2010-11 Annual Report
Residential Tax Exemption Programs

Portland Housing Bureau

December 15, 2011

This rendering depicts Ash Street Apartments, a transit-oriented development. The project is affordable to low-income residents, and fully accessible units, designed for people with disabilities.

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Executive Summary

Portland has a shortage of quality affordable rental housing for low-income families. The Limited Tax Exemption (LTE) program is one of many tools the City uses to meet our community's growing need.

Since 2009, the Portland Housing Bureau (PHB) has administered the LTE program and issued annual reports. PHB is committed to rigorous oversight of all the programs.

The LTE program is divided into 5 categories:

- Non-profit low-income housing – rental
- New multiple unit housing (NMUH) – rental and condo
- Single family new construction (SFNC) – homeownership
- Transit-oriented development (TOD) – rental and condo
- Residential rehabilitation – for rental property owners and homeowners (*not available since 2008*)

The largest program – covering 2/3 of the units – provides an annually renewed abatement of taxes on land and improvements for qualified units operated by mission-driven nonprofit housing developers.

Close to 14,000 units, mostly rentals, currently receive a tax abatement. For hard-working families and low-income households, LTE programs provide access to homes close to public transportation and jobs. In a time of declining resources, these programs make a big difference with limited amounts of public subsidy.

This report covers activity during Fiscal Year (FY) 2010-11, and estimates how that activity may affect property tax revenues for Tax Year (TY) 2011-12.

Highlights:

- 918 units returned to the tax roll – 857 expired, 61 were terminated for noncompliance – increasing tax revenue by about $740,000.
- 400 units were granted new exemptions, increasing foregone revenue to all taxing jurisdictions by approximately $525,000.
- Estimated foregone revenue for TY 2011-12 totals roughly $15.6 million. The City's share of that is just under $5 million.

- 86% of exempted rental units are restricted to households below 60% Median Family Income (MFI).
- Use of the non-profit program increased slightly; fewer applications came in for the TOD program; interest in the multi-family programs increased due to greater availability of credit and a tightening rental market.

The New Multiple Unit program is under a moratorium, except for 100% affordable projects; this moratorium will continue until the City's LTE Policy Review project, referred to below as the "Big Look," is complete.

The "Big Look" Ahead

In 2010, PHB convened regional stakeholders to take part in a comprehensive review of the LTE program – we call it the "Big Look."

The ten-member committee, co-chaired by Commissioner Nick Fish and County Chair Jeff Cogen, includes representatives from local government, school districts, and the private sector.

The "Big Look" committee has two goals: evaluate the effectiveness of the LTE programs, and better align them with our housing and community goals.

The committee will present its recommendations to the Portland City Council and Multnomah County Commission in the Spring of 2012.

More information about the Big Look project is available on the PHB website.

Outcomes

OVERVIEW

There are five types of LTE programs:

1. Non-profit Low-Income Housing – rental
2. New Multiple Unit Housing (NMUH) – rental and condominium
3. Single Family New Construction (SFNC) – homeownership
4. Transit Oriented Development (TOD) – rental and condominium
5. Residential Rehabilitation – for rental property owners and homeowners*

***** The Rehabilitation program has not been available since 2008.

Generally, LTE programs exempt the value of improvement(s) from real property taxation for a ten-year period. The land remains taxable. At the end of the 10-year exemption period, the improvements will be assessed and taxes collected.

Rental housing projects subject to long-term affordability agreements that restrict tenant incomes and rents may apply for a longer period of exemption; such requests are handled on a case by case basis. The non-profit program requires an annual application, but allows non-profit owners to maintain exemptions on the value of the land and the improvements as long as units are in compliance.

LTE programs advance important urban development, transportation, and growth management goals by directing new mixed-income, mixed-use housing development to certain locations. The NMUH and TOD programs provide an incentive for the construction of new higher-density, mixed-income housing near transit facilities such as the MAX light rail system and in Centers and Corridors designated by Metro's *2040 Growth Concept*. The SFNC program supports neighborhood revitalization by providing incentives for new single-family development in designated "homebuyer opportunity" areas of the city.

