

## ***Limited Tax Exemption (LTE) Program Review***

### **Introduction:**

The City of Portland Limited Tax Exemption (LTE) programs utilize the authority of taxing jurisdictions to invest a portion of the real property tax revenue that is generated by development activity to induce outcomes from that development that the market might not otherwise deliver.

The Big Look Policy Review process was launched by Commissioner Fish and Chair Cogen in early 2010 to

- thoroughly review the City of Portland LTE programs,
- assess the effectiveness of the programs and the degree of alignment with the current and future housing goals of the City and other jurisdictional partners, and
- make recommendations for improvements in the programs to increase alignment with policy and administrative accountability and efficiency.

We commissioned an evaluation of the LTE programs by EcoNorthwest and involved the Assessor's office, PHB, BPS, and PDC in the evaluation of what was working and what wasn't.

The County and City invited a panel of knowledgeable practitioners to convene as the Policy Review Committee to review the analysis and the outcomes of the programs and advise leadership on improvements to be made.

Of the five LTE programs the City has operated, the primary focus of the Policy Review Committee has been on the Single Family New Construction (SFNC) program and the New Multiple Unit and Transit Oriented Development programs.

The Residential Rehabilitation LTE has been rendered largely obsolete by provisions of Measure 5, so that there really isn't a tax impact resulting from the increase in improvement value when a residence is rehabbed.

The Non-profit Housing Abatement creates deeper affordability in the housing portfolio owned and operated by the city's non-profit housing providers that is essential to meeting the housing needs of the residents in the 8,500 units in the program. The City and County are in agreement that the Non-profit program operates well to complement the other investments these partners make in meeting the needs of very-low income residents in responsibly operated affordable housing.

### **Single Family New Construction:**

**The analysis of the SFNC program was undertaken with a focus on its usefulness in advancing the City's primary homeownership goal – closing the minority homeownership gap.**

The program was originally founded as a means to encourage the development of single family housing – at any affordability level – in “distressed areas” of the city. The program has been modified over the years to add affordability requirements and continuing owner-occupancy.

The analysis showed that while the program best served a fairly narrow band of income qualified homebuyers, the homebuyers ultimately benefitting from the program in 09/10 were 44% minority and in 10/11 69% minority. Analysis also illuminated that administratively, the SFNC program was staff intensive and high volume.

The SFNC is a builder driven program, so improvements in the program being considered are aimed at increasing builder awareness and capacity to build and market a home that is attractive and affordable to minority homebuyers whose annual income does not exceed 100% of mfi for a family of 4, currently \$72,000. New program requirements will:

- reduce the maximum allowed sales price from 120% of median sales price to 100%
- require the builder to demonstrate an affirmative marketing strategy and/or a partnership with a community based organization promoting minority homeownership
- require demonstration of healthy and energy efficient construction through utilization of an appropriate green building program; and adherence to established quality design standards

Further, the program changes will control administrative expenses by capping the total number of applications approved per year at 100, which is down from around 180 for recent years.

## **Multi-unit programs**

**The Multi-unit programs must shift from the historical focus on catalyzing residential development where it may not have otherwise occurred to assuring that new market-driven residential development includes affordability.**

The City has operated two separate multi-unit programs: the New Multiple Unit Housing (NMUH) program in the Central City; and the Transit Oriented Development (TOD) program in transit corridors outside the core and in Urban Renewal Areas.

Both were established as means to increase density of housing in certain locations where other public investment in infrastructure was being made. The original goals of these programs were for “production” not for affordability.

The development boom of the early 2000’s, and establishment of new neighborhoods in the Pearl, the South Waterfront and elsewhere in the downtown core resulted in the development community meeting and exceeding the density goals even without tax incentives. The proportion of affordable housing available in these communities did not keep pace. Instead public investment had the unintended consequence of displacement of lower income residents, many from historic communities of color.

Some affordability requirements were added to the programs over time. In addition, the City added various requirements and options to the two programs over time. The differing requirements between the two programs and the lengthy lists of required or optional public benefits have made the programs complex to administer and unclear for developers to utilize.

Lastly, due to continuing questions about the program in the Central City, the New Multi-Unit Housing program was put on hold (often called a “moratorium”) pending this broader policy discussion. An exception was carved out for projects consisting of 100% of units at 60% MFI.

Recommended changes to the Multi-unit programs acknowledge the need to leverage the natural activity of developers and create a strong incentive to

include affordability and to retain affordability in neighborhoods where gentrification risk is high.

New program requirements will:

- establish one program with the goal of increasing the number of affordable units created by developers in transit served locations citywide.
- clearly establish the primary program goal of including a minimum of 20% of the units in a new development that are affordable at an average 20% discount from market rents. In most areas of the City that will mean rents affordable at or below 60% mfi, in some higher cost markets such as the downtown core, a required market analysis may merit rents up to 80% mfi to qualify for the exemption.
- establish a short list of priority public benefits, the inclusion of which improves competitive score of proposal
  - Affordability in addition to threshold requirement
  - Accessible units in addition to ADA requirement
  - Family sized units in family housing deficient areas with appropriate family friendly amenities (secure on-site play area, on-site garden area, other?)
  - Walk/Roll score – to grocery, school, day care, etc.
- establish narrow parameters for exemption of commercial space when it provides access to fresh healthy food or other neighborhood services w/ demonstrated market based need

The ability to assure that the public investment is leveraging the best the development industry can offer will be vastly improved by implementing an annual cap of the total “capacity” (measured by foregone revenue) available each year and by instituting a competitive process for award of the exemption. Historically, the program has been available to developers who meet minimum requirements, on a first-come, first-served basis.

**Wrap up:**

The LTE program changes are significant, and are an important effort to partner with the development industry to produce more of the housing needed as and where Portland is planning to grow.

The programs serve to implement elements of both the Portland Housing Bureau Strategic Plan and the draft Portland Plan. The programs leverage private sector development activity to create new, well located and affordable housing in areas where development activity could displace existing lower income residents, and where otherwise, 100% of the new units would be available only to those at higher income levels.

The in-depth policy review, jointly undertaken by Multnomah County and the City of Portland, through its Housing Bureau and Bureau of Planning and Sustainability, will recommend significant program changes to be adopted on a three year pilot basis, at which time the effectiveness and impact of the improved programs will be reviewed and assessed.