



## CITY COUNCIL MEETING STAFF REPORT

<b>Meeting Date:</b> September 19, 2022		<b>Subject: Construction Excise Tax (CET) for Affordable Housing</b>	
		<b>Staff Member:</b> Matt Lorenzen, Economic Development Manager	
		<b>Department:</b> Community Development	
<b>Action Required</b>		<b>Advisory Board/Commission Recommendation</b>	
<input type="checkbox"/> Motion <input type="checkbox"/> Public Hearing Date: <input type="checkbox"/> Ordinance 1 <sup>st</sup> Reading Date: <input type="checkbox"/> Ordinance 2 <sup>nd</sup> Reading Date: <input type="checkbox"/> Resolution <input checked="" type="checkbox"/> Information or Direction <input type="checkbox"/> Information Only <input type="checkbox"/> Council Direction <input type="checkbox"/> Consent Agenda		<input type="checkbox"/> Approval <input type="checkbox"/> Denial <input type="checkbox"/> None Forwarded <input checked="" type="checkbox"/> Not Applicable	
		<b>Comments:</b> N/A	
<b>Staff Recommendation:</b> N/A			
<b>Recommended Language for Motion:</b> N/A			
<b>Project / Issue Relates To:</b>			
<input checked="" type="checkbox"/> Council Goals/Priorities: Council Goals: <b>3.1</b> Implement Equitable Housing Strategic Plan and explore CET for Affordable Housing <b>3.2</b> Explore examples of programs that support first-time home ownership, etc. as part of Frog Pond Master Plan.	<input checked="" type="checkbox"/> Adopted Master Plan(s): <a href="#">Equitable Housing Strategic Plan</a>	<input type="checkbox"/> Not Applicable	

### ISSUE BEFORE COUNCIL:

Please advise staff on the question of whether or not to pursue further investigation into the establishment of a Construction Excise Tax for Affordable Housing. If yes, what information would the Council like to see next? Shall staff continue to follow the Implementation Roadmap found in the EHSP?

## **EXECUTIVE SUMMARY:**

The City Council set a goal (3.1) as part of its biennial 2021-2023 goal-setting process to “Continue implementation of the City’s Equitable Housing Strategic Plan (EHSP) and explore funding options including Construction Excise Tax (CET), Vertical Housing Development Zone (VHDZ), etc.”

In May 2022, the Council voted to adopt Resolution No. 2971 “Establishing the Wilsonville Vertical Housing Development Zone (VHDZ) and Local Criteria”. With this program formally in place, staff is taking the next step, as prescribed by the Council goals and the City’s adopted plans—to begin exploration of a CET.

The City’s (2020) [Equitable Housing Strategic Plan](#) (EHSP) recommends in Section 5 (pg. 43), “Explore the Creation of a Construction Excise Tax.” Further, the EHSP provides an “Implementation Roadmap” as Appendix C. Step 1 of that roadmap is to “Develop and Analyze Program Scenarios.” To that end, we explored several revenue forecast scenarios in our last work session on July 18, 2022. The scenarios demonstrated how revenue forecasts might shift if the tax were imposed on commercial/industrial construction or residential construction, or both, and at various rates under the statutory maximums. During the July meeting, we also discussed the mechanics of a CET and how the City must divide and disperse revenues, per Oregon law.

At the conclusion of the July 18 discussion, Council directed staff to gather more information from peer jurisdictions who have adopted and implemented a CET regarding the genesis of their programs, how they plan to spend the revenues they generate, and/or examples of how they have already spent revenues. Council also asked to see how a CET of 1% might impact the permit costs for a hypothetical (or real life) development project—a commercial/industrial example and a residential example.

## **EXPECTED RESULTS:**

At this work session, staff will present findings from two exploratory meetings with Milwaukie and McMinnville staffers. These two cities were selected for interviews due to their roughly similar populations to Wilsonville, and in order to compare and contrast the experiences of both exurban (McMinnville) and suburban (Milwaukie) cities. Certainly other cities can be consulted as Council desire and staff time may dictate.

Further, staff will present fee calculations for two recent development projects in the city in order to prompt and inform a conversation around how a CET can affect development project “soft costs,” and overall project feasibility. Finally, staff will ask Council for direction regarding if and how to proceed.

## **TIMELINE:**

The exploration of a CET program will require both technical analysis as well as community/stakeholder outreach. As such, staff expects a timeline of 9-12 months before a program is fully vetted and ready for adoption.

The Implementation Roadmap found in the EHSP (Appendix C) prescribes the following steps: (abbreviated)

**1. Develop and Analyze Program Scenarios (We are here)**

To better understand and select among the options available through the statutes, the City should evaluate a number of scenarios that are tailored to the Wilsonville market and the specific program design.

**2. Determine How the City Would Use CET Revenues**

The City should consider reasonable assumptions for budgeting purposes and define priorities for the portion of the revenue that may be used *flexibly*.

**3. Seek Stakeholder Input**

The City should seek input from local developers and business leaders regarding the potential impact of a CET on development activity and business recruitment. To ground these conversations, the City can evaluate recent development examples and calculate what the CET costs would have been. It may also be helpful to conduct additional outreach to affordable housing providers to help the City understand how best to administer funding if a CET is adopted.

**4. If Applicable, Carry Out Adoption Process**

If the City chooses to adopt a CET, it must pass an ordinance or resolution that states the rate and base of the tax. Most communities also identify any further self-imposed restrictions on the use of funds as part of the adopting policy (e.g., establishing that the housing programs will support housing affordable up to a certain percentage of area median income, or specifying the allowed uses of unrestricted funds). If the policy passes, the City must then establish a process to distribute the funds.

**CURRENT YEAR BUDGET IMPACTS:**

Budget impact, at this time, is only in the form of staff time.

**COMMUNITY INVOLVEMENT PROCESS:**

At this early stage, staff has not undertaken any community involvement efforts. However, the proposed implementation roadmap calls for stakeholder input after the Council has heard and considered more technical analysis regarding potential program rates, fees, mechanics, uses of funds, etc.

## **POTENTIAL IMPACTS OR BENEFIT TO THE COMMUNITY:**

Excerpted from the EHSP:

### Pros

- *Flexible funding source, especially for funds derived from commercial/industrial development.*
- *Can be blended with other City funds to maximize impact.*
- *Ability to link industrial or other employment investments, which generate new jobs and demand for new housing, with funding for housing development.*
- *Allows some use of funds for administration; can fund staff time needed to administer programs.*

### Cons

- *CET increases development costs in an environment where many developers are already seeking relief from systems development charges, so it would have impact on (market-rate) project feasibility.*
- *Where demand is high relative to supply, may be passed on in whole or in part through higher housing costs or higher rents for tenants in new (market-rate) buildings.*
- *Revenue will fluctuate with market cycles and will not be a steady source of funding when limited development is occurring.*

## **ALTERNATIVES:**

1. Direct staff to move forward with the exploration of a CET following the Implementation Roadmap found in the EHSP and as discussed at this meeting. The next step would be to validate revenue forecasts and to set priorities for the eventual expenditure of funds.
2. Direct staff to move forward with the exploration of CET using a different course of action.
3. Direct staff to cease work on the exploration of CET at this time.

## **CITY MANAGER COMMENT:**

N/A

## **ATTACHMENTS:**

[Equitable Housing Strategic Plan \(2020\)](#)