 0 point deduct
9 – 20 yrs in use	= 0.4 point deduct
21– 30 yrs in use	= 0.8 point deduct
31 + years in use	= 1 point deduct

##### **2. Last Rehabilitation, Repair or Remodel**

**Full Rehabilitation:** PDC loan amount of more than \$15,000 per unit.

\*\*Project will perform as if newly constructed and utilizes scale for New Construction.

**Partial rehabilitation:** PDC loan amount less than \$15,000 per unit.

0 – 8 yrs in use	= 0.6 point deduct
9 – 20 yrs in use	= 0.8 point deduct
21– 30 yrs in use	= 1 point deduct
31 + years in use	= 1 point deduct

**Financial Condition Risk (80% - Possible 4 point deduction)**

**Operating Expense Ratio**

1.
  - a. If > 70% = 2 point deduction
  - b. If >58% but <70% = 1 point deduction
  - c. If <58% = 0 point deduction
2. Cash Flow Analysis
  - a. If DCR is < 1.0 = 1.5 point deduction
  - b. If DCR is >1.15 but <1.0 = 0.75 point deduction
  - c. If DCR is >or =1.15 = 0 point deduction
3. Corrective Action Plan (CAP): a project has requested a CAP within the last 2 years.
  - a. Yes – 0.5 point deduct
  - d. No – 0 point deduct

**Conversion from 5 to 3 points scale:**

The City of Portland has utilized a “3 POINT” condition rating scale; GOOD, FAIR, POOR and plans a transition to a 5 POINT scale in the future. The Affordable Housing portfolio was rated on a 5 POINT scale and was converted to align with the City’s 3 POINT scale utilized in the 2006 City Report. The following indicates our conversion process:

- 5
- 4 5 & 4 scores were combined resulting in a converted score of “3” GOOD
- 3
- 2 3 & 2 scores were combined resulting in a converted score of “2” FAIR
- 1 1.5 and below score remains POOR

To be consistent with the City of Portland’s condition rating, the affordable housing portfolio was analyzed using the converted scale.

**Summary of Risk Rating:**

CURRENT CONDITION based upon 127 projects APPENDIX 3F																
	Projects		Units (127 subset)		# TBD Units		GOOD		FAIR		POOR		TBD DATA		TOTAL	
	#	%	#	%	#	%	\$VALUE	%	\$VALUE	%	\$VALUE	%	\$VAUE	%		%
Garden	29	23%	829	13%	564	22%	3,466,079	1%	21,612,022	8%	9,174,915	22%	249,761,575	46%	\$ 284,014,591	20%
High Rise	10	8%	1206	18%	464	18%	123,221,596	24%	63,468,410	22%	-	0%	71,827,664	13%	\$ 258,517,670	19%
Mid Rise	35	28%	3410	51%	1188	47%	314,995,786	61%	130,362,377	45%	31,611,478	76%	166,170,068	30%	\$ 643,139,711	46%
Low Rise	22	17%	1099	17%	212	8%	64,613,700	13%	68,602,200	24%	-	0%	41,081,550	8%	\$ 174,297,450	13%
One to Four	31	24%	79	1%	104	4%	9,894,416	2%	3,357,034	1%	706,744	2%	18,375,344	3%	\$ 32,333,538	2%
<b>Total</b>	<b>127</b>	<b>100%</b>	<b>6623</b>	<b>100%</b>	<b>2532</b>	<b>100%</b>	<b>516,191,577</b>	<b>100%</b>	<b>287,402,043</b>	<b>100%</b>	<b>41,493,137</b>	<b>100%</b>	<b>547,216,201</b>	<b>100%</b>	<b>\$1,392,302,961</b>	<b>100%</b>
							37%		21%		3%		39%			

In analyzing the above subset of 127 projects and their related risk score the Affordable Housing portfolio is predominately in good or fair condition (58%). This pool of projects represents a total unit count of 6251 or 94% of the portfolio.

The table below indicates Risk Rating scores by construction style and units. There are approximately 13 projects represented by the 354 number of units rated poor.

