
City of Albany

Albany Housing Implementation Project
Housing Policies Background Report

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INTRODUCTION

This background report was completed as part of the City of Albany Housing Implementation Project. The report presents analysis of three specific policy tools that were identified as recommended strategies for further exploration in the Albany Housing Implementation Plan (HIP) completed in 2023.

The three policies analyzed here are:

1) Surplus Land for Affordable/Needed Housing
2) Tax Abatement Programs
3) Construction Excise Tax (CET)

The purpose of this analysis is to provide further context and quantitative data to assess the potential of these programs to incentivize the development of additional housing in the city of Albany. The first two programs might be used to facilitate the development of affordable housing as well as market-rate housing if it meets public needs (e.g. housing density or mixed use goals), while the CET is designed to be used specifically for affordable housing.

Encouraging the development of affordable housing that is often undersupplied by the market is the major focus of this project. A secondary goal may be to incentivize other types of development, such as mixed-use, transit-oriented, or denser housing in some planning areas such as the designated Climate Friendly Areas (CFA) or other town centers.

Financing Affordable Housing

A major focus of the HIP and related planning efforts is how to incentivize long-term affordable housing. It is important to note that most of the incentives discussed in the HIP, and the three policies discussed here, are rarely sufficient to make an affordable housing project feasible on its own. Modern affordable housing development is typically complex and time-intensive, requiring developers to line up a combination of multiple sources of funding and programs before a project becomes feasible.

Any one public program can provide a key layer in this financing plan for a housing project, without which the project may not be feasible. The contribution of City incentives can also demonstrate local support for a project that will help it secure additional funding from state or federal sources.

I. SURPLUS LAND FOR AFFORDABLE/NEEDED HOUSING

A. DESCRIPTION

This strategy involves providing City-owned or other surplus land owned by partner public agencies or institutions to support development of long-term affordable housing or other needed housing. Surplus land is any piece of real property that is no longer needed for an agency purpose. This could be an obsolete facility, parking lot, unused open space, right of way, or property acquired through foreclosure, etc.

In addition, sometimes sites that are still serving their intended purpose are larger than needed, and the unused portion could be converted to other uses. When these opportunities come up, the City can capitalize on them to support development of housing that meets public needs such as affordability, transit-oriented development, or mixed uses.

There are two major advantages to the City that come from identifying potential surplus land for housing development.

- **Control:** The first advantage is control over the parcel and what happens there. As the owner, the public agency can dictate the terms of a sale or development agreement, and typically has the patience to wait until the right project comes along. If a city would like to hold a key parcel for a housing development, there is no danger of an alternate development that doesn't meet city goals utilizing the site.

- **Land Value:** The second advantage is that the parcel itself has value that becomes an incentive for the partner developer to build the type of housing that the city would like to see. Though land costs vary widely by market and location, a rule of thumb is that land cost typically constitutes 20% of construction costs. This makes the publicly owned surplus site a valuable potential incentive to a private partner, and a tool for bridging feasibility gaps that might exist.

B. How it Works

Development of surplus land will almost always entail the City forming a partnership with a private or non-profit developer who has more experience in the development of housing. Approaches to this partnership include:

1) Sell the land at appraised value with few strings attached other than the agreed upon land use. For instance, this might achieve market-rate housing, at a typical density seen in the area, under the applicable zoning. The goal of achieving additional housing on that surplus parcel is achieved, but few additional goals.

2) Discount the land value or even donate the land in return for achieving larger public goals. Common examples are achieving affordable housing units, affordability at lower income levels, and/or increased housing density. This helps achieve housing types or building forms that wouldn't be feasible without this public contribution.

3) Allow long-term land leases (e.g. 100 years) at minimal cost to greatly reduce the land cost to the partner developer. In this scenario, the City maintains ownership of the land rather than donating it. This approach can ensure that the housing remains affordable for a longer period, or in perpetuity.

Each property, development project, and partnership agreement is unique. The HIP outlines some of the implementation steps required if the City wishes to pursue this program. Some of the key steps are:

- Inventory City-owned land that may be suitable for housing development and determine what land is currently surplus or excess or may be deemed so in the next few years. This process should involve consultation across City departments to ensure there are no claims to individual parcels for other identified needs.
- Reach out to other public agencies and institutions, including religious institutions, that own land within Albany to determine if these entities are willing to include their lands in the inventory. Planning staff may be aware of underused land owned by other agencies in the City.
- Characterize the identified surplus parcels by appropriateness for housing development. Factors such as the Comprehensive Plan designation, zoning, size, location, environmental constraints, surrounding uses, traffic patterns, and other considerations might impact how much and what types of housing might be accommodated.
- Viable sites might be prioritized for moving forward by factors such as the magnitude of impact on housing supply and need, and strength of the location.
- Review policies and procedures related to surplus and excess lands to determine whether changes or refinements are needed to enable or encourage surplus lands to be made available for affordable housing.
- Determine the goals of the program. What types of development does the City seek to incentivize on surplus land? Targets might be a threshold housing density, affordable units as a share of total units, affordability levels by income, or a combination of these. Goals might differ based on location (e.g. a vertical mixed-use building in a designated CFA, or a middle housing project on a smaller parcel).
- The City might seek out development partners by direct solicitation from known housing developers in the region, request for letters of interest, or issue a formal request for proposals. The experience and track record of the development partner are key considerations. Because cities are not typically in the development business, they are usually not equipped to take over a failed project. In the pre-development phase, the City should require significant due diligence on the property and proposed development, including a market study that demonstrates the need for any public incentive on offer (e.g. discount on the land purchase.) Other tools, such as a CET, might help provide some additional funding for this predevelopment analysis to non-profit agencies.

C. CASE STUDIES

Albany has some history of using surplus land for affordable housing projects. When the Albany Area Habitat for Humanity was first formed in 1993, it reached out to the City for surplus property. The City deeded two foreclosed residential lots in the Friday's Fairway subdivision (48^{th} and Geary) to Habitat for the construction of two affordable units.

