Tualatin's Equitable Housing Funding Plan

for Implementing Its Housing Production Strategy

April 2023

Prepared for: City of Tualatin

Draft Report

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Executive Summary

Tualatin has an urgent need for more housing that is affordable to people who live and work in Tualatin. More than one-third of Tualatin's households are cost burdened and cannot afford their housing, including 52% of renter households. Some groups are more likely to have difficulty finding affordable housing because of factors such as lower incomes, housing discrimination, and inability to find housing that meets their needs. In addition, low- and moderate-income workers at jobs in Tualatin may struggle to afford rental housing and homeownership in Tualatin.

While these problems are not unique to Tualatin and are common across the Portland region and state, Tualatin has a role in supporting development of housing that is affordable to people who live and work in Tualatin.

The purpose of the Equitable Funding Action Plan is to consider how to best implement the strategic actions in the HPS with a consideration of financial issues and increasing equitable access to housing.

This project builds on housing studies completed by Tualatin over the last several years. Tualatin adopted a *Housing Needs Analysis* in 2019 and a *Housing Production Strategy* (HPS) in 2021, which respectively identified gaps that exist for households in Tualatin and identified a set of strategies to address those needs. This document focuses on implementation of actions to fund and implement key strategies identified in the HPS.

Goals and Outcomes of This Plan

This report focuses on describing the actions in the HPS that are most dependent on funding to support their implementation. These and other actions in the HPS are intended to provide the City with tools to support affordable housing development and preservation. Taken on their own and separately, they may not result in a large change in the availability of affordable housing. But they provide the City with policies to support bold development proposals that can, taken together, help create substantial change in availability of affordable housing. The actions considered in this report are:

- **Evaluate potential funding sources to support affordable housing development.** The strategic actions that generate funding for affordable housing development and preservation include Construction Excise Tax (CET), Urban Renewal tax increment financing, and other potential funding sources for affordable housing.
- **Identify opportunities to reduce development costs in support of affordable rental housing.** The strategic actions that focus on reduction of the cost of affordable multifamily development include the Nonprofit Low Income Housing Tax Exemption, Multiple Unit Property Tax Exemption, and System Development Charges Exemption.
- **Identify ways to support homeownership for lower-income households.** Strategic actions that increase and retain homeownership include down payment assistance and home rehabilitation.

This plan also intentionally incorporates equity into its recommendations for implementing strategic actions by prioritizing those with the greatest housing needs. In Tualatin, this includes:

- **Low-income households.** Households below 60% of MFI who account for roughly a third of Tualatin's households are considered to require publicly subsidized housing to avoid cost burdening.
- **Cost-burdened renters.** Cost burdening typically describes households that pay more than 30% of their monthly income toward their total housing costs. In 2016-2020, nearly half of renters in Tualatin were cost burdened, compared to only 17% of homeowners.
- **People of color.** Cost burdening in Tualatin disproportionately affects people of color who both rent or own their homes. The legacy of historic discriminatory practices such as denial of financial services still creates housing disparities for households of color.
- **Seniors.** On average, Tualatin householders 65 years of age and over had a lower income than the overall median and may have more challenges finding affordable housing or paying for maintenance in a home that they own.
- **Disabled residents.** About 8% of Tualatin's population had one or more disabilities, who may have additional housing needs beyond affordability, including accessible home features, proximity to transit, and other resources.
- **Commuters.** In Tualatin, 93% of workers commute from other nearby areas each day, some of whom are not currently able to afford the city's rental rates or homeownership.

Actions Considered in This Plan

This report provides information about what it will take to implement the strategic actions shown in

Exhibit 1. This includes analysis of the potential costs (or revenues) of each strategic action, financial tradeoffs and considerations, equity considerations, and information about existing programs and potential partnerships. The strategic actions in this plan fall into three categories: those that **provide funding** by introducing a new source of revenue to support affordable housing, **forgo revenue** for the City to reduce costs for developing affordable housing, or **require funding** to pay for new programs.

The strategic actions considered in this report touch on some but not all issues considered in the HPS. Examples of other actions in the HPS include changes to Tualatin's development code to better support housing development, preservation of existing affordable housing, opportunities for redevelopment and potential land banking, and additional actions to support affordable housing development.

Exhibit 1. Summary of Financial Tradeoffs Between Funding Tools

Tool	What Does it Do	Population Served	Provides, Forgoes or Requires Revenue?
Construction Excise Tax	Levies a tax on new construction to fund housing programs and investments	Moderate Income and Lower-Income households	**Provides Funding**
Urban Renewal	Uses tax increment financing revenue for capital projects in urban renewal plan areas to support housing goals	Current and future residents within urban renewal area	**Provides Funding**
Nonprofit Low Income Tax Exemption	Forgoes property taxes for affordable housing provided by nonprofit organizations	Extremely and Very Low Income (<50%)	**Forgoes Revenue**
Multiple Unit Property Tax Exemption	Forgoes a portion of property taxes for mixed-income housing provided by market-rate developers	Low Income (50-80%)	**Forgoes Revenue**
System Development Charges Exemption	Reduces up-front development fees charged by the City for new affordable units (which must be backfilled from another funding source).	Extremely and Very Low Income (<50%) or Low Income (50-80%)	**Forgoes Revenue**
Down Payment Assistance	Provides funding for up-front costs to support moderate-income first-time homebuyers.	Moderate Income (80-120%) Seniors or disabled residents	**Requires Funding**
Home Rehabilitation	Provides funding for home repairs, weatherization, and/or accessibility improvements for qualifying homeowners.	Moderate Income (80-120%)	**Requires Funding**

Equity Impacts and Tradeoffs

Each of the strategic actions in this funding plan have tradeoffs related to equitable housing outcomes. These benefits and challenges include critical considerations for the recommendations in this plan and should be integrated in decision-making for affordable housing in Tualatin. Some of the key benefits and challenges for consideration in implementation of the strategic actions in this plan include:

Exhibit 2. Summary of Key Equity Considerations Funding Tools

Equity Benefits	Equity Challenges
• **CET and Urban Renewal** can be used to serve low- and moderate-income households. CET is more flexible, but urban renewal can provide a greater total amount. • **SDC and Tax Exemptions** incentivize new affordable multifamily units for low- to moderate-income households, typically at a lower cost per unit than homeownership. • **Down Payment Assistance** can benefit moderate-income households who have historically been excluded from homeownership and build intergenerational wealth. • **Home Rehabilitation** supports longer-term stability for homeowners, and specific support for people with disabilities and seniors.	• **CET** increases housing costs for some types of housing to fund affordable housing. • **Urban Renewal's** geographic limitations can create concentrated areas of poverty. • **Tax Exemptions** forgo City general fund revenue, which could be used for other city programs. **MUPTE** has a limited 10-year time frame for affordability. **SDC exemptions** also forgo funding that must be backfilled from other sources. • The higher cost per household for **Down Payment Assistance and Home Rehabilitation** means that often they serve relatively fewer people.

Key Conclusions from Analysis

The City of Tualatin should carefully consider limitations of how different funding can be used to implement its Housing Production Strategy. The following are primary conclusions that we identified through our analysis:

- **Urban Renewal funding can only be used for limited project types and requires broader discussion about tradeoffs.** Tax increment financing can only be used for projects within the district and takes time for funding to accumulate.
- **Construction Excise Tax spending is relatively flexible.** It takes time to accumulate CET funds and can be used to support a wide range of affordable housing actions.
- **System Development Charge Exemptions will need to be backfilled.** SDC exemptions can reduce costs for developers to provide affordable units but requires a funding source to backfill the forgone SDCs, such as CET or Urban Renewal revenue.
- **The Multifamily Tax Exemption will need support from overlapping taxing districts.** Providing enough incentive to support affordable housing development by market-rate developers requires exempting the property taxes of overlapping taxing district, as well as the City's exemption.
- **Increasing access to affordable homeownership is expensive.** Homeownership programs require a larger amount of funding because of the relatively high cost of housing sales. Increasing access to homeownership leads to longer-term housing stability and provides households with opportunities to gain equity and build wealth.
- **The City can prioritize other actions to support homeownership that have lower costs.** The City could partner with a land trust to support development of affordable ownership housing or use Urban Renewal funding to assemble a development site where affordable ownership units would be built.
- **The City can pursue funding from other sources, such as the general fund.** Tualatin should seek to make a case for an allocation from the second round of the Metro General Obligation bond, pursue its own local option levy, implement new taxes (which would require voter approval), or allocate general fund revenue.

Recommendations for Implementing the HPS

Recommendations for implementing the HPS and the strategic actions covered in this Plan include the following:

- **Build Equity into Decision-Making Processes.** As the City continues to implement the HPS, the City should develop an equity framework for decision-making that considers the distribution of cost and benefits and impacts on low-income residents, seniors, people of color, and other groups with higher housing needs in Tualatin. This framework should align with similar equity work that the City is developing for other initiatives (such as the climate action plan). Over the next five years, the City can begin to use this framework to prioritize initiatives, monitor outcomes, and begin applying it to subsequent strategic actions.

Establish an Affordable Housing Trust Fund and Create an Advisory Committee to Oversee it. An Affordable Housing Trust Fund (AHTF) is a mechanism that can centralize revenue sources into a collective account and distribute money for housing in the city. The City can set eligibility criteria to affirm that projects that receive public funding go toward priority needs. Trust funds are typically overseen by a committee who works with city staff to formulate the application criteria and administer the approval process. An advisory committee should include low-income residents, renters, seniors, people with disabilities, commuters, and people of color in Tualatin, whom the City should compensate for their participation. Over time, the City can monitor outcomes and look for opportunities to add new funding sources to grow the AHTF. Ideal sources of funding for the AHTF are flexible, allowing the fund to support different types of housing initiatives over time.

- **Explore Available Private, Regional, State, and Federal Funding Sources for Homeownership and Affordable Rental Housing.** Our analysis of additional funding tools begins to show the range of further options for funding affordable housing from a number of private, regional, state, and federal sources, which vary in terms of time frame, scale, and eligibility. Tualatin should continue pursuing additional sources of funding for affordable housing beyond the strategic actions in this plan. For example, if there is a second round of allocations from Metro's General Obligation bond for affordable housing, Tualatin could be a candidate to receive funding to support affordable multifamily rental housing.
- **Pursue a Construction Excise Tax on Residential and Commercial/Industrial Development.** Construction Excise Tax could be a large source of flexible revenue to fund strategic actions for housing in Tualatin within the next five years. Consistent with the schedule in the HPS, the City should prioritize exploring CET by 2025.
- **Work with Council to Identify the Right Balance of Housing Support in Implementing Urban Renewal.** The City is committed to implementing the Core Reinvestment Area Plan, including an explicit goal for development and preservation of multifamily housing affordable to a range of income levels. City staff should work with the City Council and Urban Renewal Agency to find the right balance of funding allocation for projects in the area. Decision-makers should discuss what is possible and what is an appropriate amount of funding to use for housing development in the Urban Renewal district within the next five years.
- **Implement a SCD Exemption for Affordable Housing Development.** The City can exempt the system development fees that it controls for Parks and Water and will need to identify a source to backfill the forgone revenue from other sources, such as the CET or Urban Renewal. The City will need to establish criteria for granting the exemption,

such as what level of affordability, the amount of SDC that will be exempted, and the number of affordable units it will require for an exemption.

- **Work with Overlapping Taxing Districts to Provide the Full Nonprofit Low Income Tax Exemption.** The City Council adopted the Nonprofit Low Income Tax Exemption on its own taxes in 2022, which accounts for 16.5% of all property taxes in the city. Applying the exemption to all property taxes requires approval from other taxing districts that make up at least 51% of the total tax roll.
- **Implement the Multiple Unit Property Tax Exemption and Seek Partnerships with Overlapping Taxing Districts.** The Multiple Unit Property Tax Exemption can add another tool to the City's options for creating affordable units for moderate-income households and incentivize more housing overall to be built in Tualatin.
- **Build Partnerships with Nonprofit Housing Organizations.** Nonprofit housing developers and operators are effective at delivering units that serve low-income residents and provide other supportive or culturally specific services. There are organizations operating within Tualatin and the region with whom the City could seek to build partnerships and include as part of decision-making conversations.

  Maintaining ongoing communication with nonprofit housing providers can help to identify regulatory and financial barriers that these organizations may be encountering in Tualatin. Through these conversations, the City may find opportunities to support nonprofit staff. Likewise, local partners may also present opportunities to reduce the amount of city staff capacity needed for ongoing program implementation.

- **Revisit the Funding Action Plan and Continue to Implement the Housing Production Strategy.** In the next five years (and beyond), the City should undergo periodic review of the Funding Action Plan and HPS. This process should include evaluating whether the analysis included within the Funding Action Plan or future analysis findings alter priorities for funding actions in the HPS.

  The City should also be proactive about monitoring whether actions which are not currently being explored become more viable or if precedents emerge for similar communities in Oregon. If such funding options emerge, the City can consider conducting further analysis and reorganizing its priorities for implementation.

1. Introduction

Tualatin has an urgent need for more housing that is affordable to people who live and work in Tualatin. More than one-third of Tualatin's households are cost burdened and cannot afford their housing, including 52% of renter households. Some groups are more likely to have difficulty finding affordable housing because of factors such as lower incomes, housing discrimination, and inability to find housing that meets their needs. These groups include seniors, people with disabilities, people of color, and people experiencing houselessness.

In addition, more than 90% of people that work at jobs in Tualatin commute in from another community. Workers with lower-wage jobs in Tualatin would struggle to afford rental housing in Tualatin and average-wage workers in Tualatin would struggle to afford homeownership in Tualatin.

> The purpose of the Equitable Funding Action Plan is to consider how to best implement the strategic actions in the HPS with a consideration of financial issues and increasing equitable access to housing.

While these problems are not unique to Tualatin and are common across the Portland region and state, Tualatin has a role in supporting development of housing that is affordable to people who live and work in Tualatin.

This project builds on housing studies completed by Tualatin over the last several years. Tualatin adopted a *Housing Needs Analysis* in 2019 and a *Housing Production Strategy* in 2021, which respectively identified gaps that exist for households in Tualatin and identified a set of strategies to address those needs. This document focus on implementation of actions to fund and implement key strategies identified in the *Housing Production Strategy*.

The *Housing Production Strategy* (HPS) recommended development of a Funding Action Plan to Implement the HPS with Attention to Equity (Action 5.a in the HPS). The purpose of the Equitable Funding Action Plan is to consider how to best implement the strategic actions in the HPS with a consideration of equity, with the intended outcome of increasing access to income-restricted and workforce affordable housing. Implementing housing policies in an equitable way goes beyond affordability—it aims to ensure all people have housing choices that are diverse, high quality, physically accessible, and reasonably priced with access to opportunities, services, and amenities (e.g., transit, schools, childcare, food, and parks). These issues are addressed throughout the 12 goals and the strategic actions in the HPS.

The Equitable Funding Action Plan also ensures that there are ongoing opportunities to revise the HPS' priorities based on changing conditions and input of underserved communities, as well as opportunities to determine how the city will fund implementation of the HPS. The funding action plan is intended to focus implementation of the HPS on increasing access to housing with an emphasis on low and moderate-income households while also furthering racial and social equity.

Goals and Outcomes of This Plan

This report focuses on describing the actions in the HPS that are most dependent on funding to support their implementation and describing the funding sources (and potential available funding) for supporting their implementation. These and other actions in the HPS are intended to provide the City with tools to support affordable housing development and preservation. Taken on their own and separately, they may not result in a large change in the availability of affordable housing. But they provide the City with policies to support bold development proposals that can, taken together, create substantial change in availability of affordable housing.

The actions considered in this report are:

- **Evaluate potential funding streams to support affordable housing development.** This report examines strategic actions that generate funding for affordable housing development and preservation: Construction Excise Tax (CET), Urban Renewal tax increment financing, and other potential funding sources for affordable housing.
- **Identify opportunities to reduce development costs in support of development of affordable rental housing.** The strategic actions that focus on reduction of the cost of affordable multifamily development: Nonprofit Low Income Housing Tax Exemption, Multiple Unit Property Tax Exemption, and System Development Charges Exemption.
- **Identify ways to support homeownership for lower-income households.** Strategic actions that increase and retain homeownership: down payment assistance and home rehabilitation.

This report provides more information about what it will take to implement the action, the potential costs (or revenues) of the strategic action, financial tradeoffs and considerations of each strategic action, and equity considerations for each strategic action. It also provides information about some existing programs and potential partnerships that can help lower-income households in Tualatin access affordable rental housing and attain homeownership.

The report is not intended to make specific recommendations about the details of how actions in the HPS should be implemented but to give the City Council (and other decision-makers) information about the tradeoffs and considerations of implementation of these actions. Additionally, it provides suggestions about how to embed equity further into implementation of these actions in the HPS to better achieve the goals of the HPS by increasing housing access for low and moderate-income households and increasing racial and social equity.

As the HPS notes, the City may consider updating the Funding Action Plan in 2026 to reevaluate the impact the HPS has had on increasing housing access to low and moderate-income households and on increasing racial and social equity.

The strategic actions considered in this report touch on some but not all issues considered in the HPS. Other actions that the City may implement, as part of the HPS, include:

- Opportunities for redevelopment and potential land banking
- Changes to Tualatin's development code to better support housing development, especially affordable housing development
- Support to increase access to affordable homeownership
- Support of development of affordable rental housing, both for workforce affordable housing and income-restricted affordable housing
- Preservation of existing affordable housing
- Evaluation of impediments to Fair Housing and education about Fair Housing
- Encouraging opportunities for mixed-use development and redevelopment in commercial areas

What Goals of Tualatin's Housing Production Strategy Are Being Addressed?

Affordable Housing: Strongly prioritize, encourage, and support affordable rental housing development to increase affordable housing for households earning 0-60% Median Family Income.

Affordable Homeownership: Encourage and support affordable homeownership to create opportunities for wealth creation.

Preservation of Naturally Occurring Affordable Housing (NOAH): Preserve naturally occurring affordable housing, where possible, to prevent loss of affordable units and to mitigate resident displacement.

Housing for Underserved Communities: Implement housing policies, projects, programs, and partnerships to further support racial and social equity.

Workforce Housing: Encourage, plan for, and support the development of workforce housing for households earning 61-80% Median Family Income for both owner and renter, in order to increase the jobs-housing balance, reduce commute time, and provide attainable housing for workers in Tualatin.

Housing Rehabilitation: Plan for and support housing programs and initiatives that are responsive to the safety and health needs of households earning 0-80% of Median Family Income.

Mixed-Use Housing and Redevelopment: Encourage and support development of mixed-use, mixed-income, and multifamily housing in commercial zones and urban renewal areas for households earning 0-80% Median Family Income.

Equitable Implementation

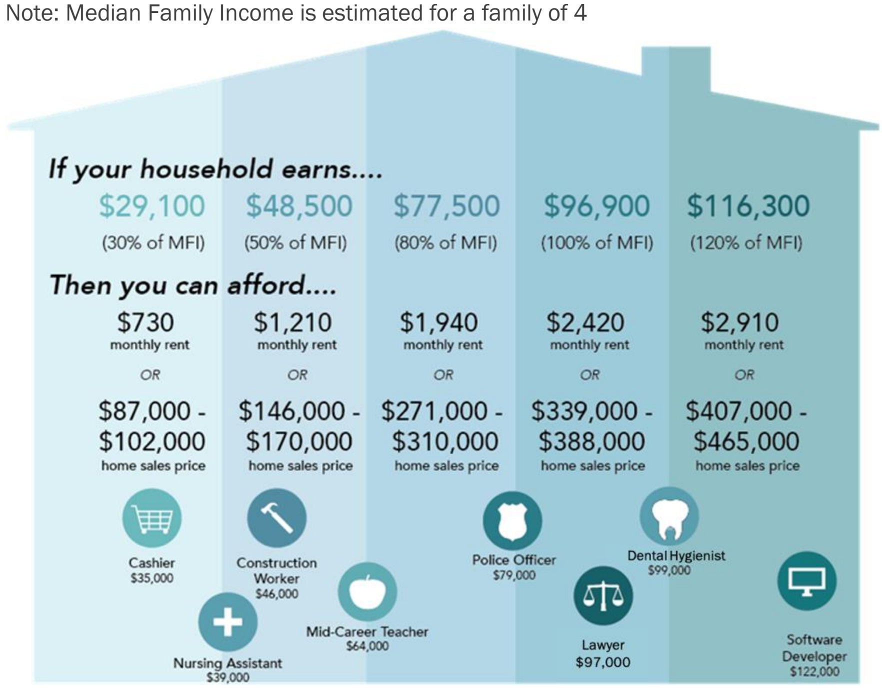
Equitable implementation of housing strategies should prioritize actions which support households with the greatest needs. The *Housing Needs Assessment* and *Housing Production Strategy* identified specific groups that have higher rates of cost burdening, lower incomes, and other unmet housing needs in Tualatin.

This plan targets households in those demographic cohorts that currently have higher-than-average unmet housing needs. Although the Funding Plan does not cover all of the strategies identified in the HPS, it addresses funding for those which could have significant impact on affordability for specific groups, including low-income households, renters, people of color, seniors, and disabled residents.

Median Family Income (MFI) for a four-person household in the Portland metropolitan area was $96,900 in 2021, while average monthly housing costs in Tualatin were estimated to be around $1,580, meaning that average rental housing costs require an income of $63,000 per year (65% of the median).

Exhibit 3. Affordable Housing Costs by MFI Level, 2021

Source: US Department of HUD 2021. US Census Bureau, 2016-2020 ACS Table 19001.
Note: Median Family Income is estimated for a family of 4



Low-Income Households

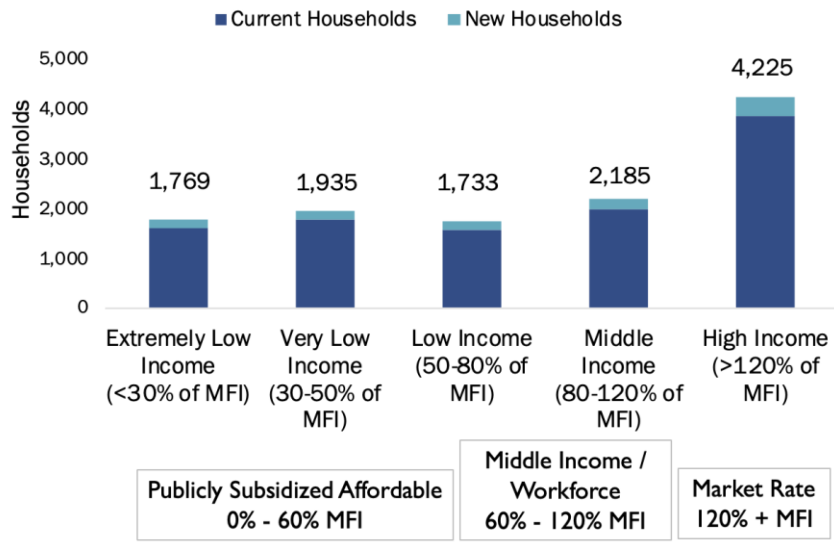
Households below 60% of MFI are considered to require publicly subsidized housing in order to not spend over 30% of their income on housing.

Middle income (or 'workforce') housing for those between 60 and 120% of MFI may also need support in order to ensure there is an adequate supply of housing affordable at these levels.

Exhibit 4. Share of Current and Future Tualatin Households by Income

Source: 2014-2018 ACS, U.S. Census; PRC at PSU (2020-2040); and U.S. Department of HUD 2020 MFI.

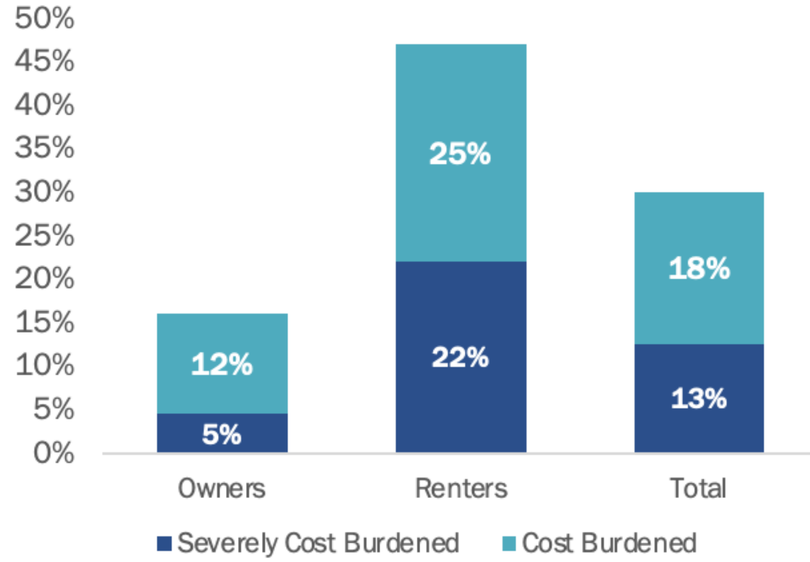
Note: Median Family Income is estimated for a family of 4.



Cost Burden

Cost burdening typically describes households that pay more than 30% of their monthly income toward their total housing costs (including rent, mortgage, utilities, etc.). About 47% of renters in Tualatin were cost burdened in 2016-2020, compared to 17% of homeowners. About 25% of Tualatin's renters and 5% of homeowners were severely cost burdened, spending 50% or more of their income on housing costs.

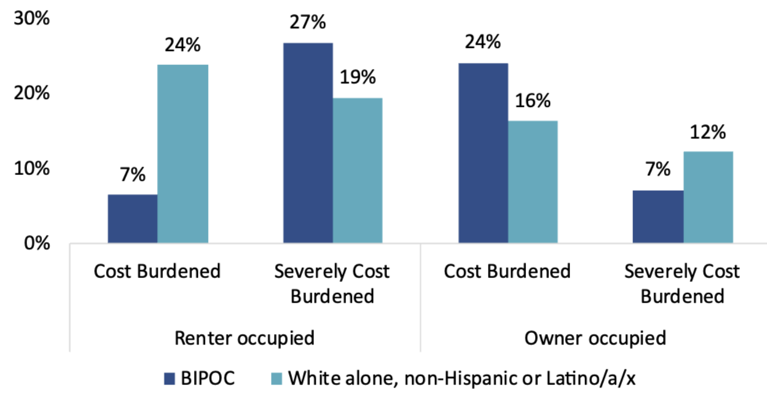
Exhibit 5. Share of Cost Burdened or Severely Cost Burdened Households by Tenure, 2016-2020
Source: US Census, ACS 2016-2020, Tables B25091 and B25070



Cost burdening in Tualatin was also disproportionately higher for people of color who both rent and own their homes, consistent with trends across Oregon. Over a quarter of people of color who rented were severely cost burdened, compared to 19% of white renters. Nearly a quarter of people of color who owned their homes were also cost burdened, a higher rate overall than white homeowners.

Exhibit 6. Cost-Burdened Households by Tenure and Race/Ethnicity, 2015-2019

Source: CHAS 2015-2019, Table 9.
Note: 'BIPOC' indicates 'Black, Indigenous, and People of Color,' including Hispanic or Latino/a/x residents of any race.



Why Look at Race and Housing Needs?

In the United States, many people of color have been historically prohibited from purchasing homes or accessing housing through discriminatory practices, such as exclusion from federal housing programs and denial of financial services.[1] The legacy of these historical practices contributes to ongoing homeownership and cost burdening disparities nationwide. People of color have also been systemically prevented from accumulating generational wealth to the extent of white families in the United States, creating persistent barriers for achieving homeownership and other housing-related needs.[2] Actions that make homeownership and rental housing more attainable for people of color can help address these ongoing inequities.

[1] Rashawn Ray et al., "Homeownership, Racial Segregation, and Policy Solutions to Racial Wealth Equity," Brookings Institute, September 1, 2021, https://www.brookings.edu/essay/homeownership-racial-segregation-and-policies-for-racial-wealth-equity/.

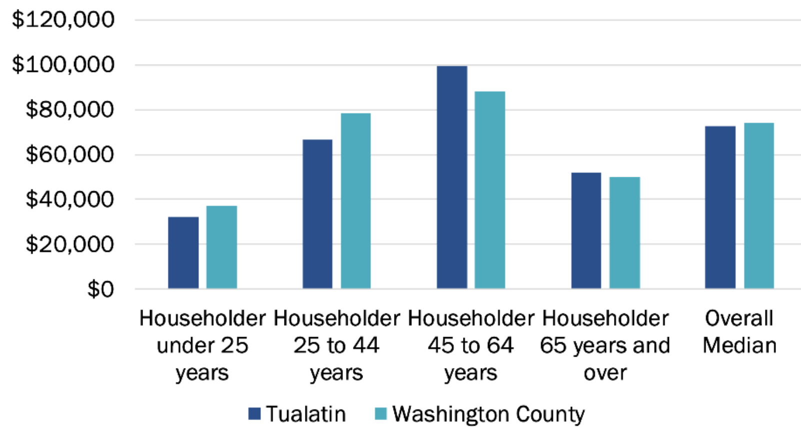
[2] Liz Mineo, "Racial Wealth Gap May Be a Key to Other Inequities," Harvard Gazette (Harvard University, June 3, 2021), https://news.harvard.edu/gazette/story/2021/06/racial-wealth-gap-may-be-a-key-to-other-inequities/.

Seniors

Tualatin householders 65 years of age and over typically had an income lower than the overall median. Although this may not always correlate with cost burdening, seniors may have more challenges finding affordable housing or paying for maintenance in a home that they own.

Exhibit 7. Median Household Income by Age of Householder, 2013-2017

Source: US Census Bureau, 2013-2017 ACS 5-Year Estimate, Table B19049.



Why Look at Age and Housing Needs?

Housing needs can often change for people over time as they age. As individuals retire, their annual income typically lowers, and some may be unable to keep up with rising rents or make critical repairs to their homes.[3] Many older adults may also require physical modifications to their homes due to mobility or other disabilities. In the United States, only a small share of homes provide basic accessibility features, such as no-step entry, single-floor living, and door widths to accommodate a wheelchair.[4] These accessibility improvements can be costly and create displacement risks for seniors. Actions that enable housing that is affordable, right sized, and connected to community services can address the needs of many older adults.

[3] Stephanie Watson, "Low-Income and Affordable Housing Options for Older Adults," Forbes Health, January 5, 2023, https://www.forbes.com/health/senior-living/affordable-housing-for-seniors/.

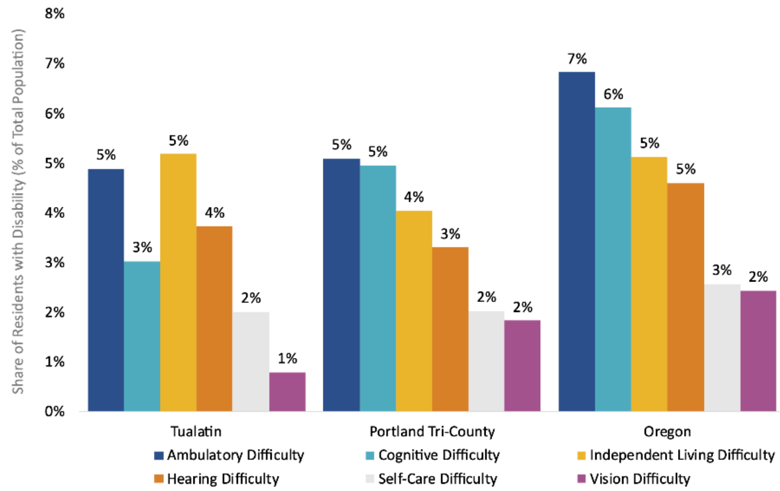
[4] Jennifer Molinsky, "Housing for America's Older Adults: Four Problems We Must Address," Joint Center for Housing Studies (Harvard University, August 18, 2022), https://www.jchs.harvard.edu/blog/housing-americas-older-adults-four-problems-we-must-address.

