2013-14 Annual Report
Residential Property Tax Exemption Programs

Portland Housing Bureau

March, 2015

This is a rendering of the The Abigail Apartments. The project will benefit from both the Multiple-Unit Limited Tax Exemption and the Non-Profit Limited Tax Exemption Programs and provide 127 units of affordable housing in the North Pearl District. The project will also offer tenant services onsite through a partnership with Impact NW.

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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 in a time of declining resources and limited availability of public subsidy. 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 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 continue to be monitored and evaluated during the three year pilot period. Adjustments to the programs are being considered in order to respond to program outcomes and other City goals and initiatives, as the three period comes to a close and the housing market continues to evolve.

There are three active LTE programs which were updated by Portland City Council following the last policy review process, effective August 2012.

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)

The programs which were replaced or repealed in 2012 are referred to as the following: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 continuing 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 2013-14, and estimates how that activity will affect property tax revenues for Tax Year 2014-15. Overall, the approximately 14,500 units currently receiving tax exemptions amount to roughly $18.9 million of foregone revenue to the City of Portland, Multnomah County, area school districts and other taxing jurisdictions for the year. Of those, over 10,000 receive exemptions through the NPLTE program, equaling about $11.6 million in foregone revenue. The total foregone property tax revenue increased from an estimated $18.1 million in Tax Year 2013-14 to an expected $18.9 million in Tax Year 2014-15, largely due to the slight increase in property values and additional rental units approved for tax exemptions. After accounting for the number of units with exemptions ending, the net additional foregone revenue as a result of the LTE programs for the year is less than $800,000. The total number of units with tax exemptions has increased by around 300.

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 on the amount of estimated foregone revenue approved during a calendar year. 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 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.

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.

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 13-14 and TY 14-15. The proportional use of the programs continues to be consistent from one year to the next. There was a slight increase in the number of non-profit rental units; this program remains the most utilized with over 70 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. 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.

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

Program	Number of units receiving exemptions TY 13-14	Percentage of all units receiving exemptions TY 13-14	Number of units receiving exemptions TY 14-15	Percentage of all units receiving exemptions TY 14-15
NPLTE	10,188	72%	10,507	72%
NMUH	1,690	12%	1,630	11%
MULTE/TOD	726	5%	937	6%
HOLTE/SFNC	1,598	11%	1,452	10%
Rehab	31	0%	23	0%
Totals	14,233	100%	14,549	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 14-15

Program	Rental Housing Units	Homeownership Units
NPLTE	10,507	0
NMUH	1,630	0

MULTE/TOD	882	55
HOLTE/SFNC	0	1,452
Rehab	1	22
Totals	13,020	1,529

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, 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 units within an approved project. The NPLTE program restricts tenant income to 60 percent MFI and the exemption only applies to the affordable units.

Table 3: Number of rent restricted rental units by program, TY 14-15

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	10,507	0	10,507	0	10,507
NMUH	1630	749	881	24	857
MULTE/ TOD	882	530	352	0	352
Rehab	1	0	1	0	1
Total Units	13,020	1,279	11,674	24	11,717
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 which was up slightly from the prior year’s limit of $68,300. The 2015 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% MFI (100% MFI for a household of four, $69,400, divided by 100% MFI for a household of one, $48,580) 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 13-14. The average homebuyer MFI percentage for FY 13-14 was 73 percent.

Table 4: MFI percentage for homebuyers purchasing in FY 13-14

Homeownership Units Sold	Total	0-30% MFI	31-50% MFI	51-80% MFI	81-100% MFI	101-120% MFI	>120% MFI
Number of Units	109	4	20	41	28	12	4
Percentage of Total Units	100%	4%	18%	38%	26%	11%	4%

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.

AFFORDABLE HOMEOWNERSHIP 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 1,452 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
North Portland	741	683	641	527	443
Northeast Portland	247	271	235	173	144
Southeast Portland	1,027	1,054	959	898	865
Southwest Portland	0	0	0	0	0
Central City	0	0	0	0	0
Totals	2,015	2,008	1,835	1,598	1452

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

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 13-14, 66 homeownership units had exemptions removed as a result of compliance monitoring. Also, three homeownership exemption applications were denied and never had exemptions go into place.

Of the 140 HOLTE eligible properties which sold in FY 13-14, 31 of them sold over the sale price cap or to an ineligible buyer and the exemption was removed or denied. Of those, 18 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 109 units sold was $226,125. Table 7 shows the average sale price by geographic area of homes sold within the price cap to eligible homebuyers.

Table 7: Average sale price of HOLTE homes which sold in FY 13-14 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	23	$236,104	14	$263,586
Northeast Portland	0	0	0	0
Southeast Portland	86	$223,456	48	$253,367
Totals	109	$226,125	62	$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 783 units added for TY 14-15 have associated foregone revenue of just over $1 million.

