HOUSING TAX ABATEMENTS:
Oversight inadequate to ensure program goals

A REPORT FROM THE CITY AUDITOR
July 2008

Office of the City Auditor
Portland, Oregon

Association of Local Government Auditors'
2008 Silver Knighton Award Winner for Best Audit

CITY OF
PORTLAND, OREGON
OFFICE OF THE CITY AUDITOR
Audit Services Division

Gary Blackmer, City Auditor
Drummond Kahn, Director of Audit Services
1221 S.W. 4th Avenue, Room 310
Portland, Oregon 97204

(503) 823-4005 FAX (503) 823-4459
www.portlandonline.com/auditor/auditservices

July 28, 2008

TO: Tom Potter, Mayor
Sam Adams, Commissioner
Nick Fish, Commissioner
Randy Leonard, Commissioner
Dan Saltzman, Commissioner
Bruce Warner, Executive Director, Portland Development Commission
Gil Kelley, Director, Bureau of Planning

SUBJECT: Audit – *Housing Tax Abatements: Oversight inadequate to ensure program goals* (Report #362)

Attached is Report #362 containing the results of our audit of the housing tax abatement program in the Portland Development Commission and the Bureau of Planning.

The Portland Development Commission Executive Director and the Director of Planning have responded to the audit, and we have included their written responses at the back of this published report.

We make several recommendations in the report, and as a result we ask the Executive Director of the Portland Development Commission and the Director of Planning, through their Commissioner-in-charge, to provide a status report on implementation of those recommendations within one year.

We appreciate the cooperation and assistance we received from Portland Development Commission and Planning Bureau staff as we conducted this audit.

GARY BLACKMER
City Auditor

Audit Team: Drummond Kahn
Kari Guy
Doug Norman
Scott Stewart

Attachment

HOUSING TAX ABATEMENTS:

Oversight inadequate to ensure program goals

Summary

The City's current tax abatement programs have evolving goals, incomplete reporting and monitoring, and poor verification of either the overall social goals or the specific project benefits that the programs were designed to provide.

The City of Portland exempts some condominium, house, and apartment owners from paying property taxes as an incentive for providing certain public benefits. In this audit, we reviewed three of the City's tax abatement programs: (1) New Multi-Unit Housing, (2) Transit Oriented Development, and (3) Single Family New Construction. These programs exempt the value of new housing construction from property taxes, in exchange for providing public benefits such as building new housing in distressed neighborhoods, or providing transit-friendly development.

Owners of almost 6,000 housing units built over the last 10 years – including single-family homes, apartment buildings, and condominiums – do not pay any property taxes on the value of the new construction. The cost to the City in uncollected property taxes from these housing tax abatement programs has grown from less than $1 million in FY 1997-98, to more than $2.7 million in FY 2006-07. The cost to all taxing districts, including the City, the County, and other governments in the metro area now exceeds $8.5 million per year.

We found that the City has done too little to ensure that property owners with tax abatements follow through to deliver the benefits they promised. For example, one apartment building developer in the Pearl District was required to make some units affordable, and to submit financial statements to prove that the abatement was needed for the project to succeed. However, we found no verification that

project units met the affordability requirement, and the developer had not submitted the required financial statements to the City.

In another example, a condominium developer was required to sell units at a specific, affordable price as a condition of qualifying for the tax abatement. The condominiums were already built at the time the application was submitted and approved. Therefore, the abatement did not provide an incentive for new housing development. Six units were granted tax abatements, but we found that five of the units exceeded the initial sales price, did not meet the standard for having an affordable price, and should not have been approved.

We also found that administration of the tax abatement programs is fragmented between the two primary City agencies responsible for oversight -- the Bureau of Planning (Planning) and the Portland Development Commission (PDC), resulting in a general lack of oversight. Consistent reports on basic information were not available – in part due to this fragmentation.

In addition, since the tax abatement programs were adopted, the stated purpose and goals of the abatement programs have shifted from providing an incentive for new housing construction, to making new housing more affordable. None of the programs include evaluation or reporting components. As a result, it is unclear whether the City's investment of tax funds is yielding the intended benefits.

During the past year, the City made several improvements in program administration. For example, PDC initiated a new monitoring process for ownership properties, and is updating its policies. PDC also initiated monitoring of some rental projects that were initially overlooked for compliance. However, we found that program administration is inadequate to ensure that the intended social goals and project benefits are provided.

To strengthen overall accountability of the City's tax abatement programs, we recommend that City Council:

1. Clarify the goals and objectives of the housing tax abatement programs, and assign responsibility for oversight, evaluation, and reporting.

2. Direct the responsible bureau to submit an annual report of program activities to Council. The annual report should include information on the compliance status of abated properties, annual foregone revenues created by each abatement program, and progress in meeting program goals established by Council.

To improve program administration and ensure ongoing compliance with program criteria, we recommend that PDC:

3. Draft a regulatory agreement with each multi-family project developer that specifies responsibilities for monitoring project financial performance, affordability, and all other required public benefits.

4. Review the method for assessing financial need for multi-family condominium properties and make recommendations to Council for revising City Code.

5. Review and update processes for verifying applicant and tenant incomes.

Background

The City of Portland offers tax abatements to provide an incentive for building or providing housing in certain locations of the City. Tax abatements may reduce some or all of the owner's property tax liability for a period of time. Two City agencies -- the Bureau of Planning and Portland Development Commission -- administer programs that exempt the value of new construction from property taxes for up to 10 years:

- New Multi-Unit Housing (NMUH), for new rental or condominium housing built in the Central City or Urban Renewal Areas

- Transit Oriented Developments (TOD), for new rental or condominium housing built in defined transit areas

- Single-Family New Construction, for new owner-occupied housing, constructed in certain distressed neighborhoods called "Homebuyer Opportunity Areas"

The City has two other housing tax abatement programs: a program for low-income housing operated by nonprofits; and a program for rehabilitation of housing not meeting City housing code.

The multi-unit housing programs were authorized to stimulate the construction of transit supportive multiple-unit housing in core areas of the City, in order to improve the balance between the residential and commercial nature of the areas and to enhance the effectiveness of transit systems. These broad goals are specifically cited in state statute and city code. In the last ten years, the City has approved tax abatements for 45 multi-family housing developments, with 202 condominium units and over 3,800 rental units. Projects include both market rate housing and units affordable to people at less than median income.

The single-family program was authorized to stimulate the construction of new single-unit housing in distressed areas, in order to encourage homeownership, improve the quality of life, and reverse declining property values. In 2002, the program was amended to require owner-occupancy, and require purchasers to be at or below median income for a family of four. Between 1997 and 2007, over 2,000 single-family homes were approved for tax abatements.

Detailed descriptions of the history, outcomes and current status of the three new housing construction incentive programs are included in Appendix A.

Who pays for tax abatements?

Under state law, the City of Portland can exempt its share of property taxes or, with the approval of other taxing jurisdictions, exempt the property taxes for all local taxing districts. The jurisdictional approval process for tax abatements was one subject addressed in a Multnomah County audit in January 2008.[1]   The City's tax abatement programs provide qualified property owners an exemption from property taxes for all local taxing districts, including Multnomah County, local school districts, and other districts such as fire districts, soil and water conservation districts, and transit districts.

