2011-12 Annual Report
Residential Tax Exemption Programs

Portland Housing Bureau

March, 2013

This photo shows The Albert Apartments. 20 percent of the 72-unit project is affordable to low-income residents. The project is LEED gold certified, has a car-share space and features a rotation parking system.

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Executive Summary

The Portland Housing Bureau (PHB) administers the Limited Tax Exemption (LTE) programs on behalf of the City of Portland. In 2010, PHB took over administration of the programs, which was previously shared by the Portland Development Commission and the Bureau of Planning and Sustainability. The LTE programs support affordable housing and leverage private housing development to advance the City's housing and economic prosperity goals in a time of declining resources and limited availability of public subsidy.

A policy review committee including public and private sector members knowledgeable about the LTE programs completed a review of the programs in February 2012. The committee recommended program changes which were extensively reviewed by a wide diversity of stakeholders before being finalized and implemented in July 2012. The changes help align the programs with policy and improve administrative accountability and efficiency. The revised LTE programs will be monitored and evaluated during a three year pilot period, and adjustments to the programs will be considered based on a review of the program outcomes and the City's Comprehensive Plan Update.

Portland City Council approved new city code effective July 2012 resulting in three active LTE programs, two of which have newly approved Administrative Rules.

The three current LTE programs are referred to as the following:

- Non-Profit Limited Tax Exemption (NPLTE) – rental (ORS 307.54- 307.548; City Code 3.101)
- Multiple-Unit Limited Tax Exemption (MULTE) - rental and condo homeownership (ORS 307.600-307.637; City Code 3.103)
- Homebuyer Opportunity Limited Tax Exemption (HOLTE) – homeownership (ORS 307.651-307.687; City Code 3.102)

The programs which were replaced or repealed are referred to as the following:

- New Multiple-Unit Housing (NMUH) – rental and condo homeownership (ORS 307.600-307.637; City Code 3.104)
- Transit-Oriented Development (TOD) – rental and condo homeownership (ORS 307.600-307.637; City Code 3.103)
- Single Family New Construction (SFNC) – homeownership (ORS 307. 651-307.687; City Code 3.102)
- Residential Rehabilitation (Rehab) – rental and home ownership (ORS 308.450-308.481; City Code 3.102)

The three continuing programs maintain the goals outlined in state statute with additional program goals emphasized in city code and program administrative rules. The boundaries for both the MULTE and HOLTE programs were reviewed recently with new eligible areas being defined. The former programs still have active exemptions, which will remain in effect for the duration of the approved tax exemption period as long as program requirements continue to be met.

Overall, the close to 14,000 units currently receiving tax exemptions amount to roughly $16 million of foregone revenue to the City of Portland, Multnomah County, area school districts and other taxing jurisdictions. The bulk of the units receive tax exemptions through the NPLTE program equaling more than half of the foregone revenue. The total foregone revenue increased largely due to the slight increase in property values and additional rental units. The number of homeownership units has decreased largely due to the number of units with expiring exemptions but also because of compliance measures.

This report covers and provides data on program activity during Fiscal Year 2011-12, and estimates how that activity will affect property tax revenues for Tax Year 2012-13.

Program Overview

The three current LTE programs are referred to as the following:

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Non-Profit Limited Tax Exemption (NPLTE)

The NPLTE program requires an annual certification application allowing eligible non-profit organizations to maintain exemptions on the value of the land and improvements of rental properties providing housing to qualified tenants. The program can be used for both multiple-family and single-unit properties but it only applies to units with rent and income restrictions. Non-residential portions of a project may have an exemption apply if the area is intended for use by the tenants only. The NPLTE program is available city-wide.

Multiple-Unit Limited Tax Exemption (MULTE)

The MULTE (and the former NMUH, TOD, and Rehab rental) programs exempt the residential improvement value from real property taxation for a 10-year period, while the land remains taxable. At the end of the 10-year exemption period, the taxes due will reflect the full assessed value of the property. Eligible MULTE areas within the City of Portland include identified Designated Plan Areas/Metro 2040 Centers and land within a quarter mile radius of Max Station Areas or within a quarter mile from either Metro 2040 Main Streets with Transit Service or Metro 2040 Corridors with Frequent Transit Service.

