AGENDA

Tualatin Housing Implementation Plan: Strategic Equitable Housing Funding Plan Advisory Committee Meeting

7/20/2022

5:30 – 5:45 PM	**Introductions and Roles**

5:45 – 6:15 PM	**Goals and Expectations of the Housing Implementation Plan**
	▪ What has already been done
	▪ What the purpose of the study is and how it helps move the process forward
	▪ What lived experiences and priorities do committee members have related to the project?
	▪ Review and update on the Housing Production Strategy
	    o Basis for research
	    o Findings
	    o Recommended next steps

6:15 – 6:50 PM	**Discussion of Construction Excise Tax (CET)** ▪ Presentation ▪ Discussion
6:50 – 7:25 PM	**Discussion of the Nonprofit Low-Income Rental Housing Exemption** ▪ Presentation ▪ Discussion
7:25-7:30 PM	**Next Steps**

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DATE: July 14, 2022
TO: Tualatin HIP Advisory Committee
FROM: ECONorthwest
SUBJECT: Housing Implementation Plan: Background and Strategies Overview (Meeting #1)

This memo is intended to summarize the housing production strategy (HPS) for the City of Tualatin completed by ECONorthwest in 2021 and outline areas of focus for the current housing implementation plan (HIP).

Summary of Tualatin Housing Production Strategy

The housing production strategy includes goals and strategic actions to work together to achieve equitable outcomes for all residents of Tualatin, with an emphasis on improving outcomes for underserved communities, people with lower incomes, and people in state and federal protected classes.

The HPS addresses the housing needs identified in the Tualatin Housing Needs Analysis (HNA) in 2019, which concluded that Tualatin has very limited land to accommodate future housing growth and that housing needs are changing as a result of demographic changes and need for affordable housing. Specifically, the HNA concluded:

- **Tualatin is forecasted to increase its housing by about 1,014 new dwelling units between 2020 and 2040.**
- **Changes in demographic characteristics will drive need for new housing.** The HNA forecast that Tualatin would need more attached and multifamily housing in the future than the current housing stock provides. The factors driving the shift in types of housing needed in Tualatin include changes in demographics, such as growing senior populations, and the household formation of young adults.

  Tualatin has an existing deficit of housing that is affordable to low and moderate-income households and is likely to have similar future deficits. Tualatin's existing deficit of housing to meet the needs of extremely low to low-income households indicates a need for subsidized affordable housing for renters and affordable homeownership. Moderate income households may benefit from a wider range of housing types, but housing types alone do not necessarily bring the cost down for renters or homeowners. Without the types of solutions proposed in this report, lack of affordability will continue to be a problem and will possibly grow, in the future, if incomes continue to grow at a slower rate than housing costs.
- **Tualatin has a limited amount of vacant, unconstrained buildable residential land, particularly for higher-density multifamily housing.** Tualatin has about 244 acres of vacant, unconstrained buildable land. About 64% of vacant land is in Low Density Residential, 29% is in Medium Low Density Residential, and 8% of land in areas that allow higher-density multifamily housing such as Medium High Density, High Density, High Density High-Rise, and commercial area.

- **Tualatin cannot accommodate all of its housing needs on existing vacant land.** Tualatin has a land deficit of Medium High Density and High Density High Rise Plan Designations, of 7 acres and 4 acres respectively.

The HPS establishes a framework for the evaluation and potential development of policies and strategic actions that address the housing needs described above over a six-year period. Key findings of the HPS are that Tualatin needs:

- **Increased housing diversity.** Nearly two-thirds of Tualatin's housing stock is single-family detached housing. The City's demographic and socioeconomic characteristics suggest a need for a wide variety of housing types to meet the needs of a growing and diverse pool of existing and future residents.
- **Greater housing affordability and availability for homeowners.** Tualatin's homeownership stayed static from 2000 to 2017 at about 55%, however, it was lower than Washington County's (61%) and the Portland Region's (60%) homeownership rate. These statistics highlight a potential need for greater homeownership opportunities as homeownership continues to be one of the most effective (and primary ways) for households and individuals to build wealth.
- **Greater housing affordability and availability for renters.** Competition for lower-priced affordable units in Tualatin is strong. Many cannot afford market rate rents or housing sales prices without cost burdening themselves. In the 2013-2017 period, about 56% of Tualatin's renters were cost burdened, with 26% severely cost burdened.[1] Renters, especially those with lower incomes, are at risk of being displaced through increases in rental costs.
- **Increased income-restricted regulated, emergency, and supportive housing.** Tualatin lacks affordable housing units based on need. There are approximately 1,753 households experiencing severe housing cost burden in the city and 604 rent-restricted affordable housing units (accounting for about 5% of Tualatin's housing stock). Washington County has about 530 people experiencing homelessness, about 300 of whom are unsheltered. About 44 people experiencing homelessness are estimated to live in the Tualatin and Tigard area.
- **Need for housing for people to live and work in Tualatin.** Tualatin's Economic Opportunities Analysis report (December 2019) reported that 93% of people working in Tualatin lived in another community (such as Portland, Tigard, Beaverton, or Hillsboro) and commuted into Tualatin each day. Some people who work in Tualatin can afford rent or homeownership in Tualatin, but some would be cost burdened in Tualatin.

[1] A household is said to be cost burdened if they spend 30% or more of their gross income on housing costs. A household is said to be severely cost burdened if they spend 50% or more of their gross income on housing costs.

The HPS finds disproportionate housing needs for seniors, people of color, people with one or more disabilities, and people experiencing homelessness. Washington County's Consolidated Plan identifies all of these groups as a priority with special housing needs. The following groups have greater-than-average housing needs:

- **Seniors.** People 65 years of age and older are disproportionally cost burdened compared to the average household—many living on fixed incomes in a region with increasing housing costs. Over the next twenty years, people over 65 years are expected to be the fastest-growing age group. As this group grows, Tualatin will need more housing that is affordable, physically accessible, and in proximity to needed services (such as nearby health care or in-home assistance). Seniors will also need improved access to housing without discrimination, especially seniors of color.
- **People of color.** About 25% of Tualatin's population identified as a person of color, who are more likely to be cost burdened when compared to the average household. Broadly, the housing needs for many people of color in Tualatin include improved access to affordable housing units, assistance to avoid displacement, access to housing in locations with "high opportunity" (such as areas near jobs, transit, or services), and access to housing without discrimination.
- **People with disabilities.** Across the Portland Region, people with one or more disabilities experience disproportionate cost burden. Housing needs of people with one or more disabilities vary by type of disability. But in general, housing needs include improved access to an affordable unit, improved physical access to housing units, access to housing with needed services, and access to housing without discrimination.
- **People experiencing homelessness.** People experiencing homelessness are disproportionately affected by the lack of affordable housing. Housing needs for people experiencing homelessness vary by reason for homelessness. In Washington County, the primary reason cited for experiencing homelessness was inability to afford housing. The broad housing needs for this group include the need for immediate assistance (e.g., rent support), permanent supportive housing (with services), and improved access to an affordable unit.

Summary of Goals and Strategic Actions from HPS

The HPS presents goals and strategic actions to address the housing needs described above. Implementation of the HPS is expected to occur over a six-year period. Each strategic action requires further consideration, such as additional analysis, engagement of consultants, changes to existing standards or programs, discussions with decision makers, or public hearings. The City may be unable to or not chose to implement some strategic actions because of new information that arises from a detailed evaluation of the specifics of each strategic action. In that case, the City may identify a different action (or actions) to meet the specific housing need addressed by the strategic action.

Exhibit 1 presents a summary of the goals and strategic actions from the HPS that will be more closely considered as part of this project, the Strategic Equitable Housing Funding Plan. The following information is from the HPS report and includes the following information:

- **Goal or strategic action.** This is either the text of the goal or a short summary of the strategic action.
- **Incomes of populations served by each strategic action.** Income is based on Median Family Income (MFI) as defined by the US Department of Housing and Urban Services (HUD) for Washington County. The example below is for a family of four people. The HUD terms used to describe housing by income group are:
  - Extremely Low Income: Less than 30% MFI, $28,000 or less for a family of four
  - Very Low Income: 31% to 50% of MFI, $28,000 to $46,000 for a family of four
  - Low Income: 51% to 80% of MFI, $46,000 to $74,000 for a family of four
  - Moderate Income: 81% to 120% of MFI, $74,000 to $110,000 for a family of four
  - High Income: 121% of MFI or more, $110,000 or more for a family of four
- **Potential magnitude of the action for producing new housing.** This is an estimate of the amount of new housing that may be produced over the six-year period as a result of each strategic action. The magnitudes of impact are:
  - A **low** magnitude is anticipated production of 1% or less of the needed new units (1,014 units) or about 10 dwelling units over the six-year period. A low magnitude does not mean a strategic action is unimportant. Some strategic actions are necessary but not sufficient to produce new housing.
  - A **moderate** magnitude is anticipated production of 1% to 5% of the needed new units (1,014 units) or about 10 to 50 dwelling units over the six-year period.
  - A **high** magnitude is anticipated production of 5% or more of the needed new units (1,014 units) or 50 or more dwelling units over the six-year period.
- **Expected year of adoption.** The HPS will be implemented over a six-year period. Each strategic action will be evaluated, and if the City chooses to implement it, then it would be adopted or would have some other official acknowledgement that the City is going to execute the strategic action.

Areas of Focus for Housing Implementation Plan (HIP)

This analysis is only considering a limited number of strategic actions from the HPS, including strategic actions related to actions that will require funding (such as development incentives) or actions that will provide funding (such as a Construction Excise Tax). The actions under consideration are shown in the table below.

