AGENDA

Tualatin Housing Implementation Plan: Strategic Equitable Housing Funding Plan Advisory Committee Meeting #4

2/15/2022

5:30 – 5:45 PM	**Review of Previous Meetings** ▪ Strategic action types ▪ Funding for affordable housing ▪ Housing needs in Tualatin
5:45 – 6:15 PM	**Fiscal Impacts and Tradeoffs** ▪ Key assumptions for strategic actions ▪ Conclusions of the analysis
6:15 – 6:45 PM	**Equity Impacts and Tradeoffs** ▪ Benefits and challenges by strategic action ▪ Recommendations ▪ Key questions for decisionmakers
6:45-7:00 PM	**Next Steps**

ECONorthwest
ECONOMICS · FINANCE · PLANNING

DATE: February 8, 2023
TO: City of Tualatin
FROM: ECONorthwest
SUBJECT: Tualatin's Equitable Funding Action Plan: Draft Strategic Actions Analysis

This memorandum presents several chapters from the draft Funding Action Plan, providing a review of the issues discussed to date and conclusions about potential funding and equity considerations.

1. Housing Needs and Development Funding Structures

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

Housing Needs in Tualatin

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

How many affordable units are needed for Tualatin?

The HPS identified the total need of new units in Tualatin over the next twenty years and the breakdown of these units by household income levels (based on analysis from Tualatin's 2019 *Housing Needs Analysis)*. This plan details affordable housing funding tools to intended to meet these housing needs.

According to the HPS, Tualatin is forecast to grow by about 1,014 total new units to accommodate expected population growth over the 2020 to 2040 period. Approximately 600 new units of this 1,000 would need to be for low- and moderate-income households, often referred to as "workforce housing." The number of units needed for extremely and very low income households is also large share of these units; the amount needed for these residents is similar to the number needed for all market rate housing in Tualatin in this 20-year time period. Without strategic actions and city intervention, it is unlikely that these units will be built.

We assume that about half of those 600 affordable units are needed in the next ten years. In addition, Tualatin has nearly 6,500 existing households in these income groups, many of whom have unmet housing needs. The distribution of units needed by level of income proportionate to median family income (MFI) is shown in Exhibit 1.

This project is intended provide more information about selected strategic actions from the HPS that address unmet needs for new and existing households with incomes below 120% of MFI.

Exhibit 1. Forecast of New and Existing Households by Income Level, Tualatin, 2020 to 2040
Source: Tualatin Housing Needs Analysis, 2019

Total		254	1,014	8,169
Income Category	**MFI Level**	**New Units Needed in 5 Years**	**New Units Needed in 20 Years**	**Existing Households**
Extremely and Very Low Income	<50%	77	307	3,288
Low Income	50-80%	38	151	1,588
Moderate Income	80-120%	39	157	1,614
Market Rate	120%+	100	399	1,679
Total	-	**254**	**1,014**	**8,169**

How can cities support affordable housing development?

Housing development is a complex process that requires inputs from numerous interrelated markets and players, and each input to development functions in its own market with supply and demand factors constantly in flux. Exhibit 2 illustrates the key factors necessary for development to occur. Cities have varying influence on these factors.[1]

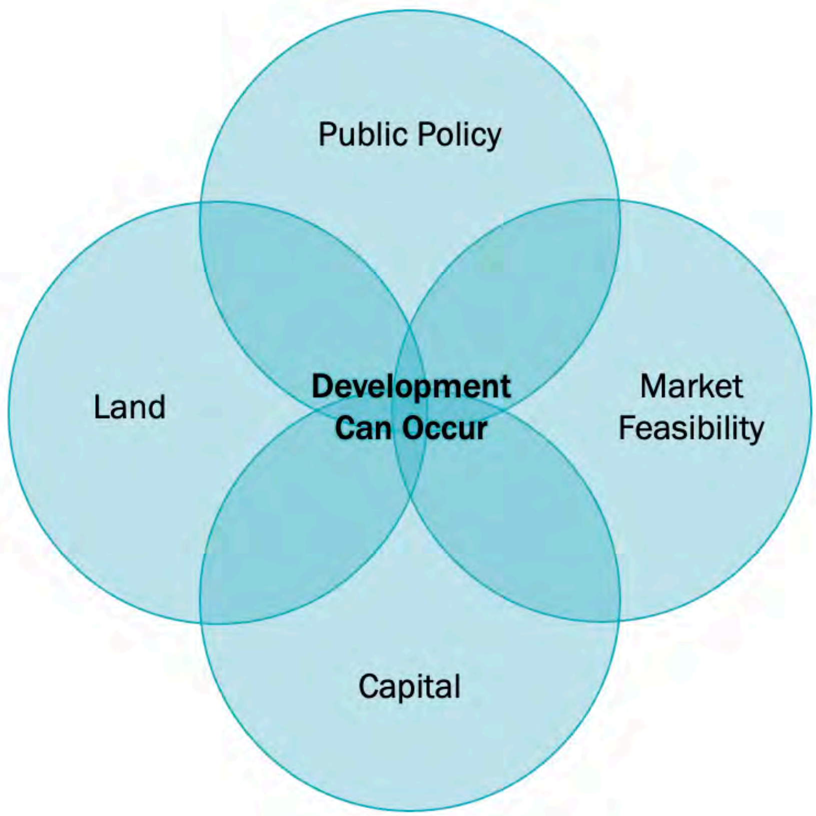
- **Land.** Landowners and property developers evaluate opportunities for development that can occur on a specific parcel. The city can influence availability of land through ensuring that there is enough land within the city to accommodate 20-years of growth, which is done through completing a *Housing Needs Analysis* (HNA), which Tualatin did in 2019. Making the provision of affordable housing an even greater challenge, the HNA found that Tualatin had limited buildable land available. Cities also have influence on land for development through planning for and building infrastructure necessary to support development, such as roads, water service, wastewater services, and stormwater services.
- **Public Policy.** Cities set public policies that affect development, such as zoning, density, building height, or subdivision policies.
- **Market feasibility.** This is a process that assesses the demand for development – comparing the expected revenues against the investment costs (e.g. labor and materials) – for the desired types of development. If a development project is not feasible, it will not be built. Cities can influence market feasibility through policies that lower the costs

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

of development or lower the costs of operating the new housing, such as waiving fees or offering property tax exemptions.

- **Capital.** Building housing requires access to capital to pay for the costs of development, and influences market feasibility through the financing terms set by the lender and the returns expected by the investor. When real estate development cannot meet return requirements of potential inventory, building housing becomes infeasible. Cities have a more minor role in supplying capital for construction, generally limited to funding rehabilitation programs or occasionally, more significant funding for affordable housing development.

