# A Survey of Revenue Tools
# to Fund Affordable Housing and Services
# in the Portland metro region



welcome HOME

**November 2014**

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Working to ensure housing opportunities
for all residents of the Portland metro region.

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*Cover page photos provided by Human Solutions and JOIN*

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# EXECUTIVE SUMMARY

## Ensuring Housing Opportunity

The Portland metro region[1] is nationally recognized for our urban planning models as well as our housing and homelessness programs. We have innovative leaders working to design and create housing opportunity for all. Despite this talent and dedication, we continue to fall behind in our collective efforts to meet the regional need for housing opportunity. Private market development, federal allocations and local general fund investments are insufficient and the crisis is growing. **The Portland metro region must act to increase funding for affordable housing and service infrastructure or risks becoming a community where only wealthy people can afford to live.**

**We know affordable housing and emergency housing services work.** Every year, thousands of families and people with disabilities find stability, health, and hope through housing and support programs. Good affordable housing developments provide great homes and improve neighborhood livability throughout the region. Our community is also ending homelessness is ending one household at a time through creative and efficient programs that help veterans, families and individuals succeed. Our region has the right people and the right strategies to address our regional housing crisis. **It is time for the right public funding source to turn these strategies into housing opportunity for all.**

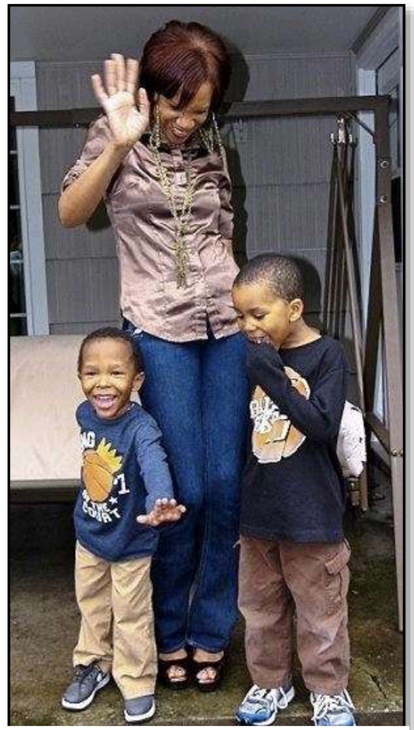

*Photo by Mia Kennel for Proud Ground*

Area housing leaders and advocates are calling for action on a regional funding solution. The Portland metro region needs a substantial and ongoing funding mechanism committed to affordable housing and support services. A new dedicated revenue stream that is scaled to the magnitude of our housing need will properly leverage our region's innovation and commitments to achieving housing opportunity for all.

This report surveys revenue-generating mechanisms dedicated to affordable housing and services in use across the country. It is not an exhaustive list; rather it focuses on some of the most viable opportunities for our metro region.

The purpose of this report is to stimulate and inform an urgently needed conversation throughout our community. **How will we adequately invest in our region's affordable housing infrastructure? What new revenue source(s) will we dedicate to adequately meet our region's critical housing and service needs?**

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[1] For the purposes of this report, the Portland metro region is defined as Clackamas, Multnomah and Washington Counties.

## Our Regional Need for Housing Affordability

Thousands of families in our region routinely face untenable choices because affordable housing isn't available to them. According to new McArthur Foundation research[2], 51% of all Americans, and 65% of families of color, have had to make at least one significant sacrifice in their household budget in the past three years to afford their rent or mortgage — such as taking a second job, forgoing medical treatment, avoiding paying other bills, and moving to another school district or unsafe neighborhood where housing is less expensive.


*Photo by JOIN*

For families with low incomes, the realities are harsher. In the Portland metro region, thousands of area families have experienced homelessness, while many more live paycheck-to-paycheck and risk losing their homes due to illness, lost wages or another rent increase. People with disabilities and senior citizens on fixed incomes wait months and sometimes years to find a home they can afford. Many have no other option but to sleep in emergency shelters or double up in overcrowded homes or live in other unhealthy circumstances. Decades of federal disinvestment in low-income housing programs have left our region with grossly inadequate resources to address growing housing needs and homelessness.

Meanwhile, housing costs in the private market continue to rise much faster than wages. In Multnomah County 54% of renting families are cost-burdened, meaning they pay more than 30% of their income on rent. And middle-income families are finding it harder to buy their first homes. Millennials delaying home-ownership, growing numbers of baby boomers returning to the rental market and the still unfolding foreclosure crisis add up to the lowest rental vacancy rates and largest year over year rent increases in memory. A recent boom in multifamily housing has done little to reduce upward cost pressures because new developments are geared toward upper-middle and upper-income renter households.

Neighborhood revitalization projects have rapidly gentrified some neighborhoods. This has contributed to the displacement of low-income communities and the concentration of poverty in East Portland and inner-ring suburbs throughout the region. The loss of homes, community and culture has especially devastated the African American community of North and Northeast Portland. Governments continue to fail to provide protections and public

[2] The reference for this data and all information used throughout the survey can be found in the bibliography on page 44

resources to prevent further displacement, let alone to help displaced families return to their historic communities.

Finally, unprecedented population growth is forecasted for the Portland metro area - another 200,000 residents are expected by 2035. This growth will increase upward pressure on the cost of housing. The current shortage of affordable housing in our Metro region is 40,000 units and the deficit increases steadily. An estimated $1 billion investment over the next 20 years will be needed to address the magnitude of our affordable housing crisis.

With these trends threatening the livability of our communities, it is urgent that we identify real solutions and chart the course we envision for our region. The best solutions for curbing poverty, building whole communities, raising healthy future generations and fortifying our economy all start with housing - homes that are safe and affordable for everyone. With new dedicated revenue streams we can build back our affordable housing infrastructure and build a bright future for our region.

## Design of the Survey

Hundreds of cities, counties and multi-jurisdictional regions have established dedicated revenue streams to stabilize and leverage traditional resources for affordable housing and support services. Along with policy and regulatory measures to encourage affordable housing development, local governments collect fees and taxes to specifically and strategically invest in their housing and services infrastructures. This survey explores revenue generation tools used across the country in order to frame the discussion of viable options for our Portland metro region.

*Photo by Jeff Kennel Photography for Proud Ground*

The City of Portland is the only metro region jurisdiction with a dedicated revenue stream for affordable housing. Since 2006, the city of Portland has dedicated more than $155 million in Tax Increment Financing (TIF Set-Aside) for the development of affordable housing in the city's urban renewal districts. Although this revenue has substantially contributed to the city's affordable housing inventory, this mechanism has significant limitations. TIF ties up tax revenues needed to fund other critical public services. Funds are limited for use inside urban renewal districts only, and cannot be used flexibly for housing services. Most importantly, TIF revenue itself is limited. TIF financing from existing districts has been largely exhausted.

All of our local governments use dedicated revenue strategies to ensure stable funding for other infrastructure needs and public services. The three Metro counties dedicate lodging taxes to fund tourism and use property tax levies to fund libraries. Multnomah County sets aside a portion of DMV fees for bicycle path infrastructure. The City of Portland dedicates revenues from public parking for transportation services and utilizes an Arts Tax to fund arts programs in public schools. Finally, revenue from Systems Development Charges (SDCs), in all metro cities, is set aside to fund public infrastructure for water systems, parks, sidewalks and schools. These examples of dedicated revenue highlight local government spending and infrastructure priorities. **Dedicating a revenue stream for housing and services recognizes the essential role of housing opportunity in the health and vitality of our community**.

This survey focuses primarily on **revenue tools with substantial scalability and flexibility**. The survey only includes revenue strategies that have the capacity to generate **millions of dollars annually** for our region and the ability to be applied flexibly to fund rental, homeownership and emergency housing services throughout the region. The selection of revenue tools has not been limited by the perceived political viability. While a discussion of political viability will be important, it is critical to first understand the range of potential revenue generation options, including how they would be established, the amount of revenue they could generate, and the investments they would allow.

At the end of this survey, brief attention is given to (1) several very innovative funding strategies that generate limited funding for affordable housing, (2) state-wide strategies that could generate significant revenue for affordable housing and services, and (3) policies and revenue tools that help address the need for affordable housing but were not included in the main survey because of their limited scalability or flexibility to fund a range of housing and service options.

A comprehensive approach to building a regional housing opportunity infrastructure will require multiple layers of revenue, policy and political support. This survey is focused on the first step — identifying dedicated revenue streams to provide substantial funding for affordable housing and services in the Portland metro region.

## Summary of Revenue Tools

A survey of communities around the country produced this selective list of regional revenue tools dedicated to affordable housing and supportive services. The nine tools highlighted here are the most predominantly used revenue tools for affordable housing and most have the capacity to be used flexibly for both development and services. These tools have the capacity to generate several millions of dollars annually and to significantly impact the region's need for housing opportunity.