Goal and Strategic Actions	Income Levels Served (MFI)	Magnitude of Impact	Expected Year of Adoption
1. Affordable Housing: Strongly prioritize, encourage, and support affordable rental housing development to increase affordable housing for households earning 0-60% Median Family Income.			
1.a Evaluate a Low-Income Housing Property Tax Exemption Program for Affordable Rental Housing	0-60%	Moderate	2023
1.b Evaluate Changes to Systems Development Charges	0-80%	Low	2026
1.c Evaluate Implementation of a Construction Excise Tax (CET)	Mostly 0-60% Possibly 61-80%	Moderate	2025
1.d Evaluate Support for Affordable and Workforce Rental Housing as part of Urban Renewal	0-80%	Moderate to large	2022
1.e Evaluate Financial Resources for Local Contributions to Affordable Housing Development	0-60%	Moderate	2026
4. Preservation of Naturally Occurring Affordable Housing (NOAH): Preserve naturally occurring affordable housing, where possible, to prevent loss of affordable units and to mitigate resident displacement.			
4.a Evaluate Development of Incentives to Preserve Low-Cost Rentals for Below-Market-Rate Privately Owned Rental Housing	0-80%	Moderate	2026
4.b Evaluate Using the Multiple Unit Property Tax Exemption to Slow Rental Cost Increases	0-80%	Moderate	2026
6. Workforce Housing: Encourage, plan for, and support the development of workforce housing for households earning 61-80% Median Family Income for both owner and renter, in order to increase the jobs-housing balance, reduce commute time, and provide attainable housing for workers in Tualatin.			
6.a Evaluate Ways to Incentivize Inclusion of Workforce Housing Units within New Multifamily Rental Development	61-80%	Moderate	2026
8. Housing Rehabilitation: Plan for and support housing programs and initiatives that are responsive to the safety and health needs of households earning 0-80% of Median Family Income.			
8.a Evaluate Establishing Local Housing Rehabilitation Program	0-80%	Low to moderate	2026

1.a Evaluate a Low-Income Housing Property Tax Exemption Program for Affordable Rental Housing

Description	Type of Action
Evaluate a property tax exemption program for affordable rental housing. Two tax exemptions programs could be used to support affordable housing: ▪ **Low-Income Rental Housing Exemption:** Would provide a 20-year, renewable property tax exemption for rental housing for low-income households (60% of area median income and below). Housing need not be owned or operated by a nonprofit entity; if it is not, only housing built after the program is adopted is eligible. The exemption could also apply to land held for future affordable housing development. Only the City's taxes would be exempted unless there is sufficient support from overlapping taxing districts. Requires that savings be passed on to tenants through rent reductions. ▪ **Nonprofit Low-Income Rental Housing Exemption:** Would provide a full property tax exemption for new and existing affordable housing owned and operated by a nonprofit organization for as long as the property meets eligibility criteria. Tenants must initially qualify at 60% of area median income or below, but once qualified, existing tenant incomes may rise to as much as 80% of area median income over time. The exemption could also apply to land held by a nonprofit for future affordable housing development. Only the City's taxes would be exempted unless there is sufficient support from overlapping taxing districts. The evaluation would include a conclusion as to which of the two available options under state statute is better suited to the needs of housing providers in Tualatin.	Adopt a Tax Exemption to Reduce Ongoing Charges on Development

Rationale	With very thin margins for rents in affordable housing developments to be able to cover operating costs (even with subsidies), eliminating the cost of property taxes is an important way to improve the viability of affordable housing. Affordable housing providers sometimes use alternative means to secure tax exemptions (e.g., partnership with the local Housing Authority), but the alternatives add complexity to an already complex process. A locally enabled tax

	exemption also demonstrates local support for affordable housing development, which can help with securing state and federal funds.
Anticipated Impact	▪ **Populations served:** Extremely low income, very low–income, and low-income renter households ▪ **Income:** 0-60% of Median Family Income ▪ **Housing tenure:** Rental ▪ **Potential Benefit:** - **Housing Production (new units).** If this incentive were used for one to two apartment buildings at 50 to 150 units each, this strategy could contribute to development of 50 to 300 affordable units. - **Equitable Outcomes:** This is an opportunity to provide equitable housing for low-income households by serving, for example, underserved communities, people with disabilities, and people with special needs, increasing diversity in neighborhoods. ▪ **Potential Financial Impact:** The City will forgo some property tax income for these properties for the duration of the exemption. This reduces some revenue for city services and some revenue for participating taxing districts. ▪ **Magnitude:** Moderate
Implementation Steps	▪ Evaluate viability of adoption, including an analysis of the pros and cons of the two tax exemptions. ▪ Seek input from overlapping taxing districts on their willingness to support the exemption. ▪ Discuss topic with City Council at work sessions and in public hearings. City Council may choose to adopt exemption by resolution or ordinance following a public hearing. ▪ Follow up with overlapping taxing districts to request that they pass resolutions to support the exemption. ▪ If supported, select one of the tax exemptions for adoption.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division and City of Tualatin Finance Department ▪ **Partners:** Overlapping Taxing Districts
Funding or Revenue Implications	Tax exemptions reduce general fund revenues for all overlapping taxing districts, including the City.

1.b Evaluate Changes to Systems Development Charges

Description	Type of Action
Evaluate options for potential changes to System Development Charges (SDCs) and Transportation Development Tax (TDT) to support development of affordable housing. ▪ **SDCs** are fees collected when new development and some redevelopment occurs within the City. Revenues are used to fund growth-related capital improvements. ▪ **TDT** is a voter-approved charge imposed on new development and redevelopment within Washington County (including its cities) to help pay for the impact development has on the transportation system. The City of Tualatin has limited control over SDCs because most are collected on behalf of other service districts and providers, who determine the rates and rate structures. The parks and water SDCs are set by the City. The primary opportunity for changes to SDC is with the parks SDC, which recently went through a review and update process. The water SDC is based on meter size, which makes meaningful changes in SDCs challenging, especially for multiunit projects. Tualatin does not have control over the rate or rate structure for Washington County's TDT, though the City does receive a share of the revenue. The City of Tualatin could evaluate changes to its parks and water SDCs by reducing, deferring, and/or financing SDCs at a low interest rate for regulated affordable housing or other needed housing types.	Evaluate Change to Fee Schedules to Reduce Charges on Development

Rationale	Changes to the City's parks or water SDC rates or methodology could reduce up-front costs for developers of regulated affordable housing and/or encourage specific types of housing development (e.g., smaller units).
Anticipated Impact	▪ **Populations served:** Extremely low income, very low–income, and low-income renter households ▪ Extremely low, very low, and low-income owner households ▪ **Income:** 0-80% of Median Family Income ▪ **Housing tenure:** Owner and Renter

	▪ **Potential Benefit:** - **Housing Production (new units):** Tualatin can have an impact on its parks and water SDCs and can backfill the costs to County TDTs. - While reducing parks or water SDCs could provide some support for affordable housing development, on its own this action is unlikely to directly result in development of new affordable housing, but it may serve to attract affordable housing developers to Tualatin with this cost reduction. - **Equitable Outcomes:** Providing **i**ncentives like SDC reductions supports the development of equitable housing. ▪ **Potential Financial Impact:** The City will likely need to make up revenue forgone through the changes to SDCs, such as by backfilling with TDTs. ▪ **Magnitude:** Low
Implementation Steps	▪ Evaluate options for deferral or financing of parks or water SDCs for affordable housing under the existing methodology, working with current planning and finance divisions. ▪ At the next update to the parks or water SDC methodology, evaluate options to offer full or partial exemptions for affordable housing and/or to adjust the residential rate structure to offer lower rates for smaller units.
Lead Agency and Potential Partners	▪ **Lead Agency** City of Tualatin Parks and Recreation Department, City of Tualatin Finance Department, and City of Tualatin Planning Division.
Funding or Revenue Implications	Changes may reduce or delay SDC revenue to the City.

1.c Evaluate Implementation of a Construction Excise Tax

Description	**Type of Action**
Evaluate a Construction Excise Tax (CET), a tax assessed on new development and expansions as a percent of the permit value.	Establish a CET to Allocate Funding

State statute defines the allowed uses of CET funds and the allowed maximum tax rate. The City of Tualatin could levy a CET on commercial, industrial, and/or residential development. Tualatin has limited land for new residential development within City limits at present; however, revenues from a CET levied on commercial or industrial development could be used for housing programs. At least half of the revenue from a CET on commercial and industrial development would need to be used for local housing programs (capital or programmatic services), but the other half is unrestricted (capital or programmatic services); revenue from a CET on housing would need to go toward housing, with certain percentages toward various specific categories of expenditures. At least eight jurisdictions in Oregon have adopted a CET to fund affordable housing. Most are using or plan to use the revenues to offer grants and/or loans as flexible gap financing for affordable housing development. While it can be used to pay for services, capacity building, etc., the variable nature of the revenues makes it challenging to fund ongoing commitments.	
Rationale	CET is one of few options to generate locally controlled funding for affordable housing and could be implemented without a public vote. Industrial development has been strong in Tualatin in recent years. If this continues, a CET on commercial and industrial development could potentially generate enough revenue to allow the City to fund some of its other equitable housing and related strategies.
Anticipated Impact	▪ **Populations served:** Depends on how revenue is used, but would be for extremely low, very low, and low-income and underserved communities. ▪ **Income:** Depends on how revenue is used, but most likely directed toward 0-60% of Median Family Income, however, could be used to meet other income groups, such as contribution to homeownership for households at 61-80% of Median Family Income. ▪ **Housing tenure:** Renter or owner ▪ **Potential Benefit:** - **Housing Production (new units):** Based on analysis by ECONorthwest, a 0.5-1% CET on commercial and industrial development could generate roughly $200,000-400,000 per year. While this would cover the full cost of only a few units of

	affordable housing per year, it could pay for SDCs and TDT on roughly 100 units per year. If used as gap financing, it could potentially contribute to funding one or two affordable housing developments per year. - **Equitable Outcomes:** Developing funding sources like CET can support equitable housing programs and development, such as affordable housing and workforce housing. ▪ **Potential Financial Impact:** Homebuyers and businesses that pay the CET will have slightly higher costs for their homes and for commercial or industrial development. The increase in home prices will not exceed 1% as a result of the CET and may be smaller if the City establishes a CET below 1%. ▪ **Magnitude:** Moderate
Implementation Steps	▪ Evaluate potential approach. Include projections on potential revenue and what programmatic goals could be accomplished with revenue. Include SWOT analysis for both residential and commercial/industrial. ▪ Engage with developers, major employers, and the business community in Tualatin to evaluate tolerance for a CET on commercial and industrial development and where there are shared interests in supporting local housing production. ▪ Seek direction on whether to proceed with adoption from City Council at work sessions. ▪ Tualatin City Council could impose the CET by adoption of an ordinance or resolution that conforms to the requirements of ORS 320.192–ORS 320.195. ▪ If directed, create a plan for the use of CET funds.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division and City of Tualatin Finance Department ▪ **Partners:** Local developers, Chamber of Commerce, major employers, and the Tualatin business community
Funding or Revenue Implications	Adopting a CET would provide funding for other strategies. ECONorthwest conducted a preliminary estimate of CET revenue via a backward-looking analysis using the City of Tualatin's permit database for new residential and commercial/industrial construction from the last five years. The results of this analysis are summarized in Appendix B.