Exhibit 2. Factors Influencing Housing Development
Source: ECONorthwest

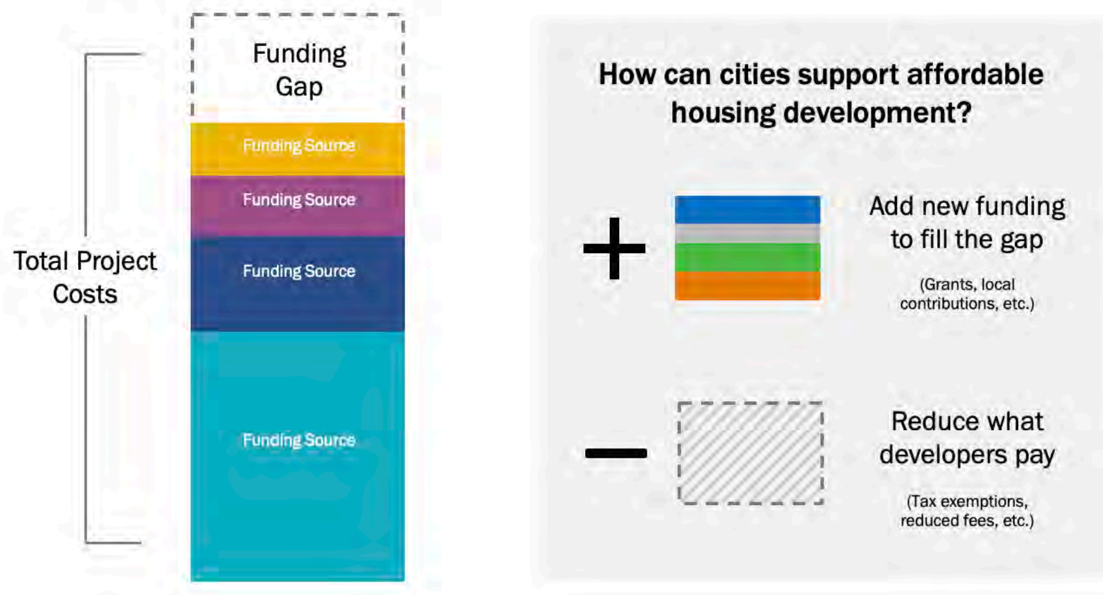


This project is primarily concerned with supporting development of housing affordable below 120% of MFI, which can be separated into two categories: *income-restricted* housing affordable to households with income of 60% of MFI or less and *market-rate* affordable housing affordable to households with incomes of 60% to 120%. Most funding for *income-restricted* housing comes from state and federal sources, such as Low-Income Housing Tax Credits (LIHTC), or nonprofit sources. Developing market-rate affordable housing (affordable to households with income of 60% to 120% of MFI) has different sources of funding, which are more likely to be private funding sources but can include some public funding. Funding to support development of market-rate affordable housing is less readily available from public sources, making it less common because it is typically not financially feasible. The intention of the strategic actions under consideration in this plan is to increase market feasibility for development, by lowering development costs or supplementing available funding for either income-restricted housing or market-rate affordable housing with rents that are below market-rate.

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

The primary approaches that jurisdictions take to overcome these funding gaps are by directly contributing local funds, reducing costs associated with development (such as permitting fees or system development charges), or providing services such as technical assistance. Exhibit 3 illustrates a potential funding source.

Exhibit 3. Illustration of potential funding gap for affordable housing development
Source: ECONorthwest



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

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

2. Strategic Actions that Generate Funds for Affordable Housing

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

HPS Actions and Funding Plan Tools

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

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

Construction Excise Tax (CET)

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

  For residential CET:

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

  For commercial/industrial CET:

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

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

  Based on historical permitting between 2016 and 2020, over a **five-year** time period if Tualatin assessed a tax of 0.5%, on the low end of the allowable rate, collections from new commercial and industrial development could generate:

\+ For Residential CET*

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

\+ For Commercial/Industrial CET

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

Combined

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

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

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

Urban Renewal District

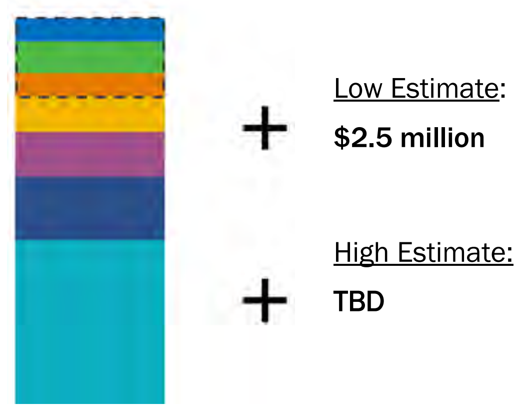
- **What does it do:** Within an active urban renewal district, tax increment financing (TIF), allows the jurisdiction to borrow against future property taxes in order to finance expenditures on current capital projects. This would be within specific district boundaries to support goals identified in the plan, including housing development. TIF funds cannot be used outside of the district and is mostly limited to capital projects. Cities sometimes use a share of revenue from urban renewal districts towards housing goals within district boundaries, including infrastructure that supports affordable housing or direct support for rehabilitation, acquisition, or site preparation.
- **Who initiates it:** In Oregon, after an area has been deemed 'blighted,' a local urban renewal agency can propose an urban renewal plan, which must go through a hearing with public testimony and planning commission recommendations. City Council may then adopt the urban renewal plan by ordinance. Assuming a TIF borrowing will be undertaken, a framework for the eligible uses of those TIF funds would be developed by the City, including any goals for affordable housing.
- **How does it work:** Tualatin's Core Opportunity Reinvestment Area, comprising commercial areas south of Bridgeport Road, Town Commons, I-5 Corridor, and

Tualatin-Sherwood Road, has potential to provide funding for housing projects within the area boundaries.

- **How can Urban Renewal be used to support affordable housing**: The Urban Renewal Plan for Tualatin's Core Opportunity Reinvestment Area could be used to support development of new infrastructure (such as water or wastewater upgrades or flood mitigation), land acquisition and parcel assembly, and for a variety of housing options.

  The City has not yet identified any specific actions that it will take to support housing development but expects to identify those actions as it implements the Urban Renewal Plan. Mixed-income development that integrates market-rate and affordable housing is a route that the City could pursue to avoid concentrating a large amount of affordable housing in one area, while still increasing the overall supply of units.

- **What is its potential funding impact:** Tualatin's newly adopted urban renewal area in the Core Opportunity Reinvestment Area could integrate goals for housing and access urban renewal funds. The current estimates for revenue to be generated in the next thirty years range from $248 to $362 million.[2] However, only a portion of this total funding would potentially go towards housing. The amount of funding available to support affordable housing development will be decided as the City implements its Urban Renewal plan. The City could also dedicate land currently owned by the City within the urban renewal area, which would also reduce acquisition costs for developers.

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

- **Limitations of Urban Renewal:** Urban Renewal funding can only be spent within the Urban Renewal District, which is a limited area within Tualatin, around downtown. Much of the Urban Renewal District area is in the floodplain, so the City will need to be careful to ensure that new housing is designed in locations that are sufficiently elevated above the flood plain and constructed of appropriately flood-resistant materials.

- **Equity Considerations:** Urban Renewal can provide a large amount of funding for housing for extremely and very low-income households. However, because it is geographically limited to the boundaries of the urban renewal plan area, it also has the potential to create areas of concentrated poverty. Housing in different areas of the city

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

can also help to meet diverse household needs: for some it is critical to be located near social services, while other households (such as low-income families with children) may need to be located closer to amenities like schools and parks.

