Tualatin's Strategic Equitable Housing Funding Plan

City Council Session

March 13, 2023

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Tualatin's Recent Housing Planning Work

Adopted in 2019

Housing Needs Analysis

- Buildable lands inventory
- Housing market
- Demographics & socioeconomic characteristics
- Housing affordability
- Forecast of new housing
- Assessment of land sufficiency

Housing Production Strategy

- Refined understanding of housing need
- Evaluation of gaps in existing policies
- Identification of potential strategies
- Evaluation of new strategies
- Assessment of whether the strategies help achieve fair and equitable outcomes

Adopted in 2021

Project Purpose

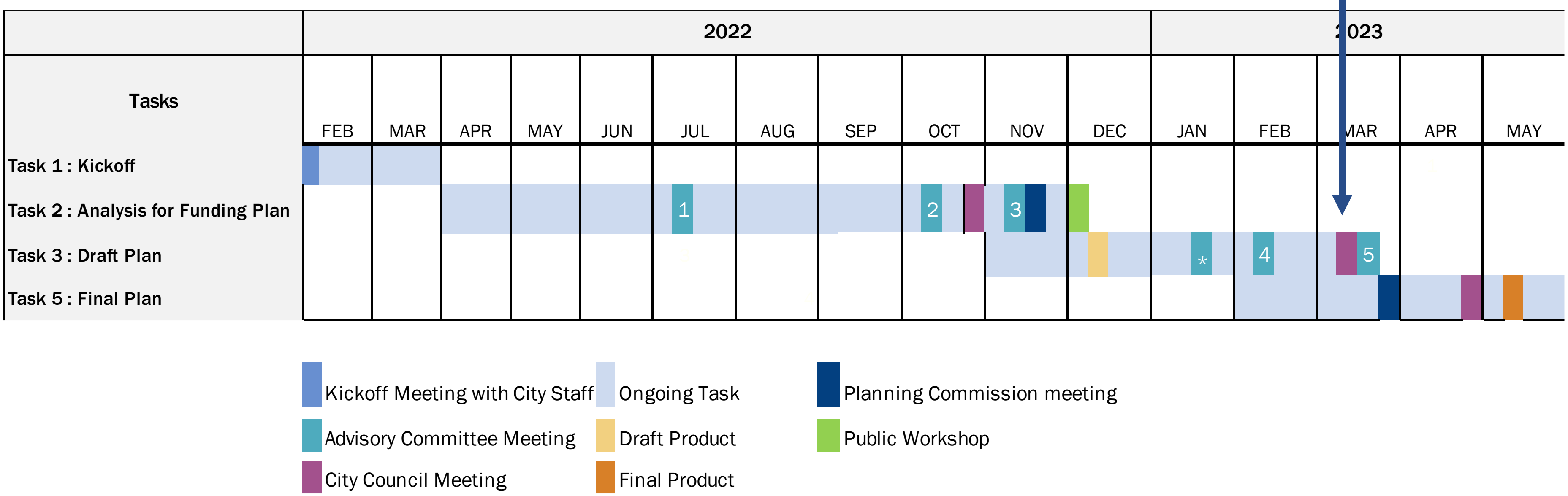
- The Equitable Funding Action Plan provides next steps towards affordable, fair and equitable housing outcomes
  - Will give guidance for financial and regulatory actions
  - Examines HPS strategic actions that produce funding and those that require funding
  - Focuses on financial and equity tradeoffs of these actions

Outcomes of Tonight's Discussion

- Discuss the actions that could be used to support development of housing affordable to moderate income households
- Equity Considerations
- Fiscal Considerations

