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DATE: March 9, 2021
TO: City of Tualatin Planning Commission
CC: Steve Koper and Karen Perl Fox
FROM: Beth Goodman, Becky Hewitt, and Sadie DiNatale, ECONorthwest
SUBJECT: Draft Strategy and Detail of Selected Strategic Actions from the HPS

The Department of Land Conservation and Development contracted ECONorthwest to develop a Housing Production Strategy (HPS) for the City of Tualatin.[1] This memorandum presents a draft schedule for implementation of the policies and additional information for a selection of the strategic actions from the HPS.

This memorandum builds from the short description of strategic actions to implement the proposed policies that was discussed at the February 18, 2021 meeting. The intention of this memorandum is to present the draft schedule for discussion and the details of a selection of the list of strategic actions; this will provide information for a discussion about implementation of the actions in the HPS at the March 18, 2021 Planning Commission meeting. The final HPS report will include more information about each strategic action, like the information presented in this memorandum.

Our primary questions for the March 18, 2021 Planning Commission meeting are:

- Do you support the 12 policies proposed from the HPS?
    - The memorandum from the February 18, 2021 meeting presents all 12 policies and the strategic actions proposed to implement each policy.
    - Do you have further comments on the 12 policies? If so, please bring your comments to the March 18, 2021 meeting.
- Do you generally support the implementation schedule? Each policy has a "package" of strategic actions that need to be implemented in a specific order. The feedback we need from the TPC is whether you have broad concerns about the implementation schedule.
- Do you have comments on the strategic actions proposed in the HPS?
    - This memorandum presents details about a selected number of the strategic actions. This level of detail will be presented in the materials for the May 6, 2021 Planning Commission meeting for all of the strategies. It is by that time that we will need your comments or concerns about the all strategic actions.

[1] This project is funded by Oregon general fund dollars through the Department of Land Conservation and Development. The contents of this document do not necessarily reflect the views or policies of the State of Oregon.

Draft Schedule

The table below presents a draft schedule for implementation of the Housing Production Strategy. The table shows each of the 12 policies with the strategic actions below. The schedule roughly describes when adoption (or other official action) will be taken to be able to be able to begin using the strategic actions, represented by a teal color and "A" in the table. After adoption of each strategic action comes implementation of the action, where it begins to be used by the city, represented by a brown color and "I" in the table.

Policy and Strategic Actions	On-Going 2021	2022		2023		2024	2025	2026	2027	Beyond 2027
1. Affordable Housing: Expand affordable rental housing stock to include long-term affordable housing, 30 years or greater										
Adopt a Property Tax Exemption				A	I					
Change SDCs to support development of affordable rental housing								A	I	
Adopt a Construction Excise Tax (CET)							A	I		
Include a TIF set aside for affordable housing in new Urban Renewal Areas			A	I						
Develop a Housing Trust Fund Initiative								A	I	
Identify public and other land suitable for affordable housing					A	I				
Encourage Development of Diverse Affordable Rental Housing Types						A, I				
Evaluate Flexible Regulatory Concessions for Affordable Housing						A, I				
2. Affordable Homeownership: Encourage and support affordable homeownership to create opportunities for wealth creation.										
Identify and remove impediments to homeownership						A	I			
Encourage education about homeownership opportunities		A	I							
Partner with organizations that develop affordable ownership housing			A	I						
Encourage Diverse Housing Types for Affordable Homeownership						A, I				

Policy and Strategic Actions	On-Going 2021	2022		2023		2024	2025	2026	2027	Beyond 2027
3. Preservation of Regulated Affordable Housing: Preserve affordable housing to prevent the loss of existing affordable housing units and to prevent resident displacement.										
Encourage Conversion of Low-Cost Regulated Rental Housing to Subsidized Affordable Housing				I						
Implement a Healthy Housing Initiative for Regulated Multifamily Housing						A	I			
4. Preservation of Naturally Occurring Affordable Housing: Preserve naturally occurring affordable housing to prevent loss of affordability and to mitigate for resident displacement										
Develop incentives to preserve and stabilize low-cost market rate apartments								A	I	
Identify ways to slow rental cost increases								A	I	
5. Racial and Social Equity: Implement all Housing Policies through a Racial and Social Equity Lens										
Develop an equitable housing plan				A	I					
Identify impediments to Fair Housing						A	I			
Ensure there are opportunities for education about Fair Housing				I						
Encourage Diverse Housing Types in High Opportunity Neighborhoods						A, I				
6. Workforce Housing: Encourage, plan for, and support the development of workforce owner and renter housing, 61-80% Median Family Income to increase the jobs-housing balance, reduce commute time and provide attainable housing for workers in Tualatin.										
Incentivize inclusion of workforce housing units within new multifamily development								A	I	
Partner with Employers on Employer Assisted Housing							I			
Participate in a Land Bank						A	I			

Policy and Strategic Actions	On-Going 2021	2022		2023		2024	2025	2026	2027	Beyond 2027
7. Housing Stabilization: Prevent and address homelessness to provide for safe living conditions for everyone living in Tualatin.										
Partner on a local rental assistance program		A								
Develop Housing Options and Services to Address and Prevent Houselessness								A	I	
8. 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.										
Establish and develop a local housing rehabilitation program								A	I	
Implement a Healthy Housing Initiative for detached Single-Family Housing						A	I			
9. Accessible Design and Other Specialized Design: Encourage and support Universal Design, Lifelong Housing Certification, and other similar standards.										
Develop specialized design standards to accommodate special needs						A	I			
Provide incentives to increase development of units that accommodate special needs						A	I			
10. 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 between 0-80% Median Family Income.										
Identify opportunities to rezone land for mixed-use			A	I						
Identify underutilized commercial areas for mixed-use redevelopment			A	I						
Identify redevelopment opportunities to create mixed-use districts	I									
Identify opportunities for conversion of commercial space to residential uses and above ground floor development				A	I					
Identify incentives to support mixed-use development, such as the Vertical Housing Development Zone Program					A	I				

Policy and Strategic Actions	On-Going 2021	2022		2023		2024	2025	2026	2027	Beyond 2027
11. Regulatory and Zoning Changes: Increase housing development opportunities through regulatory and zoning changes to accommodate a diverse range of housing types and price points.										
Update development standards for multifamily housing in High and Medium density zones to allow more efficient development		A	I							
Identify residential land to zone to higher density		A	I							
Reduce Off-Street Parking Requirements			A	I						
Allow small dwelling unit developments						A, I				
Expedite Permitting for Affordable Rental Housing and Affordable Homeownership				A	I					
Provide additional information to developers of needed housing		A	I							
12. Transportation and Public Infrastructure: Plan for and develop transportation and public infrastructure to support affordable housing, workforce housing and mixed-use housing										
Evaluate increasing density near transit stations							A	I		
Prioritize Capital Improvements Programming (CIP) for affordable housing					A	I				

Draft Strategic Actions

The following strategic actions are a small selection of the action that will be in the HPS, as listed in the draft schedule. The intention of providing this information is to give examples of the range of complexity of implementing the strategic actions. These actions come from different policies, as we have listed below.

Appendix A provides additional information about property tax exemptions and Appendix B provides additional information about potential use of a Construction Excise Tax in Tualatin. These appendices are relevant to the actions presented below.

Education about Homeownership Opportunities

This strategic action is part of the actions included in "Policy 2. Affordable Homeownership: Encourage and support affordable homeownership to create opportunities for wealth creation." The items noted in red below are details that we will add in a future revision of the HPS report.

