

CONSTRUCTION EXCISE TAX FOR AFFORDABLE HOUSING

City Council Work Session
November 17, 2021



Tonight's Work Session

Learn about a Construction Excise Tax for Affordable Housing that the Affordable Housing Committee has been evaluating for the past three years for McMinnville.

Hear presentations from three other cities that have enacted a CET for affordable housing.



Great Neighborhood Principle:

Great Neighborhoods have a diversity of housing for all income levels that is compatible with the neighborhood.

City Council, November 17, 2021

AGENDA FOR WORK SESSION:

**Introduction
(10 minutes)**

**City Presentations
(10 Minutes Each)**

- **Bend**
- **Tigard**
- **Newberg**

**McMinnville Affordable Housing
Committee Recommendation
(10 Minutes)**

**Discussion / Questions and
Answers (10 Minutes)**



**City of
McMinnville**

City Council Goals and Strategic Plan

Goal – Housing Opportunities: Create diverse housing opportunities that support great neighborhoods.

Strategic Objective: Collaborate to improve the financial feasibility of diverse housing development opportunities.

Priority Action: Inventory financial tools available to support housing development.



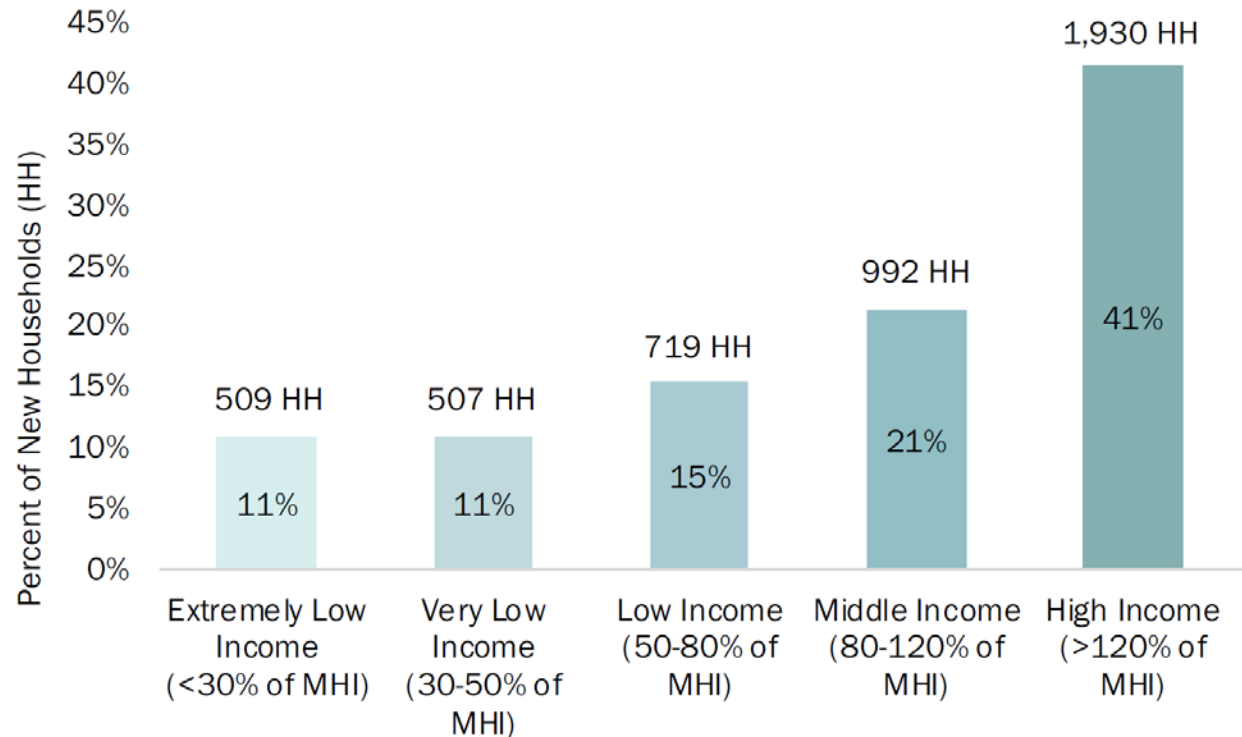
Future Affordable Housing Need

Exhibit 92. Future (New) Households, by Median Household Income (MHI) for McMinnville (\$50,300), McMinnville UGB, 2021 to 2041

Source: US Department of Housing and Urban Development and US Census Bureau, 2012–2016 ACS Table 19001 and B25119.