Project Schedule and Primary Tasks

We are here



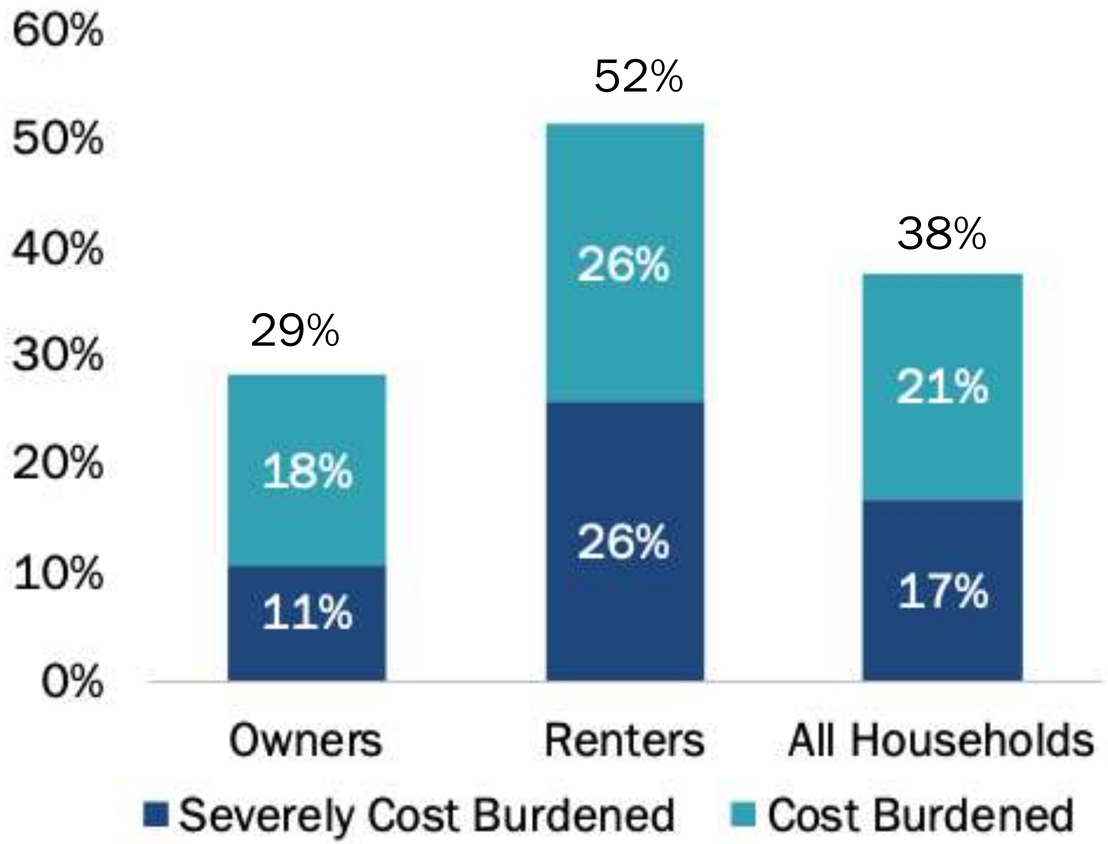
Existing Housing Conditions

Tualatin's Cost Burdened Households

Cost Burden by Tenure, Tualatin, 2016-2020

Cost burdened:
spending more than 30% of income on housing costs

Severely cost burdened:
spending more than 50% of income on housing costs



Source: 2016-2020 American Community Survey, U.S. Census

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, 2020)