When a project is approved for a tax abatement, the County Assessor exempts the value of the improvements – the new housing units

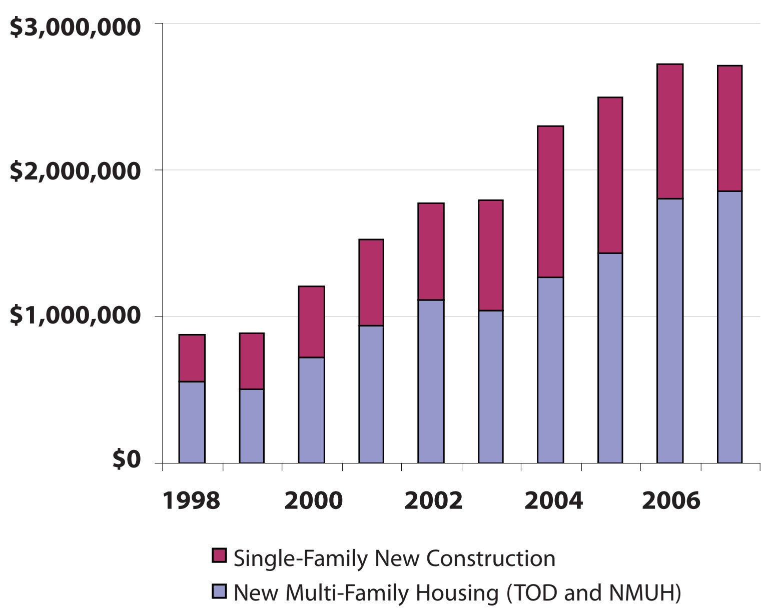
[1] *Audit of Tax Abatement Program*, Multnomah County Auditor, January 2008.

and associated retail areas or amenities – from the assessed value of the property for the period of the abatement. The property owner pays taxes only on the value of the underlying land. This freezing of assessed value will limit revenue to local governments, decrease revenues sent to the State for distribution according to the school funding formula, and, for some local option taxes, increase the tax paid by other property owners.

In urban renewal areas, most taxes due to any increase in assessed value accrue to the PDC as tax increment funds. For tax abatement projects in urban renewal areas, the abatement results in a loss of tax increment funds for the 10-year period of the tax abatement.

The loss of revenue to local governments is referred to as "foregone revenue." The City of Portland's foregone revenue from all housing tax abatement programs is shown in Figure 1. In FY 2007-08, the foregone revenue from the multi-family and single-family programs reviewed in this report totaled $2.8 million for the City of Portland, and $8.5 million for all taxing districts. At the end of the 10-year abatement term, the value of the improved property is returned to the tax rolls.

Figure 1 **City of Portland Foregone Tax Revenue 1998 to 2007 (inflation adjusted)**



Source: City of Portland Auditor's Office, Service Efforts and Accomplishments Reports 1999 to 2007; Portland Development Commission

Objectives, Scope, and Methodology

The objective of this audit was to determine whether the management and oversight of tax abatement programs are effective at both limiting tax abatements to the projects that meet program criteria, and ensuring program benefits are achieved. This audit was approved by the City Auditor and placed on our audit schedule for FY 2007-2008.

We focused our work on the three housing programs intended to stimulate new development: the Transit Oriented Development and New Multi-Unit Housing programs (referred to in this report as 'multi-family programs'), and the Single-Family New Construction housing program. We did not review compliance or oversight of two other abatement programs -- the non-profit tax abatement program administered by the Bureau of Planning, and the housing rehabilitation program.

To accomplish our objective, we interviewed Bureau of Planning and Portland Development Commission program managers to gain an understanding of the history and management of the tax abatement programs. We interviewed staff in PDC's Neighborhood Housing Program, Housing Development Finance Program, and Housing Operations Program for information on application review and project monitoring practices. We reviewed program policies and documentation, and reviewed summary information and evaluations for all programs.

We interviewed staff from the Multnomah County Assessor's Office, and reviewed County data on all current City tax abatements. We interviewed developers of projects receiving tax abatements, and property managers currently managing abated properties. In addition, we reviewed outside research and audit reports related to housing, and the benefits and costs of property tax abatements.

For the single-family and multi-family programs, we reviewed a sample of project files to determine whether the initial application review met policy requirements, including an objective feasibility assessment. We then reviewed ongoing compliance activities to evaluate efforts to ensure compliance with program policies.

We focused on the administrative responsibilities of PDC. We did not review the Bureau of Planning's role in establishing Homebuyer Opportunity Areas or in setting annual housing price limits.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Split responsibility between City agencies results in a lack of overall program oversight

Administration of the housing tax abatement programs is fragmented, both between the Bureau of Planning and PDC, and within PDC. The structure of the programs, and the number of "hand-offs" within and between programs, makes oversight more complicated. The Bureau of Planning administers the nonprofit program, and shepherds the multi-family applications through the Planning Commission and City Council. In PDC, the Housing Development Finance program analyzes the financial need for multi-family programs. Once approved, the PDC Housing Operations program monitors rental projects with loans or affordability requirements. The PDC Neighborhood Housing Program administers the single-family program, and also verifies income and occupancy for purchasers of multi-family condos.

Particularly for the multi-family programs, these fragmented responsibilities may result in managers overlooking projects after initial approval. While PDC is specifically charged with compliance monitoring for the Transit Oriented Development program, the responsibility for monitoring New Multi-Unit Housing projects is less clear. PDC and Planning are jointly charged with New Multi-Unit Housing implementation and administration, but monitoring is not specified. The project lists Planning and PDC provided us were incomplete, and included some inaccurate information. PDC counts of housing units were not accurate, and were not consistent between reports. Some projects with explicit conditions for monitoring were never referred to PDC's Housing Operations Program for review.

The fragmented responsibilities are also evident in the single-family program, with the Planning Bureau establishing eligible areas and home price limits, and PDC approving individual applications. However, overall program management is not specified. In our review of single-family applications we found that PDC has no record of City Council approval of single-family homes granted abatements when the single-family program was restarted in 2006 – potentially 219 properties that are currently receiving tax abatements without City Council approval.

A PDC manager told us they are reviewing their processes internally, and may consolidate all tax abatement programs under one division. Whether oversight is fragmented or centralized, it should include basic monitoring and reporting of key program components. One responsible division charged with oversight of all abatement programs could result in more consistent project and program oversight.

PDC and Planning Bureau application review and oversight of tax abatement projects is inconsistent

PDC's and Planning's application review and oversight of tax abatement projects is inconsistent, reflecting both positive practices and areas that need improvement. In our review of files for the single-family and multi-family abatement programs, we found some positive practices at PDC and Planning. Application review was consistent with City Code and policy, and clearly documented. Compliance systems, particularly for ownership properties, have improved in the last year. However, we found that PDC's monitoring of rental properties was not sufficient to ensure that the public benefits required as a condition of the approval were provided for the life of the abatement. And a requirement for annual financial review may not be effective for condominium projects.

PDC updated the application and monitoring processes for the single-family new construction program

PDC's Neighborhood Housing Program staff administers the single-family new construction tax abatement program. The program has seen significant changes in recent years, including new income limitations and owner occupancy requirements implemented in 2005, and a Multnomah County Assessor review of timing and compliance in 2007. Beginning in 2008, the program staff is implementing a new compliance process. Also, PDC changed the timing for applications by builders and homeowners this year, and continues to work with the County Assessor to resolve other timing issues.

We reviewed files for 41 of the 419 homes granted tax abatements under the current program requirements. We found that the single-family application review was complete and clearly documented. We found consistent documentation of property information, home sales price, and applicant income for each file we reviewed.