Summary of Potential New Funding for Affordable Housing

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

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

Exhibit 4. Rough Estimate of Potential Tools to Generate Funds

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

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

3. Strategic Actions that Reduce Costs for Affordable Multifamily Development

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

In some cases, these tools could be used within a project that is eligible for multiple programs or combined with other tools that contribute funding, such as funds from the Construction Excise Tax. In many cases, these tools are combined with each other, as well as other ways to support affordable housing development, such as paying for needed infrastructure upgrades or land acquisition costs with Urban Renewal.

HPS Actions and Funding Plan Tools

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

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

Nonprofit Low Income Tax Exemption

- **What does it do:** This tool provides a full property tax exemption for nonprofit-owned affordable housing serving households with incomes at or below 60% of MFI. This tax exemption supports development of income-restricted housing.
- **Who initiates it:** City Council can adopt the provisions of ORS 307.540 to 307.548 on its own taxes but requires approval from other taxing districts to extend beyond City taxes. The City's property taxes account for 16.5% of all property taxes, with the overlapping taxing districts including the Tigard-Tualatin School District (44.7%), Washington County (17.3%), Tualatin Valley Fire and Rescue (12.2%), Portland Community College (3.8%), Metro Regional Government (3.3%), Northwest Regional Education Service District (0.9%), Tigard-Tualatin Aquatic District (0.5%), and Soil Water Conservation Tualatin (0.5%), and Port of Portland (0.4%).
- **How does it work:** The City presently has adopted an exemption to only its own property taxes for low-income rental housing. It may also explore whether additional taxing districts are willing to join in the exemption. If the districts whose taxes comprise at least 51% of the total tax roll agree to participate, then all taxes for all districts would be exempted. This would provide a 10-year exemption for property owned or operated by a nonprofit entity, which may be renewed after the first ten years.

- **What is its potential funding impact:** This tax exemption is most effective when it all taxing districts participate. It is likely not a sufficient incentive to meaningfully support housing development if overlapping taxing districts do not participate.

  Tested on comparable developments in Tualatin and Tigard, over **five years** the **City's** nonprofit exemption would likely result in the City foregoing approximately $900 per year (an amount that will vary over time) for each unit. Assuming development of a building with 100 units of income-restricted affordable housing, the City would forgo about $90,000 per year in property taxes in a five-year time frame.

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

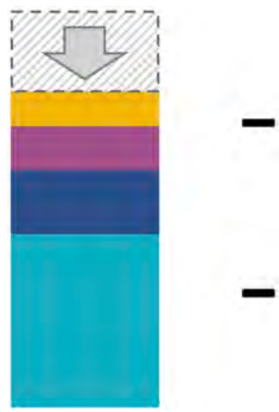
- **Equity Considerations:** Many nonprofit organizations also serve specific populations and may provide culturally specific or supportive services alongside housing. Examples in the region include Las Adelitas operated by Hacienda CDC, Casa Amparo operated by Centro Cultural, and Nesika Illahee operated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

Multiple Unit Property Tax Exemption (MUPTE)

- **What does it do:** MUPTE provides a property tax exemption for up to ten years on the residential building portion a property (but not land or building area for other uses such as commercial space). The incentive is for private developers of housing affordable to households with incomes of 60% to 120% of MFI. MUPTE can be used to support development where all housing in the building is affordable below 120% of MFI or mixed-income housing, where some housing is priced higher.
- **Who initiates it:** City Council can adopt the exemption on its own taxes but requires approval from other taxing districts to exempt all property taxes on the building.
- **How does it work:** The City can exempt only its own property taxes for nonprofit low-income housing, or all taxes for all districts if the districts whose taxes comprise at least 51% of the total tax roll agrees to participate. This program is flexible, with City discretion over many aspects of eligibility, including the level of affordability

requirements, the minimum number of units in the property, and any design requirements.

- **What is its potential funding impact:** MUPTE could potentially create an incentive for private developers to offer rental units at a discounted rate that is affordable to moderate-income households. Other cities in Oregon have used this program with different configurations for affordability, though not all jurisdictions have these requirements:
  - In Newport, to meet MUPTE's local affordability requirements, projects may provide 20% of units at 80% of MFI or below, 10% of units at 60% of AMI or below, or make an in-lieu payment equal to 10% of the total property tax exemption.
  - In Salem, projects using the program with 100 units or more must provide at least 15% of units at affordable at 80% of MIF or below, or at least two public benefits (such as daycare facilities, ground level commercial space, etc.).
  - In Bend, the program does not have an explicit affordability requirement. Instead, developers must provide at least three public benefits from a list in the Municipal Code, which includes 'Affordable Housing' and 'Middle Income Housing,' though developers can alternatively include other features, including childcare, open space, or green building features.
- When tested on recent multifamily buildings in Tigard and Tualatin, the value of the exemption for the **City's** portion in **five years** was $1,439 for each unit. Assuming that a developer used the program on a new building with 100 units of income-restricted affordable housing, the **City** would forgo about $144,000 in property taxes over five years.



Operating Cost Reduction Per Unit (City Only, over 5 Years):

$1,439

Operating Cost Reduction Per 100 Units (City Only, over 5 Years):

$144,000

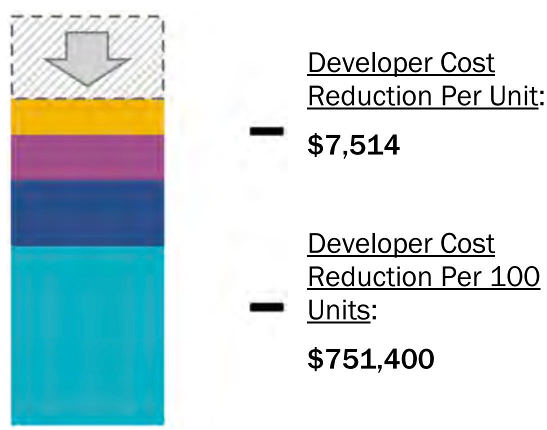
  The program configuration tested in our analysis (20% of units at 80% of MFI) would provide a net benefit to developers if the tax abatement applies to all overlapping taxing districts. However, **the city's share of the tax exemption alone is insufficient to provide a net incentive for developers**.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

  Potential sources of replacement funding: The City could backfill the forgone property taxes from MUPTE through use of CET funds if so desired.

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

System Development Charge (SDC) Exemption

- **What does it do**: System Development Charges are one-time fees for new development, both for single-family and multifamily housing, that help pay for increased loads on infrastructure systems. Exempting SDCs reduces the upfront fees developers pay for those who provide new affordable units. In most cases the City will be required to backfill exempted SDCs from CET or another funding source.
- **What SDCs are paid in Tualatin**: New development pays the following SDCs:
  - Tualatin-specific SDCs: Water (typically around $1,150 per unit in a multifamily building, but varies based on the size of water meter) and Parks ($6,371 per unit)
  - SDCs for other service districts: Transit Development Tax ($6,542 per unit) and Sewer ($7,266 per unit)
- **Who initiates it**: City Council can adopt the exemption for City SDCs but would have to identify a source to backfill the forgone revenue from other sources. The City could also request that other districts that assess SDCs (sewer) or TDTs (roads) adopt an exemption, but either the City or that entity would also need to backfill the forgone revenue.
- **How does it work**: The City can exempt the system development fees that it controls for Parks and Water. In most cases, the City will be required to backfill the costs of the SDC waivers. If the City wanted to subsidize the costs of SDCs collected by other service providers (such as sewage or TDT), the City could subsidize those costs in agreement with the developer. The City could decide what level of affordability and the number of affordable units it will require for an exemption. SDC exemptions can be used to support development of both income-restricted and market-rate affordable units.
- **What is its potential funding impact:** Tualatin could provide an exemption for its two SDCs for Parks and Water but would likely have to backfill the forgone



revenue.[3] Exempting both **city-controlled SDCs** in multifamily buildings over **five years** would amount to approximately $7,514 per unit, or $751,400 for 100 multifamily units in that time period.