This chart offers a brief description and regional consideration for each tool. The full survey provides further discussion of each tool as utilized by local governments across the country. Refer to the full survey for information on scalability, use of funds, and the political processes used to establish the revenue tool.

*Photo by Nathan Williams Photography for Habitat for Humanity*

| Revenue Tool | Description | Jurisdictions | Portland Metro Consideration |
|---|---|---|---|
| **Business Registration Fee** | An annual **Business Registration Fee** can be charged for the permission to do business within a particular jurisdiction. The fees can range according to the size and type of business. While all organizations must register, organizations with income tax exemption do not pay the fee. | **San Francisco, CA**[3] | Portland/Multnomah County businesses are not required to pay a registration fee, but pay a combined tax rate of 3.6% on profits to the general funds of both jurisdictions (Business Income Tax). It is difficult to establish a nexus between business profits and the need for affordable housing and services. |

[3] **Bold** jurisdictions are profiled in the complete survey report.

| Revenue Tool | Description | Jurisdictions | Portland Metro Consideration |
|---|---|---|---|
| **Document Recording Fee** | A **Document Recording Fee** is charged for the administration of recording property deeds and mortgages, most often administered by county jurisdictions. A surcharge can be added to the administrative fee to generate income for a jurisdiction's general fund or set-aside priorities such as affordable housing. | **Philadelphia, PA**<br>**Washington State Counties**<br>New Jersey<br>St. Louis, MO<br>Penn. Counties | Oregon counties currently collect a document recording fee for the state, and a portion is dedicated to affordable housing. Under Measure 79, local document fee surcharges are not permitted and state legislation would be necessary to increase the existing fee, which generates about $12 million for affordable housing throughout the state. |
| **General Obligation Bond** | **General Obligation (GO) Bond** revenue is available in full, once approved, and is repaid by the municipal issuer through taxation of the jurisdiction's property owners. GO Bonds require voter approval of the tax increase and must be reapproved, often every biennial. | **Charlotte, NC**<br>Milwaukee, WI<br>Albuquerque, NM<br>Seattle, WA | GO Bonds are not subjected to Oregon's compression limits, however they can only fund infrastructure projects and cannot fund public services. The funding must be renewed by public vote regularly. |
| **Lodging or Hotel Tax (Local Option Tax)** | A **Hotel or Lodging Tax** generates significant income for local jurisdictions and can be dedicated to affordable housing. Hotels and motels create many low-paying jobs in cities that lack housing affordable for these workers. Short-term rentals included in the Lodging Tax are known to reduce the availability of rental housing and increase rental rates. | **Columbus/ Franklin County, OH**<br>Anaheim, CA<br>Long Beach, CA | Portland metro region has one the lowest rates of tourism taxes in the US. There is no state sales or restaurant tax and taxes on lodging are low. In Multnomah County the current hotel tax is 11.5%, split between the county and city jurisdictions. The recent addition of short-term rentals to Multnomah County's lodging tax generates new city county and Metro revenue but is not dedicated to affordable housing. |
| **In Lieu Fees and Fractional Payments for Inclusionary Zoning** | Some Inclusionary Zoning ordinances allow developers to opt out of constructing affordable housing units by paying an **In-Lieu Fee** equal to the value of the required affordable housing units. Some ordinances require **Fractional Payments** for the value of un-built portions of required housing units. While these fees generate modest revenue, Inclusionary Zoning policies are most successful when they create affordable housing development, not revenue. | **Somerville, MA**<br>**Boston, MA**<br>Santa Monica, CA<br>San Jose, CA<br>Evanston, IL<br>Burlington, VT | Mandatory Inclusionary Zoning was banned by Oregon state legislation in 1999. Local inclusionary housing policies are not permissible under the statute. Voluntary or Incentive Zoning are permissible but typically produce few units and do not generate revenue. In Lieu Fees and Fractional Payments as revenue streams can be limited and susceptible to economic downturns. |

| Revenue Tool | Description | Jurisdictions | Portland Metro Consideration |
|---|---|---|---|
| **Linkage Fees and Developer Impact Fees** | **Developer Impact Fees** are imposed by local governments on new development (commercial and residential) for the cost of providing new public services and infrastructure such as sidewalks, schools, parks and affordable housing. **Linkage Fees** are a type of development impact fee charged specifically for the cost of affordable housing, often based on jobs and housing nexus studies. This is the most common revenue source dedicated to affordable housing and services. | **Somerville, MA**<br>**Boston, MA**<br>Berkeley, CA<br>San Diego, CA<br>Cambridge, MA<br>Seattle, WA | Developer impact fees, called Systems Development Charges (SDCs) in Oregon, are imposed by city governments to fund infrastructure needed to support the new development such as, sewers, sidewalks, schools and parks. SDCs are not used to support affordable housing infrastructure needs. The City of Portland offers an SDC waiver for affordable housing developers, which promotes development but does not generate new revenue. |
| **Property Tax Levy** | A local option **Property Tax Levy** allows local governments to raise additional revenue for public services and infrastructure by public vote. The additional tax is levied on property owners and is time limited, requiring another public vote to be renewed every several years. | **Seattle, WA**<br>**Somerville, MA**<br>Bellingham, WA | Due to Oregon's overall tax structure, property taxes are heavily levied to meet local service needs. Because of Measures 5 and 50, Oregon's property tax structure creates inequities and often results in "compression", which can substantially limit levy revenue. |
| **Real Estate Transfer/ Conveyance Tax** | **Real Estate Transfer Taxes** (RETT) are imposed by states, counties or local municipalities when the ownership of property within the jurisdiction is transferred. Transfer taxes range widely from .01% to .4% and often include specific exemptions for low income and first time homebuyers. | **Columbus/ Franklin County OH**<br>Fairfax County, VA<br>Boulder, CO | Measure 79 passed by Oregon voters in 2012, amended the constitution to prohibit any new real estate transfer taxes and fees. Washington County had a pre-existing RETT, which remains in effect and is the only RETT in Oregon. RETTs can be applied according to length of ownership to disincentivize "flipping", which increases housing costs. |
| **Restaurant Tax (Local Option Tax)** | As a luxury or tourist tax on dining out, a **Restaurant Tax** charges diners a small tax on the total bill. The tax can be limited to large restaurants grossing a certain level of sales and with a liquor license. | **Miami/Dade County, FL** | Oregon has no sales tax. The Metro region has a few local option taxes including lodging tax, rental car tax and business tax. With relatively low hotel tax rates, and no sales or restaurant tax, the Metro Region is known to have one of the county's lowest tourism tax rates. Ashland, Oregon collects a 5% food and beverage tax for city infrastructure costs. |

# THE SURVEY

## A. Dedicated Revenue Sources by Jurisdiction

Hundreds of municipal, county and regional jurisdictions use a variety of revenue tools to dedicate public funding for affordable housing development and emergency housing services. Of these many jurisdictions, most use just a handful of revenue tools. The following section profiles nine unique cities and counties as examples of the most substantial, scalable, flexible and common revenue options used to fund housing. Each profile offers a snapshot of the community's housing fund, an explanation of its revenue source and considerations for our local political and legal context. The information provided in the following profiles is a first step in ongoing research efforts and community discussion to identify the most viable revenue tools to adequately fund affordable housing and supportive services in the Portland metro area.

*Photo by Erin Houlihan for Proud Ground*

## Philadelphia, PA — Document Recording Fees for Housing

| Jurisdiction | Tool | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| Philadelphia, PA | Document Recording Fee | City mortgage and deed recording fee surcharge ranging from $86 - $102 (Total fees $200 - $230) | $12 Million | -Housing Production<br>-Preservation and Home Repair<br>-Homeless Prevention |

**Profile:** The primary source of funding for affordable housing in Philadelphia is a dedicated portion of local Deed and Mortgage Recording Fees generating an average of $12 Million a year. The dedicated revenue must be used for affordable housing accordingly:

- Funds may be used for Housing Production (sales or rentals), Housing Preservation and Home Repair (owner occupied or rental homes) and Homelessness Prevention (homeowners and renters).
- At least 50 percent of non-administrative funds must be used to benefit households with incomes at or below 30% Median Family Income (MFI) and the remaining funds for households between 30 - 115% MFI
- At least 50 percent of funds must be used to increase production of affordable housing. The remaining funds may be used for housing preservation, home repair and homelessness prevention services.

With Document Recording Fee surcharge revenue, the Philadelphia Housing Trust Fund created 1,362 homes, preserved or modified 8,890 homes, and prevented 5,732 persons from experiencing homelessness from 2005 - 2012. In total, more than 14,000 low- and moderate-income families and individuals have been served, and more than $337 million in non-city funds have been leveraged.

**History and Political Context:** Affordable housing advocates, community leaders and a coalition of more than 110 organizations ran a two-year campaign with the Pennsylvania State Legislature and the Philadelphia City Council to secure the document recording fee funding.