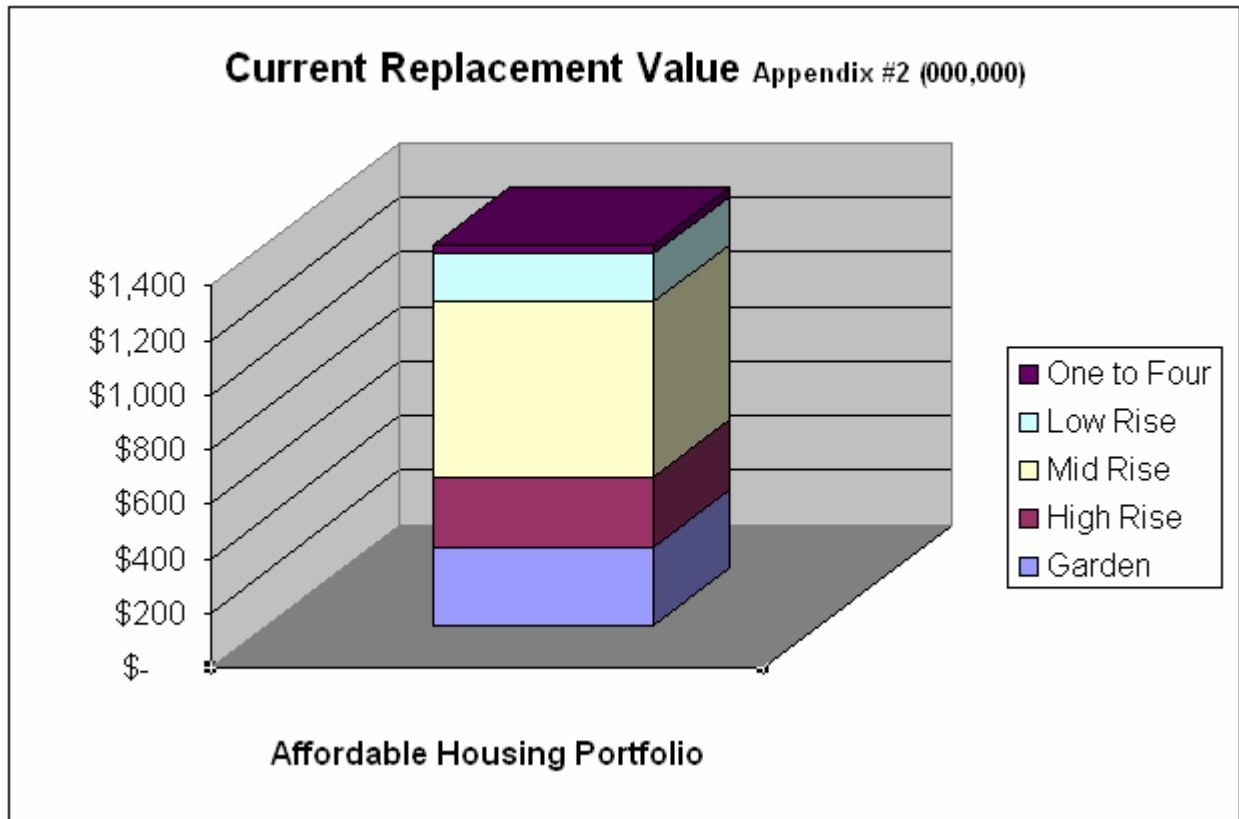
	1 to 4	Garden	High Rise	Mid Rise	Low Rise	# of Units
Good	56	528	796	2252	486	4118
Fair	19	256	410	932	516	2133
<b>Poor</b>	<b>4</b>	<b>45</b>	<b>0</b>	<b>226</b>	<b>79</b>	<b>354</b>
Totals:	79	829	1206	3410	1099	6623
#Units TBD	104	564	464	1188	212	2532

**V. City of Portland Asset Status and Conditions Report December 2006  
List of Report Appendix:**

The replacement value of the affordable housing portfolio is \$1,392,302,958 which represents the amount it would take to rebuild the exact housing configuration in the 6/30/06 affordable housing portfolio. The replacement value, as of 6/30/06 was calculated using the following methodology:

- i. Capture the Most Current PDC unit construction cost by construction style.
- ii. Multiplied by number of units in a particular project.
- iii. Sum each construction style category.

