2014-15 Annual Report
Residential Property Tax Exemption Programs

Portland Housing Bureau

March, 2016

This is a rendering of the Block 8L Apartments. The mixed-use project will benefit from the Multiple-Unit Limited Tax Exemption Program and provide 18 units of affordable housing in the Old Town China Town neighborhood of NW Portland.

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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. The LTE programs support affordable housing and leverage private housing development to advance the City's housing and economic prosperity goals. Property tax exemptions provide a financial incentive for affordable housing by reducing the property taxes owed.

A policy review committee including public and private sector members completed a multi-year review of the LTE 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 helped align the programs with PHB policy objectives and improve administrative accountability and efficiency. The LTE programs were monitored and evaluated during the three year pilot period. In response to program outcomes and other City goals and initiatives in an ever-evolving housing market, additional changes were made to the MULTE program in particular in 2015. The City will continue to evaluate the programs together with Multnomah County and make further adjustments, as is necessary.

There are three active LTE programs which are referred to as the following:

- Non-Profit Limited Tax Exemption (NPLTE) – rental (ORS 307.540-307.548; City Code 3.101);
- Multiple-Unit Limited Tax Exemption (MULTE) - rental and condo homeownership (ORS 307.600-307.637; City Code 3.103); and
- Homebuyer Opportunity Limited Tax Exemption (HOLTE) – single-unit homeownership including condos (ORS 307.651-307.687; City Code 3.102)

The programs which were replaced or repealed in 2012 are referred to as the following: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 LTE programs maintain the goals outlined in state statute with additional program goals emphasized in city code and program administrative rules. 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.

This report covers and provides data on program activity during Fiscal Year 2014-15, and estimates how that activity will affect property tax revenues for Tax Year 2015-16. Overall, the approximately 14,000 units currently receiving tax exemptions amount to roughly $17.4 million of foregone revenue to the City of Portland, Multnomah County, area school districts and other taxing jurisdictions for the year. Of those, almost 11,000 receive exemptions through the NPLTE program, equaling about $11.8 million in foregone revenue. The total foregone property tax revenue decreased from an estimated $18.9 million in Tax Year 2013-14, largely due to multi-family rental units with expiring exemptions. After accounting for the number of units with exemptions ending and new units added to the program, there are about 650 fewer total units receiving a tax exemption resulting in about $1.8 million less net foregone revenue as a result of the LTE programs.

Program Overview

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

- Non-Profit Limited Tax Exemption (NPLTE) – rental (ORS 307.540-307.548; 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) – single-unit homeownership, including condos (ORS 307.651-307.687; City Code 3.102)

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 half mile[1] 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.

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 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 caps as the HOLTE program.

The MULTE Program has an annual cap on the amount of estimated foregone revenue

[1] The MULTE program boundaries were expanded in 2015 from a quarter mile to a half mile radius of Max Station Areas.

(based on the projected tax exemption value for a project's first-year in service once built) approved during a calendar year, which recently increased from $1 Million to $3 Million. With the increase in the annual cap, applications are now accepted on a first-come, first-serve basis throughout the year, rather than the competitive application rounds that were utilized in the last few years. Applications are reviewed to ensure that program requirements are being met, including those in place to help achieve the program goals of affordability, equity and accessibility.

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 100 unit cap on the number of new applications approved each year, although the cap does not apply to applications for properties including long-term affordability covenants.

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 between TY 14-15 and TY 15-16. The proportional use of the programs continues to be fairly consistent from one year to the next. There was a slight increase in the over-all number of non-profit rental units; this program remains the most utilized with close to 80 percent of the units receiving exemptions through this program. The number of units in the HOLTE program continues to decrease with the annual cap in place on new applications and the number of exemptions expiring or being removed each year, although not as much as last year. The number of units in both the NMUH and Rehab programs also continue to decrease significantly as exemptions expire or are removed for compliance reasons since the programs are no longer available for new applications. The last approved NMUH project started the ten-year tax exemption program for TY 14-15, as did the first three MULTE projects. No new MULTE projects have exemptions starting in TY 15-16 because none of them was complete as of January 1, 2015.

