AGENDA

Tualatin Housing Implementation Plan: Strategic Equitable Housing Funding Plan Advisory Committee Meeting #2

10/12/2022

5:30 – 5:45 PM	**Review of Plan, Committee Goals and Previous Items** ▪ What has already been done ▪ What the purpose of the study is and how it helps move the process forward ▪ Brief review of CET and Nonprofit Exemption
5:45 – 6:15 PM	**Discussion of Multiple Unit Property Tax Exemption (MUPTE)** o Presentation o Discussion
6:15 – 6:45 PM	**Discussion of System Development Charges (SDC) Exemption** ▪ Presentation ▪ Discussion
6:45 – 7:15 PM	**Discussion of Urban Renewal Funds** ▪ Presentation ▪ Discussion
7:15-7:30 PM	**Next Steps**

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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

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).

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.[1] 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.

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 percent of the units are affordable if the city's criteria require a minimum of 10 percent 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

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

of Nonprofit Corporation Low Income Housing Exemption memorandum apply for this program.

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 area median income (AMI)
- 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 Area Median Income (AMI). 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.2 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 AMI, 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% AMI rents are listed in Exhibit 1.

Exhibit 1. Estimated Market Rents by Example Property and Market Area and 80% AMI Rent
Source: ECONorthwest, based on data from CoStar, HUD, and Washington County

Unit Type	Residential Market Rate Rent*	80% AMI Max Rent**	Rent Discount to 80% AMI	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,[3] adjusted for a water, sewer, and garbage allowance and an assumed 3% increase to next year.

Results

Exhibit 2 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).

These 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 participate,

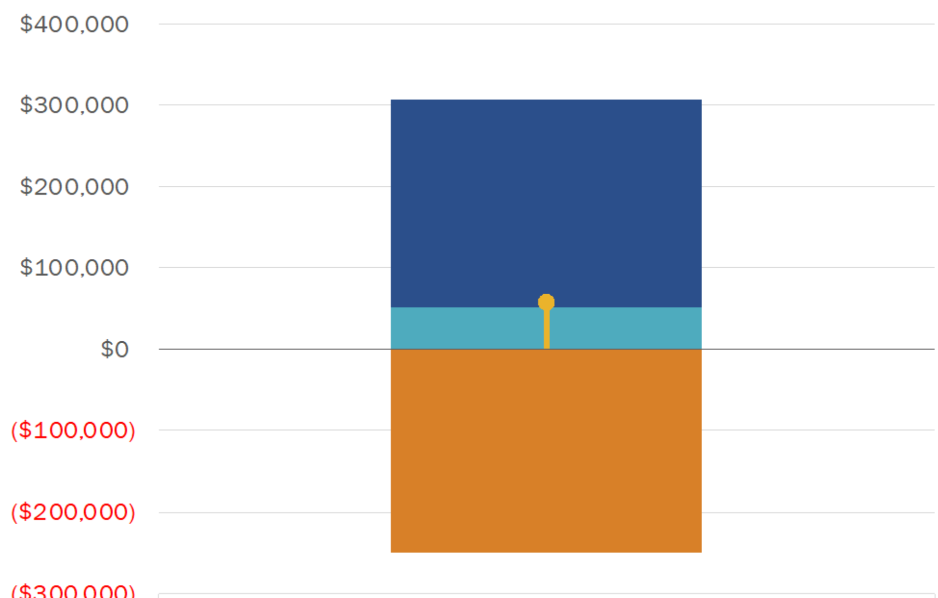
[2] The improvement value for each example property was available from Washington County assessor data; although part of Tualatin is in Clackamas County, all the properties examined here fall in the Washington County side.

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

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% AMI 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% AMI 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 2. 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

Revenue impacts may change over time. Over time, property taxes (and the value of the abatement) will most likely grow at 3 percent per year.[4] Based on this projection, the total value of taxes abated over 10 years would be approximately $3.07 million if all taxing districts were

[4] 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.

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 percent 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 AMI 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 percent 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 percent of the tax rate.[5] 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).

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

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

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 AMI or below, 10% of units at 60% of AMI 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.[6]
  - **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 program. During the compliance period, projects must provide tenant income and rental data annually.

[6] 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 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).[7]
  - **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."[8] Projects with 100 or more units must provide at least 15% of units affordable at 80% of AMI 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% AMI 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 this on. Property managers would also need to income-qualify applicants for the affordable units.

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[7] 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

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

- 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.

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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, AMI 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 1 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 1. 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 1 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 4 shows a rate per unit that is closer to that of other recent affordable housing developments.