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

Summary of Potential Cost Exemption Programs for Affordable Multifamily Development

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

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

Exhibit 5 shows what the total forgone revenue would be per unit and per 100 units over time. This analysis is based on the property taxes derived from the cost of recent buildings in the Tualatin area but would be likely to change over time based on construction costs, inflation, and other economic factors.

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

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

Exhibit 5. Potential Tools for Subsidize Multifamily Development

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

Tool	Funding Considerations	Impact on Affordable Housing	Five Year Estimate		Twenty Year Estimate	
			Per Unit	Per 100 Units	Per Unit	Per 100 Units
Nonprofit Low Income Tax Exemption	• Flexibility for City to set up program requirements • No required end to duration, renewable after 10 years • Supports deep affordability (<60% MFI)	Low	$900[4]	$90,000	$3,600	$360,000
Multiple Unit Property Tax Exemption	• Needs to create an incentive to private development • 10-year duration • Supports workforce housing (60-80% MFI)	Medium	$1,439	$144,000	$2,878[5]	$287,800
System Development Charges Exemption	• City will likely be required to backfill forgone revenue • Flexibility for City to set up program requirements • Can be set up to support workforce housing or deeper affordability	Medium	$7,514	$751,400	$7,514[6]	$3,005,600[7]

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

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

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

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

4. Strategic Actions to Increase and Retain Homeownership

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

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

HPS Actions and Funding Plan Tools

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

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

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

To understand the amount typically provided, this section references observations from other down payment and home rehabilitation programs in Oregon (see 'Homeownership Assistance Analysis' memorandum). Exhibit 6 provides a summary of the range of assistance provided by type.

Exhibit 6. Summary of Homeownership Assistance Program Types
Source: ECONorthwest analysis

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

*These ranges are derived from case studies in this analysis but not exhaustive of programs in Oregon
**If over $100,000 of state CDBG funds are used for administration costs they must be matched, but otherwise would not carry a matching requirement[8]

Down Payment Assistance

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

  Typically, programs that provide access to homeownership are able to reach households at 80 to 120% of MFI, while rental programs are more efficient at targeting deeper levels of affordability.[9] Although these programs typically have a higher cost per household served, they are aimed at providing longer term stability.

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

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

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

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

  Some jurisdictions may choose to implement their own independent program directly. Local programs may allow city staff flexibility in setting stronger MFI provisions and measures to achieve equitable outcomes but will have higher administrative costs and staff effort needed.

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

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

+ Per 10 Units – Low: **$250,000**

+ Per 10 Units – High: **$1,100,000**

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

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

- **Equity Considerations:** Assisting first time homebuyers can be an effective strategy to help address the racial wealth gap in the United States.[10] Many people of color have been historically prohibited from purchasing homes through discriminatory practices, unable to access federal programs such as low-interest loans, and prevented from accumulating the generational wealth that many rely on for purchasing their first

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

home.[11] Down payment assistance can address the continuing homeownership gap by allowing households to overcome initial financial barriers to purchasing a home, but does not fully address these systemic inequalities.[12] Additionally, publicly funded and/or administered programs cannot give preference based on race or ethnicity, making it challenging to direct down payment programs specifically to homebuyers of color.

Home Rehabilitation

- **What does it do:** Home rehabilitation programs can help low to moderate income homeowners to pay for the following types of housing maintenance:
    - Major home repairs, such as roofing, electrical, or plumbing issues. The purpose of major home repair programs is to help people stay in their homes by addressing larger-scale maintenance problems that may force a homeowner to sell their house if they are unable to do essential work. *Typical Cost: $10,000-50,000*
    - Accessibility improvements include upgrades such ramps, doorway modifications, or handrail installation for seniors and/or disabled residents. These serve homeowners who may not have needed accessibility features when they purchased their home. *Typical Cost: $10,000-20,000*
    - Weatherization makes buildings more energy efficient by making upgrades to features like siding, windows, or mechanical systems. These improvements can reduce utility costs and contribute to climate goals, and proactively extend the life of housing units for existing homeowners. *Typical Cost: $7,500-10,000*
- **Who initiates it:** The City could initiate its own program with local funding or coordinate with existing programs to connect residents to these resources. Washington and Clackamas counties operate home rehabilitation programs in nearby jurisdictions, with whom the City could work to provide funding and resources specific to Tualatin:
    - Washington County's HARDE program is available for residents below 50% of MFI who are disabled or over the age of 62. Although it is primarily targeted at homeowners, renters may also apply for accessibility improvements up to $10,000. The deferred interest-bearing loans (DIBL) program is also available is for homeowners between 50-80% MFI up to $25,000.
    - Clackamas County also provides assistance through accessibility grants up to $7,500 for low-income homeowners and eligible renters at or below 80% of MFI; and a

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

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

deferred payment loan (DPL) program for home repair loans up to $35,000 depending on the project type. DPL also covers weatherization up to $25,000.

- **How does it work:** These programs provide funds to individual households either through low-interest/deferred payment loans or outright grants for specific types of home projects. Deferred payment loans in both Washington and Clackamas County accrue only 3% interest for up to ten years and do not need to be paid monthly.
- **What is its potential impact:** Like down payment assistance, partnerships with the county and nonprofit organizations are often an effective way to deliver home rehabilitation programs. To understand the amount of assistance typically provided, we surveyed other home rehabilitation programs surveyed in Oregon, including City and County-funded programs, summarized above in Exhibit 6.

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

\+ Per 10 Units – Low:
$75,000

\+ Per 10 Units – High:
$500,000

- **Limitations of the rehabilitation assistance:** Like down payment assistance, home rehabilitation is typically more expensive per household served than strategies that target multifamily housing. This substantial funding typically goes to households that are moderate income (between 80 to 120% of MFI), rather than households with low (50-80% of MFI) or extremely and very low (<50% of MFI) incomes.
- **Equity Considerations:** Home rehabilitation work targets people who are already homeowners, but who may still face displacement pressures due to a number of circumstances. Some types of home repair work explicitly towards equitable outcomes, such as accessibility improvements for disabled residents or older adults.