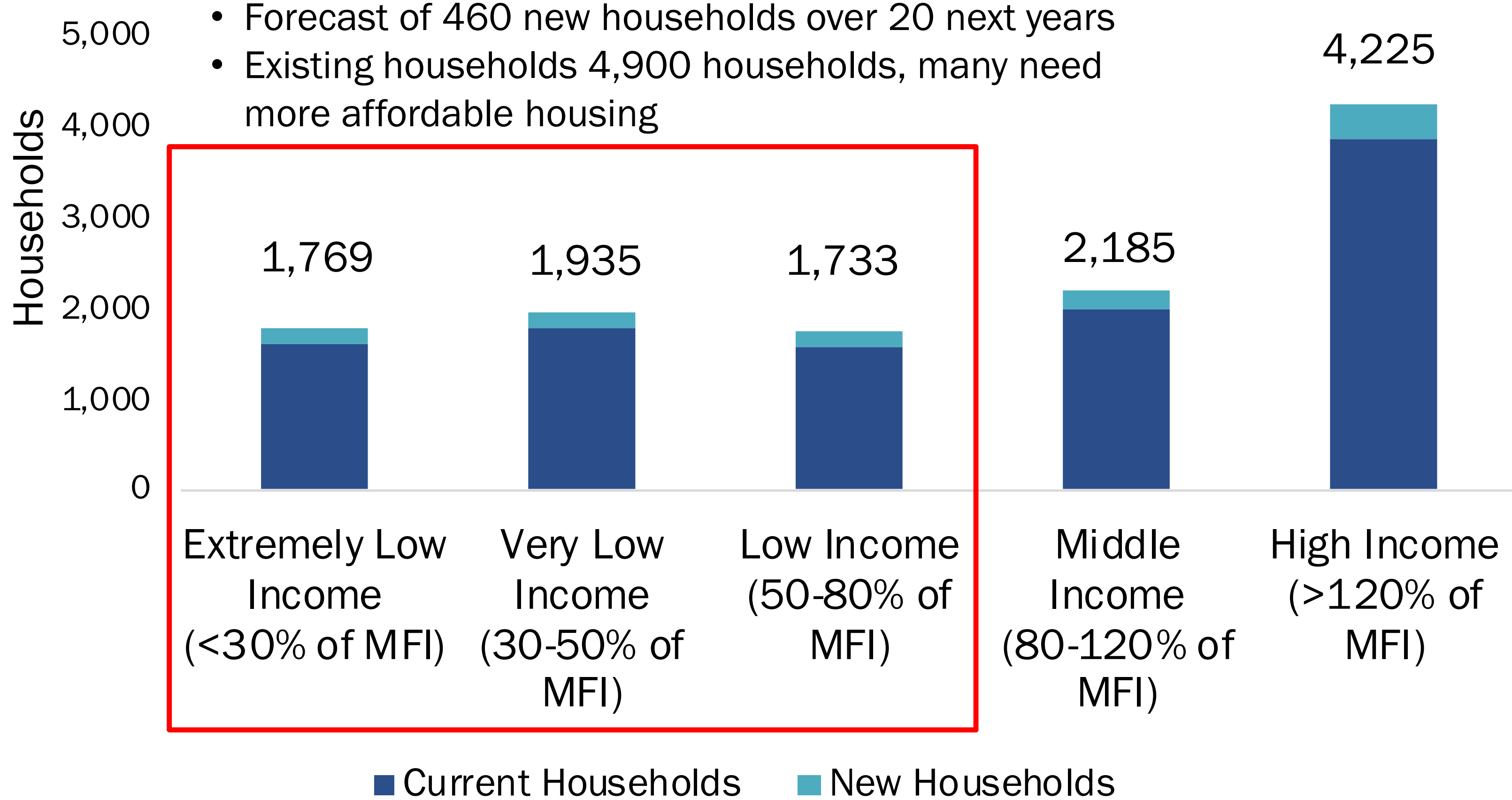
Requires $123,000 income (133% of MFI) to afford

Average Monthly Rent: **$1,334** (not including utilities, 2-bedroom units, (CoStar, 2020))

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)

Tualatin's Current & Future Households by Income

For households with income below 80% MFI
- Forecast of 460 new households over 20 next years
- Existing households 4,900 households, many need more affordable housing



Publicly Subsidized Affordable
0% - 60% MFI

Middle Income /
Workforce
60% - 120% MFI

Market Rate
120% + MFI

Source: 2014-2018 ACS, U.S. Census; PRC at PSU (2020-2040); and U.S. Department of HUD 2020 MFI.
Note: Median Family Income is estimated for a family of 4.