This report offers detailed information regarding foregone revenue by affected jurisdictions. In TY 2010-11, $15 million was foregone to assist with redevelopment efforts. In TY 2011-12 there will be approximately $15.6 million ($15,626,497) in foregone revenue for all programs, or an average of $1,135 foregone revenue per unit per year.

Relationship of Fiscal Year (FY)**, Tax Year (TY), and Report Date

When City Staff Process Exemption Applications	When Exemptions are Reflected in the Tax Rolls	Annual Report Issued
FY 2009-10	TY 2010-11	December 2010
FY 2010-11	TY 2011-12	December 2011

** The tax year (fiscal year) for all property starts July 1 and ends June 30 of the following year. The assessment date for the tax year starting July 1 is January 1 of the same calendar year.

OVERALL PROGRAM USAGE

Table 1 compares utilization and growth of each exemption program over the last two taxing years (TY 10-11 and TY 11-12). Overall, the number of units is decreasing. The proportional use of the programs remains consistent compared with last year.

Table 1: Exemption Programs: Utilization and growth by program for a two-year period

Program	Number of units receiving exemptions TY 10-11	Percentage of all units receiving exemptions TY 10-11	Number of units receiving exemptions TY 11-12	Percentage of all units receiving exemptions TY 11-12
Non-Profit	8,522	61%	9,033	66%
NMUH	2,078	15%	2,013	15%
TOD	1,025	7%	598	4%
SFNC	2,166	16%	2,064	15%
Rehab	60	1%	54	0%
Totals	13,791	100%	13,762	100%

PROGRAMS BY TENURE

Tenure refers to whether a program assists homeownership units or rental units.

Table 2: Tenure of housing promoted by each exemption program in TY 11-12

Exemption Program	Rental Housing Units	Homeownership Units
Non-Profit	9,033	0
NMUH	1,981	32
TOD	509	89
SFNC	0	2,064
Rehab	4	50
Totals	11,527	2,235

PROGRAMS BY INCOME GROUP SERVED

All of the City's rental property tax exemption programs impose rent restrictions on at least a portion of the units, and require that tenants meet income requirements to live in those units. Regulatory agreements for rent-restricted units restrict the amount of rent that can be charged and restrict eligibility to low-income households. These programs are one tool we use to increase the supply of affordable housing. Of the units receiving exemptions, 86% are rent-restricted to households below 60% Median Family Income (MFI).

Table 3: Number of rent restricted rental units by program, TY 2011-12

Program	Total Rental Units Receiving Exemption	Number of Market /Unrestricted Units	Number of Rent-Restricted Units*	Restricted to 61-80% MFI household income	Restricted to <60% MFI household income
Non-Profit	9,033	0	9,033	0	9,033
NMUH*	1,981	1,088	893	53	729
TOD	509	306	203	56	147
Residential Rehab	4	0	4	0	4
Total Units*	11,527	1,394	10,133	109	9,913
Percentage of Total Units	100%	12%	88%	1%	86%

* Note: a project may have more units than are exempt.

PROGRAMS PROMOTING TRANSIT-ORIENTED DEVELOPMENT

The City plans for population growth with Metro. The direction provided by the *2040 Metro Growth Concept* is to increase residential density and multifamily housing opportunities in areas well-served by transit, such as MAX light rail station areas, regional and town centers, and Main Streets with frequent transit service.

Table 4 lists outcomes in transit-oriented development (TOD):

- Columns 1 – 3: Units within walking distances of MAX, the streetcar, and all frequent transit service.
- Column 4: Units in projects with mixed residential and commercial use.
- Column 5: Projects in the TOD program with densities at least 80% of maximum code requirements.
- Column 6: Projects receiving grants from Metro's TOD Development Program[1], which provides financial incentives to private developers to build higher-density, mixed-use projects near transit.