2.b	**Encourage Education about Homeownership Opportunities**
Description	**Type of Action**
Partner with a non-profit homeownership education program. Consider partnering with the Portland Housing Center (or other nonprofit) to promote homeownership educational opportunities and to help refer interested people to the program. The Portland Housing Center may be a suitable partner as they currently provide guidance, financial services, and homebuyer education to Portland-area residents. Tualatin may provide support to renters in their pursuit of becoming homeowners. The City may also provide support to residents in manufactured housing parks (who own their home but not the lot) to form a cooperative (a group of people organized for the purpose of owning and operating a housing park for the benefit of its members on a not-for-profit basis).	Establish Partnerships
Rationale	Homeownership is one of the most effective (and primary ways) for households and individuals to build wealth. Further, in Oregon, renter households are more likely to be at risk of displacement than homeowners.
Anticipated Impact	▪ **Populations served:** Low- and moderate-income households and residents ▪ **Income:** 0-120% of Median Family Income (for a family of four)

	▪ **Housing tenure:** Owner ▪ **Housing production (new units):** Explanation about potential range ▪ **Magnitude:** Moderate
Timeline	▪ **Timeline for adoption:** TBD ▪ **Implementation to commence:** YEAR ▪ **Time frame of impact:** Brief narrative
Implementation Steps	▪ Review state homeownership resources. ▪ Establish a partnership with a nonprofit focused on encouraging and supporting homeownership opportunities in the Portland Region. Identify opportunities to help Tualatin residents achieve homeownership. ▪ Provide outreach to residents who rent in Tualatin to support their efforts in achieving homeownership.
Lead Agency and Potential Partners	▪ **Lead Agency:** Tualatin Community Development Division ▪ **Partners:** Portland Housing Center or other nonprofit (e.g., Oregon Housing Alliance, Housing Oregon, etc.); Oregon Housing and Community Services.
Funding or Revenue Implications	Encouraging residents to pursue homeownership education is a comparatively low-cost strategy, primarily relying on the use of staff time and/or community partners with support from staff to outreach to prospective/interested residents.

Evaluate a Tax Increment Financing

This strategic action is part of the actions included in "Policy 1. Affordable Housing: Strongly prioritize, encourage and support affordable rental housing development to increase affordable housing for households earning 0-60% Median Family Income." The items noted in red below are details that we will add in a future revision of the HPS report.

1.d	Evaluate a Tax Increment Financing Set-aside for Housing
Description	**Type of Action**
Evaluate the potential to set aside a share of Tax Increment Financing (TIF) revenue for affordable or mixed-income housing development when TIF district plans are created or updated. TIF (for urban renewal districts) is used as a way to make strategic public investments that spur development in areas where it might not otherwise occur. When successful, the new development leads to an increase in property value and property tax revenue. The increment of new tax revenue from within the district (from the time the district is established) is captured and used to pay off bonds (or directly pay) for the public investments in the area. When the bonds are paid off the entire valuation of the district is returned to the general property tax rolls. 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 to support equitable development within the TIF district. TIF can be invested in the form of low interest loans and/or grants for housing projects or a variety of capital investments. **Additional Context:** The City of Tualatin is in the process of evaluating two potential new TIF districts: (District 1) The Basalt Creek area and Southwest Industrial Area and (District 2) The I-5 Corridor and Tualatin-Sherwood Road. The City also recently modified plans for an existing district (Leveton). While much of the land included in these areas is planned for industrial and commercial use, portions of the potential new districts are planned for residential or mixed-use development. These could be appropriate locations for new affordable or mixed-income housing.	Establish a TIF Set Aside to Allocate Funding to Housing Programs
Rationale	TIF is one of few available locally-controlled sources of funding to build or improve housing. In addition, investing a share of TIF revenues into affordable or mixed-income housing within an area that is a focus for local investment helps support inclusive

	development in that area.
Anticipated Impact	▪ **Populations served:** Low-income residents ▪ **Protected classes served:** Not applicable ▪ **Income:** 0-60% of Median Family Income (for a family of four) ▪ **Housing tenure:** Renter or Owner ▪ **Housing production (new units):** Explanation about potential range ▪ **Magnitude:** Moderate
Timeline	▪ **Timeline for adoption:** TBD ▪ **Implementation to commence:** YEAR ▪ **Time frame of impact:** It will likely be at least 5 to 10 years before there is sufficient revenue in the Urban Renewal District to have enough funds to make significant investment in housing.
Implementation Steps	▪ As part of urban renewal planning for the two potential new districts, evaluate whether a housing set-aside is an appropriate expenditure for one or both districts and how much can be allocated while balancing the need for infrastructure investments. ▪ Proceed with the planning and adoption processes already underway for the two potential new districts, including establishing priorities for the areas, identifying project lists, confirming financial feasibility, preparing required plan documents, and holding adoption hearings.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division and City of Tualatin Finance Department ▪ **Partners:** Tualatin Economic Development Department; Tualatin Development Commission; Overlapping taxing districts
Funding or Revenue Implications	TIF results in foregone tax revenue for the City and other overlapping taxing districts for several decades, though it can (and should) grow the tax base in the long-term by supporting development that would not otherwise have occurred.

Adopt a Low-Income Housing Property Tax Exemption Program for Affordable Rental Housing

This strategic action is part of the actions included in "Policy 1. Affordable Housing: Strongly prioritize, encourage and support affordable rental housing development to increase affordable housing for households earning 0-60% Median Family Income." The items noted in red below are details that we will add in a future revision of the HPS report.

<table>
<tr><th>1.a</th><th colspan="2">Adopt a Low-Income Housing Property Tax Exemption Program for Affordable Rental Housing</th></tr>
<tr><td colspan="2">Description</td><td>Type of Action</td></tr>
<tr><td colspan="2">Adopt a property tax exemption program for affordable rental housing.

Two tax exemptions programs can be used to support affordable housing:

▪ Low-Income Rental Housing Exemption: Provides a full 20-year, renewable property tax exemption for rental housing for low-income households (60% of area median income and below). Housing need not be owned or operated by a nonprofit entity; if it is not, only housing built after the program is adopted is eligible. The exemption can also apply to land held for future affordable housing development. Only the City's taxes are exempted unless there is sufficient support from overlapping taxing districts. Requires that savings be passed on to tenants through rent reductions.

▪ Nonprofit Low-Income Rental Housing Exemption: Provides a full property tax exemption for new and existing affordable housing owned and operated by a nonprofit organization for as long as the property meets eligibility criteria. Tenants must initially qualify at 60% of area median income or below, but once qualified, existing tenant incomes may rise to as much as 80% of area median income over time. The exemption can also apply to land held by a nonprofit for future affordable housing development. Only the City's taxes are exempted unless there is sufficient support from overlapping taxing districts.