	Because a percentage (4%) of the revenue can be applied to the City's costs for administering the program, there should be minimal additional cost for the City.

1.d	Evaluate Support for Affordable and Workforce Rental Housing as Part of Urban Renewal

Description	Type of Action
Evaluate the potential to specifically identify affordable housing (for instance, housing affordable at 0-60% of MFI and workforce affordable housing at 61-80% of MFI) as a goal of existing or future Urban Renewal Plans. As applicable, identify specific affordable housing programs, projects, and/or supportive infrastructure to be included with urban renewal plan(s). TIF funding for affordable housing or other equitable housing would need to gain approval through the City's Urban Renewal process and be consistent with the State Oregon Revised Statute (ORS) 457. TIF (for urban renewal districts) is used as a way to make strategic public investments that spur development in areas where it might not otherwise occur. When successful, the new development leads to an increase in property value and property tax revenue. The increment of new tax revenue from within the district (from the time the district is established) is captured and used to pay off bonds (or directly pay) for the public investments in the area. When the bonds are paid off, the entire valuation of the district is returned to the general property tax rolls. While regulated affordable housing is often tax exempt and does not generate additional tax revenue, some jurisdictions allocate a portion of TIF revenues to fund affordable housing to support equitable development within the TIF district. TIF can be invested in the form of low interest loans and/or grants for housing projects or a variety of capital investments. **Additional Context:** The City of Tualatin is in the process of evaluating two potential new TIF districts: (District 1) the Basalt Creek and Southwest Industrial Area and (District 2) the North Study Area, Bridgeport Village, Town Commons, I-5 Corridor and Tualatin-	Evaluate Affordable Housing Support as Part of Urban Renewal

Sherwood Road. The City also recently modified plans for an existing district (Leveton). While much of the land included in these areas is planned for industrial and commercial use, portions of the potential new districts are planned for residential or mixed-use development. These could be appropriate locations for new affordable housing rehabilitation or mixed-income housing. District 1 potential total TIF revenue over 30 years is estimated to be between $28.4 million and $55.5 million, depending on future growth in assessed value in the area. District 2 potential total TIF revenue over 30 years is estimated to be between $248.2 million and $362.7 million, depending on future growth in assessed value in the area. District 1 is slated to be established in fall of 2021 and District 2 in approximately two years. In determining the resources for affordable housing from TIF, the City would want to consider the specific housing needs of each district. TIF funding for District 1 may be focused more on infrastructure funding to pay for infrastructure needed to support new development. For District 2, the amount of TIF used for housing could be a larger share of TIF funding, as this district may be focused on housing redevelopment.	
Rationale	TIF is one of few available locally controlled sources of funding to build or improve housing. In addition, investing a share of TIF revenues into affordable or mixed-income housing within an area that is a focus for local investment helps support inclusive and equitable housing development in that area.
Anticipated Impact	▪ **Populations served:** Extremely low income, very low–income, low-income, and moderate-income households ▪ **Income:** 0-80% of Median Family Income ▪ **Housing tenure:** Renter or Owner ▪ **Potential Benefits:** - **Housing Production (new units):** Urban renewal TIF is the largest source of funding over time that could be made available for affordable housing development. The amount of housing production depends on the funds raised and allotted through urban renewal. TIF can only be spent on capital projects, not operations. - **Equitable Outcomes:** Establishing TIF funding for equitable

	housing may have the greatest impact over time of any single funding sources on equitable housing development in the city to be used to develop affordable housing, workforce housing, mixed-use housing, and mixed-income housing and related infrastructure. ▪ **Potential Financial Impact:** The financial impacts of a URA are borne by overlapping taxing districts, not by individual taxpayers. The financial capacity of two potential new districts on the horizon in Tualatin would not be available immediately but would build slowly over time. In pursing this strategic action in Tualatin, it will be important to get an early start on setting goals and priorities for TIF funding for affordable housing and other equitable housing before the URA districts are established. ▪ **Magnitude:** Moderate to Large
Implementation Steps	▪ As part of urban renewal planning for the two potential new districts, evaluate inclusion of affordable housing as a policy. Additionally, identify affordable housing programs, projects, and/or supportive infrastructure. ▪ Proceed with the planning and adoption processes already underway for the two potential new districts, including establishing priorities for the areas, identifying project lists, confirming financial feasibility, preparing required plan documents, and holding adoption hearings.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division and City of Tualatin Finance Department ▪ **Partners:** Tualatin Development Commission; Overlapping taxing districts
Funding or Revenue Implications	TIF results in foregone tax revenue for the City and other overlapping taxing districts for several decades for a variety of types of development investment, though it can (and should) grow the tax base in the long term by supporting development that would not otherwise have occurred.

1.e	Evaluate Financial Resources for Local Contributions to Affordable Housing Development

Description	Type of Action
Evaluate, develop, and promote financial resources for local contribution to affordable housing development. Funds from this effort could be contributed to a Housing Trust Fund Initiative. The City of Tualatin could consider funding sources including foundation grants, private gifts, or other sources to assist with funding contributions to support affordable housing development. The City may consider other sources of funding, such as money from the City's General Fund, Local Option Levy, Cannabis Tax revenues, and other funding sources. Local contributions to affordable housing development are often critical in helping to fill the funding gap for these projects and to compete successfully for other government funding and foundation grants.	Collect Revenue to Allocate Funding to Housing Programs

Rationale	These funds can be used to support incentives and support for affordable housing development, such as tax exemptions.
Anticipated Impact	▪ **Populations served:** Extremely low income, very low–income, and low-income households ▪ **Income:** 0-60% of Median Family Income ▪ **Housing tenure:** Renter ▪ **Potential Benefit:** - **Housing Production (new units):** The amount of housing production depends on the funds raised and contributed through these resources. - **Equitable Outcomes:** Local contributions to affordable housing development could help underserved communities and demonstrate the City's commitment to equity. ▪ **Potential Financial Impact:** Funds spent on affordable housing will be unavailable for other city services, however, these funds may not have been able to be successfully raised otherwise. ▪ **Magnitude:** Moderate

Implementation Steps	▪ Identify financial sources that the City could use to support affordable housing development. ▪ Develop a Housing Trust Fund as a place to collect funds. ▪ Continue to raise funds over time.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division and Finance Department ▪ **Partners:** State/Federal Agencies, State and National Foundations
Funding or Revenue Implications	Evaluating, developing, and promoting financial resources for local contribution is a comparatively low-cost strategy, primarily relying on the use of staff time. If the City uses General Fund revenue or revenue from other taxes, such as Cannabis Tax revenues, the money from these sources would not be available of use for other purposes in Tualatin.

4.a	Evaluate Development of Incentives to Preserve Low-Cost Rentals for Below-Market-Rate Privately Owned Rental Housing

Description	Type of Action
Evaluate options to assist with needed improvements to existing low-cost rental housing where the housing is in poor condition. The options may include a tax abatement (such as the Multi-Unit Property Tax Exemption), low interest loan program, or other financial incentives for low-cost market-rate apartments that agree to make needed improvements (e.g., to address code violations or health/safety issues) without displacing existing residents or agree to stabilize or reduce rents. Needed improvements may include addressing code violations or health/safety issues. The City would need to ensure they only grant financial incentives to property owners who agree to stabilize/reduce rents or not displace existing residents. Much of the rental housing in Tualatin that is affordable to low and moderate-income households is older, privately owned rental housing that is not subject to affordability restrictions. This housing may have deferred maintenance issues as a result of a lack of resources to make improvements and pay for repairs (or, in some cases, owner neglect). The City could work with property owners of low-cost unregulated rental housing to support needed repairs without displacing tenants. This could include: ▪ Offer low interest loans and/or grants to property owners for repairs and major rehabilitation, providing they do not displace residents. ▪ Evaluate reducing regulatory requirements and permitting challenges for owners seeking to improve older rental housing. ▪ Provide information/technical assistance to smaller property owners regarding state and local resources to support weatherization and healthy housing. ▪ Use the Multi-Unit Property Tax Exemption (Action 4.b) to support rehabilitation of multifamily housing, as described in Action 4.b. The City may want to begin implementing this strategic action with a limited scope pilot program to test and fine tune this program.	Establish Financial Incentives

Rationale	This action focuses on improvement of the condition of existing

	housing. Keeping low-cost unregulated housing both habitable and affordable reduces the need for subsidized new construction.
Anticipated Impact	▪ **Populations served:** Extremely low income, very low–income, and low-income ▪ **Income:** 0-80% of Median Family Income ▪ **Housing tenure:** Renter ▪ **Potential Benefit:** - **Housing Production (new units):** This strategy is not anticipated to produce new units, but it could improve the quality of the city's existing supply of low-cost, regulated rental units. - **Equitable Outcomes:** Preservation mechanisms would protect these vulnerable populations from housing displacement. ▪ **Potential Risk:** If there are not effective mechanisms in place to ensure that housing will be affordable for the populations served, the rents may increase, making the housing less affordable and potentially displacing tenants. ▪ **Magnitude:** Moderate
Implementation Steps	▪ Define eligibility for this program based on income. Eligibility requirements should tell whether all units in the multifamily building serve households with incomes 80% of MFI or less or whether a minimum percentage of units should be rented to households with incomes below 80% of MFI. In addition, the City should determine whether assistance goes to the property owner or another entity ▪ Develop a list of lower-cost, unregulated rental housing, including property locations, number of units per development, and property owner contact information. ▪ Evaluate programs, technical assistance opportunities, regulatory changes, and other options to support property improvements. This step can include multiple approaches, as noted in the description of this action. ▪ Reach out to property owners (identified in Step 1). Gauge their interest in improving the safety, health, and stability of their property. Determine what kinds of improvements their properties might need and what resources would be most useful to them. ▪ Refine and implement programs, technical assistance opportunities, regulatory changes, and other options (identified in Step 2) based on feedback from property owners.