Summary of Potential Strategic Actions to Increase and Retain Homeownership

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

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

Exhibit 7. Potential Tools to Support Homeownership

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

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

5. Tradeoffs and Conclusions

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

Housing Needs

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

Income Category	Affordability MFI Level	New Units Needed in 5 Years	New Units Needed in 20 Years
Extremely and Very Low Income	<50%	77	307
Low Income	50-80%	38	151
Moderate Income	80-120%	39	157
Market Rate	120%+	100	399
Total	-	**254**	**1,014**

Fiscal Impacts and Tradeoffs

Increases or decreases to the taxes or fees that developers pay can have a myriad of impacts. Some considerations to take into account:

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

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

Exhibit 8. Summary of Financial Tradeoffs Between Funding Tools

Tool	Population Served	Provides, Forgoes or Requires Revenue?	Estimated Funding Range	
			5 Years	20 Years
Construction Excise Tax	Moderate Income and lower-income households	**Provides Funding**	$251,000-502,000	$832,000-$1,664,000
Urban Renewal	Current and future residents within urban renewal area	**Provides Funding**	$2.5 million	$2.5 million
Nonprofit Low Income Tax Exemption	Extremely and Very Low Income (<50%)	**Forgoes Revenue**	$90,000[13] per 100 units	$360,000 per 100 units
Multiple Unit Property Tax Exemption	Low Income (50-80%)	**Forgoes Revenue**	$144,000[14] per 100 units	$287,800 per 100 units[15]
System Development Charges Exemption	Extremely and Very Low Income (<50%) or Low Income (50-80%)	**Forgoes Revenue**	$751,400 per 100 units	$3,005,600 per 400 units[16]
Down Payment Assistance	Moderate Income (80-120%) Seniors or disabled residents	**Requires Funding**	$250,000 - $1,100,000 per 10 units	$1,250,000-4,400,000 per 40 units
Home Rehabilitation	Moderate Income (80-120%)	**Requires Funding**	$75,000 - $500,000 per 10 units	$300,000 - $2,000,000 per 40 units

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

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

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

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

Equity Impacts and Tradeoffs

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

Exhibit 9. Summary of Equity Considerations Funding Tools

Strategic Action	Equity Benefits	Equity Challenges
Construction Excise Tax	• Allows some flexibility in deciding how to use revenues • The City could choose to focus on programs that have specific equitable outcomes	• State statute somewhat limits the options for what can be done with CET; a portion for residential must go towards developer incentives • A CET increases housing costs for some types of housing to lower costs for more affordable housing.
Urban Renewal	• Can provide a larger amount of funding for housing for extremely and very low-income households, as well as low- and moderate-income households	• Geographic limitations create the potential to create areas of concentrated poverty if most of the city's affordable housing is built exclusively in the urban renewal district.
Nonprofit Low Income Tax Exemption	• Supports development of housing that serves very low-income levels • Nonprofits may often provide culturally specific or other services alongside housing • Multifamily housing typically serves more households for less cost per unit	• Tax exemptions forgo revenue for the City general fund which could be used for other citywide programs and operations.
Multiple Unit Property Tax Exemption	• Supports moderate-income and mixed-income development, which may provide affordable units in higher opportunity areas across the city • Multifamily housing may serve more households for less cost per unit	• Limited time frame for program applicability (10 years), after which rents would likely increase to market-rate. • Tax exemptions forgo revenue for the City general fund which goes to citywide programs and operations.
System Development Charges Exemption	• Can be used to support development of housing that serves low-income levels • Multifamily housing may serve more households for less cost per unit	• Higher cost per household means that assistance serves relatively fewer people
Down Payment Assistance	• Often benefits households who have been historically excluded from homeownership • Allows households to build intergenerational wealth through home equity	• Higher cost per household means that assistance serves relatively fewer people • Limited funding creates challenging questions around who receives assistance
Home Rehabilitation	• Benefits existing low-income homeowners in Tualatin and ensures longer term stability • Some programs specifically provide resources for disabled residents and seniors	• Higher cost per household means that assistance serves relatively fewer people

Conclusions

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

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

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

- **Down payment assistance** has a high cost on a per unit basis and can likely only serve a small number of households. While urban renewal revenue could potentially be used for funding these programs, single family homes do not comprise a large share of the new Core Opportunity Reinvestment Area. Based on a survey of what other jurisdictions offer, the cost for a down payment program could range from **$250,000** to **$1,100,000** in the next five years.
- For **home rehabilitation** programs, the cost per household and direct equity benefit varies substantially depending on the type of project. The projected cost for a home rehabilitation program in the next five years could range from **$75,000** to **$500,000**. Several other state and federal sources are also available for home rehabilitation programs which the City could pursue outside of the tools in this plan (see Exhibit 12).

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

- **CET will not produce enough revenue to fund all of these programs**, as it is only estimated to provide up to **$500,000** in the next five years if it covered residential, commercial, and industrial construction. The state also sets out rules for how revenue must be distributed. Construction and industrial CET is flexible, but **50 percent of**

residential CET revenue must go developer incentives like tax exemptions and SDC exemptions (about $48,000).

- **Urban Renewal** may be able to provide the largest single source of funding at **$2.5 million** in the next five years, which can potentially help to fund SDC exemptions and homeownership programs. However, **urban renewal funds are not able to meet all of Tualatin's affordable housing needs because their use is geographically limited to the boundaries of urban renewal districts.** There is limited single-family housing currently within the Core Opportunity Reinvestment Area that could use down payment or home rehabilitation assistance. Additionally, concentrating a large share of Tualatin's new affordable units in one area could have unintended consequences of creating a concentrated area of poverty.

Additional Questions for Decisionmakers

The City will need to carefully consider how to spend the limited local funding that will be available for affordable housing in the next five years. The following questions are intended to help guide decision makers in Tualatin in how to allocate these resources.

- Does the City want to prioritize serving more renter households through multifamily housing programs or providing homeownership support for a smaller number of households? What is most efficient? What best fits the City's equity goals?
- Would the City fund the remaining gap between costs needed for down payment assistance/home rehabilitation? How much could the City provide per year beyond CET and urban renewal funds? Would it pursue alternative external sources like state or federal funding?
- Is the City interested or able to forgo local tax exemptions like the nonprofit tax exemption and MUPTE as opposed to backfilling? Would the City want to use the share of CET for developer incentives to backfill MUPTE? Or the nonprofit tax exemption? SDCs?
- Could some of the SCD exemptions be applied in the Core Opportunity Reinvestment Area? How much urban renewal revenue is the City willing to dedicate to housing?

Additional Funding Tools

ECONorthwest evaluated additional potential funding tools such as new taxes or fees that could be used to fund affordable housing initiatives, as well as grants, partner contributions, and state funding (detailed in the Additional Funding Tools Analysis memorandum and summarized below in Exhibit 12).