37% of McMinnville's future housing needs to accommodate households that are 80% of MHI or less.

1735 homes



2019 Draft Housing Needs Analysis

Just a reminder

The City of McMinnville has no dedicated revenue resource to assist in the development of affordable housing.

Background on CET for Affordable Housing

- ❖ **2016 Oregon Legislative Session passed SB 1533 enabling cities to collect construction excise tax for affordable housing.**
- ❖ **Construction Excise Tax = tax on building permits. McMinnville School District currently has one of 1.0% that the City collects and provides to them.**
- ❖ **The Affordable Housing Committee has been evaluating a CET for affordable housing for the past three years.**
- ❖ **The Budget committee recently recommended evaluating a CET for affordable housing as a revenue resource to support affordable housing in McMinnville.**
- ❖ **The City Council recently adopted Resolution 2021-55 to evaluate revenue resources including a CET for affordable housing.**

SB 1533 – CET

- ❑ Allows for up to 1% CET on valuation of residential building permits
- ❑ No limit of CET on commercial and industrial building permits.

Residential CET \$ Distribution

4% of revenue = administration

50% of balance = developer incentives for affordable housing

15% of balance = OHCS

35% of balance = local affordable housing programs

Commercial CET \$ Distribution

4% of revenue = administration

50% of balance = to fund programs related to affordable housing

50% of balance = unrestricted by the bill.

SB 1533 – CET

Exemptions:

- ☐ Private School Improvements
- ☐ Public Improvements
- ☐ Residential housing that is guaranteed to be affordable to households at or below 80% AMI for at least 60 years.
- ☐ Public or Private Hospital Improvements
- ☐ Improvements to religious facilities primarily used for worship or education associated with worship.
- ☐ Agricultural buildings
- ☐ Facilities that are operated by a not-for-profit corporation and that are: long-term care facilities, residential care facilities, or continuing care retirement communities.

City Presentations: (Bend, Tigard and Newberg)

- **CET Rates**
- **Revenue generated from CET**
- **How much has been spent on affordable housing projects**
- **How CET funding was used**
- **Funds leveraged by the CET**
- **What have they been able to accomplish to address affordable housing needs**
- **How has this benefitted the local construction sector and trades**



BEND AFFORDABLE HOUSING FUNDING

Lynne McConnell, Housing Director
City of Bend



- Adopted by Council in 2006
- Collected on all Building Permits
- Assessed at 0.33%
- 2021-2023 Budget
 - \$391,000,000 Total Building Valuation
 - \$1,290,300 Affordable Housing Fee funding annually projected
- Has supported the construction of over 1000 units of Affordable Housing

MOST RECENT FUNDING



- Housing Works: Land Acquisition of HB 4079 parcel \$625,000
- Related Northwest: Mary Rose Place Apartments \$475,000
- Bend Heroes Foundation: Veterans Village \$200,000