The program has an annual cap of one million dollars for the amount of estimated foregone revenue approved. Applications are accepted during open application periods held once or twice a year. Applications are reviewed to ensure that minimum threshold requirements are met. PHB further evaluates applications to determine which are providing the most public benefits and approves those best meeting program goals up to the program cap, in accordance with the process described in the Administrative Rules.

Commercial portions of a rental housing project may be eligible for the MULTE exemption only if the commercial use of the property is providing a public benefit, as approved by PHB. Rental housing projects subject to long-term affordability agreements restricting tenant incomes and rents may apply through the MULTE program for a longer period of exemption or an extension of an expiring 10-year tax exemption for the restricted units up to the length of the affordability restrictions. The MULTE program can also be used for multi-family home ownership projects with the same income and sale price cap as the HOLTE program.

Homebuyer Opportunity Limited Tax Exemption (HOLTE)

The HOLTE (and the former SFNC and Rehab home ownership) program exempts the residential improvement value from real property taxation for a 10-year period, while the land remains taxable. At the end of the 10-year exemption period, the taxes due will reflect the full assessed value of the property. Homes approved for the HOLTE program must sell for less than the annually established price cap to homebuyers who will live in the homes and meet program income requirements. There is a limit of 100 on the number of new applications approved each year.

Outcomes

OVERALL PROGRAM USAGE

This report is produced annually after data is released by Multnomah County. The information within the report reflects actual and projected numbers. When referring to both Fiscal Year (FY) and Tax Year (TY) in the report, the time frame referenced is between July 1 and June 30 of the stated year. The tax assessment date for the tax year starting July 1 is January 1 of the same calendar year.

Table 1 compares utilization and growth of each exemption program for TY 11-12 and TY 12-13. The proportional use of the programs remains consistent from one year to the next, with a slight increase in the number of rental units and a slight decrease in the number of home ownership units receiving exemptions.

Table 1: Exemption Programs: Utilization and growth by program for a two-year period

Program	Number of units receiving exemptions TY 11-12	Percentage of all units receiving exemptions TY 11-12	Number of units receiving exemptions TY 12-13	Percentage of all units receiving exemptions TY 12-13
NPLTE	9,033	66%	9,579	69%
NMUH	1,961	14%	2,067	15%
MULTE/TOD	686	5%	663	5%
HOLTE/SFNC	2,064	15%	1,835	13%
Rehab	54	0%	43	0%
Totals	13,798	100%	14,187	100%

PROGRAMS BY TENURE

Tenure refers to whether a program assists homeownership units or rental units. 86 percent of the units in the LTE programs are rental units.

Table 2: Tenure of housing promoted by each exemption program in TY 12-13

Exemption Program	Rental Housing Units	Homeownership Units
NPLTE	9,579	0
NMUH	2,067	0
MULTE/TOD	597	66
HOLTE/SFNC	0	1,835
Rehab	1	43
Totals	12,244	1,944

PROGRAMS BY POPULATION SERVED

The rental LTE programs restrict rents on at least a portion of the units within each project, and require that tenants meet income requirements to live in those units. Current MULTE

guidelines require that at least 20 percent of a project be affordable to households earning no more than 60 percent of the Median Family Income (MFI). Of the units receiving exemptions, 88 percent are rent-restricted to households below 60 percent MFI.