[1] "The Transit-Oriented Development (TOD) Program provides financial incentives and uses public/private partnerships to enhance the economic feasibility of higher density mixed-use projects served by transit. Through active engagement in the design and construction of real projects, the program has helped identify and remove obstacles to the creation of transit villages, main streets and mixed-used urban centers envisioned by the 2040 Growth Concept.

Table 4: Multifamily units by transit-oriented development characteristics, by program

Program	HOUSING UNITS IN MULTIFAMILY PROJECTS					
	(1) Within 1/4 mile of MAX	(2) Within 1/4 mile of Streetcar	(3) Within 1/4 mile of all frequent service transit	(4) In Mixed Use Development*	(5) At least 80% of Maximum Density**	(6) Received Assistance from Metro TOD Program
NMUH TY11-12	1,364	1057	2,306	1,650	NA	178
TOD TY11-12	491	0	598	252	292	160
Total TY11-12	1,855	1,057	2,904	1,923	292	338

* Ground floor commercial can be in a different ownership than the housing.

** These are the number of units in projects claiming density as a public benefit. Other projects may be at 80 percent of maximum density.

SINGLE FAMILY NEW CONSTRUCTION IN DISTRESSED AREAS

Single Family New Construction (SFNC) by Geography

The SFNC program is designed to boost new construction in distressed areas[2] of the city.

The majority of new homeownership units assisted by this program are located in low-income and moderate-income neighborhoods in North, Northeast and far Southeast Portland.

Table 5 shows that 2,008 of the 2,064 SFNC exemptions active in TY 11-12 were in low- and moderate-income neighborhoods. The other 56 active exemptions are in formerly distressed areas where the exemption was approved before revitalization occurred.

[2] City Code 3.102.090 Designation of Homebuyer Opportunity Areas: The criteria for designating homebuyer opportunity areas shall include a consideration of the following factors:

The area is primarily a residential area of the city which is detrimental to the safety, health and welfare of the community by reason of deterioration, inadequate or improper facilities; the existence of unsafe or abandoned structures, including but not limited to a significant number of vacant or abandoned single or multi-family residential units; or any combination of these or similar factors.

Table 5: New homeownership units in low- and moderate-income neighborhoods

Low/Moderate Income Neighborhoods	TY 09-10	TY 10-11	TY 11-12
North Portland	791	741	683
Northeast Portland	329	247	271
Southeast Portland	1,064	1,027	1,054
Southwest Portland	0	0	0
Central City	0	0	0
Totals	2,184	2,015	2,008

MONITORING AND COMPLIANCE

PHB is committed to rigorous oversight of all programs. We monitor compliance to ensure that the recipient continues to comply with exemption requirements after qualifying for the program. Each year, projects or units that no longer qualify lose their exemption.

Table 6 describes PHB compliance monitoring efforts in two categories, "Rental" and "Ownership," for the various exemption programs. Tables 7 and 8 outline the results of that monitoring.

Table 6: Monitoring and compliance efforts for exemption programs, by program

Program	Rental Monitoring	Ownership Monitoring
Non-Profit	All units in the program are rent-restricted. Staff monitors non-profit status of owner. Owner certifies income-eligibility of tenants.	N/A
NMUH	Monitors occupancy of rent restricted units only, unless project also received direct financial assistance from PHB.	Assess that the property meets the public benefit requirements at application. Monitors buyer income and owner-occupancy.* Monitors owner-occupancy.
TOD	Monitors occupancy of rent restricted units only, unless project also received direct financial assistance from PHB.	Assess that the property meets the public benefit requirements at application. Monitors buyer income and owner-occupancy.* Monitors owner-occupancy.
SFNC	N/A	Monitors buyer income and owner-occupancy.*
Rehab	Monitors occupancy of rent restricted units.	Monitors owner-occupancy.