In 2005 the Pennsylvania Legislature enabled Philadelphia to increase document recording fees for the purposes of addressing unmet affordable housing needs. Next, the Philadelphia City Council approved a bill that created the city's first housing trust fund with $1.5 million in bond proceeds to capitalize the fund and a plan to sustain the fund with dedicated revenue from a surcharge on document recording fees.

In 2009 the city council unanimously approved a $30 increase in the fee to increase annual funding by $3.5 million annually for the Housing Trust Fund, and in 2011 the State Legislature approved the necessary authorizing legislation to implement the local ordinance.

**Portland metro area Considerations:** Since 2009, Oregon counties collect a surcharge on document recording fees that is distributed to Oregon Housing and Community Services for the purposes of homelessness prevention and development of affordable housing. Statewide revenue is approximately $12 million per year. 10% of the fee is distributed by formula to Community Action Program Agencies; the balance is primarily distributed competitively for affordable housing development across the state. In 2013 the fee was increased by the State Legislature from $15 to $20 to expand housing services for veterans. Oregon counties are not allowed to create local document recording fees under Measure 79.

| Philadelphia | | Multnomah County | | Washington County | |
|---|---|---|---|---|---|
| Document Recording Fee: | $230 - $200 | State Document Recording Fee: | $46 | State Document Recording Fee: | $46 |
| Housing Fund surcharge: | $102 - $87 | State Housing Alliance surcharge: | $20 | State Housing Alliance surcharge: | $20 |
| 2012 Population: | 1,547,607 | 2012 Population: | 759,256 | 2012 Population: | 547,672 |
| Median household income: | $35,386 | Median household income: | $50,773 | Median household income: | $60,963 |
| Median home value: | $142,300 | Median home value: | $287,800 | Median home value: | $305,000 |

## Washington State Counties — Document Recording Fees for Housing

| Jurisdiction | Tools | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| Counties of Washington State | Document Recording Fee | $58 surcharge on document recording fee ($72 total fee) | $27 Million (statewide total) | -Acquisition, construction, or rehabilitation of housing units,<br>-Operating and Maintenance<br>-Rental assistance vouchers<br>-Emergency shelter operations<br>-Households up to 50% MFI |

**Profile:** Washington has specifically structured state policy to encourage and support affordable housing efforts at the county level. The state Affordable Housing For All Account and Homelessness Housing and Assistance Act are funded with document recording fees, generating an estimated $45 million annually for affordable housing. Most of the revenue generated is distributed directly to Washington counties for housing development and homeless services, while a smaller percentage goes to the state Department of Commerce. All 39 counties of Washington have established housing funds with dedicated revenue from the document recording fee surcharge. Approximately $27 Million annually is distributed to the 39 counties to be used for building affordable housing and addressing housing needs for low income renters and persons experiencing homelessness with incomes at or below 50% MFI.

At the State Department of Commerce, the Affordable Housing for All Account funds the state's Operating and Maintenance Program (which provides funds to sustain housing for extremely low income households) and other homeless emergency and transitional housing programs. Since 2006, the combined document recording surcharge revenues have resulted in a 19% decrease in homelessness throughout the state and a 74% decrease in unsheltered family homelessness. 59,881 homeless people will be housed with these funds during 2013-2015.

**Historical and Political Climate:** Document recording fees were first increased in 2002 when a $10.00 surcharge was added for affordable housing. In 2005, 2007, and 2009 the document recording surcharge was reconsidered by the state legislature to increase the surcharge and add the Homelessness Housing and Assistance Fund. In 2012 state legislation updated the document recording fee to the current $58 surcharge and extended the sunset until 2019. Counties are permitted to retain up to five percent for administrative costs. Of the remaining funds, 40% are deposited into the Affordable Housing for All account, and 60% are distributed to counties for affordable housing activities.

**ARCH Housing Trust Fund:** Enabled by the document recording surcharge revenue stream, counties have been able to organize and leverage other funding sources. The ARCH Housing Trust Fund is an example, and was created by member cities to directly assist the development and preservation of affordable housing in East King County. The trust fund is capitalized by document recording fees, local general funds and federal Community Development Block Grant funds. The trust fund process allows ARCH members to jointly administer their housing funds and assist the best available housing opportunities that meet the housing needs of the community.

**Portland Metro Considerations:** Since 2009, Oregon counties collect a surcharge on document recording fees distributed to Oregon Housing and Community Services for the purposes of homelessness prevention and development of affordable housing. Statewide revenue is approximately $12 Million per year. 10% of the fee is distributed by formula to Community Action Program Agencies; the balance is primarily distributed competitively for affordable housing development across the state. In 2013 the State Legislature increased the fee from $15 to $20 to expand housing services for veterans. Oregon counties are not allowed to create local document recording fees under Measure 79.

| **Washington State** | | **Oregon State** | | **Metro County Estimated Annual Allocations** | |
|---|---|---|---|---|---|
| Document Recording Fee: | $72 | Document Recording Fee: | $46 | Clackamas County: | $84,000 |
| To County Housing Trust Fund: | $58 | To State Housing Alliance: | $20 | Washington County: | $108,000 |
| Total for Housing: | $45 Million | Total for Housing: | $12 Million | Multnomah County: | $276,000 |
| 2012 Population: | 6,897,000 | 2012 Population: | 3,899,000 | *Only 10% of revenue is distributed to counties for homeless services.* | |
| Median household income: | $57,573 | Median household income: | $51,371 | | |

## Somerville, MA — Linkage Fees, In Lieu Fees and Property Tax Levy for Housing


| Jurisdiction | Tools | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| Somerville, MA | Linkage Fees | A $5.15 fee per sq. ft. of all commercial development over 30,000 sq. ft. | $400,000 - $500,000 | -Multifamily Preservation and development<br>-Rentals and homeownership<br>-Direct Housing assistance <50% MFI<br>-Homeownership <110% MFI<br>-Rental Housing <80% MFI |
| | Inclusionary Zoning In Lieu & Fractional Payout Fees | Payments made for units or portions of units required by Inclusionary Zoning policies but not developed. | | |
| | Property Tax Levy: The 2012 Community Preservation Act | A 1.5% Property Tax Surcharge for preservation, parks and affordable housing, 45% of which is reserved for affordable housing development. | $900,000 (2015 FY projected revenue) | |

**Profile:** A fully dedicated commercial linkage fee charging $5.15 per square foot after the first 30,000 sq. ft. of new and rehabilitated commercial development substantially funds affordable housing development in Somerville, MA. “Partial” fees pursuant to the city's Inclusionary Zoning Ordinance also generate much smaller revenues for housing. Together, these revenues have historically totaled $400,000- $500,000 annually. Somerville anticipates an additional $900,000 in revenue in 2015 from the Community Preservation Act, recent state legislation allowing Massachusetts counties to levy a property tax for affordable housing. The total annual locally generated revenue for affordable housing in Somerville averaged $1.3 million.

The Somerville Trust manages this revenue, which benefits households with incomes at or below 110% of area median income. Funds can be used to preserve and develop affordable rental and owner-occupied housing, as well as provide direct assistance to low-income renters and first time homebuyers. The Trust requires that at least 20% of the funds serve households below 50% of AMI, at least 20% must serve those with incomes between 51% and 80% of AMI, and at least 10% must serve those with incomes between 81% and 110% of AMI.

**Historical and Political Context:** The Trust was established in 1989 by a city ordinance and initially capitalized by a $400,000 allocation of municipal funds and federal program income following a city commissioned nexus study on the impact of projected growth on affordable housing. Nexus studies and successful advocacy campaigns resulted in the collection of city linkage fees, which have been raised over the years to their current 2014 levels of $5.15 per square foot.

Since 1989, Somerville has administered an Inclusionary Housing Ordinance, which requires developers of market rate housing projects to provide 12.5% (up to 17.5% in certain zoning districts) of permanent affordable housing units in projects of eight units or more. By 2008, only 72 units of affordable housing were built through Inclusionary Zoning, but in recent years hundreds more added due to significant urban and transportation development in the city. Developers opting out of Inclusionary Zoning, are required to pay the Somerville Trust In Lieu and Partial Payment fees equal to the value of unbuilt required housing.

In 2012, Somerville and six other Massachusetts communities adopted a Community Preservation Act collecting a 1.5% surcharge on net property taxes for the purposes of parks, preservation and community housing funding. The Community Preservation Committee determined to contribute 45% of this new revenue to affordable housing and asked the Trust to administer the funds. This state-enabled legislation will produce $900,000 in additional revenue for the 2015 fiscal year.