## Appendix 2 -Current Replacement Value



6/30/06 Universe					
CURRENT REPLACEMENT COST					
	Projects		Units	\$/unit	Cost to construct today
Garden	39	17%	1393	\$ 203,887	\$ 284,014,591
High Rise	13	6%	1670	\$ 154,801	\$ 258,517,670
Mid Rise	47	21%	4598	\$ 139,874	\$ 643,139,709
Low Rise	39	17%	1331	\$ 132,950	\$ 174,297,450
One to Four	91	40%	183	\$ 176,686	\$ 32,333,538
Total	229	100%	9155		<b>\$1,392,302,958</b>

### Construction Costs per Unit:

PDC's Housing Department Construction Coordinators oversee the construction of the affordable housing projects. Oversight includes the review and monitoring of the construction budget. The final construction costs are entered into the project budget database and are the basis of Figure I "1996-2000 Historic Average" by project construction style. These costs are "ALL IN", meaning they include Hard and Soft costs related to the acquisition, development and construction of the building.

The Risk Analysis Methodology uses these unit construction cost figures. Figure I indicate Historic and Most Current construction costs per unit. When a current construction cost for a particular construction style was not available the blended historic average (1999-2006) was utilized and indicated in the Most Current column. “Most Current Figures” are numbers that reflect current construction costs used to develop the Appendix #2; \$1,392,302,958.

**Inflation Factor:** The Most Current unit costs were compounded by 7% over the 10 year period (2016) to arrive at Appendix #4, Annual Gap. An inflation factor of 7% was utilized to reflect the rise in the cost of construction and current to reflect current market conditions. The factor of 7% was chosen because when compounded it best reflected the rise construction costs.

**Figure I**

<b>Unit Replacement Cost based upon HDF construction costs</b>					
	1999-2006 Historic Average	# Projects	2006	Most Current Figure	2016 projected per/unit cost
Garden	\$ 131,476	13	1	\$ 203,887	\$401,076.59
High Rise	\$ 154,801	9	0	\$ 154,801	\$304,517.00
Mid Rise	\$ 129,699	16	0	\$ 139,874	\$275,152.93
Low Rise	\$ 132,950	9	1	\$ 132,950	\$261,532.77
One to Four	\$ 149,136	5	0	\$ 176,686	\$347,568.10
		52 total projects			Inflation factor: 7%

**Figure II**

Year	1999	2000	2001	2002	2003	2004	2005	2006	Number of projects
Garden		5	3	1	3			1	13
High Rise		2	4		2		1		9
Mid Rise	2	5	1	2	1	3	2		16
Low Rise			1		2	3	2	1	9
One to Four			1	1		2	1		5

Current projects: (detail of projects indicated for 2005 and 2006 Figure II)

**2006**

**Garden Style**            \$203,887 ALL in Cost/unit (this number is used as “CURRENT”)  
                                  \$99,224/unit as it relates to PDC funds  
                                  4 total units