While applicant income is an important piece of the application for single-family new construction tax abatements, PDC staff relies on self-reported income statements which are not verified. To determine income, PDC staff collects income and financial information from applicants, including pay stubs, business profit and loss statements, and tax returns. Federal housing programs we reviewed all require verification of reported income; and failure to obtain independent verification was identified in a U.S. Government Accountability Office audit as one of the errors that led to improper payments in federal housing programs. Most property managers we interviewed verify the income of prospective renters. Without independent verification, it is difficult for PDC to detect unreported income or confirm reported income. This could complicate efforts to provide housing for applicants in specific income ranges, since applicants may not actually be in the income range the program is designed to help.

Before 2007, once a single-family property was granted a tax abatement, PDC took no further action. In 2007, the Multnomah County Tax Assessor provided PDC a list of properties that had either changed ownership, or did not appear to meet owner-occupancy requirements. PDC staff contacted new owners to verify income and occupancy using the same process as in the initial application. PDC has adopted new process steps that will require this review of tax records annually, beginning with the 2008-09 tax year.

PDC application review for multi-family projects is well-documented, but may not be effective for condominium projects

PDC is charged with reviewing multi-family tax abatement applications to verify the need for the tax abatement. The abatement is only supposed to be granted if the project would not be financially feasible without the benefit provided by the tax abatement.

We reviewed PDC files for 11 of the 45 multi-family projects approved for tax abatements in the last ten years. In each application for multi-family rental projects we reviewed, PDC calculated an internal rate of return with and without the tax abatement over a period of ten years, and reviewed alternative rents needed to achieve project feasibility without the abatement. In each file we reviewed, the application decision was well documented, followed PDC policy, and was approved by the PDC loan committee prior to recommendation to the Planning Commission and Council.

Calculation of the internal rate of return is based on the developer's operating expenses and income over a period of ten years. For ownership properties, the value of the tax abatement accrues to the purchaser, not the developer. So to calculate the internal rate of return, PDC staff must make a series of assumptions about the immediate potential market for each development. With the number of assumptions, and no ongoing income stream, it is unclear whether the internal rate of return is an effective measure of financial feasibility for ownership properties.

PDC's application review for condominium projects in our sample focused on the impact of the tax abatement on affordability to the buyer. In each case, the tax abatement decreased the income level required to purchase the property. For example one project, the Cornerstone Condominiums, would be affordable to families making 90 percent of median family income without the property tax abatement. With the abatement, units were affordable to families making 80 percent of median family income. While this demonstrates the benefit of the tax abatement for affordability, it does not address financial need for the developer.

All application review is based on financial information submitted by the developer. In 2005 and 2006, the Council amended the City Code for the multi-family programs to require developers to submit annual financial data for each year the tax abatement is in effect, to confirm initial financial projections. If the project exceeds a ten percent internal rate of return the developer may be liable to pay back some portion of the abated taxes. While this would be an effective check on rental projects, it is not clear how the City could require payback of abated taxes of a condominium developer, when the tax abatement accrued to the purchaser.

No tax abatements for multi-family rental projects have been approved since the 2005 requirements for annual financial reports were adopted, and PDC process steps for multi-family tax abatements do not address how the annual financial review would be conducted. If future rental projects are approved, the requirement for annual financial reporting could provide a mechanism for validating the initial assumptions of financial need.

Planning Bureau application review for multi-family projects is well-documented

After PDC approves or denies the financial need for a multi-family tax abatement, Planning is responsible for submitting the application to the Planning Commission for review and recommendation to the City Council.

In each of the multi-family project applications we reviewed, Planning clearly documented project eligibility, compliance with the City's comprehensive plan, and compliance with City housing goals. In addition, the Planning Bureau and Commission reviewed and made recommendations as to the adequacy of the proposed public benefits.

PDC and Planning do not monitor all tax abatement projects after approval

In our review of multi-family rental projects, we found varying levels of post-construction monitoring. The highest level of oversight was provided to projects that were also granted a PDC loan, and may have also had other government funding sources. Four of the seven rental projects we reviewed fell into this category. These projects are entered into PDC's Asset Management System and monitored on an annual basis.

For example, The Sitka is a 210-unit apartment building in the Pearl District, with 94 percent of its units reserved for households making less than 60 percent of the median family income. PDC and the property owner signed a regulatory agreement prior to project completion that documents the ongoing obligations of the owner, and monitoring required by PDC. Annual financial reports and tenant surveys have been submitted to PDC. In addition, the property and tenant information is inspected by the State every three years.

Prior to a review of tax abatement programs by the County Assessor in 2007, projects that did not have a PDC loan, but were required to provide affordable housing units, were not monitored. This included two of the seven rental properties in our sample. The Louisa is a 246-unit apartment building with the requirement that at least 24 units be affordable to households at 80% of median income for a family of two. The developer is required to submit annual financial statements to verify that the internal rate of return matches projections in the original application. The project was approved in 2003, yet first contact by PDC Housing Operations staff was not until September 2007. At the time of our file review in January 2008, no information had been submitted by the property managers. We reviewed the floor plans and pricing for all rental unit types as shown on the property's website, and found no units that met the affordability requirement. The rents for all unit types were higher than the required caps for the 24 affordable units. After reviewing our initial draft PDC staff told us they have new information from the property manager and are in the process of reviewing it.

The last type of rental project in our sample did not have a PDC loan or any requirement for affordable units. This project type represents 11 of the 33 rental properties currently receiving tax abatements. These properties are never recorded in the Asset Management System and are not monitored by PDC or Planning. As a condition of approval, all multi-family tax abatement projects are required to provide some public benefits in addition to housing units, which could include public spaces, retail outlets, or public art. These additional "public benefits" are documented as conditions of granting the tax abatement for each project in the report of the Planning Commission and in the ordinances approved by the City Council.

We visited all of the developments in our sample to verify whether the required public benefits were provided. We found mixed results -- most public benefits had been provided in some form, but some were either not easily accessible by the public, or not accessible at all. One project was required to provide a public meeting room. We found that a meeting room was in the facility, but the building did not allow access by nonresidents, nor did it allow community members to reserve or use the meeting room. Another project was required to provide areas for art displays in external, street-level windows so that the public could see the art. Instead, the art displays were placed in locked hallways inside the building and could not be seen from outside. Neither PDC nor Planning monitors the ongoing provision of public benefits.

The four condominium projects in our sample also had varying levels of review. After a condominium project is approved by Council, PDC Neighborhood Housing Program staff must verify the condominium sales price and owner income for each individual unit to qualify for the tax abatement. Two of the four condominium project files we reviewed had units that exceeded the initial sales price allowed by ordinance, but were still granted the tax abatement. In one development -- The Center Commons condominiums -- five of the six condominiums with tax abatements exceeded the sales price limit. However, for the most recent project we reviewed, PDC staff followed the required process and verified sales price and owner income prior to approving the tax abatement.

As with the single-family program, ongoing monitoring of multi-family condominium projects was initiated by the Multnomah County Assessor last year, and the tax abatements for 47 units were terminated.

The PDC is currently updating its steps to address some of these issues. Staff told us they are working on a standard regulatory agreement that could be used for all tax abatement projects, not just projects with PDC loans. PDC staff are also currently developing steps and income verification forms for the multi-family condominium programs, and ongoing compliance monitoring of condominium properties will begin this year.

PDC should improve monitoring of projects in its Asset Management System

We identified a number of concerns with PDC's Asset Management System. As described above, only projects with a PDC loan or with a requirement for affordable units are monitored through this PDC system. Developers for these projects are required to submit annual tenant surveys and financial statements, and PDC completes a report, "Borrower's Annual Reporting Results."

