CITY OF ASTORIA
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COMMUNITY DEVELOPMENT

MEMORANDUM

DATE: March 20, 2017

TO: MAYOR & CITY COUNCIL

FROM: BRETT ESTES, CITY MANAGER

SUBJECT: AFFORDABLE HOUSING STRATEGY – CONSTRUCTION EXCISE TAX

BACKGROUND

The City Council held a work session on February 8, 2017 to discuss the Affordable Housing Study and the Affordable Housing Strategy. At the work session, the Council directed staff to review potential city owned properties for disposition that could be developed into workforce housing, continue studying the concept of a construction excise tax (CET). This work session has been scheduled to further discuss the CET concept. The Mayor also directed city staff to schedule a public hearing for March 20 to review proposed changes to the accessory dwelling unit standards in the Development Code. The accessory dwelling unit portion for the affordable housing strategy is covered in a separate agenda item.

DISCUSSION/ANALYSIS

Construction Excise Tax: As described in previous progress reports, SB 1533 allows local governments to adopt a "construction excise tax" to fund affordable housing investments. The City already collects a small percentage for the Astoria School District Construction Excise Tax to support school facility improvements so the administration of the fee would be similar. Below is an excerpt from the League of Oregon Cities 2016 Legislative Session Summary of Bills.

> *SB 1533 lifts the preemption on construction excise taxes (CET). However, the bill limits the rate of a residential CET to 1 percent of permit valuation, a number set at the state level. Residential CETs must be spent in a specific manner: 15 percent is remitted to the state for the home ownership assistance program; 50 percent must be spent on the same types of financial offsets as can be used for an inclusionary housing program; and the remaining 35 percent must be used for a locally determined affordable housing*

program. Any CET on industrial or commercial buildings is uncapped, and one-half of these funds must be used on a locally determined affordable housing program. The other half may be spent at the city's discretion, provided it is outlined in the enacting ordinance.

Based on this summary, the amount of funding that could be generated would largely depend on the percentage assessed on commercial and industrial projects. The residential portion would generate less revenue based on the 1 percent cap and the objective is to not burden the residential market so staff does not recommend a CET for residential building permits. Staff has reached out to the City of Cannon Beach who is also considering a CET to compare program approaches. Staff also invited Jim Long – Affordable Housing Manager for the City of Bend to make a presentation to Council on the success of the Bend CET program. In 2006, the City of Bend established a CET program and has successfully used this program to fund 770 units of affordable housing (80% or below Median Household Income).In addition, staff has reached out to the North Coast Building Industry Association and Clatsop Rental Owners to discuss the proposal and get feedback. However, at this time no feedback has been received.

The following is a summary of the last three fiscal year building permit valuations for commercial projects, the potential funds generated by a percentage rate, and three examples of recent projects where building permits were issued and the potential taxes that could be levied.

Fiscal Year	**Commercial Building Value**	**Potential CET Funds (%)**
14-15	$12.9M	$64,500 (0.5%) $129,000 (1%) $387,000 (3%) $645,000 (5%)
15-16	$25.4M	$127,000 (0.5%) $245,000 (1%) $762,000 (3%) $1,225,000 (5%)
16-17*	$9.3M	$46,500 (.5%) $93,000 (1%) $279,000 (3%) $465,000 (5%)
Adaptive Reuse	$993,000	$4,965 (.5%) $9,930 (1%) $29,790 (3%) $49,650 (5%)
Expansion	$452,000	$2,260 (.5%) $4,520 (1%) $13,560 (3%) $22,600 (5%)
New Construction	$8.2M	$41,000 (.5%) $82,000 (1%) $246,000 (3%) $410,000 (5%)

*Quarter 3 ends March 31

As the percentage rises, the potential for additional funds rises as does the impact to the project budget. These funds could be dedicated to a revolving loan fund to provide lower interest rate construction loans to qualified projects with funds returned with interest when the project secures permanent financing from the primary lender. As funds are returned and replenished, new projects can be funded. The City already has an established lending relationship with Craft 3 that could underwrite loans. To move forward, Council needs to provide guidance on this policy choice.

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