Table 3: Number of rent restricted rental units by program, TY 12-13

Program	Total Rental Units Receiving Exemption	Number of Market/ Unrestricted Units	Number of Rent-Restricted Units	Restricted to 61-80% MFI household income	Restricted to <=60% MFI household income
NPLTE	9,579	0	9,579	0	9,579
NMUH	2,067	1,092	975	53	922
MULTE/ TOD	597	306	291	56	235
Rehab	1	0	1	0	1
Total Units	12,244	1,398	10,846	109	10,737
Percentage of Total Units	100%	11%	89%	1%	88%

The HOLTE program requires that homebuyers meet income requirements at the initial sale of a home from the builder. PHB verifies that homebuyers earn no more than one hundred percent (100%) of MFI for a household of four. The limit is adjusted upward for households larger than four. The 2013 MFI limit is $68,300 which is down from the prior year's limit of $73,000.

Table 4 displays the MFI level of the homebuyers who purchased a new home in the HOLTE program during FY 11-12. The average homebuyer MFI percentage for FY 11-12 was 72 percent.

Table 4: MFI percentage for homebuyers purchasing in FY 11-12

Homeownership Units Sold	Total	0-30% MFI	31-50% MFI	51-80% MFI	81-100% MFI	101-120% MFI	>120% MFI
Number of Units	118	8	25	39	23	13	10
Percentage of Total Units	100%	7%	21%	33%	19.5%	11%	8.5%

*A homebuyer who is a household of one could earn up to 143% MFI and still qualify for the program (100% MFI for a household of four - $68,300 - divided by 100% MFI for a household of one - $47,810.)

PHB reports on the race and ethnicity of tenants and homebuyers in an annual Dashboard Report available online at http://www.portlandoregon.gov/phb/57417.

HOMEBUYER OPPORTUNITY AREAS

The HOLTE program promotes new construction in distressed areas of the city encouraging revitalization and affordably priced home ownership opportunities. Eligible areas, referred to as Homebuyer Opportunity Areas, are limited to less than 20 percent of the City and are determined by looking at rates and number of vacancies, foreclosure,

non-violent crime, home prices, vacant lots and homeownership. The areas were reviewed and updated as of July 1, 2012, removing 757 acres which no longer meet the criteria and adding 1,117 acres for a total of approximately 16 percent of Portland being eligible. The areas are reviewed every two to three years.

Table 5 shows that all 1835 units with active HOLTE exemptions in TY 12-13 are in low- and moderate-income neighborhoods within North, Northeast and Southeast Portland.

Table 5: New homeownership units in low- and moderate-income neighborhoods

Low/Moderate Income Neighborhoods	TY 09-10	TY 10-11	TY 11-12	TY 11-12
North Portland	791	741	683	641
Northeast Portland	329	247	271	235
Southeast Portland	1,064	1,027	1,054	959
Southwest Portland	0	0	0	0
Central City	0	0	0	0
Totals	2,184	2,015	2,008	1,835

COMPLIANCE MONITORING

PHB monitors compliance of the LTE program guidelines to ensure recipients continue to comply with exemption requirements after initially qualifying for the program. Each year, projects or units which no longer qualify are removed from the LTE program.

Table 6 describes PHB compliance monitoring efforts in two categories, “Rental” and “Ownership,” for the various LTE programs.

Table 6: Monitoring and compliance efforts for exemption programs, by program

Program	Rental Monitoring	Ownership Monitoring
NPLTE	All units in the program are rent-restricted. Applicant certifies income-eligibility of tenants with annual application. PHB monitors non-profit status of applicant.	N/A
NMUH	Owner/Property Manager submits annual financial and tenant information. PHB monitors rent and tenant income of restricted units and project rate of return.	Homebuyers submit income documentation for PHB to confirm compliance at initial sale. PHB audits owner occupancy during the 10-year exemption period.
MULTE/ TOD	Owner/Property Manager submits annual financial and tenant information. PHB monitors rent and tenant income of restricted units and project rate of return.	Homebuyers submit income documentation for PHB to confirm compliance at initial sale. PHB audits owner occupancy during the 10-year exemption period.

HOLTE/ SFNC	N/A	Homebuyers submit income documentation for PHB to confirm compliance at initial sale. PHB audits owner occupancy during the 10-year exemption period.
Rehab	Owner/Property Manager submits annual tenant information. PHB monitors rent and tenant income of restricted units.	PHB audits owner occupancy during the 10-year exemption period.