In 1996, the City deeded a one-acre property east of I-5 between Adah and Eleanor Streets to the Albany Area Habitat for Humanity. The property enabled Habitat to build 7 homes for families earning 60% or less of the area median income. Five of the 7 homes were constructed for Latina families (see Figure 1.1).

FIGURE 1.1: SURPLUS PROPERTIES DONATED TO HABITAT FOR HUMANITY (ALBANY)

Source: City of Albany

The following pages present a sample of projects in other communities where housing was developed on land owned by a public agency. In all of these cases, the land contribution was one of multiple public incentives and funding sources needed to make the projects fully feasible. The affordable housing projects typically included an allocation of Low Income Housing Tax Credits (LIHTC) or other state or federal programs. Market-rate examples often included development fee waivers and tax exemptions for multiple-dwelling unit housing or vertical housing. This pattern is likely to carry over to Albany, where surplus land can be one important component, but perhaps not the only component.

Florence, Oregon Cottages

Sources: City of Florence, DevNW

The City of Florence partnered with nonprofit DevNW to establish an affordable homeownership project on Florence's former senior center site to build 12 homes affordable to households earning 80% or less of the median income. The proposal includes a land trust model, which enables the homeowner to earn equity and create permanent affordable housing as the land is held in a trust managed by DevNW.

FINANCING: The project received a $900,000 LIFT Homeownership/Land Trust Grant from Oregon Housing and Community Services and $180,000 from the Self-Help Homeownership Opportunity Program (SHOP). DevNW also provides down payment assistance loans to homeowners.

INCENTIVES: Florence sold the lot to DevNW for $1. The sale was contingent on award of grant funds and represented the City's financial support of the project, which leveraged LIFT funds.

SONGBIRD APARTMENTS

2140 N Williams Ave, Portland, Oregon

The Songbird Apartments were built on the lots of a former county-contracted training building and a battery manufacturing facility. The manufacturing lot required a hazardous building survey and demolition as well as complete site remediation prior to development. Forty out of the 61 units are affordable at 30% AMI, while the rest are affordable at 60% AMI plus one manager's unit. Ten of the most affordable units are reserved as permanent supportive housing. The land was donated to the developer, BRIDGE Housing, by Multnomah County.

Project Name	Units	Type	Delivery
Songbird	21	Affordable (60% AMI)	2000
	40	Affordable (30% AMI)	2000
TOTAL:	***61***	***Affordable***	***2000***

FINANCING: Songbird received funding from a variety of public and private sources, including $4.5 million from the Portland Housing Bureau and $5 million from Multnomah County. The total cost was about $19 million.

INCENTIVES: Multnomah County donated the lot for development. The 40 units affordable at 30% AMI are permanently subsidized via HUD Section 8 funding. The project also received LIHTC.

THE WHY: The project began in 2015, while the city was making investments in urban renewal in this neighborhood to combat the effects of gentrification. It is subject to the N/NE Preference Policy serving area residents displaced by gentrification.

ATTWELL OFF MAIN

12790 SW Ash Ave, Tigard, Oregon

The Attwell is a large apartment complex built in Downtown Tigard, on the site of the City's former public works maintenance yard. The development was a public/private partnership between the City of Tigard and Greenlight Development. The City sold the property to Greenlight Development with housing density and commercial space requirements, in exchange for paying some pre-development costs. The project was part of the City's goal to increase housing in the Downtown, at a range of income levels, to help support a more active and vibrant town center. The project was completed in 2017 with 165 market-rate units and two ground floor commecial spaces. Greenlight sold the complex in 2018.

Project Name	Units	Type	Delivery
Atwell off Main	165	Market	2017

FINANCING: The total cost of this development was an estimated $31 million, primarily funded by the developer.

INCENTIVES: With control of this surplus public property, the City could select a private partner willing to meet the City's requirements for housing density, mixed use, and transit-oriented features. The City sold the property at appraised value, but credited much of the cost back to the developer via waived system development charges. The project also received a 10-year property tax abatement through the City's established Vertical Housing Development Zone incentive program.

THE WHY: As a requirement for developing the property, the City wanted a mixed-use project that achieved a minimum housing density goal. Attwell off Main is also considered a transit-oriented development, as the Tigard Transit Center, including a WES Station, is about a quarter mile away. The project brought additional residents to the downtown, in support of wider district planning initiatives. The project did not place an emphasis on affordable housing because the existing housing stock in the district was generally older, in lower condition, and lower cost. In addition, the market-rate project will eventually return to the tax rolls and support the local urban renewal district.

HOLLYWOOD HUB

4110 NE Halsey St, Portland, Oregon

HollywoodHUB is currently under construction on a TriMet-owned parcel, htat was formerly the Hollywood Transit Center (bus depot). The building will help create what TriMet calls "community-centered transit-oriented development." When complete, it will provide immediate access to the adjacent MAX station and three bus routes. The building will have 222 total units, with 151 units affordable at 60% AMI and 71 units affordable at 30% AMI. BRIDGE Housing, an affordable housing nonprofit, is the developer, however TriMet will maintain ownership of the land.

Project Name	Units	Type	Expected Delivery
HollywoodHUB	151	Affordable (60% AMI)	2026
	71	Affordable (30% AMI)	2026
TOTAL:	*222*	*Affordable*	*2026*

FINANCING: The Metro affordable housing bond is contributing $37 million towards the project, which will cost about $155 million in total. It is also partially funded by the Series 2020 Sustainability bonds, as well as other tax-exempt bonds.

INCENTIVES: BRIDGE Housing secured tax-exempt bonds and Low Income Housing Tax Credits (LIHTC) for this project. Additionally, TriMet will continue to own the property, eliminating land purchase cost for the developer. TriMet will contribute some transit improvements in conjunction with the project.

THE WHY: This project aims to meet TriMet's goal of encouraging and contributing to new transit-oriented development near its facilities and routes. Building housing near transit is intended to increase ridership and reinforce use the transit system. This is also in keeping with the "centers and corridors" planning pattern of the City of Portland and Metro. The site is adjacent to several types of transit, including light rail and bus service.