We found that there was little PDC follow-up to problems identified in the reports, and PDC relied entirely on information reported by the property owner.

PDC did not follow up on issues identified in the annual reports. In one case the project had been rated 'poor' for the past two years, with action items noted, but there was no follow-up by PDC or the property manager. In another case, audited financial statements were requested by PDC, but were not in the project file. Audited financial statements are only required of some properties based on the loan terms or regulatory agreement.

PDC does not independently verify information in tenant surveys, but relies instead on tenant income information provided by the property manager. Some property managers we spoke with noted that the tenant information they collect is audited by other government agencies, and the property is periodically inspected, most often in connection with the Low Income Housing Tax Credit program. However, tenant information for projects without other government funding sources is not audited by the City, and properties are not inspected. Our 2002 audit of housing programs recommended that

PDC improve the monitoring and review of projects' compliance with tenant income restrictions. While PDC updated the forms and reporting mechanisms, there is still no verification of tenant incomes.

Tax abatement projects are only a small subset of the projects monitored through the PDC asset management system. Further review of the asset management system could be worthwhile.

City should update goals, objectives and monitoring for housing tax abatement programs

In our review of tax abatement programs we found a lack of agreement on program goals, limited data collection, and no ongoing reporting or evaluation of whether broad program goals were being met. While housing production has clearly been achieved, other important goals described in enabling legislation, such as improved residential quality of life, improved balance of residential and commercial areas near transit, and improved effectiveness of transit systems, have not been evaluated. A good, well balanced system to measure performance on these issues will help the City determine whether tax abatement strategies, as currently implemented, are a cost effective means for accomplishing broader legislative and social goals.

The City Council has noted the lack of agreement on program goals, and shifting needs, in placing a moratorium on applications to the New Multi-Unit Housing program other than for projects that include only affordable units. The Transit Oriented Development program was extensively reviewed by the Planning Commission and City Council in 2006, resulting in an increased emphasis on affordability, and changes in program boundaries. However, there is no evaluation or reporting component built into the program to determine whether projects are achieving desired goals.

Similarly, the single-family program has evolved without clarifying goals or evaluating results. The single-family program was created to provide an incentive to build housing in distressed neighborhoods. While income restrictions were added to the program in 2002, the focus in state law and City code is still on encouraging home construction in distressed areas. As Portland's housing market has changed, the programs have evolved into a benefit for middle-income homebuyers. A Council member noted in a 2007 hearing that while the program initially allowed the City to abate taxes in distressed areas in order to fix them up, "…most of these areas are already fixed up. So giving away taxes in order to get construction is not a good City use…. So what we're doing in actuality is using a development program to try and get more moderate price people into areas that are more expensive."

All of the tax abatement programs support overall City goals related to housing supply and housing affordability. Planning officials also stressed that tax abatements are important tools used to carry out City plans and policies.

The lack of clear policy objectives was recognized by the directors of PDC and the Bureau of Planning in their response to the 2008 County audit of tax abatement programs. They recommended that the City, County and other taxing districts review the policy objectives of the tax abatement programs.

Conclusions and Recommendations

Tax abatements for multi-family and single-family programs limited property taxes for almost 6,000 housing units this year. We found some positive practices in PDC and Planning application review, and recent improvements in monitoring for both condominium and rental projects.

However, there is still little assurance that the public benefits required as a condition of granting a tax abatement are occurring. Without clear goals or program evaluation and reporting, it is difficult to determine whether the expenditure of public funds is leading to the intended benefits.

To strengthen overall accountability of the City's tax abatement programs, we recommend that City Council:

1. **Clarify the goals and objectives of the housing tax abatement programs, and assign responsibility for oversight, evaluation, and reporting.**

2. **Direct the responsible bureau to submit an annual report of program activities to Council.**

   The annual report should include information on the compliance status of abated properties and annual foregone revenues created by each abatement program. The report should also document the numbers of units created, rents or sales prices, cost of the abatement per unit, and demographic information on purchaser or renters benefiting from the program. The report should also include an analysis of higher level program goals as described in applicable legislation, and an assessment of the success of overall tax abatement strategy.

To improve program administration and ensure ongoing compliance with program criteria, we recommend that PDC:

3. **Draft a regulatory agreement with each multi-family project developer that specifies responsibilities for monitoring project financial performance, affordability, and all other required public benefits.**

4. **Review the method for assessing financial need for multi-family condominium properties and make recommendations to Council for revising City Code.**

5. **Review and update processes for verifying applicant and tenant incomes, to ensure that intended income groups are being served.**

While these recommendations may require staff time and funding, the continued abatements and their significant cost in foregone revenue need increased monitoring. Moreover, more monitoring and reporting is needed to ensure that tax abatement programs are meeting their intended purpose.

APPENDIX A

New Multi-Unit Housing Program

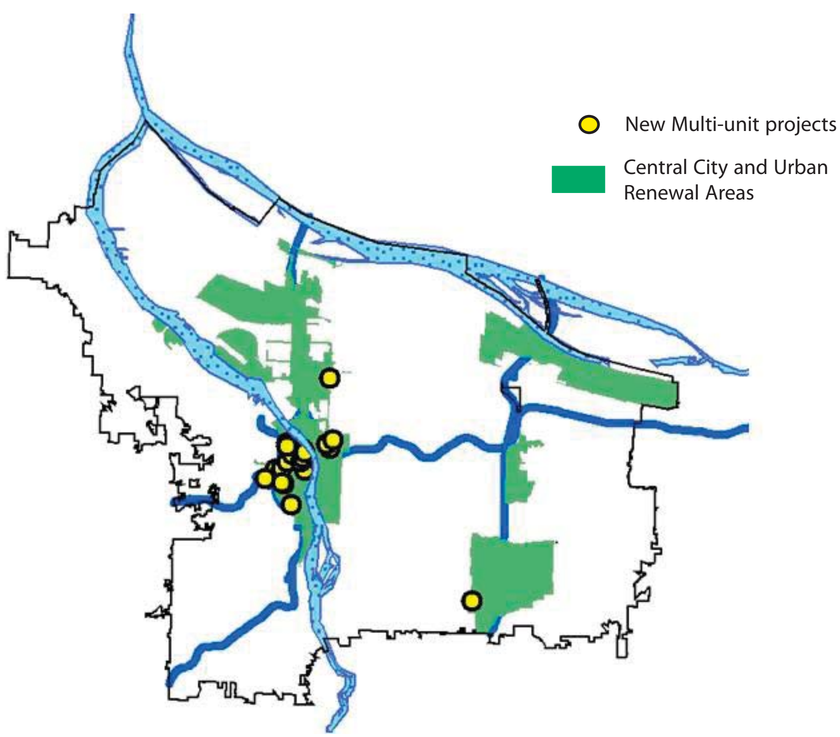
Purpose To encourage the construction of multi-unit housing in the Central City and urban renewal areas

Eligibility New multi-unit rental or condominium housing of 10-units or more. Applicant must demonstrate that the project would not be feasible without tax abatement. Rental projects over 15 units must meet affordability requirements, ownership properties must meet price and income restrictions, and all projects must provide design elements benefiting the public.

