



City of Tualatin

CITY OF TUALATIN Staff Report

TO: Honorable Mayor and Members of the City Council

THROUGH: Sherilyn Lombos, City Manager

FROM: Steve Koper, AICP, Assistant Community Development Director
Erin Engman, AICP, Senior Planner

DATE: March 13, 2023

SUBJECT:

Update on Tualatin's Strategic Equitable Housing Funding Plan.

BACKGROUND:

In 2021, the City Council adopted a Housing Production Strategy (HPS) which serves as the City's commitment to develop strategies that encourage the production of needed housing, with an emphasis on improving outcomes for underserved communities, people with lower incomes, and people in state and federal protected classes. The state requires cities to evaluate the effectiveness of their adopted strategies and report on implementation progress over a six-year period, as many strategic actions require further analysis, engagement of consultants, amendments to existing standards or programs, and discussions with decision makers.

In 2022, the City of Tualatin was awarded a grant to work with EcoNW to develop a Strategic and Equitable Housing Funding Plan as a next step in achieving the goals set out in the Housing Production Strategy. Staff then held a work session with City Council on October 24, 2022 to introduce the project.

EXECUTIVE SUMMARY:

The Funding Plan studies actions identified in the Housing Production Strategy that could have a significant impact on affordability for low-income households and groups with greater-than-average housing needs in Tualatin.

Most funding for income-restricted housing comes from state and federal sources, while market-rate affordable housing receives less funding from public sources and is typically not financially feasible. This plan will illustrate opportunities to increase market feasibility, with a focus on financial and equity tradeoffs.

The primary approaches that jurisdictions typically take to overcome funding gap obstacles are by:

- Directly contributing local funds
- Reducing costs associated with development (such as permitting fees or system development charges)
- Providing services, such as technical assistance.

The table, on the following page, shows a summary of each of the strategic actions that are being studied and their estimated range of funding in the next five years, either by providing revenue that can be used for housing, forgoing revenue to reduce costs for affordable development, or using funding for targeted programs.

Strategic Action	Population Served	HPS Action	Provides, Forgoes or Requires Revenue?	Estimated Funding Range in 5 Years
Construction Excise Tax	Varies	1.c Evaluate Implementation of a Construction Excise Tax	Provides Funding	\$500,000
Urban Renewal	Current and future residents within urban renewal area boundaries	1.d Evaluate Support for Affordable and Workforce Rental Housing as part of Urban Renewal	Provides Funding	\$2.5 Million
Nonprofit Low Income Tax Exemption*	Very Low Income (<50%)	1.a Evaluate a Low-Income Housing Property Tax Exemption Program for Affordable Rental Housing	Forgoes Revenue	\$90,000 per 100 units
Multiple Unit Property Tax Exemption*	Low Income (50-80%)	4.b Evaluate Using the Multiple Unit Property Tax Exemption to Slow Rental Cost Increases	Forgoes Revenue	\$144,000 per 100 units
System Development Charges Exemption*	Extremely- Very Low Income (<50%), or Low Income (50-80%)	1.b Evaluate Changes to Systems Development Charges	Forgoes Revenue	\$751,000 per 100 units
Down Payment Assistance**	Moderate Income (80-120%)	2.a Evaluate Impediments to Homeownership and Their Removal	Requires Funding	\$250,000 – \$1,100,000 per 10 units
Home Rehabilitation**	Moderate Income (80-120%); Seniors or disabled residents	8.a Evaluate Establishing Local Housing Rehabilitation Program	Requires Funding	\$750,000 – \$500,000 per 10 units

*Funding range for these estimates is for 100 units.

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State law includes restrictions that impact two of the strategic actions being studied, as outlined below.

Construction Excise Tax (CET)

- The City may use part of CET revenue to backfill forgone revenue from Multiple Unit Property Tax Exemptions / System Development Charges
- The City may use CET revenue to directly fund homeownership programs like down payment and home rehabilitation assistance

State Requirement ORS 320.195
Residential CET: <ul style="list-style-type: none"> • 50% <u>must</u> be used for developer incentives • 35% may be used flexibly for affordable housing programs Commercial/Industrial CET: <ul style="list-style-type: none"> • 50% <u>must</u> be used for housing programs • 50% may be used flexibly

Urban Renewal

- Urban renewal revenue must be used within the boundaries of an active urban renewal area, typically for capital projects
- The City may 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

State Requirement ORS 457.170
May be used for projects <u>included in area plan's goals</u> , including: <ul style="list-style-type: none"> • Utilities • Infrastructure • Rehabilitation • Property acquisition • Clearance/rehab of acquired property • Relocation of displaced residents/ property • Selling or leasing property

All of the tools being considered in the funding plan will need future study and buy-in from the public, partners (such as overlapping taxing districts, developers, etc.), and City Council decision before being implemented.

As part of our discussion, we will review the equity tradeoffs of the strategic actions being studied and seek Council direction on the following key considerations:

- How should the City balance supporting development of affordable rental housing and supporting affordable homeownership?
 - What is most efficient?
 - What best fits the City's equity goals?
- Are there additional sources of funding to pay 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 willing or able to forgo funds from property tax exemptions (MUPTE) as opposed to backfilling?
 - Would the City want to use the share of CET for developer incentives to backfill MUPTE?
 - Backfilling SDCs?

- How much urban renewal revenue is the City willing to dedicate to housing?
 - Could some of the SCD exemptions be backfilled with funding from the Core Opportunity Reinvestment Area?
 - Could Urban Renewal be used for land acquisition?
 - How could Urban Renewal support homeownership assistance programs?

Next Steps

- March 22: The Project Advisory Committee will meet for the fifth time to review the draft Funding Plan, and staff anticipates they will make a recommendation of support to forward to the Tualatin Planning Commission.
- April 20: Staff will present the draft Funding Plan and Advisory Committee recommendation to the Planning Commission.
- May 22: Staff will report back to City Council with the Funding Plan for consideration and possible adoption.

ATTACHMENTS:

- Attachment A: Presentation
- Attachment B: Advisory Committee Meeting #1 Packet
- Attachment C: Advisory Committee Meeting #2 Packet
- Attachment D: Advisory Committee Meeting #3 Packet
- Attachment E: Advisory Committee Meeting #4 Packet