**Portland metro region Considerations:** All metro municipal jurisdictions collect System Development Charges (SDC's) for the development of associated public services and infrastructure. Affordable housing costs are not included in these infrastructure costs and are not funded with SCD revenue. The City of Portland currently waives SDCs for affordable housing developments to encourage the production of affordable housing, but this program generates no additional revenue for affordable housing and is not used by other metro municipalities. A metro-wide nexus study would establish the connection between commercial and residential developments and the need for affordable housing units based on the size, type and location of development. Mandatory Inclusionary Zoning is currently constitutionally banned in Oregon, though jurisdictions are exploring opportunities to implement voluntary policies.

| Somerville, MA | | Gresham, OR | | Portland, OR | |
|---|---|---|---|---|---|
| 2012 Population: | 77,104 | 2012Population: | 108,956 | 2012 Population: | 603,106 |
| Median income: | $62,133 | Median income: | $45,747 | Median income: | $52,158 |
| Median home value: | $425,300 | Median Home value: | $204,300 | Median Home value: | 268,800 |
| Median Rent: | $1351 | Median gross rent in 2012: | $840 | Median gross rent in 2012: | $905 |
| Median Property Taxes: | $3,605 | Median Property Taxes: | $2,680 | Median Property Taxes: | $3025 |

## Boston, MA — Linkage and In Lieu Fees for Housing


| Jurisdiction | Tool | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| Boston, MA | Linkage Fees | $8.34 fee/sq. ft. of commercial development over 100,000 sq. ft. | $7 Million (average) | -New construction and preservation<br>-Rental and homeownership housing.<br>-Transitional or permanent housing<br>- <80% MFI Households |
| | In-Lieu Fees | $200,000 per unit minimum fee for unbuilt housing units | $11 Million (average) | - <70% MFI multifamily rental housing.<br>-50% of homeownership dev. <80% MFI<br>-50% of homeownership dev. 80-100% MFI |

**Profile:** A commercial linkage fee generates substantial revenues for affordable housing development in Boston. Commercial development projects in excess of 100,000 square feet pay a fee of $8.34 per square feet to the Neighborhood Housing Trust Fund; the fee rate is allowed to increase every three years according to the Consumer Price Index. Developers can pay fees over a period of seven years. From 1986 through 2012, linkage fees generated $133,804,969 in revenue to help create or preserve 10,176 affordable housing units.

The Neighborhood Housing Trust competitively awards funds to homeownership and rental projects that serve households earning incomes up to 80% MFI with a strong preference for households under 50% MFI and special needs populations. Funds are intended to provide gap financing, as each project receives no more than $750,000 from the Trust. Rental projects with more than 10 units must set aside 10% of units for formerly homeless households. Commercial developers can opt out of all or part of the Linkage Fee by constructing affordable housing onsite equal in value.

The Inclusionary Development Policy (IDP) requires development of affordable housing for all residential developments that voluntarily opt to request rezoned permitting or use public financing or land. The voluntary IDP is nearly mandatory because virtually all residential permits require rezoning due to outdated codes. 15% of all units constructed in developments larger than 10 units must be built affordably or fees must be paid to in lieu of construction. Developers can pay a minimum fee of $200,000 for each unconstructed affordable housing unit to the Boston Redevelopment Agency (BRA). The BRA administers the funds competitively for the construction of rental and owner-occupied, single family and multifamily units. Nearly 2000 affordable units have been built with IDP and the program generates between $10 to $12 million annually.

**Historical and Political Context:** Boston's Linkage program began in 1983 with the approval of Zoning Code Article 26 which sought to balance large-scale commercial development with needed residential construction. In 1986 the Neighborhood Housing Trust was created to manage housing linkage funds, while in 1987 the Neighborhood Jobs Trust (NJT) was created to manage job linkage funds. In response to a legal challenge, the City of Boston submitted a home rule petition to the Massachusetts Legislature that resulted in Chapter 371 of the Acts of 1987—legislative authorization for Boston's Linkage program — and was further incorporated into Article 808 of the Boston Zoning Code in 1996.

Boston’s Inclusionary Development Program began in 2000 in response to the very high and rapidly rising house prices in the city, and a severe shortage of conventional funding to provide more affordable housing. A key trigger was the revelation that two high-profile luxury developments had been given major regulatory concessions but without providing any affordable housing. This led to a major public campaign, marshaling many non-profit organizations and affordable housing advocates, to change city policy. The mayor, a strong champion of affordable housing, reacted quickly through executive order. The IDP has been modified with subsequent orders to require greater affordability and allow developers to opt out with In Lieu Fees.

**Portland Metro Considerations:** All metro municipal jurisdictions collect System Development Charges (SDC’s) for new or expanded housing and commercial development. SDCs fund infrastructure such as parks, schools, sewers and sidewalks. Affordable housing costs are not included in these infrastructure costs and are not funded with SCD revenue. The City of Portland currently waives SDCs for affordable housing developments to encourage the production of affordable housing, but this program generates no additional revenue for affordable housing. No other metro municipalities utilize SDC waivers as a development tool. A metro wide nexus study would establish the connection between commercial and residential developments and the need for affordable housing units per size, type and location of development.

Mandatory Inclusionary Zoning is currently constitutionally banned in Oregon, though jurisdictions are exploring opportunities to implement voluntary policies, which could also generate In-Lieu fee revenue for affordable housing.

| Boston, MA | | Portland, OR | | Oregon City, OR | |
|---|---|---|---|---|---|
| 2012 Population: | 636,479 | 2012 Population: | 603,106 | 2012 Population: | 32,755 |
| Median income: | $51,642 | Median income: | $52,158 | Median household income: | $57,448 |
| Median home value: | $370,400 | Median Home value: | $268,800 | Median Home value: | $240,609 |
| Median Rent: | $1234 | Median rent: | $905 | Median rent: | $955 |

## Seattle, WA — Property Tax Levy for Housing

| Jurisdiction | Tool | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| Seattle, WA | Property Tax Levy | -$0.17/1000 Assessed Valuation<br>-Voter authorized property tax levy for 7 year periods<br>-The 2009 Levy will raise a total of $145 million, a median cost of $65/ year to Seattle homeowners | $20 million | Rental Production & Preservation<br>Operating & Maintenance<br>Rental Assistance<br>Homebuyer Assistance<br>Acquisition & Opportunity Loans |

**Profile:** Seattle voters have approved one bond measure and four subsequent property tax levies for affordable housing since 1981 in five municipal elections. Most recently, in 2009 voters approved a $145 million levy to be spent over seven years, which raised Seattle homeowner property taxes an average of $65 per year. Revenues are deposited into the Low-Income Housing Fund and designated to five programs. Rental Production & Preservation, the largest focus of the Housing Levy, funds construction or rehabilitation of apartment buildings. Other program funds include Homebuyer Assistance, Operating & Maintenance, Acquisition & Opportunity Loans and Rental Assistance programs, with the following designated revenue, goals and restrictions:

| Program Fund | Portion of Revenue | Program Goals | Restrictions |
|---|---|---|---|
| Rental Production and Preservation | $104 Million - 71% (percentage of total $145 million levy) | 1670 Total Units<br>1,002 units = 0-30% MFI<br>501 units = 31-60% MFI<br>167 units = 61-80% MFI | 0%-80% MFI only<br>50 year affordability required |
| Operating & Maintenance | $14.4 Million - 9% | 220 Households | 0-30% MFI Levy buildings |
| Rental Assistance | $4.2 Million - 2% | 3025 Households | 0-50% MFI, homeless or at risk |

| Program Fund | Portion of Revenue | Program Goals | Restrictions |
|---|---|---|---|
| Home Buyer Assistance | $9.1 Million - 6% | 180 Home purchases | First time home buyers, 0-80% MFI |
| Acquisition & Opportunity Loans | $6.5 Million - 0% (short-term loans) | 175 Households | Buildings and land for low-income development |

**History and Political Climate:** In 1981 voters approved a housing bond, which produced more than 1000 units for seniors and persons with disabilities, and established the Seattle Housing Fund. Four successive levies have all passed, in 1986, 1995, 2002 and again in 2009. The Housing levy is popular among voters due to the widely known success of its programs that have continuously met and exceeded goals over the years. In 2009 the City Council unanimously approved the new $145 million levy for the ballot, and it later passed with 65.8% support of Seattle voters.

The 2009 levy is estimated to create 3,140 jobs and generate $189 million in construction and other economic activity. A survey of 800 residents of Seattle, conducted by the City's Office of Housing in March 2009, showed that 73% of those surveyed believe that during the economic downturn, it was more important than ever to keep investing in low-income housing programs.

In 1995, the Washington Legislature enacted RCW 84.52.105, which authorizes cities, counties and towns to impose an additional regular property tax levy up to fifty cents per thousand dollars of assessed value of property for up to ten consecutive years. The ability to impose a levy is contingent on a city, county or town declaring an emergency in respect to the availability of affordable housing. To date, Seattle and Bellingham are the two Washington cities to utilize this state enabled legislation.