This City should evaluate which of the two available options under state statute is better suited to the needs of housing providers in Tualatin. Appendix A provides more information about these an other tax exemptions for housing</td><td>Adopt a Tax Exemption to Reduce On-Going Charges on Development</td></tr>
<tr><td>Rationale</td><td colspan="2">With very thin margins for rents in affordable housing developments</td></tr>
</table>

	to be able to cover operating costs (even with subsidies), eliminating the cost of property taxes is an important way to improve the viability of affordable housing. Affordable housing providers sometimes use alternative means to secure tax exemptions (e.g., partnership with the local Housing Authority), but the alternatives add complexity to an already complex process. A locally-enabled tax exemption also demonstrates local support for affordable housing development, which can help with securing state and federal funds.
Anticipated Impact	▪ **Populations served:** Low-income renter households ▪ **Income:** 0-60% of Median Family Income ▪ **Housing tenure:** Rental ▪ **Housing production (new units):** If this incentive was used for one to two apartment buildings at 50 to 150 units each, this strategy could contribute to development of 50 to 300 affordable units. ▪ **Magnitude:** Moderate
Timeline	▪ **Timeline for adoption:** TBD ▪ **Implementation to commence:** YEAR ▪ **Time frame of impact:** Brief narrative
Implementation Steps	▪ Analyze the pros and cons of the two tax exemptions ▪ Select one of the tax exemptions for adoption ▪ Seek input from overlapping taxing districts on their willingness to support the exemption. ▪ Discuss topic with City Council at work sessions and in public hearings. City Council may choose to adopt exemption by resolution or ordinance following a public hearing. ▪ Follow up with overlapping taxing districts to request that they pass resolutions to support the exemption.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division and Division of Finance ▪ **Partners:** Overlapping Taxing Districts
Funding or Revenue Implications	Tax exemptions reduce general fund revenues for all overlapping taxing districts.

Evaluate Implementation of a Construction Excise Tax

This strategic action is part of the actions included in "Policy 1. Affordable Housing: Strongly prioritize, encourage and support affordable rental housing development to increase affordable housing for households earning 0-60% Median Family Income." The items noted in red below are details that we will add in a future revision of the HPS report.

1.c Evaluate Implementation of a Construction Excise Tax	
Description	**Type of Action**
Evaluate implementation of a Construction Excise Tax (CET), a tax assessed on new development and expansions as a percent of the permit value. State statute defines the allowed uses of CET funds and the allowed maximum tax rate. The City of Tualatin could levy a CET on commercial, industrial, and/or residential development. Tualatin has limited land for new residential development within City limits at present; however, revenues from a CET levied on commercial or industrial development could be used for housing programs. At least half of the revenue from a CET on commercial and industrial development must be used for local housing programs, but the other half is unrestricted; revenue from a CET on housing must all go towards housing, with certain percentages towards various specific categories of expenditures.	Establish a CET to Allocate Funding

Rationale	CET is one of few options to generate locally controlled funding for affordable housing and can be implemented without a public vote. Industrial development has been strong in Tualatin in recent years. If this continues, a CET on commercial and industrial development could potentially generate enough revenue to allow the City to fund some of its other strategies.
Anticipated Impact	▪ **Populations served:** Depends on how revenue is used, but will be for low-income and underserved communities ▪ **Protected classes served:** Depends on how revenue is used ▪ **Income:** Depends on how revenue is used, but likely mostly directed towards 0-60% of Median Family Income ▪ **Housing tenure:** Depends on how revenue is used ▪ **Housing production (new units):** Based on analysis by ECONorthwest, a 0.5-1% CET on commercial and industrial development could generate roughly $X per year. If used as gap financing, this could potentially contribute to funding roughly Y

	units per year. ▪ **Magnitude:** Moderate
Timeline	▪ **Timeline for adoption:** TBD ▪ **Implementation to commence:** YEAR ▪ **Time frame of impact:** Brief narrative
Implementation Steps	▪ Engage with developers, major employers, and the business community in Tualatin to evaluate tolerance for a CET on commercial and industrial development and where there are shared interests in supporting local housing production. ▪ Create a plan for the use of CET funds. ▪ Seek direction on whether to proceed with adoption from City Council at work sessions. ▪ Tualatin City Council can impose the CET by adoption of an ordinance or resolution that conforms to the requirements of ORS 320.192 – ORS 320.195.
Lead Agency and Potential Partners	▪ **Lead Agency:** City of Tualatin Planning Division and City of Tualatin Finance Department ▪ **Partners:** Local developers, major employers, and the Tualatin business community
Funding or Revenue Implications	Adopting a CET would provide funding for other strategies. ECONorthwest conducted a preliminary estimate of CET revenue via a backward-looking analysis using the City of Tualatin's permit database for new residential and commercial / industrial construction from the last five years. The results of this analysis are summarized in Appendix B. Because a percentage (4%) of the revenue can be applied to the City's costs for administering the program, there should be minimal additional cost for the City.

Appendix A: Property Tax Abatement Programs for Housing in Oregon

Oregon has several property tax abatement programs that can be used to support development of affordable housing or to leverage private housing development to provide benefits (e.g., a portion of units at reduced rents, or ground floor retail in key areas) that the market may not deliver on its own. Each program differs in the type of housing it incents (eligibility criteria), the geographic specificity, and other policy parameters:

- **Vertical Housing Development Zones** (VHDZ): Incents multi-story mixed-use development by offering a partial property tax exemption for 10 years to developments that include housing as well as non-residential use (e.g., retail on the ground floor), with a larger tax exemption for higher density developments. Overlapping taxing districts can opt out.
- **Multiple Unit Property Tax Exemption** (MUPTE, sometimes called MULTE): 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). Limited to adopting jurisdiction’s taxes unless there is sufficient support from overlapping taxing districts.
- **Low-Income Rental Housing Exemption:** Provides a 20-year, renewable property tax exemption for rental housing for low-income households (60% of area median income and below). Housing need not be owned or operated by a nonprofit entity; if it is not, only housing built after the program is adopted is eligible. Limited to adopting jurisdiction’s taxes unless there is sufficient support from overlapping taxing districts. Requires that savings be passed on to tenants through rent reductions.
- **Nonprofit Low-Income Rental Housing Exemption:** Provides a full property tax exemption for new and existing affordable housing owned and operated by a nonprofit organization for as long as the property meets eligibility criteria. Also applies to land held by a nonprofit for future affordable housing development. Limited to adopting jurisdiction’s taxes unless there is sufficient support from overlapping taxing districts.
- **Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing:** Incents development or rehabilitation of multifamily rental housing with rents affordable to households with an annual income at or below 120% of area median income citywide through a full property tax abatement for no more than 10 years. Does not take effect unless there is sufficient support from overlapping taxing districts.
- **Homebuyer Opportunity Limited Tax Exemption (HOLTE):** Provides a 10-year property tax exemption for the structural improvements of a new or rehabilitated single-unit housing. Available for properties valued at no more than 120% of the median sales price. Allows each city to determine its own income and owner-occupancy requirements.

The following sections describe each program and its pros and cons. To facilitate comparison between programs, key features and differences of the programs are summarized in Exhibit 1 on page.

Vertical Housing Development Zones (VHDZ)

How It Works

This program incents mixed-use development and affordable housing by partially exempting property taxes for qualifying projects. The exemption varies in accordance with the number of residential floors in a mixed-use project; the maximum property tax exemption is 80% of the residential improvement value over 10 years. An additional property tax exemption on the land may be given if some or all of the housing is for low-income persons (80% of area median income or below). There is no tax exemption on the non-residential component.

Before a city or county can grant an exemption for an eligible development project, they must establish a VHDZ. Per state statute, jurisdictions must consider the potential for displacement[2] of households within a proposed vertical housing development zone before designating the zone. Once the VHDZ is established, the developer may apply for the city's Vertical Housing Tax Abatement Program.

