

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF SUPPORTING THE)	RESOLUTION NO. 13-4446
CITY OF BEAVERTON'S AFFORDABLE)	
HOUSING TAX EXEMPTION PROGRAM)	Introduced by Chief Operating Officer
FOR NON-PROFIT HOUSING PROVIDERS)	Martha Bennett in concurrence with
)	Council President Tom Hughes

WHEREAS, the Regional Framework Plan directs that the Urban Growth Management Functional Plan include policies for providing affordable housing opportunities through local and regional actions; and

WHEREAS, the Urban Growth Management Functional Plan requires local governments to adopt voluntary affordable housing production goals and ensure that their comprehensive plans and implementing ordinances include strategies for ensuring a diverse range of housing, maintaining existing supply of affordable housing, and increasing opportunities for households of all income levels to live within their jurisdictions in affordable housing; and

WHEREAS, ORS 307.540 to 307.548 authorize local governments to grant property tax exemptions for housing that is occupied by low-income persons and owned by non-profit corporations; and

WHEREAS, the Beaverton City Council is considering adoption of Ordinance No. 4619, which creates new city code provisions enabling the City of Beaverton to administer an affordable housing tax exemption program under ORS 307.541; and

WHEREAS, in order for the City of Beaverton to implement its affordable housing tax exemption program, ORS 307.543 requires the agreement of the governing bodies with taxing authority whose combined rate of taxation equals 51 percent of the total combined rate of taxation for the area to be exempted; now therefore

The Metro Council resolves that

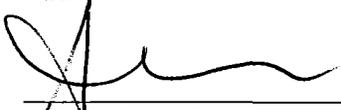
1. As one of the affected taxing authorities, Metro hereby agrees to the policy proposed by the City of Beaverton in its Ordinance No. 4619 regarding providing tax exempt status to properties that qualify as affordable housing under ORS 307.540 through 307.548.

ADOPTED by the Metro Council this 1 day of August 2010



Tom Hughes, Council President

Approved as to form:

A handwritten signature in black ink, appearing to read 'Alison Kean Campbell', written over a horizontal line.

Alison Kean Campbell, Metro Attorney

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 13-4446, FOR THE PURPOSE OF SUPPORTING THE CITY OF BEAVERTON'S AFFORDABLE HOUSING TAX EXEMPTION PROGRAM FOR NON-PROFIT HOUSING PROVIDERS

Date: July 23, 2013

Prepared by: Gerry Uba, x1737

BACKGROUND

Mayor Denny Doyle of the City of Beaverton sent a letter dated June 28, 2013 to Metro Council President, Tom Hughes (Attachment 1), requesting Metro support its effort to address the increasing need for affordable housing by exempting nonprofit developers that build and/or manage affordable housing in the city. Mayor Doyle informed Metro Council President Hughes that the city's adoption of the tax exemption is contingent upon 51 percent of the jurisdictions within the taxing authority agreeing to the tax exemption.

As stated in the letter, Washington County, the City of Tigard, Tualatin Valley Fire District, Tigard-Tualatin School District and Hillsboro School District has adopted the enabling state law (ORS 307.540-548) and are administering programs to increase affordable housing development in Washington County.

The City of Beaverton projects that 176 existing affordable housing units could potentially qualify for exemption at program adoption, and 32 could potentially be constructed in year one, bringing the total estimated number of affordable housing units eligible after the first year to 208. Based also on the city's calculation, the estimated foregone tax revenue by Metro for the 208 units will be \$2,179 at the end of the first year of the program.

Per city staff, the City Council held the first hearing on this subject on July 15, 2013 and a second hearing is scheduled on August 13, 2013.

ANALYSIS/INFORMATION

1. Known Opposition

There is no known opposition to the proposed action.

2. Legal Antecedents

The Regional Framework Plan (RFP) stated the need to encourage local governments to: a) allow a diverse range of housing types; b) make housing choices available to households of all income levels; and c) allow affordable housing, particularly in centers and corridors and other areas well-served with public services. The RFP also directs that the Urban Growth Management Functional Plan (UGMFP) include policies for providing affordable housing opportunities through local and regional actions.