Program History

- 1975 Council adopts abatement program for new rental housing in downtown area
- 1996 Condominium projects authorized
- 2004 Program amended to require at least 15 percent of units affordable to households earning 80 percent of area median income.
- 2005 Council requires new tax abatement recipients to provide annual financial reports, and repay taxes if rate of return exceeds 10 percent
- 2006 Council places moratorium on new applications for projects that are less than 100 percent affordable.
- 2007 County assessor questions owner occupancy and income limits for numerous condominium units; 32 tax abatements terminated by Council

New Multi-Unit Housing Projects 1997-2007



Program Outcomes 1997 to 2007:

25 projects constructed:
- 91 Condomiun units
- 2,739 Rental housing units
  - 1,579 @ market rate
  - 77 @ 80 percent median family income
  - 656 @ 60 percent median family income
  - 334 @ 50 percent median family income
  - 93 @ 30 percent median family income

2007-08 Foregone Revenue

City foregone revenue	$1.5 million
City foregone revenue per housing unit	$520
Foregone revenue all taxing districts	$4.4 million
All taxing district foregone revenue per housing unit	$1,560

Project Examples:

The Louisa
1202 NW Davis
Approved 2003

218 units market rate
24 units @ 80 percent median family income
Ground level locally-oriented retail
LEED Certification
Publicly accessible meeting rooms

2007-08 Foregone tax revenue
All taxing districts: $638,000
Annual Foregone Revenue per unit $2,600

The Cornerstone
1425 NE 7th
Approved 1997

94 units market rate
24 units @ 80 percent median family income
Public courtyard
Exhibit windows for local artists

2007-08 Foregone tax revenue
All taxing districts: $172,000
Annual Foregone Revenue per unit $1,500

Transit-Oriented Development Program

Purpose To encourage the development of high density housing and mixed use projects, affordable to a broad range of the general public, on vacant or underutilized sites within walking distance of transit.

Eligibility Project must be in defined transit-oriented area, outside the Central City. Developer must demonstrate that project is not financially feasible without tax abatement. Rental projects must include some affordable properties; ownership units must meet price and buyer-income restrictions. All projects must provide additional public benefits.

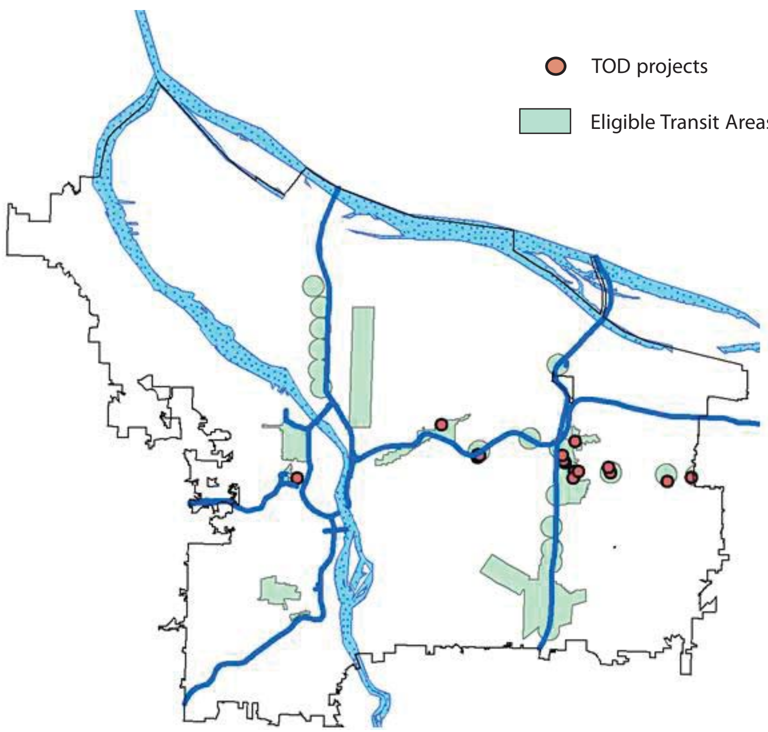
Program History

1996 Council adopts transit-oriented development tax abatement program

2006 Council updates program areas and public benefits required. Council requires new tax abatement recipients to provide annual financial reports, and repay taxes if rate of return exceeds 10 percent.

2007 County assessor questions owner occupancy and income limits for numerous condominium units; 15 tax abatements are terminated by Council

Transit Oriented Development Program Projects 1997-2007



Program Outcomes 1997 to 2007:

20 projects constructed:

- 111 Condomiun units
- 1,124 Rental housing units
    - 652 @ market rate
    - 78 @ 80 percent median family income
    - 332 @ 60 percent median family income
    - 50 @ 50 percent median family income
    - 12 @ 30 percent median family income

2007-08 Foregone Revenue

City foregone revenue	$450,000
City foregone revenue per housing unit	$450
Foregone revenue all taxing districts	$1.4 million
All taxing district foregone revenue per housing unit	$1,340

Project Examples:

Bookmark Apartments

2034 NE 40th

Approved 2001

28 units market rate

19 units @ 60 percent median family income

Mixed use library and apartments

2007-08 Foregone tax revenue

All taxing districts: $75,000

Annual Foregone Revenue per unit $1,600

Center Village

5845 NE Hoyt

Approved 2001

12 units @ 30 percent median family income

48 units @ 60 percent median family income

2007-08 Foregone tax revenue

All taxing districts: $87,000

Annual Foregone Revenue per unit $1,500

Single-Family Tax Abatement

Purpose To stimulate the construction of new single-family residences in distressed areas.

Eligibility Newly constructed single-family homes in Homebuyer Opportunity Area, with one or more units, priced below 120 percent of City median home price. Home must be owner occupied, and purchaser must have annual income of ≤100 percent of median income for family of four.

Program History

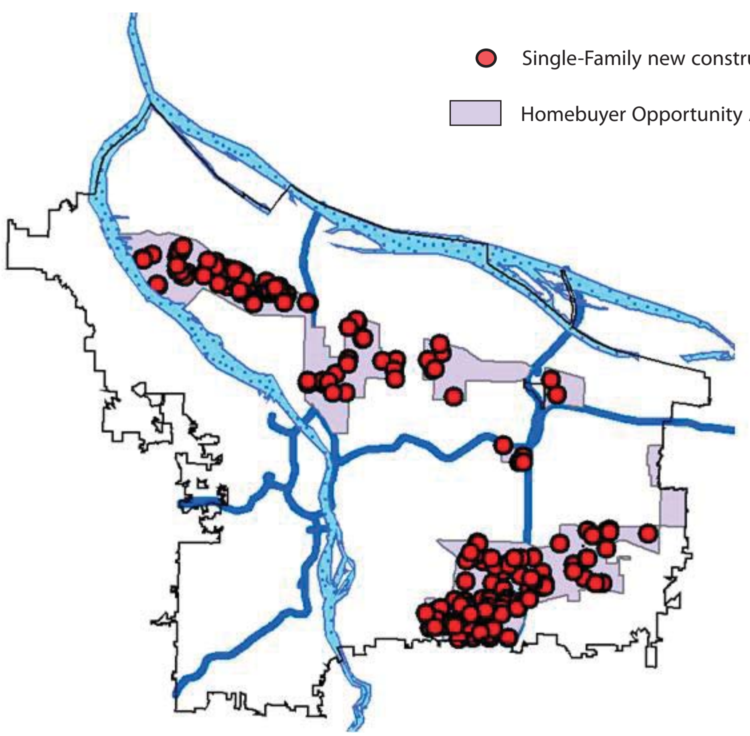
1990 Council authorizes a tax abatement for new construction in distressed areas

2002 Council amends program to require owner occupancy and income limits

2003 Legislative authority expires; City program becomes inactive

2005 Legislature reauthorizes program; Council reauthorizes program and adopts amendments to allow eligibility for multi-family dwellings.