Pros

- Targeted tool to support mixed-use development in places with locational advantages.
- Overlapping taxing districts must take action to opt out, rather than having to take affirmative action to approve zone designations and project applications.
- Offers incentives for market-rate, mixed-income, and affordable housing, with greater incentives for affordable/mixed income housing.
- Incents higher density development as well as mixed-income development.

Cons

- May provide insufficient incentive to lead to affordability unless paired with other tools.

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[2] According to the relevant statute (ORS 307.841(2)): *"Displacement" means a situation in which a household is forced to move from its current residence due to conditions that affect the residence or the immediate surroundings of the residence and that: (a) A reasonable person would consider to be beyond the household's ability to prevent or control; (b) Occur despite the household's having met all previously imposed conditions of occupancy; and (c) Make continued occupancy of the residence by the household unaffordable, hazardous or impossible.*

In evaluating this issue for other communities, ECONorthwest has considered the potential for displacement because of redevelopment of existing housing with new development using the VHDZ program ("direct displacement"), and the potential that the presence of new development that uses the VHDZ program could encourage property owners to increase rents in existing housing to a degree that the households can no longer afford them ("indirect displacement").

- Requires retail space, which may not be viable or appropriate for all projects, and can be particularly challenging for publicly-funded, affordable housing projects.
- Can't qualify until project is under construction—creates uncertainty for developer & lenders
- Reduces general fund revenues for all overlapping taxing districts (unless they opt out).

Best for:

- Encouraging mixed-use development in locations where ground-floor commercial uses are essential to the vision and mixed use is not economically feasible yet.

Implementation Considerations

- Both ground-floor retail and multifamily rental housing must be allowed, appropriate, and potentially desirable to tenants for the program to be effective.
- The program works better for taller development (at least 4 stories tall) since the incentive is very limited for lower-scale development. It should be applied in places where this is allowed, desirable, and close to being feasible, given the higher cost of such development relative to 2- to 3-story housing or single-story retail.
- Expect market-rate development through this program, if any development occurs because of it—there is little or no history of it being used for affordable housing in Oregon. Also consider how any affordability restrictions will be monitored and enforced.

Multiple Unit Property Tax Exemption (MUPTE)

How It Works

Through a multiple unit property tax exemption, a jurisdiction can encourage multifamily and attached housing in specific locations lacking in housing choices, or inclusion of units with below-market rents. The abatement applies to improvement value only and lasts for 10 years, except for affordable housing, which lasts as long as the affordability restriction lasts. Though the state enables the program, each city has an opportunity to shape the program to achieve its goals by controlling the geography of where the exemption is available, eligibility criteria (including required public benefits), program requirements, application process and fees, and program cap.

The City can select projects on a case-by-case basis through a competitive process. Applicants must show that the housing would not be feasible without the abatement.

To implement the exemption, the City would take the following steps:

(1) Determine desired eligibility criteria (percentage of affordable or workforce housing or other public benefits, where the program applies, etc.).

(2) Seek agreement from taxing districts representing 51% or more of the combined levying authority on the property to include all of the taxing jurisdictions in the abatement. If the City is unable to get agreement from other taxing districts, the abatement will only apply to the City's portion of property taxes.

(3) Establish annual reporting and administration procedures.

Pros

- City sets eligibility criteria and controls application process and project selection.
- Program is flexible to support various objectives related to encouraging housing.
- Tax abatements can contribute to the feasibility of both market-rate and regulated units. Saving on operational costs contributes to greater net operating income, which is important in determining project value and subsequently the development feasibility.
- The City can use the abatement program to incent private development to include some affordable units, or to incent higher density housing or other specific types of housing not being delivered by the market.
- Since applicants need to prove that the project would not be feasible without the exemption, the funding theoretically only goes to developments that would not have otherwise occurred.
- Property owner can apply by the February before first assessment year of requested exemption. Construction need not be complete.
- The City can set an annual cap on the total amount of tax exemptions in any given year for all projects.

Cons

- May provide insufficient incentive to lead to affordability unless paired with other tools.
- Discretionary application process creates uncertainty during the development stage and more work for applicants. Some developers will be discouraged from applying.
- Can be difficult for the City to validate applicants' claims that the development would otherwise not be feasible.
- Depending on the project criteria, can be a highly competitive process among development projects.
- City must weigh the temporary (up to 10 years) loss of tax revenue against the potential attraction of new investment to targeted areas.
- Reduces general fund revenues for all overlapping taxing districts, which could make it harder to promote the tool to partner jurisdictions that do not perceive the same project benefits.
- Must get affirmative support from enough overlapping taxing districts to apply to their tax collections.

Best for:

Encouraging multifamily housing with specific features (with or without ground floor commercial uses) in strategic locations, or supporting development of housing affordable to moderate-income households (e.g., around 80% AMI where the rent discount relative to market rates is limited).

Implementation Considerations

There are multiple ways a City could implement this tool, which will require additional staff and stakeholder conversations to determine which application is most appropriate.

- The City could offer a citywide program for housing that is affordable to households making up to some specific income level (e.g., 80% or 100% of AMI). If the City were to require income certification of tenants, this would require a lot of paperwork for developers. If the affordability threshold is relatively close to current market rents, the City could limit the rent the developer could charge but not require income certification for tenants. This would be less burdensome for all involved but would not guarantee that the units would go to those that need them most, and would offer little discount relative to market-rate development. Also, the City should consider how affordability restrictions will be monitored and enforced—whether City staff has capacity for this, or whether there is an appropriate and willing partner to assist.
- The City could offer abatements for market-rate apartments that meet public goals and are not being produced by the market today. This could include higher-density development adjacent to transit or downtown, development that meets certain green building or sustainability goals, etc. In some markets, any multifamily rental housing development at scale is a challenge due to low market rents and difficult financing, and the program may be appropriate with minimal eligibility criteria.
- The abatement could be applied to certain middle housing types like duplexes, triplexes, cottage clusters on a common lot, etc. in neighborhoods close to transit or services. It will be most effective for rental properties, and should not be tied to affordability requirements without careful consideration of whether those will work for middle housing.
- Regardless of how the City chooses to apply the program, it could set a limit on the total amount of abatement granted per year or at any given time in order to limit fiscal impacts to the City and other taxing districts.

Low-Income Rental Housing Exemption

How It Works

Provides a 20-year, renewable property tax exemption for rental housing exclusively for low-income households (60% of AMI and below). Housing need not be owned or operated by a nonprofit entity. The program is limited to housing built after the program is adopted, except for existing housing owned by a nonprofit. The exemption is limited to the adopting jurisdiction's taxes unless there is sufficient support from overlapping taxing districts. Rents within the eligible properties must be reduced to reflect the full value of the property tax abatement. The exemption can also apply to land held for future affordable housing development, up to whatever time limit the City sets. If only a portion of a given property is used for qualifying, low-income housing (e.g., a mixed-use or mixed-income development), the exemption is applied only to the qualifying portion of the property. This program offers one of few options for private affordable housing development to receive a property tax exemption.

Pros

- Housing need not be owned or operated by a nonprofit entity.
- No requirement that construction be complete prior to application.
- Reduces carrying costs before development occurs (tax exemption available for land being held for development of affordable units).
- Reduces costs for low-income residents by passing through savings in reduced rents.
- Demonstrates local support for affordable housing development, which can make projects more competitive for state and federal funds.
- 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.

