

# **Tax Exemption Handout to Facilitate PSC Discussion on Program Changes**

## **Background**

Portland has five different Limited-term Tax Exemption (LTE) programs that have been used as one of the financial and policy tools to achieve the City's various housing goals. Implemented at different times, most of these programs have undergone various changes at different time periods. Most recently, a City-County Committee comprising of elected officials and other stakeholders called the "Big Look Committee" has been deliberating policy changes to the various LTE programs. The main purpose of these discussions have been to achieve better alignment of the programs with the City's current affordable housing needs and to advance equity, housing access, and neighborhood development goals, through the strategic use of this tool. Additionally, the aim of this review process is also to improve program administration and accountability.

In August 2011, the Planning and Sustainability Commission (PSC) was given a briefing on the Big Look process and outcomes. As PSC takes up a discussion on the impending changes to the LTE programs, this handout is intended to facilitate the conversation by summarizing relevant details in the following sections:

- I. 51% Consent Issue from taxing Jurisdictions
- II. Recommendations Under Consideration by Big Look Committee
- III. Timeline for Big Look Process
- IV. Data on Tax Abated Units
- V. Role of the PSC in Light of New Set of Responsibilities

Significantly, the PSC can deliberate upon the following questions:

- Does the PSC agree with the general direction of the recommended changes to the LTE programs under consideration by the Big Look Committee?
- In what ways can the LTE programs advance the City's long term planning goals and strategies, as laid out in the Portland Plan and the Comprehensive Plan? For example, how can the LTE programs be used to create a Healthy Connected City or to use the Single Family program to address involuntary displacement?
- What is the PSC's role in the LTE programs (is there a desire to hear individual projects or does the Commission wish to guide program changes?)

The following sections provide relevant information/data to facilitate discussions surrounding LTE Program changes that are under consideration.

## **I. 51% Consent Issue from taxing Jurisdictions**

In order to provide a full exemption of property taxes under the tax abatement programs, the State statutes requires the City to obtain consent from some other taxing

jurisdictions so that the combined tax rate from the City and the other districts equals 51 percent of the total tax rate. Portland's share of the overall tax rate is about 30 percent. We need the consent of either Multnomah County or the School Districts (or some other combination of taxing jurisdictions) to reach the 51 percent. In the past, we have asked Portland Public Schools to pass a resolution agreeing to the single-family new construction and rehabilitation tax exemption programs. Because Portland Public Schools does not cover the entire area of the city, in the recent years, Multnomah County Commission has provided resolution supporting these programs. The consent resolution is coming up for renewal in December 2011 and the value of the tax abatement program is dependent on the support of the County. Without their support, full tax abatement cannot be provided and the City will be able to abate only its share (30%) of the taxes and not be able to award full exemption that can be secured by the 51% consent.

One of the purpose of the Big Look Committee was to craft recommendations for program changes that allow Multnomah County to support full abatement by supporting the 51% consent.

## **II. Recommendations Under Consideration by Big Look Committee**

### HOMEOWNERSHP TOOLS (Single Family New Construction)

1. PHB to establish a capped amount of capacity (by \$ or # of applications) available on an annual or bi-annual basis, and establish a regular competitive process for available capacity (RFP or other method) (City code change to existing program – SHORT TERM 3-6 mos. )
2. PHB staff to work with County, School Districts, Bureau of Planning and Sustainability, Developers and other stakeholders to establish *new* criteria for establishing Home Buyer Opportunity Areas (HOA) that advance goals of increasing homeownership in high asset areas, especially to advance its primary goal of Closing the Minority Homeownership Gap. (Multi-jurisdictional staff work for 2012 or 2013 legislative session – LONG TERM 12-18 mos.)
3. PHB staff to establish a working group to review and advise on home acquisition models, *especially such acquisitions potential effectiveness for anti-displacement*; develop program guidelines that advance goals of increasing homeownership in high asset areas, especially to advance its primary goal of Closing the Minority Homeownership Gap. (Multi-jurisdictional staff work for 2012 or 2013 legislative session – LONG TERM 12-18 mos.)

