Portland Housing Bureau

Inclusionary Housing Ordinance

City Council Presentation

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Background: Framework, Options, Incentives

*Policy direction in the **City's 2035 Comp Plan** (Policy 5.35) to effectively link the production of affordable housing to the production of market-rate housing*

Policy Framework

- Require for **all buildings with 20 or more units**
- Citywide, **calibrating** rates and incentives **by geography**
- Mandatory program at 80% AMI with **supplemental incentives to reach below 60% AMI**
- Prioritize **units on site** over fee-in-lieu revenue or units off-site
- Maintain **comparable quality**, **size**, bedroom **composition**, and **distribution**
- Maintain **affordable units for 99 years**

Program Options – on-site, off-site, or fee-in-lieu

Incentives – exemptions from property taxes, construction excise tax, system development charges, density and height bonuses

Reminder: July 2023 Council Work Session

Key Findings

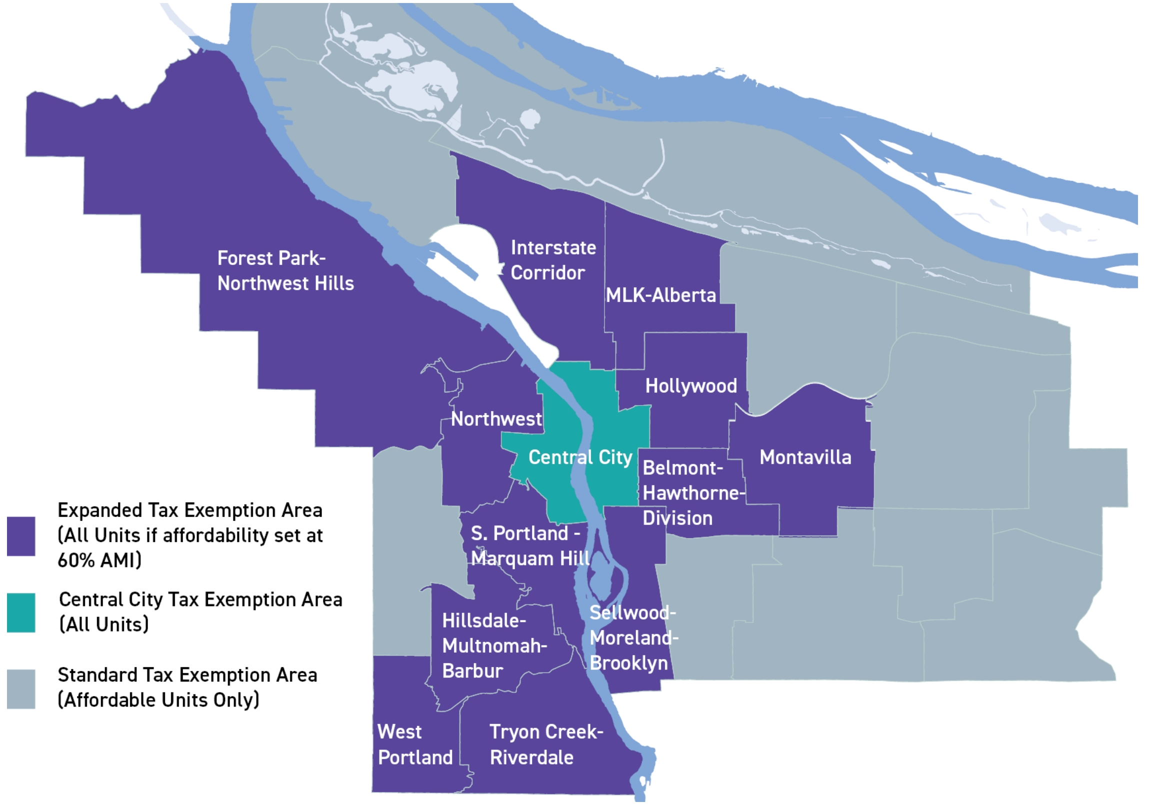
- Market Challenges
  - Construction costs have risen more than 50% since 2016
  - Other cities have experienced similar cost increases
  - Projects in all areas of the city are facing feasibility gaps
  - Fewer large projects starting permitting than prior years
- IH Calibration Study found that the City's incentives for Inclusionary Housing :
  - <u>are adequate</u> to offset costs in Central City and in lower-rent areas like East Portland
  - <u>are not adequate</u> in higher-rent areas outside Central City (e.g., Slabtown, Inner Eastside, Hollywood), due to partial property tax exemption
- IH Work Group recommended a suite of changes to the program

Since July

- PHB and consultant estimated impacts of potential expansion of tax exemption
- City is still experiencing reduced permit activity, beginning layoffs of permit staff, and **starting to see multifamily buildings halt mid-construction**

Proposed Amendments to IH Program (Title 30)

1. **Expand incentives to "balance" program**
   - Exempt all housing units in building for 10-years, market rate and affordable
   - Project must opt to include units in the building regulated at 60% AMI
   - Allow projects currently in permit pipeline and under construction to opt-in
2. **Update foregone property tax revenue cap**
   - No limit/cap on annual foregone revenue for 6 years
   - After 6 years, cap set at double current limit



Reminder – City and County have adopted a cap on annual foregone property tax revenue. It is currently set at $15 million over 5-years (rolling) or $3m per year on average.

