

IMPACT STATEMENT

Legislation title: Authorize a construction excise tax to fund affordable housing initiatives and create an Inclusionary Housing Fund (Ordinance)

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Purpose of proposed legislation and background information:

The purpose to the proposed legislation is to authorize a construction excise tax on residential and commercial development to fund the production and preservation of affordable housing at and below 60% MFI. This legislation is the product of state enabling legislation that was adopted during the 2016 legislative session.

Financial and budgetary impacts:

The proposed construction excise tax will have significant impacts on the City's finances. The revenue and associated program costs will be most directly applicable to the Bureau of Development Services, who will be administering the tax, and the Housing Bureau who will be using the tax revenue to administer affordable housing production and preservation programs. Outlined below is a table that provides a historic estimate on annual revenues and expenditures if the proposed tax structure had been in place for the past 5 years, based on the development that has occurred in the City.

	5 Year Average
Residential Revenue	5,404,087
4% for Admin	216,163
15% for State <i>(Net of Admin)</i>	778,188
50% for IZ Incentives <i>(Net of Admin)</i>	2,593,962
35% for Affordable Housing Programs <i>(Net of Admin)</i>	1,815,773
Commercial Revenue	2,681,298
4% for Admin	107,252
100% for Affordable Housing Programs <i>(Net of Admin)</i>	2,574,046
Total Revenue	8,085,385

Community impacts and community involvement:

Affordable housing, inclusionary housing, and potential construction excise taxes were a significant policy issue and discussion during the lead up to the 2016 state legislative session and during the legislative session itself. After significant discussion, numerous hearings, and extensive outreach by community organizations, industry representatives, and local jurisdictions, the state legislature passed a compromise bill authorizing the development of a mandatory

inclusionary zoning program and a local construction excise tax for affordable housing. The adoption of a Portland construction excise tax is the first step in implementing various policies and programs agreed to and authorized during the legislative session.

In addition to the community involvement during the legislative process, as the City of Portland has debriefed the result of the legislative session, extensive outreach has been conducted with community based organizations, local coalitions, industry groups, and a public panel of housing experts guiding the development of a mandatory inclusionary housing program. Commissioner Saltzman released the proposed construction excise tax to the public at a public meeting on May 24, requesting public feedback in advance of a City Council hearing.

The impact of a construction excise tax will be felt most specifically by low-income households and Communities of Color who are being priced and pushed out of the City of Portland due to rapidly increasing housing costs and limited affordable housing supply. The revenue from the construction excise tax would be dedicated to the City's mandatory inclusionary housing program, as well as the preservation and production of affordable housing at and below 60% MFI.

The recent and anticipated further expansion of mechanisms available to the City of Portland for the production of regulated affordable housing is creating opportunities to better calibrate and align programs to levels of need. As tax/fee exemption programs and inclusionary housing regulatory programs, which tend to target 80% and 60% MFI households, grow in magnitude and scope, space is created to increasingly target direct financing programs at 0 to 30% MFI households. Increasing revenue to support lower income direct financing programs while simultaneously expanding regulatory and exemption programs to support low to middle income households is critical to a balanced and comprehensive approach to address shortages in affordable housing in Portland.

Budgetary Impact Worksheet**Does this action change appropriations?**

- YES:** Please complete the information below.
 NO: Skip this section

A new fund entitled the *Housing Bureau Inclusionary Housing Fund* will be created to collect and retain the revenue from the proposed tax to be used in the follow ways:

1. The Bureau of Development Services may retain up to 4 percent of the taxes collected for payment towards the Bureau's administrative expenses related to collection and distribution of the tax.
2. For the tax imposed on residential improvements, the net revenues will be distributed as follows:
 - a. Fifteen percent of net revenue will be remitted to the Oregon Department of Housing and Community Services to fund home ownership programs.
 - b. Fifty percent of net revenue will be transferred to the Portland Housing Bureau Inclusionary Housing Fund to fund finance-based incentives for programs that require affordable housing.
 - c. Thirty-five percent of net revenue will be transferred to the Housing Bureau Inclusionary Housing Fund to support the production and preservation of affordable housing units at and below 60 percent median family income.
3. For the tax imposed on commercial improvements, 100 percent of net revenue will be distributed to the Housing Bureau Inclusionary Housing Fund to support the production and preservation of affordable housing units at and below 60 percent median family income.

Agenda Item No. 728 Establish a Construction Excise Tax to fund affordable housing initiatives from an Inclusionary Housing Fund

Fish Amendment 1: Insert a new directive d, to read as follows:

- d. The Bureau of Planning and Sustainability, working with the Bureau of Development Services, shall actively monitor how the City's Construction Excise Tax imposed under Chapter 6.08 impacts the redevelopment of brownfields, and shall report back to council no later than August 1, 2017. Depending on the extent of any negative impacts, the Bureau shall present Council with options to mitigate those impacts on brownfield redevelopment.

As amended 6-22-16.
Add directive d.

ORDINANCE No.

Establish a Construction Excise Tax to fund affordable housing initiatives from an Inclusionary Housing Fund (Ordinance; add Code Chapter 6.08 and Section 5.04.530)

The City of Portland ordains:

Section 1. The Council finds:

1. The City of Portland has a critical need for housing affordable to households earning at or below 80% of the median household income, and there are insufficient resources to address this need.
2. In the 2016 Legislative Session, the Oregon Legislature passed Senate Bill 1533 authorizing, among other things, the Oregon cities or counties to impose construction excise taxes to fund affordable housing initiatives and other specified uses, including remitting a required portion of revenue to the Oregon Department of Housing and Community Services (OHCS).

NOW, THEREFORE, the Council directs:

- a. City Code Title 6 is amended by adding a new Chapter 6.08 Construction Excise Tax, as set forth in the attached Exhibit A.
- b. City Code Chapter 5.04 is amended by adding a new section as follows:

5.04.530 Inclusionary Housing Fund.

The Inclusionary Housing Fund is hereby created to receive net revenues from the Construction Excise Tax. Disbursements from the fund shall be for the purposes identified in Section 6.08.130 of this Code. Except for those established purposes, in no case shall any funds be transferred from the Inclusionary Housing Fund to the City's General Fund, or any other fund, for any other purpose.

- c. Once a year during the annual City budget process through the State of Housing in Portland annual report, the Portland Housing Bureau shall report to City Council on the revenue collected by the City under this Ordinance and the use of that revenue.
- d. The Bureau of Planning and Sustainability, working with the Bureau of Development Services, shall actively monitor how the City's Construction Excise Tax imposed under Chapter 6.08 impacts the redevelopment of brownfields, and shall report back to council no later than August 1, 2017. Depending on the extent of any negative impacts, the Bureau shall present Council with options to mitigate those impacts on brownfield redevelopment.

Section 2. The amendments to Chapter 6.08 and Chapter 5.04 shall be effective on and after August 1, 2016. The tax imposed under Chapter 6.08 shall apply to building permit applications submitted to the Bureau of Development Services on and after August 1, 2016.

Passed by the Council,

MARY HULL CABALLERO
Auditor of the City of Portland

Commissioner Dan Saltzman
Prepared by: Matthew Tschabold
Date Prepared: May 27, 2016

By

Deputy