



City of Portland

Commissioner Carmen Rubio

Portland Housing Bureau Director Helmi A. Hisserich

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Simone Rede
City of Portland Auditor
1221 SW 4th Ave, Room 310
Portland, OR 97204

RE: Audit of the Inclusionary Housing Program

Dear Auditor Rede,

Thank you for the opportunity to share feedback on the Inclusionary Housing (IH) audit, which provides analysis of the first iteration of Portland's Inclusionary Housing program. When it was first passed by City Council in 2016, a commitment was made to evaluate the program after several years of implementation. Changes were recently adopted in January of this year. Even though the program has changed, Commissioner Rubio and the Portland Housing Bureau (PHB) recognize the great effort the Auditor's office has put towards this audit over the last several years.

The original IH program has successfully resulted in the development of 1,100 new units in market rate buildings affordable to households earning no more than 80% of area median income (AMI), with more than half of them restricted at 60% AMI. The audit acknowledges that the majority of the IH projects have been created in High Opportunity Areas where the inclusion of new affordable units is vital for the advancement of economic benefits to lower income households. The audit also acknowledges the implementation of the IH permit review process, tracking of permit data, and restricting properties with appropriate covenants to ensure compliance has been done successfully. The audit highlights the importance of ensuring long-term compliance with the affordability restrictions over 99 years, as well as the need to better assist owners and property managers with their annual reporting and to protect tenants within the IH buildings. Furthermore, the audit clarifies that additional funding is needed for PHB to provide the market-rate developers with more educational information and support.

Commissioner Rubio and PHB have provided feedback on the audit recommendations below.

Audit Recommendations

To help the public and Program stakeholders understand the purpose and limitations of the Program, and help Bureau managers assess progress and where adjustments are needed, the Housing Bureau should:

1. Improve Program goals so they are specific to the Program, attainable based on who the Program is designed to serve, and measurable. Goals should be informed by Portland's housing needs and analysis of Program outcomes.

Response: The IH goals at rollout of the program centered around how IH is part of the necessary housing continuum to meet the housing needs of Portlanders outlined in the 2035 Comprehensive Plan. PHB updated the IH goals in recent code changes after the IH Calibration Study so that they are more specific to current desired program outcomes:

A. Purpose statement. The purpose of the Inclusionary Housing (“IH”) program is to:

- 1. Establish an IH program structured to support the production of units affordable to households’ earning 80 percent of the median family income (“MFI”), with an emphasis on households earning 60 percent MFI or less,*
- 2. Structure the IH program to provide a variety of compliance options with an emphasis on mixed-income buildings in high opportunity areas.*
- 3. Provide IH program options and requirements to support the production of a variety of affordable unit types regarding unit size and bedroom count.*
- 4. Ensure IH units are equivalent to market rate units regarding in-unit amenities and are distributed throughout the building with access to all building amenities.*
- 5. Allocate IH program fee-in-lieu, fees, and charges, collected and paid into the inclusionary housing fund for housing opportunities affordable to households earning 80 percent MFI or less, with an emphasis on households earning 60 percent MFI or less.*

Although PHB more specifically seeks to serve the most vulnerable populations in Portland, including those earning 0-60% AMI, the IH program is ill-suited to provide deeply affordable housing. PHB focuses its direct funding programs on lower-income households developed in partnership with non-profit sponsors whose mission it is to serve lower income households, including those from Communities of Color. Through those relationships, these projects include wrap around services and other resources to help ensure households are successful in their housing. These services are not part of market-rate housing programming, making it infeasible to pursue lower income thresholds for the IH program.

The IH Calibration Study confirmed that most developments in Portland do need the development incentives provided through IH, such as tax exemptions, to offset the impact of reduced rents, particularly in High Opportunity Areas where most of the new housing has been built since IH went into effect.

To ensure the Program serves the intended population, helps address Portland’s affordable housing needs, and reduces compliance issues, the Housing Bureau should:

2. Determine and document if the following would advance City goals:
 - Requiring or further incentivizing the development of affordable units with two or more bedrooms; and
 - Implementing Program controls to help ensure there is at least one household member per bedroom.