Consultant Analysis on Foregone Revenue

Recent analysis estimated how deeper property tax exemptions could impact tax revenues

Methodology for Analysis

- Amount of total property tax exemptions over time depends on how much development moves forward
- Modeled impacts based on low-growth, target-growth, and market cycle growth scenarios
- Assumed 1,500 - 3,000 units in market-rate projects each year are subject to IH
- Assigned a market strength to each Portland neighborhood based on typical rents and overall demand for high rent multifamily housing
- Reviewed property tax bill information and proforma models to estimate per-unit property tax
- Modeled potential forgone revenue of deeper tax exemption under current, high and moderate high-cost neighborhoods, and citywide

Consultant Analysis on Foregone Revenue: Findings

Overall Takeaway:
Under the proposal, the amount of total property tax exemptions would likely gradually increase from ~$1-2m/year (today) to $7+m/year

Current Program: Deeper property tax exemption in Central City only
- If production stays at current low level, we will stay under current cap but not achieve needed growth
- If production increases to the level needed, will exceed cap - $20m avg over 5 years ($4m/year)

Proposed Expansion to High and Medium-High Areas
- If development feasibility doesn't improve, we will stay under our current cap but will not achieve needed growth
- If expand to areas to "balance" program and development feasibility improves to achieve needed growth, will exceed our current cap by 2-3 times

Citywide – *work group recommendation (pre-foregone revenue analysis)*
- Once development feasibility improves, will exceed our cap by up to 4 times

Next Steps

TODAY

Jan 10th
Briefing, Public Hearing

Jan 31st
Potential Final Vote

March 1st
Changes go into effect

2027
PHB conducts another calibration study

2030
Cap on foregone revenue goes back into effect

(City Council also reviews zoning code changes in HRR package)

Feb
County vote on changes to IH tax exemption

Other Upcoming Changes to IH Program

In addition to the code changes before Council today, PHB will be proposing changes to their administrative rules to advance other IH work group recommendations.

Promote building design flexibility

- Increase the proportion of IH units allowed per floor from 25% to 35%
- Decrease the average IH unit size to market rate size from 95% to 85%

Streamline reconfiguration

- Simplify the IH to market rate unit parity to requirement: for every reconfigured IH family sized unit there is a market rate family sized unit
- Clarify the unit size calculation

Reorganize off-site option

- Align the off-site option inclusion rates; remove options posing greatest feasibility issues; increase distance location from 0.5 to 2 miles
- Allow project in opportunity map score 5 to locate off-site in map score are of 5 or 4

Questions

Current Program: Full abatement in Central City only

Reminder: City/County cap agreement is $15m over 5-years (rolling)

Low Growth Scenario / Not on Track

- 1,500 units/year citywide
- 670 with full tax exemption

Tax exemption

- $2m annual average
- **$10m over 5 years** (below cap)
- $20m over 10 years

Takeaway

If production stays at current low level and program stays the same, we will stay under current cap, but will not achieve needed growth

On Track to Achieve Growth

- 3,000 units/year citywide
- 1,300 with full tax exemption

Tax exemption

- $4m annual average
- **$20m average over 5 years** (above cap)
- **$28m 5-year peak** (w/ growth cycle)
- $40m over 10 years

Takeaway

If production increases to the level needed, we will exceed cap under the current program

High and Medium-High-Cost Areas

Identified by consultant as needed to "balance" IH program

Low Growth Scenario / Not on Track

- 1,500 units/year citywide
- 1,250 with full tax exemption

Tax exemption

- $3M annual average
- **$15m over 5 years** (within cap)
- $30m over 10 years

Takeaway

If expand full tax abatement to areas to "balance" IH program, but development feasibility doesn't improve, we stay within our current cap but will not achieve needed growth

On Track to Achieve Growth

- 3,000 units/year citywide
- 2,500 with full tax exemption

Tax exemption

- $7.2m annual average
- **$36m average over 5 years** (above cap)
- **$51m peak over 5 years** (w/ growth cycle)
- $72m over 10 years

Takeaway

If expand the tax exemption to other areas and development feasibility improves enough overall to achieve our needed growth, we will exceed our current cap by 2-3 times

Expand Citywide (Recommended by IH Work Group)

Would over-incentivize development to make up for other feasibility issues

Low Growth Scenario / Not on Track

- 1,500 units/year citywide
- 1,500 with full tax exemption

Tax Exemption

- $4m annual average
- **$20m over 5 years** (above cap)
- $41m over 10 years

Takeaway
If expand full tax abatement more than necessary to balance program and development feasibility still doesn’t improve, we’d exceed current cap and fall short of our housing production goals

On Track to Achieve Growth

- 3,000 units/year citywide
- 3,000 with full tax exemption

Tax exemption

- $8.2m annual average
- **$39m average over 5 years** (above cap)
- **$59m peak over 5 years w/ growth cycle**
- $82m over 10 years

Takeaway
If expand full tax abatement citywide and feasibility improves, we will exceed our cap by up to 4 times