Exhibit 2. Total Estimated New Development Charges in Comparable Buildings

Source: City of Tualatin, ECONorthwest Analysis

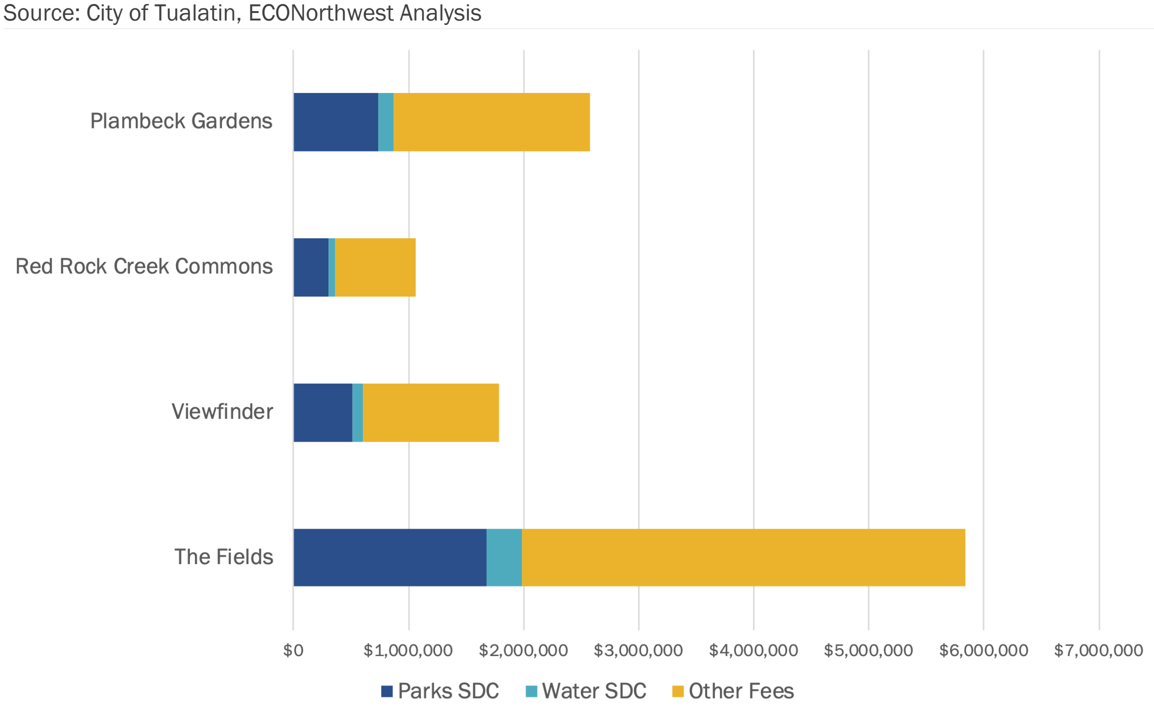
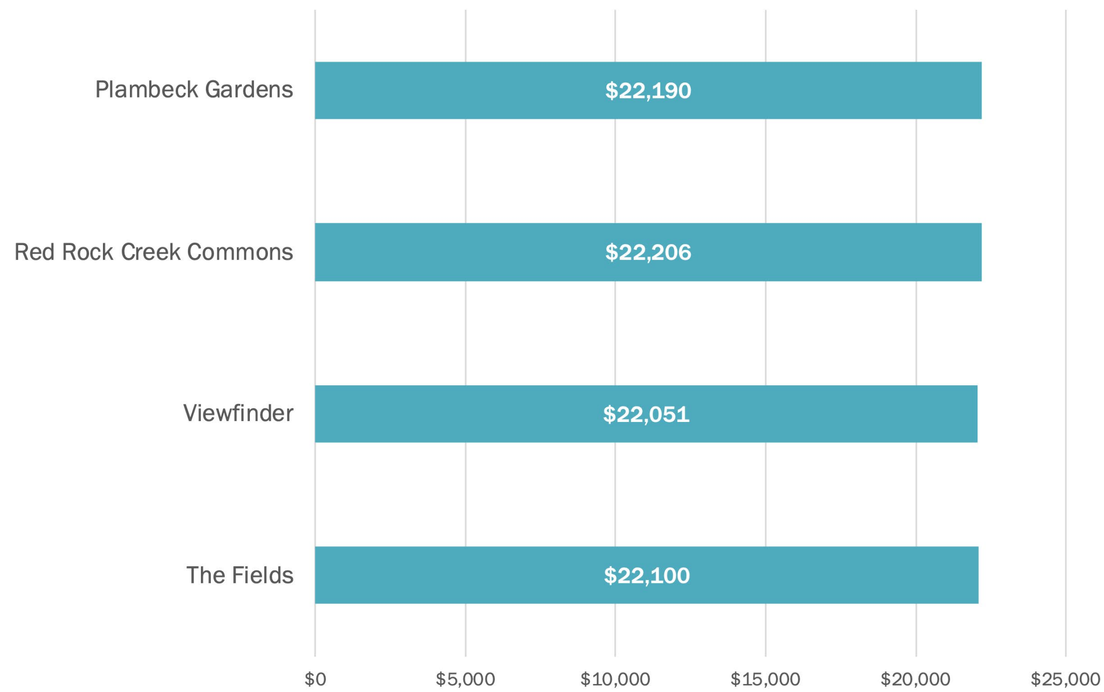


