

## AGENDA ITEM NO. 4 – PREDEVELOPMENT TECHNICAL ASSISTANCE

Attachments:

- 4.1 R3 Programs and Services
- 4.2 R3 Eligible Communities
- 4.3 Readiness Technical Assistance Task Order
- 4.4 Home Design Technical Assistance Task Order

### Background

In September, we discussed, and the Board approved, a list of four program areas and 10 services that R3 would provide. We also developed a notional distribution of funding for these programs. These programs, services, and fund distribution are enclosed (4.1) for reference.

There are 229 cities eligible for funding under the \$10M state appropriation in HB3410. These are cities with an urban growth area of 50,000 or less.

I have enclosed a spreadsheet (4.2) with the complete list of eligible communities, along with additional metrics such as their zip code, county, designation (urban, rural, or frontier), OHSU and Business Oregon service area, population demographics, and socioeconomic category (distressed, non-distressed).

This agenda item also addresses the Predevelopment Technical Assistance program area and includes four potential task orders, one for each service we will provide. These TA services can be available to each of the eligible cities as one way to meet the intent of the legislation to make R3 resources available statewide.

The board should also be aware that Governor Kotek has requested \$500M in Legislative Concept 19. LC19 is designed to provide many of the tools identified by stakeholders and partners for their housing needs. Details on the current draft budget by program/fund are below.

If approved, this legislative package is 50x larger than R3's investment and would provide a direct investment source for many of the R3 eligible communities that can leverage our technical assistance if needed but can apply to the State for their implementation funding under this new housing package.

LC19 Component	Estimates
HAPO, DLCD, BCD, OHCS, BizO, ODOE program/fund implementation and admin and HAPO technical assistance grants, mediation services, state coordination, studies, ready build plans, model codes	\$ 25,000,000
Site acquisition	\$ 40,000,000
Site mitigation and readiness	\$ 10,000,000
Site specific infrastructure	\$ 200,000,000
Moderate income financing	\$ 200,000,000
Climate friendly housing programs ( <i>electrification, energy efficiency, pollution reduction, solar, etc.</i> )	\$ 20,000,000
Local infrastructure planning capacity and support	\$ 5,000,000
<b>Total</b>	<b>\$ 500,000,000</b>

## Discussion on Eligible Communities, Housing Needs, and Priorities

The enclosed spreadsheet can be filtered on each category to identify subsets of communities that R3 can potentially work with.

For example, filtering on:

- **Designation** and selecting only rural-frontier communities results in a subset of 193 eligible cities and removes the 36 urban communities.
- **Growth Status** and selecting “Declining” and “Stagnant” identifies 104 eligible cities that are in population decline or stagnation.
- **Distressed Place 2023** and selected “Distressed” identifies 168 eligible cities.

### What criteria are used to determine which communities qualify for direct investment?

We discussed in our last meeting focusing our direct investment on small rural and frontier cities whose housing needs are greatest. This can be reflected in the low number of residential permits issued for new home construction (a direct indicator of low housing production). It can also be indirectly referred to through proxy indicators like population stagnation, decline, and socioeconomic distress, which one would not expect to see in healthy and growing communities.

Using this approach and selecting frontier, socioeconomically distressed communities between 1,000 and 10,000 people in size that are declining in population results in the following list of seven communities, which I would like to recommend as the Board’s top tier or Priority 1 communities for direct investment. They cover the state’s eastern half and are listed and shown on the map below (Figure 1).