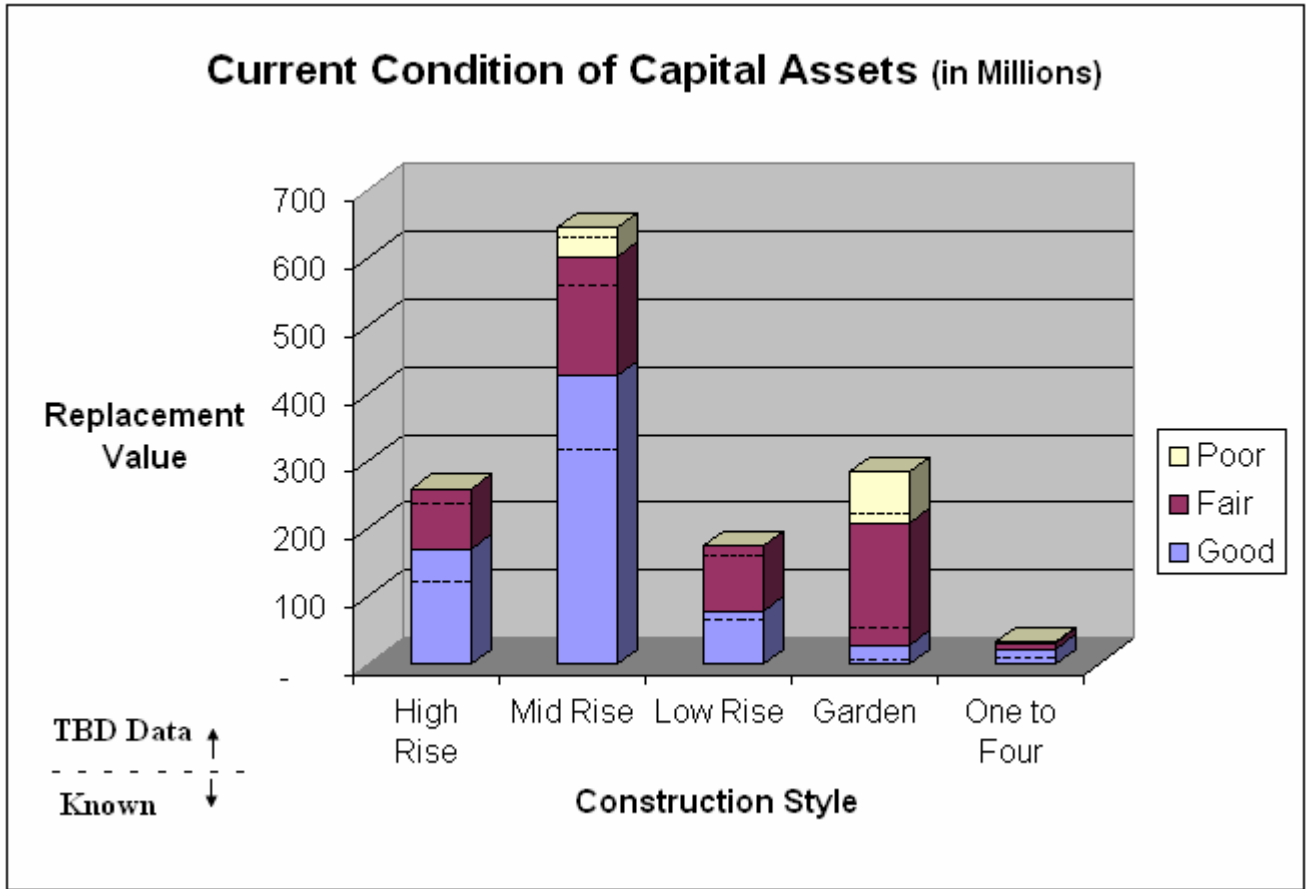
**Low Rise Style**        \$70,200 ALL in Cost/unit  
                                  (This number is <than Average, AVERAGE used as “CURRENT”)  
                                  \$59,973/unit as it relates to PDC funds  
                                  22 total units

**2005**

<b>High Rise Style</b>	\$153,303 ALL in Cost/unit (This number is < than Average, AVERAGE used as “CURRENT”) \$3,571/unit as it relates to PDC funds 140 total units
<b>Mid Rise Style</b>	\$148,085 ALL in Cost/unit \$6,429/unit as it relates to PDC funds 70 total units
<b>2nd Mid Rise</b>	\$131,663 ALL in Cost/unit \$15,000/unit as it relates to PDD funds 100 total units
<b>One to Four</b>	Combined ALL average: \$139,874 (this number is used as “CURRENT”) \$176,686 ALL in Cost/unit (this number is used as “CURRENT”) \$25,805/unit as it relates to PDC funds 44 total units

## Appendix 3F -Current Condition of Capital Assets

This data was ranked using the Risk Analysis Methodology and represents replacement values by construction style scored; Good, Fair or Poor.