JESSE QUINN

1837 Pacific Ave, Forest Grove, Oregon

The site formerly hosted Times Litho, a printing company, which left the site vacant after merging with Eugene-based Northwest Web in 2006. The City of Forest Grove purchased the property in 2012, via its urban renewal agency, hoping to solicit a project to increase opportunities for living in downtown. In 2015, Tokola Properties submitted plans to develop the site in two phases. The first phase was Jesse Quinn Apartments, and the second, still in planning, will be a hotel and for-sale townhomes. The building broke ground in 2016 and was finished by 2018. In addition to 78 apartments, this mixed-use development includes extensive community amenities, including a large plaza, commercial space, and a community garden.

Project Name	Units	Type	Delivery
Jesse Quinn	78	Market	2018

FINANCING: Of the $15.5 million total cost, Metro contributed a $250,000 transit-oriented development grant. The City of Forest Grove subsidized about $90,000 in pre-development costs, including traffic and parking studies, market studies, architectural and engineering.

INCENTIVES: The Forest Grove Urban Renewal Agency transferred the property to Tokala Properties. The city agreed to split pre-development costs with the developer and provided fee waivers and abatements during the early stages of development. Total public incentives are estimated at $1.5 million.

THE WHY: The departure of the Times Litho company left a large, underutilized block in downtown Forest Grove. This project is the first modem mixed-use building in the city, which, city officials hope, will be the catalyst for more of these kinds of developments. The development is in support of downtown and urban renewal plan goals.

THE RIVER DISTRICT

Downtown Eugene, Oregon

The River District was first conceptualized in 2007. Historically, the property was occupied by Eugene Water & Electric Board (EWEB), housing their headquarters, warehouse, and repair shops. As EWEB prepared for a relocation across the city, the City of Eugene began work on a master plan, which was finalized in 2009 and approved by EWEB in 2010. In early 2018, the city finalized their purchase of the 16 acres, and in 2020, Atkins Dame was retained to develop the multifamily portion of the district. Over 600 market-rate units in four projects are anticipated by 2029.

Project Name	Units	Type	Expected Delivery
Heartwood	94	Market	Completed 2024
The Portal	130	Market	2025
The Landing	237	Market	2026
The Parker	200	Market	2026
TOTAL:	*661*	*Market*	*2026*

FINANCING: Atkins Dame bought the sites for a total of $11.1 million from 2021 to 2024. The entire project is estimated to cost $139 million, $26 million of which will come from the City's Urban Renewal Agency, mostly via public infrastructure, including waterfront park improvements.

INCENTIVES: The city approved Multi-Unit Property Tax Exemption (MUPTE) for all four of the projects, exempting Atkins Dame from taxes on the new buildings for 10 years. In selecting the private partner, the City ensured that the developer would meet the goals of the master plan, and help build out the high-density, mixed-use neighborhood as envisioned.

THE WHY: The City of Eugene described the site as "completely underutilized" under its prior industrial use. The district has excellent riverfront location and is adjacent to the downtown. The master plan increases the density and number of uses and will make the area much more active while providing housing in a key location. Retail stores, a restaurant, and a hotel are also planned under a different developer.

II. Tax Abatement Programs

A. Description

Tax abatements are reductions in property taxes for housing. Abatements may include full or partial tax exemptions or freezes on the assessed value of properties. Abatements are often provided to non-profit corporations or private developers in exchange for developing affordable housing or other desired housing types (such as mixed-use). Property tax abatements can also be applied to housing in distressed areas, or for rehabilitated housing. Property tax abatements reduce ongoing operating costs for housing projects, which can be greatly beneficial for affordable housing finances.

The state currently authorizes tax abatements for various types of housing and affordable housing through several programs outlined in the Oregon Revised Statutes (ORS).

The City of Albany adopted the Nonprofit Low-Income Housing Tax Credit in 1993, which enables the City to exempt affordable housing developed by non-profit agencies from City taxes, although annual renewal by the non-profit recipient is required. Because the City of Albany makes up less than 51% of the taxing district, only City taxes are exempt, unless the non-profit seeks approval from other taxing entities.

As part of the HIP planning process, the City expressed interest in two other high-priority tax abatement programs:

1) **Low-Income Rental Housing (ORS 307.515 – 307.537).** The state authorizes a 20-year tax abatement for any entity that provides regulated affordable housing, including nonprofits and for-profit developers, making it more widely applicable than the City's current program. The statutes outline similar eligibility requirements, in that eligible properties must be offered for rent to low-income persons (at or below 60% AMI) or held for the purpose of developing low-income rental housing.

   Key advantages of this abatement program are that it is available to more than just non-profits and it does not require annual renewal. In contrast, recipients of the City's current non-profit tax abatement need to seek renewal every year by City Council, which can be a time-consuming process.

2) **Transit-Supportive Multi-Unit Development (ORS 307.600 – 307.637).** This abatement(known as "MUPTE" in some communities) is an abatement for multiple-unit housing in corridors and centers that support transit. Eligible development must be located in transit-oriented areas and have multiple units (middle housing or multi-family) but may include ground floor commercial space. The abatement can be provided for up to 10 years, and only applies to new residential construction, and not land or any commercial portions.

   The City has broad discretion as to how to structure the program and define affordability requirements. The abatement program does not have to be provided only for affordable housing but can be used to achieve greater density, mixed use, or transit-oriented development at market rates.

B. Considerations

A major consideration when offering multiple tax abatement programs is if they overlap, they might compete for use by applicant developers. The abatement program seen as providing the greatest benefit with the lowest cost/concessions from the developer is likely to be utilized much more than the others.

For this reason, the city should consider adopting one abatement intended mostly for affordable housing, and one intended for mostly transit-oriented development or other goals. The **Low-Income Rental Housing** tax abatement, lasting 20 years, will be attractive to those seeking to provide affordable housing, including non-profit agencies and for-profit developers specializing in tax credit projects. The **MUPTE** could be focused on transit-adjacent areas and the soon-to-be-designated climate friendly areas (CFAs). While the City could require a limited affordability component as part of the MUPTE program, projects that are intended to be fully affordable are likely to opt for the former abatement program.