**Portland Metro Considerations:** Voters could approve a local housing levy as a dedicated revenue source for affordable housing. The limitations and inequities caused by Oregon property tax structure and the existence of "Compression" are a concern for new local option levies in Oregon, especially within Portland metro area. State enabled legislation could exempt local jurisdictions from Measure 5 regulation to support affordable housing levies.

| Seattle | Portland | Multnomah County |
|---|---|---|
| Population: 634,535<br>Median income: $64,473<br>Median home value: $415,800<br>Housing Levy: $0.17/ $1000 AV | Population: 603,106<br>Median income: $52,158<br>Median home value: $268,800<br>Children's Levy: $.40/$1000 AV | Population: 759,256<br>Median income: $50,773<br>Median home value: $287,800<br>Library Levy: $1.24/$1000 AV |

## Miami-Dade County, FL — Restaurant Tax for Homelessness & Domestic Violence

| Jurisdiction | Tool | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| Miami-Dade County, FL | Restaurant Tax | 1% tax on food and beverage at liquor-licensed restaurants grossing more that $400,000 | $20 Million (average) | Homeless and Domestic Violence Services and Shelters |

**Profile:** A "local option" one percent (1%) Homeless and Domestic Violence Tax is collected on all food and beverage sales by establishments that are licensed by the State of Florida to sell alcoholic beverages for consumption on the premises, except for hotels and motels. Only businesses that make over $400,000 in gross receipts annually are obligated to collect this tax. 85% of tax receipts go to the Miami-Dade County Homeless Trust, and 15% go to the Miami-Dade County for domestic violence centers.

The Miami-Dade County Homeless Trust is the county commission advisory agency charged with implementing the Miami-Dade County Community Homeless Plan and administering the restaurant tax proceeds. The Trust's annual budget is approximately $50 million: approximately $20 million via the Food and Beverage tax, $25 million per year through federal housing funds**,** and the remainder through state funding and private sector contributions. The Trust is a proprietary department and receives no general fund dollars from Dade County.

Over the past 20 years proceeds from the Miami Dade Restaurant Tax have built 5,600 shelter beds, two Homeless Access Centers, reduced street homelessness from 8,000, to 800, and leveraged more than $193 million in federal funding.

**History and Political Climate:** Miami's practice of arresting and removing people experiencing homelessness from public places was found unconstitutional in November 1992 in federal court. Miami was ordered to create "safe zones," where people experiencing homelessness could eat, sleep, bathe and cook without fear of arrest. The Florida Legislature and the Miami-Dade County Commission worked together to create a solution and the restaurant tax was unanimously approved by the Dade County Commission on Oct.

1, 1993. There was virtually no public compliant as a $100 restaurant bill would be taxed only $1. More recently, Orlando and other Florida cities have been working to pass local restaurant tax levies to meet local homeless service needs.

**Portland Metro Considerations:** Oregon has no sales tax. The Portland metro region has few local option taxes: lodging tax, rental car tax and the Portland business tax. With relatively low hotel tax rates, and no sales or restaurant taxes, the Metro Region is known to have one of the country's lowest tourism tax rates. Ashland, Oregon uses a 5% Food and Beverage Tax to fund infrastructure costs.

| Miami-Dade County | | Multnomah County | | Clackamas County | |
|---|---|---|---|---|---|
| Population: | 2,591,035 | Population: | 759,256 | Population: | 383,857 |
| Median income: | $41,533 | Median income: | $50,773 | Median income: | $59,875 |
| Residents living in poverty: | 17.7% | Residents living in poverty: | 15% | Residents living in poverty: | 9.2% |
| Restaurants: | 1,610 | Restaurants: | 999 | Restaurants: | 284 |
| Restaurants Per Cap.: | 6.76/10,000 | Restaurants Per Cap.: | 14.29/10,000 | Restaurants Per Cap.: | 7.57 / 10,000 |

## Columbus and Franklin County, OH — Hotel and Real Estate Taxes for Housing


| Jurisdiction | Tools | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| Columbus, Ohio | Hotel/Motel Tax | a .43% tax on hotel/motel services<br>(a portion of the 10% tax) | $1 Million | -Affordable Housing Development: rentals and homeownership |
| Franklin County, Ohio | Real Estate Conveyance (Transfer) Tax | A $1 fee per $1000 of total sale price<br>(a portion of the $2 per $1000 fee) | $3 Million | -Half of funds must be used for 60% MFI and below housing. |

**Profile:** A total of $4 million is collected annually from the Columbus hotel/motel tax and Franklin County's Real Estate Conveyance Tax to fund affordable housing development in the region. The city hotel tax rate is 10% with a .43% tax set aside for affordable housing, while the county reserves half of the $2/$1000 Real Estate Transfer tax for affordable housing.

The Columbus/Franklin County Housing Trust Fund, established in 2001, is one of the few multi-jurisdictional housing trust funds in the country. Trust revenues support new construction and rehabilitation of affordable rental housing and owner-occupied homes for low-income families. The Housing Trust for Columbus and Franklin County distributes the funds to for-profit and nonprofit developers as financing for acquisition, construction, and bridge loans. While Franklin County law prohibits designating revenue for particular use, the county keeps a contract with the Housing Trust to ensure funds equal to the Real Estate Transfer tax revenue are set aside in the General Fund for housing. $1 million in revenue is reserved for households below 30% MFI, and half of the remaining revenue is committed to households below 60% MFI. In the first 12 years the Housing Trust committed a total of $22 million. Columbus and Franklin County have created 2,743 homes serving 4,000 residents with revenues from the set-aside hotel and real-estate transfer taxes.

**History and Political Considerations:** In 1996, Building Responsibility Equality and Dignity, (BREAD), a highly organized coalition of 45 area faith congregations and over 40,000 residents, initiated the Columbus Housing Trust Fund campaign to provide significant local support for the estimated 22,000 units of affordable housing needed. After years of advocacy, they were successful in 1999 when the newly elected mayor followed through on commitments made during his campaign to support the Housing Trust Fund. The city set aside $1 million annually from a portion of the city's hotel/motel tax. Next, BREAD successfully secured the county's commitment to in double the real estate conveyance fee, setting aside the additional revenue for the Trust Fund. BREAD continued their organizing efforts to ensure the set aside funds would be used for the region's most needy residents and the Trust agreed that half of the funds would be used for residents with incomes less than 60% MFI. Voter approval was not required to establish the Columbus and Franklin County Affordable Housing Trust.

**Portland metro region Considerations:** In 2012 Oregon voters passed Measure 79, a constitutional amendment prohibiting any new real estate transfer taxes or document recording fees. Washington County had an existing Real Estate Tax grandfathered in and Washington County residents could vote to increase the tax for affordable housing. Other jurisdictions are restricted from levying a Real Estate Tax unless a statewide constitutional amendment is passed to reverse Measure 79.

Hotel/motel taxes are currently collected in all regional jurisdictions, however none of this revenue is set aside for affordable housing. Elected officials or voters could opt to increase lodging taxes and set aside new revenue for affordable housing. Of the total 11.5% lodging tax collected in Multnomah County, the City of Portland receives 6% (5% for the city General Fund and 1% to Travel Portland), and Multnomah County receives 5.5% (for the Convention Center Hotel and other tourism programs.)

| Franklin County Ohio | Multnomah County | Washington County |
|---|---|---|
| 2012 Population: 1,195,537<br>Median income: $47,416<br>Median Home Value: $155,600<br>RETT 2% Fee: $6 million annually<br>Property Transfers: 50,000<br>Lodging Tax Rate: 10% total<br>(0.43% set aside for housing) | 2012 Population: 759,256<br>Median income: $50,773<br>Median home value: $287,800<br>Lodging Tax Rate: 11% Total<br>(5.5% to County, 6% to Portland) | 2012 Population: 759,256<br>Median income: $50,773<br>Median home value: $287,800<br>RETT 1% Fee: $2.5 million annually<br>Lodging Tax Rate: 9%<br>(5% returned to lodging operators as a service fee for the collection) |

## San Francisco, CA — Business Registration Fees for Housing


| Jurisdiction | Tool | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| San Francisco, CA | General Fund Set Aside — primarily funded with Business Registration Fees | Annual business fee ranging from $76 to $35,001<br>-Will increase to a minimum of $90 in 2015 | $20 Million - scheduled increase to $50 million by 2045 | -Affordable housing development<br>-Private market incentives<br>-Down payment assistance<br>-Rent and mortgage assistance<br>-Complete neighborhoods - infrastructure grants |

**Profile:** San Francisco has committed General Funds to be set aside for affordable housing with a current commitment of $20 million annually with a specific plan to increase to $50 million annually over the next 30 years. The San Francisco Housing Trust Fund was established in 2012 with voter approved Proposition C. A comprehensive business tax reform, Proposition E, also passed in 2012. Proposition E increased business tax and registration revenues by $28.5 million annually, enough to fund the initial target of $20 million for the Housing Trust Fund. The Business Registration Fee is also scheduled to increase and will account for much of the $1.5 billion committed to affordable housing production and housing programs over the next thirty years.