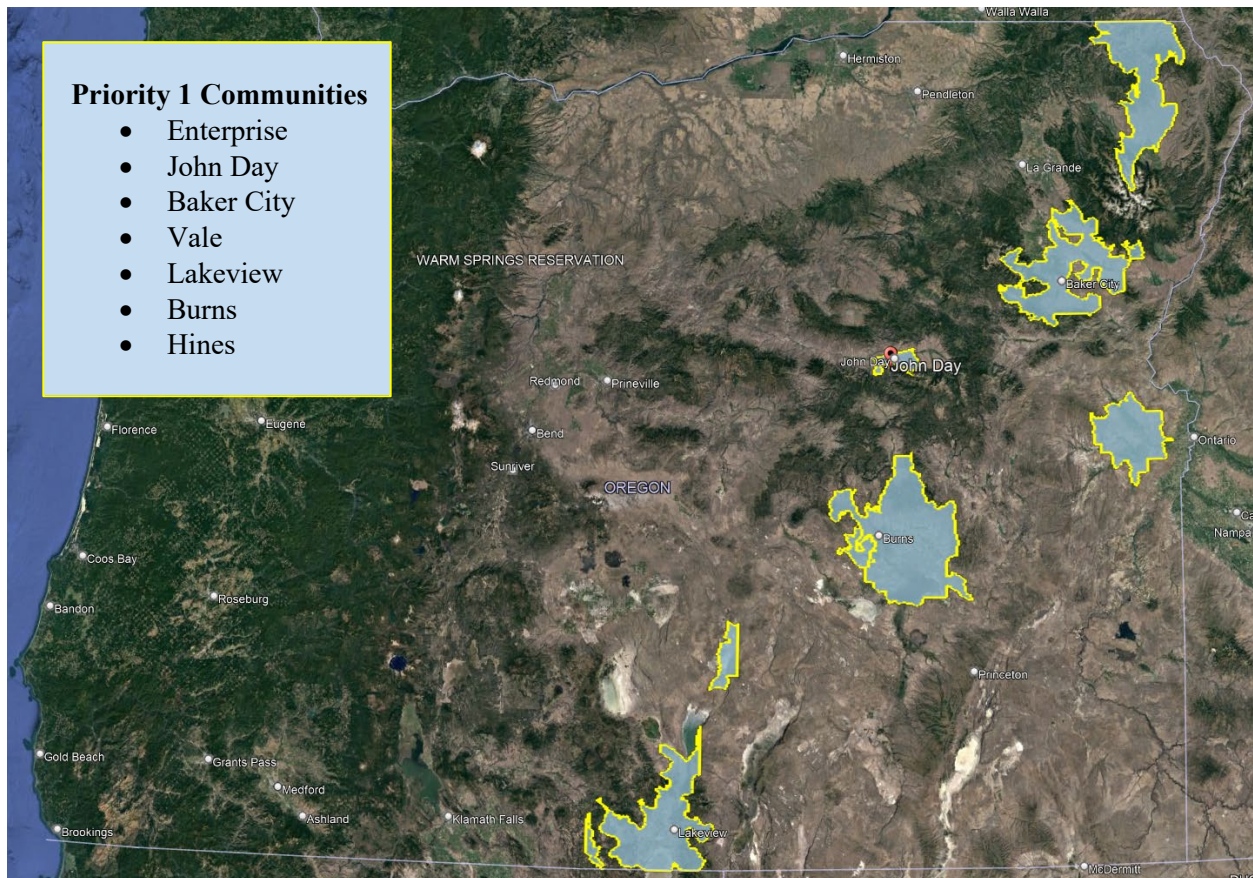


Figure 1. Priority 1 Cities

Following the same approach and moving from “Frontier” to “Rural” would open up another 24 cities for Priority 2, which could be direct investment or technical assistance cities (Figure 2).

