



Oregon
Theodore R. Kulongoski, Governor



Housing and Community Services

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December 8, 2010

To: Partners of Oregon Housing and Community Services

From: Victor Merced, Director 

Re: Ongoing efforts to stabilize OHCS finances / Increases to various housing-related charges

During the past year, Oregon Housing and Community Services has examined the long-term sustainability of its operations.

Our goal is to ensure we can cover the costs associated with our housing finance activities. Toward that end, we now propose a set of increased and new charges to bring our revenue in line with our costs.

We want your feedback

We invite you to provide your thoughts about these proposed charges. We also welcome any alternative suggestions about how to keep OHCS operations sustainable so we can continue to provide affordable housing opportunities across Oregon.

Background on the OHCS budget

OHCS is different from many state agencies in that it does not rely heavily upon the state's General Fund. Because General Fund comprises only a small percentage of the department's budget, the department must not only manage its expenses, but must also plan for appropriate revenues to sustain its operations.

Over this past year, OHCS has studied its short- and long-term revenue position. An internal revenue workgroup evaluated costs for each OHCS program area and compared these costs to existing revenue. OHCS also held a number of budget workgroup meetings with partners to explain the department's revenue and expenditures and to solicit ideas for financial stability.

The proposed charges reflect the work of these internal and partner workgroups. These adjustments do not represent all OHCS efforts to achieve greater financial stability. They are one element of an overall department effort.

OHCS Expenditures

OHCS has worked to improve operations and reduce departmental costs. We have reduced staff over the past few biennia:

- 2005-07 eliminated four vacant positions and implemented a number of administrative reductions.

- 2007-09 reduced the OHCS workforce by 10 percent (seven) positions
- 2009-11 reduced workforce by 11 percent (16 positions), with additional reductions in services and supplies and capital outlay.
- Ongoing: The department continues to hold off on filling vacant positions and combines the duties of other positions to keep expenses down, where appropriate.

In total, the number of core positions (positions relating to the ongoing programs of the department not including ARRA or Hardest Hit programs) have fallen from 148 in 2003-05 to 126 today.

Limited Ability to Control Costs

Despite efforts to contain costs, OHCS expenditures continue to rise for a number of reasons. Wages and benefits are negotiated at the state level. Although furlough days and salary freezes have slowed expenditures, the cost of health insurance and retirement has grown steadily. Other costs include the rent and operation of office buildings, state data center charges, legal costs, and the continuing cost of maintaining our loan portfolio. The department is experiencing increased delinquencies and foreclosures on our portfolio loans, bringing accompanying expenses and lost revenue. This reduces the amount from our loan programs that can subsidize other OHCS programs.

OHCS Revenue

OHCS revenues come from a variety of sources as shown in the table below:

Available Revenue	2009-11 Legislatively Approved Budget*	% of Total Revenue
General Fund	\$10,312,467	0.43%
Lottery Funds	\$8,949,212	0.37%
Federal Funds	\$387,002,340	16.20%
Other Funds	\$1,982,833,412	83.00%
Total Revenue	\$2,389,097,431	100.00%

Less than 1 percent of the 2009-11 department's budget is from General Fund and Lottery Funds. The downturn in Oregon's economy has slowed General Fund and Lottery revenue resulting in reductions across state government.

Federal funds make up only 16 percent of available revenue. Federal funds cannot support general department operations. Unfortunately, these programs often do not provide enough

money for implementation and administration. They often require a state match. Most federal program funds have remained flat in recent years. The exception has been new funding for stimulus programs and foreclosure prevention programs.

Other Funds comprise the majority of OHCS revenue (83 percent) and include:

- Revenue from public utility fees (public purpose charges)
- Revenue from revenue bonds
- Revenue from loan repayments
- Revenue from the document recording fee
- Revenue from charges and fees

Most of the Other Funds revenue is dedicated for specific purposes. For example, while bond and loan revenue can support OHCS operations, the funds must first pay the department's bond and loan obligations. Public purpose charges support weatherization programs and the Housing Trust Fund. Document recording fee revenue supports various housing programs.

Multi-Family Housing Programs

OHCS will reduce expenditures or raise revenue, as appropriate, for program areas within the department to achieve financial stability for the current biennium and for future years.

The department has made a number of changes to improve the efficiency and effectiveness of its housing programs. OHCS has worked with partners on improving the Consolidated Funding Cycle. OHCS is working with other agencies on streamlining the required compliance monitoring on projects to reduce costs.

While these efforts have been successful, our latest estimate shows 2011-13 OHCS Multi-Family housing programs are not fully self-sufficient.

2011-13 Projections			
Multi-Family Housing	Revenues	Expenditures	Difference
Development	\$8,226,646	\$8,521,675	(\$295,029)
Monitoring	\$9,246,301	\$9,699,969	(\$453,668)
Total	\$17,472,947	\$18,221,644	(\$748,697)

The charge adjustments proposed at this time will not fully cover the projected difference between revenue and expenditures for Multi-Family Housing programs in 2011-13. Additional expenditure reductions or charge adjustments will be needed for these programs to become financially self-sustaining for 2011-13 and beyond. The proposed charges will, however, begin to better address some of the costs in certain areas.

Adjustments to Multi-Family Charges

Multi-Family Housing charge adjustments were determined after analysis and review by the OHCS revenue work group, finance staff, Executive Team and represent the first adjustments needed to cover costs of Multi-Family Housing programs.