Single-Family homes granted tax abatements (2005-2007)



Program Outcomes 1997 to 2007:

1638 Single-family homes constructed under original program (1997-2003)

419 Single-family homes constructed under new program (2005-2007)

546 new single family tax abatements approved in March 2008, not included in these numbers

2007-08 Foregone Revenue
pre-2005 Single Family program

City foregone revenue	$627,000
City foregone revenue per housing unit	$523
Foregone revenue all taxing districts	$1.9 million
All taxing district foregone revenue per housing unit	$1,148

2007-08 Foregone Revenue
post-2005 Single Family program

City foregone revenue	$262,000
City foregone revenue per housing unit	$625
Foregone revenue all taxing districts	$785,000
All taxing district foregone revenue per housing unit	$1,873

RESPONSES TO THE AUDIT

Office of Mayor Tom Potter
City of Portland

July 21, 2008

Mr. Gary Blackmer
City Auditor City of Portland
1221 SW 4th Avenue, Room 310
Portland, Oregon 97201

RE: Final Draft of Report on Housing Tax Abatements (Report #362)

Dr. Mr. Blackmer,

Thank you for the opportunity to respond to Report #362 on Housing Tax Abatements. I also appreciate the high quality of work from your office in producing this document. I agree with the basic premise that we need to be doing better as a city at monitoring tax abatements to ensure that they are achieving the desired impacts.

I was glad to see that you noted efforts towards improvement at both the Portland Development Commission (PDC) and the Bureau of Planning (Planning). I anticipate a productive Work Session this fall that will further refine issues as well. Your audit will serve as a good starting point for achieving an improved system of Tax Abatement Programs.

In general I agree with Recommendations 1-5. I would like to continue discussion on some of them in the appropriate venues as illustrated in my following comments.

Recommendation 1
I agree that we can more clearly articulate the goals and objectives of these programs. However, I also believe it is important to adapt tools to changing city dynamics, and that is why the goals have evolved from spurring development to affordability and growth management. I will direct Planning to lead discussions to clarify policy.

Assessing the assignment of responsibilities for oversight, evaluation and reporting will be an important process. PDC and Planning should both have a clear understanding of their roles and the results of these programs should be accessible. There is value however in the two distinct functions of financial review and policy review and PDC and Planning are appropriate bodies in their respective areas of expertise.

1221 SW Fourth Avenue, Suite 340 ♦ Portland, Oregon 97204-1995
(503) 823-4120 ♦ FAX (503) 823-3588 ♦ TDD (503) 823-6868 ♦ www.portlandonline.com/mayor/

Office of Mayor Tom Potter
City of Portland

Recommendation 2
I agree that an annual report is important to the continuing success of our tax abatement programs. I will direct Planning to lead the reporting and PDC to provide support.

Recommendation 3
I agree that specific monitoring expectations and legal responsibilities should be articulated in a regulatory agreement with each multi-family project developer receiving abatements. It is worth noting that no new multi-family projects have been approved since affordability requirements were established. PDC will draft and record regulatory agreements with any new projects.

Recommendation 4
I agree with this recommendation. The City needs an appropriate mechanism for evaluating abatement needs for condominium projects.

Recommendation 5
I agree that PDC should review the process for tenant income verification. I am not convinced that third party verification is necessary. PDC adheres to current industry standards and HUD CDBG requirements. If review of the verification demonstrates otherwise, PDC should adapt to industry and federal government norms.

Again I thank you for the opportunity to comment on this report. I look forward to working with PDC and Planning to improve monitoring of tax abatement programs and fully support the fall Work Session. I would also like to acknowledge Commissioner Fish's commitment to working on these issues and am confident that he will report back to Council with an even deeper insight.

Sincerely,

Tom Potter
Mayor

Investing in Portland's Future

PDC
PORTLAND DEVELOPMENT COMMISSION

July 15, 2008

Mr. Gary Blackmer
City Auditor
City of Portland
1221 SW 4th Avenue, Room 310
Portland, Oregon 97204

Re: Final Draft – Audit of Housing Tax Abatement Programs, Report #362

Dear Mr. Blackmer:

Thank you for the opportunity to respond to your office's audit of the City's Housing Tax Abatement Programs.

We agree with most of your recommendations, as detailed in the attached formal response. We look forward to working collaboratively with your office, Bureau of Planning and City Council to improve these valuable programs.

Sincerely,

Bruce A. Warner
Executive Director

www.pdc.us

222 Northwest
Fifth Avenue
Portland, OR
97209-3859

tel: 503.823.3200
fax: 503.823.3368
TTY: 503.823.3366

PDC

PORTLAND DEVELOPMENT COMMISSION

July 16, 2008

Mr. Gary Blackmer
City Auditor
City of Portland
1221 SW 4th Avenue, Room 310
Portland, Oregon 97204

RE: Final Draft of Audit of Housing Tax Abatement Programs, Report #362

Dear Mr. Blackmer:

Thank you for the opportunity to respond to your audit of the City's Housing Tax Abatement Programs, Report #362 and for addressing some of the comments Portland Development Commission (PDC) provided to your draft report. We understand the Bureau of Planning (BOP) has provided a response that will put the policy and overall program goals into context with other City priorities. Thus, I will focus most of PDC's comments on other issues you noted in your audit.

I generally agree with your recommendations and, as you note, PDC has already taken steps to improve program administration. I do disagree with some of your audit's findings which are not part of the formal recommendations. My thoughts on these findings are included as part of my following response. For organizational purposes, I have divided PDC's response into three categories – Program Goals, Response to Recommendations and Response to Project Finding.

Program Goals

As identified in your audit, there have been almost 6,000 housing units constructed over the past ten years in various areas of the city. These projects have taken advantage of the Transit Oriented Development (TOD), New Multi-Unit Housing (NMUH) and the Single Family New Construction (SFNC) limited tax abatement programs. As public policy goals and market forces have evolved, so too have the purpose and geographic focus of the programs. In fact, since 2003 the abatement programs have evolved from being primarily construction incentives to now including requirements for unit and income affordability and increased ongoing financial analysis and reporting. As a result, the SFNC program has become one of the city's best and most utilized tools for increasing home ownership rates. Since the legislature reauthorized the program in 2005, 734 homebuyers have been approved under the SFNC program, nearly 50 percent of which were minority homebuyers.

Conversely, the project approvals under the TOD and NMUH programs have slowed dramatically since the code changes requiring deeper affordability, annual financial review of the internal rate of return and potential recapture of abatements. In the ten years prior to the code changes, the City approved 19 TOD and 25 NMUH projects. Since these changes, only one TOD ownership

PDC

www.pdc.us

222 Northwest
Fifth Avenue
Portland, OR
97209-3859

tel: 503.823.3200
fax: 503.823.3368
TTY: 503.823.3366

project has been approved (currently under construction) and one project is currently in the application process. No projects have been approved under the NMHU program. This significant reduction in activity since the code changes were implemented calls the question of whether the code changes are effective in incenting housing development for these evolving target markets.

Response to Recommendations

I agree with recommendation 1 – (The City Council should) Clarify the goals and objectives of the housing tax abatement programs, and assign responsibility for oversight, evaluation and reporting.

The PDC agrees with this recommendation. As the lead agency responsible for policy and planning related to the tax abatement programs, we will defer to BOP to respond to the goals and objectives portion of this recommendation. As for the oversight (evaluation and reporting), we agree the programs will benefit from better defined roles and responsibilities between us and BOP. We have had discussions with BOP to further define our respective roles and responsibilities and believe BOP and PDC should enter into a clearly-articulated intergovernmental agreement. We look forward to discussing this with City Council later this year.