Cons

- Because the full savings must be passed through to residents, the exemption does not improve feasibility or reduce costs for the developer.
- In most affordable housing development using state and federal subsidies, rents are set based on a percentage of the household's income using formulas set by state or federal agencies. Building in an additional reduction based on the tax exemption and determining how to distribute savings among tenants with different unit sizes and incomes creates additional complexity and requires the City to monitor compliance with that aspect of the program.
- Complex to apply to mixed-income housing, since the abatement is pro-rated to apply to the portion of the property that meets the criteria. Even housing funded with Low Income Housing Tax Credits can sometimes have a mix of income levels that includes households with incomes above 60% of area median income.
- The 20-year duration does not align well with the 15- and 30-year compliance periods for the Low Income Housing Tax Credit program, which is a likely source of funding for property that would qualify for this exemption.
- Reduces general fund revenues for all overlapping taxing districts if properties that would not otherwise have received an exemption are approved through the program.

- Must get affirmative support from enough overlapping taxing districts to apply to their tax collections.

Best for:

Lowering rent burdens for residents of affordable housing in jurisdictions with a sophisticated affordable housing program.

Implementation Considerations

- Although not required in statute, most cities conduct ongoing monitoring or enforcement to confirm ongoing eligibility.

Nonprofit Corporation Low Income Housing Exemption

How It Works

This program provides an opportunity to assist nonprofits providing affordable housing in the community by lowering operating costs. It applies to rental housing for low-income persons[3] that is owned, being purchased, and/or operated by a nonprofit. It can apply to land held for affordable housing development, existing affordable housing, or new construction. Both land and improvement value (if any) are exempt. 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 program offers one of few options for nonprofit affordable housing development to receive a property tax exemption.

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.

[3] Incomes must be at or below 60% of area median income (AMI) to start, and up to 80% AMI in subsequent years.

Cons

- Must get affirmative support from enough overlapping taxing districts to apply to their tax collections.
- Reduces general fund revenues for all affected taxing districts.
- Limited applicability / eligibility, since it does not apply to 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.

Best for:

Reducing operating costs for regulated affordable rental housing developed by nonprofits.

Implementation Considerations

- Because this exemption applies to both new construction and existing housing, it has the potential to cover more properties and have a greater impact on a city's tax revenues.
- 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.
- 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.

Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing

How It Works

This program provides a maximum 10-year tax abatement for newly rehabilitated or constructed multiunit rental housing that is affordable to households with an annual income at or below 120% of area median income. The tax abatement applies to the full property tax amount—land and improvements.

A city must establish a schedule that provides longer exemptions for projects with more qualifying units, with a maximum of 10 years. To establish this tax abatement, a city adopts an ordinance or resolution and must establish definitions of affordability and duration of exemption. Overlapping taxing districts must agree. Specifically, the city must:

(1) Create an ordinance to adopt a schedule establishing the length and percentage of the exemption based on the number of affordable units.

(2) Define the terms "area median income" and "affordable" for families of varying sizes.

(3) Seek agreement from taxing districts representing 51% or more of the combined levying authority on the property. If the city is unable to get agreement from other taxing districts, the abatement cannot take effect.

Pros

- Properties must re-apply every year, which provides a built-in enforcement mechanism. This is not overly burdensome since they only need to show that they continue to meet the criteria, which are non-discretionary.
- All properties that meet eligibility criteria must be granted the exemption, reducing uncertainty for developers.

Cons

- Little ability to tailor the program to offer greater benefits to projects that are more desirable, and all eligible projects get the exemption.
- With market rents even for new construction generally already affordable at or below 120% of area median income, this would offer as much of an incentive for market-rate development as for affordable housing development.

Best for:

Incenting market rate / moderate-income multifamily housing development city-wide.

Implementation Considerations

- The City may run into more concerns among local tax jurisdictions with this program due to the temporary loss of tax revenue (because land value is exempted in addition to improvement value) and because there are so few limits on the program.
- In markets where any multifamily rental housing is needed, and market rents are already affordable at or below 120% of AMI, this program may make sense as a developer-friendly and streamlined alternative to MUPTE. The sliding scale for number of years of abatement for the percent of units affordable at or below 120% AMI will be irrelevant in this case.
- In markets where typical rents for new construction are well above 120% of AMI, this program could potentially make sense as a way to incent lower rents for market-rate housing or inclusion of some below-market units, but without income qualification (which the program does not require), there is no guarantee they would go to those that need them most.
- While income qualification is not required, consider whether staff has capacity to review annual submittals detailing rents for compliance with program requirements.

Homebuyer Opportunity Limited Tax Exemption (HOLTE)

How It Works

The purpose of this program is to encourage homeownership among low- and moderate-income households. As authorized by ORS 307.651 through 307.687, a rehabilitated or newly constructed eligible unit types can be granted the tax exemption for up to 10 years for the value associated with the property's structural improvements, but not the land value. The property values for the structural improvements and the land are reassessed at the end of the exemption period. Eligible building types include single-family housing units, multifamily homeownership units (e.g., condos and townhomes), and manufactured housing. Effective October 2017, the law was expanded to allow for exemptions for low- and moderate-income homebuyers of existing homes and low-income property owners at risk of losing their homes.[4]

At the time of the application, the market value for the land and the improvements must be no more than 120% of the median sales price of single-unit housing in the city, though some cities may opt for a lower threshold. Each city can formulate the eligibility criteria, required design elements, and public benefits that would be applied to properties using the exemption.

The City of Portland employs this limited tax exemption as the "Homebuyer Opportunity Limited Tax Exemption," which provides a ten-year property tax exemption for structural improvements to single-unit housing with at least three bedrooms and single-unit housing with two bedrooms in transit-oriented areas. The program is highly competitive; only 100 units can be approved each year, though properties with long-term affordability covenants are exempt from this cap. The units must be occupied by the owners as their primary residence. Eligibility requirements restrict the incomes of homeowners to 100% of AMI for a family of four. If a housing unit transfers ownership during the 10-year exemption period, the new homebuyer must meet the affordability and owner-occupancy requirements of the program to be eligible. The City of Portland also specifies design standards and requires participation in a green building program.

Pros

- Helps to buy down ongoing housing costs for prospective purchases and opens up the pool of buyers.
- Lowers the expenses of qualifying, low-income homeowners.
- Can be used in conjunction with other incentives (e.g., SDC waivers) and homeownership programs (e.g., down payment assistance programs and mortgage credit certificate programs).
- Can be used to accomplish other development goals, such as green buildings and transit-oriented development.

[4] HB 2964. Oregon Legislative Information. https://olis.leg.state.or.us/liz/2017R1/Measures/Overview/HB2964

- May incent developers to include more middle housing in development plans than may have otherwise occurred.

Cons

- Ongoing administrative requirements include annual application process and ongoing monitoring to ensure owner-occupancy.
- Requires coordination with other taxing districts (including Clackamas County) representing 51% of taxing authority with ongoing agreement for a total estimate of foregone revenue.

Best for: Encouraging affordable homeownership and stabilizing low- and moderate-income families in single- and two-unit homes.

Implementation Considerations

- City should consider setting a limit for foregone revenues on an annual basis, or an annual unit cap.
- City must maintain an annual application process.
- City must monitor and publish median sales price of single-unit dwellings every year.