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

Program	Number of units receiving exemptions TY 14-15	Percentage of all units receiving exemptions TY 14-15	Number of units receiving exemptions TY 15-16	Percentage of all units receiving exemptions TY 15-16
NPLTE	10,507	72%	10,830	78%
NMUH	1,630	11%	937	7%
MULTE/TOD	937	6%	682	5%
HOLTE/SFNC	1,452	10%	1439	10%
Rehab	23	0%	8	0%
Totals	14,549	100%	13896	100%

PROGRAMS BY TENURE

Tenure refers to whether a program assists homeownership units or rental units. Almost 90 percent of the units in the LTE programs are rental units.

Table 2: Tenure of housing promoted by each exemption program in TY 15-16

Program	Rental Housing Units	Homeownership Units
NPLTE	10,830	0

NMUH	937	0
MULTE/TOD	655	27
HOLTE/SFNC	0	1439
Rehab	1	7
Totals	12,423	1473

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. Of the rental units currently receiving exemptions, about 90 percent are rent-restricted units with almost all of those restricted to households at or below 60 percent of Median Family Income (MFI). Of the rent-restricted units, only one project allows income up to 80 percent MFI. Current MULTE guidelines require that at least 20 percent of a project be affordable to households earning no more than 60 percent of MFI, unless a project is located within a high cost market area and approved to have units affordable to households earning no more than 80 percent of MFI. The MULTE exemption applies to all residential units within an approved project. The NPLTE program restricts tenant income to 60 percent MFI and the exemption only applies to the affordable units. Both the NPLTE and MULTE programs have had guidelines added in the past year clarifying that tenants who qualify upon move-in may have their income increase up to 20 percent above the projects' initial MFI limit and still meet the affordability restrictions.

Table 3: Number of rent restricted rental units by program, TY 15-16

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	10,830	0	10,830	0	10,830
NMUH	937	232	705	24	681
MULTE/ TOD	655	307	348	0	348
Rehab	1	0	1	0	1
Total Units	12,423	539	11,884	24	11,860
Percentage of Total Units	100%	10%	90%	0%	100%

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 100 percent of MFI for a household of four. The limit is adjusted upward for households larger than four. The 2014 MFI limit was $69,400, and the 2015 limit increased to $73,900. The 2016 MFI limit has not been published as of the date of this report. A homebuyer who is a household of one could earn up to 143 percent MFI (100 percent MFI for a household of four, $73,900, divided by 100 percent MFI for a household of one, $51,730) and qualify for the program.

Table 4 displays the MFI level of the homebuyers who purchased a new home in the HOLTE program during FY 14-15. The average homebuyer MFI percentage for FY 14-15 was 75 percent, which is comparable to last year's 73 percent.

Table 4: MFI percentage for homebuyers purchasing in FY 14-15

Homeownership Units Sold	Total	0-30% MFI	31-50% MFI	51-80% MFI	81-100% MFI	101-120% MFI	>120% MFI
Number of Units	84	4	17	26	20	11	6
Percentage of Total Units	100%	5%	20%	31%	24%	13%	7%

PHB reports on the demographics of tenants and homebuyers in a State of Housing in Portland report, which is available online at http://www.portlandoregon.gov/phb/546056.

LOCATION OF AFFORDABLE UNITS

Until 2013, state statute limited the HOLTE program area to no more than 20 percent of the City which had been identified as distressed in order to encourage revitalization and affordably priced home ownership opportunities. Legislative action removed this requirement from the program, and the City followed suit for new applications received in FY 13-14. The HOLTE program is now available city-wide, but only for homes with three or more bedrooms, or two bedrooms if built within designated high density areas near public transit. The action makes the program available as a tool to encourage the construction of affordable home ownership opportunities throughout the City. The cost of land and accelerating home prices have still limited the use of the programs to mostly Southeast Portland and parts of North Portland since the program limits both the sale price of homes built and the income of the homebuyers.

Table 5 shows that all 1,439 units with active HOLTE exemptions in TY 14-15 are located within North, Northeast and Southeast Portland. Outer Southeast Portland continues to be where the majority of new units are built with the program.

Table 5: Homeownership units receiving exemptions by area

Low/Moderate Income Neighborhoods	TY 10-11	TY 11-12	TY 12-13	TY 13-14	TY 14-15	TY 15-16
North Portland	741	683	641	527	443	409
Northeast Portland	247	271	235	173	144	137
Southeast Portland	1,027	1,054	959	898	865	893
Southwest Portland	0	0	0	0	0	0
Central City	0	0	0	0	0	0
Totals	2,015	2,008	1,835	1,598	1452	1439

See Appendix A for a map showing all of the current HOLTE properties.