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

Exhibit 10. Summary of New Funding Sources Evaluated

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

System Development Charges (SDCs)	Low	An increase to the city's existing one-time fees charged on new buildings, paid by developers	Conflicts with strategy to exempt SDCs for certain affordable development
New Taxes and Fees			
Business License Fee	Low	An additional fee issued with new business licenses	Could hinder economic development goals
Food and Beverage Tax	Low	A tax added to food and beverage sales within the city, paid by consumers	Unlikely to be politically viable
Real Estate Transfer Tax	Low	A tax levied on real estate transactions, paid by property owners	Not proven legal in Oregon
Sales Tax	Low	A tax on retail goods purchased within the city, paid by consumers	Unlikely to be politically viable
Payroll/Business Income Tax	Low	A tax for local business revenue, paid by business owners	Likely to face pushback from business community
Vacancy/Second Home Tax	Low	A tax levied on homes that are unoccupied for a certain period of time, paid by property owners	Likely not legal in Oregon or enough vacation homes
Other Funding Sources			
Donations and Gifts	Medium	Funds given by private foundations, firms, or individuals	Could have a mid-sized to low impact and likely to fluctuate
Grants	Medium	Funding from public agencies or companies for a specific purpose that the city applies for	Dependent on grant writing capacity and changing availability
State Funding (OHCS)	Medium to High	Oregon Housing and Community Services (OHCS) provides a number of funding opportunities for which Tualatin would be eligible including grants and CET	Mostly available as one-time contributions but can be spread out over years
State Funding (OHA)	High	OR HB 2842 (adopted in 2021) directs the Oregon Health Authority (OHA) to provide $10 million in grants to fund the Healthy Homes program aimed at weatherization, accessibility, and home repair programs	A task force is currently working to configure eligibility for households to access program, which the City would need to include in its criteria if it received funding to implement this program
Federal Funding (IIJA)	High	The 2021 Infrastructure Investment and Jobs Act (IIJA) included $3.5 billion in funding for the federal Weatherization Assistance Program (WAP) for states and local jurisdictions nationwide	In Oregon, OHCS has an allocation for WAP; local jurisdictions can apply through them

Approval Processes and Administration

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

The need for City staff resources and ongoing administration/reporting are another consideration beyond funding that may impact whether these tools can be effective. The next section of this report (Chapter 3: Recommendations) includes general discussion of administration but will likely require refinement by the City.

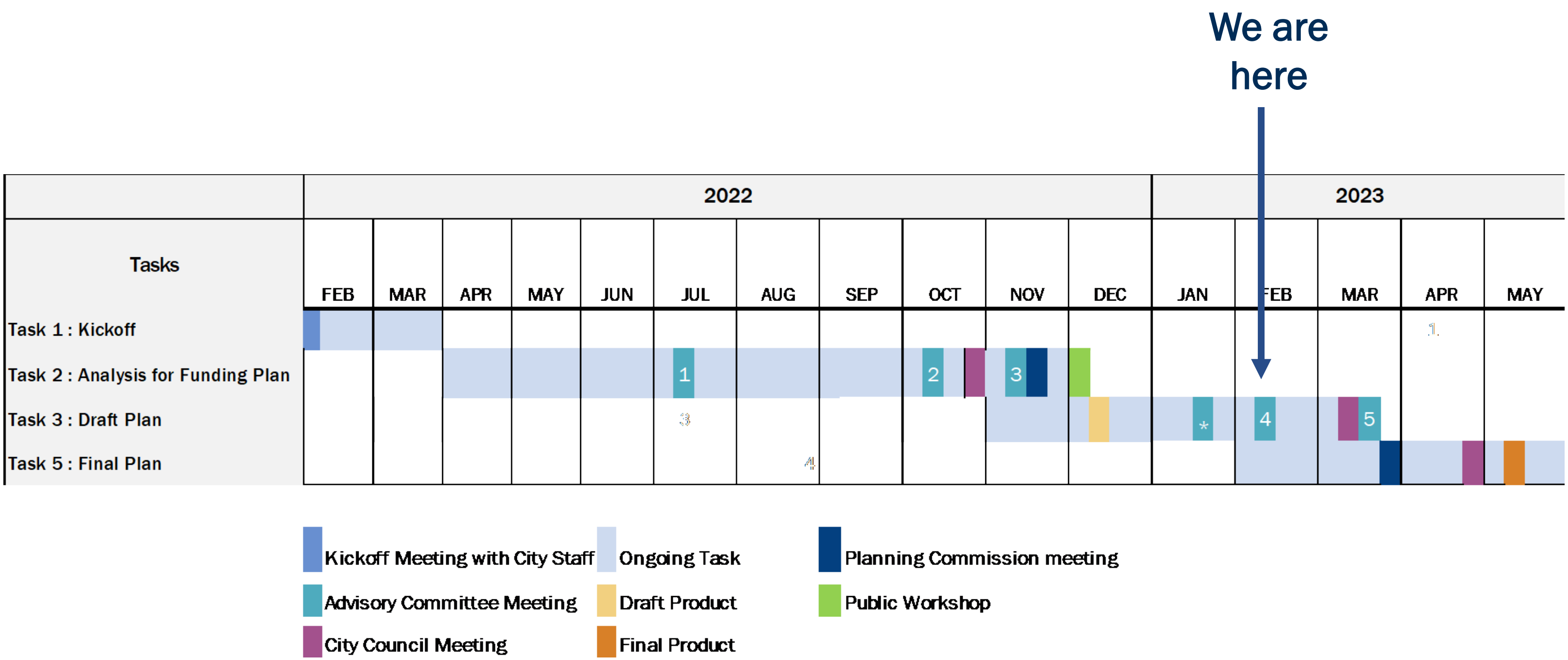
Tualatin's Strategic Equitable Housing Funding Plan

Project Advisory Committee
Meeting 4

February 15, 2023

ECONorthwest
ECONOMICS · FINANCE · PLANNING

Project Schedule and Primary Tasks



Discussion with Committee for this Meeting

- Do you have questions about the strategic actions?
- Do you have feedback about the financial or equity tradeoffs?
- Potential recommendations to the City Council for discussion.