Exhibit 3. Detail of Total Estimated New Development Charges in Comparable Buildings
Source: City of Tualatin, ECONorthwest Analysis

	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 4. 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 2). 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.[1] 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

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

out of compliance, the SDCs must be paid back with interest. Applications are reviewed by the Affordable Housing Advisory Committee on a rolling basis.[2]

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.

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

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

The City of Tualatin is considering using urban renewal to support housing production, as part of a range of strategies and actions to fund and implement the goals from its 2021 Housing Production Strategy. This memo describes the potential trade-offs of implementing urban renewal districts in Tualatin and 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 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).

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.

How does tax increment financing work?

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.

What urban renewal areas exist in Tualatin?

In 2021, the City of Tualatin adopted the new Southwest and Basalt Creek Development Area. There is also a proposal for a North District area which encompasses parts of Bridgeport Village, Town Commons, I-5 Corridor and Tualatin-Sherwood Road area. While much of the land included in these two areas is planned for industrial and commercial use, portions of the potential 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.

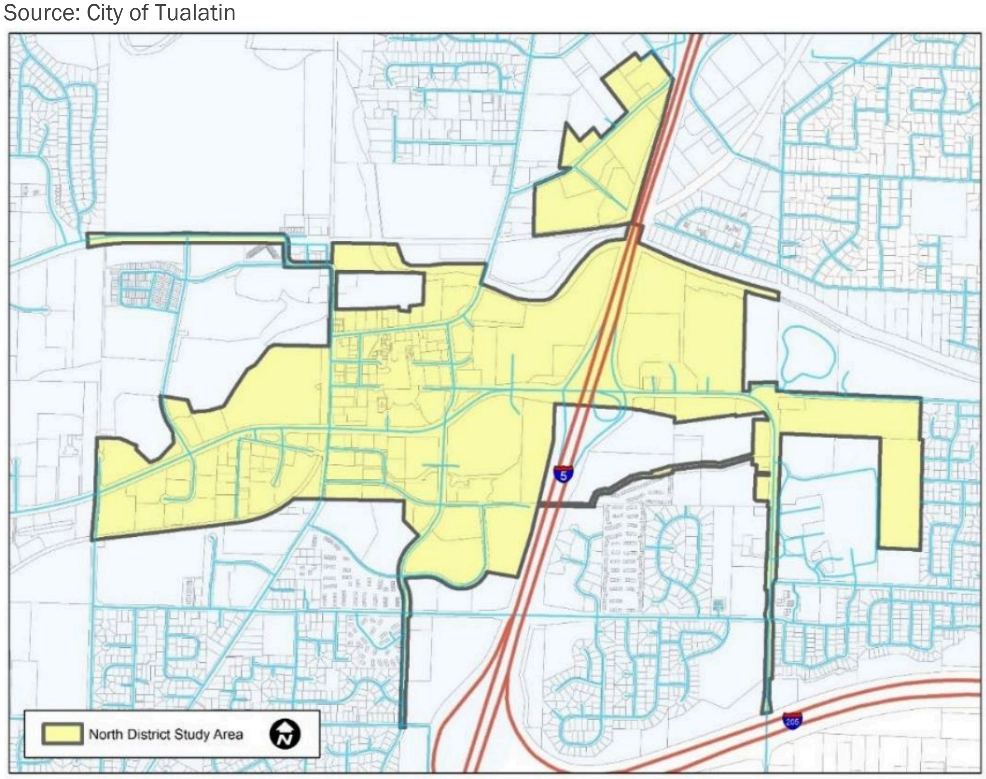
Development Area Boundaries

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 proposed **North District**[1] comprises Bridgeport Village, Town Commons, I-5 Corridor, and Tualatin-Sherwood Road. It could be a potential site for investment in affordable housing through TIF. The Agency has not finalized the boundaries or adopted the plan, leaving more room for including explicit goals around affordable housing. Like the City's other urban renewal areas, the North District 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 North District is already developed, there could be potential for denser or mixed-use housing development in Downtown. Exhibit 1 shows the proposed boundaries for this plan area, though it has not yet been finalized.

