



*Analysis by Katie Shifley & Jane Marie Ford*

## DIRECTIONS TO DEVELOP

### Funding for Housing and Rental Services

*\$450,000 one-time, \$612,150 ongoing, 3.00 FTE*

#### Direction Language

The Revenue Division in the Bureau of Revenue and Financial Services is directed to develop a vacancy tax to create funding for housing and rental services. The proposal should identify costs to initiate, maintain, and enforce the tax, as well as estimates for revenue generation.

#### CBO Analysis

The Direction to Develop indicates that the primary policy goal of a vacancy tax is to create a dedicated funding stream to support creative solutions to housing and homelessness. The Revenue Division's proposal suggests that potential new revenues of \$2.1 million to \$5.0 million could be generated through such a fee, but that this estimate is low-confidence and includes a number of potential caveats noted below. The proposal from the Revenue Division also indicates that a vacancy tax would be extremely challenging to administer. A secondary policy goal, providing a financial disincentive for allowing units to stay empty, could conceptually achieve additions to the City's available housing stock.

Both the generation of new revenues and the addition of new housing stock are goals that align with Council priorities to identify sustainable funding for homeless services and increase housing supply, but Revenue Division's response indicates that continued exploration of other policy options may be warranted.

#### Summary of Request

The Revenue Division has provided estimates for establishing an Empty Dwelling Fee (EDF) to incentivize the full occupancy of Portland dwellings and provide modest revenue for housing and homeless services programs. A \$5,000 fee would apply to units that are vacant for four months (120 days) or more for each 120 days of vacancy, for a maximum annual charge of \$15,000. The proposal notes likely potential exemptions for units that meeting the following parameters:

- Undergoing renovation,
- Listed for rent or sale,
- Owner death or home in estate,
- Low-income,
- Parcels that are under construction or development

The net income projected to be generated by this fee is \$2.1 to \$5.0 million annually, net of estimated enforcement costs of \$612,500. Confidence is low that this revenue could support expenses in the FY 2019-20 fiscal year, as the implementation of new fees and taxes takes time.

The revenue estimate from the Revenue Division assumes that only 15% of potential vacant units would ultimately make the \$5,000 payment based on exemptions and other enforcement challenges noted below. The estimate does not account for the cost of an independent appeals venue, which could generate additional workload and would further reduce the amount of funding available for housing and homelessness programs.

### ***Vacancy Tax Policy Background***

Vacancy taxes, in different forms, have been enacted or considered by jurisdictions across the country and internationally. At a high level, the common goal is to incentivize the best use of land. The motivation behind this varies significantly based on local market conditions: to combat blight, to disincentivize empty lots, to discourage vacation or investment properties that are only in use part-time in tight housing markets. Depending on the goal of the policy, taxes or fees may be applied to vacant parcels, empty buildings or commercial space, or individual housing units.

Given limited time to review this decision package, CBO has not been able to conduct robust comparison analysis with data from other jurisdictions. If Council is interested in moving this proposal forward, CBO can provide additional analysis in collaboration with the Revenue Division.

### ***Enforcement***

It is difficult to accurately identify the number of long-term (greater than 120 days) vacant units in the City of Portland. Data from the Water Bureau suggests that there are approximately 3,500 vacant or abandoned properties, while figures from the United States Postal Service (USPS) indicates that the number may be closer to 7,500 starting at 90 days.<sup>1</sup> This represents between 1.3% and 2.7% of Portland's 277,499 housing units.<sup>2</sup>

Due to privacy restrictions, USPS address-level data is not available to the City. Therefore, the Revenue Division would rely on information collected by the City and County to help identify a

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<sup>1</sup> Estimates from the American Community Survey and COSTAR are higher, but only show a point-in-time snapshot rather than an accurate assessment of units that are vacant for 90 days or more. The Revenue Division believes that this data includes a number of units that are vacant only briefly, including new development that had just come online. In Vancouver, BC, the number of properties either declared as vacant or where owners failed to confirm occupancy was significantly lower than census estimates.

<sup>2</sup> U.S. Census Bureau, American Fact Finder. 2013-2017 American Community Survey 5-Year Estimates. Available at <http://tinyurl.com/hc4lzwf>.

comprehensive list of potential properties to determine whether properties are truly vacant, as well as providing a website for community members to report possible vacant dwellings. The process of verifying residency involves a wide range of documents and databases, and would likely require home visits to confirm the condition and circumstances of the unit. The data currently available does not identify what percentage of units are empty because they are second homes or vacation rentals, are new units that have not yet been leased or purchased, or are vacant/have been abandoned for financial or health and safety reasons.