The MULTE program is limited to areas around the City as defined previously in the Program Overview. See Appendix B for a map of all of the current MULTE properties.

The NPLTE program is available citywide. See Appendix C for a map showing all of the current NPLTE properties.

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 14-15, 77 homeownership units had exemptions removed as a result of compliance monitoring. Also, nine homeownership exemption applications were denied and never had exemptions go into place.

Of the 99 HOLTE eligible properties which sold in FY 14-15, 15 of them sold over the sale price cap or to an ineligible buyer and the exemption was removed. Of those, 12 sold over the sale price cap, which was $291,000 for both the 2013 and 2014 calendar years. The average sale price for the other 84 units sold was $248,590. Table 7 shows the average sale price by geographic area of homes sold within the price cap to eligible homebuyers. The table also separates out units built by non-profit organizations or as condominiums, including townhomes.

Table 7: Average sale price of HOLTE homes which sold in FY 14-15 by geographic area.

HOLTE Area	Number of Units Sold	Average Sale Price	Number of Units Sold (excluding Non-Profit Built Units and Condominiums)	Average Sale Price (excluding Non-Profit Built Units and Condominiums)
North Portland	21	$258,849	14	$256,919
Northeast Portland	3	$244,167	3	$244,167
Southeast Portland	60	$245,221	42	$263,562
Totals	84	$248,590	59	$255,675

REVENUE IMPACT OF EXEMPTION PROGRAM

Foregone Tax Revenue

One measure of the cost of tax exemption programs is determined by calculating foregone revenue to the taxing jurisdictions during the term of the exemption. The foregone revenue equals the amount of taxes that would be due in absence of the tax 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 8 shows that the total of 465 units added for TY 15-16 have associated foregone revenue of around $270,000.

Table 8: Additional foregone tax revenue for TY 15-16

Program	Units with New Exemptions for TY 15-16	New Foregone Revenue for TY 15-16
NPLTE	354	$144,742
NMUH	0	$0
MULTE/TOD	0	$0
HOLTE/SFNC	111	$126,629
Rehab	0	$0
Totals	465	$271,371

New Tax Revenue

Table 9 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. Roughly $2 million will be returned to the tax roll in TY 15-16.

Table 9: Additional tax revenue associated with units returning to the tax roll

Program	Units Returned to Tax Rolls in TY 15-16	Additional Tax Revenue for TY 15-16
NPLTE	31	$32,042
NMUH	692	$1,525,104
MULTE/TOD	255	$249,816
HOLTE/SFNC	124	$225,252
Rehab	15	$9,132
Totals	1,117	$2,041,346

Table 10 shows that in TY 15-16 the net result of units being removed and added to the programs (as shown in tables 7 and 8) will yield about 650 fewer units benefitting from tax exemptions. Only the NPLTE program grew both in terms of units and estimated foregone revenue. Compared to TY 14-15, there is a significant net decrease, about $1.8 million, in the amount of foregone revenue to the associated taxing jurisdictions largely as a result of expiring exemptions.

Table 10: Net change to total tax revenue, by program, for TY 15-16

Program	Change in Units from TY 14-15 to TY 15-16	Net Change to Total Tax Revenue
NPLTE	319 more units	- $112,699 additional foregone revenue
NMUH	692 fewer units	+ $1,525,104 to tax roll
MULTE/TOD	255 fewer units	+ $249,816 to tax roll
HOLTE/SFNC	13 fewer units	+ $98,623 to tax roll
Rehab	15 fewer units	+ $9,132 to tax roll
Totals	652 fewer units	+ $1,769,975 to tax roll

Foregone Revenue Program Totals

In TY 15-16, the taxing jurisdictions collectively will make an estimated $17,350,813 indirect investment, compared to an estimated $18,880,553 in TY 14-15. Table 11 presents estimated foregone revenue for each taxing jurisdiction for TY 15-16. 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 11: Estimated revenue foregone by taxing jurisdictions and program, TY 15-16