	▪ Connect interested property owners to established programs and opportunities. ▪ Seek additional federal funding through the US Department of Housing and Urban Development's (HUD's) Lead Hazard Control and Healthy Homes program
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division ▪ **Partners:** Property owners of low-cost, unregulated rental housing
Funding or Revenue Implications	Amending permitting and regulatory requirements or providing technical assistance and information are comparatively low-cost strategies, primarily relying on the use of staff time. Providing low interest loans, grants, or implementing the MUPTE tax exemption would require a funding source to backfill program dollars awarded/loaned. Implementing a new program such as the HUD Lead Hazard Control and Healthy Homes program would take extensive administrative and partner resources to meet federal regulatory requirements, including performance measures.

4.b	Evaluate Using the Multiple Unit Property Tax Exemption to Slow Rental Cost Increases

Description	Type of Action
Evaluate the Multi-Unit Property Tax Exemption (MUPTE) as a tool to incentivize rehabilitation of existing low-cost unregulated affordable multifamily without displacing or increasing rents for existing tenants. The savings from the tax exemption could help the property owner pay for the costs of rehabilitation over time. To qualify, owners of multifamily rental properties who are applying for MUPTE would need to enter into a contract with a public agency (such as the City of Tualatin) that would set affordability restrictions; the terms of the affordability restrictions can be set by the City, and there are no specific income/affordability requirements in the state statute that enable the program. The City must also show that the	Adopt a Tax Exemption to Reduce Ongoing Charges on Development

exemption is necessary to preserve or establish low-income units.[2] The exemption applies to the improvement value of the property (not the land value). The exemption is initially for 10 years (per statute), but it could be extended for as long as the housing is subject to the affordability contract. The exemption would apply only to the City's portion of property taxes unless taxing districts representing 51% or more of the combined levying authority (including the City's tax rate) agree to support the exemption.	

Rationale	The MUPTE program is flexible and eligibility criteria can be set locally, allowing the City to target solutions to meet its needs. It can offer an incentive for mixed-income housing, providing a way to leverage private, market-rate development to expand affordable housing.
Anticipated Impact	▪ **Populations served:** Extremely low income, very low–income, and low-income households ▪ **Income:** 0-80% of Median Family Income ▪ **Housing tenure:** Rental ▪ **Potential Benefit:** - **Housing Production (new units):** If this incentive was used for one to two existing apartment buildings at about 150 units each, if 10-20% of units were affordable, this strategy could result in 30 to 60 units below market rate. - **Equitable Outcomes:** This strategic action would preserve naturally occurring affordable housing for tenants, such as those vulnerable to displacement or housing instability if rents increased or rent discounts were not offered. ▪ **Potential Risk:** The City and participating taxing districts would forgo property tax income for the properties that qualify for MUPTE. This would reduce some revenue for city services and for participating taxing districts. ▪ **Magnitude:** Moderate
Implementation Steps	▪ Determine desired eligibility criteria (e.g., affordability requirements and any other public benefit requirements). ▪ Seek input from overlapping taxing districts on their willingness

[2] The statute does not specify how to show that the exemption is necessary.

	to support the exemption. ▪ Discuss topic with City Council at work sessions and in public hearings. City Council may choose to adopt MUPTE by resolution or ordinance following a public hearing. ▪ Follow up with overlapping taxing districts to request that they pass resolutions to support the exemption.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division and City of Tualatin Finance Department ▪ **Partners:** Overlapping Taxing Districts
Funding or Revenue Implications	MUPTE reduces general fund revenues for all overlapping taxing districts. The City of Tualatin must weigh the loss of tax revenue against value of the rent discounts offered by qualifying development.

6.a	Evaluate Ways to Incentivize Inclusion of Workforce Housing Units within New Multifamily Rental Development
Description	**Type of Action**
Evaluate the feasibility of establishing a tax abatement for new multifamily development that includes a portion of units affordable between 61 and 80% of Median Family Income under the Multi-Unit Property Tax Exemption program (MUPTE). The state-authorized, locally implemented MUPTE program would allow Tualatin to offer a partial property tax exemption (limited to the value of the housing, not the land) for multifamily development that meets specific, established criteria by the City, such as having an affordability agreement with the City of Tualatin or another public agency.[3] The terms of the affordability agreement could be set by the City—there are no specific income/affordability requirements in the state statute that enables the program. The exemption would apply	Adopt a Tax Exemption

[3] If the abatement were being applied to a project that does not have state or federal affordability requirements, the City could enter into the contract directly with the property owner or seek to partner with Washington County, which would administer the affordability agreement.

only to the City’s portion of property taxes, unless taxing districts representing 51% or more of the combined levying authority (including the City’s tax rate) agree to support the exemption. It would last for 10 years or longer if the affordability agreement remains in place. The City would need to seek support from overlapping taxing districts to offer the exemption for all property taxes (not just the City's portion).

The City could explore using MUPTE in two possible ways:

- To incentivize mixed-income development through inclusion of below-market units in otherwise market-rate developments.
- To incentivize owners of existing low-cost unregulated affordable housing to rehabilitate properties without displacing existing tenants or escalating rents (Strategic Action 4.b).

Rationale	The MUPTE program is flexible and eligibility criteria can be set locally, allowing the City to target the housing to meet its needs. It can offer an incentive for mixed-income housing, providing a way to leverage private, market-rate development to expand affordable housing.
Anticipated Impact	▪ **Populations served:** Low-income residents and households ▪ **Income:** 61-80% of Median Family Income ▪ **Housing tenure:** Renters ▪ **Potential Benefit:** - **Housing Production (new units):** If this incentive was used for one to two apartment buildings at about 150 units each and 10-20% of units were affordable to low-income households,[4] this strategy could result in 30 to 60 workforce-affordable units. - **Equitable Outcomes:** Provides the opportunity for mixed income in multifamily housing, with a portion of units affordable to low-income residents. ▪ **Potential Risk:** The City and participating taxing districts would forgo some property tax income for the duration of the exemption, reducing some revenue for city services and revenue for participating taxing districts. ▪ **Magnitude:** Moderate

[4] Where jurisdictions are trying to incentivize or require mixed-income housing, it is typically structured so that a certain percentage of units in the building (e.g., 10% to 25%) meet a certain affordability level (e.g., 61% to 80% of MFI).

Implementation Steps	▪ Determine desired eligibility criteria (e.g., affordability requirements and any other public benefit requirements). ▪ Seek input from overlapping taxing districts on their willingness to support the exemption. ▪ Discuss topic with City Council at work sessions and in public hearings. City Council may choose to adopt MUPTE by resolution or ordinance following a public hearing. ▪ Follow up with overlapping taxing districts to request that they pass resolutions to support the exemption.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division ▪ **Partners:** Tualatin Finance Department and Overlapping Taxing Districts
Funding or Revenue Implications	MUPTE reduces general fund revenues for all overlapping taxing districts. The City of Tualatin must weigh the loss of tax revenue against value of the rent discounts offered by qualifying development.

8.a Evaluate Establishing Local Housing Rehabilitation Program

Description	Type of Action
Evaluate the feasibility of establishing a local housing rehabilitation program to improve housing safety and health conditions for households earning 80% or less of the Median Family Income. Much of the rental housing in Tualatin that is affordable to low and moderate-income households is older, privately owned housing that is not subject to affordability restrictions. This housing may have deferred maintenance issues as a result of a lack of resources to make improvements and pay for repairs (or, in some cases, owner neglect). The City can work with property owners of low-cost unregulated rental housing to support needed repairs without displacing tenants. This could include: ▪ Offer low interest loans and/or grants to property owners for repairs and major rehabilitation, providing they do not displace residents.	Develop a Program

▪ Explore reducing regulatory and permitting requirements in the Development Code to identify and reduce challenges for owners seeking to improve older rental housing. ▪ Provide information/technical assistance to smaller property owners regarding state and local resources to support weatherization and healthy housing. ▪ Use the Multi-Unit Property Tax Exemption (Action 4.b) to support rehabilitation, as described in Action 4.b.	
Rationale	Keeping low-cost unregulated housing both habitable and affordable reduces the need for subsidized new construction.
Anticipated Impact	▪ **Populations served:** Extremely low income, very low–income, and low-income households ▪ **Income:** 0-80% of Median Family Income ▪ **Housing tenure:** Renter ▪ **Potential Benefit:** - **Housing Production (new units):** This strategy is not anticipated to produce new units, but it is intended to preserve and may improve the quality of the City's existing supply of low-cost, regulated rental units. It may also result in improved health and safety for the residents in the existing units. - **Equitable Outcomes:** Improves housing safety and health conditions for households earning 80% or less of the Median Family Income. ▪ **Potential Risk** Most negative impacts would be borne by the property owner to address identified deficiencies. However, property may also have positive impacts, such as an increase in property value and longer-term renters. If the property owner makes substantial changes to the housing, that may increase rents (making it less affordable) or encourage conversion to owner-occupied housing. ▪ **Magnitude:** Low to moderate
Implementation Steps	▪ Maintain and enhance the existing list of lower-cost, unregulated rental housing, including property locations, number of units per development, and property owner contact information. ▪ Evaluate programs, technical assistance opportunities, regulatory changes, and other options to support property improvements. This step can include multiple approaches, as noted in the description of this action.