Given these uncertainties, it is unclear how many units would qualify for the potential exemptions noted above. The Revenue Division would establish 3.0 FTE to administer this tax, though additional staff may be required depending on the actual implementation process.

As noted above, establishing an Empty Dwelling Fee is likely to generate a substantial number of appeals. The most likely avenue for appeals would be the Hearings Office in the Auditor's Office; for a program like this an independent venue for appeal would be appropriate. Additional staff in the Hearings Office would likely be required to support the appeals process; assuming that these costs would be considered part of administration, these staff costs would further reduce available revenue to support housing initiatives.

### ***Other Potential Risks***

#### **Market Impact**

Depending on how the fee is enacted, the reaction from the market could be counter-productive. New rental development relies on certain rent assumptions that cannot be adjusted down for at least several years after opening; property owners instead use concessions – such as a period of free rent or other perks - to lease up vacant units rather than lowering monthly rents. Layering on an additional vacancy fee may deter new development if there are significant financial penalties associated with delays in leasing up.

#### **ITS Implementation**

The Revenue Division is in the midst of a multi-year process to retire the existing tax platforms and implement a new Integrated Tax System (ITS). At this time, it is not possible to accommodate online collection of the Empty Dwelling Fee, so most of the EDF processes would be manual and require check payment. In short, administration of EDF is likely to be an enormous administrative burden, with potentially substantial staff and administrative costs, at the very time that the Revenue Division will be heavily focused on implementing a large critical technology project.

#### **Complaint-Driven Nature of Fee Administration**

Per the Revenue Division, the complexity of administering an Empty Dwelling Fee requires the use of multiple data sources to identify long-term vacant units. One of these avenues would likely be tips provided by the public, as neighbors are likely to know whether or not nearby units may be vacant. CBO notes general concerns with reliance on complaint-driven application of an Empty Dwelling Fee, as complaint-driven processes can often result in an uneven application of fee-related investigations and collections.

### ***Experiences in Other Cities***

As noted above, vacancy taxes have been applied in very different ways depending on local market conditions and the intended policy goals. In our limited review, CBO did not find an example of a jurisdiction that has implemented or considered a vacancy tax that could be considered a close comparison to what the Revenue Division has proposed. However, CBO notes the following implementation challenges from two west coast cities that have adopted a vacancy tax over the last two years. The City of Vancouver, BC received over 5,000 interactions from its 311 hotline in the seven months following adoption of its Empty Homes Tax in January 2017.<sup>3</sup> Similarly, Oakland’s City Administrator cited this type of workload as part of the concerns laid out about the timeline for implementing the then-Proposed Ballot Measure to Tax Vacant Properties,<sup>4</sup> which was recently adopted by Oakland voters.<sup>5</sup> Media coverage from both jurisdictions have noted the challenges in clarifying and communicating to property owners a) what properties or units are subject to the tax and b) exemptions to the tax.

### ***Council Considerations***

Although the Empty Dwelling Fee as proposed is projected to yield a net income of \$2.1 million to \$5.0 million annually, there are a number of potential factors that could impact the amount of revenue collected and likely increase the City’s expenditures to implement the fee. Based on the information available, the return on investment to implement the fee as proposed is likely insufficient to meet the policy goal of creating sufficient dedicated funding to support housing programs and homeless services. The level of desired investment in housing initiatives is much higher than potential (and low confidence) revenues generated from an Empty Dwelling Fee, and there is limited available data on the magnitude of any potential behavior changes (e.g. otherwise vacant units returning to market).

If Council is interested in developing more targeted policy interventions to address underutilized housing stock, CBO would recommend further analysis of existing City data on code violations, nuisance complaints, utility shutoffs, short-term rentals, and the new Rental Registration program. As noted above, CBO would also recommend comparing data, policies, and programs from other jurisdictions through the lens of a Council ultimate policy goal – either revenue generation or behavior change – so that the proposal can be targeted toward achieving maximum return on that goal.

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<sup>3</sup> City of Vancouver Administrative Report. Amendments to Vacancy Tax By-Law. June 28, 2017. Available at <https://council.vancouver.ca/20170628/documents/pspc6.pdf>.

<sup>4</sup> Landreth, Sabrina B. City Administrator, City of Oakland. Agenda Report. Subject: Special Tax on Vacant Properties to Fund Affordable Housing and Support Programs for Homeless People. May 2, 2018. Available at <http://tinyurl.com/y2yt6yzo>.

<sup>5</sup> City of Oakland Measure W. Available at <http://tinyurl.com/yy76jn3m>.