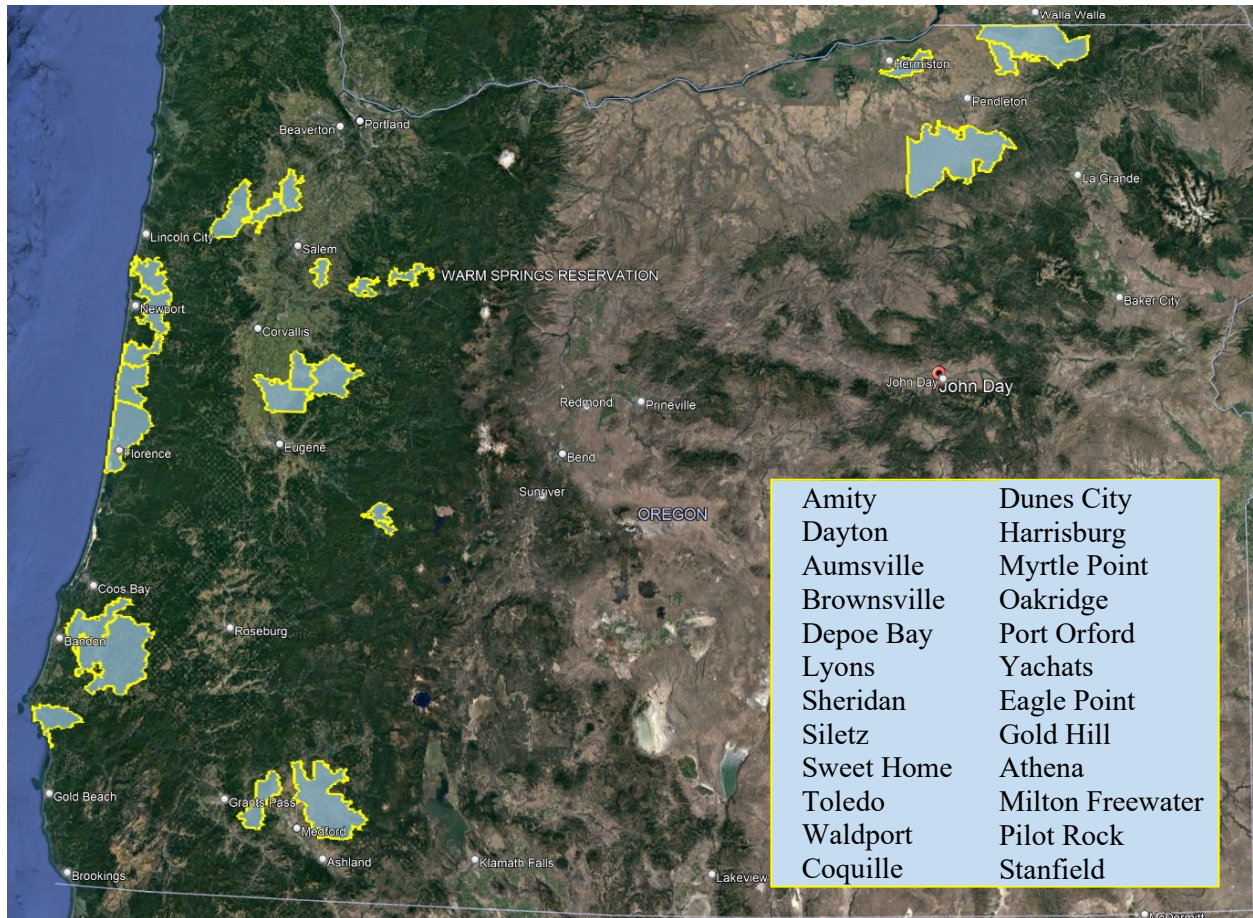


Figure 2. Priority 2 Cities

Some factors or questions the board may wish to consider with regard to this approach are:

- What factors contribute to the population decline in these socioeconomically distressed communities that R3 can address?
- How can direct investment in Priority 1 communities be used to stimulate economic growth?
- Are these reasonable and defensible criteria to determine which communities qualify for direct investment?
- What are the potential benefits and drawbacks of investing in small, declining communities?
- How can R3 work with local government officials and community leaders to ensure that R3’s investment in their communities is used effectively and equitably?

To help the board answer these questions, consider the results of the 2021 [Regional Housing Needs Analysis](#) and [Technical Report](#) conducted by ECONorthwest (a Catalyst subcontractor to R3).

They identified the housing need for each city in the State. Within our Tier 1 cities, that need is 918 new homes. Expanding to include Tier 2 cities, the need grows to over 7,380 new homes.

If R3 makes a net investment of **\$20,000 per dwelling unit** on average, we will be able to incentivize **450 homes** with \$9M in investment allocated for new home construction – roughly meeting half the need of our Priority 1 cities and only six percent of the need for our Priority 1 and 2 cities, combined.

This is why the Governor is recommending \$500M in new investment in housing. The need is far greater than our current resources can address, even for Oregon’s smallest and most distressed communities.

### **Discussion on Technical Assistance Task Orders**

The Board allocated ten percent of our funding (\$1,000,000) toward Predevelopment Technical Assistance activities. These services will be provided statewide to cities under 50,000 people, focusing on cities of 10,000 or less, of which there are 185 eligible cities.

This TA work has two specific tasks totaling \$565,000 (56% of our TA budget).

- |                                 |                       |
|---------------------------------|-----------------------|
| 1. Readiness Assistance (4.3)   | Est. cost = \$340,000 |
| 2. Home Design Assistance (4.4) | Est. cost = \$235,000 |

Draft task orders have been developed, one for each service, with a detailed scope of work and estimated cost from the sub-consultants and vendors we discussed during the November meeting.

This allocation would allow us to provide technical assistance statewide while reserving \$435,000 in funding for additional technical assistance or direct investment where the need is greatest.

### **Recommendation**

Please review each task order and this overall approach and come prepared to discuss changes you would like to make for each one and the prioritization schema presented for prioritizing our services.

## **AGENDA ITEM NO. 5 – DIRECT INVESTMENT**

Attachments:

- 5.1 Sample Project Sheets

### **Background**

The bulk of our funding (\$7.5 million or 75%) is reserved for direct investment in housing, infrastructure, and community development projects that support housing.

Each party identified an initial set of projects they would like funded.

This item will introduce the terms sheets format we recommend the board use for each project and the financial proformas and criteria to evaluate each project.

I recommend a simple rubric with three categories for evaluation. They are:

- 1) **Quality** of the team;
- 2) **Project Financial Structure** and terms for the agreement; and
- 3) **Net Benefit** of the project to each community.

