



CITY COUNCIL MEETING STAFF REPORT

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| Meeting Date: July 18, 2022 | | Subject: Construction Excise Tax (CET) for Affordable Housing | |
| | | Staff Member: Matt Lorenzen, Economic Development Manager | |
| | | Department: Community Development | |
| Action Required | | Advisory Board/Commission Recommendation | |
| <input type="checkbox"/> Motion <input type="checkbox"/> Public Hearing Date: <input type="checkbox"/> Ordinance 1 st Reading Date: <input type="checkbox"/> Ordinance 2 nd Reading Date: <input type="checkbox"/> Resolution <input type="checkbox"/> Information or Direction <input type="checkbox"/> Information Only <input checked="" 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 | |
| | | Comments: N/A | |
| Staff Recommendation: N/A | | | |
| Recommended Language for Motion: N/A | | | |
| Project / Issue Relates To: | | | |
| <input checked="" type="checkbox"/> Council Goals/Priorities: Council Goals: 3.1 and 3.2 | <input checked="" type="checkbox"/> Adopted Master Plan(s): Equitable Housing Strategic Plan | <input type="checkbox"/> Not Applicable | |

ISSUE BEFORE COUNCIL:

Should staff pursue further investigation into the establishment of a Construction Excise Tax for Affordable Housing as proposed in Attachment 1?

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. The attached memo (Attachment A) takes a closer look at the mechanics of a Construction Excise Tax program, as allowed by Oregon Revised Statutes (ORS) and Senate Bill (SB) 1533, in order to provide Council with sufficient information and context to provide staff with direction regarding the exploration and implementation of a CET in Wilsonville.

EXPECTED RESULTS:

At the work session, staff would like basic direction regarding whether or not to proceed with the “Next Steps” as described in the attached memo.

Revenue generation scenarios are explored in the attached memo.

Expected long-term results will need to be explored and presented in subsequent Council meetings, if that is the direction Council gives.

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.

CURRENT YEAR BUDGET IMPACTS:

Budget impact, at this time, is only in the form of economic development and planning staff time and internal resources.

COMMUNITY INVOLVEMENT PROCESS:

At this time, staff has not undertaken any community involvement efforts. However, the proposed “Next Steps” call for stakeholder input after the Council has heard and considered more technical analysis regarding potential program rates, fees, mechanics, uses of funds, etc.

It should be noted that there is a political element to the creation and adoption of a CET. Generally speaking, if Council proceeds after tonight, Council should expect to hear arguments in opposition from advocacy representatives of home builders and developers. Likewise, Council will hear arguments in favor of a CET from advocates of the houseless, disenfranchised, and historically-underrepresented members of the community.

There is not one solution that will fix the affordable housing crisis, but there are tools that can be added to the toolbox. Council will need to carefully and objectively consider which tools are feasible, appropriate, equitable, and fair in a Wilsonville context, and if CET is one such tool.

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 CET using the “Next Steps” outlined in the attached memo.
2. Direct staff to move forward with the exploration of CET using a course of action other than the “Next Steps” outlined in the attached memo.
3. Direct staff to cease work on the exploration of CET at this time.

Alternative methods/concepts for facilitating the creation of affordable housing without CET are touched on in the attached memo.

CITY MANAGER COMMENT:

N/A

ATTACHMENTS:

- A. CET for Affordable Housing, with Revenue Forecasting Scenarios Memo