San Francisco has other revenue streams dedicated to affordable housing development and emergency housing programs, including funds (similar to TIF),  recaptured from the dissolution of the Redevelopment Agencies Inclusionary In Lieu Fees, and a portion of the hotel tax (2% of the 15% hotel tax, which generates about $5.5 Million for housing).

Together, these revenue programs generate committed funding for affordable housing and service programs as follows:

- Permanent affordable housing development of 9000 units for residents at 60% MFI;
- The down payment assistance program providing interest-free loans to first-time moderate-income homebuyers;
- The Housing Stabilization Program, which helps distressed low and moderate income residents remain in their homes; and

- A Complete Neighborhoods Infrastructure Grant program which funds public improvements such as “pocket” parks and child care facilities.

**History and Political Climate:** While affordable housing propositions failed in 2002 and 2008, the 2012 Proposition C passed with 65% of the vote, establishing the San Francisco Housing Trust Fund with funding set aside from General Funds. The impetus for passing Prop C was the 2011 dissolution of redevelopment agencies that had annually generated about $50 million, a significant part of its affordable housing funding. With redevelopment set to expire, San Francisco worked quickly to identify new funding for affordable housing.

Proposition E, a comprehensive Business Tax Reform measure, went before voters at the same time in 2012. Housing Trust Fund, Proposition C, advocates worked to support the measure, with the recognition that additional revenue would help Housing Trust Fund expenditures. The new Business Registration Fee structure was designed to generate $38.5 million in revenue, an increase of $28.5 million over the old Business Registration Fee structure. Proposition C proposed a General Fund set-aside for the Housing Trust Fund in anticipation of new revenue coming in from Business Tax Reform, and the new Business Registration fee.

In addition to multiple revenue streams and General Funds dedicated to affordable housing programs, San Francisco has two core protections for housing affordability. The Rent Control program oversees the affordability of more than 172,000 units in the city, and Inclusionary Housing has prompted the development of more than 1,750 affordable units and the collection of over $50 million in In-Lieu fees since 1993.

**Portland Metro Considerations:** While Portland metro region governments currently collect hotel/lodging taxes, business registration fees and income taxes, and manage general fund budgets, none of these revenue sources are dedicated to affordable housing development or housing services programs. Inclusionary Zoning practices are not permitted in the state; therefore, no In Lieu fees are collected to contribute to affordable housing development. Metro region governments could opt to generate additional revenues and set aside funding for affordable housing through lodging taxes and/or business fees.

| San Francisco City and County | Beaverton, Oregon | Multnomah County |
|---|---|---|
| 2012 Population: 825,863<br>Median income: $73,012<br>Median home value: $727,600<br>Hotel Tax: 15-15.5%<br>Business Gross Rcpt.Tax: .075%-.650%<br>Registration Fee: $75-$35,000<br>(for businesses with up to $2M in gross receipts) | 2012 Population: 92,680<br>Median income: $51,801<br>Median home value: $268,200<br>Hotel Tax: 9%<br>(5% is returned to lodging operators as a service fee)<br>Business License Tax: $50 plus $8.50 per employee after 4. | 2012 Population: 759,256<br>Median income: $50,773<br>Median home value: $287,800<br>Hotel Tax: 5.5% of total 11.5%<br>Business Net Income Tax: 1.45%<br>(of total 3.65% tax rate collected and shared with City of Portland) |

## Charlotte, NC — General Obligation (GO) Bonds for Housing


| Jurisdiction | Tool | Description | Annual Revenue | Purpose of Funds |
|---|---|---|---|---|
| Charlotte, NC | General Obligation Bonds | Property tax backed bonds currently approved by voters at $15 Million every 2 years for next 8 years | $7.5 Million | -Affordable housing development and rehabilitation for <60% MFI |

**Profile:** Since 2001, Charlotte, North Carolina, has committed $86 million for affordable housing through voter approved general obligation bonds. GO Bond revenue is dedicated for any capital development of affordable multifamily housing for households with income up to 60% AMI. Funding is often used as gap financing to support the development of affordable housing financed primarily with federal tax credits.

The Charlotte-Mecklenburg Coalition for Housing is a community-based board appointed to implement the Charlotte-Mecklenburg Ten Year Plan to End and Prevent Homelessness, responsible for funding recommendations and oversight of the Housing Trust Fund. Charlotte City Council established the trust fund in 2001 to provide financing for affordable housing with the new revenue. Since that time, Charlotte has financed 5,122 new and rehabilitated affordable housing units. Of that total, 2,836 were for people earning less than 30% of the area median income.

**Historical and Political Climate:** Charlotte voters have continually approved bonds for transportation, neighborhood and affordable housing development, even during the recent economic downturn.  The City of Charlotte operates under a council-manager form of government. The Mayor and Council make policy decisions for the community while the City Manager carries out those decisions and oversees the daily operations of city government. The strong leadership of the City Manager in implementing the funding as approved has been conducive to the ongoing success and public support of the Housing Trust Fund.

Recently, Charlotte housing advocates, city leaders and private investors created the Social Impact Housing Endowment to address rent assistance and supportive housing needs for low-income families. The $20 million housing fund endowment includes a $10 million dollar commitment from the city of Charlotte over the next five years, in addition to $10 million being raised by philanthropic organizations and faith-based institutions. Although the endowment annuities do not flow through the Housing Trust Fund, they contribute up to $800,000 annually in additional housing resources for the community.

**Portland Metro Considerations:** GO Bonds are not subject to Oregon's compression limits, however they can only fund infrastructure projects and cannot fund public services. The funding must be renewed by public vote regularly, and elected officials can sometimes change the commitment of funds.

| Charlotte, NC | Portland, OR | Hillsboro, OR |
|---|---|---|
| Population: 775,202<br>Median income: $50,950<br>Median home value: $168,000<br>Homeless Point In Time Count: 2014 (sheltered, unsheltered and transitional housing) | Population: 603,106<br>Median income: $52,158<br>Median home value: $268,800<br>Homeless Point In Time Count: 4441 (sheltered, unsheltered and transitional housing) | Population: 95,327<br>Median income: $62,474<br>Median home value: $222,100<br>Homeless Point In Time Count: 537 (combined Washington County total) |

## B. Other Revenue Considerations

This section briefly explores other revenue solutions that have the potential to fund affordable housing and services, some substantially and some creatively. Innovative revenue tools offer important opportunities for flexible and creative programing; however they will not likely produce tens of millions of dollars in revenue for housing. These models are young, still developing and largely untested, though they offer exciting potential. The survey briefly explores Value Capturing, Medicaid Savings for Housing, and Social Impact Bonds.

Meanwhile, state policies and tax reforms can generate substantial revenue and considerably promote the development of housing. However, such policies will require substantial statewide advocacy and will not necessarily result in revenue dedicated for housing. Tax reform and state enabling legislation are considered in brief as potential supplementary solutions for our regional housing needs. To create and sustain a regional infrastructure of housing opportunity, creative solutions and statewide advocacy can significantly contribute to our work.

## São Paulo, Dallas and Pennsylvania — Value Capture Financing

**São Paulo, Brazil** has successfully engaged an innovative financing tool that is becoming a new model for development in Latin America. As the price of land has quickly risen in São Paulo, officials have captured the increased value for public investment. As new redevelopment zones are created, bonds that enable up-zoning for higher density development are sold to developers at auction. The revenue from the bond sales are invested back into housing, roads and other infrastructure in the same redevelopment zones. Over the past 12 years, São Paulo has raised close to $2 billion in U.S. dollars through value-capturing bond sales.

With Value Capture financing mechanisms, the public — not just landowners and developers — receive some of the benefit when jurisdictions unlock massive amounts of land value through regulation, planning and investment. São Paolo's particular approach of selling building rights is less effective in countries where landowners generally have more property rights, such as the United States. In the U.S. context, value capture is more likely to occur through property taxes, special assessments on developers, tax-increment financing or simply negotiating with developers to pay a share of infrastructure costs.

In the **Dallas-Fort Worth** area, a proposal to build a 62-mile rail transit line linking 13 cities, the international airport and multiple existing light-rail lines relies on value capture financing to pay for a significant amount of the project. The plan calls for a transit-oriented development (TOD) district along the corridor with dense but walkable neighborhoods around the stations. Landowners will contribute some of the upfront rail construction costs, while other revenue sources captured within the special district will provide funds to pay back the financing.

