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191595

Emergency Ordinance

*Amend Property Tax Exemption Code and System Development Charges for Affordable Housing Developments Code to temporarily enable homeownership opportunities for households earning up to 120 percent of median family income (amend Code Sections 3.102.040 and 30.01.095)

Passed

Amended by Council

The City of Portland ordains:

Section 1. The Council finds:

1. On behalf of the City of Portland, the Portland Housing Bureau ("PHB") administers the Homebuyer Opportunity Limited Tax Exemption Program (the "HOLTE Program"), authorized under ORS 307.651-307.687 and PCC 3.102, and the System Development Charge Exemption Program (the "SDC Exemption Program") authorized under PCC 30.01.095.
2. The HOLTE Program provides a ten-year property tax exemption on the assessed value of structural improvements of newly built homes. During the exemption period, homeowners remain responsible for the payment of taxes on the assessed value of the land.
3. The SDC Exemption Program removes fees that would otherwise be payable by homebuilders to the Bureaus of Environmental Services, Parks and Recreation, Transportation, and Water at building permit issuance.
4. The HOLTE Program and the SDC Exemption Program require homebuilders to sell homes to homebuyers earning up to 100 percent of median family income ("MFI") for a family of four, and adjusted upwards for households larger than four, and below the sale price cap approved annually by City Council.
5. Due to interest rates increasing to around eight percent, fewer homebuyers at 100 percent of MFI can qualify for loans allowing them

Introduced by

[Commissioner Carmen Rubio](#)

Bureau

[Housing Bureau](#)

Contact

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Requested Agenda Type

Regular

Date and Time Information

Requested Council Date

January 17, 2024

Changes City Code

to purchase homes.

6. Current market conditions including the cost of construction limit the fee amounts homebuilders can pay back through the SDC Exemption Program when selling to an over-income homebuyer.
7. The City desires to adjust the HOLTE Program and the SDC Exemption Program for a limited time, so that homebuilders can continue selling homes to moderate-income homebuyers, by increasing the income limit to 120 percent of MFI.

NOW, THEREFORE, the Council directs:

- A. City Code Sections 3.102.040 and 30.01.095 are amended as shown in Exhibit A.

Section 2. The Council declares that an emergency exists because timely City approval of this Ordinance is necessary to help ease home sales during current market conditions; therefore, this Ordinance shall be in full force and effect from and after its passage by the Council.

Documents and Exhibits

 [Exhibit A \(https://www.portland.gov/sites/default/files/council-documents/2024/exhibit-a_0.pdf\)](https://www.portland.gov/sites/default/files/council-documents/2024/exhibit-a_0.pdf) 306.6 KB

An ordinance when passed by the Council shall be signed by the Auditor. It shall be carefully filed and preserved in the custody of the Auditor (City Charter Chapter 2 Article 1 Section 2-122)

Passed as amended by Council
January 17, 2024

Auditor of the City of Portland
Simone Rede

Impact Statement

Purpose of Proposed Legislation and Background Information

This legislation temporarily increases the maximum income level allowed for homebuyers purchasing homes benefitting from the Homebuyer Opportunity Limited Tax Exemption (HOLTE) and System Development (SDC) Exemption Programs.

Portland Housing Bureau (PHB) administers the HOLTE Program, authorized under ORS 307.651 and Portland City Code (PCC) 3.102, and the SDC Exemption Program authorized under PCC 30.01.095. These development incentives help promote the creation of newly built homes that are affordable to low- to moderate-income homebuyers. Homeownership is traditionally considered to be one of the most

accessible generational wealth-building tools and provides stability for families.

The HOLTE Program provides a ten-year property tax exemption on the assessed value of homes which are built under the program and sold to eligible homebuyers within the annually established sale price cap. The SDC Exemption Program reduces the building permit cost by around \$22,000 for each new home built. Together, the programs encourage the development of new homeownership opportunities within Portland.

Both programs require homes to be owner-occupied and not used as rental properties. To income-qualify, homebuyers must earn no more than 100% of area median family income (MFI) for a household of four (\$114,400). Currently, the sale price cap for 2023 is \$455,000, which will remain the same in 2024.

Current financial and other market conditions have increased the cost to build new homes, despite Council approved actions allowing denser, in-fill development. These same conditions affect the interest rates and loan terms available to homebuyers as well. With interest rates around eight percent currently, homebuyers' purchasing power has been reduced significantly. As a result, home sales have declined, and homes are staying on the market longer. There are fewer homes available within prices affordable to homebuyers earning 100 percent MFI. More homes approved for the HOLTE and SDC Exemption Programs are selling for over the sale price or to unqualified homebuyers. In those situations, the SDCs are repaid, and the tax exemption is removed.

Temporarily increasing the maximum income level for the HOLTE and SDC Exemption Programs to 120 percent of MFI (\$137,280) expands the pool of income-qualified homebuyers able to access the programs. Doing so will allow homebuilders to continue with their participation in the programs rather than selling to over-income homebuyers, or risk converting homes to rental housing or ending up in foreclosure. The increase will not prevent homebuyers earning less than the usual 100 percent MFI to still purchase homes in the program in the meantime. Limiting the timeframe for the increased MFI level allows for the City to reassess the programs after two years, when interest rates will have hopefully decreased to more traditional levels as seen in the recent past.