Total of all requests: \$4,000,000+

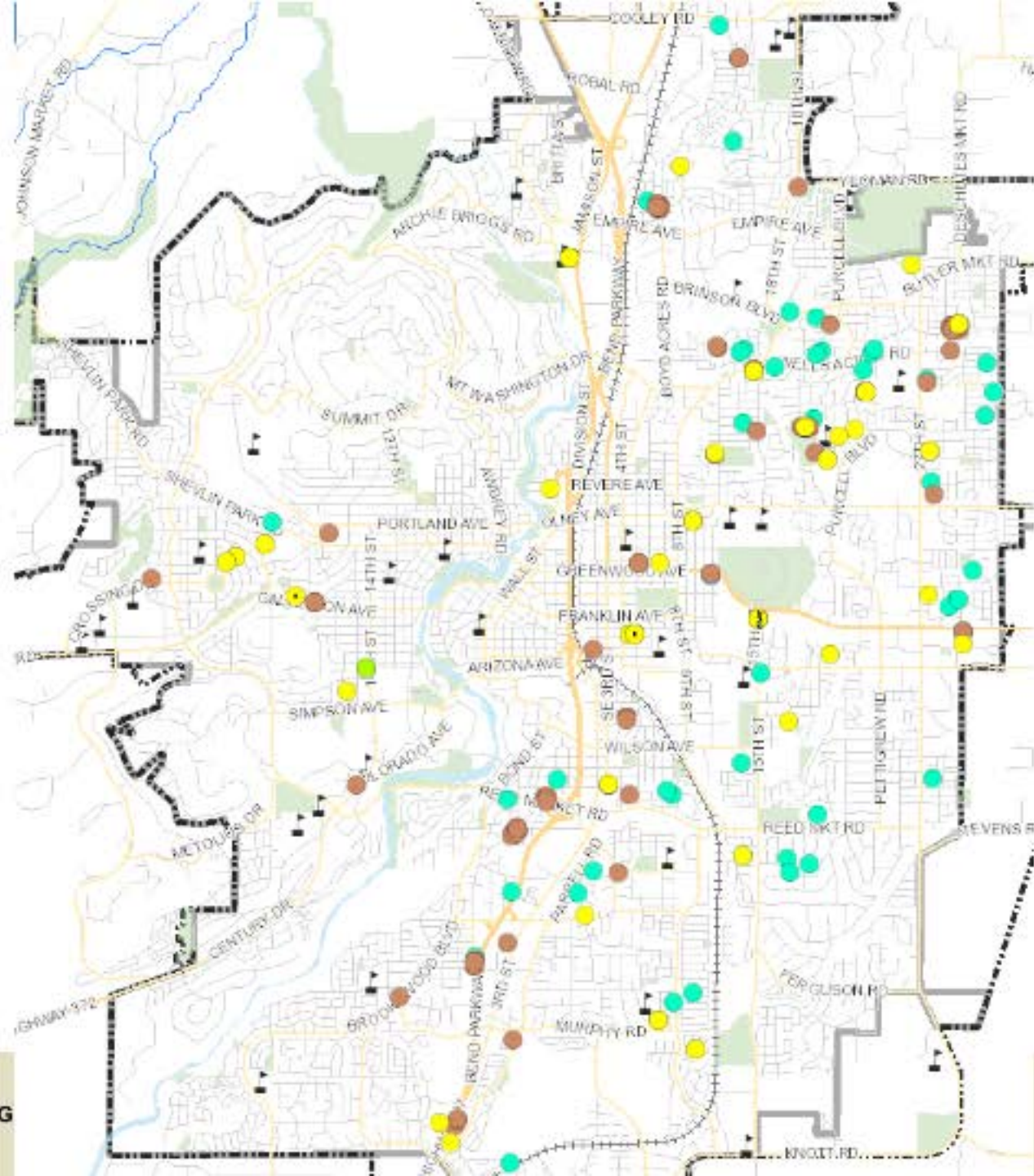


Total Award : \$1,300,000

Total units: 415-500

Leverage: \$93,500,000

PRODUCTION



QUESTIONS?





Affordable Housing Advisory Committee (AHAC)

- A representative from the CO Builders Association
- A representative from the Bend Chamber of Commerce
- A representative from a local lending institution
- A representative from an affordable housing provider
- A representative from a tenant organization
- A representative from the CO Realtors Association
- Three at-large representatives



GOALS FOR FUNDING ALLOCATIONS



1. **Affordable Rental Housing Production and Preservation** -- Produce and preserve renter-occupied affordable housing;
2. **Provide Support to Necessary Public Services** -- Make available assistance to necessary and prioritized public services, including material, structural and staff support as needed; and
3. **Affordable Ownership Housing Production and Preservation** -- Produce and preserve owner-occupied affordable housing;
4. **Assist Homeless with Shelter and Services** -- Increase the number of Homeless shelter units and transitional housing units, while preserving and enhancing existing facilities, and provide services to the homeless population;
5. **ADA and Housing Infrastructure Improvements** -- Removal of architectural barriers in public places and development of Infrastructure, particularly in conjunction with affordable housing development and in low income neighborhoods;
6. **Permanent Supportive Housing**-- Provide assistance to entities offering Permanent Supportive Housing (PSH).