Title 7 of the UGMFP requires cities and counties to adopt voluntary affordable housing production goals and ensure that their comprehensive plans and implementing ordinances include strategies for ensuring diverse range of housing, maintaining existing supply of affordable housing, and increasing opportunities for households of all income levels to live within their jurisdictions in affordable housing

3. Anticipated Effects

Metro’s financial support for increase in affordable housing units in the City of Beaverton.

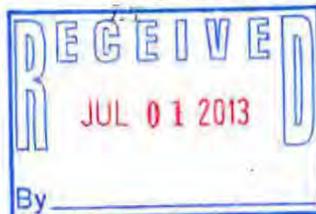
4. Budget Impacts

The City of Beaverton projects that the estimated forgone tax revenue by Metro for the approximately 208 units will be \$2,179 at the end of the first year of the program.

RECOMMENDED ACTION

Staff recommends that the Metro Council support the City of Beaverton’s effort to exempt nonprofit developers that build and/or manage affordable housing from paying property tax, recognizing that the impact on Metro will be minimal at this time.

Attachment



Mayor's Office

June 28, 2013

Tom Hughes
Council President
Metro
600 NE Grand Avenue
Portland, OR 97232-2736

RE: TAX EXEMPTION TO ENCOURAGE AFFORDABLE HOUSING

Dear Council President Hughes:

Earlier this year, as part of a multi-year effort to coordinate a county-wide tax exemption policy, Washington County Commissioners adopted an ordinance to exempt nonprofit developers that build and/or manage affordable housing in unincorporated Washington County from paying property taxes. This event marks a major achievement in Washington County's attempts to address the increasing need for affordable housing on the west side. It also marks a significant step in advancing the provision's Title 7 "Housing Choice" of Metro's Urban Growth Management Functional Plan. The City of Beaverton appreciates the leadership role that Washington County has taken and is considering a similar action. The purpose of this letter is to determine if Metro will support the City's efforts in this regard.

The Issue

Life in housing that is not affordable to residents in poverty can be detrimental to a family's health and wellbeing. These households are forced to forego what many would consider daily necessities just to ensure that their rent is paid. The subsequent tradeoffs often affect the quality of child care, sickness and disease prevention, building maintenance, neighborhood desirability, and commute distance. The prospect of living beyond one's means can also affect a child's ability to advance in school, prosper in their career, and contribute to society. Last year, the Oregon Department of Education determined that 1,809 (4.62 percent) of K-12 students attending Beaverton School District (BSD) schools were homeless. This figure placed Beaverton at the top of the list among Oregon school districts.

From a public service perspective, households that live beyond their means are more often victims of criminal activity, have a higher incidence of emergency response calls, and impose higher demands upon supportive services. Because affordable housing is often located quite a distance from their place of employment, they typically assume disproportionate transportation costs, add to greenhouse emissions, and contribute significantly to increased traffic congestion. As a result, public agencies throughout the country are coming to realize that addressing the need for affordable housing on the front end can significantly alleviate cost burdens that occur downstream.

The city of Beaverton has an abundance of low-wage jobs in both the retail and service sectors. The City wants to ensure that a sufficient inventory of affordable housing exists to accommodate these workers. In attempting to determine how well we fulfill this task, the City recently

commissioned a study, (the Beaverton Civic Plan), to measure the City's performance. The result confirmed what was many suspected.

While Beaverton has a shortage of housing affordable to very low-income households (defined as earning less than 30 percent of the area median income), Beaverton's corporate boundary contains a surplus of housing capable of housing residents that earn between 30 percent and 80 percent of the median area income. In effect, the Civic Plan demonstrated that many households who could afford to pay more for housing are occupying housing that might otherwise be affordable to lower income households.