C. Impact on Project Feasibility

Tax abatements work by lowering operating costs in the first years of the property's operation. This helps projects that might otherwise not be feasible due to high development costs or low achievable rents/pricing, which is often the case for affordable housing, taller buildings, or mixed use buildings. The hope is that the availability of the tax abatement helps tip a development from one form to another, or from market-rate to affordable.

The usage of tax abatement programs by private developers will generally be related to the underlying market forces already present in the community. For instance, if some areas or neighborhoods are on the cusp of seeing denser housing development, then a MUPTE will likely see greater usage, amplifying the benefits such as more housing and mixed uses near transit. However, if a neighborhood is not ready for higher density housing, this incentive is unlikely to make it desirable to a private developer. For that reason, focusing the multiple-dwelling unit housing or transit-supportive programs where they already enjoy some support is recommended.

Low-income housing tax abatements are typically used by agencies or developers who are already interested in providing this form of housing. The abatement can be an integral part of the complex financing and incentive package that is typically required to make a low-income housing project feasible. These abatements can help achieve more low-income housing by making it feasible for some projects to increase their unit count and even encouraging some market-rate projects to include affordable units.

Current Market Conditions

In the current market environment, housing development is facing serious headwinds. Years of increased costs for materials and labor have combined with higher interest rates to make development much harder to pencil out. This has been seen in plunging rates of new home building over the last two years. On the

West Coast, new apartment construction fell by more than half between 2022 and 2023, as even rising rent levels are increasingly insufficient to support costs. Albany and other parts of the mid-Willamette Valley have bucked this trend with on-going apartment construction, but it is yet to be seen if somewhat reduced multiple dwelling permitting in 2022 and 2023 will lead to slower construction in years ahead.

In this environment, the tools available to public agencies have more limited impact, as the size of the "feasibility gap" is larger than in recent history. This includes the tools and policies discussed in the HIP. However, cities have the advantage of being able to plan for the long term; presumably future real estate cycles will moderate, and feasibility will improve. Establishing these programs now will ensure they are ready when needed.

City vs. General Participation

Generally, only the City's portion of the taxes would be included in the tax abatement unless it seeks agreement from the boards of other taxing districts, that in combination with City make up 51% or more of the total tax levy. In the case of Albany, this would mean seeking approval of the school district, and/or some combination of the county and other districts. While this may seem cumbersome, extending a tax abatement to the full levy (100%) greatly increases its impact as a development incentive. The City's standard levy rate is roughly 30% of the total levy, so inclusion of the other jurisdictions can increase the impact three-fold.

Preliminary Feasibility Assessment

Johnson Economics performed basic pro forma development modeling on a range of building types to assess the potential impact of tax abatements. Abatements were modeled for the total levy (100%), and the City's levy (30%).

- **Mid-rise and Mixed Use Housing:** Except in Albany's downtown, the current market climate is not favorable to the development of housing forms that include structured parking, or a shift from wood construction to more expensive concrete and steel construction. This will limit feasible housing types to three-story wood construction (e.g. the Banks or Timberridge Place), either with surface parking, or parking reductions. (Middle housing forms such as townhomes and duplexes are also feasible, but this analysis focuses on multiple-dwelling unit housing.)

  The analysis indicates that tax abatements alone are likely not sufficient to make denser housing forms feasible. However, an abatement like the MUPTE might be attractive to low-rise developers to include some share of affordable units in their project.

  Higher-density housing on infill lots, such as in the downtown, are likely to require a combination of higher achievable rent levels and moderating construction costs to get closer to feasibility. As they approach that point, a tax abatement will incentivize this type of development, while achieving the program's required public benefits. A combination of public contributions from other sources such as urban renewal can also help to bridge the feasibility gap sooner.

- **Affordable Housing:** Preliminary modeling estimates that a low-income housing tax abatement would likely be sufficient to make a project viable at 80% of AMI. Reaching an affordability level of 60% AMI, as required by the Low Income Rental Housing tax abatement, is feasible with a combination of other programs commonly used in affordable housing development, including LIHTC, Section 8, CET incentives, etc. This tax abatement could have a major impact on improving the feasibility of these projects.

Public Benefits (Affordability)

Tax abatements should be offered to a developer in return for guaranteeing that the project meets certain public goals. Detailing those goals beforehand and being clear on the main intent of the program is important for both internal and external stakeholders. For low-income housing abatements, the public benefit is generally the affordability itself, without additional requirements placed on the project.

For projects consisting of mostly market-rate units, providing the public benefits will almost always entail an extra cost to the developer. Because a tax abatement is a valuable incentive, placing some requirements upon it makes sense. However, the requirements cannot be so excessive that the real or perceived cost will outweigh the benefits in the developer's mind.

There are a range of public benefit requirements under consideration for a potential MUPTE program in Albany. *The parameters of this program are still under discussion and all details are preliminary and subject to change.* Rules under consideration would allow the applicant for the MUPTE abatement to choose between providing some share of units affordable at either 80% of 60% of AMI or paying a fee-in-lieu.

- **Affordable Units:** Making 30% of units affordable at 80% AMI or making 15% of units affordable at 60% AMI would both create a similar downward impact on annual net operating income (NOI). However, the decrease in NOI would be more than offset by the reduction in operating costs from the tax abatement. This would make providing either of these public benefits feasible options for the developer, while still providing a benefit over a market rate project without an abatement. As modeled, the impacts are similar, so the preference between the 80% AMI and 60% AMI options may depend on other factors.

- **Fee-in-Lieu:** Another possibility is offering a fee-in-lieu payment option to the developer. The developer includes no affordable units on site but pays this fee to the City to be used on other affordable housing programs. The amount of the fee-in-lieu must be carefully calibrated so it reflects a comparable cost to providing the affordable housing on site.