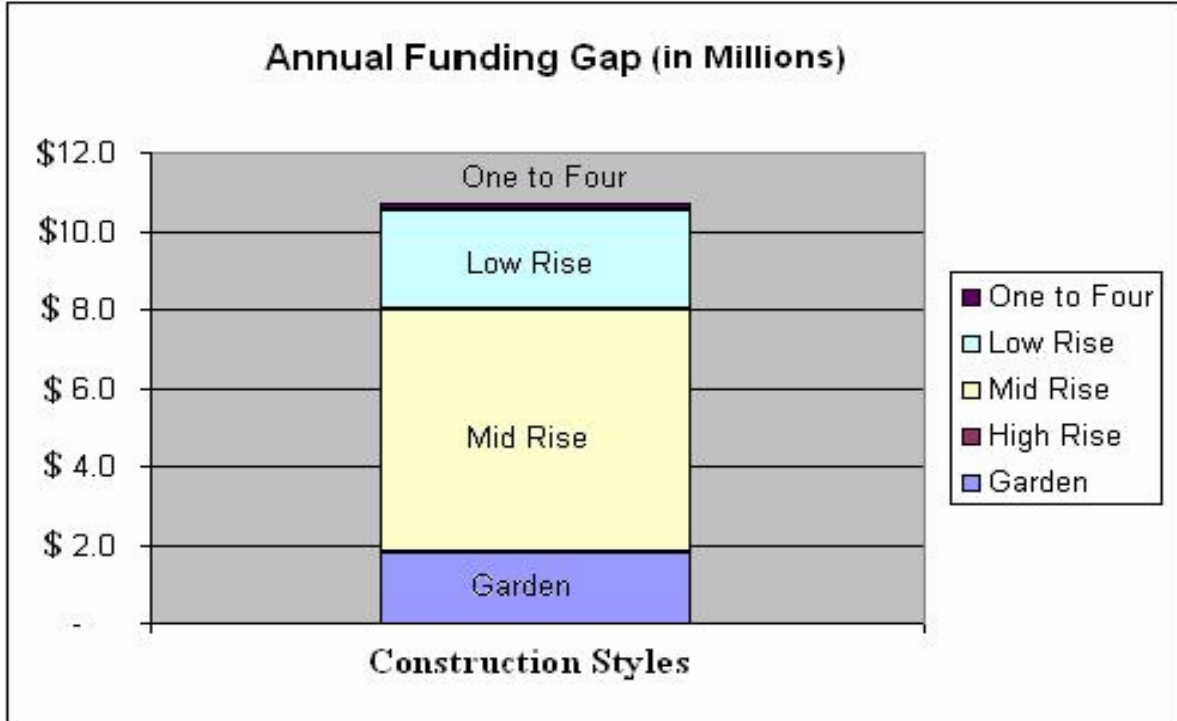
Risk Score	Converted Score	1-4 UNITS	Garden	High Rise	Mid Rise	Low Rise
5,4	3 = GOOD	\$ 9,894,416	\$ 3,466,079	\$123,221,596	\$314,995,786	\$ 64,613,,700
3,2	2 = FAIR	\$ 3,357,034	\$ 21,612,022	\$ 63,468,410	\$130,362,377	\$ 78,602,200
1	1 = POOR	\$ 706,744	\$ 9,174,915	\$ -	\$ 31,611,478	\$
TBD Data Value		\$ 18,375,344	\$ 249,761,575	\$ 71,827,664	\$166,170,068	\$ 41,081,550
	Totals:	\$ 32,333,538	\$284,014,591	\$ 58,517,670	\$ 643,139,709	\$ 174,297,450
	Grand Total:	\$1,392,302,958				

The methodology includes the following:

- Capture current construction cost by style. See page 12 – Figure I & II
- Multiplied by number of units in a particular project
- Sum each construction style category
- Sort the projects by construction category and risk score
- Add subtotals which gives the dollar amounts for each rating category
- Note: TBD Data represents projects where additional research is required in order to assess Risk

## Appendix 4 – Affordable Housing Annual Funding Gap

The chart below displays the unit counts and corresponding inflated construction costs for the 13 poorest risk rated projects (354 units).



The table below illustrates the affordable housing annual funding gap of \$10.7 million (\$10,699,196) per year or \$106.9 million (\$106,991,959) over the next 10 years.

	# of Units	7% inflation
Garden	45	\$18,048,446
High Rise	0	-
Mid Rise	226	\$62,184,561
Low Rise	79	\$25,368,679
One to Four	4	\$ 1,390,272
354 Total Units		\$106,991,959 over 10 years
		\$10,699,196 per year

The annual gap dollar of \$10.7 million represents an estimate of units that will need additional funding to sustain the existing level of affordable housing units available to the City. The \$10.7 million value is calculated using the 13 “poorest” risk rated projects with the goal of improving the projects’ risk, therefore, reducing its future need for additional funding. There are 354 units in this POOR risk pool as indicated above. The projected 2016 value is calculated using the “Most Current” construction cost (see figure I page 12) which is inflated by a 7%.

**D. CONFIDENCE LEVELS**

**i. Appendix 6a Current Replacement Value of Capital Assets:**

Since the CITY is a lender of public funds, provided to for-profit or non-profit borrowers for the development and operation of the affordable housing projects, replacement value as represented in Appendix #2 (page 11) is a reflection of the existing June 30, 2006 portfolio of 229 projects. These projects are broken out by construction style multiplied by the cost to produce the same construction style. The cost to produce is the most current construction cost/unit the Housing Finance Department has available based upon actual projects. (See page 12 Figures I and II.)

Confidence Levels are defined in the City Report. As utilized for Affordable Housing our definitions are as indicated below.