None of the rental units were found to be out of compliance, and therefore, none of the rental exemptions were terminated.

The ownership programs require the initial sale to a homebuyer to be below the annually established sale price cap and that the initial homebuyer meets income criteria at the time of purchase. Owners must live in the homes as their primary residence as well. During the 10-year exemption period, PHB monitors that owners continue to live in their homes. If a home is not lived in by the owner, the exemption is removed.

Single-unit homeownership exemptions approved under the SFNC program prior to TY 04-05 did not require homeowners to income qualify or live in the properties during the exemption period. The Rehab ownership program only required that owners lived in their homes, but had no income restrictions. Program changes requiring homebuyers to income qualify and owner occupy their homes only apply to applications received after that time frame, which fall under the criteria mentioned in the previous paragraph.

In TY 11-12, 55 home ownership units had exemptions removed as a result of compliance monitoring. Also, 32 homeownership exemption applications were denied and never had exemptions go into place.

REVENUE IMPACT OF EXEMPTION PROGRAM

Foregone Tax Revenue

One measure of the “costs” of tax exemption programs is measured by calculating foregone revenue to the taxing jurisdictions during the term of the exemption. When an exemption is terminated for non-compliance or expires at the end of the exemption period, the property is re-assessed and begins to accrue full taxes, including the improvement value, in the next tax year.

Table 7 shows that the total of 641 units added in TY 12-13 have associated foregone revenue of about $449,013.

Table 7: Additional foregone tax revenue for TY 12-13

Program	Units with New Exemptions for TY 12-13	New Foregone Revenue for TY 12-13
NPLTE	319	$171,070
NMUH	138	$105,614
MULTE/TOD	47	$27,377
HOLTE/SFNC	137	$250,566
Rehab	0	$0
Totals	641	$554,627

New Tax Revenue

Table 8 demonstrates the additional tax revenue associated with units returning to the tax roll for each program. The amount of returned tax revenue changes from year to year. Changes in revenue result from scheduled expirations of exemptions and terminations of exemptions as a result of compliance monitoring.

Table 8: Additional tax revenue associated with units returning to the tax roll

Program	Units Returned to Tax Rolls in TY 12-13	Additional Tax Revenue for TY 12-13
NPLTE	111	$149,751.91
NMUH	32	$78,265.06
MULTE/TOD	42	$83,525.58
HOLTE/SFNC	365	$577,002.85
Rehab	13	$7,418.64
Totals	563	$895,964.05

Table 9 shows that in TY 12-13 the net result of units being removed and added to the programs will result in a net gain of tax revenue returned to the tax roll. Only the NPLTE program grew both in terms of units and estimated foregone revenue.

Table 9: Net change to total tax revenue, by program, for TY 12-13

Program	Change in Units from TY 11-12 to TY 12-13	Net Change to Total Tax Revenue
NPLTE	208 more units	- $21,318 additional foregone revenue
NMUH	106 more units	- $27,349 additional foregone revenue
MULTE/TOD	5 more units	+ $56,149 to tax roll
HOLTE/SFNC	228 fewer units	+ $326,437 to tax roll
Rehab	13 fewer units	+ $7,419 to tax roll
Totals	78 more units	+ $341,337 to tax roll

Foregone Revenue Program Totals

In TY 12-13, the taxing jurisdictions collectively will make an estimated $16,166,714 indirect investment, compared to an estimated $15,626,497 in TY 11-12. Table 10 presents estimated foregone revenue for each taxing jurisdiction for TY 12-13. Separate figures are given for the two largest taxing jurisdictions. Aggregate figures are presented for the education districts and the smaller taxing districts, which includes the Port of Portland, Metro and Tri-Met.