  For instance, if the fee is set at 20% of foregone taxes, the recipient is still receiving an 80% tax abatement essentially for building market rate multi-family housing. This will likely be more attractive, and lower cost over time, than providing affordable housing on site. Preliminary modeling indicates that the *fee-in-lieu should be set at closer to 50% to 60% of foregone taxes* to have a similar cost impact on the development than providing the affordable units.

Public Benefits (Other)

In addition to affordability requirements, the preliminary MUPTE program is considering a menu of additional public benefits to require of applicants. These might include a broad range of options, from providing public spaces and transit amenities, to achieving green building certification. The cost of providing each of these options is hard to quantify, as each project will be unique and the exact standards to meet for each are still undefined.

In 2007, Johnson Economics completed an assessment of the City of Portland's floor area ratio (FAR) density bonus and transfer system. Over the years, many new options for earning an FAR bonus had been added until there were 18 public benefits that could be provided in return for an FAR bonus, and 6 to qualify for an FAR transfer. The City perceived that many of these options were never used, even as this system had gotten too complicated to track and administer.

Some major takeaways from the study of this system were:

- Developers will naturally gravitate towards the least costly public benefit and leave more costly options unused. Because of the wide variety of options, the cost to deliver each is likely to vary widely.
- Because of this dynamic, the priority of the public benefit options should be considered. Is the unused option really the community's highest priority, while the widely used option was not as high a priority?
- Options offered will need to have standards established to assess when they are being met. The development community will value clarity and specificity in what is expected.
- The cost of the options in addition to the affordable housing public benefit will potentially impact how attractive the tax abatement program is to use. Because the costs are hard to quantify at this time, it is difficult to estimate where this threshold might be. It could be that the program needs some trial and error to determine which if any are too costly to be practical.

III. Construction Excise Tax

A. Description

Construction excise tax (CET) is a one-time tax on construction projects that can be used to fund affordable housing projects and programs. This is one of the few options for generating dependable, locally controlled funding for affordable housing.

According to state statutes, the tax may be imposed on improvements to real property that result in a new structure or additional square footage in an existing structure. Cities and counties may levy a CET on residential construction for up to 1% of the permit value, or on commercial and industrial construction, with no cap on the rate of the CET.

The allowed uses for CET funding are defined by the state law. The City may retain 4% of the funds to cover administrative costs. If the City implements a residential CET, the funds remaining must be allocated as follows:

- 50% must be used for developer incentives (e.g., fee and SDC waivers or reductions, tax exemptions, financing, etc.)
- 35% may be used flexibly for affordable housing programs, as defined by the jurisdiction.
- 15% flows to Oregon Housing and Community Services (OHCS) for homeowner programs.

If the City implements a CET on commercial or industrial uses, 50% of the funds must be used for affordable housing programs as defined by the jurisdiction and the remaining funds (minus any administrative costs) are unrestricted.

B. How it Works

Funds raised from a CET may be used to capitalize a new affordable housing fund or may be co-mingled with other funds available for the same purpose (e.g. CDBG funding). The statutory restrictions on how the funds are used make it inefficient to use CET funding to directly build affordable housing. Effective programs leverage these funds to facilitate the affordable housing projects of partners who are generally accessing greater funding from the state or other sources.

As the CET funding grows, it can allow for the City to offer a range of incentives to affordable housing developers without loss of revenue to the City. For instance, the fund can reimburse the City for system development charges that are waived on the development. Other potential uses are to help fund pre-development needs such as site studies and remediation. This can help fill gaps in project financing that can otherwise be challenging for affordable housing developers to fill.

Many Oregon cities have adopted a CET for affordable housing with a range of tax levels. These cities have now built a track record of collecting and using these funds, with minimal impacts to the rate of development activity. The record seems to indicate that in attractive development markets, the CET is not a deterrent.

Figure 3.1 shows the CET taxing level in a variety of Oregon cities. Some choose a CET at the maximum allowed 1% for residential construction, but many have adopted a lower levy. For commercial construction, where there is no limit to the rate of the CET, the highest adopted rate is 1.5% (Corvallis) with many choosing to limit it to 1%.

FIGURE 3.1: ADOPTED CET PROGRAMS, SAMPLE OREGON CITIES

	Residential	Commercial	Adoption
Bend	0.33%	0.33%	2006
Corvallis	1%	1.5%	2016
Eugene	0.5%	0.5%	2019
Grants Pass	0.5%	1%	2021
McMinnville	1%	1%	2022
Medford	0.33%	0.33%	2018
Milwaukie	1%	1%	2017
Newburg	1%	1%	2020
Newport	1%	1%	2017

Source: Cities, Johnson Economics LLC

Cities have some flexibility in defining what types of development will be assessed the CET. The CET may apply to either residential or commercial or both. Statute requires cities to exempt affordable housing projects for households earning up to 80% AMI. The City may also set a minimum permit value for qualified improvements. For instance, Grants Pass exempts permits under $50k in value, and Milwaukie exempts those under $100k in value. Cities can also exempt certain needed housing types such as multi-family.

It is important to set expectations of the planned uses of CET funding, both for program applicants, and for other agencies and partners who may see this as a possible new funding source for other uses. For applicants, it is important that the CET does not come be seen as a substitute for traditional funding sources of affordable housing such as tax credits or HUD programs. Also note that it may take a few years for the CET fund to grow to an effective size.