- Outside funds leverage
- Does not duplicate existing services and effectively utilizes/maximizes partnerships
- Staff capability and capacity to successfully implement the proposed project.
- Clearly defined and realistic in scope, location, need, budget, and goals
- Reasonable timelines and scope
- Uses Best Practices
- Timeliness
- Strong neighborhood/community support
- Requires a one-time only infusion of funds
- Sustainable long-term impact, secured by deed restrictions, land trust or other mechanisms
- Does not result in permanent displacement or relocation of existing occupants

Newberg Construction Excise Tax Program

McMinnville City Council Work Session

November 17, 2021



RATE

- Commercial & Industrial - 1% of the value of the improvement. “Value of improvement” means the total value of the improvement as determined in the process of issuance of the building permit.
- Residential - 1% of the value of the improvement. “Value of improvement” means the total value of the improvement as determined in the process of issuance of the building permit.

REVENUE

- FY 20/21 (6 months) \$243,983
- FY 21/22 (4 months) \$180,725
- All revenue generated from residential development
- No new commercial or industrial development has been permitted
- No fund expenditure to date on projects(s)

EXEMPTIONS

- 12 exemptions in Code
 - Private school improvements
 - Public improvements as defined in ORS 279A.010
 - Residential housing that is guaranteed to be affordable
 - Public or private hospital improvements
 - Improvements to religious facilities
 - Agricultural buildings, as defined in ORS 455.315
 - Facilities that are operated by a not-for-profit corporation and that are: Long term care facilities, Residential care facilities, continuing care retirement communities
 - Any improvements that are exempt from the construction excise tax under state law
 - Any improvement funded by construction excise tax proceeds
 - Non-living space located on residential property
 - Accessory dwelling units
 - Improvements having a total improvement value of less than \$100,000

PARTIAL EXEMPTION

- Partial exemption of 50 percent shall apply to residential housing that is subject to a deed restriction requiring that the property remain affordable to households that earn between 81 percent and 120 percent of the area median income for a period of at least 60 years following the date of the restriction

OBJECTIONS/CONCESSIONS

- Development community opposed the program
 - Was a push by some for a GO Bond approach
 - Was a request to vest a project at land use stage on SDCs
 - Portland Home Builders Association active in developing the program
 - To get the program adopted adjusted timing for payment of System Development Charges to time of insulation inspection - carrying cost savings to developers
- ☐ Sunset provision (year 5 evaluation on success or not)

PARTNERING OPPORTUNITIES

- In conversations on several potential developments to use CET funds for affordable and workforce housing units
- Hired a Housing Planner to administer the program and develop program materials (the 4% administration fee in part funds this position) and coordinate with developers

- Outside funds leverage
- Does not duplicate existing services and effectively utilizes/maximizes partner resources
- Staff capability and capacity to successfully implement the proposed project
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City of Tigard

Respect and Care | Do the Right Thing | Get it Done

Construction Excise Tax

McMinnville
November 16, 2021



What Are the Terms of Tigard CET?

- Residential CET of 1%**
- Commercial CET of 1%**
- Effective January 1, 2020**
- Exemptions (in addition to state-mandated):**
 - Public school improvements*
 - Affordable housing for sale*
 - Accessory dwelling units (with a sunset)*
 - Missing middle (exempt from 75 percent)*
 - Permits of value \$50,000 or less*
 - Replacement residential structures where the original structure was destroyed by accident and that add no more than 10 percent living space*

Why Did Tigard Adopt a CET?

- Backfill SDC funds from Affordable Housing exemption
- Fund flexible affordable housing programs
- Support affordable homeownership through down payment assistance programs
- Key implementation step for the adopted Affordable Housing Plan (2019)

What Was the Revenue Forecast?

PROJECTIONS FROM PREVIOUS YEARS	
08/09	\$125,144
09/10	\$332,884
10/11	\$321,914
11/12	\$337,424
12/13	\$688,604
13/14	\$515,001
14/15	\$855,818
15/16	\$1,113,066
16/17	\$1,880,471
17/18	\$2,113,241
18/19	\$1,746,485

What Was the Budget Forecast?