Exhibit 1. Housing Tax Exemption Program Comparison

Program	Vertical Housing Development Zones (VHDZs)	Multiple-Unit Property Tax Exemption (MUPTE)	Low-Income Rental Housing Exemption	Nonprofit Low-Income Rental Housing Exemption	Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing	Homebuyer Opportunity Limited Tax Exemption
Authorizing Statute	ORS 307.841 to 307.867	ORS 307.600 to 307.637	ORS 307.515 to 307.535	ORS 307.540 to 307.548	HB 2377 / chapter 624, Oregon Laws 2017[5]	ORS 307.651 to 687
Adoption / Designation Process	City designates via ordinance or resolution. Notice to overlapping taxing districts required. Must consider potential for displacement of households in the zone.	City designates via ordinance or resolution. Public hearing required to determine whether qualifying housing would or would not be built without the benefit of the program. City must establish standards and guidelines with requirements for eligibility.	City adopts an ordinance or resolution. City sets any additional local requirements.	City adopts an ordinance or resolution. City must select one of two definitions of affordability and set any additional local requirements.	City adopts an ordinance or resolution. City must establish definitions of affordability and duration of exemption. Overlapping taxing districts must agree (see below).	City adopts an ordinance or resolution.
Participation by Other Taxing Districts	Can elect not to participate within 30 days from City notice	None, unless districts representing at least 51% of combined levy agree by board resolution to participate, in which case all districts are included.	None, unless the boards of districts representing at least 51% of combined levy agree to the exemption for a given property, in which case all districts are included	None, unless the boards of districts representing at least 51% of combined levy agree to the exemption for a given property, in which case all districts are included.	Exemption cannot take effect unless governing bodies representing at least 51% of the total combined tax rate (when combined with the City's tax rate) agree to grant the exemption.	Exemption cannot take effect unless governing bodies representing at least 51% of the total combined tax rate (when combined with the City's tax rate) agree to grant the exemption.

[5] The text is included following ORS 307.867 in the online version of ORS Chapter 307, but is not numbered to match the rest of the statute.

Program	Vertical Housing Development Zones (VHDZs)	Multiple-Unit Property Tax Exemption (MUPTE)	Low-Income Rental Housing Exemption	Nonprofit Low-Income Rental Housing Exemption	Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing	Homebuyer Opportunity Limited Tax Exemption
Eligible Areas	Within designated areas. City may designate any area it chooses.[6]	Within designated areas such as core areas,[7] light rail station areas, transit-oriented areas (within a quarter-mile of fixed-route transit service per a local transportation plan), or Urban Renewal Areas. Alternatively, the City can designate the entire City and limit the program to affordable housing.	Anywhere in a city	Anywhere in a city	Anywhere in a city	Anywhere in a city

[6] The prior statutes governing the VHDZ program specified certain types of areas where VHDZs could be designated. The current version of the statute leaves this decision entirely up to the City. However, logically, the zoning would need to allow both residential and non-residential uses in order to allow development that could be eligible for VHDZ tax abatement.

[7] "Core areas" is not defined in the statute. The legislative findings in ORS 307.600 suggest that the intent is for areas around a downtown, but there seems to be discretion for the City to interpret this broadly if desired.

Program	Vertical Housing Development Zones (VHDZs)	Multiple-Unit Property Tax Exemption (MUPTE)	Low-Income Rental Housing Exemption	Nonprofit Low-Income Rental Housing Exemption	Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing	Homebuyer Opportunity Limited Tax Exemption
Eligible Projects / Properties	Must include at least one "equalized floor" of residential; at least 50% of the street-facing ground-floor area must be committed to non-residential use. Can be new construction or rehabilitation. City can add other criteria.	Housing subject to a housing assistance contract with a public agency (must show that the exemption is necessary to preserve or establish the low-income units, but the statute does not define an income threshold); OR housing that meets City-established criteria for design elements benefitting the general public and number of units. If transit-oriented, must support the transit system. May be new construction, addition of units, or conversion of existing building to residential use.	New rental housing exclusively for low-income households (60% of area median income and below). Housing need not be owned or operated by a nonprofit entity. Existing nonprofit-owned housing can also qualify. Rents must reflect the full value of the property tax abatement. City can add other criteria.	New rental housing exclusively for low-income households (at or below 60% AMI); rental housing for low-income persons (at or below 60% AMI) that is owned, being purchased, and/or operated by a nonprofit;[8] or land held for affordable housing development. Rents must reflect the full value of the property tax abatement. City can add other criteria.	Newly rehabilitated or constructed multiunit rental housing. Rental units affordable to households with an annual income at or below 120% of AMI.	Existing or new construction single-family, townhome, or condominium with an annual income at or below 120% of AMI.
Extent of Tax Exemption / Abatement	Improvements exempt based on number of "equalized floors" of residential use: 20% for 1 floor, 40% for 2 floors, 60% for 3 floors, 80% for 4 floors. Land partially exempt for low-income housing (up to 80% AMI) – same % per floor as above.	Improvements exempt. Exemption does not apply to commercial components unless required as a public benefit element.	Land and improvements exempt.	Land and improvements exempt.	Full property tax levy of all taxing districts.	Improvements exempt.

[8] For the nonprofit corporation low-income housing program, eligibility is housing owned by a nonprofit that is occupied by low-income persons (at or below 60% AMI to start, and up to 80% AMI in subsequent years).

Program	Vertical Housing Development Zones (VHDZs)	Multiple-Unit Property Tax Exemption (MUPTE)	Low-Income Rental Housing Exemption	Nonprofit Low-Income Rental Housing Exemption	Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing	Homebuyer Opportunity Limited Tax Exemption
Duration of Tax Exemption / Abatement	Exemption is for 10 years (this is set in statute, not by the City).	Exemption is for up to 10 years (this is set by statute, not by the City), except that for low-income housing, exemption can be extended for as long as the housing is subject to the public assistance contract.	Exemption lasts 20 years, but can be renewed.	Must be applied for every year, but can continue as long as the property meets the criteria.	City must establish a schedule that provides longer exemptions for projects with more qualifying units, with a maximum of 10 years.	Maximum of 10 years
Where in use[9]	**Program Established and Tax Abatements Granted:** Tigard, Hillsboro, Beaverton, Milwaukie, Gresham **Program Adopted:** Oregon City, Wood Village, Forest Grove, Stayton, Springfield, Cottage Grove, Monmouth, La Grande, The Dalles, Canby, Central Point, Klamath Falls, Roseburg, Grants Pass, Medford, Eugene	Portland, Eugene, Salem, Newport	Springfield, Eugene, Bend	Newport, Beaverton, Portland, Tigard, Forest Grove, Cornelius, Wilsonville	None identified to date	Portland

[9] This list is based on the best information available to ECONorthwest in April 2020, but it may not be exhaustive.

Appendix B: Evaluation of Construction Excise Tax for Tualatin

The City of Tualatin is considering a range of strategies and actions to meet its housing production goals. One such action is implementation of a Construction Excise Tax (CET). To understand the potential tradeoffs of implementing a CET in Tualatin, this memorandum describes what a CET is and how it works. In addition, it summarizes an analysis of the potential revenue impacts of implementing a CET. The final section outlines potential next steps for the City of Tualatin to consider.

How it Works, Fiscal Impacts, Pros and Cons

How it Works

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.

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,[10] 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 home ownership programs that provide down payment assistance.
- 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).

[10] 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.

- The remaining 50% are 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.[11] 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 it will not be a steady source of revenue for affordable housing when limited development is occurring.