Table 10: Estimated revenue foregone by taxing jurisdictions and program, TY 12-13

Program	Total Foregone Revenue TY 12-13	% of Total	City of Portland	Mult. County	Education Districts	All Other Tax Districts	Units	Avg. Per Unit
NPLTE	$9,040,874	56	$2,860,030	$1,986,837	$2,993,615	$1,200,392	9,579	$943.82
NMUH	$3,421,856	21	$1,074,746	$746,616	$1,146,474	$454,020	1,753	$1,952.00
MULTE/ TOD	$582,270	4	$189,643	$131,743	$182,554	$78,330	663	$878.24
HOLTE/ SFNC	$3,094,946	19	$982,210	$682,333	$1,018,780	$411,624	1,835	$1,686.62
Rehab	$26,767	<1	$8,407	$5,840	$8,944	$3,575	44	$608.35
Totals	$16,166,714	100	$5,115,036	$3,553,369	$5,350,367	$2,147,941	13,874	$1,165.25

Table 11 breaks out the estimated foregone revenue for each education district.

Table 11: Estimated foregone revenue by education district, TY 12-13

Program	Total foregone revenue by exemption program	Education Service Districts (ESD)	Community Colleges	Portland Public	David Douglas	Other School District
NPLTE	$2,993,615	$167,610	$233,871	$2,234,349	$280,808	$76,977
NMUH	$1,146,474	$62,985	$90,981	$992,508	$0.00	$0.00
MULTE/ TOD	$182,554	$11,114	$13,342	$41,243	$112,011	$4,845
HOLTE/ SFNC	$1,018,780	$57,562	$79,024	$703,512	$144,363	$34,318
Rehab	$8,944	$493	$708	$7,604	$139	$0.00
Total by Category	$5,350,367	$299,763	$417,926	$3,979,216	$537,322	$116,140

Trends in Foregone Revenue

The average foregone revenue per unit is influenced by factors such as the value of the property improvements, increased valuation of the properties added compared to the properties that were removed from these programs and differences in value by location. The NPLTE program accounts for the majority of the foregone revenue annually. Use of the program has slowly ticked upward over the last couple of years. The Rehab program has not had any new applications since FY 07-08 so the number of exemptions and therefore foregone revenue will continue to decline as they expire. Since 2005, there had

been a moratorium on NMUH applications except for projects providing 100 percent affordable units resulting in few applications and now the program has been combined with the TOD and replaced by the MULTE. Negative financial trends during the recession as well as the shift in administration of and the policy review of the TOD program resulted in fewer new exemptions. All of the LTE programs will continue to have exemptions expire in coming years, and applications for MULTE and HOLTE programs will be more predictable as long as the current program caps continue.

There are several MULTE projects, including some approved in NMUH and TOD programs, which have been approved and will have exemptions start as construction is completed over the next several years. Exemptions for the MULTE program do not begin until the tax year following the year construction is completed. Table 12 lists the projects with approved NMUH and MULTE/TOD exemptions which will be going into place in coming years.

Table 12: Pending MULTE projects

Project	Exemption Type	Tenure	Total Units	Number of Rent-Restricted Units	Total Units Receiving Exemption	Year Approved	Projected Foregone Revenue
The Albert	MULTE/TOD	Rental	72	18	72	2009	$116,904
Yards at Union Station Phase C	NMUH	Rental	80	80	80	2011	$69,010
Prescott Block Apartments	MULTE/TOD	Rental	155	31	155	2012	$292,544
The Rose Apartments	MULTE/TOD	Rental	90	90	90	2012	$52,319
41 at Tillamook Apartments	MULTE/TOD	Rental	47	10	47	2012	$62,053
Hollywood Apartments	MULTE/TOD	Rental	47	10	47	2012	$64,374
Glendoveer Woods Apts	MULTE/TOD	Rental	100	20	100	2012	$123,506
Wilmore Apartments	MULTE	Rental	65	20	65	2012	$86,000
Esperanza Court (aka Boulevard Square or King Park)	MULTE	Home Ownership	24	24	24	2012	$62,016