



# MEMO

CITY OF BEND

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TO: DESCHUTES COUNTY BOARD OF COUNTY COMMISSIONERS

FROM: LYNNE MCCONNELL, HOUSING DIRECTOR  
ALLISON PLATT, SENIOR PLANNER

DATE: MARCH 24, 2022

RE: PROPERTY TAX EXEMPTION PROGRAMS UNDER  
CONSIDERATION BY THE CITY OF BEND

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The City of Bend has one existing property tax exemption program in place, the Low-Income Property Tax Exemption, to support deed restricted affordable housing developments in the City of Bend. The Bend City Council has directed staff to continue to pursue additional tools and incentives to encourage housing development in the City of Bend. This memo is intended to provide an overview of three additional property tax exemption programs under consideration by the City of Bend to meet housing goals: Non-Profit, Middle-Income and Multiple Unit Property Tax Exemption (MUPTE). These programs are enabled by the State of Oregon (ORS 307), for cities to implement at their discretion.

## **NONPROFIT PROPERTY TAX EXEMPTION** ([ORS 307:540-548](#))

### *Background*

Oregon statute authorizes local governing bodies such as cities, counties and school districts to adopt an ordinance that specifically provides a property tax exemption for nonprofit affordable housing projects. The property tax exemption provides total relief of property taxes paid by the nonprofit and applies to the tax levy of all taxing districts (including local option levies) if 51% of the total rate of taxation within the jurisdiction approves the exemption.

The property tax exemptions for nonprofit owned affordable housing is widely in use across the state of Oregon. The criteria is broad, thus allowing the City of Bend to craft the nonprofit exemption to maximize opportunities to develop affordable housing for its community.

### *Eligibility Criteria*

In order to qualify for the exemption, a property must be owned by a registered nonprofit and occupied by persons at 60% of Area Median Income (AMI) or at the City's discretion, with 60% AMI for the first year and up to 80% AMI ongoing. Undeveloped land is also eligible for the exemption and must be held for future development of affordable housing. To receive the



exemption, nonprofit organizations must apply and be approved by the City annually. By statute, applications must include a description of the charitable purpose of the project, certification of resident income levels and a description of how the tax exemption will benefit property residents.

There is not a unit minimum. Therefore, there is an opportunity to encourage the development of middle housing: duplexes, triplexes and fourplexes.

For existing regulated affordable housing, the property tax savings achieved through this exemption is required by statute, to benefit the low-income residents of the properties. Benefits can take the form of rent stabilization and/or enhanced resident services such as childcare, job and computer training, afterschool programs or other benefits. Over time, the operational savings to the nonprofit property owner may also help to preserve affordable units.

### *Considerations*

- The City has the discretion to require that property tax exempted units are occupied by persons at 60% of AMI and below, or to allow 60% AMI for the first year and up to 80% AMI ongoing. Allowing for property tax exemptions up to 80% AMI after the first year is recommended to account for units whose occupants have some rise in income level.
- Length of time for the exemption – the City is able to approve the exemption for the length of affordability or to adopt a “sunset” for the exemption program in order to allow for an evaluation of program benefits and impacts after a certain period.
- Vacant land held by a nonprofit for affordable housing is also eligible for the property tax exemption. The City may place a limit on how long undeveloped land can be held and exempted before affordable housing is developed.
- Partial exemptions can be granted. This is not a policy decision but rather a program implementation clarification. For example, if a project contains a total of 90 units and only 45 of the units are regulated affordable at 60% or 80% AMI and below, then half of the property’s taxes would be exempted rather than the full amount. The City in administering this program would work with the County Assessor’s Office to determine the partial exemption amount in such cases. This is particularly appealing for mixed income developments.
- Annual City Council approval – Council may review and approve the exemption for eligible properties annually by resolution or grant City of Bend staff the administrative authority to approve the exemptions contingent on all eligibility requirements being met.

## **MIDDLE INCOME TAX EXEMPTION [ORS 307.867](#)**

### *Background*

The middle-income tax exemption for newly renovated or constructed multiunit rental housing is a relatively new tool for cities and counties to encourage affordable housing development aimed for a broader income range. The parameters of the exemption were approved under [HB 2377 \(2017\)](#) and are outlined in [ORS 307.867](#). Oregon statute authorizes local governing bodies to adopt an ordinance that specifically provides a property tax exemption for newly renovated or

constructed multiunit rental housing within the eligibility criteria. The property tax exemption requires approval from taxing districts representing 51% of total levied property taxes.

Currently, this exemption is in use in Tillamook County only.