Disabled Residents

About 8% of Tualatin's population has one or more disabilities. Disabled residents may have additional housing needs beyond affordability, including accessible home features, as well as proximity to transit and other resources.

Exhibit 8. Share of Persons with a Disability by Type (% of Total Population), 2021

Source: US Census Bureau, 2021 ACS 1-Year Estimate, Table K201803.
Note that an individual can have more than one disability.



Why Look at Disabilities and Housing Needs?

Disabled residents may require certain structural features in their homes, with similar concerns as older adults for finding adequately accessible units. In the United States, communities of color also often have higher incidence of disabilities due to interconnected issues of systemic racism and poverty.[5] Individuals may become disabled and require new accessibility features that they did not previously need in their homes, which may range in terms of scale and cost. Actions that support housing for disabled residents vary, but may overlap with those which support older households, such as financial support for low- and moderate-income households to make home improvements as well as location near community services and transit.

[5] Susan J. Popkin et al., "People with Disabilities Living in the US Face Urgent Barriers to Housing" (Urban Institute, October 21, 2022), https://www.urban.org/research/publication/people-disabilities-living-us-face-urgent-barriers-housing.

Commuters

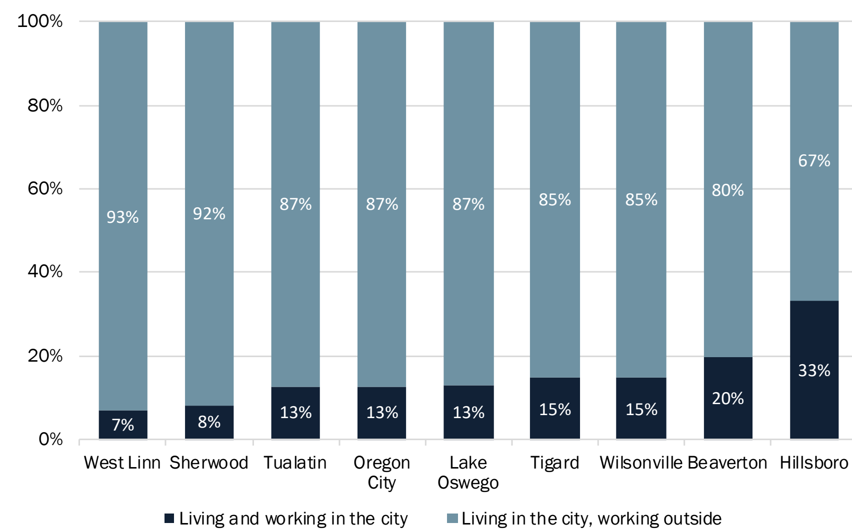
Commuting is a large concern in Tualatin because most people who work in Tualatin live in another community. Tualatin has nearly twice as many jobs as housing units, as described in the *Tualatin Housing Needs Analysis* (December 2019). Decreasing commuting will require building more housing in Tualatin, especially housing that people who work in Tualatin can afford. The Tualatin *Economic Opportunities Analysis* report (December 2019) reported an average wage of $57,000 in Tualatin in 2017. Many workers have below-average wages and work in retail, the service industry, and administration and waste services. Reducing commuting will require increasing access to affordable housing for people to live and work in Tualatin.

Tualatin's *Economic Opportunities Analysis* report (December 2019) reported that of the more than 23,800 people who work in Tualatin, 93% of workers commute into Tualatin from other areas (such as Portland, Tigard, Beaverton, or Hillsboro) each day.

Some people who work in Tualatin can afford rent or homeownership in Tualatin, but some would be cost burdened.

Exhibit 9. Commuting Flows of Residents, Tualatin Relative to Comparison Geographies, 2015

Source: U.S. Census Bureau, Census On the Map.



Process for Developing the Funding Plan

The consulting team from ECONorthwest collaborated with city staff, local leadership, and residents while developing this funding and implementation plan, including:

- **City of Tualatin staff** in the Community Development and Planning department, who helped to convene stakeholders as well as review and refine funding strategies.
- The **Community Advisory Committee (CAC),** composed of Tualatin residents and an affordable housing developer, which convened six times during 2022 and 2023 to provide valuable direction and input for the funding and implementation actions proposed in this plan.
- **Tualatin Planning Commission,** who met with the project team at one work session while the plan was being developed.
- **Tualatin City Council**, who met with the project team at two work sessions while the plan was being developed.

Organization of This Report

The rest of this document is organized as follows:

- **Chapter 2. Housing Needs and Development Funding Structures** gives an overview of housing needs in Tualatin for the next twenty years and the types of strategic actions available to the City for funding housing projects in Tualatin. These include ways to generate new funds for affordable housing, reduce costs for affordable multifamily housing development, and support homeownership for low to moderate-income households.
- **Chapter 3. Strategic Actions that Generate Funds for Affordable Housing** provides details on actions that create new local funding sources which the City could allocate to affordable housing projects or programs. Two sources in particular have been shown to be effective in other Oregon cities: Construction Excise Taxes and Urban Renewal.
- **Chapter 4. Strategic Actions that Reduce Costs for Affordable Multifamily Development** presents details on funding tools which provide multiple options for the City to support this type of housing by reducing costs from property taxes or development costs. For each action, the chapter includes multiple options for how the City could structure implementation. These actions include the Nonprofit Low Income Tax Exemption, Multiple Unit Property Tax Exemption, and System Development Charge Exemptions.
- **Chapter 5. Strategic Actions to Increase and Retain Homeownership** addresses actions to increase affordable homeownership opportunities for Tualatin residents. These actions involve the City contributing funds that help residents become homeowners or

remain in their homes through down payment assistance or home rehabilitation programs.

- **Chapter 6. Tradeoffs and Conclusions** includes a summary of the amount of funding available and the amount needed for strategic actions in Chapters 3 to 5. This chapter presents fiscal tradeoffs as well as equity benefits and challenges for each action. It also sets up key questions for decision-makers related to these conclusions.
- **Chapter 7: Recommendations** were developed with the input of Steering Committee and City staff, including opportunities to build equity into implementation and opportunities to determine how the City might prioritize actions.
- **Appendix A** provides detailed background on each strategic action with a series of memoranda which were used during plan development, and a survey of additional funding tools that might be available to the City.

2. Housing Needs and Development Funding Structures

This chapter clarifies the specific affordable housing needs in Tualatin and potential actions to address them. These actions focus on ways to generate new funding streams, reduce development costs, as well as programs focused on homeownership. Considerations are included throughout, though specific recommendation will be discussed later in the report. The analysis is broken down into the near term (five years) and long term (twenty years) to help demonstrate the pace needed to meet the city's goals.

Housing Needs in Tualatin

The 2021 *Housing Production Strategy* (HPS) provided a summary of Tualatin's housing needs. Each of the strategic actions evaluated for this funding plan are related to a specific action in the HPS, though not every action from the HPS is covered in this analysis. Those with the greatest impact on funding and those which covered the widest range of income levels were prioritized.

How many affordable units are needed for Tualatin?

The HPS identified the total need of new units in Tualatin over the next twenty years and the breakdown of these units by household income levels (based on analysis from Tualatin's 2019 *Housing Needs Analysis)*. In the 2016-2020 period, approximately 17% of households (1,790 total) in Tualatin were already severely cost burdened by housing expenses, including 26% of renter households. This plan details funding tools intended to **at minimum** meet the additional need for affordable housing anticipated in the next five years, with the goal of providing as many units as possible.

The *Housing Needs Analysis* shows that Tualatin is forecast to grow by about 1,014 households through 2040. About 45% of Tualatin's new households are expected to have income below 80% of MFI. Based on the forecast in the HNA, approximately 600 new units of this 1,000 would need to be for <u>new</u> low- and moderate-income households (with income below 120% of MFI). In addition, Tualatin has nearly 6,500 existing households with income below 120% of MFI, some of whom have unmet housing needs and are cost burdened. Tualatin has more than 4,200 existing households with income below 80% of MFI, many of whom are cost burdened or have other unmet housing needs. The actions in this report, as well as other actions in the HPS, are intended to help better meet these housing needs.

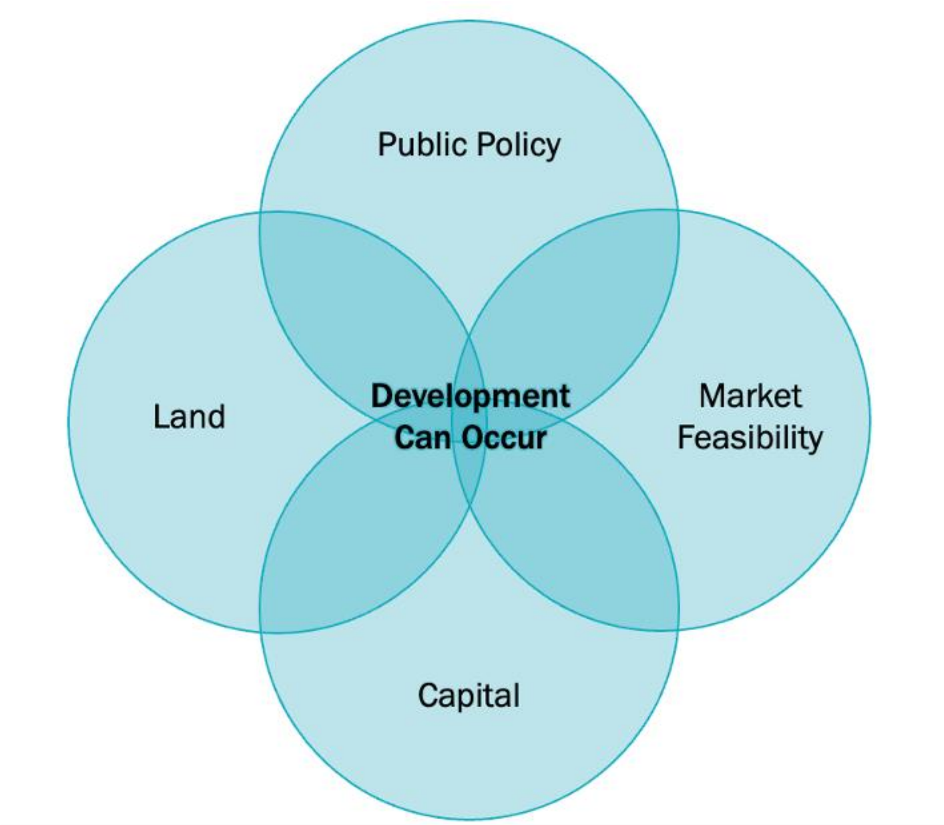
How can cities support affordable housing development?

Housing development is a complex process that requires input from numerous interrelated markets and players, and each development input functions in its own market with supply and demand factors constantly in flux. Exhibit 10 illustrates the key factors necessary for development to occur. Cities have varying influence on these factors.[6]

- **Land.** Landowners and property developers evaluate opportunities for development that can occur on a specific parcel. The city completed a *Housing Needs Analysis* (HNA) in 2019 to study the availability of land and redevelopment opportunities to accommodate 20 years of growth. The HNA found that Tualatin had limited buildable land available, making the provision of affordable housing an even greater challenge. Cities also have an influence on development by planning for and building necessary infrastructure, such as roads, water service, wastewater services, and stormwater services to serve this growth.
- **Public Policy.** Cities set public policies that affect development, such as zoning, density, building height, or subdivision policies.
- **Market feasibility.** This is a process that assesses the demand for development – comparing the expected revenues against the investment costs (e.g., labor and materials) – for the desired types of development. If a development project is not feasible, it will not be built. Cities can influence market feasibility through policies that lower the costs of development or lower the costs of operating the new housing, such as waiving fees or offering property tax exemptions.
- **Capital.** Building housing requires access to capital to pay for the costs of development and influences market feasibility through the financing terms set by the lender and the returns expected by the investor. When real estate development cannot meet return requirements of potential inventory, building housing becomes infeasible. Cities have a more minor role in supplying capital for construction, generally limited to funding rehabilitation programs or, occasionally, more significant funding for affordable housing development.

[6] This discussion is adapted from the report *Oregon Transit and Housing Study, Housing Market Primer*, December 2020, by ECONorthwest with Parametrix and HDR.
https://www.oregon.gov/odot/Planning/documents/TransitHousing_PrimerWithGlossary.pdf

Exhibit 10. Factors Influencing Housing Development
Source: ECONorthwest



This project is primarily concerned with supporting development of housing affordable below 120% of MFI, which can be separated into two categories: *income-restricted* housing affordable to households with income of 60% of MFI or less and *market-rate* affordable housing affordable to households with incomes of 60% to 120%.

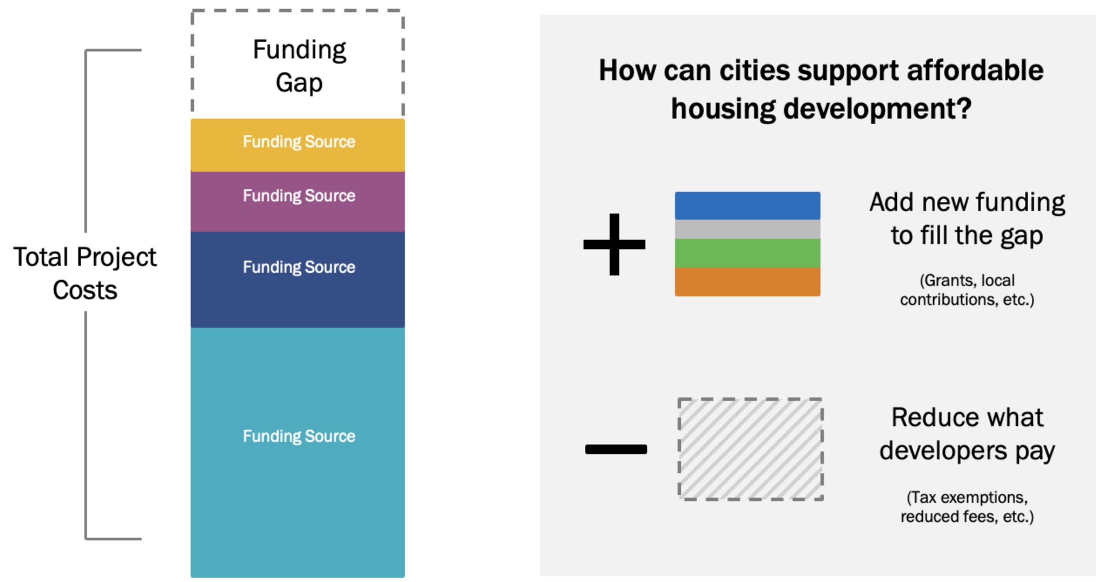
Most funding for *income-restricted* housing comes from state and federal sources, such as Low-Income Housing Tax Credits (LIHTC), or nonprofit sources. Developing market-rate affordable housing (affordable to households with income of 60% to 120% of MFI) has different sources of funding, which are more likely to be private funding sources but can include some public funding.

Funding to support development of *market-rate affordable* housing is less readily available from public sources, making it less common because it is typically not financially feasible. Housing affordable to households in this income group, especially households with incomes of 60% to 80% of MFI, may not be built unless there are subsidies to make development financially feasible. The intention of the strategic actions under consideration in this plan is to increase market feasibility for development, by lowering development costs or supplementing available funding for either income-restricted housing or market-rate affordable housing with rents that are below market rate.

When developing affordable housing, the developer must fund the costs of building and operating new housing. For income-restricted housing development, which is typically multifamily, funding may come from a wide range of sources, sometimes with 10 to 20 funding sources necessary to build new housing. Development costs of income-restricted housing vary based on location, scale, and other factors. Medium to large multifamily income-restricted affordable housing projects in Oregon typically have a funding gap between $10 and $15 million, or about $100,000 - $150,000 per unit on a 100-unit project.

The primary approaches that jurisdictions take to overcome these funding gaps are by directly contributing local funds, reducing costs associated with development (such as permitting fees or system development charges), or providing services such as technical assistance. Exhibit 11 illustrates a potential funding source.

Exhibit 11. Illustration of potential funding gap for affordable housing development
Source: ECONorthwest



This plan includes three types of strategic actions: (1) actions to generate additional funds to support Tualatin's housing programs and actions in the HPS, (2) actions to lower costs for income-restricted and market-rate affordable multifamily rental housing, and (3) actions to increase and retain affordable homeownership.

In Tualatin and nearby jurisdictions (such as Tigard) a typical affordable multifamily housing development would provide between 50 and 100 units on a single development site, though developers may seek to include more units if they choose. Where possible, this analysis includes an estimate for potential funding impact over five and twenty years (per unit and applied across a hypothetical 100-unit building), to provide comparable examples.

3. Strategic Actions that Generate Funds for Affordable Housing

The strategic actions in this section are ways for the City to create new local funding sources to allocate to affordable housing projects or programs. Two sources in particular have been shown to be effective in other Oregon cities: Construction Excise Taxes and Urban Renewal.

HPS Actions and Funding Plan Tools

The tools included in this funding plan align with some of the specific actions in the 2021 Tualatin Housing Production Strategy. The table below demonstrates the associated actions and funding tools.

HIP Tool	HPS Action
Construction Excise Tax	1.c Evaluate Implementation of a Construction Excise Tax
Urban Renewal Area	1.d Evaluate Support for Affordable and Workforce Rental Housing as part of Urban Renewal
Other Funding Tools	1.e Evaluate Financial Resources for Local Contributions to Affordable Housing Development

Construction Excise Tax (CET)

- **What does it do:** CET levies a tax on new construction to fund housing programs and investments. It can be levied on any combination of residential, commercial, and industrial development.
- **Who initiates it:** As of 2016, local jurisdictions in Oregon can pass CET by adopting an ordinance through City Council, authorized by SB 1533.
- **How does it work:** This tax allows cities to collect up to a 1% tax on permit value of new residential development or any percentage for commercial/industrial development.
- **How can CET be used:** Residential CET and commercial/industrial CET have different rules for how the City can directly use revenues required by ORS 320.195:

  <u>For residential CET:</u>

  - 50% must be used for developer incentives (e.g., SDC exemptions, tax abatements, or finance-based incentives).
  - 35% may be used flexibly for affordable housing programs.
  - 15% is not available to the city and flows to Oregon Housing and Community Services for homeownership programs that provide down payment assistance.

  <u>For commercial/industrial CET:</u>

  - 50% of the funds must be used for housing-related (but not necessarily limited to affordable housing)
  - The remaining 50% is unrestricted.

In addition to providing direct funding, CET can also be leveraged by the City to attract affordable housing developers or match other funding sources. In both scenarios, the secondary impact of new funding could potentially provide additional benefits on top of the amount generated by the strategic action.

- **What is its potential funding impact:** A 0.5% to 1% CET on commercial and industrial development may be worthwhile in Tualatin. Through OHCS, this can also be explicitly used to fund down payment grants.

  Based on historical permitting between 2016 and 2020, we calculated what CET could be expected to look like over a **five-year** time period. If Tualatin assessed a tax of 0.5%, on the low end of the allowable rate, collections from new commercial and industrial development could generate:

+ For Residential CET*

At 0.5%	At 1.0%
$43,000	**$86,000**

+ For Commercial/Industrial CET

At 0.5%	At 1.0%
$208,000	**$416,000**

Combined

At 0.5%	At 1.0%
$251,000	**$502,000**

*This shows the portion of residential CET which would be available to the City

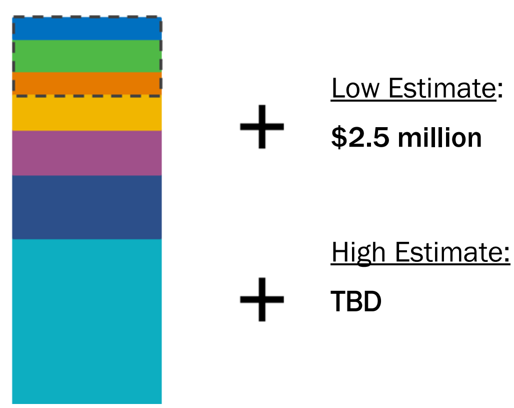
- **Limitations of CET:** Although CET generates funds that the City can explicitly use to meet its housing goals, the amount will not be sufficient to fully fund all projects. Additionally, administration for residential CET would be somewhat more complex due to the requirement of separating out revenues toward the spending categories as specified in statute, while the funding available to cover administrative costs would be negligible.
- **Equity Considerations:** CET gives a certain amount of flexibility in deciding how to use revenues. The City could choose to focus on programs that have equitable outcomes.

Urban Renewal District

- **What does it do:** Within an active urban renewal district, tax increment financing (TIF) allows the jurisdiction to borrow against future property taxes in order to finance expenditures on current capital projects. This would be within specific district boundaries to support goals identified in the plan, including housing development. TIF funds cannot be used outside of the district and are mostly limited to capital projects. Cities sometimes use a share of revenue from urban renewal districts toward housing goals within district boundaries, including infrastructure that supports affordable housing or direct support for rehabilitation, acquisition, or site preparation.

- **Who initiates it:** In Oregon, after an area has been deemed 'blighted,' a local urban renewal agency can propose an urban renewal plan, which must go through a hearing with public testimony and planning commission recommendations. City Council may then adopt the urban renewal plan by ordinance. Assuming a TIF borrowing will be undertaken, a framework for the eligible uses of those TIF funds would be developed by the City, including any goals for affordable housing.
- **How does it work:** Tualatin's Core Opportunity Reinvestment Area, comprising commercial areas south of Bridgeport Road, Town Commons, I-5 Corridor, and Tualatin-Sherwood Road, has potential to provide funding for housing projects within the area boundaries.
- **How can Urban Renewal be used to support affordable housing**: The Urban Renewal Plan for Tualatin's Core Opportunity Reinvestment Area could be used to support development of new infrastructure (such as water or wastewater upgrades or flood mitigation), land acquisition and parcel assembly, and for a variety of housing options.

  The City has not yet identified any specific actions that it will take to support housing development but expects to identify those actions as it implements the Urban Renewal Plan. Mixed-income development that integrates market-rate and affordable housing is a route that the City could pursue to avoid concentrating a large amount of affordable housing in one area, while still increasing the overall supply of units.
- **What is its potential funding impact:** Tualatin's newly adopted urban renewal area in the Core Opportunity Reinvestment Area could integrate goals for housing and access urban renewal funds. The current estimates for revenue to be generated in the next thirty years range from $248 to $362 million.[7] However, only a portion of this total funding would potentially go toward housing.

  The amount of funding available to support affordable housing development will be decided as the City implements its Urban Renewal plan. The City could also dedicate land currently owned by the City within the urban renewal area, which would also reduce acquisition costs.

  If the City were to provide support for an affordable housing developer, the average gap funding needed per unit in Oregon is typically between $100,000 and $150,000 per unit (see section above). Depending on how many units are subsidized and how much of the gap is filled with urban renewal funding, a rough approximation would be $5 to $15 million to finance 50 to 100 units.

[7] Tiberius Solutions and Elaine Howard Consulting, "Tualatin North District Urban Renewal Feasibility Study," August 31, 2020, https://www.tualatinoregon.gov/economicdevelopment/proposed-area-district-2, 11-13.

- **Limitations of Urban Renewal:** Urban Renewal funding can only be spent within the Urban Renewal District, which is a limited area within Tualatin, around downtown. Much of the Urban Renewal District area is in the floodplain, so the City will need to be careful to ensure that new housing is designed in locations that are sufficiently elevated above the floodplain and constructed of appropriately flood-resistant materials.
- **Equity Considerations:** Urban Renewal can provide a large amount of funding for housing for extremely and very low-income households. However, because it is geographically limited to the boundaries of the urban renewal plan area, it also has the potential to create areas of concentrated poverty. Housing in different areas of the city can also help to meet diverse household needs: for some it is critical to be located near social services, while other households (such as low-income families with children) may need to be located closer to amenities like schools and parks.

Summary of Potential New Funding for Affordable Housing

The City could choose to pursue a Construction Excise Tax on new buildings in Tualatin and would be able to flexibly decide the configuration within the limits set by the state. The City would be able to set the tax rate within these parameters and determine whether to apply it to residential, commercial/industrial, or both construction types. The way that the City spends this revenue must also follow the framework set out by ORS 320.195, which ensures that a portion goes toward housing programs. The revenue that CET could generate for affordable housing over the five- and twenty-year period is likely to change based on trends in construction costs, inflation rates, the labor market, other economic factors.

The Core Opportunity Reinvestment Area is projected to generate a large amount of revenue through tax increment financing. Depending on the availability of funds in the next five years, a portion could be used within the plan area for gap funding of affordable housing projects or other actions to support housing development such as site preparation or land acquisition.

Exhibit 12. Rough Estimate of Potential Tools to Generate Funds

Note: High and low funding estimates are derived from the analysis memos attached to this report

Tool	Funding Considerations	Impact on Affordable Housing	Five Year Estimate		Twenty Year Estimate	
			Low	High	Low	High
Construction Excise Tax	• For commercial and industrial CET, 50% of funds must be used for housing programs • For residential CET, 50% must be used for developer incentives	Medium	$251,000 (0.5% tax)	$502,000 (1% tax)	$1 million (0.5% tax)	$2.5 million (1% tax)
Urban Renewal	• Urban renewal revenue has limitations on applicable types of projects and location	High	$2.5 million	TBD	Unknown	Unknown

4. Strategic Actions that Reduce Costs for Affordable Multifamily Development

The funding tools in this section provide multiple options for the City to support development of affordable multifamily housing by reducing costs from property taxes or development costs. For each tool, there are multiple options for how the City could structure implementation.

In some cases, these tools could be layered with multiple programs or combined with other tools that contribute funding, such as funds from the Construction Excise Tax to backfill these exemptions in support of eligible development.

HPS Actions and Funding Plan Tools

The tools included in this funding plan align with some of the specific actions in the 2021 Tualatin Housing Production Strategy. The table below demonstrates the associated actions and funding tools.

HIP Tool	HPS Action
Low Income Tax Exemption	1.a Evaluate a Low-Income Housing Property Tax Exemption Program for Affordable Rental Housing
Multiple Unit Property Tax Exemption	4.b Evaluate Using the Multiple Unit Property Tax Exemption to Slow Rental Cost Increases
System Development Charge Exemption	1.b Evaluate Changes to Systems Development Charges

Nonprofit Low Income Tax Exemption

- **What does it do:** This tool provides a full property tax exemption for nonprofit-owned affordable housing serving households with incomes at or below 60% of MFI. This tax exemption supports development of income-restricted housing.
- **Who initiates it:** In 2022, Tualatin's City Council adopted the Nonprofit Low Income Tax Exemption (enabled through ORS 307.540 to 307.548) on its own taxes, which accounts for 16.5% of all property taxes in the city. Applying the exemption to all property taxes requires approval from other taxing districts that make up at least 51% of the total tax roll.
- **How does it work:** The City presently has adopted an exemption only to its own property taxes for low-income rental housing. It may also explore whether additional taxing districts are willing to join in the exemption. If the districts whose taxes comprise at least 51% of the total tax roll agree to participate, then all taxes for all districts would be exempted. This would provide a 10-year exemption for property owned or operated by a nonprofit entity, which may be renewed after the first ten years.

Overlapping taxing districts in the city include the Tigard-Tualatin School District (44.7%), Washington County (17.3%), Tualatin Valley Fire and Rescue (12.2%), Portland Community College (3.8%), Metro Regional Government (3.3%), Northwest Regional Education Service District (0.9%), Tigard-Tualatin Aquatic District (0.5%), Soil Water Conservation Tualatin (0.5%), and Port of Portland (0.4%).

The Tigard-Tualatin school district comprises the largest share of the tax roll and covers a large area of the city. However, there are three other school districts that apply to smaller areas of Tualatin's city limits, including West Linn-Wilsonville, Sherwood, and Lake Oswego. It is possible that if the exemption were accepted only by some of these districts that it would not apply across the whole city.

- **What is its potential funding impact:** Tested on comparable developments in Tualatin and Tigard, over **five years** the **City's** nonprofit exemption would likely result in the City foregoing approximately $900 per year (an amount that will vary over time) for each unit. Assuming development of a building with 100 units of income-restricted affordable housing, the City would forgo about $90,000 per year in property taxes in a five-year time frame. Although this would provide support for nonprofit developers, this tax exemption is most effective when all taxing districts participate.

Operating Cost Reduction Per Unit (City only, over 5 years):

$900

Operating Cost Reduction Per 100 Units (City only, over 5 years):

$90,000

The amount of the exemption may not seem high compared to other strategic actions and the cost of development, but it does allow nonprofit housing developers to incur less permanent debt and creates greater savings for these organizations in the long term. This creates a higher incentive to attract nonprofit developers to the area.

If a sufficient share of taxing districts were to join the City in providing the exemption to trigger a 100% property tax exemption, then the value would be approximately **$538,000 for 100 units over a period of five years**.

- **Limitations of the Nonprofit Tax Exemption:** The Nonprofit Tax Exemption does provide some gap financing support for organizations seeking to build affordable housing in Tualatin. However, since the City only accounts for 16.5% of total property taxes, this exemption is not as effective without the support of overlapping taxing districts.

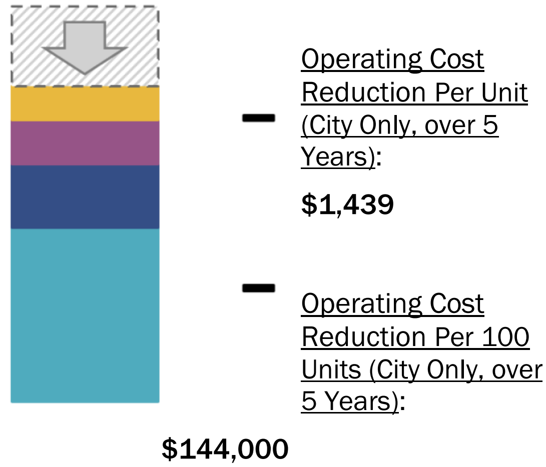
- **Equity Considerations:** Many nonprofit organizations also serve specific populations and may provide culturally specific or supportive services alongside housing. Examples in the region include Las Adelitas operated by Hacienda CDC, Casa Amparo operated by Centro Cultural, and Nesika Illahee operated by the Native American Youth and Family Center.