Funding of Affordable Housing

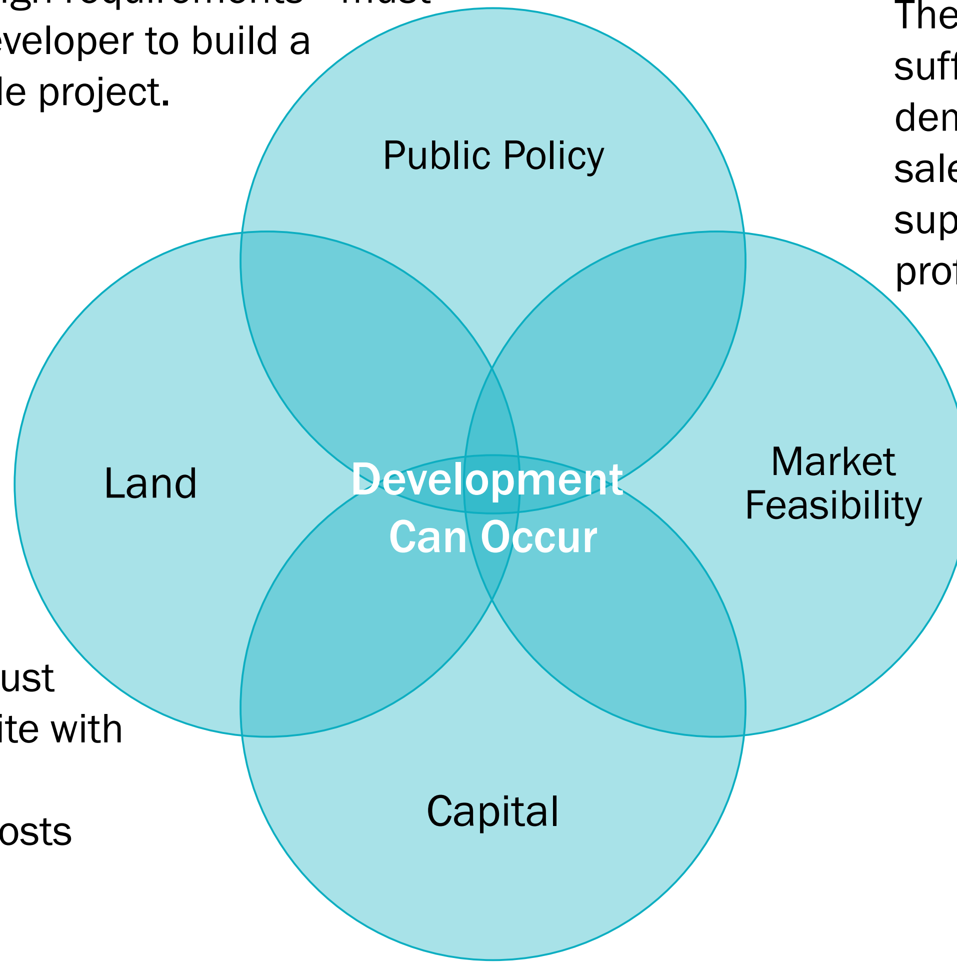
Factors that Influence Housing Development

Policy—including zoning, density, and design requirements– must allow developer to build a profitable project.

There must be sufficient demand (rents, sales prices) to support a profitable project

Tualatin can directly influence public policy, land, and infrastructure.