	▪ Reach out to property owners (identified in Step 1). Gauge their interest in improving the safety, health, and stability of their property. Determine what kinds of improvements their properties might need and what resources would be most useful to them. ▪ Refine and implement programs, technical assistance opportunities, regulatory changes, and other options (identified in Step 2) based on feedback from property owners. ▪ Connect interested property owners to established programs and opportunities. ▪ Seek additional federal funding through the US Department of Housing and Urban Development's (HUD's) Lead Hazard Control and Healthy Homes program.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Community Development Department, City of Tualatin Finance Department, and City of Tualatin Building Division and Engineering Division. ▪ **Partners:** Overlapping taxing districts (if using MUPTE), Washington County Public Housing Authority, and Community Alliance of Tenants (CAT)
Funding or Revenue Implications	Providing low interest loans, grants, or implementing the MUPTE tax exemption will require a funding source to backfill program dollars awarded/loaned. Implementing a new program such as the HUD Lead Hazard Control and Healthy Homes program would take extensive administrative and partner resources to meet federal regulatory requirements, including performance measures.

DATE: July 14, 2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Summary of Construction Excise Tax Analysis

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy into a Housing Implementation Plan. To understand the potential trade-offs of these strategies in Tualatin, this memorandum describes strategic actions around a Construction Excise Tax (CET) and how it works. In addition, it summarizes an analysis of the potential impacts of implementing this action. The final section outlines potential next steps for the City of Tualatin to consider.

Construction Excise Tax

Overview

In 2016, the Oregon Legislature passed Senate Bill 1533, which permits cities to adopt a construction excise tax (CET) on the value of new construction projects to raise funds for affordable housing projects. The tax is limited to 1% of the permit value on residential construction with no cap on the rate applied to commercial and industrial construction. A number of cities of various sizes in Oregon have adopted a CET.

Construction Excise Tax: Levies a tax on new construction projects to fund housing programs and/or investments. It can be applied to residential and/or commercial and industrial development.

How the Construction Excise Tax Works

The allowed uses for CET funding are defined by state statute:

- The City may retain up to 4% of funds to cover administrative costs. The funds remaining must be allocated as follows, depending on whether the CET is on residential or commercial and industrial development:
- For a residential CET:
  - 50% must be used for developer incentives (e.g., permit fee and SDC waivers,[1] tax abatements, or finance-based incentives). The City would have to offer incentives but could cover the costs or foregone revenues with CET funds.
  - 35% may be used flexibly for affordable housing programs, as defined by the jurisdiction.
  - 15% is not available to the city and flows instead to Oregon Housing and Community Services for homeownership programs that provide down payment assistance.

[1] Note that while these are called "waivers," they are really subsidies, since the fees would still be paid by CET revenues rather than by the developer.

- For a commercial/industrial CET:
  - 50% of the funds must be used for housing-related programs, as defined by the jurisdiction (note that these funds are not necessarily limited to affordable housing).
  - The remaining 50% is unrestricted.

Fiscal Impacts/Who Pays

The source for CET funds is new development. The statute exempts public buildings, regulated affordable housing, places of worship, public and private hospitals, agricultural buildings, nonprofit facilities, long-term care facilities, residential care facilities, and continuing care retirement communities.[2] The City can exempt other types of development if desired.

Pros and Cons

Pros:

- Offers the ability to link industrial or other employment investments, which generate new jobs and demand for new housing, with funding for housing development.
- CET is a flexible funding source, especially for funds derived from commercial/industrial development.
- Program funds can fund administration of the CET as well as staff time needed to administer programs funded by CET.

Cons:

- CET increases development costs in an environment where many developers are already seeking relief from system development charges. Depending on the rates imposed, CET could have an impact on feasibility. More research would be necessary to understand the potential magnitude of the impact.
- Where demand is high relative to supply, additional fees on residential development may be passed on to tenants or home buyers through higher housing costs.
- Because CET revenue is development derived, it will fluctuate with market cycles and will not be a steady source of revenue for affordable housing when limited development is occurring.

[2] Oregon Revised Statute 320.173

Summary of CET Analysis

Estimating Revenue Potential

Methodology Overview

There is no statutory cap on the CET rate applied on commercial and industrial construction. Therefore, this analysis assumed a range of potential rates that the City could apply on this development type: 0.3%, 0.5%, 1%, and 2%. The CET rate applied on residential construction is capped at 1%. Therefore, this analysis assumed a range of potential rates that the City could apply on this development type under the 1% threshold: 0.3%, 0.5%, .75%, and 1%.

After establishing a range of rates, the analysis assessed what revenue would look like based on historical building permit values for each respective development type (i.e., commercial and industrial development over the last five years and residential development over the last five years).

Based on the statutory regulations about how the CET funds can be expended, we allocated the projected revenue forecasts as follows:

- **Commercial/Industrial Construction: (1)** 4% to administrative costs, **(2)** 50% of the balance after subtracting administrative costs to housing-related programs (i.e., 48% of the total), and **(3)** 50% of the balance after subtracting administrative costs to an unrestricted use (i.e., 48% of the total).
- **Residential Construction: (1)** 4% administrative costs, **(2)** 15% of the balance after subtracting administrative costs to OHCS (i.e., 14% of the total), **(3)** 35% of the balance after subtracting administrative costs to affordable housing programs (i.e., 34% of the total), and **(4)** 50% of the balance after subtracting administrative costs to developer incentives (i.e., 48% of the total).

Results: Historical Permit Values

One way to estimate CET revenue is a backward-looking analysis. If the City of Tualatin had charged CET fees on recent development that had occurred, how much revenue might have the City collected (assuming the permitting activity had been unchanged as a result of that CET)?

Building permits for residential development and commercial/industrial development in Tualatin fluctuated from year to year over the last five years. Exhibit 56 summarizes annual total permit values for new residential and commercial/industrial construction as well as additions that increase square feet (excluding exempt development) in 2020 dollars.[3] The annual

[3] ECONorthwest used the Construction Cost Index published by Engineering News Record to inflate permit values to 2020 dollars.

average over the five-year period (2016-2020) for residential development is about **$10m in qualifying permit value** in 2020 dollars. The annual average over the five-year period for commercial and industrial development is about **$41.8m in qualifying permit value** in 2020 dollars.

Exhibit 1. Residential Building Permit and Commercial/Industrial Building Permit Values by Year (2016 to 2020), (in 2020 dollars)

Source: ECONorthwest analysis of City of Tualatin permit data.
Note: The large bump in residential permit valuation in 2018 is primarily due to the City of Tualatin permitting an above-average number of residential developments (101 total permits in 2018, compared to 11, 12, 35, and 37 total permits in other years). The large bump in commercial/industrial valuation in 2020 is predominately due to a new industrial structure permitted on Blake Street with a permit value of $90m (2020$).

Year	Commercial and Industrial Bulilding Permit Valuation (2020$)	Residential Building Permit Valuation (2020$)
2016	$17,166,894	$9,304,128
2017	$11,042,600	$6,270,048
2018	$53,020,643	$32,351,852
2019	$14,918,542	$1,257,071
2020	$112,883,996	$926,520
Annual Average	**$41,806,535**	**$10,021,924**
Total (2016-2020)	**$209,032,675**	**$50,109,618**

Next, the analysis calculated the revenue that the City would have generated if it had a CET in place during the 2016 to 2020 period (assuming the permitting activity had been unchanged as a result of that CET) using the different CET rates listed previously.

Exhibit 57 and Exhibit 58 show potential CET revenue for commercial/industrial development. This analysis shows that under the highest rate tested (2%), the average annual CET revenue over this period would have been about $836,100.

Exhibit 59 and Exhibit 60 show potential CET revenue for residential development. This analysis shows that under the highest rate tested (1%), the average annual CET revenue over this period would have been about $100,200.

Under either development type, the minimum CET revenue collected in a slow year would have varied little with the different rates, while the maximum collected in a "busy" year would have varied substantially.

Exhibit 2. Potential Annual Commercial/Industrial CET Revenue by Year and Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

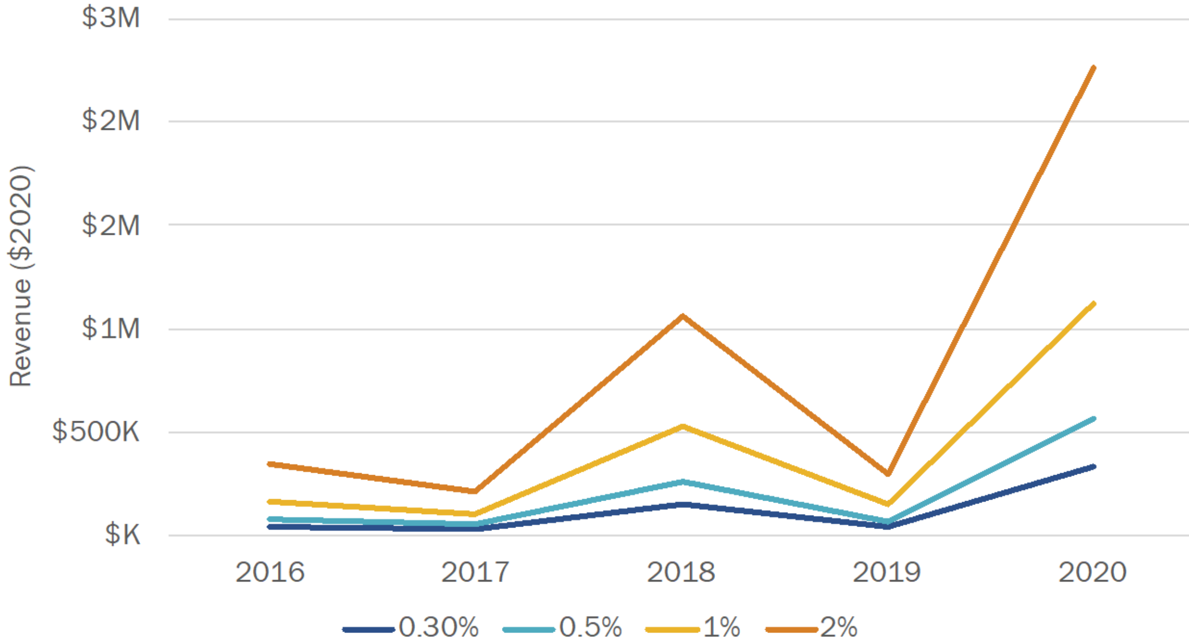


Exhibit 3. Historical Minimum, Maximum, and Average Annual Potential Commercial/Industrial CET Revenue by Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