FY	Residential Total	Commercial Total	Residential CET	Commercial CET	CET Total
17/18	\$148,596,515	\$62,727,585	\$1,485,965	\$627,276	\$2,113,241
18/19	\$55,723,512	\$118,925,034	\$557,235	\$1,189,250	\$1,746,485

FY	CET Total	Admin. Fee	SDC Backfill	OHCS Programs	Affordable Housing Programs	Commercial 50%
17/18	\$2,113,241	\$84,530	\$713,263	\$213,979	\$800,377	\$301,092
18/19	\$1,746,485	\$69,859	\$267,473	\$80,242	\$758,071	\$570,840

What Was the Revenue Outcome?

- COVID-impacted in years 1 and 2

	FY2020 Actual	YTD Jan-21 FY2021 Actual	ROY FY2021 Forecast	Total FY2021 Forecast	FY2022 Budget	Total Revenue	OHCS	Developer Incentive	\$ Available for Flexible Affordable Housing
Residential - FY20, FY21	42,317	129,421	92,444	221,865		264,000	0	155,300	108,700
Non - Residential - FY20, FY21	72,273	115,979	82,842	198,821		271,000			135,500
Residential					220,000	220,000	0	129,400	90,600
Non - Residential					200,000	200,000			100,000
CDBG					125,000	125,000			125,000
Total CET	114,590	245,400	175,286	420,686	545,000	1,080,000	0	284,700	559,800
Interest	358	0	0	0	0	0			0

What Has Been Funded

- **Affordable Homeownership**
 - *Proud Ground Community Land Trust*
 - *First year budget \$520,000*
 - *Funds four to five homes through down payment assistance*
 - *Permanently protects affordability*

Thank You.
Questions?

AFFORDABLE HOUSING COMMITTEE RECOMMENDATION

**McMinnville should adopt a CET for
Affordable Housing**



WHY?

- ❑ There is need – approximately 40% of future housing needs in McMinnville will likely be subsidized housing.
- ❑ With HB 2003, McMinnville will need to demonstrate how they are enacting programs to meet that need.
- ❑ McMinnville has no dedicated funds to support affordable housing.
- ❑ With McMinnville's new annexation process requesting affordable housing from future developers, the City will need a program to help incentivize or offset costs of affordable housing.

WHAT?

Rate:

- ❖ 1% for Residential
- ❖ 1% for Non-Residential

Use of Funds:

- ❖ Keep the Ordinance Broad for on-going flexibility to respond to needs
- ❖ Focus on Affordable Housing

Review and Evaluation – Five Year Review

FUNDING MODEL

Fiscal Year 20/21:

Residential Permit Valuation = \$23,309,494

Non-Residential Permit Valuation = \$39,420,217

Total Permit Valuation = \$62,729,711

RESIDENTIAL						
CET Imposed	Total CET FY 20/21	City Admin (4%)	Balance	Developer Incentives (50%)	OHCS (State) (15%)	Aff. Housing Programs (35%)
1%	\$233,095	\$9,324	\$223,771	\$111,886	\$33,566	\$78,320
COMMERCIAL						
CET Imposed	Total CET FY 20/21	City Admin (4%)	Balance	Developer Incentives (50%)	Other (50%)	
1%	\$394,202	\$15,768	\$378,434	\$189,217	\$189,217	
TOTAL	\$627,297	\$25,092	\$602,205	\$301,103	\$267,537	

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				<div>\$568,640</div>		
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FINANCIAL IMPACT ON HOUSING

Example: 2000 sf home (\$130.58/sf) plus 440 sf garage (\$51.28/sf) = \$283,723 permit valuation.

1% CET = \$2,837

Market Value of House = \$480,000 (\$240/sf).

The 1% CET = 6/10 of 1% of the market value of the home to the consumer.