Note*:* Demographic data about utilization of the programs is also collected.
* In 2002, City Code was changed to place buyer income and owner-occupancy requirements on the Single Family program. This applied only to new applications.

Ownership

LTE programs that offer exemptions to homeowners (NMUH, TOD, SFNC and Rehab) now require the home-owning household to meet certain initial income requirements to qualify for the exemption. There is no ongoing restriction on household income, unless a property transfers to a new owner during the exemption period. In order to maintain the exemption, the owner must continue to occupy the home.

The City's monitoring efforts focus on initial qualification for income and on continued owner-occupancy. In TY 10-11 there were 2,235 active ownership exemptions in the five LTE programs subject to City Code requirements. Upon review of these exemptions a combined total of 58 ownership units were terminated. In addition, 41 SFNC ownership exemption applications were denied. The result of the activity in FY 10-11 is reported in the total of 2,235 ownership exemptions recorded for TY 11-12.

Table 7: Compliance monitoring performed for ownership programs, by program

	NMUH	TOD	SFNC	Rehab	Total
Number of owner units monitored FY 10-11	54	100	2,166	56	1,305
Owner eligibility investigated*	12	16	287	0	315
Exemptions terminated	4	11	43	0	58
Number of owner units monitored TY 11-12	32	89	2,064	50	2,235

Note: FY refers to the time units enter or leave the program; TY refers to the time in which units are estimated to be exempt from taxes.

* Properties enrolled under the former City Code provision allowed rental properties, but did not impose affordability requirements. As a result, no ongoing monitoring of the SFNC rental properties prior to 2005 is required.

Rental

Most rental units were in compliance with their income restrictions. Only three units from the non-profit program were found to no longer be in compliance. Changes in the number of tax exempt units due to terminations are small compared to changes attributable to expirations: Table 8 refers to terminations; Table 10 shows both terminations and expirations.

Table 8: Compliance monitoring for rental units FY 2010-11

Program	Exemptions Audited	Exemptions Terminated
Non-profit	8,522	3
NMUH	2,018	0
TOD	925	0
Residential Rehab	4	0
Total	**11,469**	**3**

Note, all of the rental units are audited for compliance with income restrictions.

REVENUE IMPACT OF EXEMPTION PROGRAM

Foregone Revenue

One measure of the "costs" of tax exemption programs is measured by calculating foregone revenue to the taxing jurisdictions during the term of the exemption. When an exemption is terminated for non-compliance or expires at the end of the exemption period (typically 10 years), the property is re-assessed and begins to accrue full taxes, including the improvement value, in the next tax year.

Table 9 shows that the total of 400 units added in FY 10-11 have associated foregone revenue of about $524,439. For Tax Year 11-12, the foregone revenue associated with the 115 new SFNC exemptions, approved in FY 10-11, is approximately $202,914.

Table 9: Estimated net additional foregone revenue for TY 2010-11, by program

Program	Units granted new exemptions during FY 10-11	Foregone revenue for TY 10-11 associated with those units
Non-Profit	285	$321,524
NMUH	0	$0.00
TOD	0	$0.00
SFNC	115	$202,914
Rehab	0	$0.00
Totals	400	$524,439

New Tax Revenue

Table 10 describes the tax revenue associated with units returning to the tax roll for each program. The amount of returned tax revenue changes from year to year. Changes in revenue result from scheduled expirations of exemptions and terminations of exemptions resulting from the City's compliance monitoring efforts.

Table 10: Tax revenue associated with units returning to the tax roll.

Program	Units Returned to Tax Rolls in TY 10-11	Associated Tax Revenue
Non-profit	172	$119,852.18
NMUH	149	$231,619.57
TOD	368	$66,296.55
SFNC	223	$314,564.00
Rehab	6	$6,876.30
Totals	918	$739,208.59

Table 11 shows that in TY 11-12 the net result of units being removed and added to the programs will result in a net gain of tax revenue returned to the tax roll. Only the non-profit program grew both in terms of units and estimated foregone revenue.