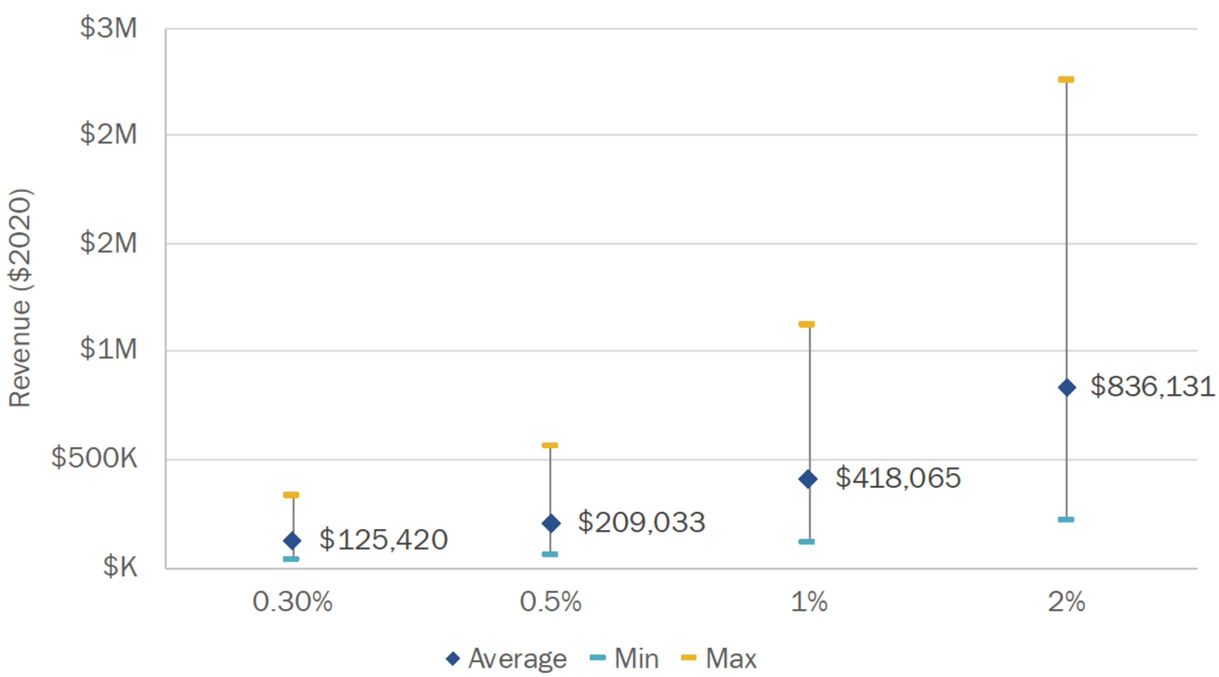


Exhibit 4. Potential Annual Residential CET Revenue by Year and Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

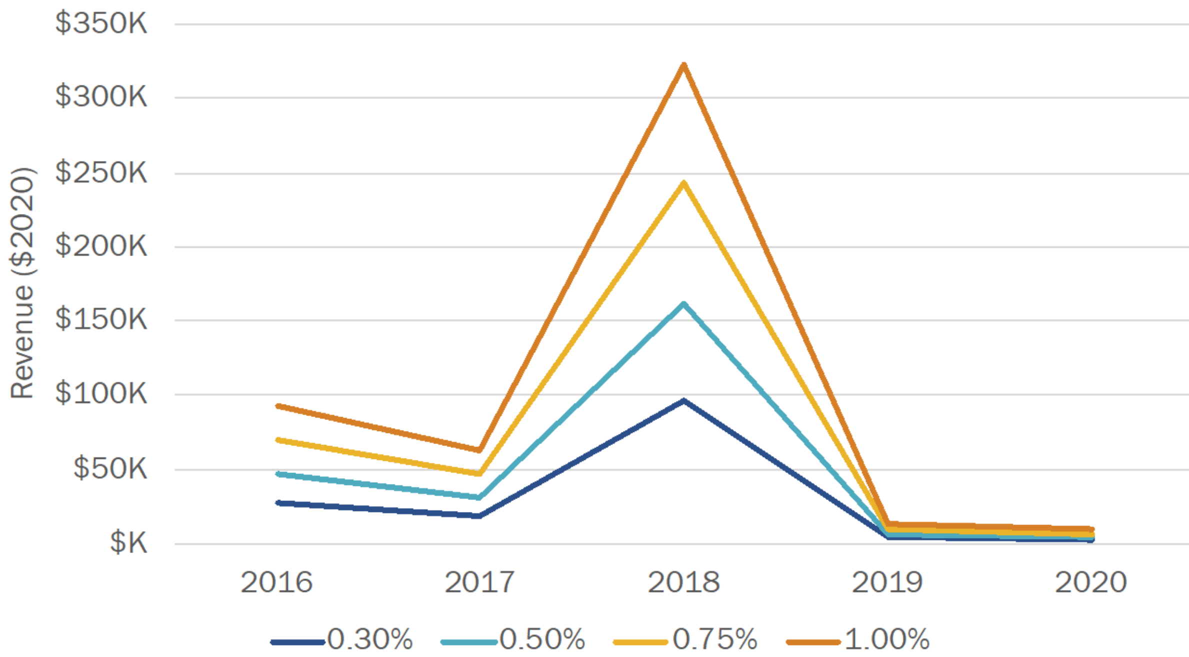
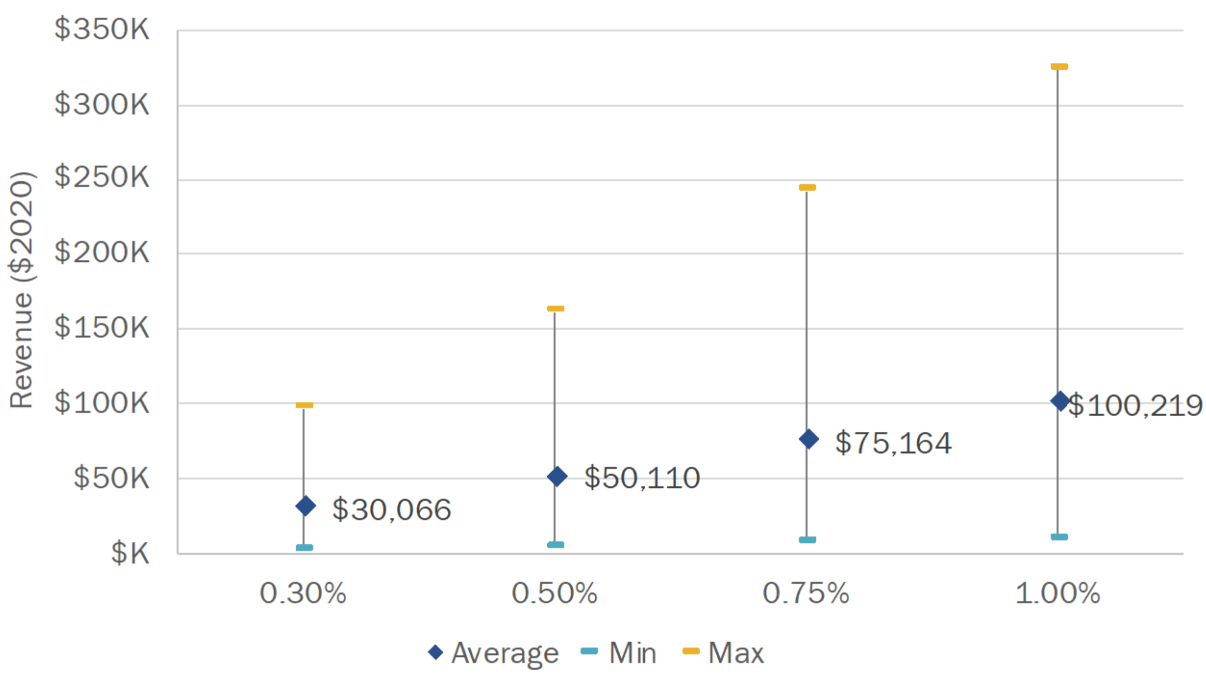


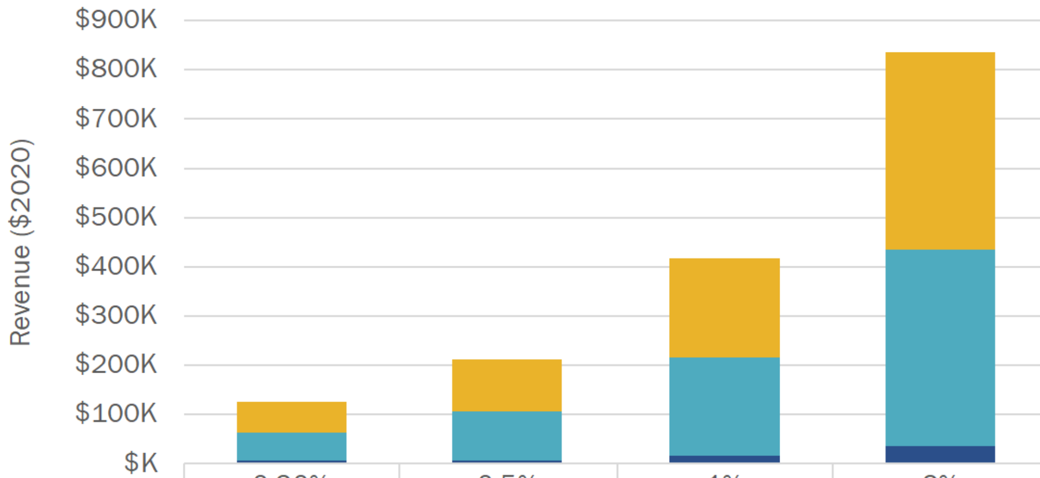
Exhibit 5. Historical Minimum, Maximum, and Average Annual Potential Residential CET Revenue by Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.



Based on the statutory requirements about use of funds, ECONorthwest translated the average annual simulated CET collections between 2016 and 2020 into funds available for each funding category, as shown in Exhibit 61 and Exhibit 62.