Another value capture financing mechanism is Land Value Tax (LVT)— a progressive tax leveraged against unimproved land value. As unimproved land, not counting infrastructure or building, appreciates due to market forces, a tax is applied according to the increase in value. LVT is common throughout Europe, but **Pennsylvania** is the only US state to use this progressive form of property tax. While the majority of U.S. cities apply a singular tax rate to both land and buildings, 20 Pennsylvania cities tax land improvements at a higher rate than building improvements. These cities use a “split-rate” property tax, where lower building taxes promote improvements and renovations on buildings while the land tax discourages land speculation. Because of land taxes, development throughout these Pennsylvania cities has produced downtown jobs, efficient use of urban infrastructure, an improved housing stock and better urban density.


*Image by Ian Peters: Flickr*

Oregon utilizes Tax Increment Financing (TIF) an example of value capture financing. São Paulo, Dallas and Pennsylvania provide examples of how we might upon this progressive concept and capture market force revenues for our community’s benefit, especially for the purposes of funding affordable housing.

## New York State — Medicaid Savings Reinvested for Housing

In 2011, New York Governor Andrew Cuomo created a Medicaid Redesign Team (MRT) to lead an effort to overhaul the state's Medicaid system. The state applied for a Medicaid waiver from the federal government to include a Medicaid Supportive Housing Expansion program to fund housing capital and supportive services. Unfortunately, The Center for Medicaid and Medicare Services (CMS) did not approve the proposed use of reinvested federal savings. Despite CMS's decision, the State of New York remained committed to achieving MRT's goals, with housing as an essential health intervention for Medicaid recipients.

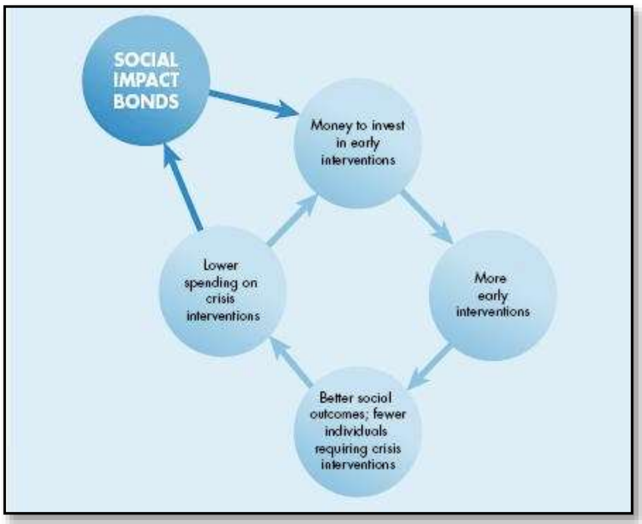

*Image by NC AIDS Action Network: Flickr*

Today, New York invests state-only Medicaid savings into supportive housing, with a two-year budget set aside of $222 million for the Supportive Housing Development fund. State Medicaid savings provide rental subsidies, service funding and capital dollars to create supportive housing for high-cost Medicaid members.

Oregon State Medicaid officials could opt to reinvest state Medicaid savings in affordable housing development and rent assistance. As New York's model has shown, state Medicaid savings would continue to increase with safe and stable housing for program recipients, improving upon Medicaid outcomes and further increasing available funds for housing.

## London, England — Social Impact Bonds

Social Impact Bonds (SIBs) are an innovative financing method that connects private investors and local governments to fund public projects without cost to taxpayers. Social investors produce revenue needed to start new programs and are paid back if programs are successful in achieving outcomes. The government body funds the returns through cost savings that result due to program success. In addition to providing new revenue, SIBs also generate economic growth with new jobs and increased tax revenue. If programs are unsuccessful, investors lose their investments and similar programs are not likely to receive future SIB investors.




Social Impact Bonding started in London, England sponsored by Mayor Boris Johnson who invested first in programs to reduce incarceration recidivism and has more recently created an $8 Million (US) SIB to reduce "rough sleeping", or chronic homelessness. The 3 year program will complete in 2015 and aims to improve health and housing outcomes for 800 of London's 3,500 homeless residents. The outcomes will measure access to housing, connection to the community, employment and health.

Social Impact Bonds are becoming popular in the US though they remain new and untested. New York City, Utah and Massachusetts have used SIB funding to start programs to reduce juvenile recidivism, expand early education and end homelessness.

Governor Kitzhaber has championed SIBs for Oregon and recent legislation approved $800,000 for Pay for Prevention, Oregon's SIB program. SIBs present great opportunity to fund new programs and creatively structure programs that invest in prevention to create future public program savings. SIBs work best to fund social service programs but have not been shown to provide capital for development projects such as affordable housing. Additionally, SIBs do not generate new revenue as they are paid back with existing program costs savings due to success.

## Opportunities for Tax Reform in Oregon

Most states chose a combination of income, property and sales taxes to generate revenue in order to provide services for their residents. Oregon is one of five states with no sales tax. Therefore our state government is largely funded by personal income and corporate excise taxes (corporate income tax) while our local governments and school districts use property taxes to fund their programs and services. This basic assessment of Oregon's tax structure briefly discusses opportunities to promote tax fairness and generate needed revenue through Oregon State tax reforms.  This potential revenue could be dedicated to addressing housing needs throughout the state.

### Sales Tax

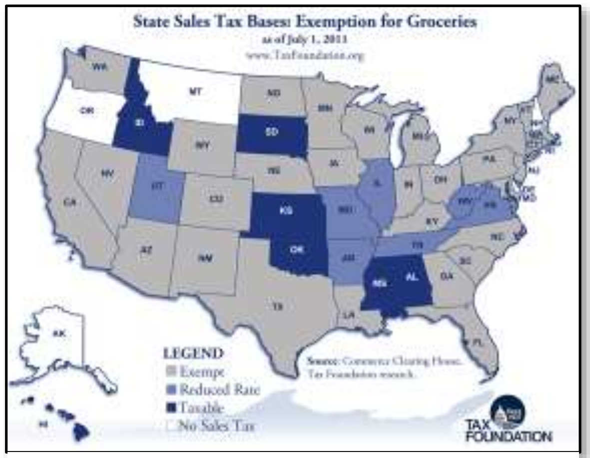


*Image from Tax Foundation*

Oregon has no state or local sales taxes. Sales taxes are sometimes considered regressive because residents with lower incomes pay a higher percentage of their total household income on sales tax for basic goods and services than do persons with higher incomes. Many states adjust for this regressivity by exempting basic goods such as groceries and clothing from sales tax, while taxing only items like soda, luxury clothing, and restaurant dining.
Oregon taxes cigarettes, alcohol and gasoline, which are also generally considered regressive taxes. A lodging tax, generally considered a luxury or tourism tax, is collected for hotel/motel and short term lodging. At times Oregon leaders have considered levying a state sales tax, especially during down economic cycles when income taxes decline and state revenue is reduced at a time when funding is needed most for public programs. A statewide vote would be necessary to add a sales tax in Oregon; however, there is a consistent, historic lack of public support for sales taxes in Oregon.

### Property Tax Inequities and Limitations

Oregon's property tax system is one of the most important sources of revenue for local taxing districts such as public schools, cities, and counties. For example for each property tax dollar collected in Multnomah County, the City of Portland receives about 39 cents for, fire, parks, and other services; public schools, community colleges, and special districts, such as Metro and TriMet, receive 37 cents; and the remaining 24 cents goes to the county.

Oregonians have approved three measures that significantly affect property taxes: Measure 5 (1990), Measure 47 (1996) and Measure 50 (1997).

*Image by Tax by Phillip: Flickr*

Measure 5 created a phenomenon called “Compression.” The measure set limits on the amount of property taxes to be collected for categories described in the constitution (e.g. education and general government). If taxes in either category exceed the limit for an individual property, the taxes are reduced or "compressed" to the limit. Because local option taxes are compressed first, Measure 5 often causes voter approved levies not to receive designated funding.

Measures 47 and 50 restrict statewide property taxes based on 1995 assessed property values. This means that neighborhoods have many disparities for homes of equal value. For example, North and Inner Northeast Portland properties may pay thousands of dollars less per year than similarly valued properties in other Portland neighborhoods. Due to unnaturally low property taxes in North and Northeast Portland neighborhoods, Measures 47 and 50 also has contributed to inflated housing prices and displacement of long time residents.

Finally, Oregon’s property tax system is unique in that it does not recalibrate a property’s taxable value at any point. Of the 17 states that have a system with artificial taxable value similar to Oregon’s, 15 of the 17 recalibrate taxable value at the time of sale. Without a periodic recalibration, certain properties and certain neighborhoods are receiving permanent property tax breaks, with the cost of local services being largely and unfairly subsidized by other property owners.

Statewide property tax reform advocates propose property taxes to be “reset on sale”. Increased revenue from reset on sale or other property tax reform could be used to fund affordable housing, and other critical public investments, and reduce overall property tax rates.