Amortized over 30 Years = \$94.56 (plus interest)

Amortized over 15 Years = \$189.13 (plus interest)

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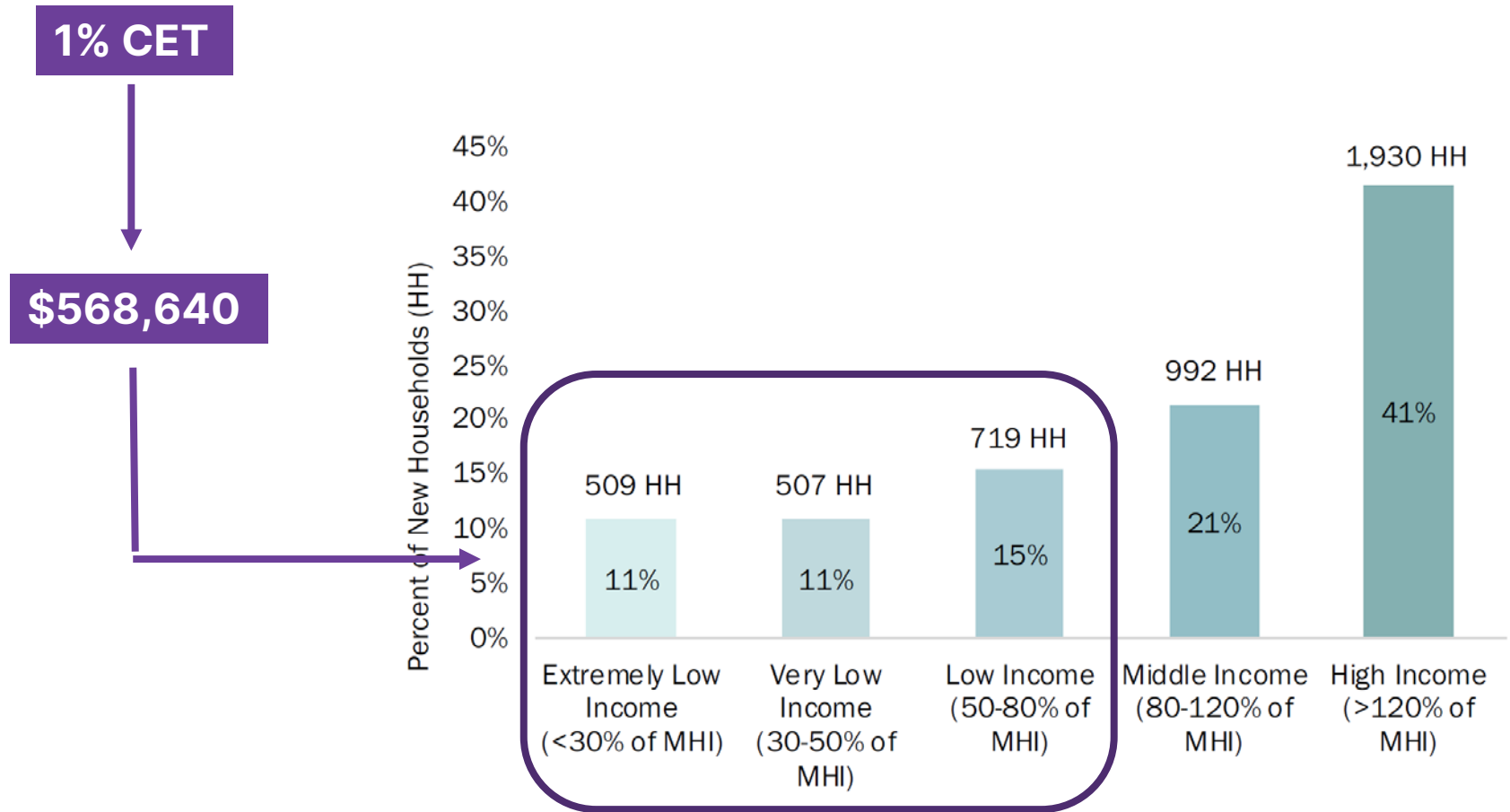
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Homes serving households below 80% AMI and are deed restricted for affordable housing for at least 60 years are exempt.

IMPACT ON HOUSING NEED



Next Steps

If City Council decision is to move forward:

- ❑ Develop a brief sheet for developers (proposal and timing for consideration and public hearing)
- ❑ Develop code provisions to support the program for City Council consideration (public hearing) – March 2022
- ❑ If approved, takes effect – May 1, 2022
- ❑ Send out a mailing to developers letting them know of the program and effective date.

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