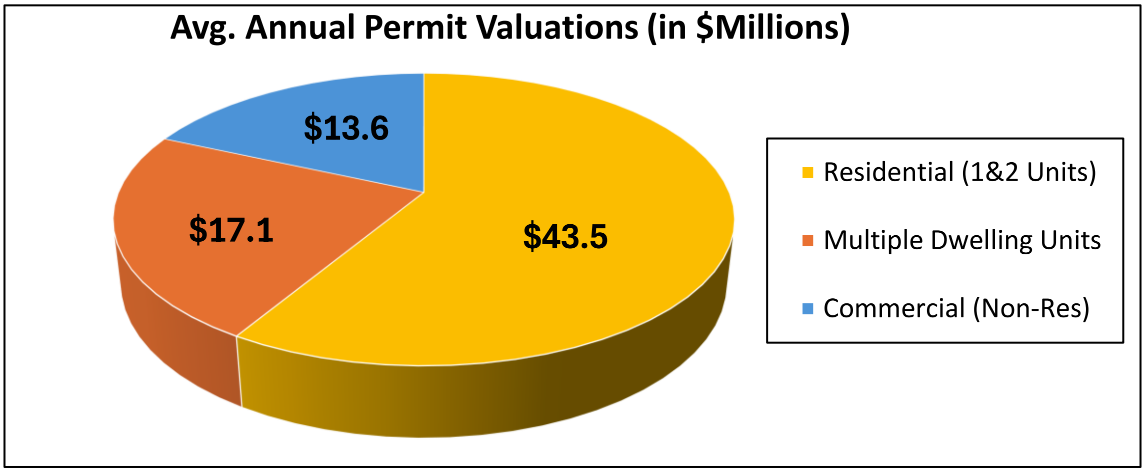
C. ESTIMATED CET REVENUE

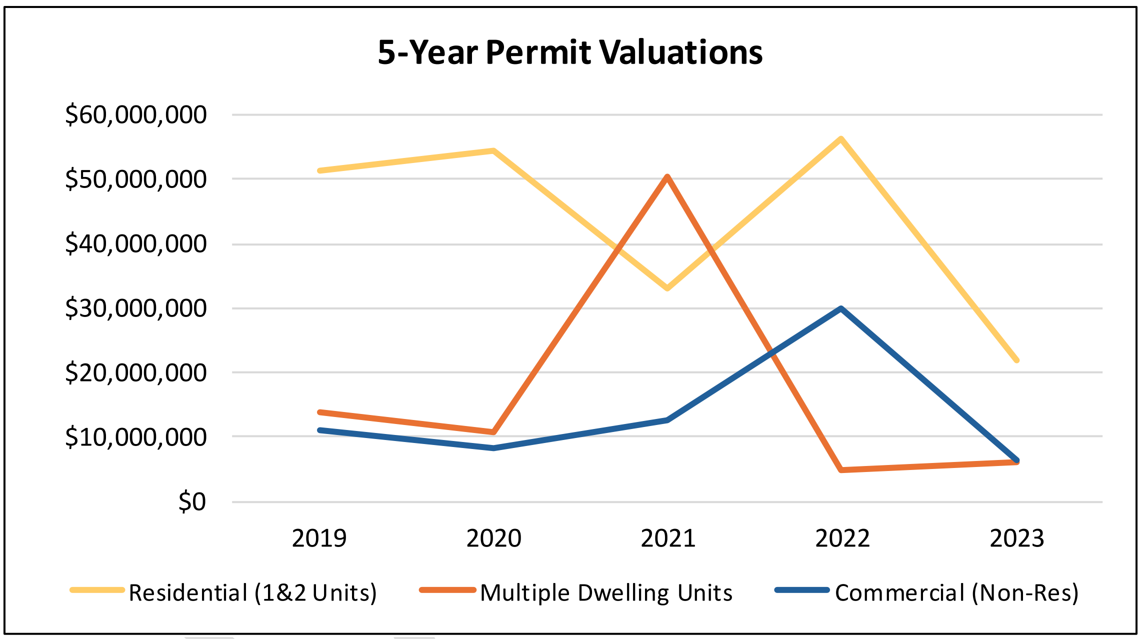
In order to assess the potential revenue generation from a CET in Albany, the value of permits for the prior five years was analyzed and used to estimate average annual permit values for residential and commercial development.

Based on how City permit data is broken out, the categories examined were Residential (1&2 units), Multiple Dwelling Residential (3+ units), and Commercial (non-residential). Figure 3.2 shows the five-year variation experienced in these categories, and the average annual valuation over the period.

Residential development experienced the largest average permit valuation, followed by multiple-dwelling unit housing development, and commercial development.

FIGURE 3.2: AVERAGE ANNUAL AND FIVE-YEAR PERMIT VALUATIONS, CITY OF ALBANY (2019 – 2023)





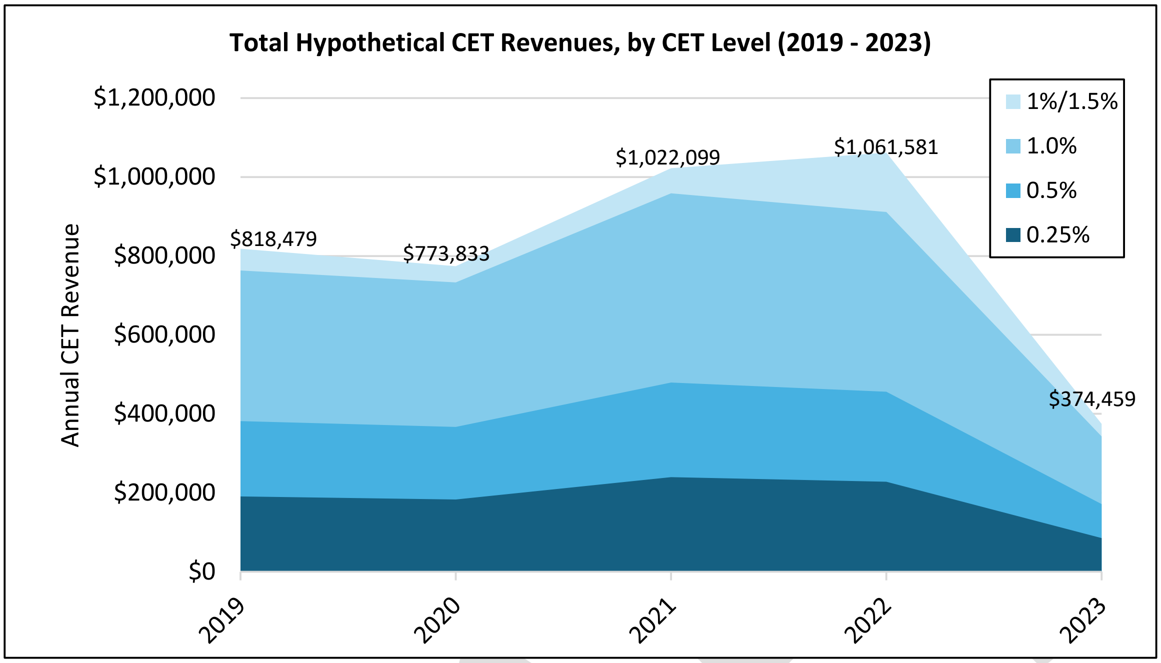
Source: City of Albany permits, Johnson Economics LLC