Summary of CET Analysis for Tualatin

This section summarizes ECONorthwest's CET analysis for Tualatin.

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%.

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[11] Oregon Revised Statute 320.173

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:

- **Commerical / 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 2 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.[12] 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 commercial and industrial development is about **$41.8m in qualifying permit value** in 2020 dollars.

Exhibit 2. 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 fact that the City of Tualatin permitted an above average number of residential developments (101 total permits in 2018, compared to 11, 12, 35, and 37 total

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

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 3 and Exhibit 4 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 5 and Exhibit 6 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 3. Potential Annual Commercial/Industrial CET Revenue by Year and Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

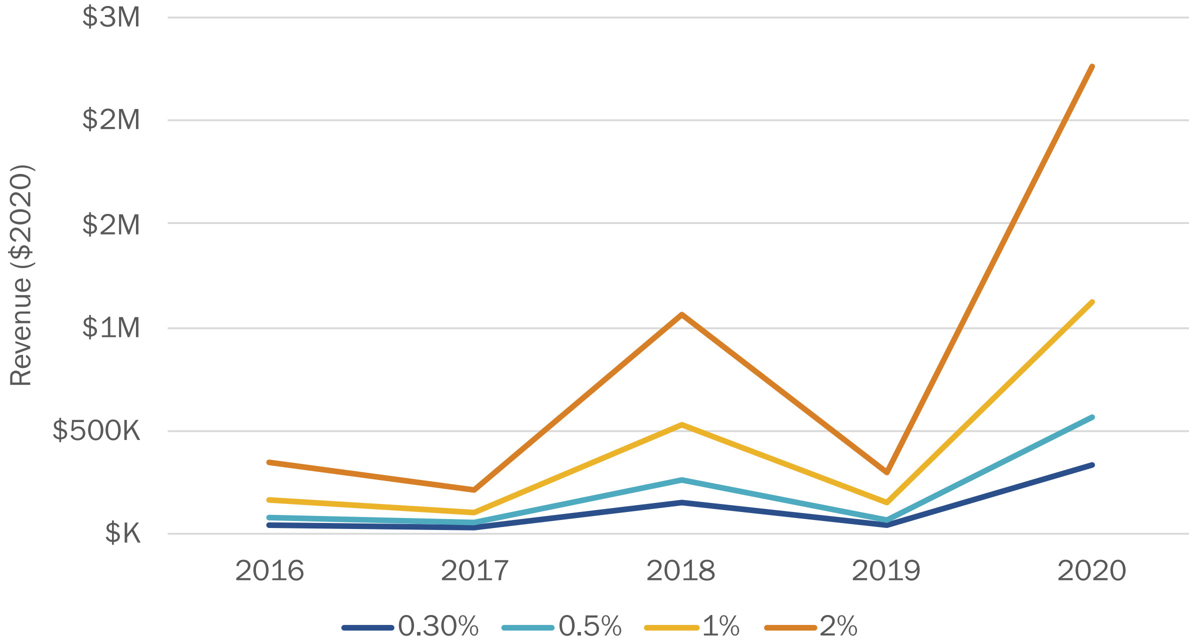


Exhibit 4. Historical Minimum, Maximum, and Average Annual Potential Commercial/Industrial CET Revenue by Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

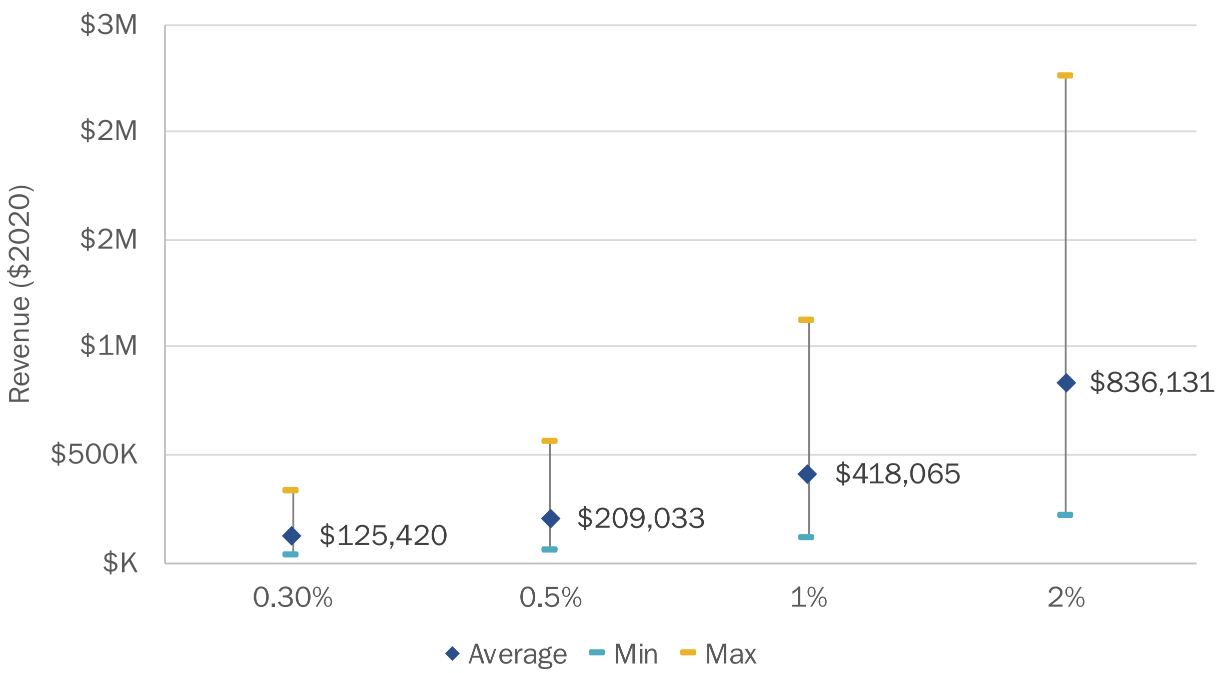


Exhibit 5. Potential Annual Residential CET Revenue by Year and Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.