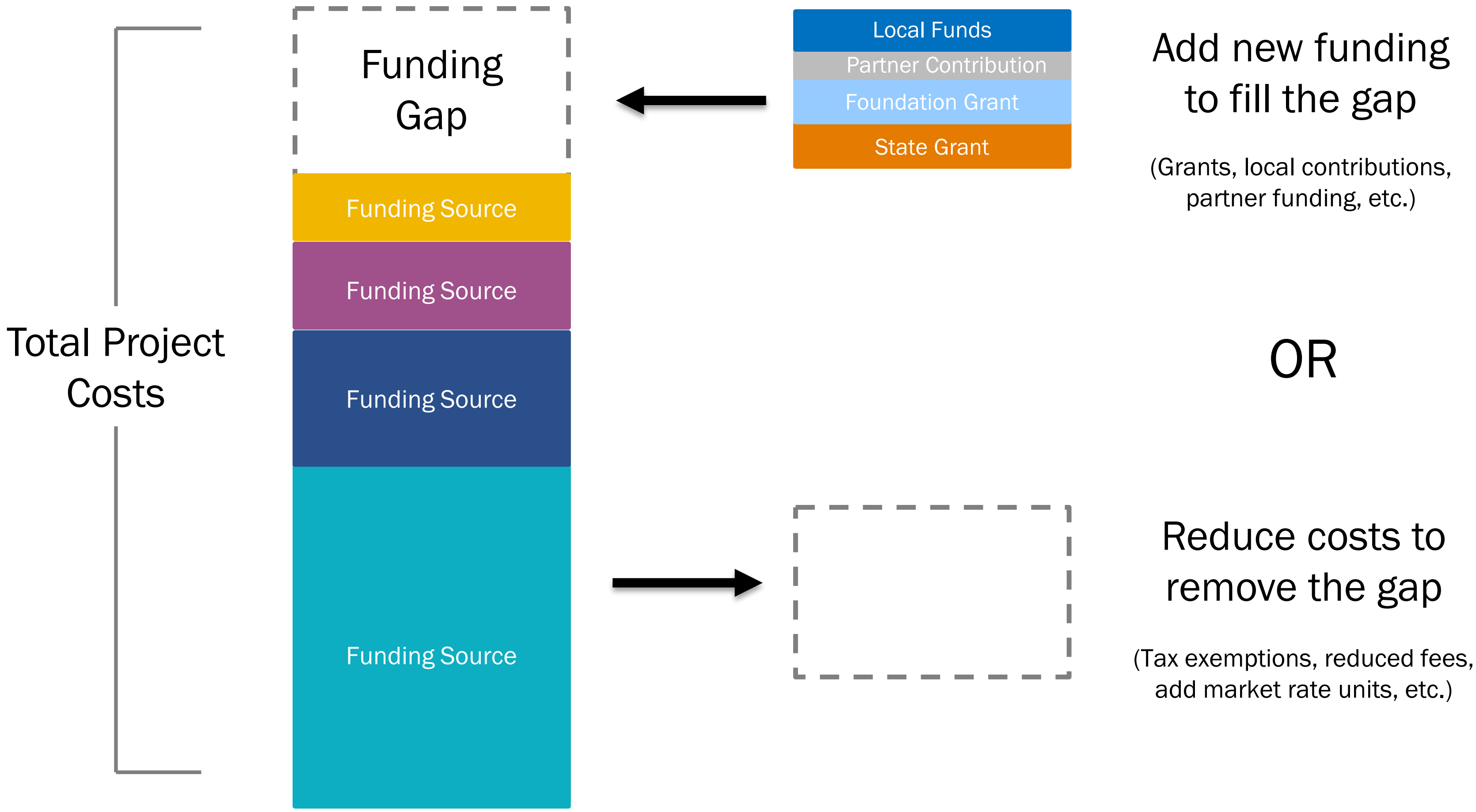
Recap of Previous Meetings

Strategic Actions Discussed

Actions that Generate Revenue	Actions that Forgo Revenue	Actions that Require Revenue
▪ Construction Excise Tax (CET) ▪ Urban Renewal Area	▪ Nonprofit Low Income Tax Exemption ▪ Multiple Unit Property Tax Exemption (MUPTE) ▪ SDC Exemption	▪ Down Payment Assistance ▪ Home Rehabilitation Programs

Funding Affordable Housing

Affordable housing often falls short of the funding necessary for new construction. In order to make projects feasible, developers can…



Forecast of Housing Need in Tualatin, 2020-2040

Total		**254**	**1,014**	**8,169**
Income Category	**MFI Level**	**New Units Needed in 5 Years**	**New Units Needed in 20 Years**	**Existing Households**
Extremely and Very Low Income	<50%	77	307	3,288
Low Income	50-80%	38	151	1,588
Moderate Income	80-120%	39	157	1,614
Market Rate	120%+	100	399	1,679
Total	-	**254**	**1,014**	**8,169**

Targeting Households with Income of 80% or Less of MFI

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

Median Home Sale Price: **$492,000** (Redfin)

Requires $123,000 income (133% of MFI) to afford

Average Monthly Rent: **$1,334** (not including utilities, 2-bedroom units, (CoStar))

Assuming $250 per month in utilities (total of about $1,580 in monthly cost), average rental housing costs requires $63,000 income (65% of MFI) to afford)

Discussion throughout the meeting…

- Do you have questions about the tools?
- Do you have feedback about the financial or equity tradeoffs?
- Potential recommendations to the City Council for discussion:
  - Move forward to implementing the actions in this Plan
  - Use this analysis to inform how to implement the actions, paying attention to the tradeoffs of the actions
  - Other recommendations?

Fiscal Impacts and Tradeoffs

Key assumptions about Estimated Costs/Revenues

Construction Excise Tax (CET)	Urban Renewal Area
Adds revenue to the City through new local regulation	**Adds revenue in a specific area through tax increment financing**
• Assumes that the City would pursue a **1% rate** for both **residential and commercial/industrial CET** • Based on historical prices for residential and commercial/ industrial development in the past 5 years • Estimated $500,000 in revenue over 5 years	• Core Opportunity Reinvestment Area has the most potential to use TIF for affordable housing • Assumes that the City will bond within the first five years of the plan • Based on approximation from conversations with City staff and rough valuation in the plan • Estimated $2.5 million available for multiple uses in the URA

Key assumptions about Estimated Costs/Revenues

Nonprofit Tax Exemption	MUPTE
Forgoes revenue to the City for	**Adds revenue in a specific area through tax increment financing**
• Our estimates show the **City's share of taxes** only (about 16.5% of the total tax roll) • Shows the value for **100 new units** using the exemption over a period of **5 years** • Based on prices of recent affordable multifamily housing developments in Tualatin or Tigard • Estimated to cost $90,000 for 100 units over 5 years	• Our estimates show the **City's share of taxes** only (about 16.5% of the total tax roll) • Shows the value for **100 new units** using the exemption over a period of **5 years** • Assumes that rents will be discounted for **20% of units to 80% AMI level** • Based on prices of recent market rate multifamily housing developments in Tualatin or Tigard • Estimated to cost $144,000 for 100 units over 5 years

Key assumptions about Estimated Costs/Revenues

System Development Charge Exemptions

Adds revenue to the City through new local regulation

- Our estimates show the City's SDCs only: Parks and Water (not other service providers like Sewer)
- Shows the value for **100 new units total** over a period of **5 years**
- Parks SDC is a flat rate per unit, but Water SDC is dependent on the size of the building's water meter
- Water estimate is based on recent multifamily housing developments in Tualatin
- Estimated to cost $751,000 for 100 units over 5 years

Key assumptions about Estimated Costs/Revenues

Down Payment Assistance	Home Rehabilitation Programs
Provides funding to support first-time home buyers	**Provides funding to stabilize existing residents**
• Shows the value for down payment support on **10 homes** per year over a period of **5 years** • Uses similar programs in Oregon for comparison, including regional variation likely due to differing housing prices • Est to cost $250,000 to $1,100,000 for 10 units, depending on subsidy granted	• Shows the value for home rehabilitation projects for **10 homes** per year over a period of **5 years** • Uses similar programs in Oregon for comparison, including a wide variation by the type of home rehabilitation program (repairs, weatherization, etc.) • Est to cost $750,000 to $500,000 for 10 units, depending on subsidy granted

Summary

Tool	Population Served	Provides, Forgoes or Requires Revenue?	Estimated Funding Range	
			5 Years	20 Years
Construction Excise Tax	Moderate Income and lower-income households	**Provides Funding**	$251,000-502,000	$832,000-$1,664,000
Urban Renewal	Current and future residents within urban renewal area	**Provides Funding**	$2.5 million	$2.5 million
Nonprofit Low Income Tax Exemption	Extremely and Very Low Income (<50%)	**Forgoes Revenue**	$90,000[1] per 100 units	$360,000 per 100 units
Multiple Unit Property Tax Exemption	Low Income (50-80%)	**Forgoes Revenue**	$144,000[2] per 100 units	$287,800 per 100 units[3]
System Development Charges Exemption	Extremely and Very Low Income (<50%) or Low Income (50-80%)	**Forgoes Revenue**	$751,400 per 100 units	$3,005,600 per 400 units[4]
Down Payment Assistance	Moderate Income (80-120%) Seniors or disabled residents	**Requires Funding**	$250,000 - $1,100,000 per 10 units	$1,250,000-4,400,000 per 40 units
Home Rehabilitation	Moderate Income (80-120%)	**Requires Funding**	$75,000 - $500,000 per 10 units	$300,000 - $2,000,000 per 40 units

How can the City use CET?