Multiple Unit Property Tax Exemption (MUPTE)

- **What does it do:** MUPTE provides a property tax exemption for up to ten years on the residential building portion of a property (but not land or building area for other uses such as commercial space). The incentive is for private developers of housing affordable to households with incomes of 60% to 120% of MFI. MUPTE can be used to support development where all housing in the building is affordable below 120% of MFI or mixed-income housing, where some housing is priced higher.
- **Who initiates it:** City Council can adopt the exemption on its own taxes but requires approval from other taxing districts to exempt all property taxes on the building.
- **How does it work:** The City can exempt only its own property taxes for nonprofit low-income housing, or all taxes for all districts if the districts whose taxes comprise at least 51% of the total tax roll agrees to participate. This program is flexible, with City discretion over many aspects of eligibility, including the level of affordability requirements, the minimum number of units in the property, and any design requirements.
- **What is its potential funding impact:** MUPTE could potentially create an incentive for private developers to offer rental units at a discounted rate that is affordable to moderate-income households. Other cities in Oregon have used this program with different configurations for affordability, though not all jurisdictions have these requirements:
    - In Newport, to meet MUPTE's local affordability requirements, projects may provide 20% of units at 80% of MFI or below, 10% of units at 60% of MFI or below, or make an in-lieu payment equal to 10% of the total property tax exemption.
    - In Salem, projects using the program with 100 units or more must provide at least 15% of units affordable at 80% of MIF or below, or at least two public benefits (such as daycare facilities, ground level commercial space, etc.).
    - In Bend, the program does not have an explicit affordability requirement. Instead, developers must provide at least three public benefits from a list in the Municipal Code, which includes 'Affordable Housing' and 'Middle Income Housing,' though developers can alternatively include other features, including childcare, open space, or green building features.

- When tested on recent multifamily buildings in Tigard and Tualatin, the value of the exemption for the **City's** portion in **five years** was $1,439 for each unit. Assuming that a developer used the program on a new building with 100 units of income-restricted affordable housing, the **City** would forgo about $144,000 in property taxes over five years.

  The program configuration tested in our analysis (20% of units at 80% of MFI) would provide a net benefit to developers if the tax abatement applies to all overlapping taxing districts. However, **the city's share of the tax exemption alone is insufficient to provide a net incentive for developers**. If all taxing districts participated, this total benefit to developers would be $8,531 over the first five years, or $853,100 for 100 units.



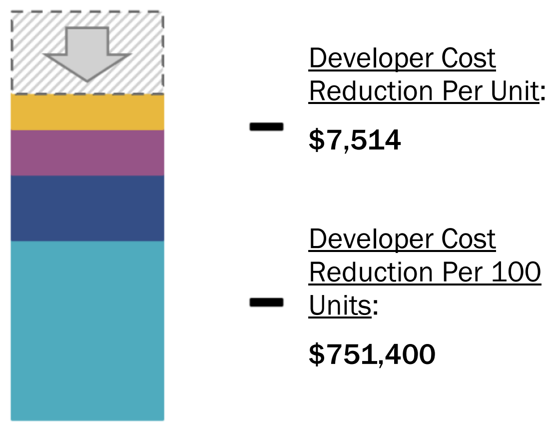
- **Potential sources of replacement funding:** The City could backfill the forgone property taxes from MUPTE through use of CET funds if so desired.
- **Limitations of MUPTE:** The effectiveness of this exemption depends on whether it can incentivize developers to include affordable units in otherwise market-rate projects. To do so, MUPTE must generate a net profit. Our analysis shows that the City would need to achieve buy-in from overlapping tax districts if it were to use the benchmark of 20% of units at 80% of MFI in order to create a sufficient incentive. However, given the flexibility of the program, the City could pursue a number of different configurations.

System Development Charge (SDC) Exemption

- **What does it do**: System Development Charges are one-time fees for new development, both for single-family and multifamily housing, that help pay for increased loads on infrastructure systems. Exempting SDCs reduces the up-front fees developers pay for those who provide new affordable units. In most cases the City will be required to backfill exempted SDCs from CET or another funding source.
- **What SDCs are paid in Tualatin**: New development pays the following SDCs:
  - Tualatin-specific SDCs: Water (typically around $1,150 per unit in a multifamily building, but varies based on the size of water meter) and Parks ($6,371 per unit)
  - SDCs for other service districts: Transit Development Tax ($6,542 per unit) and Sewer ($7,266 per unit)

The Tualatin Parks and Recreation Department has already adopted an Affordable Housing Waiver Policy through Resolution 2020-24, which provides a 100% waiver for regulated affordable units at or below 30% of MFI, and 50% for those between 30 and 60% of MFI.

- **Who initiates it**: City Council can adopt the exemption for City SDCs but would have to identify a source to backfill the forgone revenue from other sources. The City could also request that other districts that assess SDCs (sewer) or TDTs (roads) adopt an exemption, but either the City or that entity would also need to backfill the forgone revenue.
- **How does it work**: The City can exempt the system development fees that it controls for Parks and Water. In most cases, the City will be required to backfill the costs of the SDC waivers. If the City wanted to subsidize the costs of SDCs collected by other service providers (such as sewage or TDT), the City could subsidize those costs in agreement with the developer. The City could decide what level of affordability and the number of affordable units it will require for an exemption. SDC exemptions can be used to support development of both income-restricted and market-rate affordable units.
- **What is its potential funding impact:** Tualatin could provide an exemption for its two SDCs for Parks and Water but would likely have to backfill the forgone revenue.[8] Exempting both **city-controlled SDCs** in multifamily buildings over **five years** would amount to approximately $7,514 per unit, or $751,400 for 100 multifamily units in that time period.



- **Potential sources of funding:** The City could backfill the SDC exemptions through use of CET funds.
- **Limitations of the SDC waivers:** There are a limited amount of City SDCs, which reduces the potential impact of this tool. An SDC exception will also require the City to backfill forgone revenue, and it may be more effective to use funds to directly supplement affordable housing projects.

Summary of Potential Cost Exemption Programs for Affordable Multifamily Development

Both Nonprofit Tax Exemption and MUPTE are recurring programs, where the City would most likely continue to forgo property tax revenue on the same units over time.

[8] Typically, cities in Oregon need to backfill forgone revenue when they offer exemptions, but in some cases (such as Tigard) cities do not backfill based on local legal interpretation.

The Nonprofit Tax Exemption does not include a limit in its duration per state regulations. Therefore, developers could continue to receive the benefit as long as they are in compliance with the program criteria. MUPTE has a limit of 10 years included in state regulations. Although ORS 307.600-637 does allow for this time frame to be potentially extended for projects that provide affordable housing, this analysis assumes that the incentive will be a recurring program that applies over a 10-year period.

Exhibit 13 shows what the total forgone revenue would be per unit and per 100 units over time. This analysis is based on the property taxes derived from the cost of recent buildings in the Tualatin area but would likely change over time based on construction costs, inflation, and other economic factors.

System Development Charges are not a recurring program and are instead a one-time charge on new development. The exemption would apply to new units as they are built but would not be forgone annual revenue for the City.

Exhibit 13. Potential Tools for Subsidize Multifamily Development

Note: High and low funding estimates are derived from the analysis memos attached to this report

<table>
<tr><th rowspan="2">Tool</th><th rowspan="2">Funding Considerations</th><th rowspan="2">Impact on Affordable Housing</th><th colspan="2">Five-Year Estimate</th><th colspan="2">Twenty-Year Estimate</th></tr>
<tr><th>Per Unit</th><th>Per 100 Units</th><th>Per Unit</th><th>Per 100 Units</th></tr>
<tr><td>Nonprofit Low Income Tax Exemption</td><td>• Flexibility for City to set up program requirements
• No required end to duration, renewable after 10 years
• Supports deep affordability (<60% MFI)</td><td>Low</td><td>$900[9]</td><td>$90,000</td><td>$3,600</td><td>$360,000</td></tr>
<tr><td>Multiple Unit Property Tax Exemption</td><td>• Needs to create an incentive to private development
• 10-year duration
• Supports workforce housing (60-80% MFI)</td><td>Medium</td><td>$1,439</td><td>$144,000</td><td>$2,878[10]</td><td>$287,800</td></tr>
<tr><td>System Development Charges Exemption</td><td>• City will likely be required to backfill forgone revenue
• Flexibility for City to set up program requirements
• Can be set up to support workforce housing or deeper affordability</td><td>Medium</td><td>$7,514</td><td>$751,400</td><td>$7,514[11]</td><td>$3,005,600[12]</td></tr>
</table>

[9] The estimated annual costs are based on the first year of the exemption and would likely change in subsequent years based on construction costs, inflation rates, and other factors.

[10] The MUPTE program is limited by the state to 10 years, so this estimate is capped on a 10-year time frame rather than 20 years.

[11] Because SDCs are a one-time charge for developers and not an ongoing cost like property taxes, the amount spent *per new unit* would only change with the rates charged by the City for Parks and Water SDCs.

[12] Because SDCs are only a one-time charge for developers, this amount assumes that 100 new units use the exemption every five years for a total of 400 units.

5. Strategic Actions to Increase and Retain Homeownership

The previous section identified programs that support new construction of multifamily apartment buildings that have income-restricted units or market-rate affordable units. Tools in this section address maintaining and increasing affordable homeownership opportunities for Tualatin residents. The HPS says that, in 2020, a household would need to earn about $140,500 a year (153% of MFI for a family of four) to afford the median sales price of a home in Tualatin ($492,000). More than 60% of Tualatin's households are unable to afford the median sales price of housing in Tualatin.

Increasing access to affordable homeownership for households with income below 120% of MFI may require assisting existing residents with programs that help them stay in their homes. In addition, helping renters become homeowners can provide stability and the potential to build wealth. Given the lower-than-average household incomes and disproportionate rates of cost burden among people of color, homeownership is especially out of reach.

Cities can help moderate income households (between 80 and 120% of MFI) to achieve and maintain homeownership by contributing funds for down payments and/or reduce unexpected costs that homeowners may have to pay to maintain their homes. This section provides information about these strategic actions, including typical costs of these programs for cities in Oregon.

To understand the amount typically provided, this section references observations from other down payment and home rehabilitation programs in Oregon (see 'Homeownership Assistance Analysis' memorandum). Exhibit 14 provides a summary of the range of assistance provided by type.

HPS Actions and Funding Plan Tools

The tools included in this funding plan align with some of the specific actions in the 2021 Tualatin Housing Production Strategy. The table below demonstrates the associated actions and funding tools.

HIP Tool	HPS Action
Down Payment Assistance	2.a Evaluate Impediments to Homeownership and Their Removal
Homeownership Assistance	8.a Evaluate Establishing Local Housing Rehabilitation Program

Cities can take many other actions, in addition to those considered in this section, to support growth in homeownership. The Tualatin Housing Production Strategy includes other actions such as partnering with land trusts that build housing affordable to lower-income households; partnering with organizations that provide education to support households in becoming homeowners; and allowing for a wider range of housing types to be developed, some of which may be more affordable forms of homeownership housing.

Exhibit 14. Summary of Homeownership Assistance Program Types

Source: ECONorthwest analysis

Program Type	Who is Typically Served	Typical Assistance Provided per Household*	Potential Funding Sources**
Down Payment Assistance	First-time homebuyers (current renters) below 80% MFI	$25,000 – $110,000	US HUD (CDBG), OHCS (HOAP and CET revenue), Community Frameworks
Home Repairs	Existing low-income homeowners at or below 80% MFI	$10,000 – $50,000	US HUD (CDBG, HOME), OHCS (Repair Health and Safety Program), OHA (Healthy Homes Grants)
Weatherization	Existing low-income homeowners at or below 80% MFI	$10,000 – $25,000	US HUD (CDBG, HOME), public purpose charges, IIJA grants
Accessibility Improvements	Existing homeowners at or below 80% MFI, seniors, people with disabilities	$7,500 – $10,000	US HUD (CDBG, HOME)

*These ranges are derived from case studies in this analysis but are not exhaustive of programs in Oregon

**If over $100,000 of state CDBG funds are used for administration costs they must be matched, but otherwise would not carry a matching requirement[13]

Down Payment Assistance

- **What does it do:** Down payment assistance programs reduce one up-front cost barrier for moderate-income households to become first-time homeowners by providing grant funds for a down payment. Some households may have the ability to pay for a mortgage but lack the savings necessary to pay for an up-front down payment on a house.

  Typically, programs that provide access to homeownership are able to reach households at 80 to 120% of MFI, while rental programs are more efficient at targeting deeper levels of affordability.[14] Although these programs typically have a higher cost per household served, they are aimed at providing longer-term stability.

- **Who initiates it:** The City could develop and administer its own program or identify a partnering organization. Several nonprofit organizations operate down payment assistance programs in nearby jurisdictions with whom the City could work to provide funding and resources specific to Tualatin, including Proud Ground, Community Frameworks, and DevNW.

[13] US Department of Housing and Urban Development, "State CDBG Program Eligibility Requirements," n.d., https://www.hudexchange.info/programs/cdbg-state/state-cdbg-program-eligibility-requirements/.

[14] US Department of Housing and Urban Development, "The HOME Program: HOME Investment Partnerships," September 20, 2017, https://www.hud.gov/hudprograms/home-program.

- **How does it work:** This type of program provides grants or forgivable loans to individual renter households to pay for initial down payments. Partnership between government entities and nonprofits can be successful in offsetting the amount of administration required from city staff for homeownership assistance programs and providing funds through existing sources like Community Development Block Grants.

  Some jurisdictions may choose to implement their own independent program directly. Local programs may allow city staff flexibility in setting stronger MFI provisions and measures to achieve equitable outcomes but will have higher administrative costs and staff effort needed. Typically MFI is set at time of purchase for all household earners.

- **What is its potential impact:** Partnerships to administer programs have been successful when offered in Tualatin's peer cities. Washington and Clackamas County, as well as organizations like Proud Ground, offer potential partnership options for the City to leverage existing programs instead of creating new ones.

  In other homeownership programs surveyed in Oregon, the amount per unit offered varies between programs. We found that on the low end, cities provided at least $25,000 per household (in Springfield, OR, where the program is administered directly by staff), with the highest amount of $110,000 provided in Beaverton through Proud Ground. If the City provided support, the cost **per ten units** would be between $250,000 and $1,100,000.

  + Per 10 Units – Low: **$250,000**

  + Per 10 Units – High: **$1,100,000**

  The amount of funding required to provide effective down payment support may vary by the type of housing that buyers are purchasing. Prefabricated homes or homes held in a community land trust may be available at lower price points and require less funding than market rate housing. If the City were able to direct assistance to these types of units, then it could potentially serve more households or avoid the need to seek additional funding sources.

- **Limitations of down payment assistance:** Down payment assistance is typically more expensive per household served than other programs. It needs a substantial amount of funding which will likely go toward households with moderate income (80 to 120% of MFI) rather than residents with low income (50-80% of MFI) or extremely and very low income (<50% of MFI).

  Many down payment assistance programs also include other requirements that participants must meet, which can exclude households who have faced barriers to accumulating wealth. These include qualifying for a specific mortgage amount, meeting a minimum credit score, demonstrating a favorable debt-to-income ratio, providing proof of steady employment, and having personal savings to cover earnest money, inspections, and closing costs.

- **Equity Considerations:** Assisting first-time homebuyers can be an effective strategy to help address the racial wealth gap in the United States.[15] Many people of color have been historically prohibited from purchasing homes through discriminatory practices, unable to access federal programs such as low-interest loans, and prevented from accumulating the generational wealth that many rely on for purchasing their first home.[16] Down payment assistance can address the continuing homeownership gap by allowing households to overcome initial financial barriers to purchasing a home, but does not fully address these systemic inequalities.[17] Additionally, publicly funded and/or administered programs cannot give preference based on race or ethnicity, making it challenging to direct down payment programs specifically to homebuyers of color.

Home Rehabilitation

- **What does it do:** Home rehabilitation programs can help low to moderate-income homeowners to pay for the following types of housing maintenance:
    - Major home repairs, such as roofing, electrical, or plumbing issues. The purpose of major home repair programs is to help people stay in their homes by addressing larger-scale maintenance problems that may force a homeowner to sell their house if they are unable to do essential work. *Typical Cost: $10,000-50,000*
    - Accessibility improvements include upgrades such ramps, doorway modifications, or handrail installation for seniors and/or disabled residents. These serve homeowners who may not have needed accessibility features when they purchased their home. *Typical Cost: $10,000-20,000*
    - Weatherization makes buildings more energy efficient by making upgrades to features like siding, windows, or mechanical systems. These improvements can reduce utility costs, contribute to climate goals, and proactively extend the life of housing units for existing homeowners. *Typical Cost: $7,500-10,000*
- **Who initiates it:** The City could initiate its own program with local funding or coordinate with existing programs to connect residents to these resources. Washington

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[15] Michael Stegman and Mike Loftin, "An Essential Role for down Payment Assistance in Closing America's Racial Homeownership and Wealth Gaps" (Urban Institute, April 22, 2021), https://www.urban.org/research/publication/essential-role-down-payment-assistance-closing-americas-racial-homeownership-and-wealth-gaps.

[16] Tim Henderson, "Black Families Fall Further behind on Homeownership," The Pew Charitable Trusts, October 13, 2022, https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2022/10/13/black-families-fall-further-behind-on-homeownership.

[17] Jung Hyun Choi and Laurie Goodman, "What Explains the Homeownership Gap between Black and White Young Adults?," Urban Institute, November 20, 2018, https://www.urban.org/urban-wire/what-explains-homeownership-gap-between-black-and-white-young-adults.

and Clackamas Counties operate home rehabilitation programs in nearby jurisdictions, with whom the City could work to provide funding and resources specific to Tualatin:

    - Washington County's HARDE program is available for residents below 50% of MFI who are disabled or over the age of 62. Although it is primarily targeted at homeowners, renters may also apply for accessibility improvements up to $10,000. The deferred interest-bearing loans (DIBL) program is also available for homeowners between 50 and 80% MFI up to $25,000.
    - Clackamas County also provides assistance through accessibility grants up to $7,500 for low-income homeowners and eligible renters at or below 80% of MFI and a deferred payment loan (DPL) program for home repair loans up to $35,000 depending on the project type. DPL also covers weatherization up to $25,000.

- **How does it work:** These programs provide funds to individual households either through low-interest/deferred payment loans or outright grants for specific types of home projects. Deferred payment loans in both Washington and Clackamas County accrue only 3% interest for up to ten years and do not need to be paid monthly.
- **What is its potential impact:** Like down payment assistance, partnerships with the county and nonprofit organizations are often an effective way to deliver home rehabilitation programs. To understand the amount of assistance typically provided, we surveyed other home rehabilitation programs in Oregon, including City and County-funded programs, summarized above in Exhibit 14.

  The amount offered per unit varies by the type of support. Accessibility improvements tend to be lower and major repairs tend to be higher. If the City provided this type of support, the range of funding needed **per ten units** would be between $75,000 and $500,000.

+ Per 10 Units – Low:
$75,000

+ Per 10 Units – High:
$500,000

- **Limitations of the rehabilitation assistance:** Like down payment assistance, home rehabilitation is typically more expensive per household served than strategies that target multifamily housing. This substantial funding typically goes to households that are moderate income (between 80 and 120% of MFI), rather than households with low (50-80% of MFI) or extremely and very low (<50% of MFI) incomes.

  Equity Considerations: Home rehabilitation work targets people who are already homeowners but who may face displacement pressures due to a number of circumstances. Some types of home repair work contribute explicitly toward equitable outcomes, such as accessibility improvements for low-income disabled residents or older adults who may need to make physical home improvements.

  Low-income seniors may also be at risk of losing their homes if they are unable to make critical structural repairs. Providing financial support for rehabilitation projects can ensure that residents stay in their homes as they age and can reduce the risk of being unhoused.

Summary of Potential Strategic Actions to Increase and Retain Homeownership

The low and high estimates for Down Payment Assistance and Home Rehabilitation funding are based on a limited survey of other programs in the region. There may be variation in the amount needed in Tualatin based on a number of factors, including the cost of labor and materials for home repair, home prices, and the type of rehabilitation work needed.

The number of households served may also vary by the type of rehabilitation work needed or size of down payments provided. For instance, if a large share of households sought accessibility improvement grants (which are typically less expensive than major home repairs), the same total amount of funding may be able to serve more households.

Exhibit 15. Potential Tools to Support Homeownership

Note: High and low funding estimates are derived from the analysis memos attached to this report

Tool	Funding Considerations	Impact on Affordable Housing	Low Estimate Per 10 Units	High Estimate Per 10 Units
Down Payment Assistance	• City can likely access CET revenue from OHCS • Recipients must meet other criteria (credit score, earnest, etc.)	Medium to High	$250,000	$1,100,000
Home Rehabilitation	• CDBG funds are typically used for these programs • Typically supports moderate income levels (80-120% MFI) • Can be delivered as grants or deferred payment/low interest/ forgivable loans	Low to Medium	$75,000	$500,000

6. Tradeoffs and Conclusions

This plan includes tools that **provide** the city with new revenue to fund affordable housing programs or **forgo** potential city revenue that enable affordable housing development. There is also detail on potential affordable housing programs that **require** funding. The table below summarizes the considerations for each tool in the plan. Although these are estimates based on the analysis included in the Appendices, they highlight the relative tradeoffs between funding options.

Housing Needs

Over the next twenty years, the greatest need for new **affordable units** will be for extremely and very low-income households, earning below 50% of MFI. While the largest group of new housing needed will be market rate (serving those at or above 120% of MFI), it is assumed that most of these units will not require any of the public subsidy covered in this plan.

The Housing Needs Analysis shows that Tualatin is forecast to grow by about 1,014 households through 2040. About 45% of Tualatin's new households are expected to have income below 80% of MFI. In addition, Tualatin already has more than 4,200 existing households with income below 80% of MFI, many of whom are cost burdened or have other unmet housing needs. The actions in this report, as well as other actions in the HPS, are intended to help better meet these housing needs.

Fiscal Impacts and Tradeoffs

Increases or decreases to the taxes or fees paid by the developer can have a myriad of impacts. Some considerations to take into account:

- Over a five-year period, a **Construction Excise Tax** might provide up to $500,000 that the City may use for some of the actions in this plan which require funding (such as rehabilitation funds and down payment assistance), or to backfill forgone revenue. The state also has some restrictions on how CET revenue can be spent. For residential CET, the state requires that the City use 50% toward developer incentives like SDC exemptions and that 15% goes to state down payment assistance programs. Commercial and industrial CET funds are more flexible, only requiring that 50% of funds are used for housing-related projects.
- **Urban Renewal** revenue has some flexibility in terms of uses and can theoretically be used on everything from homeownership and home rehab programs to parking infrastructure to backfilling lost SDC funds. These funds are restricted to the urban renewal area, which impacts the flexibility of where projects could take place.
- **Property tax abatement programs**, including MUPTE and the nonprofit tax exemption, are eligible at the time of construction, and as such, do not reduce existing revenue

levels. Nonetheless, it is potential revenue lost and could be made up in new CET funds if so desired.

- **SDC exemptions** will likely require the City to backfill forgone revenue, as new construction increases the capacity that infrastructure must accommodate. SDCs could be backfilled using CET funds which may not be sufficient on its own.
- **Down payment assistance** requires a large amount of funding and serves a relatively smaller number of households. However, it would provide longer-term stability for Tualatin residents and could help to achieve homeownership for groups who have faced historical barriers. The cost for **home rehabilitation** programs is also high and serves relatively few households but varies significantly by the type of assistance offered. While large home repairs can require more contribution per household, weatherization and accessibility programs can typically cost less.

Exhibit 16. Summary of Financial Tradeoffs Between Funding Tools

Tool	Population Served	Provides, Forgoes, or Requires Revenue?	Estimated Funding Range	
			5 Years	20 Years
Construction Excise Tax	Moderate Income and lower-income households	**Provides Funding**	$251,000-502,000	$832,000-$1,664,000
Urban Renewal	Current and future residents within urban renewal area	**Provides Funding**	$2.5 million	$2.5 million
Nonprofit Low Income Tax Exemption	Extremely and Very Low Income (<50%)	**Forgoes Revenue**	$90,000[18] per 100 units	$360,000 per 100 units
Multiple Unit Property Tax Exemption	Low Income (50-80%)	**Forgoes Revenue**	$144,000[19] per 100 units	$287,800 per 100 units[20]
System Development Charges Exemption	Extremely and Very Low Income (<50%) or Low Income (50-80%)	**Forgoes Revenue**	$751,400 per 100 units	$3,005,600 per 400 units[21]
Down Payment Assistance	Moderate Income (80-120%) Seniors or disabled residents	**Requires Funding**	$250,000 - $1,100,000 per 10 units	$1,250,000-4,400,000 per 40 units

[18] The estimated annual costs are based on the first year of the exemption and would likely change in subsequent years. This estimate shows only the City's portion of property taxes.

[19] The estimated annual costs are based on the first year of the exemption and would likely change in subsequent years. This estimate shows only the City's portion of property taxes.

[20] The MUPTE program is limited by the state to 10 years, so this estimate is capped on that time frame, not 20 years.

[21] Because SDCs are only a one-time charge for developers, this amount assumes that 100 new units use the exemption every five years, for a total of 400 new units using the program.

Home Rehabilitation	Moderate Income (80-120%)	**Requires Funding**	$75,000 - $500,000 per 10 units	$300,000 - $2,000,000 per 40 units

Equity Impacts and Tradeoffs

Each of the strategic actions in this funding plan have tradeoffs related to equitable housing outcomes. These benefits and challenges include critical considerations for the recommendations in this plan and should be integrated in decision-making for affordable housing in Tualatin.

Exhibit 17. Summary of Equity Considerations Funding Tools

Strategic Action	Equity Benefits	Equity Challenges
Construction Excise Tax	• Revenue can be used to serve low- and moderate-income households • Allows some flexibility in deciding how to use revenues • The City could choose to focus on programs that have specific equitable outcomes	• State statute somewhat limits the options for what can be done with CET; a portion for residential must go toward developer incentives • A CET increases housing costs for some types of housing to lower costs for more affordable housing.
Urban Renewal	• Can provide a larger amount of funding for housing for extremely and very low-income households, as well as low- and moderate-income households • Can provide housing near employment for Tualatin workers.	• Geographic limitations create the potential to create areas of concentrated poverty if most of the city's affordable housing is built exclusively in the urban renewal district. • Potential to displace existing residents or businesses in the plan area
Nonprofit Low Income Tax Exemption	• Supports development of housing that serves very low-income levels • Nonprofits may often provide culturally specific or other services alongside housing • Multifamily housing typically serves more households for less cost per unit • Local contribution can attract more affordable housing developers to the area and reduce their amount of permanent debt incurred for providing below-market rents	• Tax exemptions forgo revenue for the City general fund which could be used for other citywide programs and operations.
Multiple Unit Property Tax Exemption	• Supports moderate-income and mixed-income development, which may provide affordable units in higher-opportunity areas across the city • Multifamily housing may serve more households for less cost per unit	• Limited time frame for program applicability (10 years), after which rents would likely increase to market-rate. This increase could cause displacement risk for low-income residents after the program ends. • Tax exemptions forgo revenue for the City general fund which goes to citywide programs and operations.
System Development Charges Exemption	• Can be used to support development of housing that serves low- and moderate-income levels • Multifamily housing may serve more households for less cost per unit	• SDC exemptions must be backfilled from other sources of funding • SDC exemptions forgo revenue for the City general fund, which could be used for other citywide programs and operations

Down Payment Assistance	• Often benefits households who have been historically excluded from homeownership • Allows households to build intergenerational wealth through home equity	• Higher cost per household means that assistance serves relatively fewer people • Limited funding creates challenging questions around who receives assistance
Home Rehabilitation	• Benefits existing low-income homeowners in Tualatin and ensures longer-term stability • Some programs specifically provide resources for disabled residents and seniors	• Higher cost per household means that assistance serves relatively fewer people

Conclusions about Available Funding

Strategic actions that support development of **multifamily rental housing,** (including property tax and SDC exemptions) are likely to serve a greater number of households at low, extremely low, and very low incomes. These actions could address the needs of a larger overall portion of Tualatin's projected housing needs and typically require less public subsidy per unit compared to homeownership.

- The **Nonprofit Low Income Tax Exemption, MUPTE**, and **SDC exemptions** all increase equitable access to housing in this way. If the City implemented all three of these, then the amount of forgone revenue in the next five years for Tualatin would be **$985,000**. Most of this total amount would be from SDC exemptions.
- However, in the case of the nonprofit exemption and MUPTE, **City taxes only account for about 16% of the total tax roll**. If taxing bodies which made up at least 51% of the total tax roll agreed to participate, then all taxes for all districts would be exempted per state statute. This could increase the exemptions for 100 units over five years by an estimated $448,000 for the nonprofit exemption and $709,000 for MUPTE, outside of the City's taxes.

Strategic actions that target **homeownership** are more likely to benefit a smaller pool of moderate-income households but do typically provide longer-term stability than multifamily rental units.

- **Down payment assistance** has a high cost on a per-unit basis and can likely only serve a small number of households. While urban renewal revenue could potentially be used for funding these programs, single-family homes do not comprise a large share of the new Core Opportunity Reinvestment Area. Based on a survey of what other jurisdictions offer, the cost for a down payment program could range from **$250,000** to **$1,100,000** in the next five years.
- For **home rehabilitation** programs, the cost per household and direct equity benefit varies substantially depending on the type of project. The projected cost for a home rehabilitation program in the next five years could range from **$75,000** to **$500,000**. Several other state and federal sources are also available for home rehabilitation programs, which the City could pursue outside of the tools in this plan (see Exhibit 18).

Tualatin has limited sources of generating local revenue to be used for affordable housing programs. The total cost of both the multifamily rental housing and homeownership programs described above could be between **$1.3 and $2.5 million,** which new revenue sources will likely not be able to cover entirely. Most of this variation in program costs is based on what amount would be allocated to homeownership programs.

- **CET will not produce enough revenue to fund all of these programs**, as it is only estimated to provide up to **$500,000** in the next five years if it covered residential, commercial, and industrial construction. The state also sets out rules for how revenue must be distributed. Construction and industrial CET is flexible, but **50% of residential CET revenue must go to developer incentives** like tax exemptions and SDC exemptions (about $48,000).
- **Urban Renewal** may be able to provide the largest single source of funding at **$2.5 million** in the next five years, which can potentially help to fund SDC exemptions and homeownership programs. However, **urban renewal funds are not able to meet all of Tualatin's affordable housing needs because their use is geographically limited to the boundaries of urban renewal districts.** There is limited single-family housing currently within the Core Opportunity Reinvestment Area that could use down payment or home rehabilitation assistance. Additionally, concentrating a large share of Tualatin's new affordable units in one area could have unintended consequences of creating a concentrated area of poverty.

Additional Funding Tools

ECONorthwest evaluated additional potential funding tools such as new taxes or fees that could be used to fund affordable housing initiatives, as well as grants, partner contributions, and state funding (detailed in the Additional Funding Tools Analysis memorandum and summarized below in Exhibit 18).

Many of the largest funding sources would require popular buy-in or a public vote but likely lack political viability; others are restricted by state law. Grants and partner contributions can have an impact but are likely not ongoing sources that could be used for continued programs. If the City did find additional funding sources, it could centralize revenue from them (and others listed in this report) in an Affordable Housing Trust Fund. This could be used as a vehicle to fund projects with oversight from a committee who set clear criteria for use and prioritization.