Program	Total Foregone Revenue TY 14-15	% of Total	City of Portland	Mult. County	Education Districts	All Other Tax Districts	Units	Avg. Per Unit
NPLTE	$11,814,275	68%	$3,567,506	$2,588,656	$4,227,403	$1,430,735	10,830	$1,091
NMUH	$1,666,178	10%	$496,938	$360,584	$609,446	$199,210	937	$1,778
MULTE/ TOD	$835,034	5%	$253,318	$183,811	$294,995	$102,910	682	$1,224
HOLTE/ SFNC	$3,028,650	17%	$930,483	$675,170	$1,051,360	$371,637	1,439	$2,105
Rehab	$6,675	0%	$1,989	$1,443	$2,442	$802	8	$834
Totals	$17,350,813	100%	$5,250,235	$3,809,634	$6,185,646	$2,105,292	13,896	$1,249

Table 12 breaks out the estimated foregone revenue for each education district.

Table 12: Estimated foregone revenue by education district, TY 15-16

Program	Total foregone revenue by exemption program	Education Service Districts (ESD)	Community Colleges	Portland Public	David Douglas	Other School District
NPLTE	$4,227,409	$209,225	$262,168	$3,346,517	$303,725	$102,539
NMUH	$609,446	$29,144	$37,157	$543,130	$0	$0
MULTE/	$294,995	$14,856	$18,470	$220,059	$41,301	$0

TOD						
HOLTE/ SFNC	$1,051,360	$54,570	$66,806	$682,977	$180,554	$65,238
Rehab	$2,442	$117	$149	$2,174	$0	$0
Total by Category	$6,185,652	$307,912	$384,750	$4,794,857	$525,580	$167,777

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. For TY 15-16, the overall average per unit foregone revenue is around $1250, which is less than the roughly $1300 it was for TY 14-15 due to the largest net increase in units in the program coming from the NPLTE program and the fact that such a large number of units in the former NMUH program expired.

The NPLTE program continues to account for the majority of the foregone revenue annually. Use of the program has increased over the last several 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 the exemptions 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. The last approved NMUH project started receiving a tax exemption in TY 14-15 so the total NMUH units will continue to decline.

Whereas all of the LTE programs will continue to have exemptions expire in coming years, and the number of new applications approved for the MULTE and HOLTE programs will be more predictable as long as the current program caps continue. In general, development in Portland has increased in the last few years which has brought forward the LTE programs' importance for helping provide affordability in the market. Unlike in previous years however, the 100 unit cap on the HOLTE program for FY 15-16 has not been fully utilized yet although it will presumably still be fully prescribed. After additional changes to the MULTE program five applications have already been approved for FY 15-16, including the extension of the tax exemption for the affordable units in a project that would have otherwise had the exemption expire. The $3 million cap for calendar year 2016 is likely to be fulfilled after PHB has already held pre-application meetings for another 17 potential projects.