- **State law includes some restrictions** on how cities can use residential and commercial/industrial CET
- The City could use part of CET revenue to **backfill forgone revenue** from the nonprofit tax exemption, MUPTE, or SDCs
- The City could also use CET revenue to **directly fund homeownership programs** like down payment and home rehabilitation assistance

ORS 320.195 Requirements

Residential CET:
- 50% must be used for developer incentives
- 35% may be used flexibly for affordable housing programs

Commercial/Industrial:
- 50% must be used for housing programs
- 50% can be used flexibly

How can the City use Urban Renewal?

- Urban renewal revenue must be used **within the boundaries of an active urban renewal area,** typically for capital projects
- The City could use urban renewal funds for **SDC exemptions** or **rehabilitation of multifamily buildings**
- Providing **down payment or home rehabilitation assistance** for individual households in the plan area is possible, but limited in scope

ORS 457.170 Requirements

Urban Renewal revenues can be used for projects that are included in the area plan's goals, including:

- Utilities
- Infrastructure
- Rehabilitation and conservation work
- Property acquisition
- Clearance or rehab of acquired property
- Relocation of displaced residents or property
- Selling or leasing property

Conclusions

The total cost of the strategic actions that forgo or require revenue in this analysis is between **$1.3 to $2.5 million**

- SDC exemptions, Nonprofit Tax Exemption, MUPTE are estimated to cost **$985,000** in forgone revenue, most of which is from SDC exemptions and will need to be backfilled.
- Home ownership and down payment assistance could cost between **$325,000** to **$1.6 million**, depending on how much and what type of support the City provides.

Conclusions

The revenue generated from strategic actions **will not be able to fund all these programs**

- The Core Opportunity Reinvestment Area could provide up to **$2.5 million** in urban renewal funds - but can only be used within plan boundaries and for some types of projects.
- CET <u>may</u> provide about **$500,000** in the first five years, which is mostly flexible in how the City can use it. A share must go to developer incentives (like SDC and tax emptions).
  - CET may also provide less than $500,000

Equity Impacts and Tradeoffs

Construction Excise Tax

Question: Are we missing key equity benefits or challenges?

Equity Benefits	Challenges
• Allows some flexibility in deciding how to use revenues • The City can choose to focus on programs that have specific equitable outcomes	• State statute somewhat limits the options for what can be done with CET funds • CET increases housing costs for some types of housing to lower costs for more affordable housing.

Urban Renewal

Question: Are we missing key equity benefits or challenges?

Equity Benefits	Challenges
• Can provide funding for housing for extremely and very-low income households, as well as low- and moderate-income households	• Geographic limitations create the potential to concentrate affordable housing in one part of the City, creating concentrated areas of poverty • Potential to displace existing residents in the URA

Nonprofit Low Income Tax Exemption

Question: Are we missing key equity benefits or challenges?

Equity Benefits	Challenges
• Serves very low-income households (<60% MFI) • Nonprofits may provide culturally specific or other services along with housing • Multifamily housing serves more households for less cost per unit	• Tax exemptions forgo revenue for the City general fund, which could be used for other citywide programs and operations

Multiple Unity Property Tax Exemption

Question: Are we missing key equity benefits or challenges?

Equity Benefits	Challenges
• Supports moderate-income and mixed-income development • May provide affordable units in high opportunity areas across the city • Multifamily housing serves more households for less cost per unit	• Limited time frame for program applicability (10 years) – afterwards rents would likely increase to market rate • Tax exemptions forgo revenue for the City general fund

System Development Charge Exemption

Question: Are we missing key equity benefits or challenges?

Equity Benefits	Challenges
• Can be used to support development of housing that serves low-income levels (<60% MFI) • Multifamily housing serves more households for less cost per unit	• SDC exemptions must be backfilled from other sources of funding • SDC exemptions forgo revenue for the City general fund, which could be used for other citywide programs and operations

Down Payment Assistance

Question: Are we missing key equity benefits or challenges?

Equity Benefits	Challenges
• Can benefit households who have been historically excluded from homeownership • Allows households to build intergenerational wealth through home equity	• Higher cost per household means that assistance serves relatively fewer people • Limited funding creates challenging questions around who receives assistance

Home Rehabilitation Programs

Question: Are we missing key equity benefits or challenges?

Equity Benefits	Challenges
• Benefits existing low-income homeowners in Tualatin and ensures longer term stability • Can specifically provide resources for disabled residents and seniors to make accessibility improvements	• Higher cost per household means that assistance serves relatively fewer people • Limited funding creates challenging questions around who receives assistance

Recommendations for Building in Equity

- Additional opportunities for building equity into implementation of the HPS:
  - Membership of the oversight committee, ensuring representation from underrepresented groups
  - As actions are implemented, reaching out to BIPOC and disproportionately cost burdened groups to get additional input on how actions are implemented
  - Partnership with nonprofits who provide specific types of support (ex. Culturally specific outreach)
  - *Others?*

Key Questions for Decisionmakers

- Does the City want to prioritize serving more renter households through multifamily housing programs or providing homeownership support for a smaller number of households?
  - What is most efficient?
  - What best fits the City's equity goals?
- Would the City fund the remaining gap between costs needed for down payment assistance/home rehabilitation?
  - How much could the City provide per year beyond CET and urban renewal funds?
  - Would it pursue alternative external sources like state or federal funding?

Key Questions for Decisionmakers

- Is the City interested or able to forgo local tax exemptions like the nonprofit tax exemption and MUPTE as opposed to backfilling?
  - Would the City want to use the share of CET for developer incentives to backfill MUPTE?
  - Or the nonprofit tax exemption?
  - SDCs?
- How much urban renewal revenue is the City willing to dedicate to housing?
  - Could some of the SCD exemptions be applied in the Core Opportunity Reinvestment Area?
  - Could it be used for land acquisition? Homeownership assistance programs?

Conclusions and Recommendations

- Are there implications of the analysis or recommendations that we have not discussed?

- Are there more key questions we should make sure to highlight for decisionmakers?

Discussion

- Do you have questions about the tools?
- Do you have feedback about the financial or equity tradeoffs?
- Potential recommendations to the City Council for discussion:
  - Move forward to implementing the actions in this Plan
  - Use this analysis to inform how to implement the actions, paying attention to the tradeoffs of the actions
  - Other recommendations?