**Affordable Housing Confidence Level Definitions:**

Score	Confidence Level Definition	Notes
5	Optimal confidence	2006 construction cost used for valuation
4	High Confidence	2005 construction cost used for valuation
3	Moderate Confidence	Historic average cost used for valuation
2	Low Confidence	N/A
1	No Confidence	N/A

**Appendix 6A relates to the Confidence Level of the values reflected in Appendix #2 – Current Replacement Value of the 6/30/06 Universe of Affordable Housing Units**

AFFORDABLE HOUSING			
Construction Style	VALUE in millions	Confidence level	
Garden	\$ 284,014,591	5	2006 costs
High Rise	\$ 285,517,670	3	Historic
Mid Rise	\$ 643,139,709	4	2005 costs
Low Rise	\$ 174,297,450	3	Historic
One to Four	\$ 32,333,538	4	2005 costs
Total Capital Asset	\$1,392,302,958		

**ii. 6b Appendix Current Condition of Capital Assets**

In accordance with standard asset management practices, current condition is evaluated by a Risk calculation, where risk is categorized by Physical and Financial factors. An in depth physical inspection was not necessarily conducted. However, based on the number of units reporting and the following confidence level, indicators were established.

**Affordable Housing Confidence Level Definitions:**

Score	Confidence Level Definition	Notes
5	Optimal confidence	95% of projects reporting financial data for Risk Rating
4	High Confidence	75-94% of projects reporting financial data for Risk Rating
3	Moderate Confidence	50-74% of project reporting financial data for Risk Rating
2	Low Confidence	<50% of project reporting financial data for Risk Rating
1	No Confidence	no pool of projects reporting, no financial data for Risk Rating
		TBD percentage representing projects that need additional research in order to determine Risk Rating

**Appendix 6B relates to the Confidence Level of the values reflected in Appendix #3F – Current Condition of the 6/30/06 Universe of Affordable Housing**

AFFORDABLE HOUSING										
	RISK RATING by \$ value					confidence level	Subset of 6/30/06 – projects reporting financials		6/30/06 Portfolio	
	Good	Fair	Poor	TBD			% reporting	# projects	% in 229	# projects
Garden	1%	8%	3%	88%	100%	3	74%	29	17%	39
High Rise	48%	25%	0%	28%	100%	4	77%	10	6%	13
Mid Rise	49%	20%	5%	26%	100%	3	74%	35	21%	47
Low Rise	37%	39%	0%	24%	100%	3	56%	22	17%	39
One to Four	31%	10%	2%	57%	100%	2	34%	31	40%	91
								127		229

**iii. 6c Appendix Projected Condition of Capital Assets**

The confidence level rating reflects the combination of the Current Replacement and Current Condition of Capital Assets with emphasis on the 7% inflation factor. The selection of the inflation factor of 7% was advocated by the Advisory Committee and tested by CITY housing staff and industry experience with the portfolio. The chart below displays construction cost modeling using a range of inflation factors. The 7% factor was selected as it more closely reflects a realistic future cost.

**Affordable Housing Confidence Level Definitions:**

Score	Confidence Level Definition	Notes
5	Optimal confidence	95% of projects reporting financial data for Risk Rating
4	High Confidence	75-94% of projects reporting financial data for Risk Rating
3	Moderate Confidence	50-74% of project reporting financial data for Risk Rating
2	Low Confidence	<50% of project reporting financial data for Risk Rating
1	No Confidence	no pool of projects reporting, no financial data for Risk Rating

Confidence Level is the same as 6b plus the confidence level of the INFLATION factor of 7% utilized to project out to 2016

AFFORDABLE HOUSING								
	RISK RATING			confidence level	Subset of 6/30/06 – projects reporting financials		6/30/06 Portfolio	
	Good	Fair	Poor		% reporting	# projects	% in 229	# projects
Garden	1%	8%	3%	3	74%	29	17%	39
High Rise	48%	25%	0%	4	77%	10	6%	13
Mid Rise	49%	20%	5%	3	74%	35	21%	47
Low Rise	37%	39%	0%	3	56%	22	17%	39
One to Four	30%	10%	2%	2	34%	31	40%	91
Totals						127		229

Table below indicates the inflation factor testing conducted using the poorest rated units projected out at various inflation rates. The testing proved that the factor of 7% best reflected costs.