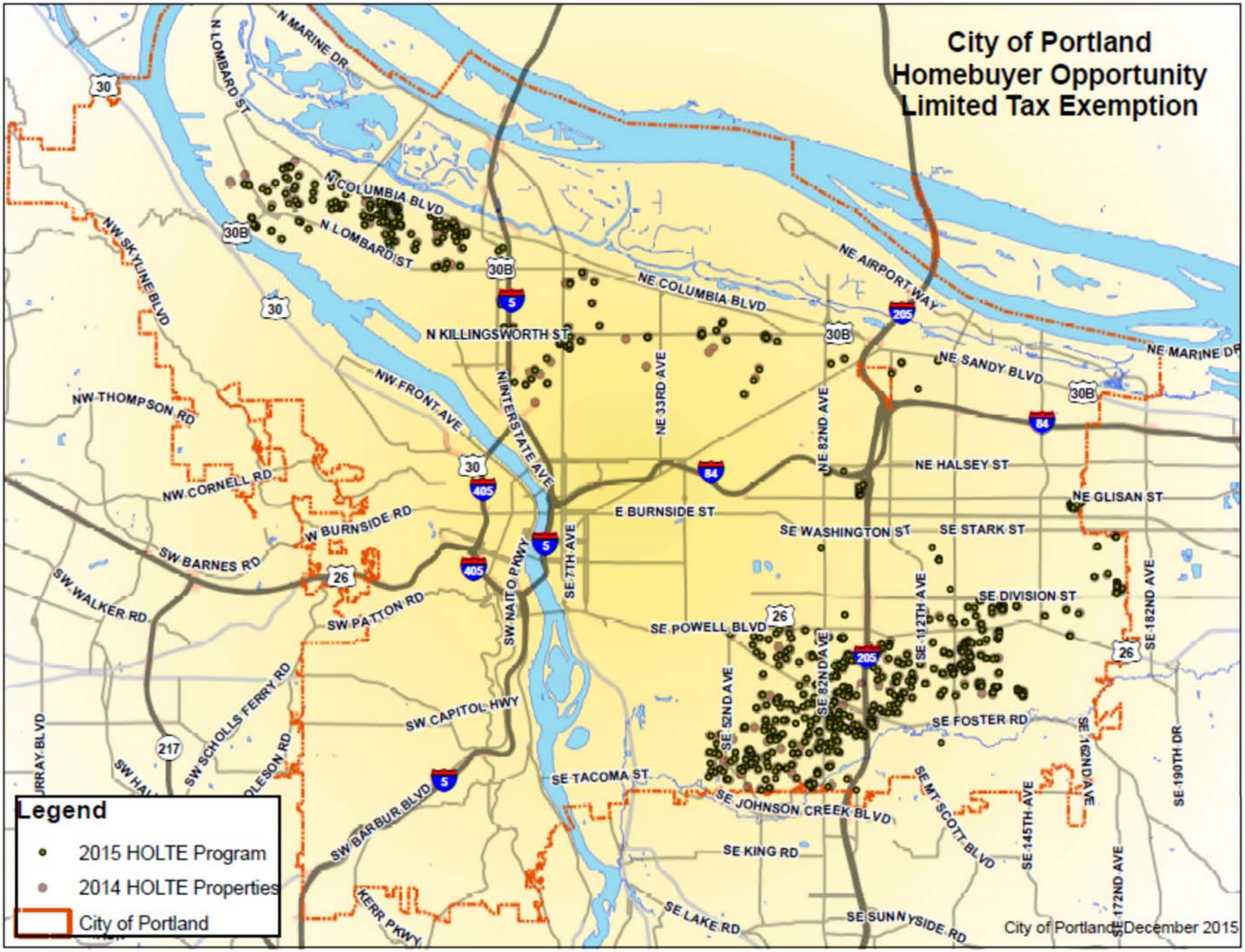
Ten approved MULTE projects, as well as two projects approved under the TOD program, will have exemptions start as construction is completed over the next several years. Exemptions for the MULTE program do not begin until the tax year following the year construction is completed. Table 13 lists the projects with approved MULTE/TOD exemptions which will be going into place in coming years.