Historically, PDC's role for the TOD and NMUH programs has been limited to conducting the initial financial analysis to determine financial feasibility of a project with and without abatement and for processing homebuyer applications for all programs. Ongoing monitoring of the affordability requirements, internal rate of return (IRR) limitations and for continued owner occupancy have only recently been added to PDC's responsibilities as code changes were adopted for these programs. Our role has never included the evaluation or monitoring of other secondary public benefit requirements noted in your audit. Additionally, it should be understood the added responsibilities under the new TOD and NMUH program apply to just one project that was approved under the new code. PDC has monitored this project per the current standards.

I agree with recommendation 2 – (The City Council should) Direct the responsible bureau to submit an annual report of the program activities to Council.

The PDC agrees with this recommendation and believes BOP is the agency best suited to lead this effort. Our financial information must be included in this annual report. We will provide the necessary support to help them produce a quality report for Council's review.

It is my expectation the first report should be available this fall. The BOP and PDC will provide the Council a suggested outline and content for the report. They can use this as the basis for discussion/direction during their limited tax abatement program work session.

I agree with recommendation 3 –(PDC should) Draft a regulatory agreement with each multi-family project developer that specifies responsibilities for monitoring project financial performance, affordability and other required public benefits.

We recognize the City Council Ordinance that authorizes each TOD and NMUH tax abatement project does not provide adequate documentation to fully articulate the parties' legal responsibilities. Our guidelines for these programs do require a regulatory agreement be entered into between the developer and the City. No new projects have been approved since the new program requirement became effective. As any new projects are approved, a regulatory agreement will be drafted and recorded against the property to memorialize the agreements and program requirements.

I agree with recommendation 4 – (PDC should) Review the method of assessing financial need for multi-family condominium properties and make recommendations to Council for revising City Code.

We strongly agree with this recommendation. As pointed out in your audit, current code requirements do not make sense for condominium projects. We will work with the BOP to recommend code changes to better address the unique differences between rental and ownership projects. It is my expectation our suggested changes will be available for Council's fall work session.

I agree with recommendation 5 – (PDC should) Review and update processes for verifying applicant and tenant income.

The PDC regularly evaluates its systems to identify potential improvements. To that degree, we agree with your recommendation that PDC review its processes to determine whether they remain current to industry standards and effective in providing PDC with the information necessary to make wise program and business decisions.

In the body of your report, you suggest PDC perform an independent or third-party verification of income information provided by potential homebuyers and tenants of properties that receive tax abatements. If this is what was intended by this recommendation, PDC disagrees. The standards used by PDC for ownership projects are standard in the residential lending industry, including obtaining tax returns, W-2's, current pay stubs (and when appropriate current profit and loss statements). On rental projects, PDC requires the owner/property management agent provide an electronic tenant survey which details a variety of information about each tenant, including tenant income information. These processes are standard within the residential lending (and conform to HUD CDBG income documentation requirement) and affordable rental housing industries. Additionally, PDC has the right to physically inspect records if it questions the accuracy of the information provided. We believe the cost of implementing a third-party verification requirement may far exceed the benefit. We will review this further before Council's work session.

<u>Response to Project Issues</u>

In addition to the specific recommendations, you identified three project-related issues which we would like to respond to, including:

- The Louisa
- Center Commons
- Council approval of 2006 Single Family New Construction abatements

The Louisa - As you clearly point out on Page 7 of your report, project monitoring was not specified in the old code under which this project was approved. Because PDC did not provide direct financial assistance to the project, it was not entered into our asset management system. As discussions evolved with the County and BOP last fiscal year, PDC identified all projects which have an affordability requirement, but did not receive PDC direct financial assistance and have now entered these projects into the asset management system for monitoring of the affordability requirements.

As it relates to the Louisa, the authorizing resolution passed by City Council required 24 units be rented at levels affordable to households at 80 percent of median family income for a family of two. Subsequent to your visit in January, the owner has demonstrated that the required 24 units are being rented at or below the required level. The existing owner has also provided current financial statements and we are awaiting financial data from the previous owner to complete the required internal rate of return calculation. As you determined, this information should have been in the file for the project and we should have taken action earlier to address the lacking financial information.

Center Commons – PDC is researching this project to determine the complete details of the transfer of each of these units to the initial and current homeowner. We have found 2002 documentation of an administrative decision by the PDC Housing Director, in consultation with BOP and the County Assessor, outlining an alternate method for calculating the net sales price of the units by subtracting the amount of a Shared Appreciation Mortgage (SAM) from the gross sales price. The SAM is a silent second mortgage that ultimately reduces the cost of the unit to the buyer. As a result, it was deemed an acceptable method for calculating the sale price for limited tax abatement qualifying purposes. Staff is researching the details of the initial and subsequent sales of each of these units to determine whether the net sale price met these criteria. We will provide a supplemental report when our research is complete. However, this information should have been readily available in the project file.

City Council Approval of 2006 Single-Family New Construction Abatements – Since you brought this to our attention via the draft audit, we have investigated this issue. While we have found evidence the process was started, a resolution was drafted, correspondence to City Hall requesting the item be placed on Council's agenda was drafted, we cannot find evidence the resolution was ever passed. We are now discussing this with PDC legal and the City Attorney's office to determine the best method to correct this administrative oversight. Systems are now in place to ensure this oversight does not reoccur. This includes having firm deadlines/agreements with this County whereby City Council's passing of a resolution is the only form of notification they will accept in order to implement tax abatements under this program.

Closing

My final comments will focus on the issue of foregone revenue. In the audit, you reported the difficulty of estimating the true financial cost/benefit of property tax abatements since there is no accepted method to ascertain how many of these units would have been constructed in the absence of these abatement programs. Yet, the amount of "foregone" or "lost" revenue you identify for the city and other taxing jurisdictions assumes all of these housing units would have been constructed or rehabilitated without the tax abatements. I am confident many of these units would not have been constructed without these incentive programs. As a result, the true amount of "foregone" is overstated.

Thank you for the opportunity to respond to your audit. I look forward to continued discussion about how these programs can be improved to better serve the policies and the City's goals.

Sincerely,

Bruce A. Warner
Executive Director

tag

CITY OF PORTLAND
BUREAU OF
PLANNING

1900 SW 4th Avenue
Suite 7100
Portland, OR 97201-5380
portlandonline.com/planning
pdxplan@ci.portland.or.us

TEL 503 823-7700
FAX 503 823-7800
TTY 503 823-6868

Tom Potter, Mayor
Gil Kelley, Director

July 15, 2008

Gary Blackmer, City Auditor
Office of the City Auditor
Director of Audit Services
1221 SW 4th Avenue, Room 310
Portland, Oregon 97201

RE: Final Draft of the Report on Housing Tax Abatements (Report #362)

Dear Mr.Blackmer:

Thank you for the opportunity to respond to the final draft of the Housing Tax Abatement Audit and for incorporating some of the changes that Planning requested to the Working Draft of May 2008. In this letter, we will address the first two recommendations made in the Audit that pertain to the Planning Bureau. In addition, we are providing some more detailed responses regarding tax abatement goals and benefits as an attachment to this letter.

We have two comments on the first recommendation, and we wholeheartedly agree with the second. We hope our comments will be useful in future deliberations for policy making and program direction. The first recommendation is the clarification of program goals and assignment of responsibility for oversight, evaluation and reporting. The second is the submission of an annual report on program activities to City Council.