A range of potential CET levels were applied to these permit valuations to determine what the hypothetical revenue generation might have been if a CET had been in place. The following potential CET levels were tested:

- 0.25% Residential & Commercial
- 0.5% Res. & Comm.
- 1.0% Res. & Comm.
- 1.0% Res. & 1.5% Comm.

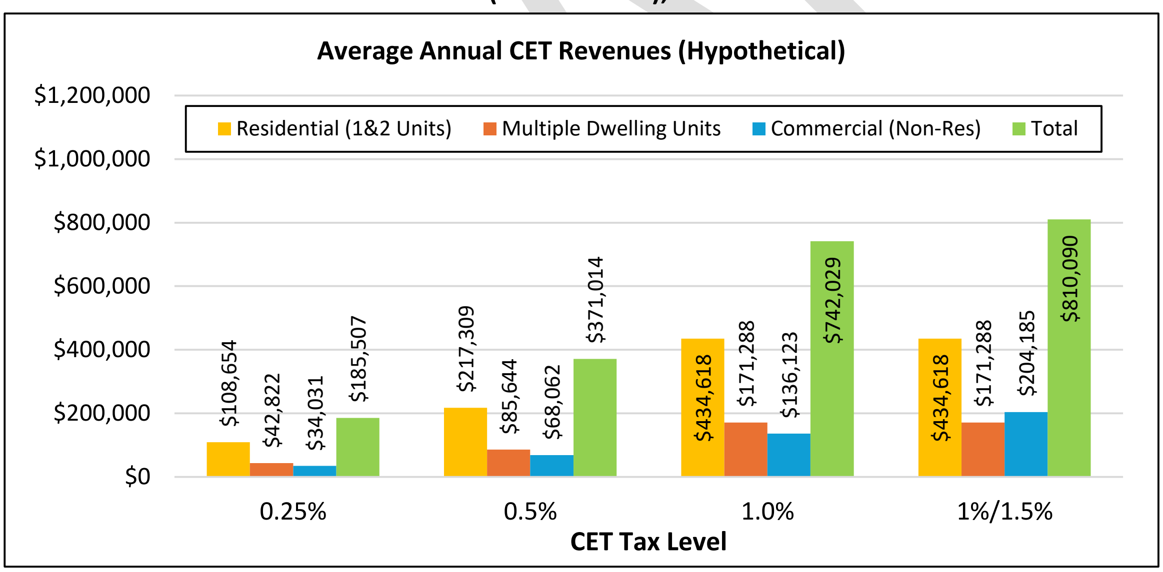
Figures 3.3 and 3.4 show the hypothetical CET revenue over the five-year period, and in the average year.

FIGURE 3.3: HYPOTHETICAL REVENUES OVER LAST FIVE YEARS, AT DIFFERING CET LEVELS



Source: City of Albany permits, Johnson Economics LLC

FIGURE 3.4: AVERAGE ANNUAL CET REVENUE (HYPOTHETICAL), AT DIFFERING CET LEVELS

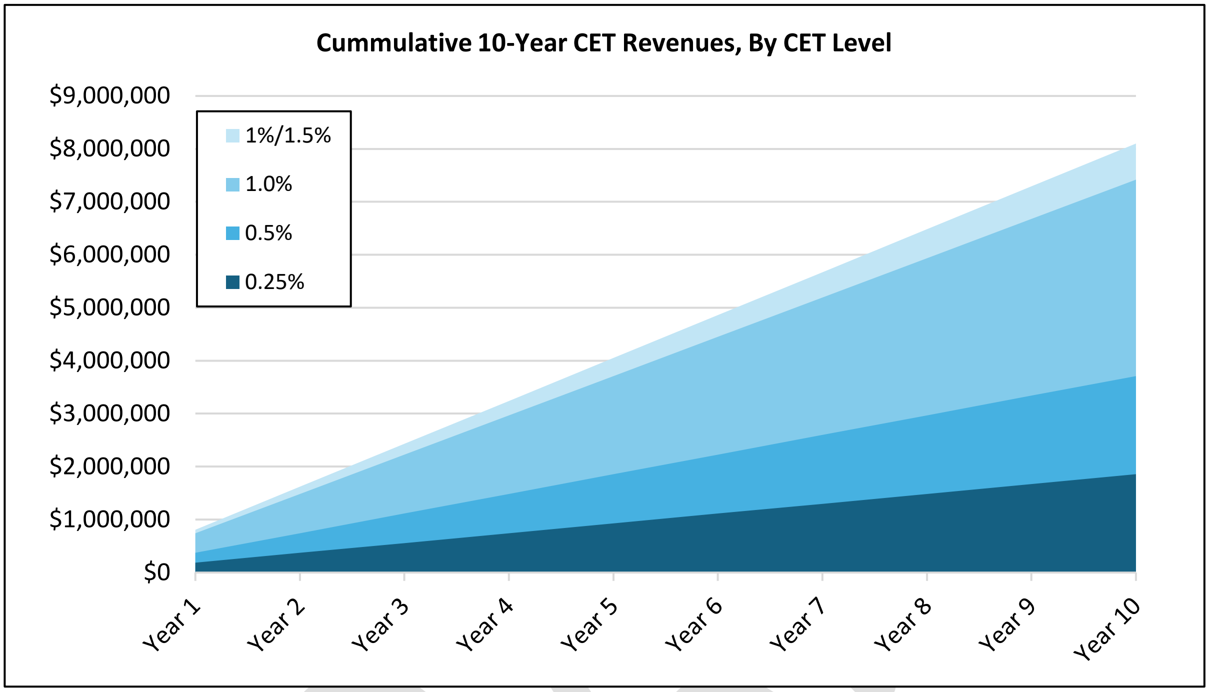


Source: City of Albany permits, Johnson Economics LLC

At 0.25%, the CET would generate under $200k in the average year, while at 1%, it could generate nearly $750k. (Note that during the prior HIP process these calculations were performed for a different five-year period between 2016 and 2021 and arrived at very similar estimates.) However, as Figure 3.3 illustrates, revenue can fluctuate significantly year to year. The CET program revenues and growth of the affordable housing fund will be subject to outside forces in the real estate market including general economic cycles and interest rates.