Exhibit 6. Hypothetical Total Commercial/Industrial CET Revenue (2016 to 2020) by Rate and Use of Funds

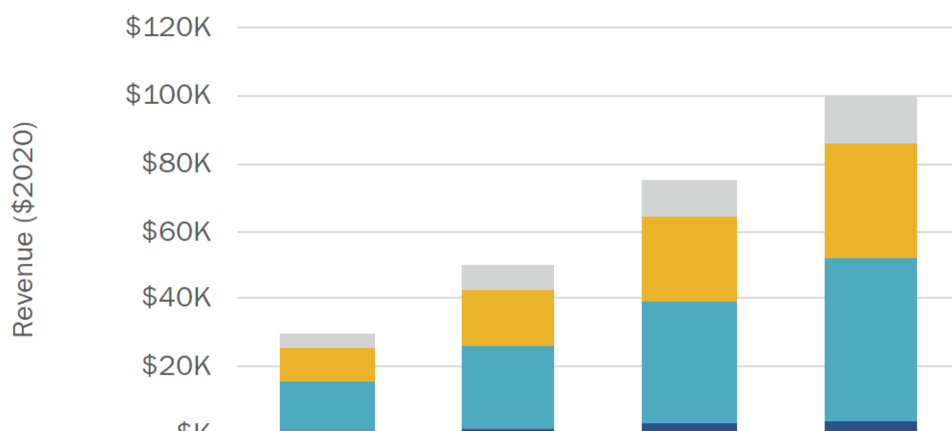
Source: ECONorthwest analysis of City of Tualatin permit data.



	0.30%	0.5%	1%	2%
Unrestricted	$60,201	$100,336	$200,671	$401,343
Housing Programs	$60,201	$100,336	$200,671	$401,343
Admin Costs	$5,017	$8,361	$16,723	$33,445

Exhibit 7. Hypothetical Total Residential CET Revenue (2016 to 2020) by Rate and Use of Funds

Source: ECONorthwest analysis of City of Tualatin permit data.



	0.30%	0.50%	0.75%	1.00%
OHCS	$4,329	$7,216	$10,824	$14,432
Affordable Housing Programs	$10,102	$16,837	$25,255	$33,674
Developer Incentives	$14,432	$24,053	$36,079	$48,105
Admin Costs	$1,203	$2,004	$3,007	$4,009

As shown above, a 0.5% or 1% rate on commercial and industrial development could generate meaningful revenue for programs, especially if the unrestricted portion is also dedicated toward housing programs. Because of the greater flexibility for these revenues, the City could design a flexible program for the revenues, or direct all of the net revenues towards a Housing Trust Fund or similar fund. This ease of use is important, because even with the higher revenue potential of the commercial/industrial CET, a 0.5% to 1% rate would offer little funding for administrative costs.

A CET on residential development would generate relatively little revenue given past trends in residential development, even at the maximum rate (1%). In addition, the administration would be more complex due to needing to separate out revenues toward the spending categories as specified in statute, while the funding available to cover administrative costs would be negligible.

Conclusions and Next Steps

Given the results summarized above, a 0.5% to 1% CET on commercial and industrial development may be worthwhile to consider as it could generate a flexible source of revenue for local housing programs, especially if the City continues to see strong industrial and commercial growth. Imposing a CET on residential development is likely not worth considering unless the City annexes a large amount of vacant residential land where higher-end new housing is expected.

If the City chooses to further evaluate adoption of a CET, it should conduct additional outreach to stakeholders and local businesses to offer an opportunity for discussion and to raise any concerns. The City should also advance conversations about the potential uses of the funds, even though this is flexible and does not necessarily need to be determined prior to adoption. Working with stakeholders to clearly define the program's intended purpose, how the funds (especially the unrestricted portion) would be used, and who would make decisions about the use of funds is likely to help build support for the program. If the City chooses to adopt a CET, it must pass an ordinance or resolution that states the rate and base of the tax. Most communities also identify any further self-imposed restrictions on the use of funds as part of adopting the ordinance. If the ordinance passes, the City must then establish a process to distribute the funds.

ECONorthwest
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DATE: 07/15/2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Summary of Nonprofit Corporation Low Income Housing Exemption

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy. To understand the potential trade-offs of implementing these strategies in Tualatin, this memorandum describes strategic actions around an affordable housing tax exemption and how it works. In addition, it summarizes an analysis of the potential impacts of implementing these actions. The final section outlines potential next steps for the City of Tualatin to consider.

Nonprofit Corporation Low-Income Rental Housing Tax Exemption

Overview

Tax Exemptions: Incentivizes affordable housing development by waiving some property taxes for qualifying projects. Depending on the local program, nonprofits or all housing developers may be eligible.

The **Nonprofit Corporation Low-Income Rental Housing Exemption**[1] provides a full property tax exemption for new and existing affordable housing owned and operated by a 501(c)(3) or (4) nonprofit organization, and land held by a nonprofit for future affordable housing development.

The Nonprofit Corporation Low-Income Rental Housing Exemption can apply for as long as the property using it meets eligibility criteria. These include requirements that tenants must initially qualify at 60% of Median Family Income (MFI) or below, which is about $55,000 for a family of four people in Tualatin based on 2020 MFI.[2] Once qualified, existing tenant incomes may rise to as much as 80% of MFI ($74,000 for a family of four) over time. Annual renewal is required to ensure compliance with these requirements.[3]

The City has options to consider in implementing the tax exemption. First and foremost is which taxing districts will participate in the tax exemption. Only the City's property taxes would be exempted unless there is sufficient support from overlapping taxing districts. If the City and other taxing districts that comprise at least 51% of the local tax roll participated in the program, qualifying developments could have 100% of their property taxes waived. With this majority, all taxing districts would be obligated to participate. Without the support of at least 51% of overlapping districts, only city taxes would be affected by the exemption. The city could

[1] This tax exemption is authorized in ORS 307.540 to 307.548.

[2] The information about Median Family Income below (and throughout the report) use the 2020 MFI for Washington County ($92,000). This is based on information in the Tualatin Housing Production Strategy.

[3] This requirement is stated in ORS 307.545.

also determine the length of these programs and whether to apply a cap on how long organizations may participate.

In addition, the City must select a definition of affordability (if different from the one stated above of having income at or below 60% of MFI) and set local requirements for receiving this tax exemption, if any. The exemption can be granted for as long as the property meets eligibility criteria, but the property owner must reapply on an annual basis to demonstrate on-going eligibility. For land held for future affordable housing development, the City sets a limit on how long the exemption can apply, with the option for property owners to apply for an extension after that time.

This exemption is granted to development of rental housing with state and federal funding that requires verification of tenant incomes to ensure the tenants meet the income requirements. As a result, little or no additional monitoring or enforcement is likely needed for this program, since eligibility is limited to nonprofit affordable housing providers and the annual application process provides evidence of eligibility. In addition, if part of an eligible property is used for purposes other than low-income housing (e.g., a commercial use or mixed-income housing), the exemption is pro-rated.

Some examples of cities that have adopted this tax exemption include: Newport, Beaverton, Portland, Tigard, Forest Grove, Cornelius, and Wilsonville.

Fiscal Impacts/Who Pays

Nonprofit Low-Income Rental Housing Exemption is implemented, the City would forgo property tax income for qualifying new development for the duration of the exemption. This reduces some revenue for city services and potentially revenue for participating taxing districts such as school districts. However, if no development was to happen, then no taxes would be generated. The level of impact on tax revenue is contingent on affordable projects occurring in Tualatin and developers using the program.

Pros and Cons

Pros:

- The abatement can be used for most nonprofit affordable rental housing development.
- Can apply to both existing and new housing.
- Reduces carrying costs before development occurs (tax exemption available for land being held for development of affordable units), and offsets operational costs once the development is complete, reducing feasibility gaps.
- Allows a city to adopt additional criteria, such as a cap on the number of eligible properties or on the amount of lost tax revenue.
- City services and other taxing districts would not forgo any revenue unless projects were built that served tenants under 60% MFI and developers used the program.

- The structure of this subsidy is simple and straightforward to affordable housing developers. Because it is by-right, it also eliminated some of the administrative costs of programs that are more discretionary.

Cons:

- The city must get affirmative support from enough overlapping taxing districts to apply to their tax collections.
- The tax exemption reduces general fund revenues for all affected taxing districts. This could potentially cause funding gaps that need to be backfilled for some taxing districts
- This tax exemption only applies to housing that is affordable for households with income below 60% of MFI. So, it does not support development of mixed-income housing or affordable housing built by for-profit developers.
- The requirement for the property owner to resubmit eligibility documentation every year may be burdensome, though a streamlined application process can mitigate this.
- Compared to state or federal affordable housing programs, the burden is on local tax payers. Unfortunately, due to construction costs and lack of significant affordable housing funds, layering local, state and federal funds is often necessary.
- Some review of income eligibility by residents is required to maintain these programs. In other jurisdictions in Oregon programs are typically administered by a city's housing bureau or planning and development staff. This will also require some capacity for reporting from participating developers.

Summary of Tax Exemption Analysis

Estimating Forgone Revenue

Methodology Overview

To estimate forgone tax revenue from implementing the Nonprofit Corporation Low-Income Rental Housing Exemption, ECONorthwest identified recent examples of affordable multifamily developments that could have potentially qualified for this program (Exhibit 2).

Given the shortage of new affordable multifamily development in Tualatin in the last ten years, two of the three examples used are comparable projects built nearby in Tigard. Tigard shares some of the same taxing districts as Tualatin, including schools and aquatic centers as well as Washington County, Port of Portland, and Metro Regional Government rates. The third example used was an older affordable housing complex in Tualatin originally built in 1972 but recently renovated in 2021.

Exhibit 1. Comparable Affordable Multifamily Buildings
Source: CoStar

	Red Rock Creek Commons	The Fields	River Loft Apartments
Developer	Community Partners for Affordable Housing (CPAH)	DBG Properties	Next Wave Investors
Jurisdiction	Tigard	Tigard	Tualatin
Year Built	2021	2021	1972 (Renov. 2021)
Lot Size	0.88 acres	24.12 acres	3.8 acres
Units	48	264	74
Average Sq. Ft. per Unit	591 sq ft.	759 sq ft.	930 sq ft.
Assessed Value*	$2,974,590	$17,576,080	$4,274,350

*For those examples recently built in Tigard, the assessed value was not directly available through the Washington County Assessment and Taxation portal because they were already using the city's Nonprofit Corporation Low Income Housing Exemption. To approximate this value, we used their real market value (RMV) included in publicly available assessor files and Washington County's 2021-2022 changed property ration (CPR) for apartment buildings (0.356).