Recommendation #1

A. Evolving Program Goals

The Audit states that the tax abatement programs have "evolving goals" and that their purposes have "shifted" over the years. The three programs that are the subject of the audit grew out of City area, revitalization and transportation planning efforts of the 1970s, 80s and 90s which were later incorporated into the City's *Comprehensive Plan*. Some time has passed since the adoption of these programs and we acknowledge there have been some modifications of all three to address changing conditions and circumstances. These changes are the outgrowth of the goals adapting to meet new or emerging needs and resulting shifts in City housing and community development priorities. The most important of these is the role that these programs play in both providing affordable housing and meeting regional growth management objectives, and we agree these need to be more fully articulated. However, we believe that overall the core missions of these programs are still relevant, and in some cases more relevant in an era of climate change, soaring energy costs and the mortgage credit crunch. *See the attachment for a more detailed discussion of evolving goals.*

Since the policy intent of the programs does not appear to be clear to the Auditor or the public, Planning would welcome the opportunity to assist with their clarification. In the short term, we are willing to lead the policy discussions that have been requested by both members of City Council and Multnomah County. In the long term, The Portland Plan, which includes updates of the Comprehensive Plan and the Central Portland Plan, will also provide an opportunity to clarify the policy intent and the program objectives for housing tax abatements and other city housing programs that carry out city goals. We have included such an update in our work plan which will be to Council in August and, assuming adoption, forwarded to the Oregon Department of Land Conservation and Development for approval. Once the work plan is approved by the state, we expect to spend three years completing the update.

B. Division of Responsibility for Program Administration
The Audit states that the ..."administration of the tax abatement programs is fragmented..." between PDC and Planning, and that,... "split responsibility between agencies results in a lack of overall program oversight." Our understanding of the division of responsibilities is that the Planning Commission has "policy" oversight over the programs and that Planning staff assists the Commission by bringing before them changes to program regulations and boundaries, as well as individual tax exemption cases, for their review. The Planning Commission then makes recommendations on program changes or individual cases to City Council. The role of PDC is to evaluate the necessity of tax exemption to the financial feasibility of projects applying for the multifamily programs, to administer the single family program, and to monitor the affordability and owner-occupancy requirements, where applicable, for all three programs. We would be glad to assist in further clarifications of these roles with City Council. Since the Bureau of Planning and Planning Commission are responsible for preparing community plans; and advising Council on interpreting, and applying policy as it relates to those adopted plans, we believe this split responsibly provides a useful check and balance between policy and program implementation. *See attachment for more comments on division of responsibilities for program administration.*

Recommendation #2
Reporting
We agree with the second recommendation of the audit that an annual report of program activities should be submitted to City Council. Annual reporting would help clarify the role of the programs in carrying out City housing and community development goals. The Bureau of Planning would like to take responsibility for the analysis of how the program activity meets the higher level program goals described in the enabling legislation and relevant City Code purpose statements. The Planning Bureau is staff to the Planning Commission which advises City Council on the City's Comprehensive Plan and area planning matters. In addition, the Bureau could also report to Council on how program activity meets our regional growth management goals. If it is agreeable to PDC, we would be willing to be responsible for the report that we would produce with their assistance.

In conclusion, we are supportive of the Audit's first two recommendations that relate to the work of the Planning Bureau. We want to provide any assistance necessary for the clarification of the tax abatement program goals to Planning Commission and City Council. We are also interested in updating the enabling statutes and the City Code to reflect new policy objectives such as housing affordability and growth management that have been added to the original program purposes.

We look forward to working with PDC to clarify our roles in program administration and with our other city, county and community partners. Again, thank you for the diligent work of the Audit Team and your thoughtful review of these programs.

Sincerely

Gil Kelley, Director
Bureau of Planning

cc. Drummond Kahn, Audit Services Division
Bruce, Warner, Director, Portland Development Commission

Attachment: Further Comments on Recommendation #1

Further Comments on Recommendation #1

A. Evolving Program Goals

An explanation of the two most important new policy objectives is given below.

Affordability

As the housing prices and rents as have increased in the last several decades, mandatory affordability requirements have been added to all three programs to ensure that the housing receiving tax abatement provide some housing affordable to low and moderate income households. The Audit states that the "stated purpose and goals of the abatement have shifted from providing an incentive for new housing construction, to making new housing more affordable." The addition of housing affordability requirements does not detract, as far as we are concerned, from the primary purpose of these programs which is to provide an incentive for housing production in particular locations.

The affordability requirements that have been added to the multifamily programs will provide households of modest means increased housing opportunities, where they were otherwise at risk of being displaced from increasingly desirable locations close to transit and job centers.

The income and owner-occupancy requirements that have been added to the single family program will ensure that the affordable homeownership opportunities are provided in Portland neighborhoods targeted for revitalization.

Growth Management

The two multifamily programs also carry out important growth management goals and this is a program purpose that has not been explicitly stated. Planning staff believe this goal should be added to the City program regulations and perhaps to the State authorizing statutes. The areas mapped as eligible for these programs are those designated by the regional 2040 Growth Concept plan where both the region and the city wants to accommodate the largest amount of population growth in the next 30 years. These include the Central City, the Gateway Regional Center, the Hillsdale, Lents and Hollywood Town centers and all existing and planned light rail station areas and several Main Streets with frequent transit service.

The maps in the Final Draft Audit on pages 20 and 22 show that the programs have been successful in spurring development in these areas. Given soaring energy costs and increasing concern over climate change, providing incentives for new and current residents to live close to frequent transit service, jobs and services is even more critical than in the past.

B. Assignment of Responsibility and Program Monitoring

Planning believes that monitoring of affordability and owner-occupancy requirements of the tax exemption programs is important and that PDC is best suited to this responsibility. However, the monitoring of secondary public benefits warrants some discussion. Some of the oversight concern expressed in the Audit stems from the perceived lack of monitoring of the provision of secondary public benefits such as community meeting rooms and public art. The provision of one or more public benefits from public benefit options list is a requirement of the TOD and NMUH programs. However, these are secondary benefits of the programs and it is important to distinguish these from the core program goals which are to encourage new housing production for a mix of incomes in designated areas of the City. In the land use review and approval process, such requirements as designated art space and hours of operation for a community room are enforced on a compliant driven basis, in part because there is a degree of diminishing cost-effective return to devote staff time to reviewing much less important provisions. Perhaps, this option could be pursued. An alternative solution may be to change the secondary public benefit requirements.

Audit Services Division
Office of the City Auditor
1221 SW 4th Avenue, Room 310
Portland, Oregon 97204
503-823-4005
www.portlandonline.com/auditor/auditservices

Housing Tax Abatements: Oversight inadequate to ensure program goals

Report #362, July 2008

Audit Team Members: Kari Guy, Doug Norman, Scott Stewart

Gary Blackmer, City Auditor
Drummond Kahn, Director of Audit Services

Other recent audit reports:

Office of Neighborhood Involvement: Clearer goals and more comprehensive measures needed to improve accountability (#363, June 2008)

Public Participation in Capital Projects: Bureau processes align with best practices but should be formalized and available to residents (#347, March 2008)

Mandatory Supervisory Training: Not cost-effective and should be streamlined (#354, March 2008)

This report is intended to promote the best possible management of public resources. This and other audit reports produced by the Audit Services Division are available for viewing on the web at: www.portlandonline.com/auditor/auditservices. Printed copies can be obtained by contacting the Audit Services Division.