Financial and Budgetary Impacts

The HOLTE and SDC Exemption Programs provide indirect financial assistance resulting in foregone revenue to the local taxing jurisdictions and the Bureaus of Environmental Services, Parks, Transportation, and Water. These programs also help promote new home construction which increases the amount of taxes paid on the newly assessed land, and on the increased value of the homes, after the HOLTE expires in ten years. Without new construction, these revenues would not be realized at all. It is in the City's best interest to continue promoting new development because there

is still a net increase to incoming revenue, despite the exemption programs. Expanding the income limit to allow access to more potential homebuyers will affect homes already in the planning phases, currently under construction, or built and listed for sale. Most of these homes have already been approved for HOLTE and SDC exemptions and have been accounted for within the current cap on HOLTE applications and already submitted to the SDC bureaus to have the exemptions applied to building permits. There are currently about 900 unsold homes already approved for SDC exemptions.

Community Impacts and Community Involvement

The development incentives programs promote new housing opportunities across Portland. This legislation to increase the MFI level for the HOLTE and SDC Exemption Programs is supported by the Homebuilders Association of Greater Portland, the Portland Metro Chamber, Oregon Smart Growth, and the Portland Metropolitan Association of Realtors.

As the largest taxing jurisdiction affected by tax exemption programs, Multnomah County has approved the administration of the HOLTE Program to meet shared housing goals. The County Commission needs to approve this temporary increase to the MFI levels for the change to go into effect for the HOLTE Program.

100% Renewable Goal

The HOLTE and SDC Exemption Programs do not impact the City's total renewable energy use.

Budget Office Financial Impact Analysis

This legislation temporarily increases the maximum income level allowed for homebuyers purchasing homes benefitting from the Homebuyer Opportunity Limited Tax Exemption (HOLTE) and System Development (SDC) Exemption Programs. The HOLTE Program provides a ten-year property tax exemption on the assessed value of homes which are built under the program and sold to eligible homebuyers within the annually established sale price cap. The SDC Exemption Program reduces the building permit cost by around \$22,000 for each new home built. Together, the programs encourage the development of new homeownership opportunities within Portland.

To income-qualify, homebuyers must earn no more than 100% of area median family income (MFI) for a household of four (\$114,400). Currently, the sale price cap for 2023 is \$455,000, which will remain the same in 2024. Current financial and other market conditions have caused fewer homes to be available within prices affordable to homebuyers earning 100% MFI. More homes approved for the HOLTE and SDC Exemption Programs are selling for over the sale price or to unqualified homebuyers. In those situations, the SDCs are repaid, and the tax exemption is removed.

Temporarily increasing the maximum income level for the HOLTE and SDC Exemption Programs to 120% of MFI (\$137,280) expands the pool of income-qualified homebuyers able to access the programs. Doing so will allow homebuilders to continue with their participation in the programs rather than selling to over-income homebuyers, or risk converting homes to rental housing or ending up in foreclosure. Limiting the timeframe for the increased MFI level allows for the City to reassess the programs after two years, when interest rates will have hopefully decreased to more traditional levels as seen in the recent past.

The HOLTE and SDC Exemption Programs provide indirect financial assistance resulting in foregone revenue to the local taxing jurisdictions and the Bureaus of Environmental Services, Parks, Transportation, and Water. These programs also help promote new home construction which increases the amount of taxes paid on the newly assessed land, and on the increased value of the homes, after the HOLTE expires in ten years. PHB believes that without new construction, these revenues would not be realized at all, and it is in the City's best interest to continue promoting new development because there is still a net increase to incoming revenue, despite the exemption programs. The bureau states that expanding the income limit to allow access to more potential homebuyers will affect homes already in the planning phases, currently under construction, or built and listed for sale. Most of these homes have already been approved for HOLTE and SDC exemptions and have been accounted for within the current cap on HOLTE applications and already submitted to the SDC bureaus to have the exemptions applied to building permits.

As of a few weeks ago, there were about 900 unsold homes with SDC exemptions approved over the last couple of years, and the exemptions have already been accounted for by the SDC bureaus. There are another 200 or so pending applications, but applications have slowed down a little after the last two years of exponential activity. Traditionally, about 20%-25% of approved SDC exemptions have ended up not having qualified home sales and the exempted SDCs paid back. Within the last year or so, 40%-50% of exempted SDC exemptions have been out of compliance and had SDCs repaid. PHB believes that the increase to 120% MFI should ideally allow more homes to be sold to qualified homebuyers so that the City can expect to return to roughly 20%-25% of SDCs being repaid. As for the HOLTE, the change likewise applies to applications already approved or in process, so the temporary increase is intended to maintain the viability of the program to help homebuyers while rates are high and help protect homebuilders from facing foreclosure or deciding to rent out homes instead. PHB does not expect an inflated number of new applications that would impact what has already been approved as potential foregone revenue for both programs.

Agenda Items

30 Regular Agenda in [January 10-11, 2024 Council Agenda](https://www.portland.gov/council/agenda/2024/1/10) (<https://www.portland.gov/council/agenda/2024/1/10>)

Passed to second reading as amended

Motion to remove the emergency clause: Moved by Rubio and seconded by Mapps. (Y-5)

Passed to second reading as amended January 17, 2024 at 9:30 a.m.

56 Regular Agenda in [January 17, 2024 Council Agenda](https://www.portland.gov/council/agenda/2024/1/17) (<https://www.portland.gov/council/agenda/2024/1/17>)

Passed As Amended

Motion to add an emergency clause to allow the changes to the SDC waivers to go into effect right away which will help pending real estate purchases move forward: Moved by Rubio and seconded by Mapps. (Y-5)

Commissioner Carmen Rubio Yea

Commissioner Dan Ryan Yea

Commissioner Rene Gonzalez Yea

Commissioner Mingus Mapps Yea

Mayor Ted Wheeler Yea