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November 18, 2016

Mayor Hales
Commissioner Saltzman
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RE: Inclusionary Housing Zoning Code Project

Mayor Hales and City Commissioners:

The Portland Planning and Sustainability Commission (PSC) is pleased to forward you our unanimous recommendation with conditions to amend the Zoning Code and the Housing Code to implement an Inclusionary Housing program in Portland. This recommendation is consistent with the policy direction in the existing 1980 Comprehensive Plan, the 2035 Comprehensive Plan, the 2015 Climate Action Plan, Senate Bill 1533 and Resolution 37187.

Housing prices in Portland have increased significantly beyond both recession-level housing prices and pre-recession 2007 levels. The proposed Inclusionary Housing Zoning Code and Program links the production of affordable housing to the production of market-rate housing by requiring new residential developments to include a certain percentage of affordable units.

The Inclusionary Housing Program (IHP) proposed by the Portland Housing Bureau would require certain projects to provide housing affordable to households below 80 percent of median family income (MFI) with an alternative option for projects that choose to produce housing for households at 60 percent MFI and below. It would require that all development projects of 20 or more dwelling units participate in the IHP, and would allow bonus floor area ratio and height for participating projects. Finally, the proposal provides for incentive packages to be offered to developers to offset the costs to provide affordable units, and an option to pay an in-lieu fee as an alternative to providing units within the project. The IHP also is designed to help maintain income diversity in neighborhoods as our city grows.

Implementing an Inclusionary Housing Program requires amendments to the Zoning Code in Title 33 (33.245) to add requirements to the base zones, the Central City Plan District and the Gateway Plan District. The new code would set the percent of units that must be affordable to meet the terms of the program, called the “inclusion rate”.



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The other parts of the Inclusionary Housing Program will be implemented through amendments to Title 30, the Housing Code. These provisions include the incentive packages offered to offset the costs to development and an option to pay an in-lieu fee or build affordable units off-site as alternatives to providing units within the project.

The PSC focused our discussion and recommendation on the balance between inclusion rate, incentive packages and the need to provide housing to meet the 2035 growth forecast. We felt we did not have sufficient information to be confident that the Inclusionary Housing Program as proposed to us would not unacceptably reduce the feasibility of development.

The PSC was especially concerned that the program depended on resources for the incentive packages that are not certain to be available or that might be available only at the expense of other critical programs. The PSC was also concerned that by offering a larger incentive package to meet the inclusion rates proposed by the Portland Housing Bureau (PHB), funding for other essential services and programs (housing development for below 50 percent MFI households, housing and homeless services, parks or green infrastructure projects) would be significantly reduced.

In its deliberations, the PSC started with the premise that the cost to development from the IH program should not be so high as to significantly suppress the rate of development. If development drops, the program will not meet affordable housing production goals or goals for city growth overall.

The PSC deliberated on what should be the level of offset to the costs to development from including affordable units. The PSC did not feel that it had sufficient information, analysis or time to recommend a specific level of offset. However, the PSC recommends that the initial IH program should fully offset the costs. It should do this through a combination of inclusion rates and incentives. The PSC is concerned that the City not offer more financial incentives than is necessary to offset the costs.

In the future, the initial offset level should be adjusted based on the performance of the program and the market. Setting the initial level of offset to 100 percent of costs, does not mean that it will not be appropriate to increase the share of costs absorbed by development by reducing the offset in the future. This should be considered as part of the annual program review.

The PSC unanimously supports having an Inclusionary Housing (IH) program as one of the many tools to increase Portland's affordable housing supply overall and in high-opportunity neighborhoods.

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We voted unanimously to forward the following nine findings and/or recommendations to City Council:

1. The PSC supports, in combination with the other recommendations set out below, setting the inclusion rates required by the IH program as follows:
 - a. For the mandatory program, 20 percent of all units must be affordable to households at 80 percent MFI or below.
 - b. For the voluntary program, 10 percent of all units must be affordable to households at 60 percent MFI or below.
2. The PSC finds that if the incentive package offered as part of the IH program is not sufficient to fully offset the cost of providing the affordable units, there will be an unacceptable risk of reducing the overall rate of residential development. This will hinder our ability to meet housing affordability, transportation, carbon reduction and other goals in the 2035 Comprehensive Plan. Therefore, the PSC recommends the following:
 - a. The incentive packages offered should fully offset the impact of providing the affordable units on a project's financial feasibility; and
 - b. The incentive packages must be fully funded to be able to meet the expected level of development.
3. The PSC finds that it is the combination of the inclusion rate and the amount of incentives that need to offset the impact of IH requirements on development feasibility. If there is a gap between the cost and the offset, either the incentives need to be increased and/or the inclusion rate decreased.