The City should pay close attention to potential new sources of funding from the State to support homeownership programs in coming years. For example, the Oregon Housing Authority's Healthy Housing program is still under development and is expected to provide funding to cities to support rehabilitation. In the 2023 Legislative Session, the Legislature is considering multiple additional funding opportunities to support development of new affordable rental housing and increase access to homeownership for lower-income households.

Exhibit 18. Summary of New Funding Sources Evaluated

Revenue Source	Potential to Implement	Description	Assessment
Most Common Local Sources			
General Fund Revenue	Low	Contribution from the city's general budget	Can contribute directly but competing with other city priorities
Tualatin-specific or regional General Obligation (GO) Bond	High	Increases property taxes to pay back the amount of bonds taken out by the city for capital projects. In 2018, voters approved a regional GO Bond for housing for the Metro region. Funds from that bond are being used to create permanently affordable housing. Metro may consider issuing an additional GO Bond.	Requires a public vote but could provide long-term stable source Tualatin could be the recipient of additional funding from a new Metro GO Bond.
Local Option Levy	Medium	A time-limited property tax issued as a rate used for capital projects, operations, or programs	Also requires a public vote but GO bond is probably better
Increases to Existing Taxes and Fees			
Lodging Tax	Medium	An increase to the city's current lodging tax levied on hotels, motels, and short-term rentals, paid by visitors	Uses of revenue are restricted by the state; majority (70%) for tourism
Marijuana Tax	Medium	A targeted change in the city's current marijuana tax levied on marijuana purchases, paid by consumers	Marijuana tax revenues may already be at their maximum for Oregon
Building and Planning Permit Fee Surcharge	Low to Medium	An additional charge added to the city's existing fee for staffing and operational costs	The City has relatively low fees now, but increasing them would not help to incent new housing development
Utility Fee Surcharge	Low to Medium	An additional fee on utility bills, similar to the city's current parks utility fee	Potential nexus with infrastructure to support affordable projects
System Development Charges (SDCs)	Low	An increase to the city's existing one-time fees charged on new buildings, paid by developers	Conflicts with strategy to exempt SDCs for certain affordable development
New Taxes and Fees			
Business License Fee	Low	An additional fee issued with new business licenses	Could hinder economic development goals
Food and Beverage Tax	Low	A tax added to food and beverage sales within the city, paid by consumers	Unlikely to be politically viable
Real Estate Transfer Tax	Low	A tax levied on real estate transactions, paid by property owners	Not proven legal in Oregon
Sales Tax	Low	A tax on retail goods purchased within the city, paid by consumers	Unlikely to be politically viable
Payroll/Business Income Tax	Low	A tax for local business revenue, paid by business owners	Likely to face pushback from business community

Vacancy/Second Home Tax	Low	A tax levied on homes that are unoccupied for a certain period of time, paid by property owners	Likely not legal in Oregon or enough vacation homes
Other Funding Sources			
Donations and Gifts	Medium	Funds given by private foundations, firms, or individuals	Could have a mid-sized to low impact and likely to fluctuate
Grants	Medium	Funding from public agencies or companies for a specific purpose that the city applies for	Dependent on grant writing capacity and changing availability
State Funding (OHCS)	Medium to High	Oregon Housing and Community Services (OHCS) provides a number of funding opportunities for which Tualatin would be eligible including grants and CET	Mostly available as one-time contributions but can be spread out over years
State Funding (OHA)	High	OR HB 2842 (adopted in 2021) directs the Oregon Health Authority (OHA) to provide $10 million in grants to fund the Healthy Homes program aimed at weatherization, accessibility, and home repair programs	A task force is currently working to configure eligibility for households to access program, which the City would need to include in its criteria if it received funding to implement this program
Federal Funding (IIJA)	High	The 2021 Infrastructure Investment and Jobs Act (IIJA) included $3.5 billion in funding for the federal Weatherization Assistance Program (WAP) for states and local jurisdictions nationwide	In Oregon, OHCS has an allocation for WAP; local jurisdictions can apply through them

Approval Processes and Administration

All of the tools in the funding plan will need buy-in from the public, City Council, and partners (such as overlapping taxing districts, developers, etc.). Decisions to implement some tools may require a public vote (such as a Local Option Levy) or Council decision, which should provide opportunities for public discussion about implementation of the strategic actions presented in this plan (as well as others in the HPS).

The need for City staff resources and ongoing administration/reporting are another consideration beyond funding that may impact whether these tools can be effective. The next section of this report (Chapter 7: Recommendations) includes general discussion of administration but will likely require refinement by the City.

7. Recommendations

This chapter presents final recommendations for implementing Tualatin's Housing Production Strategy. Our team developed these actions with input from discussion with the project's Steering Committee, city staff, City Council, and Planning Commission.

Key Conclusions from Analysis

The City of Tualatin should carefully consider limitations of how different funding can be used to implement its Housing Production Strategy. The following are primary conclusions that we identified through our analysis, including relevant fiscal impacts and equity tradeoffs of strategic actions. These conclusions about available funding sources informed our recommendations for the City in the next five years.

- **Urban Renewal funding can only be used for limited project types and requires broader discussion about tradeoffs.** Tax increment financing is a potentially powerful mechanism for affordable housing, but it can only be used for projects within the urban renewal district and takes time for funding to accumulate. Without issuing a bond on future funding, then Tualatin's Core Opportunity Urban Renewal district may have little to no funding over the next five years. If funding is not available in the next few years, that limits opportunities to execute on near-term actions in the Urban Renewal district.

  Additionally, housing is also only one component of the Core Opportunity Reinvestment Area plan, and large portions of the plan area are zoned primarily for industrial and commercial use. There are other competing priorities for businesses, public space, and employment which will receive Urban Renewal revenue. The City and Urban Renewal Commission will need to discuss what to prioritize in the near-term and what projects it wants to pursue later within the plan area.

- **Construction Excise Tax spending is relatively flexible.** It takes time to accumulate CET funds and can be used to support a wide range of affordable housing actions. CET has to adhere to state regulations that set standards for what share of revenue which the City can allocate to different type of programs, including affordable housing.

  It will take some time after the City would implement a CET to receive any revenue, which is paid when construction projects are complete. Depending on how quickly Tualatin sees new development happening and what type, it may take several years to have enough CET revenue to execute some of the actions in this plan.

- **System Development Charge Exemptions will need to be backfilled.** SDC exemptions can reduce costs for developers to provide affordable units but requires a funding source to backfill the forgone SDCs, such as CET or Urban Renewal revenue. These funding sources may not be sufficient to backfill all the potential requests for SDC exemptions.

The City could consider capping the amount of SDCs that it will exempt based on the availability of funding to backfill them. The City may want to prioritize the types of projects that it awards SDC exemptions for, focusing on the projects that best align with City goals. Alternatively, the City could also use a competitive selection process, though this may discourage developers to apply, depending on the criteria and will require a greater amount of staff capacity. Allocating general fund revenue could be an additional way to backfill the gap between exempted SDCs and available funding.

- **The Multifamily Tax Exemption will need support from overlapping taxing districts.** The City only controls about 16% of the tax roll. Providing enough incentive to support affordable housing development by market-rate developers requires exempting the property taxes of overlapping taxing district, as well as the City's exemption. If the city can't get other taxing bodies on board, then MUPTE will probably not be effective at producing new affordable units. The time limit on MUPTE could also be a significant equity challenge. The benefit only lasts for ten years, after which time rents will presumably rise without ongoing subsidy.
- **Increasing access to affordable homeownership is expensive.** Homeownership programs require a larger amount of funding because of the relatively high cost of housing sales prices. Increasing access to homeownership leads to longer term housing stability and provides lower-income households the opportunity to gain equity and build wealth. These programs are especially important for those who have been historically prohibited from homeownership. Rehabilitation programs can be important to combat displacement of seniors and people with disabilities.

  Strategic actions in this plan can contribute to down payment assistance and home rehabilitation. Given the likely available funds, the City is unlikely to be able to provide the total amount of funding needed to address more than a small part of the need for down payment assistance and some of the need for rehabilitation. This is true even if the City dedicates a large share of revenue from CET and available revenue from Urban Renewal toward them. The City should pay close attention to potential new sources of funding from the State to support homeownership programs in coming years.
- **The City can prioritize other actions to support homeownership that have lower costs.** The City could partner with a land trust to support development of affordable ownership housing or use Urban Renewal funding to assemble a development site where affordable ownership units would be built by the land trust.
- **The City can pursue funding from other sources, such as the general fund.** Tualatin should seek to make a case for an allocation from the second round of the Metro General Obligation bond, pursue its own local option levy, or new taxes and (which would require voter approval). The City could pursue use of general fund revenue toward actions that support affordable homeownership and rental housing. To do so, the City would need to make tradeoffs elsewhere in the budget. This report includes other potential funding sources, most of which may have lower levels of probable public support.

Recommendations for Implementing the HPS

This section presents recommended actions for the City of Tualatin. As a whole, they cover implementation steps within the City's power to address a range of housing needs in Tualatin for people at varying income levels.

- **Build Equity into Decision-Making Processes.** As the City continues to implement the HPS, the City should develop an equity framework for decision-making that considers the distribution of costs and benefits and impacts on low-income residents, seniors, people of color, and other groups with higher housing needs in Tualatin. This framework should align with similar equity work that the City is developing for other initiatives (such as the climate action plan).

  Over the next five years, the City can begin to use this framework to prioritize initiatives and monitor outcomes. This framework can also apply for subsequent strategic actions that develop further into implementation of the HPS beyond the five-year horizon. The City should periodically revisit this framework and ensure that it captures relevant concerns and reflects broader equity work across Tualatin.

- **Establish an Affordable Housing Trust Fund and Create an Advisory Committee to Oversee it.** An Affordable Housing Trust Fund (AHTF) is a mechanism that can centralize revenue sources into a collective account and distribute money for housing in the city. Although most of the potential sources for an AHTF can also be used independently, this structure is useful for affirming that projects that receive public funding go toward priority needs. Trust funds are typically overseen by a committee who work with city staff to formulate the application criteria and administer the approval process. However, the City needs money to contribute to the AHTF, such as CET revenue and other funding sources (such as tax revenue, fees collected, bonds, etc.).

  - *AHTF Structure.* An AHTF would allow the City to make investments in the specific types of housing that are needed in Tualatin. The City could configure the criteria and eligibility standards to a specific affordability level, unit type, tenure type, and more. The fund can combine multiple funding sources, increasing stability because there is less dependence on a single revenue stream to fund affordable housing.

  - *Advisory Committee.* Alongside structuring the AHTF, the City should consider convening an ongoing advisory committee with the role of goal setting and oversight on how AHTF funds are used. This committee should include low-income residents, renters, seniors, people with disabilities, commuters, and people of color in Tualatin. The City could also consider targeting other populations to join the committee, such as local employers. To equitably implement this action, the City should compensate participants in the advisory committee, given that it is actively seeking to include underrepresented and low-income individuals. Compensation can include monetary compensation as well as accommodations while committee members are participating in meetings, such as meals, childcare, and transit tickets.

- *Monitoring.* Within the first few years of implementing an AHTF, the City could also initiate a monitoring system to track whether allocated funds are accomplishing intended goals. This could involve city staff reviewing projects that have received support from the AHTF and identifying the number of units that are serving households at different income levels (or other demographic groups such as seniors). Monitoring could also help to reveal challenges for projects that do not meet intended goals and give direction on further actions that the City could take to ease affordable housing development.
- *Look for Additional Sources of Funding to Grow the Affordable Housing Trust Fund.* Right now, there are not many sources that the City is able to put into an AHTF. If Tualatin implements a CET, the revenue from this tax could be allocated to the fund (which several other cities in Oregon have done). Allocations from the local general fund or other new revenue sources could also feed into the AHTF if the City is able to dedicate some amount toward housing.

  Ideal sources of funding for the AHTF are flexible, allowing the fund to support different types of housing initiatives over time. Some funding sources that are available for affordable housing may have barriers for inclusion in the AHTF because of restrictions that prohibit them from going toward certain types of projects or programs.

- **Explore Available Private, Regional, State, and Federal Funding Sources for Homeownership and Affordable Rental Housing.** Our analysis of additional funding tools (summarized in Exhibit 18) begins to show the range of further options for funding affordable housing from a number of private, regional, state, and federal sources, which vary in terms of time frame, scale, and eligibility. Tualatin should continue pursuing additional sources of funding for affordable housing beyond the strategic actions in this plan to enhance equitable access to both homeownership opportunities and affordable rental housing.
  - *Homeownership.* Actions that support homeownership often require a relatively high amount of funding for each household served. These are important actions that support equitable access to homeownership but will likely be outside of the City's funding capacity, even if it allocates a significant amount of revenue from other strategic actions in this plan.

    If the City implements a residential Construction Excise Tax, it will be eligible to access funds for down payment assistance from Oregon Housing and Community Services (OHCS). OHCS offers several resources of new homebuyers statewide (such as education programs) but uses CET funds specifically to augment local down payment assistance programs in jurisdictions that adopt this tax.[22] There are currently other opportunities for state and federal funding that can be used for home rehabilitation, such as funding from the Infrastructure Investment and Jobs Act

[22] Oregon Housing and Community Services, "Residential Construction Excise Tax," n.d., https://www.oregon.gov/ohcs/homeownership/Pages/homeownership-publications.aspx.

(IIJA) and Oregon Health Authority (OHA)'s Healthy Homes Program. In coming years, the State may make additional funds available to support development of affordable rental housing and homeownership programs. The City should track these programs closely and identify opportunities for the City to apply for funding.

  - *Rental Housing.* There are funding opportunities that the City could pursue to further support affordable rental housing. For example, if there is a second round of allocations from Metro's General Obligation bond for affordable housing, Tualatin could be a candidate to receive funding to support affordable multifamily rental housing. City residents already pay property taxes toward this bond, and the city meets several of Metro's criteria for priority selection.

- **Pursue a Construction Excise Tax on Residential and Commercial/Industrial Development.** Construction Excise Tax could be a large source of flexible revenue to fund strategic actions for housing in Tualatin within the next five years. Consistent with the schedule in the HPS, the City should prioritize exploring CET by 2025. As part of that process, the City should consider the level of tax that it wishes to levy on residential, commercial, and industrial development. Our analysis assumes that this rate will be 1% on all these types of development, but the City could consider a lower rate (or higher rate for commercial and industrial development).

- **Work with Council to Identify the Right Balance of Housing Support in Implementing Urban Renewal.** The City is committed to implementing the Core Reinvestment Area Plan, including an explicit goal for development and preservation of multifamily housing affordable to a range of income levels. City staff should work with the City Council and Urban Renewal Agency to find the right balance of funding allocation for projects in the area. Decision-makers should discuss what is possible and what is an appropriate amount of funding to use for housing development in the Urban Renewal district within the next five years.

  - *Potential for Land Acquisition and Site Assembly.* The City should also be proactive about identifying potential development sites where it could dedicate or lease land to an affordable housing developer in the Core Reinvestment Area Plan. If there are underutilized parcels owned by the City within the plan area, staff and decision-makers could identify initial steps for how it could leverage them for affordable housing. This could include selling land at a discounted rate, leasing it at a low rate, or subsidizing acquisition costs with urban renewal revenue.

- **Implement a SCD exemption for affordable housing development.** The City can exempt the system development fees that it controls for Parks and Water and will need to identify a source to backfill the forgone revenue from other sources, such as the CET or Urban Renewal. The City will need to establish criteria for granting the exemption, such as what level of affordability, the amount of SDC that will be exempted, and the number of affordable units it will require for an exemption.

- **Work with overlapping taxing districts to provide the full Nonprofit Low Income Tax Exemption.** The City Council adopted the Nonprofit Low Income Tax Exemption on its own taxes, which accounts for 16.5% of all property taxes in the city. Applying the exemption to all property taxes requires approval from other taxing districts that make up at least 51% of the total tax roll.

- **Implement the Multiple Unit Property Tax Exemption and Seek Partnerships with Overlapping Taxing Districts.** The City has already implemented the Nonprofit Tax Exemption on its own share of the local property tax roll in Tualatin, which will help to provide new housing for low-income residents at or below 60% of MFI, in line with the program configuration. The Multiple Unit Property Tax Exemption can add another tool to the City's options for creating affordable units for moderate-income households and incentivize more housing overall to be built in Tualatin.

- **Build Partnerships with Nonprofit Housing Organizations.** Nonprofit housing developers and operators are effective at delivering units that serve low-income residents and provide other supportive or culturally specific services. These can include translation assistance, financial literacy, child support, mental health services, and more. There are organizations operating within Tualatin and the region with whom the City could seek to build partnerships and include as part of decision-making conversations.

  Maintaining ongoing communication with nonprofit housing providers can help to identify regulatory and financial barriers that these organizations may be encountering in Tualatin. Through these conversations, the City may find opportunities to provide technical support from staff to overcome these barriers, or new initiatives to prioritize down the line. Likewise, local partners may also present opportunities to reduce the amount of city staff capacity needed for ongoing program implementation. For example, organizations that process down payment assistance can educate, track opportunities, and administer grants to individual households with city funding, while reducing potentially extensive time and effort required from staff.

- **Revisit the Funding Action Plan and Continue to Implement the Housing Production Strategy.** In the next five years (and beyond), the City should undergo periodic review of the Funding Action Plan and Housing Production Strategy. This process should include evaluating whether the analysis included within the Funding Action Plan or future analysis findings alter priorities for funding actions in the HPS.

  This Funding Action Plan provides an initial list of additional funding sources (detailed in the Appendix), including some which may not currently be politically or legally feasible but could become so if conditions change in the future. The City should be proactive about monitoring whether actions become more viable or if precedents emerge for similar communities in Oregon. If such funding options emerge, the City can consider conducting further analysis and reorganizing its priorities for implementation.

Appendix A: Detailed Evaluation and Information about Each Action

This appendix presents the memoranda that ECONorthwest developed as a part of this project. They provide additional information about implementation of each strategic action considered in this plan.

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DATE: July 14, 2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Summary of Construction Excise Tax Analysis

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy into a Housing Implementation Plan. To understand the potential trade-offs of these strategies in Tualatin, this memorandum describes strategic actions around a Construction Excise Tax (CET) and how it works. In addition, it summarizes an analysis of the potential impacts of implementing this action. The final section outlines potential next steps for the City of Tualatin to consider.

Construction Excise Tax

Overview

In 2016, the Oregon Legislature passed Senate Bill 1533, which permits cities to adopt a construction excise tax (CET) on the value of new construction projects to raise funds for affordable housing projects. The tax is limited to 1% of the permit value on residential construction with no cap on the rate applied to commercial and industrial construction. A number of cities of various sizes in Oregon have adopted a CET.

Construction Excise Tax: Levies a tax on new construction projects to fund housing programs and/or investments. It can be applied to residential and/or commercial and industrial development.

How the Construction Excise Tax Works

The allowed uses for CET funding are defined by state statute:

- The City may retain up to 4% of funds to cover administrative costs. The funds remaining must be allocated as follows, depending on whether the CET is on residential or commercial and industrial development:
- For a residential CET:
  - 50% must be used for developer incentives (e.g., permit fee and SDC waivers,[23] tax abatements, or finance-based incentives). The City would have to offer incentives but could cover the costs or foregone revenues with CET funds.
  - 35% may be used flexibly for affordable housing programs, as defined by the jurisdiction.
  - 15% is not available to the city and flows instead to Oregon Housing and Community Services for homeownership programs that provide down payment assistance.

[23] Note that while these are called "waivers," they are really subsidies, since the fees would still be paid by CET revenues rather than by the developer.

- For a commercial/industrial CET:
  - 50% of the funds must be used for housing-related programs, as defined by the jurisdiction (note that these funds are not necessarily limited to affordable housing).
  - The remaining 50% is unrestricted.

Fiscal Impacts/Who Pays

The source for CET funds is new development. The statute exempts public buildings, regulated affordable housing, places of worship, public and private hospitals, agricultural buildings, nonprofit facilities, long-term care facilities, residential care facilities, and continuing care retirement communities.[24] The City can exempt other types of development if desired.

Pros and Cons

Pros:

- Offers the ability to link industrial or other employment investments, which generate new jobs and demand for new housing, with funding for housing development.
- CET is a flexible funding source, especially for funds derived from commercial/industrial development.
- Program funds can fund administration of the CET as well as staff time needed to administer programs funded by CET.

Cons:

- CET increases development costs in an environment where many developers are already seeking relief from system development charges. Depending on the rates imposed, CET could have an impact on feasibility. More research would be necessary to understand the potential magnitude of the impact.
- Where demand is high relative to supply, additional fees on residential development may be passed on to tenants or home buyers through higher housing costs.
- Because CET revenue is development derived, it will fluctuate with market cycles and will not be a steady source of revenue for affordable housing when limited development is occurring.

[24] Oregon Revised Statute 320.173

Summary of CET Analysis

Estimating Revenue Potential

Methodology Overview

There is no statutory cap on the CET rate applied on commercial and industrial construction. Therefore, this analysis assumed a range of potential rates that the City could apply on this development type: 0.3%, 0.5%, 1%, and 2%. The CET rate applied on residential construction is capped at 1%. Therefore, this analysis assumed a range of potential rates that the City could apply on this development type under the 1% threshold: 0.3%, 0.5%, .75%, and 1%.

After establishing a range of rates, the analysis assessed what revenue would look like based on historical building permit values for each respective development type (i.e., commercial and industrial development over the last five years and residential development over the last five years).

Based on the statutory regulations about how the CET funds can be expended, we allocated the projected revenue forecasts as follows:

- **Commercial/Industrial Construction: (1)** 4% to administrative costs, **(2)** 50% of the balance after subtracting administrative costs to housing-related programs (i.e., 48% of the total), and **(3)** 50% of the balance after subtracting administrative costs to an unrestricted use (i.e., 48% of the total).
- **Residential Construction: (1)** 4% administrative costs, **(2)** 15% of the balance after subtracting administrative costs to OHCS (i.e., 14% of the total), **(3)** 35% of the balance after subtracting administrative costs to affordable housing programs (i.e., 34% of the total), and **(4)** 50% of the balance after subtracting administrative costs to developer incentives (i.e., 48% of the total).

Results: Historical Permit Values

One way to estimate CET revenue is a backward-looking analysis. If the City of Tualatin had charged CET fees on recent development that had occurred, how much revenue might have the City collected (assuming the permitting activity had been unchanged as a result of that CET)?

Building permits for residential development and commercial/industrial development in Tualatin fluctuated from year to year over the last five years. Exhibit 19 summarizes annual total permit values for new residential and commercial/industrial construction as well as additions that increase square feet (excluding exempt development) in 2020 dollars.[25] The annual average over the five-year period (2016-2020) for residential development is about **$10m in qualifying permit value** in 2020 dollars. The annual average over the five-year period for

[25] ECONorthwest used the Construction Cost Index published by Engineering News Record to inflate permit values to 2020 dollars.

commercial and industrial development is about **$41.8m in qualifying permit value** in 2020 dollars.

Exhibit 19. Residential Building Permit and Commercial/Industrial Building Permit Values by Year (2016 to 2020), (in 2020 dollars)
Source: ECONorthwest analysis of City of Tualatin permit data.
Note: The large bump in residential permit valuation in 2018 is primarily due to the City of Tualatin permitting an above-average number of residential developments (101 total permits in 2018, compared to 11, 12, 35, and 37 total permits in other years). The large bump in commercial/industrial valuation in 2020 is predominately due to a new industrial structure permitted on Blake Street with a permit value of $90m (2020$).

Year	Commercial and Industrial Bulilding Permit Valuation (2020$)	Residential Building Permit Valuation (2020$)
2016	$17,166,894	$9,304,128
2017	$11,042,600	$6,270,048
2018	$53,020,643	$32,351,852
2019	$14,918,542	$1,257,071
2020	$112,883,996	$926,520
Annual Average	**$41,806,535**	**$10,021,924**
Total (2016-2020)	**$209,032,675**	**$50,109,618**

Next, the analysis calculated the revenue that the City would have generated if it had a CET in place during the 2016 to 2020 period (assuming the permitting activity had been unchanged as a result of that CET) using the different CET rates listed previously.

Exhibit 20 and Exhibit 21 show potential CET revenue for commercial/industrial development. This analysis shows that under the highest rate tested (2%), the average annual CET revenue over this period would have been about $836,100.

Exhibit 22 and Exhibit 23 show potential CET revenue for residential development. This analysis shows that under the highest rate tested (1%), the average annual CET revenue over this period would have been about $100,200.

Under either development type, the minimum CET revenue collected in a slow year would have varied little with the different rates, while the maximum collected in a “busy” year would have varied substantially.

Exhibit 20. Potential Annual Commercial/Industrial CET Revenue by Year and Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

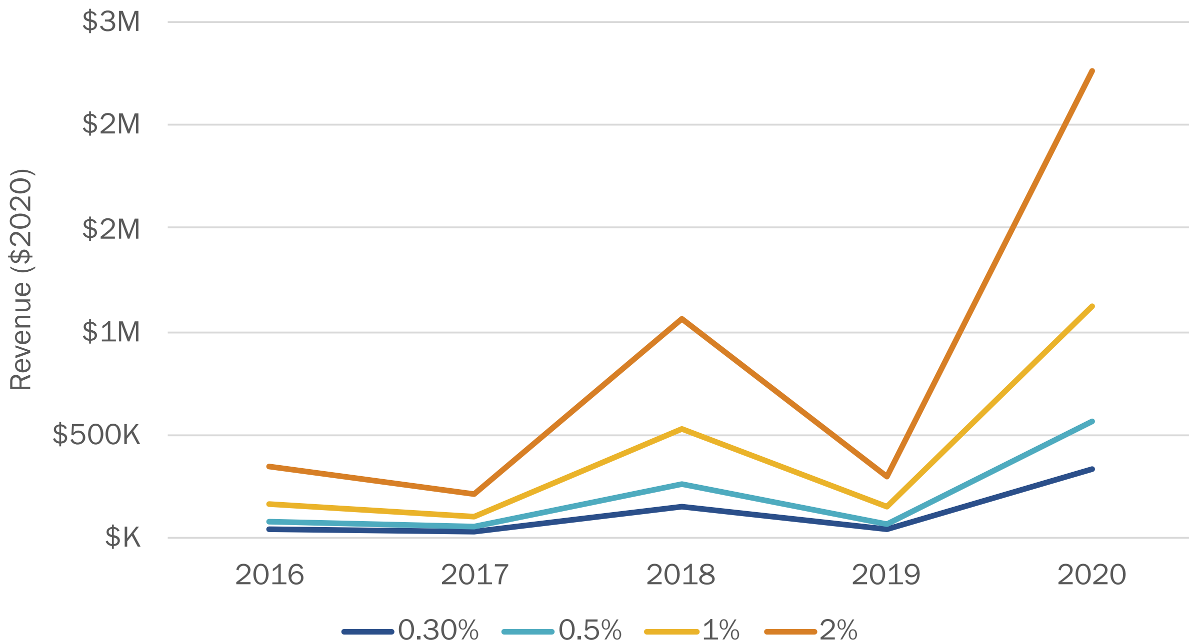


Exhibit 21. Historical Minimum, Maximum, and Average Annual Potential Commercial/Industrial CET Revenue by Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

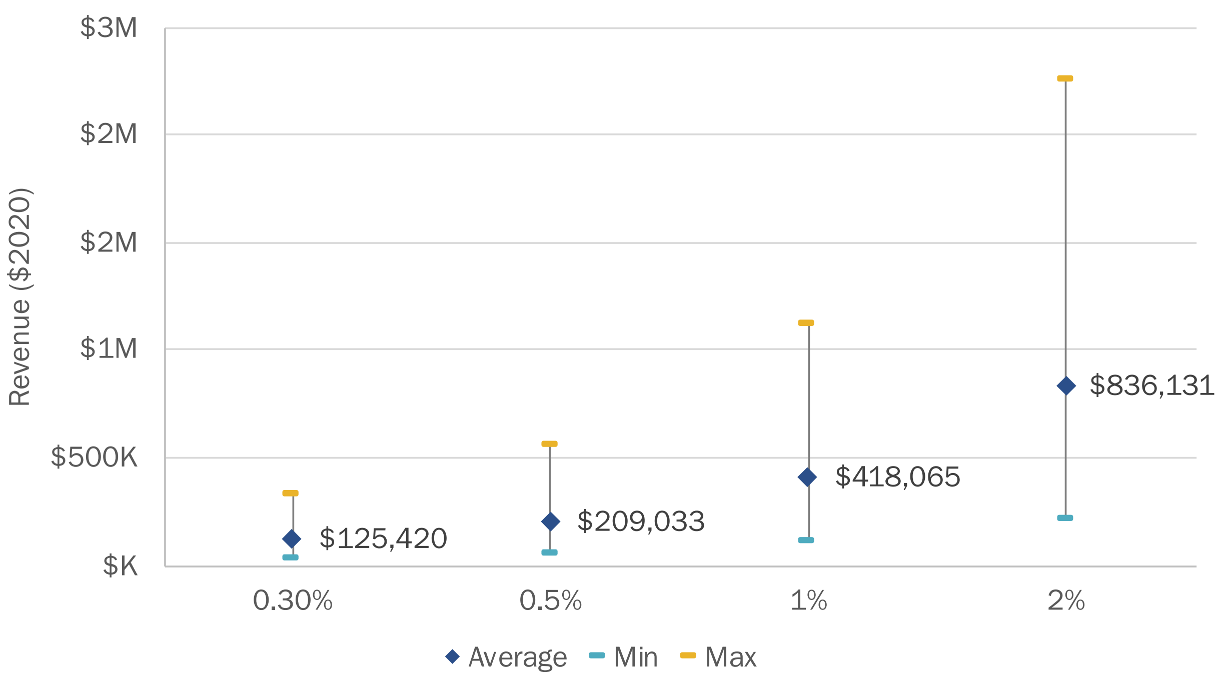


Exhibit 22. Potential Annual Residential CET Revenue by Year and Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