	# Units scoring "POOR" in subset	Projected unit cost total gap value		
		4%	7%	10%
Garden	45	\$ 13,581,115	\$ 18,048,446	\$ 23,797,367
High Rise	0	-	-	-
Mid Rise	226	\$ 46,792,709	\$ 62,184,561	\$ 81,992,032
Low Rise	79	\$ 19,089,452	\$ 25,368,679	\$ 33,449,292
One to Four	4	\$ 1,046,154	\$ 1,390,272	\$ 1,833,112
Totals:	354	\$ 80,509,431	\$ 106,991,959	\$ 141,071,802
	4%	\$ 8,050,943	\$ 10,699,196	\$ 14,107,180
		per year	per year	per year

**iv. 6d Appendix Annual Gap in Capital Maintenance**

This confidence level rating reflects the confidence in annual funding gap projection. Given the validation of construction costs inflation rate, information about construction costs by style and representative pool of 127 reporting projects this generates a high level 2016 forecast.

**Affordable Housing Confidence Level Definitions:**

Score	Confidence Level Definition	Notes
5	Optimal confidence	95% of projects reporting financial data for Risk Rating
4	High Confidence	75-94% of projects reporting financial data for Risk Rating
3	Moderate Confidence	50-74% of project reporting financial data for Risk Rating
2	Low Confidence	<50% of project reporting financial data for Risk Rating
1	No Confidence	no pool of projects reporting, no financial data for Risk Rating

**Appendix 6D relates to the Confidence Level of the values reflected in Appendix 4 – Annual Gap Funding for the 6/30/06 Universe of Affordable Housing Units**

AFFORDABLE HOUSING	# Units in 6/30/06 Universe	#units scoring "POOR" in subset	% of projects reporting	Confidence Level	Projected Unit cost @ 7% inflation
Garden	1393	45	74%	3	\$ 18,048,446
High Rise	1670	0	77%	4	\$ -
Mid Rise	4598	226	74%	3	\$ 62,184,561
Low Rise	1311	79	56%	3	\$ 25,368,679
One to Four	183	4	34%	2	\$ 1,390,272
<b>Total</b>	9155			2016 projected value	\$106,991,959
				Per Year	\$ 10,699,196

## VI. Appendix 7f: Affordable Housing Observation

### a. Asset Management Goals

#### 1. Asset Management Approach:

In February of 2002, the CITY implemented Asset Management Guidelines that were developed with the input of local housing developers. These Guidelines detail reporting requirements to be met throughout the various stages of the project. A typical process for the development of an affordable rental housing project with PDC financing includes the following:

- Application to PDC for consideration
- Reservation of Funds letter to applicant
- Commitment Letter issue to applicant
- Loan Closing
- Construction Phase – including Project Lease up
- Asset Management

PDC Asset Management works with the Borrower primarily during the last phase however, is called upon at various other stages to verify all compliance obligations are met such as Davis Bacon, Minority Women Emerging Small Business (MWESB) and Uniform Relocation Act provisions.

#### 2. Status of Asset Management:

##### Project Level:

On a project level, PDC and the local affordable housing industry have aligned with well established property management and asset management standards and practices

##### Agency Level:

PDC Asset Management has an established network of industry experts and stakeholders.

An overall Asset Management Policy along with procedures are currently being discussed between PDC, BHCD and industry partners. It is a goal to develop holistic, high-level policy guidelines for the affordable housing portfolio that aligns with City goals. Current strategic policies include:

- 60 year affordability term for ALL projects
- Production of 20,000 units by year 2011
- Construction of new projects to meet “accessibility” codes
- Construction of new project to meet “green building” standards (LEED)
- PDC/BHCD compliance to federal regulations
- Project financial stability

**b. Description of Advisory Committee**

This is the first year the Affordable Housing Industry has been incorporated and reflected in the City Asset Status and Condition Report. An Advisory Committee was formed to review and validate assumptions and methodology used by CITY staff to create the Affordable Housing section of the 2006 edition. This Advisory Committee met three times in the fall of 2006 to assist in the development of methodologies and refinement of the written report. This Committee will be utilized in future editions for the same purpose.

**c. Description of the Leveraging Effect**

Historically, the CITY's financial contribution to the projects in the affordable housing portfolio represented nearly 25% of the total project's funding. Recent restructures performed by CITY staff have required a larger amount of public subsidies to finance the project. The future leveraging effect could change over time given this indicator. In the future, project contributions could be larger, but this is difficult to forecast and therefore notes as an observation.