Table 13: Pending MULTE projects

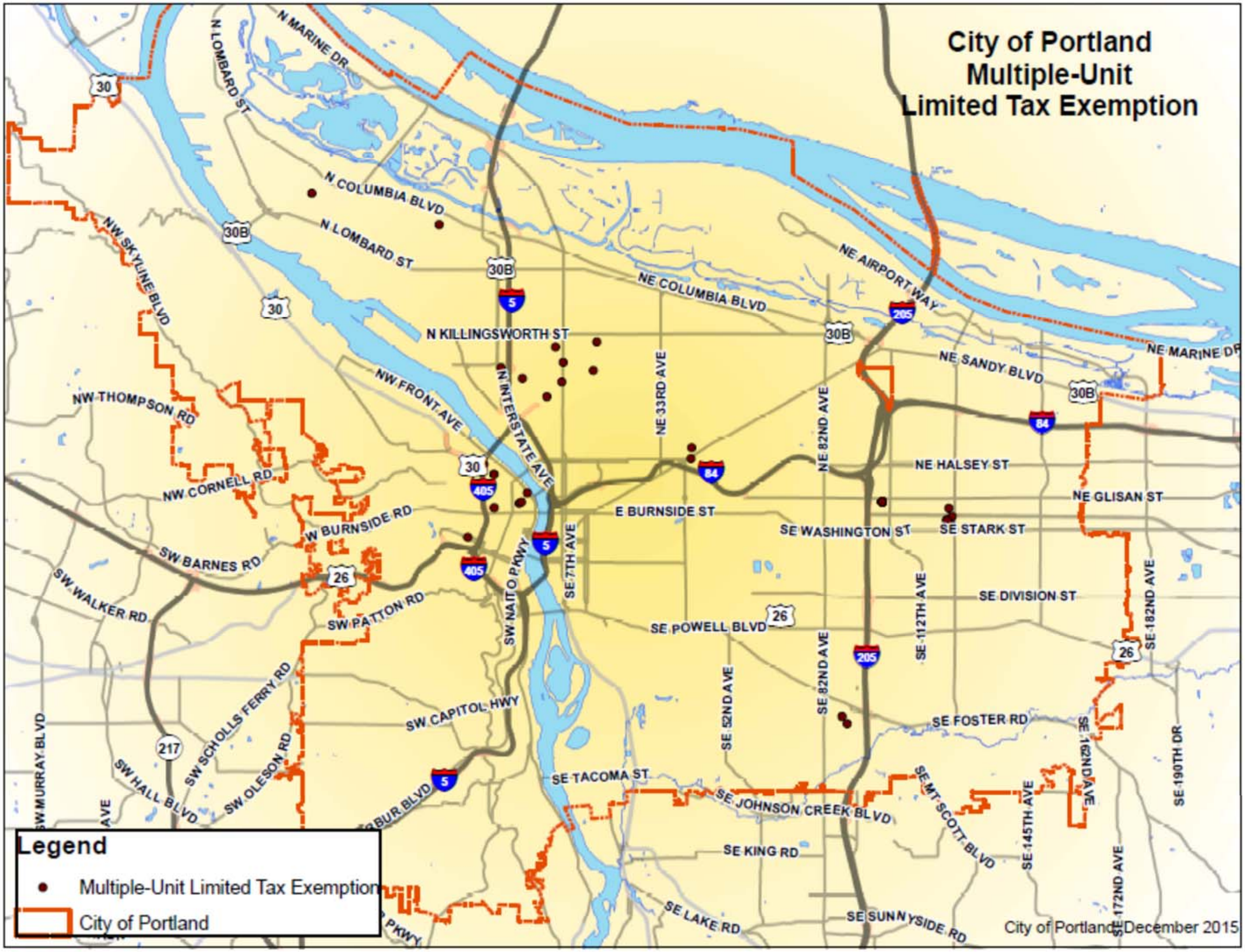
Project/ Tax ID	Exemption Type	Tenure	Total Units	Number of Rent-Restricted Units	Total Units Receiving Exemption	Year Approved	Projected First Year Foregone Revenue
The Rose Apartments (R206557)	MULTE/ TOD	Rental	90	27	90	2012*	$92,259
Glendoveer Woods Apts (R109689)	MULTE/ TOD	Rental	100	20	100	2012	$123,506
Wilmore Apartments (R102893)	MULTE	Rental	75	15	75	2012*	$96,543
The Abigail Apartments (R567530)	MULTE	Rental	155	127	28	2013*	$66,641
Hazelwood Plaza (R319880, R319879, R319878)	MULTE	Rental	61	25	61	2013*	$61,793
Sky3 (R246636)	MULTE	Rental	192	39	192	2014	$690,000
Yard/Block 67 (R149993, R149993, R149995, R149997, R149999, R150000, & R150001)	MULTE	Rental	284	57	284	2014	$771,079
Block 8L (R644284, R644201)	MULTE	Rental	65	18	65	2014	$258,429
Mississippi Avenue Apartments (R257854 & R610390)	MULTE	Rental	152	30	152	2015	$496,229
Vancouver Avenue Apartments (R103287, R103288, R103289, R103305 & R103306)	MULTE	Rental	136	27	136	2015	$354,367
North Hollow Apartments (R246765)	MULTE	Rental	121	24	121	2015	$310,902
SE 9th & Belmont (R150448)	MULTE	Rental	100	20	100	2016	$238,422

*The Rose Apartments, Wilmore Apartments, Abigail Apartments and Hazelwood Plaza submitted amendments to their applications which were approved in 2014, 2013, 2014 and 2015 respectively.

Appendix A – Homebuyer Opportunity Limited Tax Exemption (HOLTE) Properties for TY 15-16



Appendix B – Multiple-Unit Limited Tax Exemption (MULTE) Properties for TY 15-16



Appendix C – Non-Profit Limited Tax Exemption (NPLTE) Properties for TY 15-16