The PSC recommends that if the City is unable to provide and fund incentives sufficient to offset the full development feasibility gap, then the required inclusion rates in Title 33 should be lowered.

4. A 10-year tax exemption is one of the most significant incentives offered in the proposed IH program. The total amount of this incentive available to use for IH is limited by current \$3 million per year cap on tax exemptions.

The PSC is concerned that this will not be enough to cover incentives for the level of development forecasted and desired to meet overall housing needs by 2035. If the tax exemption cap is used up before the end of a year, development projects after that date may need to be exempted from the IH program. Concern was expressed about suspending the program once funding runs out because it could have unpredictable and negative impacts on private development timing and feasibility.

Therefore, the PSC recommends that the City start negotiations now with Multnomah County to raise the tax exemption cap amount so there are sufficient funds available before implementation of the IH program.

5. Based on the consultant's analysis, the PSC finds that the incentive package as currently proposed by PHB is insufficient to fully offset costs to projects within and outside the Central City. The PSC is especially concerned that PHB's incentive package for projects outside the Central City will limit development in centers and corridors, which based on



the Comprehensive Plan, need to accommodate 50 percent of the city's growth over the next 20 years.

The PSC recommends that the incentive package for IH projects be increased to fully offset costs. This will require more density bonus, 1-10 years of tax exemption on either all units or just the affordable ones, and/or CET funds. SDC waivers should only be considered for units at 60 percent MFI. The incentive packages must be fully funded to be able to meet the expected level of development and to support the geographic distribution of development called for in the Comprehensive Plan. Again, if the incentive packages cannot be increased, the inclusion rates need to be reduced.

We also recognize the concerns of the Historic Landmarks Commission (PHLC) and ask that BPS staff work with the PHLC to evaluate and consider the impact of inclusionary housing density bonuses on Historic and Conservation Districts in the Central City 2035 Plan and future planning effort to reconcile the inclusionary housing bonus system with existing zoning designations and plan districts.

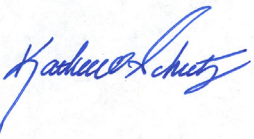
6. To ensure that the inclusion rates and the supporting incentives are calibrated as a unified package, the PSC recommends that the ordinances the City Council adopts to implement the inclusionary housing program should include all of the necessary amendments to Title 33 and Title 30.
7. The PSC finds that the in-lieu fee is an important relief valve for when the IH program is out of calibration with the financial feasibility of projects. The in-lieu fee should be set so that the cost is more expensive than providing units on-site. However, we are also concerned that the proposed fee schedule may be too high and recommend that it should be lowered.
8. The IH program's impact on private development markets is complicated and uncertain. The PSC recommends that City Council require PHB and BPS to provide an annual monitoring report to the PSC. The PSC will use this information to review the inclusion rate and recommend adjustments as appropriate, including reducing the incentive package if projects are seeing windfall profits or can withstand a greater feasibility gap.
9. Off-street parking represents a significant cost of housing development. Consistent with the proposed amendment to the early implementation of the 2035 Comprehensive Plan zoning changes, the PSC recommends eliminating parking minimums close to transit in the current Zoning Code (effective date of February 1, 2017).

The current development cycle is in full swing and there are a lot of projects in the pipeline. In addition to the above conditions, the PSC strongly recommends that the City explore how to incent these projects that will be vested before the IH program to include affordable units. This could also apply to projects with fewer than 20 units. The PSC also expressed concern that IH will affect the creation of new family-sized units and recommends that the Council direct BPS and PHB to study how to incentivize two and three bedroom units with a report back to the PSC and City Council.



While we have concerns about the effectiveness of the Inclusionary Housing program as proposed and the uncertainty of the impact to the housing market broadly, the PSC supports the implementation of an Inclusionary Housing program as one of the many tools needed to address Portland's increasing challenge of housing affordability and work towards an equitable, prosperous and healthy city for all Portlanders.

Sincerely,



Katherine Schultz
Chair