Table 11: Net change to total tax revenue, by program, for TY 11-12

Program	Change in Units from TY 09-10 to TY 10-11	Net Change to Total Tax Revenue
Non-profit	113 more units in program	- $201,672 additional foregone revenue
NMUH	149 fewer units	+ $231,620 to tax roll
TOD	368 fewer units	+ $66,297 to tax roll
SFNC	108 fewer units	+ $111,650 to tax roll
Rehab	6 fewer units	+ $6,876 to tax roll
Totals	518 fewer units	+ $214,770 to tax roll

Note: most of the programs had a net loss of units and a net gain of tax revenue added to the tax roll.

Foregone Revenue Program Totals

In TY 11-12, the taxing jurisdictions collectively will make an estimated $15,626,497 indirect investment, compared to an estimated $15,124,126 in TY 10-11. Table 12 presents estimated foregone revenue for each taxing jurisdiction for TY 11-12. Separate figures are given for the two largest taxing jurisdictions. Aggregate figures are presented for the education districts and the smaller taxing districts, which includes the Port of Portland, Metro, and Tri-Met.

Table 13 breaks out the estimated foregone revenue for each education district.

Table 12: Estimated revenue foregone by taxing jurisdictions and program, TY 11-12

Program	Total Estimated Foregone Revenue TY 11-12 ($)	% of Total	City of Portland	Mult. County	Education Districts	All Other Tax Districts	Units	Avg. Per Unit
Non-profit	8,314,308	53.21	2,610,790	1,848,519	2,763,802	1,091,196	9,033	920.44
NMUH	3,171,019	20.29	989,785	700,798	1,063,503	416,933	2,013	1,575.27
TOD	598,635	3.83	192,586	136,356	190,873	78,820	598	1,001.06
SFNC	3,507,658	22.45	1,104,381	781,936	1,160,002	461,341	2,064	1,699.45
Rehab	34,875	0.22	10,884	7,706	11,668	4,617	54	645.83
Totals	15,626,497	100.00	4,908,426	3,475,316	5,189,847	2,052,908	13,762	1,135.48

Table 13: Estimated foregone revenue by education district, TY 11-12

Program	Total foregone revenue by abatement program	Education Service Districts (ESD)	Community Colleges	Portland Public	David Douglas	Other School District
Non-profit	$2,763,802	$155,302	$197,761	$2,072,547	$262,254	$75,938
NMUH	$1,063,503	$58,877	$76,523	$928,103	$0	$0
TOD	$190,873	$11,456	$13,553	$57,796	$103,421	$4,647
SFNC	$1,160,002	$65,694	$82,981	$814,812	$162,806	$33,709
Rehab	$11,668	$647	$839	$10,007	$175	$0
Total by category	$5,189,847	$291,976	$371,658	$3,883,264	$528,656	$114,294

Trends in Foregone Revenue

The non-profit program accounts for almost all of the estimated increase in foregone revenue for TY 11-12. The number of units in the TOD, NMUH, and Rehab programs has decreased from previous years due to expirations, non-renewals, and terminations. Fewer units in the TOD and Rehab programs have resulted in some decrease to foregone revenue for those programs.

TOD projects were approved in 2010 and 2011 have not received exemptions yet because (1) taxable improvements were completed before the assessment period and prior to the beginning of the tax exemption period or (2) they are still under construction.

The 2005 moratorium on NMUH development (other than 100% affordable projects) and the relative lack of activity in the TOD program has meant that both of these programs made a net contribution to the tax rolls in 2010. Although fewer units are being added to these programs for TY 11-12, the foregone revenue per unit has increased slightly.

The average foregone revenue per unit is influenced by factors such as the value of the property improvements, increased valuation of the properties added compared to the properties that were removed from these programs, and differences in value by location.