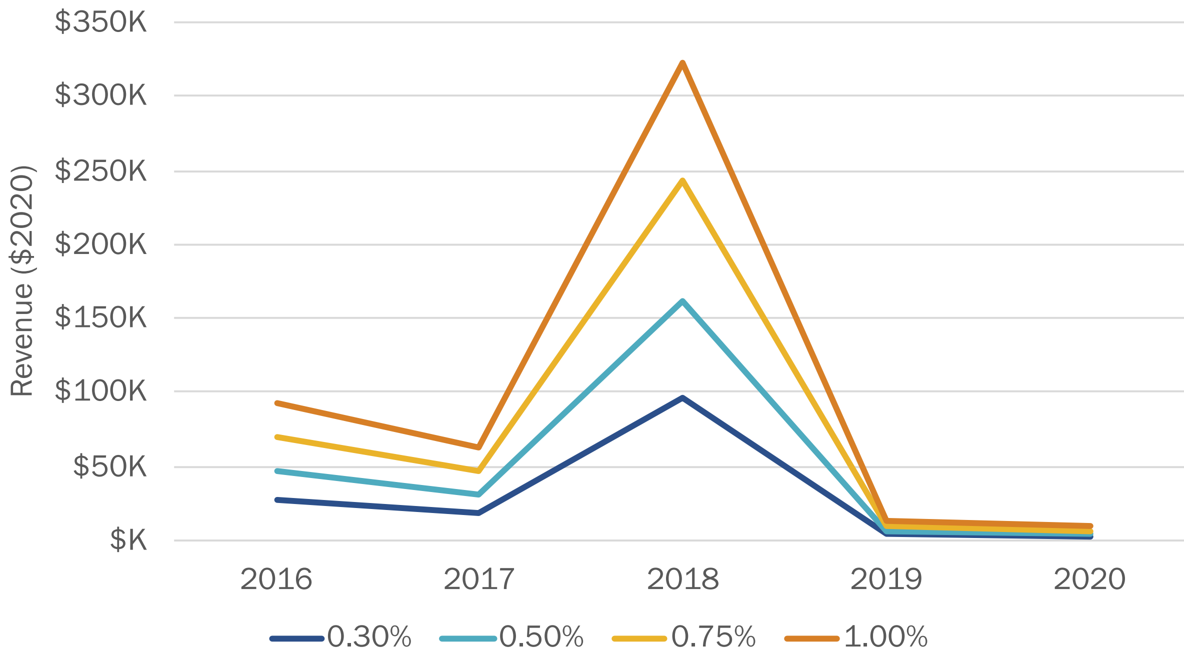
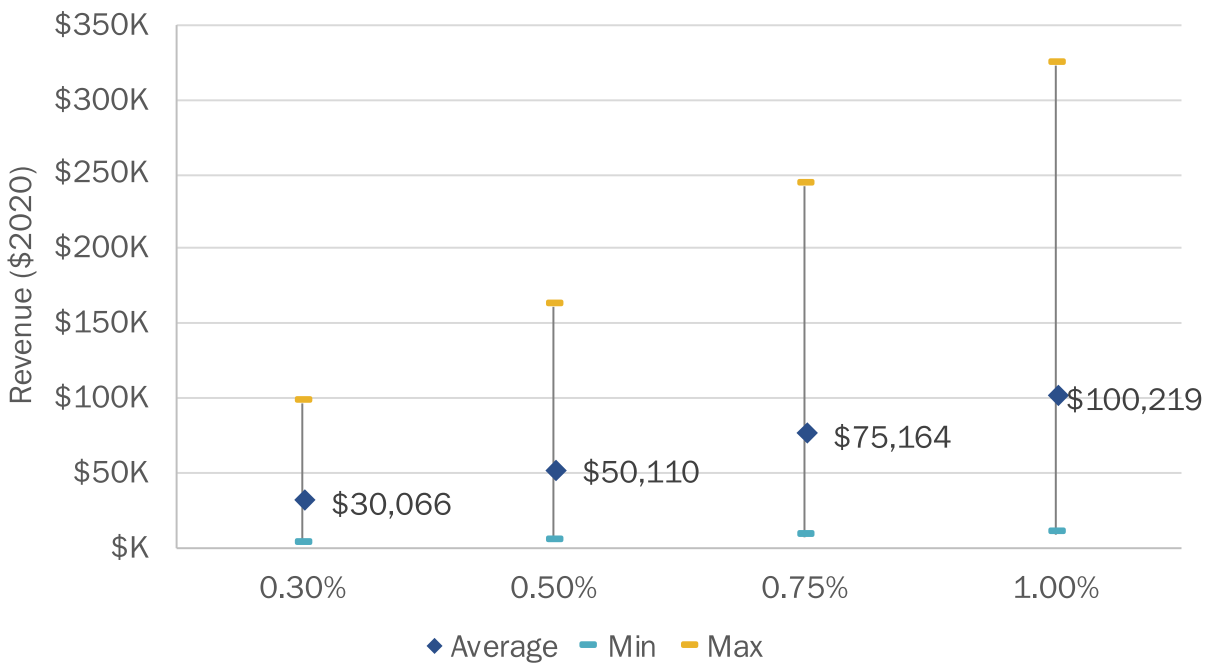


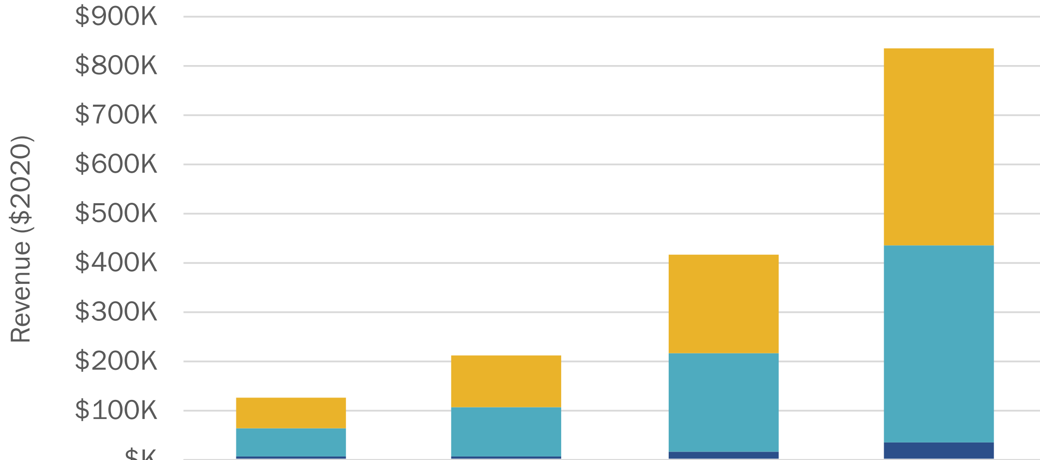
Exhibit 23. Historical Minimum, Maximum, and Average Annual Potential Residential CET Revenue by Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.



Based on the statutory requirements about use of funds, ECONorthwest translated the average annual simulated CET collections between 2016 and 2020 into funds available for each funding category, as shown in Exhibit 24 and Exhibit 25.

Exhibit 24. Hypothetical Total Commercial/Industrial CET Revenue (2016 to 2020) by Rate and Use of Funds

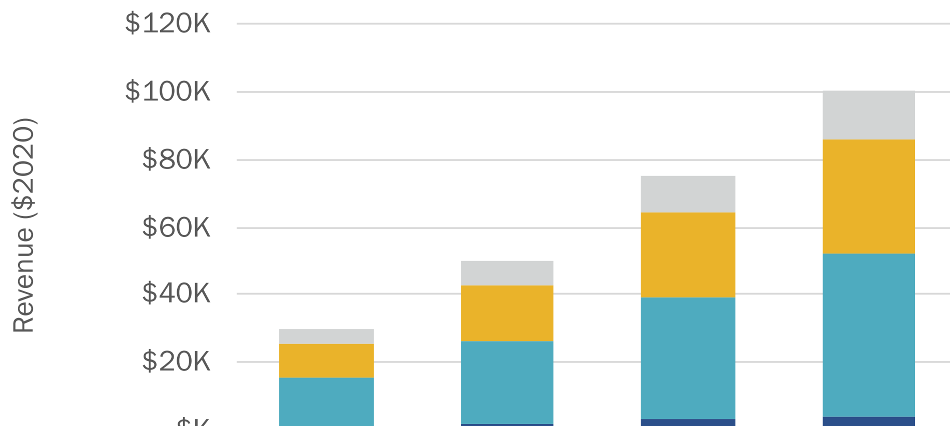
Source: ECONorthwest analysis of City of Tualatin permit data.



	0.30%	0.5%	1%	2%
Unrestricted	$60,201	$100,336	$200,671	$401,343
Housing Programs	$60,201	$100,336	$200,671	$401,343
Admin Costs	$5,017	$8,361	$16,723	$33,445

Exhibit 25. Hypothetical Total Residential CET Revenue (2016 to 2020) by Rate and Use of Funds

Source: ECONorthwest analysis of City of Tualatin permit data.



	0.30%	0.50%	0.75%	1.00%
OHCS	$4,329	$7,216	$10,824	$14,432
Affordable Housing Programs	$10,102	$16,837	$25,255	$33,674
Developer Incentives	$14,432	$24,053	$36,079	$48,105
Admin Costs	$1,203	$2,004	$3,007	$4,009

As shown above, a 0.5% or 1% rate on commercial and industrial development could generate meaningful revenue for programs, especially if the unrestricted portion is also dedicated toward housing programs. Because of the greater flexibility for these revenues, the City could design a flexible program for the revenues, or direct all of the net revenues towards a Housing Trust Fund or similar fund. This ease of use is important, because even with the higher revenue potential of the commercial/industrial CET, a 0.5% to 1% rate would offer little funding for administrative costs.

A CET on residential development would generate relatively little revenue given past trends in residential development, even at the maximum rate (1%). In addition, the administration would be more complex due to needing to separate out revenues toward the spending categories as specified in statute, while the funding available to cover administrative costs would be negligible.

Conclusions and Next Steps

Given the results summarized above, a 0.5% to 1% CET on commercial and industrial development may be worthwhile to consider as it could generate a flexible source of revenue for local housing programs, especially if the City continues to see strong industrial and commercial growth. Imposing a CET on residential development is likely not worth considering unless the City annexes a large amount of vacant residential land where higher-end new housing is expected.

If the City chooses to further evaluate adoption of a CET, it should conduct additional outreach to stakeholders and local businesses to offer an opportunity for discussion and to raise any concerns. The City should also advance conversations about the potential uses of the funds, even though this is flexible and does not necessarily need to be determined prior to adoption. Working with stakeholders to clearly define the program's intended purpose, how the funds (especially the unrestricted portion) would be used, and who would make decisions about the use of funds is likely to help build support for the program. If the City chooses to adopt a CET, it must pass an ordinance or resolution that states the rate and base of the tax. Most communities also identify any further self-imposed restrictions on the use of funds as part of adopting the ordinance. If the ordinance passes, the City must then establish a process to distribute the funds.

DATE: October 4, 2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Urban Renewal Districts – Affordable Housing Funding Opportunities

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy. To understand the potential trade-offs of implementing these strategies in Tualatin, this memorandum describes what each strategic action is and how it works. In addition, it summarizes an analysis of the potential impacts of implementing each action. The final section outlines potential next steps for the City of Tualatin to consider.

Urban Renewal Districts

Overview

Urban Renewal Districts: Areas where a local urban renewal authority has created a plan for new public investments.

Tax Increment Financing: TIF revenues generally pay off bonds used for catalytic improvements like parks, infrastructure, commercial development, or affordable housing.

Urban renewal districts in Oregon are authorized by the state in ORS Chapter 457 and implemented by local jurisdictions. State law specifies requirements for a city to create an urban renewal agency, which can then create plans for areas that are officially designated as 'blighted' by a local governing body (either the city or county).[26]

Urban renewal districts use tax increment financing (TIF) to fund strategic public investments intended to spur more development in designated areas. This tool works by leveraging future growth for new catalytic projects through bonds. When the plan is adopted, the total assessed value for properties in the boundary is 'frozen' for the plan's lifespan. Taxes from that original base continue going to the taxing jurisdictions at the time of adoption at that base rate. The growth in tax revenue above the base is called the 'increment,' which goes to the urban renewal agency to be used for funding projects within the plan area. Agencies most often use bonds to begin projects, then when new development in the urban renewal area leads to an increase in property value and more tax revenue, the agency uses it to pay the bonds with TIF dollars. When the bonds are paid off and the plan sunsets, the entire valuation of the district is returned to the general property tax rolls.

In 2021, the City of Tualatin adopted the new Southwest and Basalt Creek Development Area, and in 2022 adopted the Core Opportunity Reinvestment Area. While much of the land included in these two areas is planned for industrial and commercial use, some portions of the new districts are also planned for residential or mixed-use development. These could be appropriate locations for new affordable housing rehabilitation or mixed-income housing funded by increment revenue. The City would only be able to use TIF revenue within renewal

[26] ORS 457.020(1)

plan areas, though there may be flexibility for revenue generated within one district to be used in another urban renewal area.

Fiscal Impacts/Who Pays

Designating TIF dollars from urban renewal is a way for the City to directly provide funding for affordable housing. While regulated affordable housing is often tax exempt and does not generate additional tax revenue, some jurisdictions allocate a portion of TIF revenues to fund affordable housing projects to support equitable development within the designated district. TIF can be invested in the form of low interest loans and/or grants for housing projects or a variety of capital investments. There are other restrictions that make it difficult to use TIF funding for operations and it is typically directed towards construction and capital projects such as multifamily development, rehabilitation, or supportive utilities.

Direct funds generated by TIF are typically not able to be used outside the boundaries of the plan district. There may be some possible exceptions for utilities located outside of the district that serve the urban renewal area. If there is a citywide program, TIF funds may be used as the funding source for it in the specific urban renewal area if projects align with plan goals. There are other restrictions that make it difficult to use TIF funding for operations and it is typically directed towards construction and capital projects such as multifamily development, rehabilitation, or supportive utilities.

Pros and Cons

Pros:

- Urban renewal revenue is the city's largest locally-controlled funding source that could be available to support affordable housing development through direct project subsidies, land write-downs, and infrastructure enhancements.
- The City has recently created a new urban renewal district which includes explicit goals for development and preservation of affordable multifamily housing. The agency could use these goals in its investment criteria in the district.
- The City can use TIF revenue to ensure affordable housing is available in districts as properties appreciate due to investments in the urban renewal area. Including affordable housing investments as part of a comprehensive set of infrastructure enhancements can help to mitigate potential displacement when the district grows.

Cons:

- In many cases, regulated affordable housing projects are tax exempt, and therefore do not contribute to the growth of tax increment revenues. Investments should be made with this trade-off in mind.
- TIF can only be used in areas already designated for urban renewal. These may not necessarily be areas that have the highest need, ideal transportation options, or proximity to jobs.

- In active TIF areas in Tualatin, the majority of the land is zoned for industrial or commercial use rather than residential development, limiting the area where urban renewal funds could be used.
- Investing over $750,000 in TIF (or any public funds) directly into a new or renovated privately developed project triggers prevailing wage requirements. Prevailing wages are specific local rates set by the US Department of Labor by different types of construction projects funded by federal dollars, including fringe benefits. These can typically increase overall project costs by 10 to 20% for developers.
- Setting aside TIF revenue or using bonds for affordable housing projects means that that amount is no longer available to other projects in the district like infrastructure, parks, or commercial development.

Summary of Urban Renewal in Tualatin

Potential Uses of Urban Renewal Revenue

The Agency must use TIF funds within the boundaries of the plan district and they must align with eligible project types included in ORS Chapter 457.020(4)-457.020(7) that are included in the goals of the urban renewal plan. The types of uses allowed by state law include:[27]

- Housing Authority powers
- Rehabilitation and conservation work in district
- Acquisition of property
- Clearance or rehabilitation for acquired property
- Construction or improvement of streets, utilities, and site improvements
- Carrying out plans for voluntary repair and rehabilitation of buildings or other improvements
- Relocation of displaced persons and property
- Selling or leasing property
- Neighborhood development programs

There may be some possible exceptions for utilities located outside of the district that serve the urban renewal area. If there is a citywide program, TIF funds may be used as the funding source for it in the specific urban renewal area if projects align with plan goals. The City currently has three active urban renewal areas that could include these eligible uses if it explicitly writes them into the plan.

[27] Oregon Economic Development Association, "Best Practices for Tax Increment Financing Agencies in Oregon," November 2019, https://oeda.biz/committees/urban-renewal/, 48.

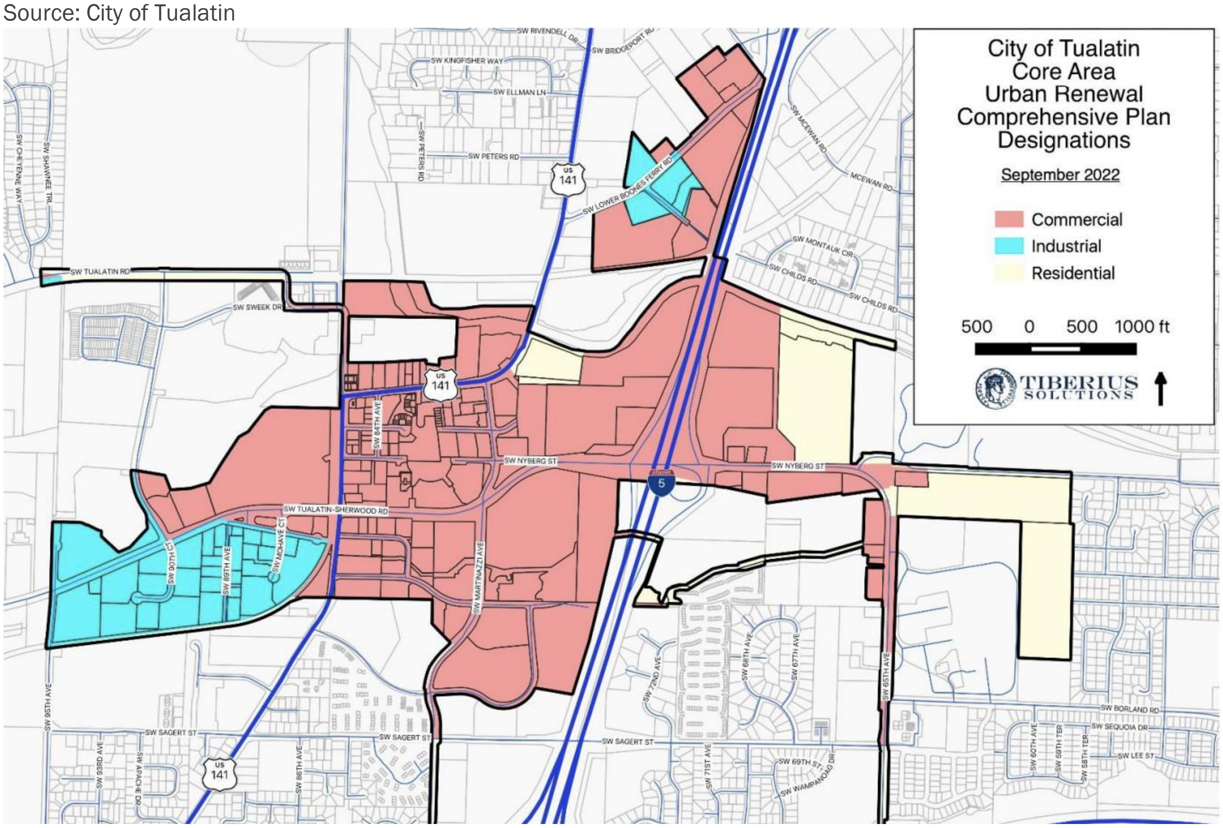
Core Opportunity Reinvestment Area Urban Renewal Plan

The City would only be able to use TIF revenue within renewal plan areas, though there may be flexibility for revenue generated within one district to be used in another urban renewal area.

The City's **Core Opportunity Reinvestment Area** adopted in November 2022 comprises commercial areas south of Bridgeport Road, Town Commons, I-5 Corridor, and Tualatin-Sherwood Road. It could be a potential site for investment in affordable housing through TIF, as the adopted plan's Goal 3: Mixed Use Development specifically aims to "Support development of housing affordable to people who have incomes between 30-120% of median family income in Washington County."[28] Like the City's other urban renewal areas, the Core Opportunity Reinvestment Area contains large amounts of industrial and commercially zoned land, but it does have portions for residential use where projects could be located.

Although majority of land exclusively zoned for residential use in the Core Opportunity Reinvestment Area is already developed, there could be potential for denser or mixed-use housing development in Downtown. Exhibit 26 shows the final boundaries for this plan area. It includes Downtown Tualatin as well commercial areas south of Bridgeport Village and residentially zoned areas on the outer parts of the district.

Exhibit 26. Core Opportunity Reinvestment Area Boundaries and Comprehensive Plan Designations
Source: City of Tualatin



[28] City of Tualatin, "Core Opportunity Reinvestment Area Plan," November 2022, https://www.tualatinoregon.gov/economicdevelopment/core-opportunity-and-reinvestment-area.

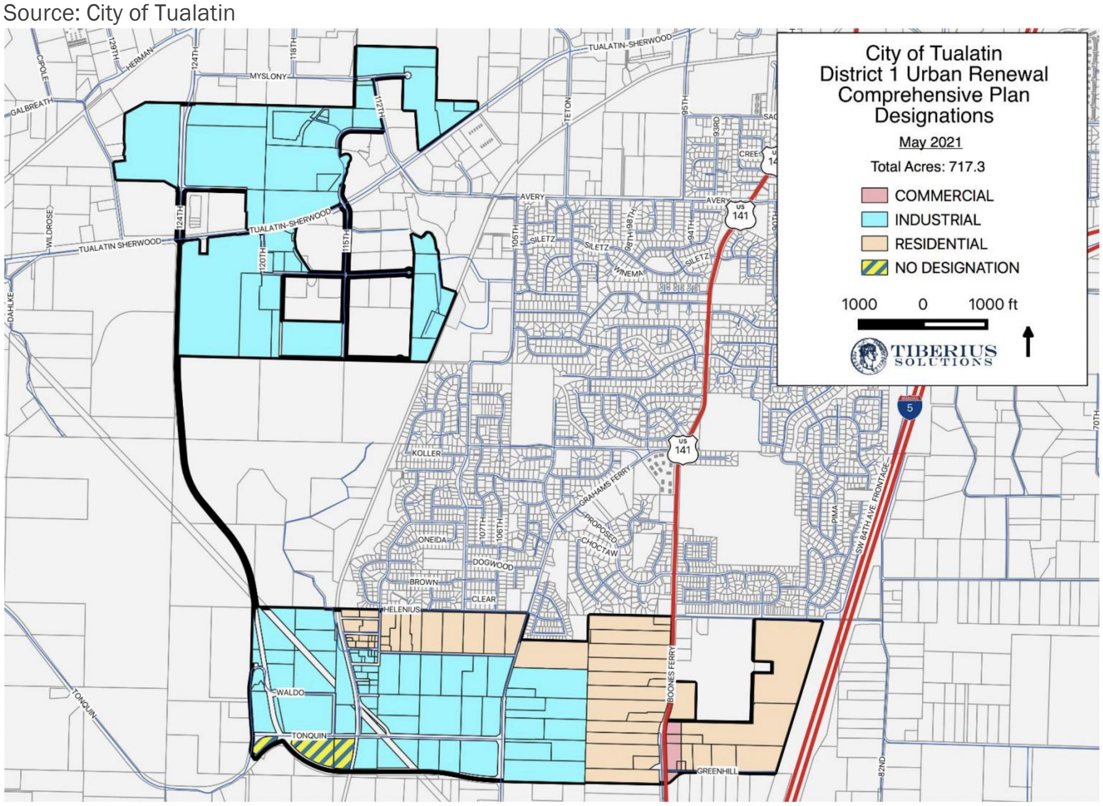
Other Urban Renewal Areas

Exhibit 27 shows the boundaries for the **Southwest and Basalt Creek Area** and its comprehensive plan designations. While a part of the area is residential, large portions are zoned for industrial or commercial uses which could limit the actual area where affordable housing investments could be made. The residential zones in the district are focused in the eastern part of the district, near I-5. Many of the lots that would be eligible for the use of urban renewal funds are already developed and not available for new construction.

Within the Southwest and Basalt Creek Plan Area, Community Partners for Affordable Housing (CPAH) owns a parcel. CPAH was a part of the Task Force Advisory Board for developing the plan, which included infrastructure provisions that benefit affordable housing and other housing development within the plan boundaries.[29]

Exhibit 27 Urban Renewal Plan Area Boundaries and Comprehensive Plan Designations in Southwest and Basalt Creek Plan Area

Source: City of Tualatin



The area of Tualatin's existing **Leveton Tax Increment Plan** is almost entirely designated for commercial and industrial use, with only a small corner designated for high density residential.[30] While the plan stresses compatibility with adjacent residential areas, it does not

[29] City of Tualatin, "Southwest and Basalt Creek Development Area Plan," August 2021, https://www.tualatinoregon.gov/economicdevelopment/southwest-and-basalt-creek-development-area.

[30] City of Tualatin, "Leveton Tax Increment Plan," April 2002, https://www.tualatinoregon.gov/economicdevelopment/leveton-tax-increment-district.

explicitly include initiatives or goals around housing. To use TIF funds in this area, the City would need to update their plan with objectives around housing but would be limited to a relatively small area for implementation.

Estimating Potential Revenue

There are two potential urban renewal areas where Tualatin could consider using tax increment financing (TIF) revenue to support affordable housing projects. These include the Southwest and Basalt Creek Development which was established in 2021 and the Core Opportunity Reinvestment Area established in 2022.

The Southwest and Basalt Creek Development potential total TIF revenue over 30 years is estimated to be between $28.4 million and $55.5 million,[31] depending on future growth in assessed value in the area. The plan for this area includes objectives for affordable housing, including a parcel owned by Community Partners for Affordable Housing (CPAH).

The Core Opportunity Reinvestment Area's potential total TIF revenue over 30 years is estimated between $118.1 –$171.4 M million based on three different growth scenarios detailed in a 2021 report and revisited for the 2022 adoption process.[32] Each urban renewal area has a maximum indebtedness that caps the total amount that projects can access which is typically lower than the district's potential revenue.

Exhibit 28. Summary of Urban Renewal Districts in Tualatin

	Leveton	Southwest and Basalt Creek	Core Opportunity Reinvestment Area
Year Established	1985 (last updated 2002)	2021	N/A
Potential TIF Revenue (30 years)	Undefined	$28.4 - $55.5M[33]	$118.1 –$171.4 M[34]
Maximum Indebtedness	$36.4M	$24.5 - $48.7M[35]	$140M[36]
Affordable Housing Considerations in URA Plan	Relocation of displaced residents[37]	"Assist in the provision of infrastructure to support the development of additional housing options in the Area"[38]	"Support development of housing affordable to people who have incomes between 30-120% of median family

[31] City of Tualatin, "Southwest and Basalt Creek Development Area," accessed October 12, 2022, https://www.tualatinoregon.gov/economicdevelopment/southwest-and-basalt-creek-development-area.

[32] City of Tualatin, "Proposed Area: District 2," accessed October 12, 2022, https://www.tualatinoregon.gov/economicdevelopment/proposed-area-district-2.

[33] Tiberius Solutions and Elaine Howard Consulting, "Tualatin Basalt Creek Urban Renewal Feasibility Study," August 31, 2020, https://www.tualatinoregon.gov/economicdevelopment/southwest-and-basalt-creek-development-area, 10-12.

[34] City of Tualatin, "Core Opportunity Reinvestment Area Plan," 3.

[35] City of Tualatin, "Southwest and Basalt Creek."

[36] City of Tualatin, "Core Opportunity Reinvestment Area Plan," 5.

[37] City of Tualatin, "Leveton Tax Increment Plan," 22.

[38] City of Tualatin, "Southwest and Basalt Creek," 9.

			income in Washington County."[39]
Possible Eligible Uses in District	Relocation of displaced people	Construction or improvement of streets, utilities, and site improvements	Many possible uses – Rehabilitation, acquisition, or construction projects could be used to meet desired outcomes

Examples of Other Urban Renewal Revenue Housing Programs

Other cities in Oregon have set aside tax increment funds for various local affordable housing initiatives in urban renewal areas. Some examples that could be relevant to Tualatin include set aside programs, financial and technical assistance, or gap financing for specific affordable housing projects. Infrastructure or utilities investments that reduce costs for required construction or dedication by affordable housing developers can also help to achieve goals for housing. Jurisdictions in Oregon that have implemented these kind of urban renewal projects include:

- **Portland.** The City began using a **45% set aside** of their tax increment dollars for new affordable housing for households at or below 100% of MFI in 2006. Although funds could still only be used within the boundaries of urban renewal areas, the policy set a minimum share of TIF revenue to be put towards affordable housing projects. In the first twelve years of implementation, the set aside policy generated more than $275 million in direct investment in housing affordable to low-income and workforce residents. In the years since, affordable housing investment has accounted for one-third of TIF expenditures across nine urban renewal areas in Portland.

  The set aside has provided capital resources for key projects like the Bud Clark Commons, Block 49 veterans housing in South Waterfront, and preservation of existing low-income apartment units. Funds have also been used for down payment assistance programs and home repairs throughout urban renewal areas.[40]

- **Tigard.** The City Center and Tigard Triangle Urban Renewal Plans included explicit goals to provide **financial and technical assistance** to targeted types of housing development. The City Center area has seen a 32% increase in multifamily housing since 2006, compared with a 25% increase in the rest of the city, while the Tigard Triangle has seen a 265% increase.[41] Although this progress is the result of multiple overlapping strategies, the urban renewal agency has contributed development assistance.

  In 2017, Tigard's Town Center Development Agency participated in a public-private partnership with Capstone Development to complete a 165-unit apartment building. Through the agreement, the developer team purchased the agency-owned property for

[39] City of Tualatin, "Core Reinvestment Opportunity Area."

[40] Portland Housing Bureau, "Importance of TIF Set-aside Policy," City of Portland, accessed August 2, 2022, https://www.portlandoregon.gov/phb/article/653603.

[41] Town Center Development Agency of the City of Tigard, "TIF District/Urban Renewal Financial Impact Report," January 31, 2022, https://www.tigard-or.gov/home/showpublisheddocument/2017/637792251216970000.

its appraised value of $1.7 million, and the City provided an SDC waiver for the same amount to the developer to offset some of the estimated $2.8 million in SDCs incurred by the project. Since the project qualifies for a partial 10-year property tax reduction under the state's Vertical Housing program, some of the estimated $7.8 million in property taxes that would be generated over 20 years will be forgone.[42]

- **Redmond.** The local urban renewal agency provided $150,000 in **gap financing** in 2017 to fund Housing Works' 48-unit affordable housing project for seniors located in its Downtown Urban Renewal District. The building includes community space and a full-service 10,000 SF medical clinic. The total project cost was $12 million and included financing from Wells Fargo's Community Lending & Investment team. It includes one residential condo and six project-based HUD Section 8 voucher units.[43]

Conclusions and Next Steps

- The City should evaluate areas designated for residential use within its urban renewal areas, as well as potential for mixed-use development in commercial areas of the Core Opportunity Reinvestment Area.
- The City should evaluate a potential seaside or other policy language as part of the implementation of its existing urban renewal plan.
- The City should implement the flexible language in the Core Opportunity Reinvestment Area plan that could support the use of TIF funding for affordable housing. By including affordable housing in the urban renewal plan, the City should identify whether it wants to set unit production and affordability targets over time or simply include affordable housing as an eligible project category.

[42] Downtown Revitalization Projects- Downtown Tigard. http://www.tigard-or.gov/community/project_history.php

[43] NOAH Project Profile: Cook Crossing. https://noah-housing.org/docs/project_profiles/Cook_Crossing.pdf

ECONorthwest
ECONOMICS · FINANCE · PLANNING

DATE: November 7, 2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Affordable Housing Trust Fund and Additional Funding Tools Analysis

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy. To understand the potential trade-offs of implementing these strategies in Tualatin, this memorandum describes strategic actions around an affordable housing tax exemption and how it works. In addition, it summarizes an analysis of the potential impacts of implementing these actions. The final section outlines potential next steps for the City of Tualatin to consider.