**d. Annual Funding Gap, Appendix 4**

While an annual funding gap number was developed as described below, it may not be the most accurate way to depict the affordable housing industry's annual need. We are working to develop more accurate ratios and communication links. The significant difference in the funding gap for the affordable housing industry is that it should reflect the potential of any one project requesting financial assistance from the City/PDC. Better financial evaluation of current projects and better communications with our borrowers should provide us more accurate insight into a project's need for financial support to assure future sustainability. PDC's Housing Policy & Planning department along with the Asset Management department are working together with other industry representative in providing this additional insight which will be incorporated into future editions of this annual report.

In developing an annual funding gap number to be incorporated and align with the various other City Bureaus we have reviewed and evaluated the Affordable Housing portfolio in the following manner.

1. **Weight of each factor** – Physical and financial risks were weighted differently. The physical condition risk was weighted at 20% compared with the financial risk weighted at 80%. As a lender, more weight was given to the financial components as reflected in the 80% factor.
2. **Physical Condition Risk** – This rating was based upon the age of the project since; new construction or last repair, remodel or rehabilitation. Staff and industry partners validated our rating since experience has shown that a project's need for additional money is a reflection of;
  - a) Of age of the building, and
  - b) Quality of rehabilitation repairs or remodels.

Experience with this portfolio has also shown that new construction projects operate and perform well until the ninth year of service when a need for repairs, remodels or rehabilitation typically occurs.

If the project was recently updated, performance is correlated with the extent of remodels, repairs or rehabilitation. Experience demonstrates that when a project receives additional funding for this purpose, equal to or greater than \$15,000 per unit, the project will function like new construction.

3. **Financial Condition Risk** – This rating was based upon standard financial ratios and whether the project is currently on or has requested a CAP within the past 2 years.
  - **Operating Expense Ratio** - This is the ratio of project expenses to project revenue. Our industry experience indicates that a ratio below 58% allows an adequate margin to sustain stable operations. An expense ratio above 70% places undue stress to the project. The Owners need to actively and aggressively review revenue and expenses to stabilize the project. This indicator strongly suggests whether the project will be needing additional funding to stabilize and remedy the situation.
  - **Debt Coverage Ratio** - The ratio equal to Net Operating Income (NOI) divided by regularly scheduled (amortized) loan payments.
  - We anticipate additional financial indicators such as Net Cash Flow and project reserves to be considered and used in future reports.
  - The PDC Housing Policy, Planning and Development section within the Housing Department is currently inventorying and make physical inspections to certain LIHTC local housing projects. This set of projects is nearly the end of their tax credit period and potentially would qualify to be preserved, meaning the need for public dollars. This effort will greatly effect our Appendix #4 in future editions.

#### **D. Confidence Levels**

Confidence levels are explained above each graphic. (See pages 16-19)

#### **VII. Definitions**

- a. **BHCD** – Bureau of Housing and Community Development
- b. **CAP** – Corrective Action Plan, a written request/Plan that the Borrower submits to PDC detailing current conditions requiring additional funding, temporary deferral of amortized loan payments or actual debt restructure. The Borrower makes a recommended solution for PDC Housing Finance underwriters to consider. See Guidelines for further details
- c. **CITY** – A defined term referring collectively to PDC, BHCD or both agencies.
- d. **DCR** - Debt Coverage Ratio as defined in the HDF Financial Product Manual Chapter 2, page 3 January 2005
- e. **Guidelines** - Borrower’s Asset Management Guidelines, a manual detailing reporting and evaluation for regulatory compliance and project financial performance.
- f. **HDF** - Housing Development Finance Section within the Housing Department - PDC
- g. **MFI** - Median Family Income

- h. **PDC** - Portland Development Commission
- i. **PDC Housing Financial Projects Manual** – A manual published by PDC detailing financial products, programs available to borrowers.
- j. **Universe of Affordable Projects** - A snapshot of regulated projects and units as of June 30, 2006. This snapshot represents the number of projects and units being reported for the December 2006 Asset Status and Condition Report
- k. **Regulated** - A project that has received public funds and issued
  - i. a PDC loan
  - ii. a PDC Regulatory Agreement restricting the project and units to a specific MFI level
- l. **TBD Data** – (as used in **Appendix 3f**) the dollar value, percentage or count indicating that current financial data is insufficient to determine financial condition – RISK.