## MULTI-FAMILY HOUSING TOOLS (New Multiple Unit Housing/Transit-Oriented Development

1. City code change to consolidate programs (NMHU & TOD); transit proximity aligned with Bureau of Planning and Sustainability Healthy Connected Neighborhoods definition - SHORT TERM 3-6 mos.

2. Recommendation on required level of affordability:

- Homeownership 100% MFI family of four (no change) + sales price cap
- At or below 60% MFI for 20% of units or at or below 30% for 10% of units (TOD)
- At or below 80% MFI for 15% of units (NMUH) *Current moratorium on all but 100% of units @ 60% MFI*

3. Recommendation on Public Benefits: (see list attached)

- Affordability + 3 public benefits (TOD)
- Commercial (if exempt) must:
  1. Meet definition of neighborhood serving good or service as defined in Healthy Connected City Portland Plan strategy – provide market survey and defined community process to support
  2. Demonstrate that commercial use will not compete with existing successful use within XX blocks (PDC NED Strategy support)

### **PUBLIC BENEFITS LIST**

#### **FROM TOD**

1. 20 percent of units dedicated to persons with special needs.
2. 10 percent of rental units include 3 or more bedrooms.
3. Provide childcare on-site or support child care facility.
4. Provide residential unit-per-acre density equivalent to at least 80 percent of maximum density
5. Permitted ground floor service or commercial use.
6. Office space or meeting room for community.
7. Permanent dedications for public
8. Family oriented recreational facilities.
9. A dedicated car-share space(s).
10. Structured parking.
11. LEED Silver certification from the US GBC
12. Twice the percentage of affordable units, or percentage of residential building square footage for affordable units, than is required by the affordability requirement.
13. Other benefits as proposed by the developer and approved by the Planning Commission.

14. Transportation improvements above those required
15. An agreement to sell off-street parking spaces separate from condominium units.

**FROM NMUH**

1. Open spaces available to the general public;
2. Day care facilities;
3. Permanent dedications for public use
4. LEED Silver certification from the US Green Building Council;
5. 20 Percent of the rental units have 3 or more bedrooms;
6. A total of 25 percent of the rental units are affordable to households at 80 percent MFI; or
7. Other public benefits approved by the Planning Commission and the City Council.

4. PHB Finance staff to review and recommend replacement Rate of Return test for use at initial application and on annual financial review. Annual return exceeding established maximum subject to "claw back".

5. PHB to establish a capped amount of capacity (by \$ or # of applications) available on an annual or bi-annual basis, and establish a regular competitive process for available capacity (RFP or other method).

**III. Timeline for Big Look Process**

September/October, 2011	Big Look Committee will finalize Recommendations
November/December, 2011	Portland Housing Advisory Commission (PHAC) public hearing on LTE Program Changes  Stakeholder Outreach
December/January, 2011/20112	City Council & County Commission Actions

**IV. Data on Tax Abated Units**

The following data excerpts from the *2010 Tax Exemption Annual Report* provides the latest breakdown of number of housing units that are receiving exemption by various LTE programs, the tenure split (rentership vs. ownership) and an estimation of foregone

revenue by various taxing jurisdictions and also a breakdown of foregone revenue by education districts. The set of tables provide a snap shot of the impact of the LTE programs ( as measured by units) vs. Foregone Revenue (measure of program costs):

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

Exemption Programs	Number of units receiving exemptions TY 2009-10	Percentage of all units receiving exemptions TY 2009-10	Number of units receiving exemptions TY 2010-11	Percentage of all units receiving exemptions TY 2010-11
Nonprofit	8,579	60%	8,522	61%
NMUH	2,341	17%	2078	15%
TOD	895	6%	1025	7%
SFNC	2,230	16%	2166	16%
Rehab	133	1%	60	1%
<b>Totals</b>	<b>14,178</b>	<b>100%</b>	<b>13,791</b>	<b>100%</b>