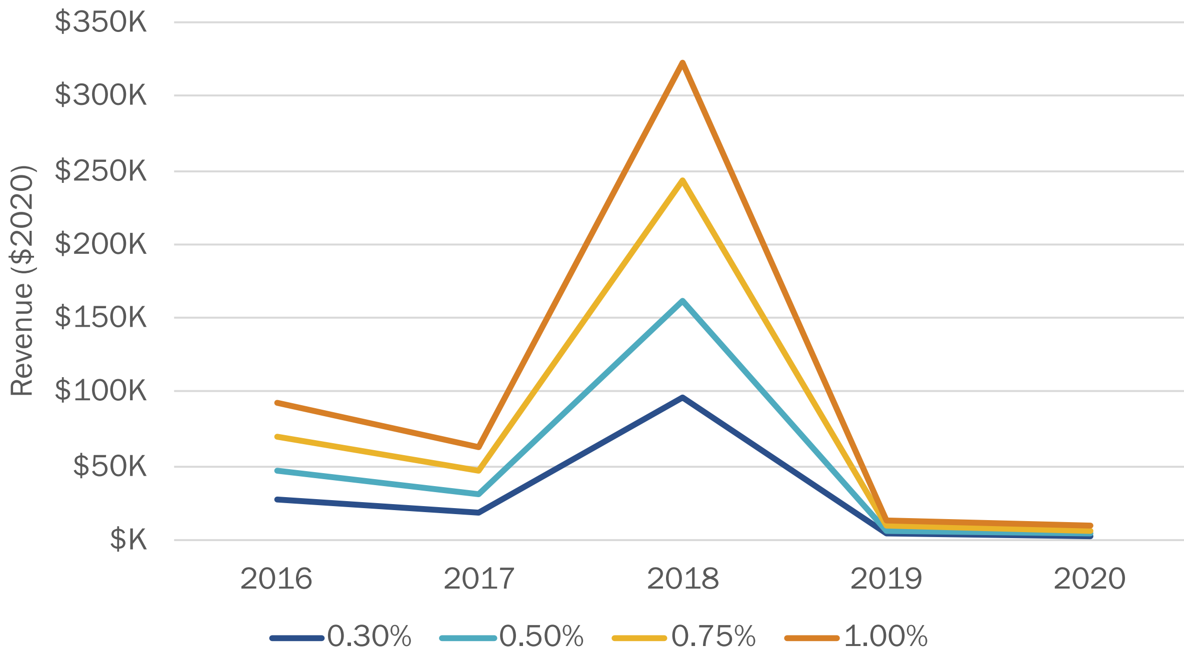
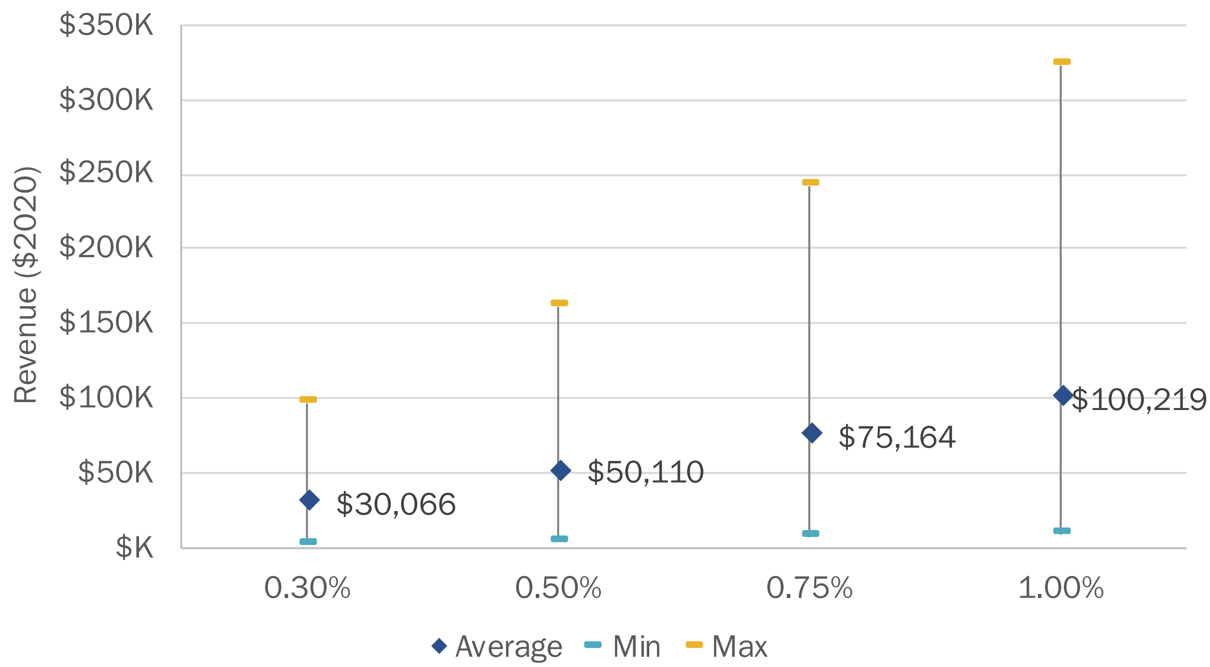
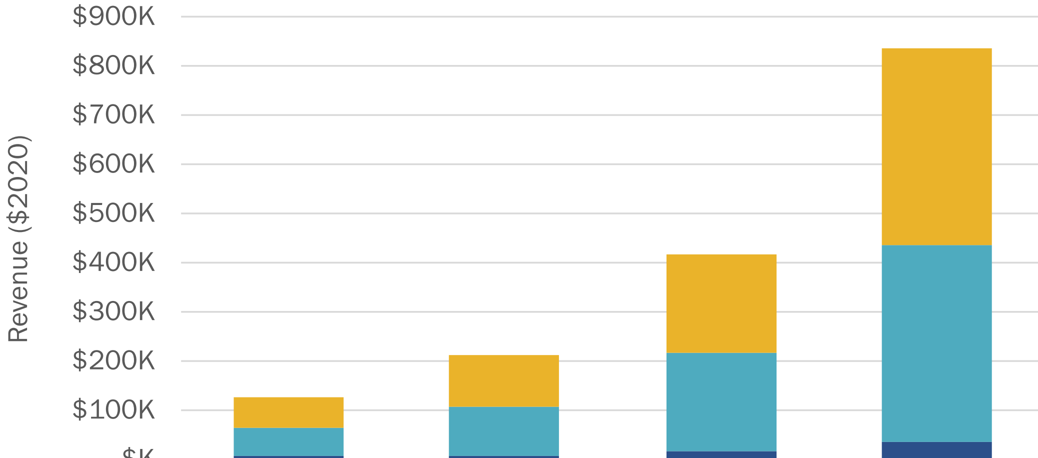


Exhibit 6. Historical Minimum, Maximum, and Average Annual Potential Residential CET Revenue by Rate (2016 to 2020)
Source: ECONorthwest analysis of City of Tualatin permit data.



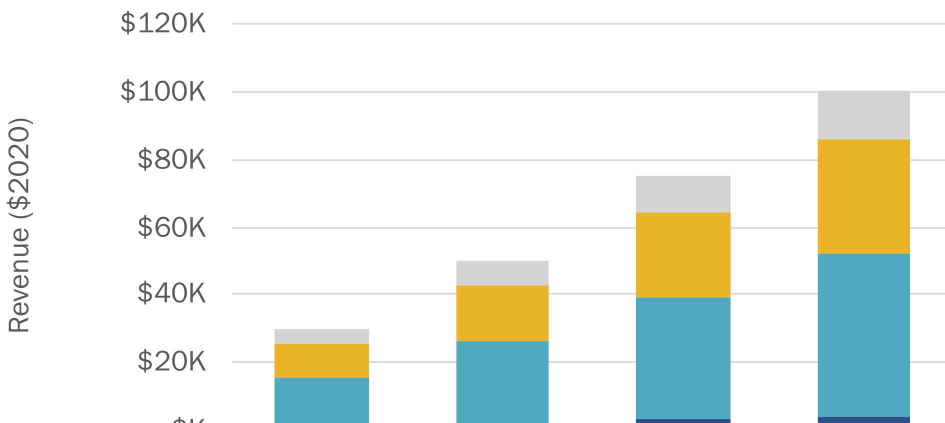
Based on the statutory requirements about use of funds, ECONorthwest translated the average annual simulated CET collections between 2016 and 2020 into funds available for each funding category, as shown in Exhibit 7 and Exhibit 8.

Exhibit 7. 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 8. 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. 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 towards 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 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 pursuing unless the City annexes a large amount of vacant residential land where higher-end new housing is expected.

If the City chooses to move forward with 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.