OHCS has not yet finalized and the Housing Council has not yet approved all of these charges. The implementation dates reflect the respective notification requirements associated with the various charges.

Proposed OHCS Multi-Family Housing Charges

		Current Charge	Proposed Charge Adjustment	Estimated New Revenue	Effective Date
Grants, Tax Credits and Loan Programs					
1	CFC application charge	The lesser of \$25 per unit or .5% of the total funds requested. Minimum charge is \$100.	<\$300k=\$750 >\$300k=\$1,500 LIHTC=\$2,000	\$115,000	2011 CFC
2	Farmworker Housing Tax Credit application fee	New	<\$100k credits = \$200 >\$100k credits = \$500	\$10,000	2011
3	Charges for Construction Analyst	New	\$2,200 per project	\$170,000	2011 CFC
Asset Management and Compliance					
4	Risk Sharing 4% monitoring charge	\$35 / unit / yr.	\$45 / unit / yr.	\$41,000	2011
5	Charge for late submission of Asset and Property Management monitoring charges	New	\$5 per unit after specified deadlines	\$18,110	2011
6	Charge for late submittal of Certification of Continuing Compliance	New	\$5 per unit after specified deadlines	\$44,355	2011-12
7	Charges for restructuring of debt / changes to agreements	New	Dependent on time involved	\$11,000	2011
Total Revenue from Adjusted and New Charges				\$413,785	

Implementation

OHCS proposes the following timeline for the review, approval and implementation of the charges:

- December 2010 – receive input / consideration from partners and bond counsel and make changes to the proposed charges, if needed. Also, consider other suggestions offered for covering Multi-Family Housing program costs.
- December 2010 – present proposed charges to the Oregon Housing Council (educational)
- January 2011 – follow up presentation of proposed charges to the Oregon Housing Council (present for approval)
- Mid-2011 – institute process mapping and streamlining of Multi-Family Housing processes and conduct comprehensive review of the department's revenues and expenditures
- Fall 2011 (and each fall thereafter) after discussion with partners, propose adjustments to charges, if appropriate

Providing input to OHCS

OHCS values your perspective. Your suggestions will be helpful as we try to consider the best ways of covering costs while still fulfilling our mission to provide safe, affordable housing throughout Oregon.

Please provide your comments by January 10, 2011 to: John Fletcher,
John.Fletcher@hcs.state.or.us

Description of proposed charges for 2011 implementation

Grants, Tax Credits and Loan Programs

1. Consolidated Funding Cycle (CFC) application charge – If approved, this new CFC application charge structure will replace the existing CFC application charges beginning with the 2011 CFC. This is an allowable project expense.

Charge	Amount of request
\$750	Less than \$300,000 in total request for grants, loans and Oregon Affordable Housing Tax Credit loan amount.
\$1,500	Greater than \$300,000 in total request for grants, loans and Oregon Affordable Housing Tax Credit loan amount.
\$2,000	For all Low Income Housing Tax Credit requests with or without additional OHCS resources.

2. Farmworker Housing application charge – If this new charge is approved, \$200 will be charged on Farmworker Housing applications submitted requesting up to \$100,000 in credits. \$500 will be charged for requests of credits over \$100,000.
3. Charges for construction inspector – If approved, a new \$2,200 charge will apply to all projects receiving OHCS financing / resources. The charge will support a construction inspector to review all construction reports to ensure that projects are being constructed to a 30 year standard. The position will review and approve scope of work of the projects; perform site inspections to ensure contractors' compliance with plans, specifications, and funding requirements; and conduct final inspections prior to finalization of permanent financing of the projects. This is an allowable project expense.

Asset Management and compliance

4. Risk sharing 4 percent monitoring charge - Currently the charge is \$35 per unit per year for projects receiving percent credits. In 2006, approval was given to increase the charge to \$45 per unit per year, however, the increase was not implemented due to market conditions. While market conditions are still difficult, original financing assumed inflation factors for these charges that have not been implemented. It is proposed that the increase to \$45 per unit per year will be applicable to all current risk share projects beginning with the November 2011 billing cycle for the 2012 monitoring year.
5. Charge for late submission of Asset and Property Management monitoring charges – OHCS will assess owners a \$5 per unit charge if they do not submit Asset and Property Management monitoring fees on time. For this next year, owners will be required to submit asset and property monitoring fees to OHCS by the January 31st, 2012. (OHCS is also considering incentives for early payment of these monitoring charges, as well as extra penalties when payments are extremely late.)

6. Charge for late submittal of Certification of Continuing Compliance – If this new charge is approved, \$5 per unit would be charged to those who do not meet specified timelines for submitting certification of continuing program compliance. Submissions are due by April 15 of each year. No grace period will be allowed. If this charge is approved in 2010 or January 2011, the charge will apply to submittal of 2011 certifications.

7. Charges for restructuring of debt / changes to agreements – If this new charge is approved, various charges will apply for restructuring or changes to the department loan agreements. Charges may not apply for minor changes, but a charge of \$40 per hour plus Department of Justice charges may apply when OHCS incurs work of a more substantial nature (such as restructuring of subordinate debt, approval of junior financing, incurring new obligations on the part of the project, partnership fees, approval of easements, division of trusts, insurance deductibles and other structural changes). These charges will take effect upon approval of these charges.