Table 8: Additional foregone tax revenue for TY 14-15

Program	Units with New Exemptions for TY 14-15	New Foregone Revenue for TY 14-15
NPLTE	329	$408,310
NMUH	80	$58,491
MULTE/TOD	249	$377,279
HOLTE/SFNC	125	$213,027
Rehab	0	$0.00
Totals	783	$1,057,107

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 $1 million will be returned to the tax roll in TY 14-15.

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

Program	Units Returned to Tax Rolls in TY 14-15	Additional Tax Revenue for TY 14-15
NPLTE	10	$38,612
NMUH	140	$460,773
MULTE/TOD	38	$23,334
HOLTE/SFNC	271	$488,950
Rehab	8	$4,856
Totals	467	$1,016,525

Table 10 shows that in TY 14-15 the net result of units being removed and added to the programs (as shown in tables 7 and 8) will yield about 300 more units benefitting from tax exemptions. Only the NPLTE and MULTE programs grew both in terms of units and estimated foregone revenue. Compared to TY 13-14, there is only a slight net increase, about $40,000, in the amount of foregone revenue to the associated taxing jurisdictions as a result of new properties being added to the program.

Table 10: Net change to total tax revenue, by program, for TY 13-14

Program	Change in Units from TY 13-14 to TY 14-15	Net Change to Total Tax Revenue
NPLTE	319 more units	- $369,698 additional foregone revenue
NMUH	60 fewer units	+ $430,458 to tax roll
MULTE/TOD	211 more units	- $353,945 additional foregone revenue
HOLTE/SFNC	146 fewer units	+ $275,922 to tax roll
Rehab	8 fewer units	+ $4,856 to tax roll

Totals	315 more units	- $40,583 additional foregone revenue

Foregone Revenue Program Totals

In TY 14-15, the taxing jurisdictions collectively will make an estimated $18,880,553 indirect investment, compared to an estimated $18,117,910 in TY 13-14. Table 11 presents estimated foregone revenue for each taxing jurisdiction for TY 14-15. 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.

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	$11,617,320	62%	$3,525,076	$2,519,020	$4,074,730	$1,498,494	10,507	$1,106
NMUH	$3,317,989	18%	$993,407	$709,889	$1,188,991	$425,702	1,630	$2,036
MULTE/ TOD	$1,065,617	6%	$330,986	$236,523	$357,288	$140,819	937	$1,137
HOLTE/ SFNC	$2,863,741	15%	$880,406	$629,139	$983,659	$370,538	1,452	$1,972
Rehab	$15,886	0%	$4,771	$3,409	$5,650	$2,056	23	$691
Totals	$18,880,553	100%	$5,734,647	$4,097,980	$6,610,317	$2,437,609	14,549	$1,298

Table 11: Estimated revenue foregone by taxing jurisdictions and program, TY 14-15

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

Table 12: Estimated foregone revenue by education district, TY 14-15

Program	Total foregone revenue by exemption program	Education Service Districts (ESD)	Community Colleges	Portland Public	David Douglas	Other School District
NPLTE	$4,074,730	$203,520	$306,875	$3,159,474	$309,647	$95,214
NMUH	$1,188,991	$57,354	$90,261	$1,041,376	$0	$0
MULTE/ TOD	$357,288	$19,109	$26,533	$205,535	$106,111	$0
HOLTE/ SFNC	$983,659	$50,830	$73,486	$662,968	$148,058	$48,316
Rehab	$5,650	$275	$428	$4,783	$163	$0
Total by Category	$6,610,317	$331,089	$497,583	$5,074,136	$563,979	$143,530

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.

This results in an overall increase in foregone revenue that is greater than just the difference between the units removed and added to the program this tax year.

The NPLTE program accounts for the majority of the foregone revenue annually. Use of the program continues to increase each year. 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 this year.

All of the LTE programs will continue to have exemptions expire in coming years, and the number of new applications 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 couple of years which has brought forward the LTE programs' importance for helping provide affordability in the market. Like the previous year, the 100 unit cap on the HOLTE program was reached by December of 2014 for FY 14-15. The MULTE program has had five application rounds since the new competitive process went into effect in 2012, and has come close to utilizing the fully allocated cap on foregone revenue each year.

Several MULTE projects, including some approved through 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. One previously approved project, Esperanza Court, which was approved in 2012 for 24 home ownership units, will not be moving forward. 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	61	61	2013	$61,793
Sky3 (R246636)	MULTE	Rental	192	39	192	2014	$690,000

Block 67 (R149993, R149993, R149995, R149997, R149999, R150000, & R150001)	MULTE	Rental	284	57	284	2014	$771,079
Block 8L (R644284, R644201)	MULTE	Rental	59	16	59	2014	$258,429

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

Appendix A – Homebuyer Opportunity Limited Tax Exemption (HOLTE) Properties for TY 14-15