Exhibit 1. Proposed Urban Renewal Area Plan Boundaries for the North District
Source: City of Tualatin



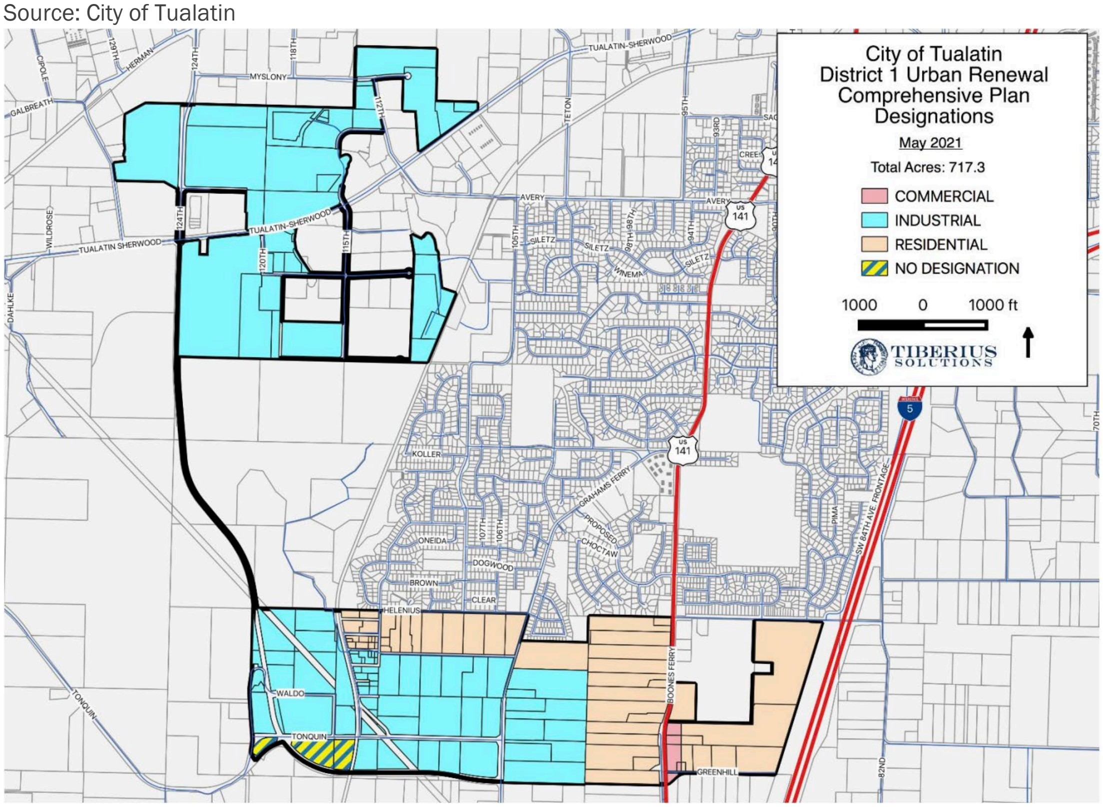
[1] This district has been referred to with several names during its development, including the 'I-5 Corridor' and 'District 2.'

Exhibit 2 and 3 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 Southwest and Basalt Creek are focused in the eastern part of the proposed 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.

Exhibit 3. 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. While the plan stresses compatibility with adjacent residential areas, it does not 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.

What kinds of housing projects can TIF fund?

Designating TIF dollars from urban renewal for affordable housing 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 development 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.

How much money is available?

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 proposed North District.

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, 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 North District's potential total TIF revenue over 30 years is estimated between $248.2 and $362.7 million based on three different growth scenarios detailed in a 2021 report, though this area has not yet been adopted by the City.

Each urban renewal area has a maximum indebtedness that caps the total amount that projects can access.

Exhibit 2. Urban renewal areas in Tualatin

	Leveton	Southwest and Basalt Creek	North (proposed)
Year established	2002	2021	TBD
Potential TIF revenue (30 years)	Undefined	$28.4 - $55.5M	TBD
Maximum indebtedness	$36.4M	$13.6 - 26.2M	TBD
Affordable housing considerations in the plan	None	Language on increasing housing options	TBD

Where can TIF be used?

The Agency must use TIF funds within 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.

Considerations

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 is already in the process of creating a new urban renewal district. These plans could include explicit goals for incenting affordable housing or adopt housing unit development targets. 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, 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 the currently active TIF areas (Leveton, Southwest and Basalt Creek) 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 percent 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.

Urban Renewal Areas in Tualatin

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 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 AMI 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.[2]

- **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.[3] 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 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.[4]

- **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

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

[3] 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.

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

financing from Wells Fargo's Community Lending & Investment team. It includes one residential condo and six project-based HUD Section 8 voucher units.[5]

Conclusions and Next Steps

- The City should evaluate areas designated for residential use within its existing and potential urban renewal areas.
- The City should evaluate a potential setaside or other policy language as part of the implementation of its existing urban renewal plan.
- The City should evaluate including strong but flexible language in the upcoming North District 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.

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