**Table 2: Tenure of housing promoted by each exemption program in TY 2010-11**

Exemption Programs	Rental Housing Units	Homeownership Units
Nonprofit	8522	0
NMUH	2018	60
TOD	925	100
SFNC	0	2166
Rehab	4	56
<b>Total</b>	<b>11,469</b>	<b>2,382</b>

**Table 10: Estimated revenue foregone by taxing jurisdictions and program for TY 2010-11**

Program	Total Estimated Revenue Foregone	% of Total	City of Portland	County	Education Districts	All other Tax Districts	Units	Average Foregone Revenue per Unit
Nonprofit	\$7,636,649	50%	\$2,477,434	\$1,709,548	\$2,399,814	\$1,049,853	8,522	\$896.11
NMUH	\$3,063,195	20%	\$993,983	\$685,896	\$962,625	\$420,691	2,078	\$1,474.11
TOD	\$913,163	6%	\$297,702	\$205,428	\$284,749	\$125,284	1,025	\$890.89
SFNC	\$3,469,676	22.7%	\$1,125,865	\$776,901	\$1,088,064	\$478,846	2,166	\$1,601.88
Rehab	\$41,443	0.3%	\$13,424	\$9,263	\$12,993	\$5,764	60	\$690.72
<b>Totals</b>	<b>\$15,124,126</b>	<b>100.00%</b>	<b>\$4,908,408</b>	<b>\$3,387,036</b>	<b>\$4,748,244</b>	<b>\$2,080,438</b>	<b>13,851</b>	<b>\$1,091.92</b>

**Table 11: Estimated revenue foregone by education district, by program for TY 2010-11**

Program	Total Education	Education Service Districts (E.S.D.)	Community College	PPS	David Douglas	Other School Districts
Nonprofit	\$2,399,814	\$145,182	\$195,386	\$1,764,513	\$219,860	\$74,872
NMUH	\$962,625	\$58,249	\$80,461	\$823,915	\$0	\$0
TOD	\$284,749	\$17,446	\$22,027	\$130,683	\$110,258	\$4,335
SFNC	\$1,088,064	\$65,978	\$87,830	\$747,941	\$156,684	\$29,631
Rehab	\$12,993	\$787	\$1,082	\$10,866	\$214	\$44
<b>Total</b>	<b>\$4,748,244</b>	<b>\$287,641</b>	<b>\$386,786</b>	<b>\$3,477,918</b>	<b>\$487,016</b>	<b>\$108,882</b>

Source: 2009-2010 Annual Report: Residential LTE Programs

## **V. Role of the PSC in Light of New Set of Responsibilities**

As the PSC deliberates changes to the LTE programs, an important area of consideration could be the ongoing role of the PSC in the approval of program changes and for individual project proposals. Presently, the PSC reviews criteria and program changes for all the programs (except the non-profit program) and also reviews all the individual project proposals for the NMUH and TOD program. PSC also reviews the extensions beyond the initial tax abatement period, something that was not possible or contemplated when the programs were first established (MLK-Wygant, Hazelwood, Collins Circle are the recent extension cases that PSC had hearings on). The criteria for PSC evaluation of the two programs are different. For the TOD program, they are asked to focus on the proposed benefits. For the NMUH program the criteria are conformity of the project with the Comp Plan and area plans.

One of the current proposals is to combine the NMUH and TOD programs for administrative efficiency. While this will likely bring organizational benefit for staff processing, it will not make much difference to approval timelines if all cases continue to go to the PSC. And it does not relieve the PSC's work load.

Keeping in mind the broadened scope and increased workload of the PSC, the Commission can weigh in on whether it should focus on reviewing program changes and criteria and not review individual cases. For the Commission to keep abreast of various tax abatement projects, the staff suggestion is to have an annual briefing that will also include sharing the annual report on residential LTE projects. For the past 3 years, such an annual report is being produced to brief the City Council and Multnomah County Commission.

### Staff Recommendations

1. PSC support the general recommendations of the Big Look Committee;
2. PSC review of the tax exemptions be focused on program elements and evaluation of the policy impacts. This can best be accommodated through annual evaluations, reviews and recommendations of program elements rather than through review of individual cases.