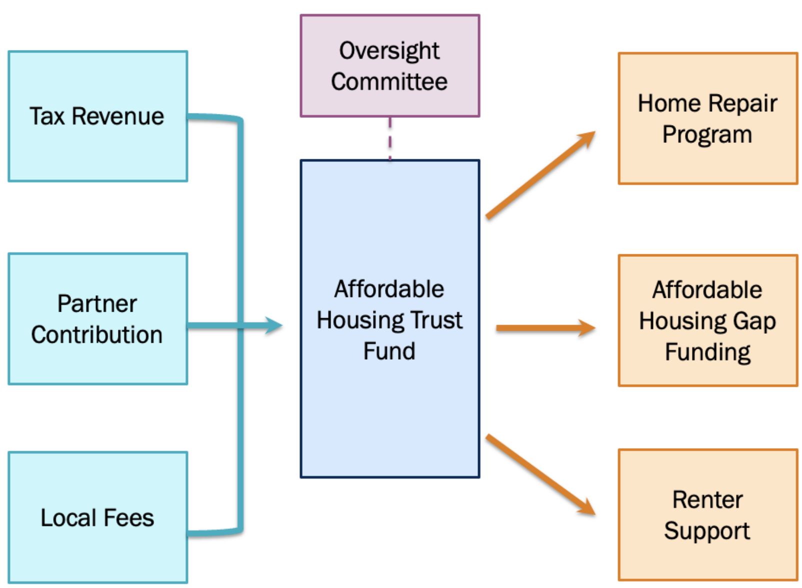
Additional Funding Tools

Overview

There are many potential strategies for creating new revenue sources or directing existing sources towards affordable housing, including new taxes or fees, local bonds and levies, partner contributions, and more. Some of the tools covered in other Housing Implementation Plan memorandums could contribute revenue to the city in order to financially support targeted types of housing. This analysis expands on those additional funding sources and how the city could use them in an Affordable Housing Trust Fund.

Affordable Housing Trust Fund: Trust Funds provide a single location to collect a variety of local contributions and other funds for affordable housing. They are typically managed by a combination of city staff and a steering committee who ensure the funds are distributed to fulfill priority housing goals.

Exhibit 29. Affordable Housing Trust Fund Structure
Source: ECONorthwest



An Affordable Housing Trust Fund is a mechanism that can centralize revenue sources into a collective account and distribute money for housing in the city. Although most of the sources analyzed can also be used independently, this structure could be useful for affirming that projects that receive public funding go towards meeting priority needs. Trust funds are typically steered by a committee who work alongside city staff to formulate the application criteria and administer the approval process. However, these funds only work if there are sufficient inputs in the form of tax revenue, fees collected, bonds, etc.

Fiscal Impacts/Who Pays

These tools can leverage a variety of local, existing revenue sources; they are typically spread out to different funds, levies, and bonds to accumulate a larger sum. The fiscal impacts depend on the source, but in general it means that the City is choosing to allocate money towards housing projects in lieu of spending it elsewhere. In some cases, sources may also stipulate that funds can only be used for certain types of projects which may restrict how the trust can distribute its money. These may prohibit their use in the fund altogether: for example, urban renewal funds cannot be use outside of the boundaries of a district and are primarily used for supporting new capital projects, limiting their use for citywide goals or programmatic elements.

Pros and Cons

Pros:

- An affordable housing trust fund would allow the City to make investments in the specific types of housing that are needed in Tualatin. The City could configure the criteria and eligibility standards to a specific affordability level or unit/tenure type.
- The fund can combine multiple funding sources and lower dependence on a single revenue stream to fund affordable housing. It could also reduce the strain on any one source.
- Some sources that have low potential now because of political viability or legal status in Oregon may become more feasible over time with changes to state legislation that enable more tools to be used for affordable housing. For example, vacancy taxes have not been legally tested in the state but could be in the future.

Cons:

- A trust fund requires administrative capacity from the City and will likely require support from a volunteer committee to oversee the application and approval processes.
- If goals and eligible project types are not clear from the outset of the trust, funding could go towards lower priority types of projects and/or cause public controversy.
- Other challenges might arise with requirements depending on the funding source within the trust fund, such as restrictions on the types of projects that can be funded by certain revenue sources, requirements for prevailing wages, or annual fluctuations in availability.

Summary of Additional Funding Tools Analysis

ECONorthwest evaluated a number of revenue sources that could contribute funding to an affordable housing trust fund.

Exhibit 30 summarizes these sources and provides rationale for their recommended inclusion or exclusion in the Housing Implementation Plan.

An affordable housing trust fund could also collect revenue from other tools that ECONorthwest evaluated for this plan, such as revenue from a Construction Excise Tax. This analysis includes those explored in other sections of the Housing Implementation Plan and integrates ideas from the previous Housing Production Strategy.

Exhibit 30. Summary of New Funding Sources Evaluated

Revenue Source	Potential to Implement	Description	Assessment
Most Common Local Sources			
Tualatin-specific Construction Excise Tax (CET)	High	A tax levied on new construction of commercial, industrial, and/or residential buildings	Likely a high source of flexible local revenue
General Fund Revenue	Low	Contribution from the city's general budget	Can contribute directly but competing with other city priorities
Tualatin-specific or regional General Obligation (GO) Bond	High	Increases property taxes to pay back the amount of bonds taken out by the city for capital projects In 2018, voters approved a regional GO Bond for housing for the Metro region. Funds from that bond are being use to create permanently affordable housing. Metro may consider issuing an additional GO Bond.	Requires a public vote but could provide long term stable source Tualatin could be the recipient of additional funding from a new Metro GO Bond.
Local Option Levy	Medium	A time-limited property tax issued as a rate used for capital projects, operations, or programs	Also requires a public vote but GO bond is probably better
Increases to Existing Taxes and Fees			
Lodging Tax	Medium	An increase to the city's current lodging tax levied on hotels, motels, and short-term rentals, paid by visitors	Uses of revenue are restricted by the state; majority (70%) for tourism
Marijuana Tax	Medium	A targeted change in the city's current marijuana tax levied on marijuana purchases, paid by consumers	Marijuana tax revenues may already be at their maximum for Oregon
Building and Planning Permit Fee Surcharge	Low to Medium	An additional charge added to the city's existing fee for staffing and operational costs	The City has relatively low fees now, but increasing them would not help to incent new housing development

Utility Fee Surcharge	Low to Medium	An additional fee on utility bills, similar to the city's current parks utility fee	Potential nexus with infrastructure to support affordable projects
System Development Charges (SDCs)	Low	An increase to the city's existing one-time fees charged on new buildings, paid by developers	Conflicts with strategy to exempt SDCs for certain affordable development
New Taxes and Fees			
Business License Fee	Low	An additional fee issued with new business licenses	Could hinder economic development goals
Food and Beverage Tax	Low	A tax added to food and beverage sales within the city, paid by consumers	Unlikely to be politically viable
Real Estate Transfer Tax	Low	A tax levied on real estate transactions, paid by property owners	Not proven legal in Oregon
Sales Tax	Low	A tax on retail goods purchased within the city, paid by consumers	Unlikely to be politically viable
Payroll/Business Income Tax	Low	A tax for local business revenue, paid by business owners	Likely to face pushback from business community
Vacancy/Second Home Tax	Low	A tax levied on homes that are unoccupied for a certain period of time, paid by property owners	Likely not legal in Oregon or enough vacation homes
Other Funding Sources			
Donations and Gifts	Medium	Funds given by private foundations, firms, or individuals	Could have a mid-sized to low impact and likely to fluctuate
Grants	Medium	Funding from public agencies or companies for a specific purpose that the city applies for	Dependent on grant writing capacity and changing availability
State Funding	Medium to High	Oregon Housing and Community Services provides a number of funding opportunities for which Tualatin would be eligible including grants and CET	Mostly available as one-time contributions but can be spread out over years

The City's Highest Potential Revenue Sources Are Construction Excise Tax (CET) Revenue and Property Taxes.

CET is a Promising New Option, with Multiple Configurations Available.

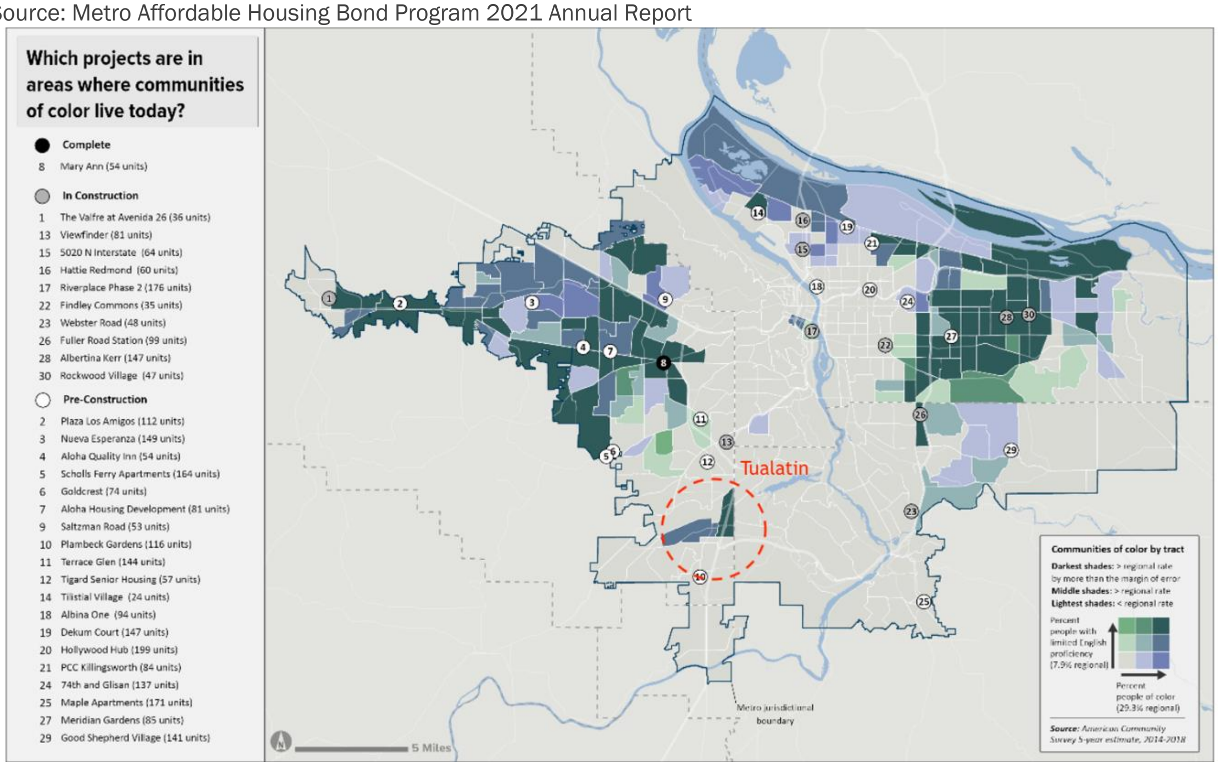
Construction Excise Taxes (CET) is increasingly popular for funding affordable housing in Oregon, as SB 1533 passed in 2017 permits cities to adopt a tax on the value of new construction projects explicitly for the purpose of raising funds for affordable housing projects. The tax is limited to 1% of the permit value on residential construction with no cap on the rate applied to commercial and industrial construction. For residential, 50% of revenue must go to developer incentives like backfilling SDC abatements or forgone MUPTE revenue, 15% goes to OHCS programs, the city can use the remaining 35% flexibly (including adding to a trust). For commercial and industrial CET, 50% of revenue has to be used for housing related programs and could also flow into the trust, while the other half is unrestricted and could also go to other city programs.

A Local Option Levy or General Obligation Bond Would Require a Public Vote.

A new local option levy (ORS 280.040-280.145) or general obligation bond (ORS Chapter 456) would be a powerful tool but require an extensive public process and vote in order to pass. Depending on which route the city pursued, it would either take out a bond to be repaid by a property tax increase or increase the property tax rate for a fixed period of time to add towards housing. Both require a local public vote to implement.

The existing Metro GO Bond which Tualatin residents already pay property taxes towards covers Washington, Multnomah, and Clackamas County and is estimated to generate $652.8 million for housing and homes for approximately 12,000 people.[44] Although Tualatin currently does not have an allocation for projects within the city, the intent of the bond is to be distributed regionally to provide more affordable units across all three counties with considerations for racial equity and existing access to regulated affordable housing.[45]

Exhibit 31. Metro Housing GO Bond Projects in Areas Where Communities of Color Live Today
Source: Metro Affordable Housing Bond Program 2021 Annual Report



The city's tracts with relatively high share of people with limited English proficiency and people of color compared to the region (shown in Exhibit 31) and lack of current funding provided from the bond revenue could make Tualatin a strong candidate to receive funding within this regional equity framework. Like other cities (including Portland[46]), Tualatin could

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[44] Metro, "Affordable Housing Bond Program," February 8, 2018, https://www.oregonmetro.gov/public-projects/affordable-housing-bond-program#:~:text=In%202018%2C%20Metro%20partnered%20with.

[45] Metro, "Metro Affordable Housing Bond Program 2021 Annual Report," June 30, 2021, https://www.oregonmetro.gov/public-projects/affordable-homes-greater-portland/oversight.

[46] Portland Housing Bureau, "Metro Housing Bond," 2022, https://www.portland.gov/phb/metro-housing-bond.

seek to partner with the Metro Housing Bond, set goals for adding affordable units, and solicit proposals for new affordable development.

General Fund Revenue is Powerful but Competitive with Other Resources.

The City could decide to reallocate a portion of its general fund revenue as it chooses, which could potentially provide a large contribution towards housing projects and programs. However, using the city budget would likely mean reallocating funds from where they are currently going and competing with other city priorities.

Increasing and Allocating Existing Taxes and Fees Has Limitations.

Increasing or reallocating revenue from existing taxes and fees may be more politically viable than introducing new ones in Tualatin. However, for existing funds and fees, the city typically already has earmarked where they are going to be spent and would need to evaluate if they want to divert resources from other projects or increase the tax and allocate the additional revenue to housing.

Existing taxes and fees considered include the city's lodging tax, marijuana tax, building and planning permitting fees, and system development charges (SDCs). In the case of lodging and marijuana taxes, it may be possible to eventually increase the current rate but the effectiveness of both is dependent on state legislative decisions.

Increases to SDC rates are not conducive to increasing housing feasibility and may cause challenges for attracting development. These rates are also typically set by service districts for infrastructure rather than by the City for funding other initiatives. Adding a surcharge that is linked to the cost of staff capacity for working on affordability initiatives may have a stronger nexus with the affordable housing trust fund and create less of a challenge for feasibility. Similarly, a surcharge to the City's utility bills like the existing park utility bill could be applied towards supporting infrastructure for new affordable projects.

New Taxes and Fees May Be Difficult to Implement.

There are many theoretical options for adding new taxes or fees within the city, but most of them face challenges of political feasibility, legal issues, or hindering other goals. Taxes or fees could apply to a range of different parties, broadly including consumers, property owners, and business owners in the city. See this document's Appendix for detail on taxes and fees.

Taxes and Fees Paid by Consumers Could Lack Political Viability.

New taxes and fees paid by consumers often face challenges of political viability. Both of those considered could have pushback from the business community and residents because they could be seen as disincentives to spending within the city.

Taxes and Fees Paid by Property Owners Could Face Legal Challenges.

Local option levy and general obligation bonds would already add to existing property taxes, but there are other taxes that would apply primarily to property owners. Both options included here are likely to face legal challenges in Oregon and are not tested in the state.

Taxes and Fees Paid by Business Owners Could Hinder Other Economic Goals.

Taxes levied on businesses are another option that the city could enact, but this could also discourage new small firms from establishing in Tualatin. Available options for these taxes and fees can also often be transferred on to consumers when businesses add on the cost for paying the tax to the price of their goods and services.

Most Grants and Partner Contributions Have Short Term Impact.

One-Time Grants and Partner Contributions Have Been Used in Other Funds.

Grants and partner contributions can have an impact but are likely not ongoing sources that could be used for continued programs or an AHTF. Cities like Newberg have relied on them as a part of their trust fund,[47] but they don't always produce enough contributions to be effective for long term programs. The city could explore funding campaigns for donors and grant writing efforts, but this is typically more effective for specific projects than open-ended funding.

State Funding Could Add More Opportunities for Specific Goals.

Oregon Housing and Community Services (OHCS) offers a range of grant programs and tax credits that can be used for affordable housing development. Individual projects could utilize programs like the Oregon Affordable Housing Tax Credit (OAHTC), while the city could utilize the General Housing Account Program (GHAP) Capacity Building program to build out the affordable housing trust. The state's share of locally collected construction excise tax can also be used for down payment assistance programs.[48] The state Housing Development Grant Program ('Trust Fund') could be used by projects in Tualatin to match local funds.[49]

[47] City of Newberg, "Affordable Housing Commission Home, Newberg Oregon," www.newbergoregon.gov, accessed October 31, 2022, https://www.newbergoregon.gov/ahtfc.

[48] Oregon Housing and Community Services, "Down Payment Assistance," accessed November 4, 2022, https://www.oregon.gov/ohcs/homeownership/pages/downpayment.aspx.

[49] Oregon Housing and Community Services, "Grants & Tax Credits," www.oregon.gov, accessed November 4, 2022, https://www.oregon.gov/ohcs/development/Pages/grants-tax-credit-programs.aspx.

Affordable Housing Trust Fund Case Study: Eugene

Affordable Housing Trust Funds are fairly common for cities in Oregon. Eugene, Portland, Ashland, Newberg, and Bend are all examples of jurisdictions who have established such funds, but their impact typically varies based on how much funding they are able to provide. Some may also be subject to vary over time based on their revenue sources.

Eugene has been successful in creating an Affordable Housing Trust Fund (AHTF) in 2019 when the City Council passed Ordinance 20609. The fund receives revenue from the city's Construction Excise Tax (CET) and the Council General Fund. CET revenue collects 0.5% on construction and additions in Eugene which makes it subject to fluctuation, but in FY22 it produced $1.1 million that went towards the city's AHTF projects.[50]

An advisory committee oversees Eugene's AHTF and makes recommendations to staff about how funds should be used. Eligible types of expenditures include gap financing and acquisition for affordable development (which accounts for 75% of funds) and direct assistance for renters and home down payments (25%).[51]

Exhibit 32. 'Peace Village' Project Funded by Eugene's AHTF
Source: Cultivate Architects

In the past three years, the fund has spent $1.3 million and supported the creation of over 200 new units, including 122 rental units, 70 owner-occupied tiny homes, and 10 transitional units. AHTF money was also used for rental assistance and foreclosure prevention in response to the COVID-19 pandemic. More recently the City has begun to use the fund for down payment assistance, a tenant hotline, and rental housing navigation sources.

[50] City of Eugene, "Affordable Housing Trust Fund," www.eugene-or.gov, 2022, https://www.eugene-or.gov/4232/Affordable-Housing-Trust-Fund.

[51] City of Eugene, "Affordable Housing Trust Fund Advisory Committee | Eugene, or Website," www.eugene-or.gov, accessed October 31, 2022, https://www.eugene-or.gov/4256/Affordable-Housing-Trust-Fund-Advisory-C.

Additional Considerations

- **Increasing Lodging Tax** could be possible as Tualatin currently charges 2.5% locally and other jurisdictions in Oregon have used a portion of their lodging tax towards an affordable housing fund, including Portland.[52] However, only 30% of the tax may be used for purposes other than tourism and workforce housing for employees in the tourism industry does not apply as tourism related expenditure.
- **Increasing the Marijuana Tax Rate** for housing is an increasingly popular strategy in Oregon (including Ashland where revenue is put towards their housing trust)[53] but may not be possible in Tualatin as the city is already levying the maximum tax for local jurisdictions at 3% of sales prices. However, if new legislation raises the maximum local tax rate to 10% the city could consider this increase.[54]
- **Increasing the Building and Planning Permit Fee** would add a cost for developers and may have the effect of discouraging development in general. This could include projects that may have used other incentives like MUPTE or SDC waivers in a market where not many new buildings are currently being delivered. These fees are also typically sized to project valuation and staffing operational costs/capacity so it could be difficult to justify. This has been used in other cities, including Bend,[55] but may be best used in cities with strong demand in current housing markets.
- **Higher System Development Charges** to fund housing projects would be possible, particularly for city-controlled taxes, but conflicts with this project's recommendation to exempt fees for affordable development as it would increases the amount the city would need backfill for any projects utilizing the program.
- **Food and Beverage Taxes** have been passed in other local jurisdiction in Oregon, though not explicitly for affordable housing.[56] To pass the tax requires voter approval, which has been contentious in other cities – most recently Cannon Beach where it did pass.
- **A Local Sales Tax** is also unlikely to be politically viable as it would require a voting process and is not widely implemented in Oregon. The state does not charge a sales tax,

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[52] Michael Anderson, "Portland Dedicates Short Term Rental Lodging Tax to Housing Investment Fund |," Community Change, 2016, https://housingtrustfundproject.org/portland-dedicates-lodging-tax-to-housing-fund/.

[53] City of Ashland Planning Division, "Housing Trust Fund," www.ashland.or.us, accessed October 21, 2022, https://www.ashland.or.us/Page.asp?NavID=10828.

[54] Joelle Jones, "Cashing in on Cannabis: How Oregon, Washington Are Using Weed Tax Revenue" (KOIN 6, April 6, 2022), https://www.koin.com/local/cashing-in-on-cannabis-how-oregon-washington-are-using-weed-tax-revenue/#:~:text=Oregon%20Cannabis%20Tax&text=State%20School%20Fund%3A%2040%25.

[55] City of Bend, "Affordable Housing," www.bendoregon.gov, accessed October 21, 2022, http://bendoregon.gov/index.aspx?page=99.

[56] Kathleen Stinson, "Prepared Food Tax Is Not New Oregon, Other Communities Have Passed Similar Measures," Cannon Beach Gazette, July 21, 2021, https://www.cannonbeachgazette.com/news/prepared-food-tax-is-not-new-oregon-other-communities-have-passed-similar-measures/article_0a3533f0-eeed-11eb-bf68-3f0b06264caf.html.

though Josephine County has recently proposed a seasonal sales tax of 3% to use for law enforcement.[57]

- **Real Estate Transfer Taxes** are prohibited in Oregon by ORS 306.815, with the exception of Washington County where there was already a tax in place when the legislation was enacted.[58] Unless there is significant chance to Oregon law this tax is not an option beyond what Washington County already collects in Tualatin.
- **Vacancy Taxes** (sometimes called 'second home' taxes) have been adopted or explored in some large cities with high development pressure, including Oakland, San Francisco, Vancouver, and Los Angeles.[59] However, vacancy taxes have not been legally tested in Oregon. The strength of the housing market in a city also helps to determine whether it will have sufficient impact.
- **A Business Income Tax** would add a local charge on net business income, often for firms that make over a certain amount annually. Metro already charges a 1% business tax in Clackamas, Multnomah, and Washington Counties that goes towards housing services,[60] so an added local tax may be unlikely to gain traction.
- **A Business License Fee** would add a local fee for registering a new business within Tualatin but would likely conflict with other economic development goals in the city. Unless there is a clear line with workforce housing it may also be difficult to establish a nexus with affordable housing.

[57] Jane Vaughan, "Josephine County Sends Seasonal Sales Tax Proposal to Voters," OPB, August 11, 2022, https://www.opb.org/article/2022/08/11/josephine-county-sends-seasonal-sales-tax-proposal-to-voters/.

[58] Lincoln Land Institute, "Transfer Tax - Washington County," LILP, 2018, https://www.lincolninst.edu/real-estate-transfer-charge/transfer-tax-washington-county-oregon-2018.

[59] Camille Squires, "San Francisco Is the Latest City to Consider Tackling Its Housing Crisis by Taxing Empty Homes," Quartz, February 11, 2022, https://qz.com/2125251/cities-are-taxing-vacant-homes-to-create-more-housing.

[60] Metro, "Metro Supportive Housing Services Tax: Frequently Asked Questions: Business Income Tax," November 2021, https://www.oregonmetro.gov/sites/default/files/2021/11/17/FAQ-SHS-Tax-business-Nov-2021.pdf.

ECONorthwest
ECONOMICS · FINANCE · PLANNING

DATE: 07/15/2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Summary of Nonprofit Corporation Low Income Housing Exemption

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy. To understand the potential trade-offs of implementing these strategies in Tualatin, this memorandum describes strategic actions around an affordable housing tax exemption and how it works. In addition, it summarizes an analysis of the potential impacts of implementing these actions. The final section outlines potential next steps for the City of Tualatin to consider.

Nonprofit Corporation Low-Income Rental Housing Tax Exemption

Overview

The **Nonprofit Corporation Low-Income Rental Housing Exemption**[61] provides a full property tax exemption for new and existing affordable housing owned and operated by a 501(c)(3) or (4) nonprofit organization, and land held by a nonprofit for future affordable housing development.

Tax Exemptions: Incentivizes affordable housing development by waiving some property taxes for qualifying projects. Depending on the local program, nonprofits or all housing developers may be eligible.

The Nonprofit Corporation Low-Income Rental Housing Exemption can apply for as long as the property using it meets eligibility criteria. These include requirements that tenants must initially qualify at 60% of Median Family Income (MFI) or below, which is about $55,000 for a family of four people in Tualatin based on 2020 MFI.[62] Once qualified, existing tenant incomes may rise to as much as 80% of MFI ($74,000 for a family of four) over time. Annual renewal is required to ensure compliance with these requirements.[63]

The City has options to consider in implementing the tax exemption. First and foremost are which taxing districts will participate in the tax exemption. Only the City's property taxes would be exempted unless there is sufficient support from overlapping taxing districts. If the City and other taxing districts that comprise at least 51% of the local tax roll participated in the program, qualifying developments could have 100% of their property taxes waived. With this majority, all taxing districts would be obligated to participate. Without the support of at least 51% of overlapping districts, only city taxes would be affected by the exemption. The city could

[61] This tax exemption is authorized in ORS 307.540 to 307.548.

[62] The information about Median Family Income below (and throughout the report) use the 2020 MFI for Washington County ($92,000). This is based on information in the Tualatin Housing Production Strategy.

[63] This requirement is stated in ORS 307.545.

also determine the length of these programs and whether to apply a cap on how long organizations may participate.

In addition, the City must select a definition of affordability (if different from the one stated above of having income at or below 60% of MFI) and set local requirements for receiving this tax exemption, if any. The exemption can be granted for as long as the property meets eligibility criteria, but the property owner must reapply on an annual basis to demonstrate on-going eligibility. For land held for future affordable housing development, the City sets a limit on how long the exemption can apply, with the option for property owners to apply for an extension after that time.

This exemption is granted to development of rental housing with state and federal funding that requires verification of tenant incomes to ensure the tenants meet the income requirements. As a result, little or no additional monitoring or enforcement is likely needed for this program, since eligibility is limited to nonprofit affordable housing providers and the annual application process provides evidence of eligibility. In addition, if part of an eligible property is used for purposes other than low-income housing (e.g., a commercial use or mixed-income housing), the exemption is pro-rated.

Some examples of cities that have adopted this tax exemption include: Newport, Beaverton, Portland, Tigard, Forest Grove, Cornelius, and Wilsonville.

Fiscal Impacts/Who Pays

If the Nonprofit Low-Income Rental Housing Exemption is implemented, the City would forgo property tax income for qualifying new development for the duration of the exemption. This reduces some revenue for city services and potentially revenue for participating taxing districts such as school districts. However, if no development was to happen, then no taxes would be generated. The level of impact on tax revenue is contingent on affordable projects occurring in Tualatin and developers using the program.

Pros and Cons

Pros:

- The abatement can be used for most nonprofit affordable rental housing development.
- Can apply to both existing and new housing.
- Reduces carrying costs before development occurs (tax exemption available for land being held for development of affordable units), and offsets operational costs once the development is complete, reducing feasibility gaps.
- Allows a city to adopt additional criteria, such as a cap on the number of eligible properties or on the amount of lost tax revenue.
- City services and other taxing districts would not forgo any revenue unless projects were built that served tenants under 60% MFI and developers used the program.

- The structure of this subsidy is simple and straightforward to affordable housing developers. Because it is by-right, it also eliminated some of the administrative costs of programs that are more discretionary.

Cons:

- The city must get affirmative support from enough overlapping taxing districts to apply to their tax collections.
- The tax exemption reduces general fund revenues for all affected taxing districts. This could potentially cause funding gaps that need to be backfilled for some taxing districts
- This tax exemption only applies to housing that is affordable for households with income below 60% of MFI. So, it does not support development of mixed-income housing or affordable housing built by for-profit developers.
- The requirement for the property owner to resubmit eligibility documentation every year may be burdensome, though a streamlined application process can mitigate this.
- Compared to state or federal affordable housing programs, the burden is on local tax payers. Unfortunately, due to construction costs and lack of significant affordable housing funds, layering local, state and federal funds is often necessary.
- Some review of income eligibility by residents is required to maintain these programs. In other jurisdictions in Oregon programs are typically administered by a city's housing bureau or planning and development staff. This will also require some capacity for reporting from participating developers.

Summary of Tax Exemption Analysis

Estimating Forgone Revenue

Methodology Overview

To estimate forgone tax revenue from implementing the Nonprofit Corporation Low-Income Rental Housing Exemption, ECONorthwest identified recent examples of affordable multifamily developments that could have potentially qualified for this program (Exhibit 34).

Given the shortage of new affordable multifamily development in Tualatin in the last ten years, two of the three examples used are comparable projects built nearby in Tigard. Tigard shares some of the same taxing districts as Tualatin, including schools and aquatic centers as well as Washington County, Port of Portland, and Metro Regional Government rates. The third example used was an older affordable housing complex in Tualatin originally built in 1972 but recently renovated in 2021.

Exhibit 33. Comparable Affordable Multifamily Buildings
Source: CoStar

	Red Rock Creek Commons	The Fields	River Loft Apartments
Developer	Community Partners for Affordable Housing (CPAH)	DBG Properties	Next Wave Investors
Jurisdiction	Tigard	Tigard	Tualatin
Year Built	2021	2021	1972 (Renov. 2021)
Lot Size	0.88 acres	24.12 acres	3.8 acres
Units	48	264	74
Average Sq. Ft. per Unit	591 sq ft.	759 sq ft.	930 sq ft.
Assessed Value*	$2,974,590	$17,576,080	$4,274,350

*For those examples recently built in Tigard, the assessed value was not directly available through the Washington County Assessment and Taxation portal because they were already using the city's Nonprofit Corporation Low Income Housing Exemption. To approximate this value, we used their real market value (RMV) included in publicly available assessor files and Washington County's 2021-2022 changed property ration (CPR) for apartment buildings (0.356).

Using these assessed values, we calculated the hypothetical tax dollars that would have been exempted by unit if these projects had been built in Tualatin with the tax schedule in Exhibit 34. Then, we projected how these onto a hypothetical building to demonstrate the forgone tax revenue for a 100-unit building, with considerations for the impact on different taxing districts.

Property Tax Rates

There are a number of taxing districts which have coverage in the City of Tualatin. The City could either model their exemption with their own taxes or all overlapping districts. Exhibit 34 shows the rate each of these districts alongside the rate that they charge on assessed property value and their share of the total tax roll.