While this may be a positive economic choice on the part of many middle-income households, it does impose unintended consequences upon those households of lesser means. Essentially, these households are either driven out of the local housing market to outlying areas where housing is more affordable, or are living in housing that is beyond their means. As indicated above, this choice requires tradeoffs that may be detrimental to a family's quality of life and burdensome to local governments and service providers who attend to the needs of these residents.

This Civic Plan finding underscores the interest that Beaverton has in encouraging the development of income-restricted housing that would not otherwise be available in a free market environment. Fortunately, this function is routinely performed by non-profit housing providers throughout the region. These organizations are experts in the art of financing projects at or near the breakeven point – an expertise that translates directly into lower rents. Most importantly, these organizations rely upon funding mechanisms to build and maintain their projects that carry income restrictions as a subsidy stipulation. These restrictions guarantee that the housing they build and maintain will be set aside specifically for low-income residents.

The Program

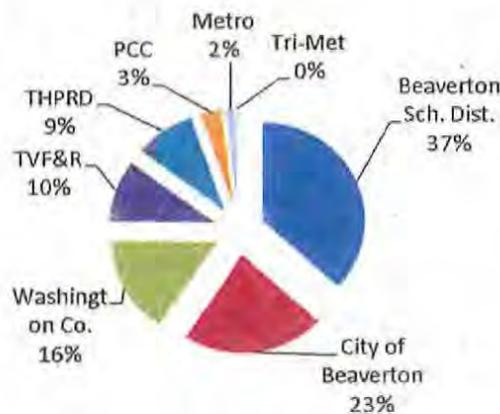
Among financial incentives, tax exemption is often cited among non-profit housing providers as the most effective instrument in addressing the needs of the low-income residents. As opposed to other financial incentives which tend to focus primarily on new construction, this tool offers a unique set of benefits. These include the following:

1. Annual savings resulting from the tax exemption reduces operating costs, and the savings can be passed on directly to renters in the form of lower rents.
2. A requirement that the housing provider meets an affordability target guarantees that encroachment from higher-income residents seeking a cost savings will not occur.
3. Annual cost savings helps ensure that property maintenance for low-income housing is sustained. This element is a crucial factor for projects that are proposed in areas where low-income housing is regarded as substandard.

ORS 307.540-548 is an enabling statute catering specifically to non-profit housing providers that develop and/or maintain housing affordable to populations earning below 60 percent of the area median income. This statute has been employed by the cities of Portland, Tigard, Eugene, and was recently adopted by Washington County for unincorporated areas. In essence, it allows eligible projects a 100-percent property tax exemption if 51 percent of the jurisdictions with taxing authority over that property agree to exempt it.

In seeking support from our public sector and service district partners, the City recognizes that participation in the program will entail costs on the part of those agencies. The City understands that the impacts imposed can be significant to an agency that functions on a thin operating budget. The city of Beaverton is not immune from these concerns. In considering the issue, there may be some consolation, however, in the fact that the majority of impact imposed is in the form of foregone revenue. In essence, excluding the value of pre-development land value for all new construction, no funds are removed from the tax rolls. To some this may make the prospect of subsidy somewhat more palatable.

As we consider the overall need for affordable housing, the city of Beaverton also appreciates the cooperative aspects inherent in this tool. Essentially, all participating jurisdictions assume a share of the fiscal obligation. If Beaverton were to administer such a program, a likely breakdown of expected tax forbearance would pan out in a manner reflected in the pie chart below. This chart depicts the distribution formula represented by the most commonly occurring tax code in the City of Beaverton as dictated by the Washington County Office of Assessment and Taxation, 2011-2012.



As for the specific costs that Metro may anticipate in supporting this program, my staff has prepared an estimate that we believe might be expected if Metro elects to participate. As the City of Tigard is the only jurisdiction within Washington County to administer an affordable housing tax exemption program under statute (ORS 307.540 to 307.548), we are basing our estimates upon the development activity and revenue effects that have occurred in Tigard. Our calculations pertaining to foregone revenue implications that Metro might expect are detailed on the following page.