Figure 3.5 shows a projection of 10-year revenue generation at the different rates.

FIGURE 3.5: AVERAGE ANNUAL CET REVENUE (HYPOTHETICAL), AT DIFFERING CET LEVELS



Source: City of Albany permits, Johnson Economics LLC

D. CONSIDERATIONS

As one would expect, the revenue generation is directly proportional to the rate at which the CET is set. A higher CET level will generate greater revenue faster and provide more leverage to a city's affordable housing program.

The decision on where to set the CET is ultimately a policy choice. Pro forma modeling of the addition of a CET at 1% does not impact modeled development sufficiently to be a major deterrent, or to render feasible development forms infeasible. This seems to be the experience of other Oregon cities that have adopted CET programs, and none were identified that have revoked their CET after adoption. As more cities have adopted a CET, developers also become more familiar with this tax.

As noted, these funds should be used to leverage greater funding that an experienced affordable housing developer brings to the table from state and federal sources. The local incentives act as one component of the stack of financing and incentives that make the project viable, allow for placing additional public performance requirements on the project, and demonstrate local support that helps with applications for other funding. It also advertises Albany as a community that is supportive of partnering in affordable housing development.

E. CET Case Studies

The following are a limited number of examples of CET being used to help facilitate affordable housing production. These cases are from Corvallis, one of the early adopters of the CET that now have sufficient experience to have built up their CET fund and learned lessons on how most effectively to use it. Corvallis reports that it took roughly 3 years for CET funding to build to an effective level. The City generally uses these funds to leverage even greater funds from other sources such as the state. The investment at the local level becomes proof of local support that improves the recipient's odds of securing other funding.

Rivergreen Landing Apartments
3350 SE Midvale Dr. Corvallis, Oregon

Builder/Owner: Green Light/Home First LLC; greenlighthousing.com

Description: Located in the Willamette Landing Neighborhood of South Corvallis, The Rivergreen Landing Apartments is a 60-unit development that will have a mix of 1, 2 and 3-bedroom family units affordable to serve renters earning at or below 60% of Area Median Income (AMI). 5.5 acre site.

Project Cost: $22.6 million; $6.82 million in permanent loan by developer.

Incentives: City of Corvallis CET funds of $400k helped to leverage $6.4 million in state Local Innovation Fast Track (LIFT) funds, $6 million in Low Income Housing Tax Credits-4% (LIHTC).

The Why: Benton County is projected to need an additional 4,590 affordable housing units, many of which are needed in Corvallis. The development is strengthened by significant community support and input from a diverse group of partners and stakeholders including the City of Corvallis, Casa Latinos Unidos, NAACP, Corvallis School District, League of Women Voters, and Boys & Girls Club, and Linn Benton Housing Authority. What results is thoughtful design input, tenant referral, and culturally specific resident services from experienced local community organizations that ultimately benefit future residents.

Union at Pacific
150 SW Wake Robin Ave, Corvallis, Oregon

Builder/Owner: The Annex Group®, a leading workforce, affordable and student housing developer from Indianapolis, IN.

Description: The Annex Group plans to develop a new affordable housing community in Corvallis, Oregon. Union at Pacific Highway will offer 174 one, two, and three-bedroom unit options available to households whose income level is at or below 60 percent of the area median income (AMI). The three-story community will be on 7 acres.

Project Cost: $56 million; with $24 million in permanent loan by developer.

Incentives: City of Corvallis CET funds of $500k helped to leverage $6 million in Oregon Soft Funds, $15.5m in Low Income Housing Tax Credits-4%, (LIHTC).

Partners on the project include: Oregon Housing and Community Services, the City of Corvallis, the Linn-Benton Housing Authority, Avenue5 Residential for property management, Structure Development Advisors as the LIHTC consultant, KTGY for architecture, and DEVCO Engineering, Inc. for civil engineering. Piper Sandler placed the tax-exempt bonds and NDC provided over $19 million in tax credit equity.

3rd Street Commons
1480 SW 3rd Street, Corvallis, Oregon

Owner/Developer: Corvallis Housing First

Description: 47 units of Permanent Supportive Housing located on a 1.33 acres site owned by CHF south of downtown Corvallis and Oregon State University. Development to include: 6 studio bedroom units (310-315 sq ft) and 41 one-bedroom units (550 sq ft), a community space and offices for partner services. This site, originally known as the Budget Inn, was purchased through the Project Turnkey program, funded by the Oregon Community Foundation and the State of Oregon to address the need for non-congregate shelter spaces for people experiencing homelessness during the pandemic. Since opening in 2021, the site has been operated by Unity Shelter, who have served over a hundred people, with a focus on serving people of color, LGBTQ+, and those with significant vulnerability due to physical or mental health conditions or substance use disorders. The current buildings will be demolished making way for the new project, with construction starting in late 2024.

Project Cost: $22 million

Financial Incentives: City of Corvallis CET funds of only $45k helped to leverage $5 million in direct appropriations from the state, and $3m from the Federal government, funds are pending from Oregon Housing and Community Services, and Corvallis HOME.

Partners: City of Corvallis, Community Health Clinics of Linn and Benton Counties, NAACP, CSC, Samaritan, Benton County, Corvallis Daytime Drop-In Cener, Casa Latinos Unidos, Project Help.