The largest share of property taxes in Tualatin goes to public school systems. Although multiple school districts overlap the city including Tigard-Tualatin, West Linn-Wilsonville, Sherwood, and Lake Oswego, this model uses the district with the most coverage (Tigard-Tualatin).

Tualatin also spans two counties in Oregon. Although a portion of the city is in Clackamas County, the majority of the city falls on the Washington County side. This model assumes Washington County's tax rates, though they may generally be lower in Clackamas.

Exhibit 34. Property Tax Rates for All Districts in Tualatin, OR
Source: Washington County Assessment and Taxation

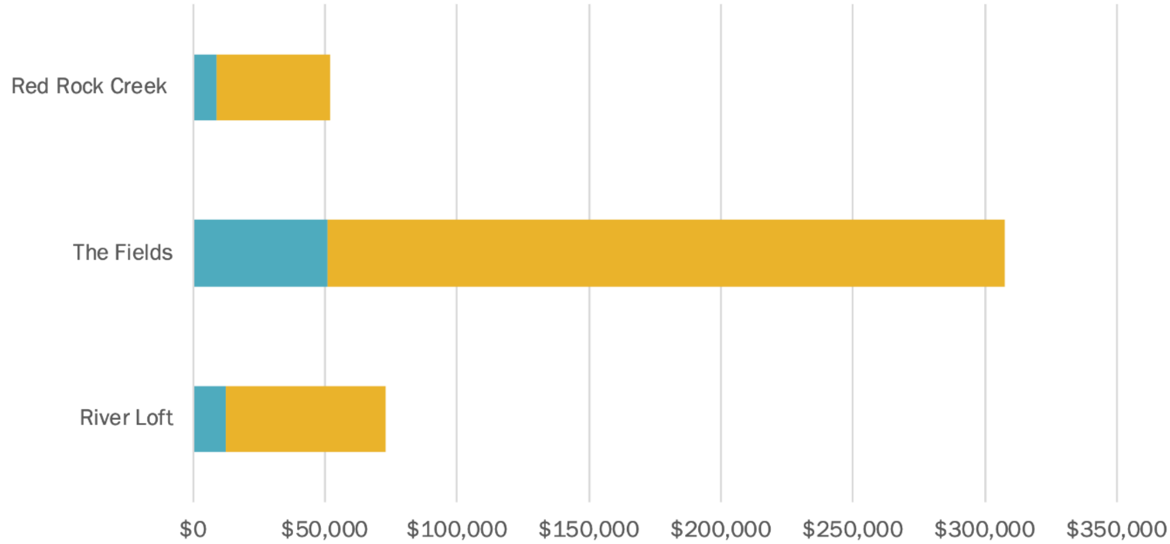
Taxing District	Tax Rate per $1,000 of value	Share
Tigard-Tualatin School District	0.78%	44.7%
Washington County	0.30%	17.3%
City of Tualatin	**0.29%**	**16.5%**
Tualatin Valley Fire and Rescue	0.21%	12.2%
Portland Community College	0.07%	3.8%
Metro Regional Government	0.06%	3.3%
Northwest Regional Education Service District	0.02%	0.9%
Port of Portland	0.01%	0.4%
Tigard-Tualatin Aquatic District	0.01%	0.5%
SWC Tualatin	0.01%	0.5%
Total (All Districts)	**1.74%**	**100%**

Results

If the City alone were to implement a Nonprofit Low-Income Rental Housing Tax Exemption program, it would alleviate 16.5% of property taxes for participating projects. If all taxing districts were to participate, this total exemption would be higher and alleviate 100% of annual tax burden for years that the building was included in the program.

Using comparable multifamily building examples, we first estimated the total forgone revenue that would have been associated with those projects (Exhibit 35). There is a wide range in these values based on the number of units, unit mix, location, and other features.

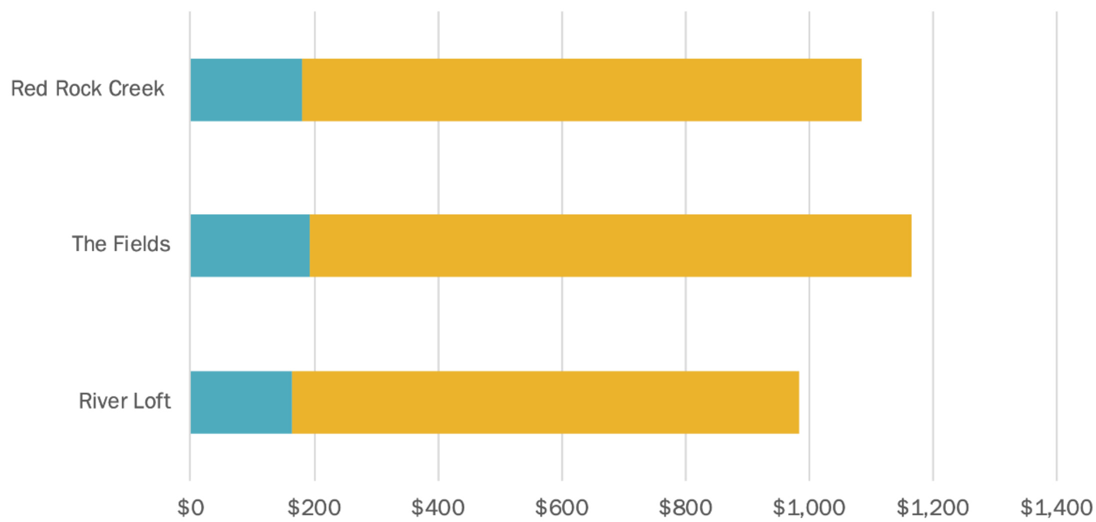
Exhibit 35. Total Potential Annual Forgone Tax Revenue in Comparable Multifamily Buildings
Source: Washington County Assessment and Taxation, ECONorthwest Analysis



	River Loft	The Fields	Red Rock Creek
City Total	$12,055	$50,971	$8,626
Other Districts Total	$60,689	$256,611	$43,429

City Total   Other Districts Total

Exhibit 36. Potential Forgone Tax Revenue Per Unit in Comparable Multifamily Buildings
Source: Washington County Assessment and Taxation, ECONorthwest Analysis



	River Loft	The Fields	Red Rock Creek
City Revenue Per Unit	$163	$193	$180
Other Districts Per Unit	$820	$972	$905

City Revenue Per Unit   Other Districts Per Unit

Based on these total figures and building specifications, the potential forgone annual revenue for the City would range from $163-193 per affordable unit (Exhibit 36). Different unit sizes and types may also account for the variability in this range. The average across all example buildings would be **$179 of forgone annual revenue to the City per unit**. If applied to all taxing districts this impact higher, ranging from **$983-1,165 per unit with an average of $1,078.**

For Tualatin only, using the average amount per unit (approximately $179), we estimate that multiplied across a new development, **for every 100 affordable units built using the exemption, the City would forgo $17,856 in potential tax revenue per year of the program.**

It is possible that the City may reach an agreement with taxing districts that make up at least 51% of the total levy. In this case all taxing districts would be obligated to participate, resulting in a 100% tax exemption program. If this total exemption were applied at the average of approximately $1,078 per unit, **it would total $107,753 in annual savings for a 100-unit affordable building.** Of this amount, public school districts would account for the largest share at 45% (or $48,204 annually) of the forgone revenue for those units.

Example Tax Exemption Programs

Other jurisdictions have applied the Nonprofit Low-Income Rental Housing Tax Exemptions to their areas. The examples below provide implementation considerations for how Tualatin could structure a similar exemption program.

Portland: Non-Profit Low Income Housing Limited Tax Exemption (NPLTE)

- Portland offers three limited tax exemption programs, including one specifically for nonprofit organizations. To qualify for this program, properties must be located within the City of Portland and rents must be affordable to households earning 60% MFI or less.
- NPLTE is available to participating organizations who are certified by the Internal Revenue Service as 501(c)(3) or (4). They must own, have a leasehold interest in the property, or participate in a partnership where they are responsible for day-to-day property management.
- The Portland Housing Bureau (PHB) administers this program on behalf of the City of Portland by reviewing and approving applications. There is an annual renewal process and fee for participants. In PHB's most recent reporting (2017-18), 11,365 units in the city were using the program for rent-restricted housing units in multifamily buildings. No units in the program were for single-family homes, though it is not specifically prohibited.

Conclusions and Next Steps

- The City should consider this subsidy mechanism as part of the larger mix of funding sources to support development of income-restricted affordable housing. Given the substantial funding gaps that exist with affordable housing projects, this is a powerful and relatively simple tool to put into play.
- A tax abatement does not layer with all potential forms of subsidy. For example, Urban Renewal uses tax increment financing that typically accesses the same property taxes which would be forgone by the program. A tax exemption would work well with other approaches that add revenue to the City's budget (for instance, a Construction Excise Tax).
- The total impact of the tax exemption for supporting affordable housing development will depend on whether other taxing districts are willing to join the abatement or if it will just apply to city taxes. The Tigard-Tualatin School District participates in a nonprofit tax exemption in Tigard, indicating that they may be willing to consider a similar program in Tualatin. Washington County (who accounts for 17.3% of the tax roll) also offers an exemption for unincorporated areas outside of cities.

DATE: October 4, 2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Summary of Multiple Unit Property Tax Exemption Analysis

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy. To understand the potential trade-offs of implementing these strategies in Tualatin, this memorandum describes what each strategic action is and how it works. In addition, it summarizes an analysis of the potential impacts of implementing each action. The final section outlines potential next steps for the City of Tualatin to consider.

Multiple Unit Property Tax Exemption (MUPTE)

Overview

The Multiple Unit Property Tax Exemption (MUPTE, sometimes referred to as MULTE) provides a 10-year partial property tax exemption on new or rehabilitated multifamily rental housing (or middle housing rentals like duplexes, triplexes, etc.) that meets criteria set by the City.[64] It can be used for market-rate multifamily housing with particular features, or for mixed-income or fully regulated affordable housing. If used for housing with affordability restrictions, the exemption can last longer than 10 years and continue as long as the restrictions remain in place. This program is flexible, with City discretion over many aspects of eligibility, including the level of affordability requirements, the minimum number of units in the property, and any design requirements.

Multiple Unit Property Tax Exemption: Can be used to incent multifamily housing with particular features or at particular price points by offering qualifying developments a partial property tax exemption for 10 years (or longer, for housing subject to affordability agreements).

Regardless of the local eligibility criteria, the exemption applies to 100% of the residential portion of the property's improvement value but does not apply to the land value. In other words, all of a residential project's improvement value can be exempt even if only 10% of the units are affordable if the city's criteria require a minimum of 10% affordability. Further, if there are nonresidential portions of the building (like ground floor commercial), it won't apply over that portion of the development.

Like the Nonprofit Corporation Low-Income Tax Exemption (described in ECONorthwest's previous memorandum), this program applies only to the City's taxes unless the boards of other taxing districts representing at least 51% of the combined levy agree to the exemption, in which case all districts are included. The same taxing districts detailed in ECONorthwest's Summary of Nonprofit Corporation Low Income Housing Exemption memorandum apply for this program.

[64] This tax exemption is authorized in ORS.307.600 to 307.637

A number of cities in Oregon have implemented tax abatement programs under these statutes, though the program names vary between jurisdictions. This memorandum includes several examples to illustrate different program structures with similar goals to Tualatin for housing. Some cities use the same program to incentivize housing in specific areas with specific design features rather than affordability.

This memorandum focuses on the use of MUPTE to incentivize mixed-income development through inclusion of affordable units in market rate buildings to provide workforce housing. MUPTE can also preserve unregulated affordable housing by encouraging owners to rehabilitate properties without raising rents or displacing tenants, but the analysis for this memorandum focuses primarily on its function for providing new units.

Fiscal Impacts/Who Pays

If this tool is implemented, MUPTE reduces general fund revenues for either the City alone or for all overlapping taxing districts (if at least 51% of the levy agrees to participate). The loss of tax revenue may or may not outweigh the value of affordable rents offered by new development using the program. If it does not, market rate developers would not opt into a voluntary program. However, there is no upfront cost to the City for introducing the program. In this case, revenue would only be forgone if eligible projects used the program to provide or preserve affordable units.

Pros and Cons

Pros:

- MUPTE is a tool that can be used for mixed-income development that supports Tualatin’s workforce between 60-80% of MFI.
- Although Tualatin has not seen much new multifamily development in the past decade, this tool could be used to incentivize developers to the area.
- The City can exempt its own taxes without any other taxing districts approval, and potentially extend the benefit to all taxing districts if school districts sign on. However, this will not likely be a strong enough incentive with only the City participating.

Cons:

- Depending on the City’s requirements for the duration of affordability, building owners will most likely use the program as long as they apply and then raise rents to the market rate when they expire. Although this helps achieves affordability goals short term, it may have negative long-term implications for tenants.
- City could be the only entity monitoring compliance with income and rent restrictions on an otherwise market-rate property.

Summary of MUPTE Analysis for Tualatin

Estimating Forgone Tax Revenue

Methodology Overview

To estimate the value of the MUPTE incentive for developers, ECONorthwest analyzed its benefit relative to the cost of rent discounts, using an assumption that rents would be set to be affordable to households earning 80% of MFI. We used example multifamily developments that were recently built in Tualatin and Tigard, which were selected as the most comparable new market-rate buildings in the past five years (2017-2022).

The example we used for testing the incentive is a multifamily development. While MUPTE could be applied to middle housing (e.g. triplexes), most smaller-scale middle housing development is unlikely to allow for efficient administration of income qualification within a mixed-income project.[65] The example property is a 180-unit development, 3-story development with a clubhouse, pool, and fitness center. To reach 20% of units affordable at 80% of MFI, this example would have to provide 36 income-restricted units.

Example 1 was used to test these results on the most recent multifamily development within Tualatin. Estimated market rents and the difference with 80% MFI rents are listed in Exhibit 37.

Exhibit 37. Estimated Market Rents by Example Property and Market Area and 80% MFI Rent
Source: ECONorthwest, based on data from CoStar, HUD, and Washington County

Unit Type	Residential Market Rate Rent*	80% MFI Max Rent**	Rent Discount to 80% MFI	Share of Discount to Market Rent
Studio	$1,780	$1,477	$303	17%
1BR	$1,926	$1,578	$348	18%
2BR	$2,596	$1,833	$763	29%
3BR	$2,763	$2,174	$589	21%

* Market rents are based on current asking rents for comparable properties, adjusted for an assumed 6% increase to next year.
*Affordable rents are based on 2022 Washington County maximum rents by income level and unit size for Low Income Housing Tax Credit projects,[66] adjusted for a water, sewer, and garbage allowance and an assumed 3% increase to next year.

Results

Exhibit 38 illustrates the value of the abatement (the combined navy and turquoise positive bars) compared to the foregone revenue from below-market rents (shown as an orange negative bar), and the net benefit to the developer (shown as a yellow dot and line).

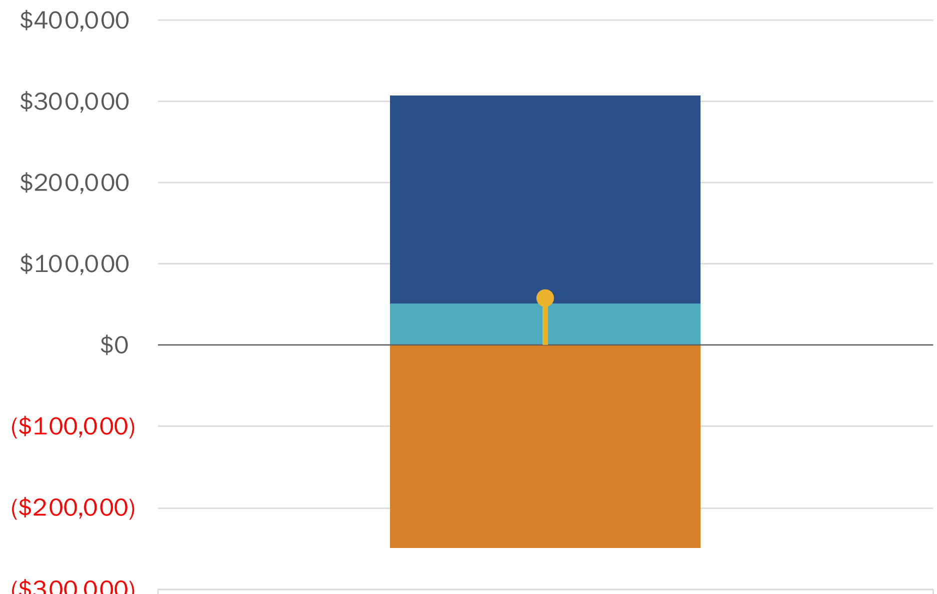
[65] The improvement value for each example property was available from Washington County assessor data; although part of Tualatin is in Clackamas County, all the properties examined here fall in the Washington County side.

[66] https://www.oregon.gov/ohcs/compliance-monitoring/Documents/rents-incomes/2022/LIHTC/Washington.pdf

This analysis indicates that in Year 1, the value of the abatement from all taxing districts would likely exceed the rent loss from the affordable units if all taxing districts participated, exempting a total of roughly $307,000 in the first year. The total rent discount is estimated at roughly $249,000 in year one, offering a net benefit to the developer of roughly $58,000 in increased net operating income (NOI).

If the City were to allow MUPTE participants to allocate any units in the building to meet 80% MFI affordability criteria, it would increase the incentive and potentially encourage more developers to participate in the program. The unit mix of the example development is not the most advantageous for maximizing the benefits of MUPTE. Of the 180 units in the building, 102 are 2-bedroom apartments, which equates with the largest rent discount to 80% MFI at a loss of $763 per unit (a higher share of market rent than larger 3-bedroom units). Even though the incentive is applied evenly across all unit types in the building, there is a higher share that fall into this higher discount difference.

Exhibit 38. Tax Abatement Value vs. Foregone Rent (Year 1) for Example Development



	Example 1
Other districts' portion of abatement	$255,327
City portion of abatement	$51,822
Difference in Net Operating Income from units at 80% AMI (Year 1)	($248,886)
Net benefit to developer of tax abatement with affordability (Year 1)	$58,262

If these same rates were applied to a new 100-unit building (assuming a similar unit mix and even distribution of the incentive across types of units), the total value of the abatement would be $170,638 for one year, or $1,706 per unit. The City's portion of this would be $28,790 total, or $287 per unit.

Revenue impacts may change over time. Over time, property taxes (and the value of the abatement) will most likely grow at 3% per year.[67] Based on this projection, the total value of taxes abated over 10 years would be approximately $3.07 million if all taxing districts were included. Rent may grow at a similar rate but rent growth will vary from year to year and is less predictable. In the near future, it is likely to grow at more than 3% per year given recent trends, though this may slow over time. In addition, the allowed rent for the income-restricted units will change over time as the MFI determined by the US Department of Housing and Urban Development changes.

As a result, the net value of the abatement may change over the life of the program. If the net benefit is negative to start, there is a likely chance that the value of the abatement may not exceed the foregone revenue in the future. A longer affordability period means greater unknowns about how the foregone rent will change over time.

Other Considerations

Coordination with Other Taxing Districts: The City represents only about 17% of the overall tax rate, meaning that if that were the only portion included in the abatement it would generally not provide a sufficient incentive. The Tigard-Tualatin School District's support along with the City would be enough to apply the tax abatement to all taxing districts as their share totals about 45% of the tax rate.[68] The school district previously supported the Nonprofit Low Income Rental Housing tax exemption program in Tigard, but the City would need to seek their support for this or other additional tax abatement programs.

Administrative Effort: For market rate developers, participating in an income-restricted program may add significantly more administrative effort to maintain compliance. Verifying tenant incomes, reporting, and monitoring can take additional capacity beyond what would typically be needed for a non-regulated building. If benefits from the abatement program increase the net operating income, this may offset the burden of administrative needs.

Program Design: The specific design of a MUPTE program may change developers' willingness to participate in a voluntary program. Flexibility with requirements may be effective in allowing developers to choose an optimal approach, while still providing clear enough guidelines that ensure public benefits.

If affordable units must be distributed across all unit sizes, developers cannot meet the requirement by simply providing smaller units where market rents would meet or nearly meet the affordability requirements. For example, studio or 1-bedroom units are both a lower overall discount for affordable units relative to market rate prices and a lower share of the market rate rent lost compared with 2-bedroom units. (ECONorthwest's analysis assumes that the affordable units are distributed across unit sizes consistent with the overall unit mix).

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[67] This is due to Oregon's property taxation system, which caps the increase in taxable value at 3% per year unless major improvements are made to the property.

[68] https://www.co.washington.or.us/AssessmentTaxation/upload/2020-Summary-Book.pdf

If the affordable units can be designated as specific units within the building, the developer can also economize on finishes (e.g., laminate countertops vs. granite) to mitigate the reduced rent from those units. What features are economized and their impact on livability in a unit also has potential equity implications for the program.

Example Multiple Unit Housing Tax Exemption Programs

A number of cities have implemented programs under the multiple unit housing statutes summarized above (ORS 307.600 to ORS 307.637), though the program names vary between jurisdictions, including:

- **Newport,** where the City refers to its program as the Multiple Unit Housing Property Tax Exemption (MUPTE).
  - **Applicability:** MUPTE applies to projects with 3 or more units (or renovation projects that add 2 or more units) within certain zones that are located within a quarter-mile of bus service. Projects must meet green building and affordability requirements. To meet the affordability requirements, projects may provide 20% of units at 80% of MFI or below, 10% of units at 60% of MFI or below, or make an in-lieu payment equal to 10% of the total property tax exemption.
  - **Administration**: The application process includes submitting a proforma for review by a third party to show a need for the exemption. Once approved, property owners must sign a Regulatory Agreement that is recorded against the title and submit annual documentation of tenant income and rents for the affordable units to the City's Community Development Department.
- **Portland,** which refers to its program as the Multiple-Unit Limited Tax Exemption (MULTE) Program.[69]
  - **Applicability:** MULTE is currently paired with Portland's Inclusionary Housing (IH) requirement. Projects must have a minimum of 20 units (the same threshold for the IH program). For projects within the Central City Plan District that meet a minimum floor area ratio (FAR), it applies to 100% of the residential portion of the improvement value, including residential parking. For other projects, the City limits the exemption to the affordable portion of the project. At least 5% of the affordable units must be adaptable for ADA accessibility, and the affordable units must be distributed evenly by bedroom size within the project. While the affordability restriction period is for 99 years, the City limits the exemption to 10 years.
  - **Administration:** Applicants must provide project information and basic financial information to calculate the value of the exemption, but do not need to provide a pro forma because the financial need is demonstrated by the City's calibration of their IH

[69] All program details from City of Portland, "Multiple-Unit Limited Tax Exemption (MULTE) Program Interim Administrative Rule," https://www.portland.gov/sites/default/files/policies/hou-3.02-multiple-unit-limited-tax-exemption-multe-program.pdf

program. During the compliance period, projects must provide tenant income and rental data annually.

    - **Program cap:** The City imposes a rolling cap on foregone revenue of no more than $15 million within a 5-year period, except for projects located within an urban renewal area. Projects within an urban renewal area require approval from Prosper Portland and the City's Debt Manager.

- **Salem** calls their program the Multi-Unit Housing Tax Incentive Program (MUHTIP).[70]
    - **Applicability:** Can apply to projects with at least two dwelling units located in the downtown core. Projects must include at least one public benefit, though these are discretionary and include a range of options including recreation facilities or common meeting rooms, daycare facilities, ground-level commercial space, special architectural features, and "Units at sales prices or rental rates which are accessible to a broad income range of the general public."[71] Projects with 100 or more units must provide at least 15% of units affordable at 80% of MFI or below, or at least two public benefits.
    - **Administration**: Applicants must attend a pre-application conference and submit project information. Applications are reviewed by other city departments and the City Council.

Conclusions and Next Steps

- The program configuration of 20% of units at 80% MFI could provide a net benefit to developers if the tax abatement applies to all overlapping taxing districts. However, the city's rate alone is insufficient to provide an incentive.
- MUPTE may offer a greater incentive for development of smaller studio or 1-bedroom units because these units have a smaller gap between market rate and affordable rents. This could make it a potential tool to align with the City's goals around providing senior housing or generally meeting the needs of smaller 1-to-2 person households.
- If the City is unable to garner sufficient support from overlapping taxing districts, the City could explore pairing it with other incentives that reduce development costs (such as system development charge exemptions). However, in order to be layered with other incentives, those programs would also have to include mixed-income development projects in their eligibility criteria.
- If the City is the sole party providing funding or financial incentives in exchange for affordability, as is likely for a mixed-income development by a market-rate developer, the City would need to take on monitoring and enforcement or find a partner to take

[70] All program details from City of Salem, "Multi Unit Housing Tax Incentive Program," https://www.cityofsalem.net/pages/multi-unit-housing-tax-incentive-program.aspx

[71] Salem Revised Code: *SRC 2.815* (c).

this on. Property managers would also need to income-qualify applicants for the affordable units.

- The City could reach out to the Washington County Housing Authority to see if the County would be willing to provide administrative support for the program.

DATE: September 23, 2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Summary of System Development Charge Exemption Analysis

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy. To understand the potential trade-offs of implementing these strategies in Tualatin, this memorandum describes what each strategic action is and how it works. In addition, it summarizes an analysis of the potential impacts of implementing each action. The final section outlines potential next steps for the City of Tualatin to consider.

System Development Charge Exemptions

Overview

System Development Charges are one-time fees for new development and certain types of redevelopment that help pay for increased loads on infrastructure systems. These charges are a way for local governments to pay for public facilities like sewer, water, transportation, and parks. SDCs are designed to vary with the magnitude of development impacts, but this can be calculated in a variety of ways depending on the service with which they are associated; for example, water SDCs are often measured by the size of the meter needed, not by the number of dwelling units, square footage, or valuation of the building.

New Development Charges in Tualatin: SDCs are a part of the fees that new developments pay to service districts. Rates for SDCs in Tualatin are different based on these districts. The table below summarizes the rates for these charges are in Tualatin. (*indicates that a line shows a charge that is a different type of fee, not an SDC)

Service District	Rate
Metro Construction Excise Tax (CET) *	0.12% of valuation
Transit Development Tax (TDT)	$6,542 / unit
Parks and Recreation	$6,371 / unit
Schools CET (Tigard-Tualatin District) *	$1.45 / sq ft.
Sewer	$7,266 / unit
Water	Varies by meter size

While SDCs are primarily intended to be based on impact, some jurisdictions in Oregon offer exemptions or reductions in system development charges (SDCs) for specific types of development based on local policies. Some jurisdictions offer exemptions or reductions for regulated affordable rentals, deed-restricted affordable homeownership, and/or accessory dwelling units. This memo focuses on analysis for a potential SDC exemption for regulated affordable housing in Tualatin.

Lowering SDCs for affordable housing projects can help to make development more feasible by lowering upfront building costs. Typically, affordability requirements are put in place for a period of time, with the level of affordability and duration of requirements varying by jurisdiction. For rental units or affordable homeownership this can include annual reporting requirements or deed restrictions respectively to ensure compliance. Jurisdictions set their own standards for these requirements, like program caps that may set a limit on how much the city can forgo per year.

Generally, cities can only exempt the SDCs that they control, not those controlled by special districts or other service providers.

Some cities "backfill" the lost revenue by paying the lost amount from other specific funding sources allocated to fill the gap. In other cases, cities simply forego SDC revenue for exempt projects. Whether a city backfills revenue or not depends on local determinations.

Fiscal Impacts/Who Pays

The City of Tualatin has limited control over SDCs because most of these charges are collected on behalf of other service districts and providers. These entities determine their own rates and fee structure. However, the City does control Parks and Water SDCs.

ECONorthwest's analysis in the Tualatin Housing Production Strategy identified the Parks SDC as the most promising option for implementing an exemption (this charge recently went through a review and update process). The Water SDC is based on meter size, which makes it difficult to predict what new buildings will pay, especially for multifamily projects. An exemption for Parks would theoretically mean forgone revenue for the City's Parks and Recreation Department or the need to identify another funding source to backfill the funding gap. However, if projects are only feasible with the SDC exemption, this may be revenue that the City would not have collected regardless.

The City does not control TDT (Transportation Development Tax), which is a voter-approved charge imposed on new development and redevelopment within Washington County. This charge helps to pay for the impact development has on the transportation system.

Pros and Cons

Pros:

- Tualatin would be able to set its own qualifying standards for development to use the SDC exemption, allowing the city to target the kind of units it most needs in terms of apartments vs. single family homes, MFI level, and duration of affordability.
- SDC exemptions have been successful in other jurisdictions in Oregon, including Portland, Tigard, Eugene, and Bend. Some backfill forgone revenue using a variety of local funding options while others do not.
- The City has the flexibility to control whether it wants to implement a program cap that could avoid excessive forgone revenue in Tualatin, depending on the estimated gap created by projected participation in the program. Like the nonprofit tax exemption, revenue would not actually be forgone unless affordable housing projects are built which qualify for the desired criteria. If implemented, considerations for how projects are chosen should be clear and based on an application process.

Cons:

- Tualatin only has control over Parks and Water SDCs. TDT and sewer/stormwater SDCs are collected for other service providers, restricting the City's ability offer an exemption.
- It is difficult to estimate what the cost of Water SDCs will be for multifamily buildings, giving the City less certainty about the impact of an exemption program. Since the charge is based on a fixed water meter size, this incentive also does not scale easily with more units the way that Parks and other SDCs do. This would require careful consideration for lost revenue and how it could be backfilled when there is only a very rough approximation that is subject to variation.
- Most other jurisdictions in Oregon that have offered SDC exemptions have included more than one. It is possible that only exempting the Parks SDC would not provide a strong enough incentive to encourage development, though for regulated affordable housing it will still likely provide some assistance for existing plans.

Summary of the SDCs in Tualatin

Estimating Forgone Revenue

Methodology Overview

To estimate the potential impact of providing an SDC exemption for Tualatin, city staff provided data on the new development charges estimated for an affordable housing project currently undergoing land use review. The example site is planned as a 116-unit housing development split between two 4-story wood-framed residential buildings, with a freestanding community center located on the site that includes additional resident services and offices.

ECONorthwest used the rates for this example site and confirmed that they aligned with the most current rates through public facing information as of July 2022 from the City and Clean Water Services. Exhibit 39 shows the rate schedule and its total estimated costs that they created for the sample building. Some of these charges are calculated by unit, including Transit Development Tax, Parks, and Sewer. Other charges are calculated by specific measurements, including total valuation or building area.

Exhibit 39. Summary of New Development Charges for Sample Multifamily Development
Source: City of Tualatin
Note: There is a cap on the amount that the Metro or Schools CET can charge on new development. Metro's CET will not collect more than $12,000 per project, while the Tigard-Tualatin CET caps at $36,100 for nonresidential development only.