## Business Taxes Remain Low

Before 2010, the overwhelming majority of Oregon businesses paid no state income taxes. Measure 67 set higher minimum taxes on corporations and increased the tax rate on upper-level profits. Among the 33,593 C Corporations, which tend to be larger businesses, state economists estimate that 60 percent will now pay a $150 minimum tax under Measure 67, up from the former $10. Most of the rest of the C Corporations pay a new minimum tax based on 0.1 percent of in-state sales of more than $500,000. The tax is capped at $100,000. However, business tax policy conditions cause some businesses with negative profits to pay thousands of dollars in taxes while more than 25 large Oregon corporations paid no tax in 2013, despite the new required minimum set by Measure 67.

Oregon’s business tax climate tends to benefit multinational companies over small local businesses, which must pay taxes on all income, while multinationals only pay tax on in-state profits. Even after Measure 67, Oregon has the lowest “total effective business tax rate" in the country, according to a 2013 Ernst & Young study. The total state and local taxes paid by Oregon businesses amount to 3.3 percent of Oregon's private sector economy, the smallest such contribution among all 50 states. Meanwhile, Oregon's state and local income tax collections per person were $1,426 in 2011, the 5th highest in the country.

## Housing Trust Funds and State Enabling Legislation

### Housing Trust Funds

Housing Trust Funds (HTFs) are distinct funds established by city, county or state governments that receive ongoing dedicated sources of public funding. They support the preservation and production of affordable housing and increase opportunities for families and individuals to access decent affordable homes. HTFs systemically shift affordable housing funding from annual budget allocations to the commitment of dedicated public revenue.

Housing Trust Funds, by this definition, do not operate as Trusts per se. They receive annually dedicated revenue funds and generally spend those funds within the same period. HTFs are not primarily financed by interest earnings. Some communities call their HTFs Housing Opportunity Funds or Affordable Housing Funds to avoid confusion created by the term “Trust.”

There are now 47 states including the District of Columbia, and more than 600 cities and counties with HTFs in operation. Together they dedicate $1 billion annually to help address critical housing needs throughout the country. Despite limited funding to date, HTFs are widely valued for their flexibility to address local affordable housing needs with dedicated revenue streams. Because of their success, each year more communities are mobilizing to enact new HTFs and increase dedicated revenue streams for existing trust funds.

### State Enabling Legislation

The passage of state legislation to enable and promote local jurisdictions to dedicate revenue for affordable housing has increased the number of local affordable housing funds more than any other factor. States generally have considerable flexibility in selecting revenue sources to be dedicated for housing. State legislation can also support localities to overcome state regulation of local taxing and bonding authority or other limitations to help generate revenue.

*Image by Jimmy Emerson, Flickr*

Examples of State Enabled Legislation supporting affordable housing trust funds include:

- Pennsylvania legislation that enables counties to as much as double their document recording fee if the funds are used to support certain affordable housing activities. Well over half of Pennsylvania's 67 counties now have affordable housing trust funds.
- In Washington, voters in local jurisdictions can levy property taxes for affordable housing. The City of Seattle has utilized this law to successfully pass housing levies in 1995, 2002 and 2009. In 2012, the City of Bellingham became the second Washington jurisdiction to pass a housing levy.
- Massachusetts allows jurisdictions to increase their property taxes by a vote of the public for affordable housing, historic preservation, and open space. These local funds can also apply for state matching funds through an increase in the document-recording fee.

In Oregon, state enabled legislation could support local jurisdictions to establish housing trust funds and enable local jurisdiction financial authorities to levy local taxes for affordable housing, raise local document recording fees, collect linkage fees and permit local inclusionary zoning practices.

## C. Additional Policy, Revenue and Regulatory Tools Chart

A multi-layered regional and statewide response is necessary to adequately address affordable housing infrastructure needs and provide essential housing services to families and individuals. In addition to substantial and dedicated local revenue streams, layers of policy, regulatory measures, and other revenue streams will substantially further housing opportunity for low-income residents. This section discusses additional layers of revenue, policy and regulatory tools to be considered as components of a regional strategic plan for housing.

| Policy or Revenue Tool | Definition | Survey of Jurisdictions | Portland Metro Considerations |
|---|---|---|---|
| **Demolition Taxes** | As housing demolition reduces the available supply of affordable housing and often replaces demolished homes with more expensive housing, a **Demolition Tax** can be imposed to disincentivize demolitions and generate revenue to fund regional affordable housing development. The tax is often a flat fee based on the number of housing units demolished. | Highland Park, IL - a minimum fee of $10,000 per residential site. | In 2013 there were 389 permits for the demolition of homes in Portland alone, where demolition permit fees are only $320-$365 per site |
| **Inclusionary Zoning and Incentive Zoning** | **Inclusionary Zoning,** or Inclusionary Housing refers to municipal and county planning ordinances that require a given share of new construction to be affordable to people with low to moderate incomes. **Incentive Zoning** leverages rising demand for urban housing development by relaxing height and other zoning restrictions in exchange for affordable housing development. Incentive Zoning produces affordable housing on a voluntary basis as a condition of the upzoned permit. | Montgomery County, MD (pioneered IZ in 1974)<br>-More than 200 communities use Inclusionary Housing policies in the U.S. | Mandatory Inclusionary Zoning was banned by Oregon state legislation in 1999. Local inclusionary housing policies are not permissible under the statute. Oregon and Texas are the only two states that ban mandatory Inclusionary Housing. Voluntary and Incentive Zoning are permissible. |

| Policy or Revenue Tool | Definition | Survey of Jurisdictions | Portland Metro Considerations |
|---|---|---|---|
| **Land Banking** | **Land Banks** are quasi-governmental entities created by counties or municipalities to repurpose underused, abandoned, or foreclosed property. De-industrialization and suburbanization left many American cities with large amounts of vacant and blighted property. Rather than dispose of the property, Land Banks utilize the value of public land to address community's needs, such as affordable housing. | Genesee County/Flint, Michigan<br>St. Louis, MO (1971 Pioneer) | Several Metro region organizations use small-scale land banking practices to acquire land for future affordable housing development. The Metro region jurisdictions do not practice land banking with existing property portfolios or potential acquisitions for the purposes of affordable housing development. |
| **Rent Control and Rent Stabilization** | Some cities institute **Rent Control or Stabilization** to set limits on how much landlords may raise rent on existing tenants. More commonly found in cities with large populations where affordable housing is limited, most rent-control programs include exemptions and exceptions, so rent control doesn't apply to all rental units in the city. | New York cities<br>California cities | Rent Regulation is not legal in Oregon; a state constitutional amendment would be necessary to use rent regulation practices regionally. |
| **Revenue Bonds** | A **Revenue Bond** can be issued by any government without a public vote. They generally finance revenue-producing projects and are repaid by that specific project (e.g. a toll bridge) but can also be financed with general fund dollars. Revenue bonds carry higher risk than GO bonds. | Various | Revenue Bonds are often used to capitalize housing trust funds but do not generate ongoing revenue. Portland City Council approved a Housing Revenue Bond in 2005 for approx. $10 Million and will make annual payments of approx. $700,000 until 2035. |
| **Short Term Lodging Taxes** | As short-term lodging (e.g. AirBnB) reduces the available rental stock and increases rent rates, a **short term lodging tax** can be dedicated to affordable housing and services to offset the market impact. | N/A | Portland is the first city to legally allow short-term rentals and it collects an 11.5% lodging tax. A plan to dedicate these funds for housing failed in a 2014 Portland City Council vote. |

| Policy or Revenue Tool | Definition | Survey of Jurisdictions | Portland Metro Considerations |
|---|---|---|---|
| **System Development Charge (SDC) Waivers** | SDC charges, also known as Impact Fees, collected to offset the cost of public services required for new development such as sewer, sidewalks, parks and schools, can be **waived** to reduce costs and promote the development of new affordable housing units. | Portland, Oregon | In 2013, The City of Portland waived $5 million in fees to promote the development of 400 affordable housing units at 60% MFI and below. In 2014, City Council approved extending waivers to developers in Old Town for 120% MFI and below residential development. No other metro region governments waive SDCs for affordable housing development. |
| **Tax Increment Financing Housing Set Aside** | A "value capture" strategy, **Tax Increment Financing** (TIF) publicly finances community improvement projects with future tax revenue projected to increase due to the development. All increased property tax revenue within the established Urban Renewal Area (URA) is set aside for 20-25 years to repay the development(s). | Portland, OR<br>Salt Lake City , UT<br>Various | TIF has been widely used to promote development in Portland with some funds set aside for affordable housing development. This financing mechanism does not fund services and is restricted to property within the URA. TIF can promote gentrification and displacement, and diverts needed tax revenue from public services, which led California to discontinue its practice statewide. |

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