Tualatin may have limited influence on market feasibility

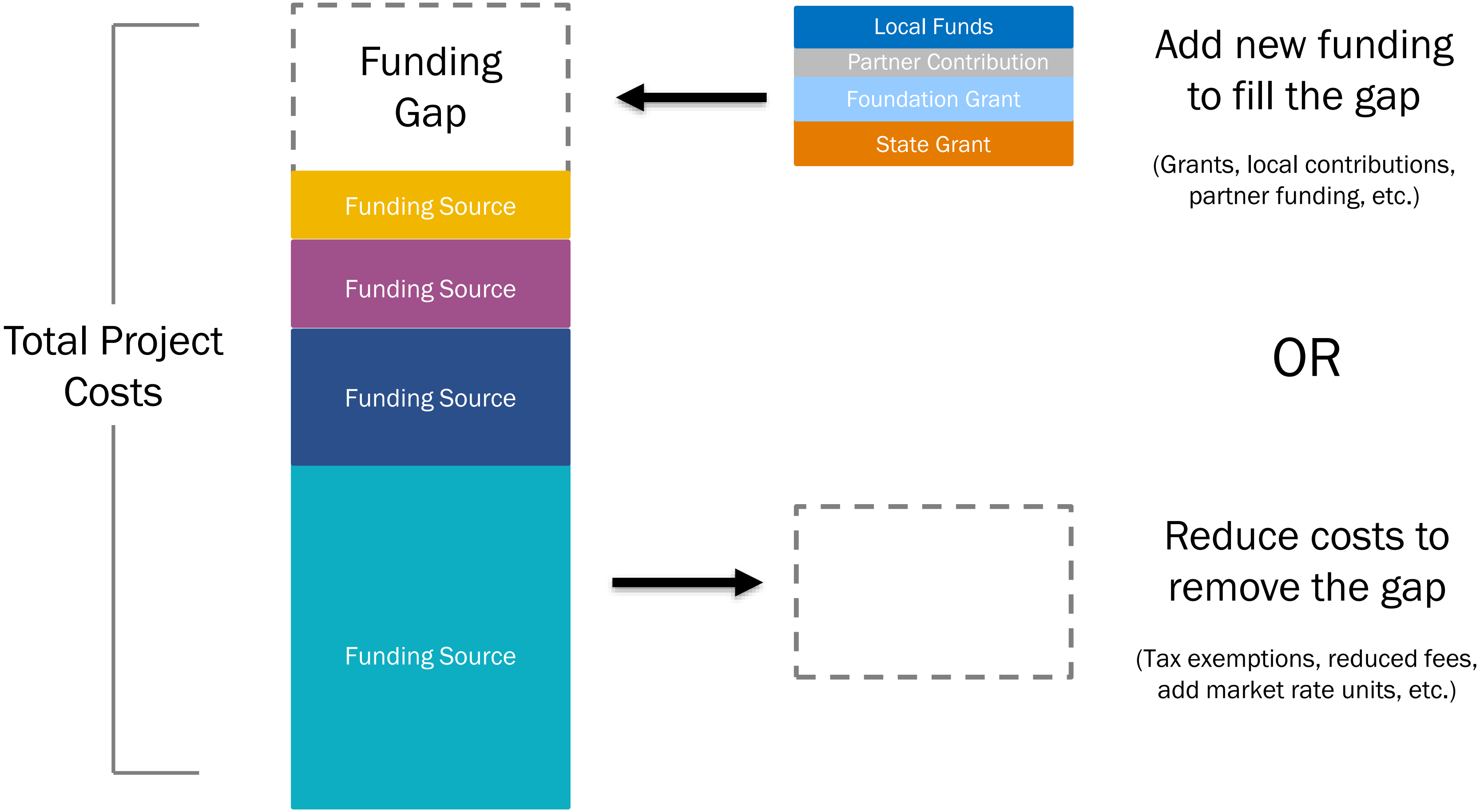


Developer must control the site with reasonable acquisition costs

Developer must be able to access resources for investment (e.g., equity investment, bank loans)

Funding Affordable Housing

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



Strategic Actions Considered in this Project

Tool	Adds, Forgoes, or Needs City Revenue?	Income Level Served
Local Construction Excise Tax (CET)	Adds	Mostly 0-60% AMI Possibly 61-80% AMI
Urban Renewal Area Revenue	Adds	0-80% AMI
Nonprofit Low Income Tax Exemption	Forgoes	<60% AMI
Multiple Unit Property Tax Exemption	Forgoes	80% AMI
System Development Charge Exemption	Forgoes	0-80% AMI
Homeownership Assistance	Needs	80% AMI
Other Tools / Affordable Housing Trust Fund	Needs	0-80% AMI

Many HPS Actions are not Considered in this Plan

- Changing to Tualatin's **development code**
- Exploring opportunities for **added density or redevelopment**
- Supporting **affordable housing development in other ways**
- **Preserving existing** affordable housing
- Evaluating impediments to **Fair Housing** and education about Fair housing
- Evaluating prioritization of **capital improvement (transportation/utilities) programming** to support affordable and workforce housing development

Potential Actions and Impacts

Potential Actions

Construction Excise Tax (CET)	
Adds revenue to the City through new local regulation	**Impact**
• **What does it do:** Levies a tax on new construction to fund housing programs and investments • **How does it work:** Allows cities to collect a 1% tax on permit value of new residential development or higher for commercial/industrial. • **Our findings:** 0.5% to 1% CET on commercial and industrial development may be worthwhile in Tualatin.	• 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 • **<u>Estimated</u> $500,000 in revenue over 5 years**

Potential Actions

Urban Renewal Area Revenue	
Adds revenue in a specific area through tax increment financing	**Impact**
• **What does it do:** Provides local funding for capital projects to support URA plan goals (including housing) • **How does it work:** Uses revenue from tax increment financing (TIF) to make public investments • **Our findings:** Tualatin's proposed urban renewal area could integrate goals for housing and access TIF dollars.	• 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 • **<u>Estimated</u> $2.5 million available for multiple uses in the URA**

Equity Benefits and Challenges

Question: Are we missing key equity benefits or challenges?

	Equity Benefits	Challenges
CET	• Provides flexible revenue that can serve low- and moderate-income households • 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 • Adds cost to market rate units is favor of lowering costs for affordable housing
Urban Renewal	• Can provide funding for housing for low- and moderate-income households • Can provide housing near employment for Tualatin workers	• Building too much housing for low-income populations in URA risks concentrating poverty • Some potential to displace existing residents in the urban renewal area

Potential Actions

Nonprofit Low Income Tax Exemption	
Forgoes revenue to the City for targeted housing type	**Impact**
• **What does it do:** Provides a full property tax exemption for nonprofit owned affordable housing • **How does it work:** Can exempt only city taxes or all taxing districts if at least 51% of the total tax roll agrees to participate. • **Our findings:** Tualatin could exempt its own taxes to incentivize housing affordable to residents at or below 60 percent of area median income	• 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 • **<u>Estimated</u> to cost $90,000 for 100 units over 5 years**