Charge Category	Rate	Cost	Per Unit Estimate
Metro Construction Excise Tax (CET)*	0.12% of valuation	TBD	N/A
Transit Development Tax (TDT)	$6,542 / unit	$758,872	$6,542
Parks (City)	**$6,371 / unit**	**$739,036**	**$6,371**
Schools CET (Tigard-Tualatin)*	1.45 / sq ft.	$175,035	$1,508
Sewer (CWS)	$7,266 / unit	$842,856	$7,266
Water (City)	**One (1) 4" water meter**	**$132,634**	**$1,143**
Total		**$2,574,077**	**$22,190**

System Development Charge Rates

In addition to this building's SDCs, we also used the rates listed in Exhibit 39 to generate estimates for three other recent examples of comparable affordable multifamily buildings. While we were able to gather information about each building's valuation, unit number, and square footage, we relied on the per unit estimate from our example building for the water SDC. School district rates may also vary throughout Tualatin. The example building used is located in the Sherwood School District, which as a rate of $1.39/sq ft. rather than $1.45. For this model we used $1.45/sq ft. because that is consistent with the other three of the four school districts covering the city. Some school districts also include caps on what they charge development. This includes Tigard-Tualatin which has a non-residential maximum of $35,000.

In our analysis the example building, which is not yet completed, there was not yet a permit valuation publicly listed from the Washington County Assessor. Since this was not available to generate the likely charge from Metro CET, it is lower than the developer is likely to pay, but we were able to include this in all other buildings analyzed.

There is a wide range in these values based on the number of units, unit mix, location, and other features. For example, although the total estimate for The Fields is much higher than the other buildings analyzed, this building contains more units. Exhibit 40
Exhibit 42 shows a rate per unit that is closer to that of other recent affordable housing developments.

Exhibit 40. Total Estimated New Development Charges in Comparable Buildings
Source: City of Tualatin, ECONorthwest Analysis

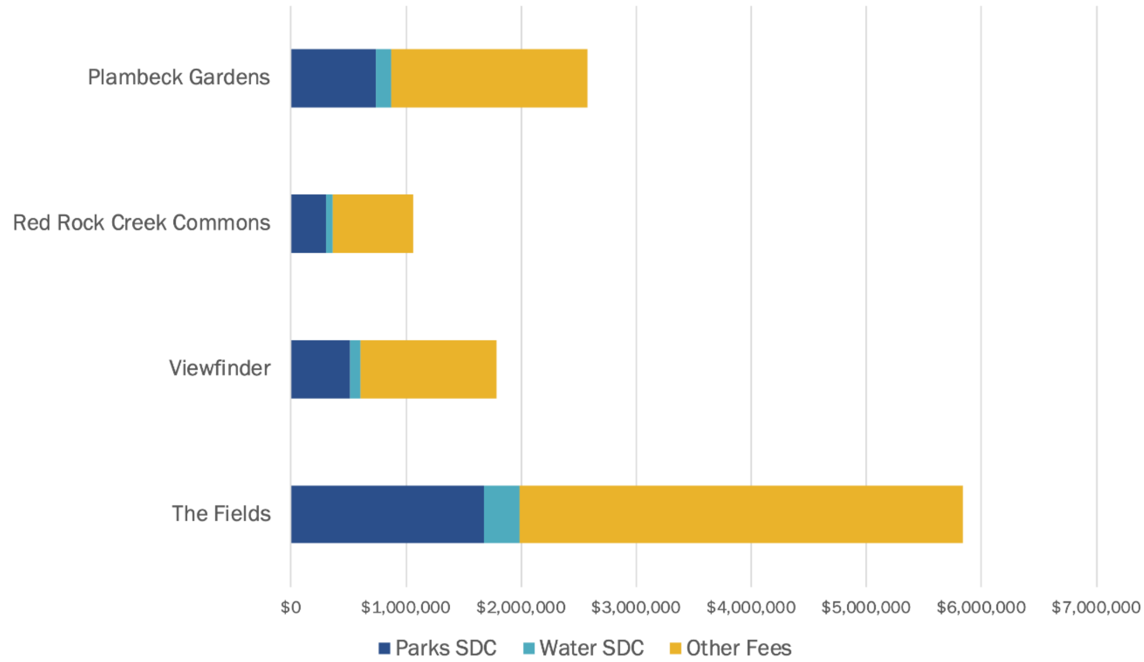
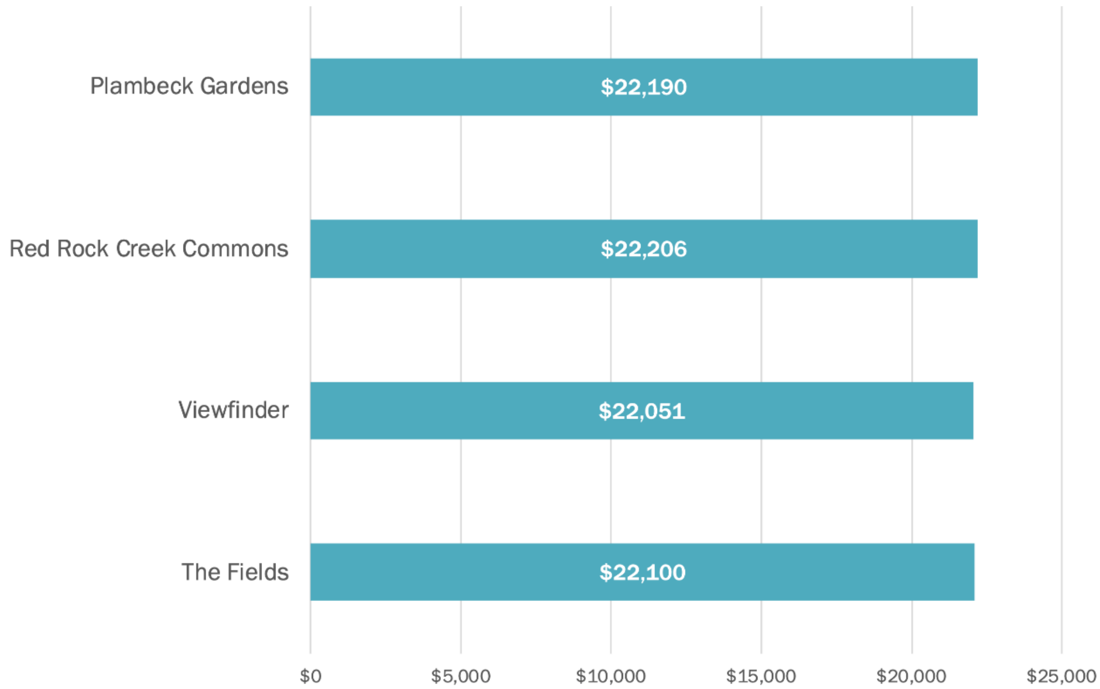


Exhibit 41. Detail of Total Estimated New Development Charges in Comparable Buildings
Source: City of Tualatin, ECONorthwest Analysis

	Plambeck Gardens (116 units)	Red Rock Creek (48 units)	ViewFinder (81 units)	The Fields (264 units)
Parks SDC	$739,036	$305,808	$516,051	$1,681,944
Water SDC	$132,634	$54,883	$92,615	$301,857
Other Fees	$1,702,407	$705,186	$1,177,498	$3,850,588
Total	$2,574,077	$1,065,877	$1,786,164	$5,834,389

Exhibit 42. Total Estimated System Development Charges Per Unit in Comparable Buildings
Source: City of Tualatin, ECONorthwest Analysis



Results

For these comparable multifamily buildings, the value of all SDCs ranged between $705,000 to $3.8 million (Exhibit 41). However, when controlled for the number of units in each building, the cost of SDCs had very little variation. This may be in part because four of the six SDC rates are calculated at a flat rate per unit, putting costs for all four buildings around $22,000 for each apartment. Of these total costs, the Parks SDC accounted for a greater share of the total SDC amount than the Water SDC in each building.

Since the Parks SDC is a flat rate per unit in multifamily buildings, it can be easily measured by the number of units. If the City had offered an exemption for Parks SDCs during this period for the example building, it would have foregone roughly $739,000 in revenue ($6,371 per unit). Applied to a hypothetical new multifamily development, this exemption would translate to $667,100 in forgone Parks revenue per 100 units in an affordable development. Water SDC rates are more difficult to measure consistently for hypothetical buildings, but based on an average for the example, this would roughly equate to $114,300 in forgone Water SDC revenue per 100 affordable units. The Parks and Water SDC exemptions combined would equal $7,514 per unit.

If an SDC exemption were to be used for developing affordable single-family residential units, the City applies a flat rate of $8,133 per unit for the Parks SDC which would be forgone. Although Water SDCs can be difficult for multifamily buildings, it may be easier to offer this incentive for single family affordable homeownership. Typical new homes require between a 5/8”-3/4” water meter, which costs a flat rate of either $5,306 or 7,958 in Tualatin as of the City’s 2022 rate schedule. If the City were able to offer both Parks and Water SDC exemptions for affordable homeownership projects, the forgone revenue would be between $13,439-16,091 per unit depending on water meter size. Regarding just Parks (the most likely charge to be exempted) forgone SDC revenue is 22% higher per unit for single family homeownership than it is per unit in a multifamily building.

Fiscal Requirements

Requirements to backfill exempted SDCs vary by jurisdiction in Oregon depending on local determinations. If Tualatin were to pursue this strategy, first steps would need to include setting up a conversation about legal requirements. Based on an initial assessment it is likely that the City would have to find a source to backfill forgone revenue for Parks and Water.

A number of cities have implemented SDC programs with different configurations of city and participant requirements:

- **Tigard** provides exemptions for the local Transportation and Park SDCs for regulated affordable housing that serves households earning 80% of MFI or less. The exemption can be used for rental or for sale housing, but affordability restrictions must last for at least 20 years. There is no program cap or backfill.
- **Eugene** offers an SDC exemption of all charges except the Metropolitan Wastewater Management Commission (MWMC) regional wastewater fees. This program is for rental and affordable homeownership affordable housing developments. For rentals, units must be affordable to households at 60% of MFI for at least five years. For homeownership, they must be affordable to households at 80% of MFI or less for at least five years. Eugene's exemption is backfilled using local funds, which is capped at $372,280, to be split evenly between rental and homeownership applicants.
- **Bend** offers a forgivable loan for City Transportation, Water, and Sewer SDCs. This is available for affordable rental and homeownership housing that is deed restricted. The program can be used for projects affordable to households at 80% of MFI or less for at least five years.[72] Bend backfills the program using local funds and the program initially had a cap and projects were selected on a competitive basis.
    - The program is structured as a forgivable loan at 6% interest per annum for 5-year installment loans or 7% for 10-years. If the property owner leaves the program or is out of compliance, the SDCs must be paid back with interest. Applications are reviewed by the Affordable Housing Advisory Committee on a rolling basis.[73]

[72] Bend City Code 12.10.120(C)(1-2)

[73] https://www.bendoregon.gov/government/departments/economic-development/affordable-housing-program/developer-resources

Conclusions and Next Steps

- The City should consider this exemption as a method to help close gaps for affordable multifamily housing development. Although it is possible to offer for affordable single-family homeownership, the benefits are multiplied when used for larger developments which have higher total upfront system development charges. To ensure compliance with either type of housing, the City could also include deed restriction agreements for developers or property owners.
- To implement this action, the City should begin a conversation with the Parks and Recreation Department and Public Works Department as well as consulting with an attorney to understand the impact to their revenues and any requirements for backfilling. In addition, the City should consider steps to identify backfilling sources either from the general fund, another local funding source, or other tools examined in this project that generate revenue for affordable housing development.
- In addition to an outright exemption, the City could consider a deferral program where developers or homeowners can pay SDCs later in the development process (for example at certificate of occupancy), but this would likely require a higher level of staff capacity.
- An SDC exemption would work more efficiently alongside some tools than others. Projects funded by Low Income Housing Tax Credits (LIHTC) will not receive as strong of a benefit from an exemption because of the reduction in eligible costs used to calculate equity for those projects.

ECONorthwest
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DATE: November 2, 2022
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Homeownership Assistance Analysis

The City of Tualatin is considering a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy. To understand the potential trade-offs of implementing these strategies in Tualatin, this memorandum describes strategic actions around an affordable housing tax exemption and how it works. In addition, it summarizes an analysis of the potential impacts of implementing these actions. The final section outlines potential next steps for the City of Tualatin to consider.

Homeownerships Assistance

Overview

This memorandum focuses on strategies that address housing stability for existing homeowners and current renters who wish to become homeowners. Keeping Tualatin an affordable place to live may require assisting existing residents with programs that help them stay in their homes. Alongside that, helping renters become homeowners can provide stability and the potential to build wealth.

Housing Rehabilitation: Older housing often needs improvements to continue to be safe and livable, which can be unexpected costs for some households.

Weatherization: Home improvements that make buildings more energy efficient to reduce utility costs and contribute to climate goals, as well as help to proactively extend the life of housing units for existing homeowners.

Down Payment Assistance: Some households may have the ability to pay for a mortgage but lack the savings necessary to pay for an upfront down payment on a house. Low-interest loans or grants can help households overcome this barrier to homeownership.

Rehabilitation and Weatherization Programs

Many available programs for rehabilitation and weatherization in Oregon target low- to moderate-income homeowners, typically for owner-occupied single-family dwellings or middle housing such as duplexes. Some of these tools can also be used for preserving existing affordable multifamily housing to benefit renters, but they typically do not apply to market rate buildings. Tenants typically do not have the same flexibility or incentive as homeowners to pursue rehabilitation or weatherization of their units, though some programs related to accessibility are available to individual renters. Here our analysis focuses on single households accessing programs directly rather than benefitting through a third-party owner making upgrades.

Rehabilitation programs typically serve low-income households, often those that have owned homes for a long time but need to make repairs to keep them up to the city code (including roof replacement, plumbing, and other critical needs). Many repair programs also cover accessibility upgrades such ramps, doorway modifications, or handrail installation for disabled residents.

For residents on a fixed income, large one-time repairs may not appear viable within their current budgets.

Weatherization assists households in proactively modifying their homes to reduce the cost of utility bills while increasing energy efficiency. Projects that these programs often cover include replacing windows, adding insulation, or upgrading heating and cooling systems.

Homebuyer Assistance Programs

Barriers to homeownership are often costs which are outside of regular monthly housing expenses (such as a mortgage and utility bills) that would figure into a household's budget. A down payment on a new home, physical upkeep work, weatherization, and accessibility additions can all become financial obstacles for residents who are otherwise able to afford housing costs but require a larger lump sum.

Typically homeownership programs are able to reach households at 80% of median family income, while rental programs are more efficient at targeting deeper levels of affordability.[74]

A variety of tools can be used to remove homeownership barriers for households by reducing upfront costs for purchasing a home (typically through loans or grants) or maintaining the quality of housing over time, allowing residents to remain compliant with local code.

The actions in this memorandum support stability for existing homeowners below the area's median income as well as support for more relatively low income households to become new homeowners. Potential tools associated with this strategy include low interest loans, publicly funded grants, and technical support for weatherization or healthy home projects.

Fiscal Impacts/Who Pays

Tools for homeownership assistance can come from a variety of local, state, and federal funds. They can be spread out to different grants, levies, bonds, and other sources, then streamlined into a single homeownership program. A local Affordable Housing Trust Fund could also be a mechanism that combines local contributions and supplies funding for such programs.

Some of the tools discussed in other memoranda for the Housing Implementation Plan that provide the city with revenue earmarked for affordable housing could also be used towards funding for rehabilitation programs and downpayent assistance (such as a new Construction Excise Tax). Urban renewal revenue typically cannot be used for downpayment assistance or is difficult to implement, but could potentially be used more readily for directly funding renovation work.

Exhibit 43 below provides a summary of four types of homeownership assistance programs with details about our findings from case study research. This includes who is served by each

[74] US Department of Housing and Urban Development, "The HOME Program: HOME Investment Partnerships," September 20, 2017, https://www.hud.gov/hudprograms/home-program.

type of assistance, the typical range of funding that is provided per household and potential funding sources that other programs in Oregon have accessed.

Exhibit 43. Summary of Homeownership Assistance Program Types
Source: ECONorthwest analysis

Program Type	Who is Typically Served	Typical Assistance Provided per Household*	Potential Funding Sources**
Down Payment Assistance	First time home buyers (current renters) below 80% MFI	$25,000-$110,000	US HUD (CDBG), OHCS (HOAP and CET), Community Frameworks
Home Repairs	Existing low-income homeowners at or below 80% MFI	$10,000-$50,000	US HUD (CDBG, HOME), OHCS funds (Repair Health and Safety Program), CET revenues
Weatherization	Existing low-income homeowners at or below 80% MFI	$10,000-$25,000	US HUD (CDBG, HOME), public purpose charges
Accessibility Improvements	Existing homeowners at or below 80% MFI, seniors, people with disabilities	$7,500-$10,000	US HUD (CDBG, HOME)

*These ranges are derived from case studies in this memorandum but not exhaustive of programs in Oregon
**If over $100,000 of state CDBG funds are used for administration costs they must be matched, but otherwise would not carry a matching requirement[75]

Pros and Cons

Pros:

- Providing accessible paths to homeownership through down payment assistance helps to stabilize existing renter households and provides them with the opportunity for long-term equity in their homes.
- Improving existing housing provides better environmental quality, is typically associated with lower carbon emissions, and ensures that older housing is consistent with the city code.
- Partnership between government entities and nonprofits has been successful for funding and administering homeownership assistance programs in Oregon, providing models that could be used by Tualatin. There are multiple programs already operating at the state and county level where the City could begin building new relationships.

[75] US Department of Housing and Urban Development, "State CDBG Program Eligibility Requirements," n.d., https://www.hudexchange.info/programs/cdbg-state/state-cdbg-program-eligibility-requirements/.

Cons:

- Staff capacity for administration or funds required to support nonprofit partnerships can be limiting factors for the scope of these homeownership assistance programs.
- Availability of grant funding and external sources may be unpredictable from year-to-year, making programs inconsistent over time.
- Down payment assistance still comes with requirements that are hard for some households to fulfill, such as personal savings for earnest money and closing costs.
- Federal funding sources may come with program requirements that make it difficult for some households to participate, such as debt-to-income ratio. They may also trigger prevailing wages in some cases, depending on the size and source of funding.

Summary of Homeownership Assistant Tools Analysis

For this analysis we used a case study approach to understand how comparable cities to Tualatin provide tools for homeownership through rehabilitation or down payment assistance. We explored examples from around Oregon to understand their respective approaches to homeownership assistance. Our team used these key questions to analyze the intent, structure, and impact of these programs:

- What programs are available for rehabilitation and/or down payment assistance?
- What is the City's role in this strategy?
- How are the programs structured and funded? How are recipients prioritized?
- Who is eligible to use the program? Is the program targeted to help specific groups of people (for example, seniors, households below 60% MFI, etc.)?
- What are the reporting requirements to ensure compliance with the program?

City-Nonprofit Partnerships for Down Payment Grants

Overview

Several jurisdictions in Washington County partner with the nonprofit organization Proud Ground to provide down payment assistance for residents. The cities of Beaverton, Hillsboro, and Tigard are all participants who use local Community Development Block Grant (CDBG) dollars to fund homeownership assistance alongside funding from Oregon Housing and Community Services (OHCS) and Community Frameworks.

Role of the City

The cities' role in these programs is as a partner rather than the ongoing administer for down payment grants. Specifically, cities in Washington County have allocated portions of their federal funding that are eligible for the program, but do not have to contribute ongoing staff capacity for monitoring, distribution, and outreach.

Program Details

The amount that local programs offer differs between each city; Beaverton[76] and Tigard[77] currently offer up to $110,000 for qualified buyers and Hillsboro[78] offers up to $90,000. Grant recipients for Proud Ground administered programs must be first-time home buyers that meet extensive qualifications for income and their plans to purchase a home.

Eligibility

For participating buyers' household income must match CDBG guidelines from 80% of median family income (MFI) in line with federal requirements - currently in Washington County this is $85,200 for a family of four. In order to verify income, program users must provide federal tax returns and W-2 forms. Eligibility is on a first-come, first-served basis when funds are available.

Buyers must also qualify for a minimum total mortgage of $350,000 with a lender from the organization's list. They must also have at least $3,000-5,000 in personal savings depending on the jurisdiction to cover earnest money, inspections, and closing costs. They must also have a credit score above 620, a debt-to-income ratio below 10%, and two years of steady employment history that is verifiable through paystubs, benefit statements, child support forms, or other formal documentation.

Takeaways

Partnerships can be an efficient way to deliver homeownership support without exceeding capacity of city staff to process applications and verify income information. There is likely an opportunity for Tualatin to pursue a similar program, including one with the same configuration as its peer cities in Washington County, though Proud Ground does not currently serve any cities in Clackamas County.

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[76] Proud Ground. "City of Beaverton Down-Payment Assistance." Accessed October 19, 2022. https://proudground.org/properties/affordable-pending/90000-beaverton-homebuying-opportunity-pool/227.

[77] Proud Ground. "City of Tigard Down-Payment Assistance." Accessed October 19, 2022. https://proudground.org/properties/affordable-pending/110000-tigard-down-payment-assistance-grant/250.

[78] Proud Ground. "City of Hillsboro Down-Payment Assistance." Accessed October 19, 2022. https://proudground.org/properties/affordable-available/90000-down-payment-assistance-grant/366.

State and Federal Funding for Home Repairs and Weatherization

Overview

The 2021 Infrastructure Investment and Jobs Act (IIJA) included $3.5 billion in funding for the federal Weatherization Assistance Program (WAP). This is a one-time source targeted towards long-term energy efficiency for low-income households.[79]

Oregon's HB 2842 (adopted in 2021) also directs the Oregon Health Authority (OHA) to provide grants to fund the Healthy Homes program. This program provides funding for homeowners and landlords for essential home repairs, accessibility improvements, and rehabilitation to address climate hazards.[80] $10 million is currently allocated to this program statewide.

Role of the City

The federal Weatherization Assistance Program and state Health Homes program accept applications from local governments to receive funding, which is used for home repair or weatherization projects for low-income households. In both cases, the City could apply for these grants and establish a program to distribute funds to households who meet eligibility criteria included in state and federal programs.

Program Details

WAP grants are awarded through the US Department of Energy to states, tribes, and territories to contract with local organizations including nonprofit organizations and local governments.[81] Oregon Housing and Community Services (OHCS) distributes WAP funds to local organizations and housing authorities in the state, as well as assistance with utility bills through the federal program Low-Income Home Energy Assistance Program (LIHEAP).[82] The program helps to fund services including insulation, air filtration, furnace repair, heating duct improvements, and energy conservation education.

Healthy Homes is primarily intended to support weatherization and can also be used for projects that maximize energy efficiency, extend the usable life of residences, or improve health

[79] Carlos Martín, "Harnessing the IIJA's Weatherization Assistance Program to Leave No Household in the Cold," Joint Center for Housing Studies (Harvard University, January 23, 2023), https://www.jchs.harvard.edu/blog/harnessing-iijas-weatherization-assistance-program-leave-no-household-cold.

[80] Oregon Health Authority, "Healthy Homes Grant Program," accessed February 3, 2023, https://www.oregon.gov/oha/ph/healthyenvironments/healthyneighborhoods/healthyhomesgrantprogram/pages/index.aspx.

[81] US Department of Energy, "Weatherization Assistance Program," accessed February 3, 2023, https://www.energy.gov/scep/wap/weatherization-assistance-program.

[82] Oregon Housing and Community Services, "Home Weatherization Services: Energy & Weatherization," accessed February 3, 2023, https://www.oregon.gov/ohcs/energy-weatherization/Pages/weatherization-services.aspx.

and safety. In addition to traditional weatherization, these may include removal of radon, lead, and mold, fire resistance, smoke filtration, and accessibility improvements.[83]

Eligibility

Both WAP and Healthy Homes are targeted towards low-income households. To access WAP, households must be at or below 200% of the federal poverty level, based on income level and household size. WAP gives priority to households with seniors, disabled residents, children under the age of 19, high energy use, and high energy burden.

Healthy Homes provides funding for entities that serve communities with a high concentration of low-income households or areas impacted by environmental justice factors. An Interagency Task Force is currently working to determine the final eligibility criteria for households receiving assistance from the program.[84]

Takeaways

The City of Tualatin could be eligible to apply for grant funding from both state and federal resources. The City would be responsible for administering a program and providing funds to individual households. Alternatively, the City could partner with a nonprofit organization in applying for funding and serving households in Tualatin.

County-Administered Low Interest Loans for Rehab, Weatherization, and Accessibility

Overview

In Oregon, counties and regional bodies sometimes provide homeownership resources that cities can leverage for their residents. Clackamas and Washington County are examples of larger scale government agencies that provide grant and loan programs for home rehabilitation, weatherization, and accessibility that are already applicable in Tualatin.

Role of the City

For regional low interest loan programs, cities are partners with other government bodies rather than directly delivering a program. City staff can direct local residents to appropriate resources and promote them for targeted groups, but do not track ongoing compliance or process applications. Some larger jurisdictions like Beaverton and Hillsboro within the county opt out in favor of their own nonprofit partnerships for home repairs and accessibility.

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[83] Catie Gould, "Oregon Experiments with Healthy Homes Repair Fund," Sightline Institute, November 12, 2021, https://www.sightline.org/2021/11/12/oregon-experiments-with-healthy-homes-repair-fund/.

[84] Ibid.

Program Details

Both Clackamas County and Washington County offer low interest loans for home rehabilitation, including additional outright grants for accessibility projects. Both counties prioritize funding for the most critical health and safety projects (such as dangerous electrical systems, roof leakage, and structural problems) ahead of nonemergency repairs or upgrades (such as weatherization).

Clackamas County structures their home repair loan program as a 3% simple low interest loan with deferred payments for owner-occupants. The eligible amount varies depending on project type: up to $15,000 is available for a single purpose health or safety items like water, septic or roof repair, $25,000 for exterior repairs, and $35,000 for complete repairs that meet Community Development Block Grant rehab standards. Outright grants are not given for home repairs but are available for accessibility improvements up to $7,500.[85]

Washington County has two programs depending on the income level of participants. The Home Access and Repair for Disabled and Elderly (HARDE) provides outright grants targeted at very low-income residents up to $10,000. The Deferred Interest-Bearing Loan (DIBL) is provided for moderately low-income residents up to $25,000 with a similar structure to Clackamas County, accruing 3% interest for up to ten years that does not need to be paid monthly. Up to 10% of DIBL funds may be used for 'nonessential' projects like Homeowners who qualify for DIBL assistance may use up to 10% of the loan amount for non-essential items like lighting fixtures or floor upgrades.[86]

Eligibility

Both Clackamas and Washington County homeowners are eligible for home repair loans at or below 80% MFI who have sufficient equity in the property. Taxes and mortgage payments must also be current in both jurisdictions, and applicants must have a sufficient debt-to-income ratio. Both programs used deferred low-interest loans where the owner does not have to make monthly payments; the loan is then repaid when the home is sold or transferred.

Washington County's HARDE program is available for residents below 50% MFI who are disabled or over the age of 62. Although it is primarily targeted at homeowners, renters may also apply for accessibility improvements. The DIBL is for homeowners between 50-80% MFI.

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[85] Clackamas County. "Home Repair Loans and Home Accessibility Grants." www.clackamas.us. Accessed October 19, 2022. https://www.clackamas.us/communitydevelopment/repair.html.

[86] Washington County Office of Community Development, "Housing Rehabilitation Program Policies," 2022, https://www.washingtoncountyor.gov/commdev/housing-rehabilitation.

Takeaways

Programs provided at a higher level like a county or regional body can cover a wide area and serve multiple jurisdictions with programs for home rehabilitation. These programs are often funded through CDBG and must be compliant with their regulations.

Washington and Clackamas Counties offer program which Tualatin residents could use, while jurisdictions like Beaverton and Hillsboro have operated their own independent options. Tualatin could work with the County to increase participation or set up their own separately to give them more latitude over allocation of their CDBG funding for other projects.

City-Administered Assistance for Down Payments and Rehabilitation

Overview

Some cities in Oregon choose to administer their own programs for homeownership assistance rather than partnering with a nonprofit organization to work with individual households. Springfield and Corvallis are examples of local jurisdictions that offer this direct support, including home repair support and down payments (in Springfield).

Role of the City

With city administered programs, staff directly work with homebuyers and homeowners. Springfield and Corvallis are located in Lane and Benton Counties respectively, neither of which have an alternative county-level program. There are additional nonprofit organizations providing resources with coverage in both areas. Like cities who use a partnership model, both of these programs also utilize federal funding from the US Department of Housing and Urban Development, including the CDBG and HOME (for multifamily building rehab projects).

Program Details

Springfield offers up to $25,000 in interest-free loans for down payments, with repayment not required until the home is sold, refinanced, or transferred. It is not intended for full coverage, as homebuyers must contribute at least 50% of the required down payment. The city also provides funding for rehabilitation up to $10,000, targeted at urgent home repairs and those that will enhance health, safety, or accessibility. It does not cover weatherization improvements but refers residents towards a nonprofit operating in Lane County. All rehab work must be performed by licensed and bonded contractors hired and paid by the City.[87]

Corvallis only provides local rehab funding but covers weatherization and accessibility improvements. The loan is structured with two options: program participants between 50-80%

[87] City of Springfield, "Homeowner Programs," accessed October 21, 2022, https://springfield-or.gov/city/development-public-works/homeowner-programs/.

MFI accrue no interest with their monthly payments, and those below 50% as well as disabled homeowners and seniors can defer payments until the homeowner moves or sells the house.[88]

Eligibility

Springfield's income requirements are set slightly higher than other jurisdictions surveyed in this memo, with residents qualifying for the home repair program at 50% MFI in 2022. The City also limits the rehab program based on the value of the home, which must be under $334,000 according to the Lane County Assessor. For its down payment program, buyers must be prequalified, below 80% MFI, and first-time home buyers. Additionally, the property must be vacant or occupied by either the buyer or seller to avoid renter displacement.

Corvallis requires that residents are below 80% MFI for their weatherization, rehab, and accessibility loans, but offers additional help for those under 50% MFI. Requirements are also similar to county and nonprofit programs.

Takeaways

The amount offered in cities that administer their own program may be lower than in jurisdictions that partner with a nonprofit or county. Although it is a small sample size, this may be due to the costs of administration. Local programs also allow city staff flexibility in setting stronger MFI provisions and adding measures to avoid displacement.

Conclusions and Next Steps

- The City should consider the extent to which it wants to directly provide programs or establish on partnerships for administration based on current capacity.
- Federal funding from HUD's Community Development Block Grants or state funds from OHCS are typically what other places in Oregon use to fund homeownership assistance programs for down payments and rehabilitation work. If Tualatin has these available, it should leverage them and explore partnerships with established programs.
- Given its location in Washington and Clackamas Counties, there are resources that can be used already in Tualatin for home rehabilitation work. However, residents may need help navigating which programs apply for their needs and understanding the criteria. The City could increase guidance available for individuals to find existing resources rather than building new programs.
- The City could also help to put together resources for some of the other requirements that existing programs use, such as building sufficient credit for a down payment grants or identifying eligible contractors to perform rehab work within the parameters of available grants.

[88] City of Corvallis, "Housing Repair and Rehabilitation Loans," accessed October 21, 2022, https://www.corvallisoregon.gov/cd/page/housing-repair-and-rehabilitation-loans.