### **Discussion**

The quality of the team refers to the ability of the project sponsor(s) to do what they say they will do.

Here are some factors that can address the **Quality** criterion.

1. **Experience:** Does the team have experience in building similar types of housing? Have they completed similar projects before? Do they have experience working in the local area?
2. **Expertise:** Does the team have the necessary expertise in areas such as architecture, engineering, construction, and project management? Do they have the necessary certifications and licenses?
3. **Resources:** Does the team have access to the necessary resources, including funding, equipment, and materials? Do they have a network of reliable suppliers and contractors?
4. **Reputation:** What is the team's reputation in the industry or community? Have they received positive reviews from previous clients or partners? Do they have a track record of delivering high-quality projects on time and within budget?
5. **Sustainability:** Does the team prioritize sustainability in their building practices? Do they have experience incorporating sustainable features into their projects?

Overall, a team's qualifications for building new housing should demonstrate their ability to deliver a high-quality, sustainable project on time and within budget.

The **Project Financial Structure** will be developed internally and evaluated by R3's contract staff and legal team.

Here are some criterion we'll use to evaluate the project financials.

## **1. Project Financial Feasibility:**

- Project Budget and Cost Projections:
  - Detailed breakdown of development costs including land acquisition, construction, marketing, and financing
  - Realistic assumptions for construction costs, sales prices, and absorption rates
  - Contingency plans to address unforeseen risks and cost overruns
- Financial Projections:
  - Pro forma financial statements including income statement, cash flow statement, and balance sheet
  - Projections for revenue, expenses, profitability, and return on investment
  - Sensitivity analysis to assess the impact of changes in key variables

## **2. Debt and Equity Structure:**

- Debt Financing:
  - Sources and terms of debt financing
  - Interest rates, repayment schedules, and risk of default
  - Availability of construction financing and permanent financing
- Equity Financing:
  - Sources of equity investment
  - Investor qualifications and experience
  - Equity split and ownership structure

## **3. Risk Management and Mitigation Strategies:**

- Identification and Assessment of Project Risks:
  - Potential risks related to market conditions, construction delays, cost overruns, and regulatory changes
  - Likelihood and impact of each risk
- Mitigation Strategies:
  - Measures to reduce the likelihood and impact of identified risks
  - Contingency plans to address unforeseen challenges
  - Insurance coverage for key risks

## **4. Financial Reporting and Transparency:**

- Regular Financial Reporting:
  - Timely and accurate reports on project progress, finances, and sales activity
  - Transparency and communication with all stakeholders
- Independent Audits and Reviews:
  - Annual independent audits of financial statements
  - Periodic reviews by qualified professionals to assess project performance and financial viability

## **5. Additional Considerations:**

- Exit Strategy:
  - Developer's plan for exiting the project upon completion
  - Options for sale, buy-out, or ongoing ownership and management
- Sustainability:
  - Incorporation of green building practices and technologies
  - Environmental impact assessment and mitigation strategies
- Innovation:
  - Use of innovative construction methods, technologies, and designs

- Potential for replicating the project model in other communities

The **Net Benefit** to each community is subjective and would require input from the sponsoring city. In general terms, we could consider alignment with public objectives in terms of the net community benefits and/or public participation in the process.

**1. Alignment with Public Objectives:**

- Community Benefits:
  - Project's contribution to affordable housing, job creation, and economic development
  - Compliance with local zoning regulations and community planning objectives
- Public Participation Process:
  - Opportunities for public input and feedback throughout the development process
  - Transparency in decision-making and project implementation

**2. Other Benefit Considerations (TBD)**

**Weighting and Scoring:**

Each evaluation criterion could be assigned a weight based on its relative importance to the overall project goals and objectives. Scores could then be assigned to each developer proposal based on the criteria and weights to identify the best option.

It is important to note that this is a general framework and the specific criteria and weighting may vary depending on the specific project, local regulations, and stakeholder priorities. We can involve relevant stakeholders, such as government officials, community members, and outside financial experts, in the evaluation process to ensure a comprehensive and balanced assessment.

**Recommendation**

Please review the terms sheets, financials, and decision criteria and come prepared to discuss.

## **AGENDA ITEM NO. 6 – IMPLEMENTATION SUPPORT**

Attachment(s)

- None

### **Background**

Implementation support begins once the Board has selected projects for funding. It comprises three main activities or services: Disposition and Development Agreements (DDA); Project and Construction Management; and Asset Management.