Potential Actions

Multiple Unit Property Tax Exemption	
Forgoes revenue to the City for targeted housing type	**Impact**
• **What does it do:** Provides a partial property tax exemption for private developers of mixed-income housing • **How does it work:** Can exempt only city taxes or all taxing districts if at least 51% of the total tax roll agrees to participate. • **Our findings:** If providing an exemption from all districts, MUPTE could create an incentive for private developers to offer units at or below 80 percent of area median income	• 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 • **<u>Estimated</u> to cost $144,000 for 100 units over 5 years**

Potential Actions

System Development Charge Exemption	
Forgoes revenue to the City for targeted housing type	**Impact**
• **What does it do:** Reduces upfront development fees for developers who provide new affordable units • **How does it work:** Can exempt City-controlled system development fees for Parks and Water, but not those collected by other service providers • **Our findings:** Tualatin could provide an exemption for its two SDCs but would likely have to backfill the forgone revenue	• 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 • **<u>Estimated</u> to cost $751,000 for 100 units over 5 years**

Equity Benefits and Challenges

Question: Are we missing key equity benefits or challenges?

	Equity Benefits	Challenges
SDCs	• Can be used to support development of housing that serves low-income levels (<60% MFI) • Multifamily housing typically serves more households for a lower cost per unit (also applies for tax exemptions)	• Forgoes revenue for infrastructure which must be backfilled from other sources of funding
Nonprofit /MUPTE	• Can provide funding for housing for low- and moderate-income households • Nonprofits may provide additional services along with housing • Local contributions can attract more affordable housing developers and reduce permanent debt	• Forgoes revenue which could be used for other citywide programs and operations • Limited time frame for program applicability for MUPTE (10 years), after which rents would likely increase to market rate

Potential Actions

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 nearby programs in Oregon for comparison, including regional variation likely due to differing housing prices and funding opportunities <u>Impact</u> • **Estimated 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 in cost by the type of home rehabilitation program (repairs, weatherization, etc.) <u>Impact</u> • **Estimated to cost $750,000 to $500,000 for 10 units, depending on subsidy granted**

Equity Benefits and Challenges

Question: Are we missing key equity benefits or challenges?

	Equity Benefits	Challenges
Down Payment	• 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 • Households must still meet other requirements (credit score, debt-to-income ratio, etc.)
Home Rehab	• Benefits existing low-income homeowners in Tualatin and ensures longer term stability • Can provide resources for disabled residents and seniors to make accessibility improvements	• Cost per household varies by type of assistance (higher for more extensive repairs) • Limited funding creates questions around who receives assistance.

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

Questions to be Answered

Tualatin's potential funding sources are not sufficient to fund all of these actions

- CET, if adopted, <u>may</u> result in $500,000 in revenue in the first 5 years. How should it be used?
  - <u>Option</u>: Predominantly to backfill the costs of forgone SDCs and property tax revenues from MUPTE?
  - <u>Option</u>: Supporting housing rehabilitation and/or down payment assistance?
- How should Urban Renewal funds be spent?
  - <u>Option</u>: Backfilling forgone SCDs in the URA?
  - <u>Option</u>: Support for housing rehabilitation and/or down payment assistance limited to the Core Opportunity Reinvestment Area?

Other Potential Funding Sources

Sources with more potential

- Private donations & gifts
- Grants from the state or federal government
- General Fund revenue

Source that are less available or not available

- Lodging Tax increase
- Marijuana tax increase
- Real estate transfer tax
- Second home tax

Potential funding source, unlikely to be supported

- Tualatin-specific General Obligation Bond
- Local Option Levy
- Business license fee
- Food and beverage tax
- Sales tax
- Payroll/business income tax

Recommendations for Building in Equity

- Additional opportunities for building equity into the implementation of the HPS:
  - If the City establishes revenue sources for affordable housing (ex: CET and/or urban renewal fund), then it could establish an Oversight Committee:
    - Membership of the oversight committee could ensure representation from underrepresented groups
    - Compensating committee members for their participation would allow people of diverse backgrounds to participate
  - Partnership with nonprofits who provide specific types of support (ex. Culturally specific outreach)
  - *Others?*

Questions and Discussion

- Questions?

- Next steps
  - Finish drafting the Equitable Housing Funding Plan document
  - March 22: Final meeting with Advisory Committee
  - April 20: Planning Commission meeting
  - May 22: City Council meeting