These assessments should be informed by Portland’s affordable housing needs, Fair Housing Law, and consultation with the City Attorney’s Office, and should inform future affordable housing development strategies.

Response: The recent Housing Needs Analysis conducted by the Bureau of Planning and Sustainability in partnership with PHB and other City agencies reflects that 44% of Portland

households are lower income, earning no more than 80% AMI. The HNA identifies a need for more affordable housing and family-sized units. IH is an important tool for Portland to address its housing needs. Market-rate housing, with or without IH, is produced based on market demands and what is most profitable to developers and their investors, which is generally studio or one-bedroom units because they can charge a larger amount per square foot. Therefore, the units built under IH will reflect what the market is providing. The IH program does offer an incentive to developers to provide family-sized bedrooms (or two or more bedrooms) through the reconfiguration option, which allows developers to provide fewer units under the program as long as they are family-sized. This existing program incentive structure is working well in the Central City, where a full tax exemption is provided for buildings with IH units onsite, and developers have opted to use the reconfiguration option in all of the projects built to date and in process. PHB cannot require that developers lease units to a certain household size without potentially violating Fair Housing laws.

3. Develop methods and guidance for property owners to help ensure that marketing is effective and fair. Approaches to consider include:
 - Sharing information with affordable housing providers, community-based organizations, and 311 about buildings with Inclusionary Housing;
 - Improving the Bureau's online information about buildings with Inclusionary Housing and affordable rental options;
 - Providing tools and training to property owners and managers on marketing affordable units to groups who may be eligible;
 - Monitoring Inclusionary Housing unit vacancies regularly to identify buildings that need support;
 - Making marketing and leasing Housing Bureau responsibilities.

Response: PHB currently works closely with affordable housing providers, community-based organizations, and other City departments on the IH program and buildings with IH units. The bureau maintains an interactive map that displays properties under construction and open with IH units. The map provides property location, status (under construction or open), the total number of units, the number of IH units, and the building's overall unit mix. PHB acknowledges that there is additional opportunity to share information and is actively exploring new software that will allow property owners and managers to list IH units under construction and currently for rent. While the Housing Bureau encourages and requires property managers and owners to use available tools and resources to market and lease affordable housing units, marketing and leasing is ultimately a property owner responsibility.

4. Improve compliance monitoring so that problems can be timely identified and addressed; and improve education and support for property owners and managers. Approaches should account for building management changes and may include:
 - Directly and regularly providing property owners and managers clear information and resources about how to carry-out their responsibilities. For new buildings, this should happen before leasing has begun.
 - Regularly meeting with property owners and managers.
 - Providing regular training for property owners and managers.
 - Improving Program controls so the Bureau timely learns of management changes and can share Program information with new managers.
 - Structuring the Inclusionary Housing website so different stakeholder groups can easily find the information they need.
 - Performing compliance activities like income certification in-house.

Response: When the IH program was created, no additional funding allocation or fee collection mechanism was created for PHB to cover the cost of the necessary administration and on-going compliance work. Despite that funding shortage, PHB has recently been making several changes to address the issues outlined above. At the onset of the program, PHB dedicated 0.5 FTE to IH program compliance. Workloads have recently been adjusted to increase IH program compliance to 1 FTE. This increased FTE will allow for staff to learn of management and ownership changes in a timelier manner, allowing staff to identify and address issues promptly. Additionally, compliance staff regularly meets with property owners and managers to ensure an understanding of program and compliance requirements. PHB is also in the process of reconfiguring the compliance website to increase ease and accessibility to forms, documents, guidance, and training videos. Expanding on PHB's involvement with leasing activity of the Inclusionary Housing units would require significant additional resources. PHB is focused on effective implementation of the program during permitting, ensuring that sufficient legal documents are recorded to support long-term affordability, and working with owners and property managers to monitor and keep properties in compliance.



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