### **Disposition and Development Agreements**

We will develop the funding agreement for each project as a disposition and development agreement (DDA) specifying the roles and responsibilities, schedule, funding, and other milestones and deal terms. This agreement is essentially a contract between multiple parties – R3, the project sponsor, and the project beneficiary. In some cases, the sponsor and beneficiary will be the same. For example, infrastructure development on public lands or in public rights of way leading up to a development will ultimately be owned and operated by a municipal jurisdiction. Sometimes, the funding agreement may be directly with a land developer, referred to as privately engineered public improvement (PEPI) projects.

We will work with R3's attorney to develop the template agreement and use that template for all projects.

The basic process for the implementation of a DDA is outlined below.

1. Project presented with Terms Sheet to board;
2. Board reviews and makes recommendations/changes to terms;
3. Terms sheet declined or approved by board in a public meeting (**first official action**);

If the project is recommended for funding, then:

1. DDA is drafted and circulated to board and parties to the agreement
2. DDA reviewed and approved by parties/beneficiaries (**second official action**);
3. Agreement summary filed and recorded with the county clerk where the project takes place; and
4. Funds transferred per the terms of the agreement.

### **Project Management & Construction Management**

As an activist investor, we aren't just funding a project. We may need to be actively involved in each step of its development, from concept to permits through construction and lease-up. Our team needs to be engaged so we can identify lessons learned, identify opportunities to increase efficiency and identify problems before they become serious. We also need to monitor the projects to ensure milestones are being reached and inform the Board of their progress.

### **Asset Management**

At times, our ideal exit strategy from a project won't work. We can anticipate the market outcomes and aim for the one we want, but we can't guarantee that a project will sell at our expected price or timeline. Some assets will need to be actively managed until they can be liquidated.



## **AGENDA ITEM NO. 7 – ADMINISTRATION & STRATEGIC RESERVES**

Attachment(s)

- None

### **Background**

Our reserve fund of approximately \$1 million is strategic in nature. It can be used for internal overhead and administrative costs. It can also be used for gap financing through short-term loans (less than five years) or grants to round out projects in need.

By nature, we're reserving these funds for unexpected contingencies. They will also generate revenue because we will invest them in interest-bearing accounts, and the interest can further augment our programs and services.

## **AGENDA ITEM NO. 8 – GENERAL DISCUSSION OF PRIOR TOPICS**

### Attachment(s)

- 8.0 Summary of R3 Invoices and IGAs
- 8.1 Beery Elsner Hammond Invoices
- 8.2 Catalyst Invoices to City of Burns (pre-agreement)
- 8.3 Catalyst Invoices to City of Burns (post-agreement)
- 8.4 At-large Applications – Bill Van Vliet and Kim Rollins
- 8.5 Solutions CPAs proposal for accounting services

### **Discussion Topics**

1. **Invoices.** I've enclosed background information and a summary of the invoices for the board to review per your request at the November board meeting.
2. **DAS Grant Agreement.** Representative Owens is inquiring with the House Speaker about the timing of the release of funds for HB3410.
3. **At-Large Applications.** No new applications were submitted this month. Mr. Kim Rollins's application submitted at the November board meeting is enclosed, along with Bill Van Vliet's from August.
4. **Biannual RFQs.** Only one proposal has been received for accounting services and none for the auditing. The proposal is from Solutions CPAs is enclosed.
5. **.GOV Domain.** On-hold until grant funds received from DAS.
6. **Budget Committee Process for FY25 Budget.** We'll discuss the budget committee process, which will begin next month.
7. **LGIP Account Authorization.** We need the board to authorize us to apply for a Local Government Investment Pool (LGIP) Account with the Treasury Department to receive the funds transferred from DAS into the LGIP account. Please make the following motion so it is reflected in the minutes.

"I move to authorize the Board Chair (Heather Smith) and Director (Nick Green) to apply for an LGIP account with the Department of Treasury on behalf of the Regional Rural Revitalization (R3) Strategies Consortium board of directors."

## **AGENDA ITEM NO. 9 – BOARD COMMENTS & UPCOMING MEETINGS**

Attachment(s)

- None

### **Background**

Board members may discuss topics of their choosing or suggest future agenda items.

### **Upcoming Meetings**

The Board agreed to use the third Monday of each month for their board meetings. Here is the schedule for the remainder of the fiscal year, including the budget committee meetings.

**January 15** – Board Meeting 6:00 p.m.

**February 19** – Board Meeting 6:00 p.m.

**March 18** – Board Meeting 6:00 p.m.

**April 15** – Budget Committee Hearing 5:00 p.m. / Board Meeting 6:00 p.m.

**May 20** – Budget Adoption / Board Meeting 6:00 p.m.

**June 17** – Board Meeting 6:00 p.m.