PER UNIT REVENUE ESTIMATE

Based upon the valuation of eligible projects in place at the time that the exemption program is adopted.

Existing Projects that Could Potentially Qualify for Exemption in Year #1	Units	Taxable Property Value 2011-12	Yearly Foregone Rev @ Metro's Rate of \$0.4042/\$1,000 of Assessed Property Value (2012 dollars)	Annual \$ Per Unit Calculation
Spencer House	48	\$566,820	\$229	
Merlo Station*	128	\$4,001,850	\$1,617	
TOTAL	176	\$4,568,670	\$1,846	\$10.49

**Merlo Station is currently changing ownership and depending upon whether it meets the non-profit criteria, it may qualify for tax exemption.*

ANNUAL FOREGONE REVENUE CALCULATION BASED UPON CITY OF TIGARD'S PROGRAM

Years that Tigard's tax exemption program has been in place:	16
Number of units that have been built since adoption:	278
Average number of units receiving exemption in Tigard per year:	17.37
Scaling adjustment to account for City of Beaverton size difference:	1.83/1
Estimated number of units entering into the Beaverton program per year:	32
Estimated foregone revenue affecting Metro for units constructed each program year <i>(Calculated @ \$10.49/\$1000 of taxable property value)</i>	\$333

FOREGONE REVENUE ESTIMATE AT THE CLOSE OF PROGRAM YEAR #1

Existing projects that could potentially qualify for exemption at program adoption:	176
Units constructed in year #1 based upon previous calculation:	<u>32</u>
Total estimated number of units eligible for exemption after year #1	208
<i>(Existing and newly constructed)</i>	
Foregone tax revenue by Metro for new and existing units in program year #1:	\$2,179
<i>(Calculated @ \$10.49/\$1000 of taxable property value)</i>	

FOREGONE REVENUE ESTIMATE AT THE CLOSE OF PROGRAM YEAR #10

Total units estimated to qualify for exemption in year #10	496
Foregone revenue by Metro for all qualifying units in year #10:	\$5,202
<i>(Calculated @ \$10.49/\$1000 of taxable property value)</i>	

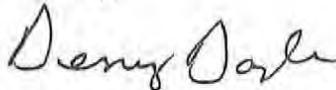
Washington County now bears the distinguished title as one of the fastest growing counties in the state of Oregon. With this title, residents, governments, and housing providers throughout the County are coming to realize that a shortage of affordable housing is no longer a big city problem limited to the city of Portland. As if to underscore the seriousness of this issue, a report was released just last week by the Brookings Institute revealing that poverty in Beaverton has effectively doubled within the last decade. I am concerned by these indicators and do not take them lightly.

With an abundance of low-paying jobs here in Washington County, we must recognize that Washington County's inventory of affordable units capable of housing our low-income work force is extremely limited. Add to this the fact that cities and counties throughout the U.S. face a diminishing federal funding stream (revenue that has traditionally supported public housing), and the need for alternative tools for affordable housing developments in Washington County becomes clear.

As it currently stands, Washington County, Tualatin Valley Fire District, the City of Tigard, the Tigard-Tualatin School District, and the Hillsboro School District have all signed ordinances adopting the provisions of ORS 307.540-548 and are administering programs to achieve the program's objectives. These jurisdictions recognize that a shared effort on the part of multiple organizations will diminish the likelihood that one local government will attract a disproportionate share of affordable housing providers seeking subsidy to that jurisdiction.

I hope that Metro will consider partnering with the City of Beaverton in administering the program described above. Thank you for your efforts in considering this topic, and we look forward to future discussion with you with regard to this issue.

Sincerely,



Denny Doyle
Mayor

c: Gerry Uba, Project Manager, Metro
Val Valfre, Executive Director, Department of Housing Services, Washington County
Don Mazziotti, Community and Economic Development Director, City of Beaverton
Patrick O'Claire, Finance Director, City of Beaverton