Using these assessed values, we calculated the hypothetical tax dollars that would have been exempted by unit if these projects had been built in Tualatin with the tax schedule in Exhibit 2. Then, we projected how these onto a hypothetical building to demonstrate the forgone tax revenue for a 100-unit building, with considerations for the impact on different taxing districts.

Property Tax Rates

There are a number of taxing districts which have coverage in the City of Tualatin. The City could either model their exemption with their own taxes or all overlapping districts. Exhibit 2 shows the rate each of these districts alongside the rate that they charge on assessed property value and their share of the total tax roll.

The largest share of property taxes in Tualatin goes to public school systems. Although multiple school districts overlap the city including Tigard-Tualatin, West Linn-Wilsonville, Sherwood, and Lake Oswego, this model uses the district with the most coverage (Tigard-Tualatin).

Tualatin also spans two counties in Oregon. Although a portion of the city is in Clackamas County, the majority of the city falls on the Washington County side. This model assumes Washington County's tax rates, though they may generally be lower in Clackamas.

Exhibit 2. Property Tax Rates for All Districts in Tualatin, OR
Source: Washington County Assessment and Taxation

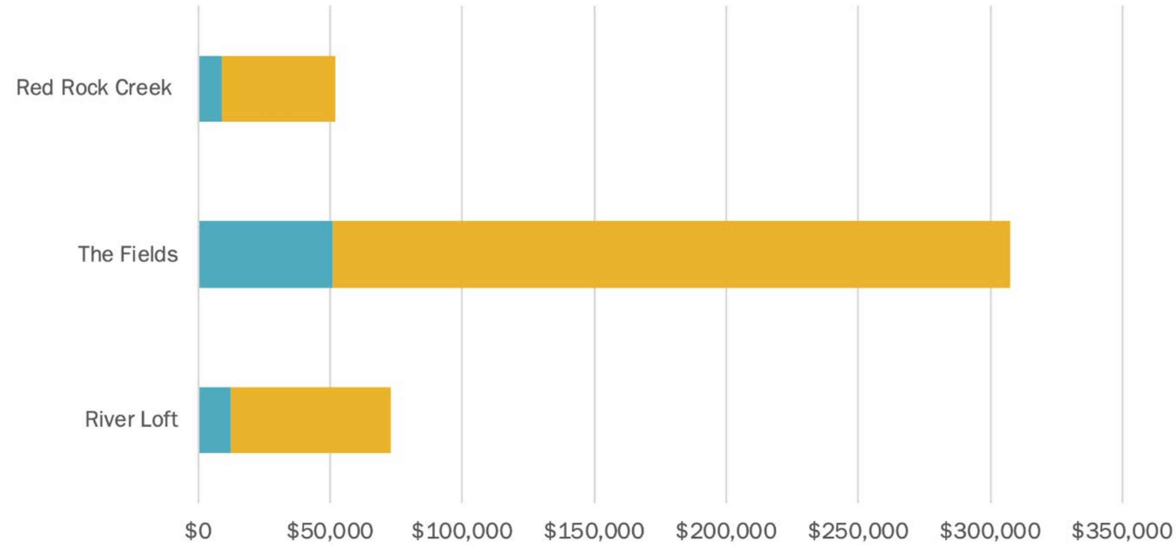
Taxing District	Tax Rate per $1,000 of value	Share
Tigard-Tualatin School District	0.78%	44.7%
Washington County	0.30%	17.3%
City of Tualatin	**0.29%**	**16.5%**
Tualatin Valley Fire and Rescue	0.21%	12.2%
Portland Community College	0.07%	3.8%
Metro Regional Government	0.06%	3.3%
Northwest Regional Education Service District	0.02%	0.9%
Port of Portland	0.01%	0.4%
Tigard-Tualatin Aquatic District	0.01%	0.5%
SWC Tualatin	0.01%	0.5%
Total (All Districts)	**1.74%**	**100%**

Results

If the City alone were to implement a Nonprofit Low-Income Rental Housing Tax Exemption program, it would alleviate 16.5% of property taxes for participating projects. If all taxing districts were to participate, this total exemption would be higher and alleviate 100% of annual tax burden for years that the building was included in the program.

Using comparable multifamily building examples, we first estimated the total forgone revenue that would have been associated with those projects (Exhibit 3). There is a wide range in these values based on the number of units, unit mix, location, and other features.

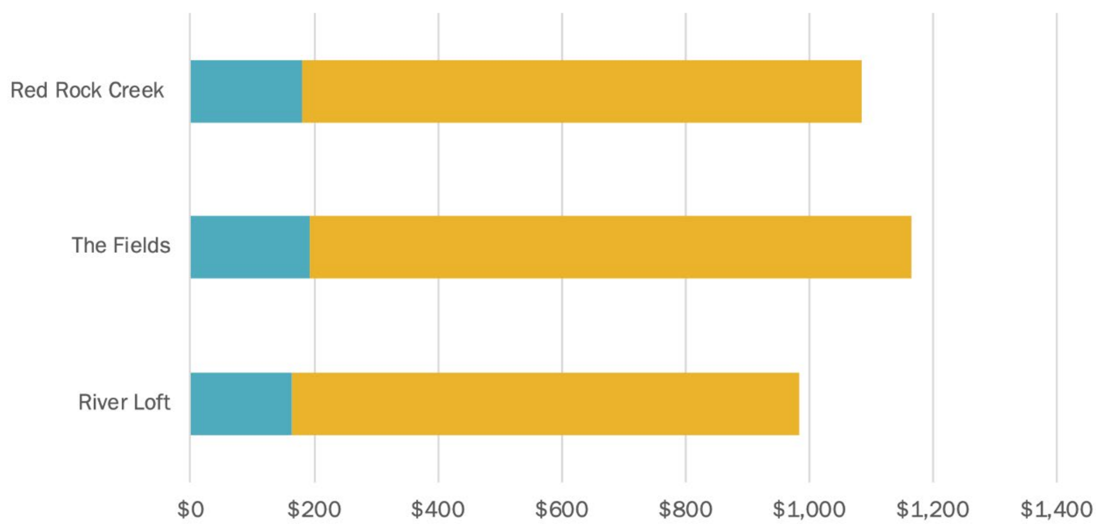
Exhibit 3. Total Potential Annual Forgone Tax Revenue in Comparable Multifamily Buildings
Source: Washington County Assessment and Taxation, ECONorthwest Analysis



	River Loft	The Fields	Red Rock Creek
City Total	$12,055	$50,971	$8,626
Other Districts Total	$60,689	$256,611	$43,429

City Total Other Districts Total

Exhibit 4. Potential Forgone Tax Revenue Per Unit in Comparable Multifamily Buildings
Source: Washington County Assessment and Taxation, ECONorthwest Analysis



	River Loft	The Fields	Red Rock Creek
City Revenue Per Unit	$163	$193	$180
Other Districts Per Unit	$820	$972	$905

City Revenue Per Unit Other Districts Per Unit

Based on these total figures and building specifications, the potential forgone annual revenue for the City would range from $163-193 per affordable unit (Exhibit 4). Different unit sizes and types may also account for the variability in this range. The average across all example buildings would be **$179 of forgone annual revenue to the City per unit**. If applied to all taxing districts this impact higher, ranging from **$983-1,165 per unit with an average of $1,078.**

For Tualatin only, using the average amount per unit (approximately $179), we estimate that multiplied across a new development, **for every 100 affordable units built using the exemption, the City would forgo $17,856 in potential tax revenue per year of the program.**

It is possible that the City may reach an agreement with taxing districts that make up at least 51% of the total levy. In this case all taxing districts would be obligated to participate, resulting in a 100% tax exemption program. If this total exemption were applied at the average of approximately $1,078 per unit, **it would total $107,753 in annual savings for a 100-unit affordable building.** Of this amount, public school districts would account for the largest share at 45% (or $48,204 annually) of the forgone revenue for those units.

Example Tax Exemption Programs

Other jurisdictions have applied the Nonprofit Low-Income Rental Housing Tax Exemptions to their areas. The examples below provide implementation considerations for how Tualatin could structure a similar exemption program.

Portland: Non-Profit Low Income Housing Limited Tax Exemption (NPLTE)

- Portland offers three limited tax exemption programs, including one specifically for nonprofit organizations. To qualify for this program, properties must be located within the City of Portland and rents must be affordable to households earning 60% AMI or less.
- NPLTE is available to participating organizations who are certified by the Internal Revenue Service as 501(c)(3) or (4). They must own, have a leasehold interest in the property, or participate in a partnership where they are responsible for day-to-day property management.
- The Portland Housing Bureau (PHB) administers this program on behalf of the City of Portland by reviewing and approving applications. There is an annual renewal process and fee for participants. In PHB's most recent reporting (2017-18), 11,365 units in the city were using the program for rent-restricted housing units in multifamily buildings. No units in the program were for single-family homes, though it is not specifically prohibited.

Conclusions and Next Steps

- The City should consider this subsidy mechanism as part of the larger mix of funding sources to support development of income-restricted affordable housing. Given the substantial funding gaps that exist with affordable housing projects, this is a powerful and relatively simple tool to put into play.

- A tax abatement does not layer with all potential forms of subsidy. For example, Urban Renewal uses tax increment financing that typically accesses the same property taxes which would be forgone by the program. A tax exemption would work well with other approaches that add revenue to the City's budget (for instance, a Construction Excise Tax).
- The total impact of the tax exemption for supporting affordable housing development will depend on whether other taxing districts are willing to join the abatement or if it will just apply to city taxes. The Tigard-Tualatin School District participates in a nonprofit tax exemption in Tigard, indicating that they may be willing to consider a similar program in Tualatin. Washington County (who accounts for 17.3% of the tax roll) also offers an exemption for unincorporated areas outside of cities.