### *Eligibility Criteria*

The middle-income tax exemption would only apply to newly rehabilitated or constructed dwelling units which are affordable to households making up to 120% of the area median income. It would target middle-income housing, not strictly affordable housing.

Regardless of whether a building was acquired by rehabilitation or new construction, the property tax exemption may only be used one time per building.

For developers that had previously received State or Federal funding and are seeking this exemption for rehabilitation, the applicant must limit affordable rents to a population making 80% AMI or less and shall be prohibited from setting rents higher than that limit to which they were previously bound.

As noted above, the legislative framework requires approval from tax districts representing 51% of total levied property tax. This exempts all taxes from all districts during the exemption period. The City may grant the exemption for up to ten consecutive years including improvement and land.

### *Considerations*

An ordinance would be developed to meet the requirements of HB 2377. The County Assessor is tasked by HB 2377 to review the rental prices on an annual basis to ensure compliance. The County Assessor and the City will work together to ensure property owners comply with the rules and can terminate the exemption for noncompliance. Typically, compliance determinations in Deschutes County are delegated to City Housing staff.

The definition of rehabilitation under this exemption recommends that the property is at least 20 years old, is in building code compliance, that the building maintenance is up-to-date, and it includes an anti-displacement measure.

Other considerations:

- Created in 2017; current state sunset is 1/2/2027
- AMI rent “limits” are adjusted according to the number of bedrooms provided
- Utility “fees” count toward rent
- Ensure that exempted units for are not used as short-term rentals
- Ensure strict rehabilitation definition to profiteering off exemption
- Can be used for any structure with 3 or more units
- Protections in place to avoid displacing low-income households
- After exemption expires, building is reassessed and taxed as normal



## **MULTIPLE-UNIT PROPERTY TAX EXEMPTION (MUPTE) (ORS 307.600 to 307.637)**

### *Overview*

The MUPTE is designed to incentivize diverse multifamily housing options in urban centers lacking choices for middle-income levels. Multi-unit residential projects of three (3) units or more can receive up to a ten (10) year property tax exemption on the structural improvements as long as the program requirements are met. If a project consists of low income/affordable housing, the exemption may last as long as the predetermined termination date of the affordability contract.

While enabled by the State of Oregon, individual jurisdictions have the ability to set program and eligibility requirements (e.g., applicable geography, application process and fees, criteria, program cap) and approve projects on a case by case basis.

The exemption may also include parking and commercial uses, so long as the parking is constructed as part of the multi-unit building, and the commercial use is a requirement of the design and/or development code standards or is a required “public benefit” established by the tax exemption ordinance.

### *Eligible Areas*

State law specifies that to designate an area eligible for the property tax exemption, the area must meet the definition of a Core area, a Light rail station area, or a Transit oriented area<sup>4</sup>. A jurisdiction can elect to designate the entire jurisdictional limits if the tax exemption program is subject and eligible to low income/affordable housing.

### *Eligibility Requirements*

As part of the adopting ordinance, the jurisdiction is required to establish standards, guidelines, and eligible program requirements (public benefits) to be utilized for application consideration and determination. State law provides an example of suggested standards and guidelines, but specifies a jurisdiction is not limited to these specifically<sup>5</sup>. They include but are not limited to:

- Justification of the elimination of any existing housing on project site
- Design elements.
- Rental rates or sales prices.
- Extensions of public benefits from the project beyond the period of exemption.
- Minimum number of units.
- Low income/affordable housing unit requirement.

### *Approved MUPTE Jurisdictions*

The MUPTE program tends to be utilized by jurisdictions with larger populations in the State of Oregon. A list of applicable jurisdictions is below

- Salem
- Eugene
- Newport
- Cottage Grove (approved January 2020)
- Portland (MULTE)- no longer in effect



## Simple Overview of all three programs:

### **Non-Profit Affordable Housing Property Tax Exemption Key Points**

- Applies to 501c3's and 501c4's developing Affordable Housing
- Requires approval from taxing districts that make up 51% of combined tax levy
- 100% exemption on improvements and land; can last the period of affordability
- Full exemption (land/structures) and can be used for bare land held for development
- 60% Area Median Income (AMI) for tenants the first year but can grow to 80% AMI in year two
- No unit minimum – Incentivizes necessary development (i.e. duplexes)
- Work Group Recommends: Citywide implementation with zero program caps
- In use across Oregon; current state sunset set for 2027

### **Middle Income Tax Exemption**

- Relatively new (House Bill 2377 in 2017)
- Requires approval from taxing districts that make up 51% of combined tax levy
- Applies only to newly rehabilitated or newly constructed dwelling units
- Units must be affordable to households making up to 120% of AMI
- Rental Units only
- Exemption can only be used once in lifetime of building
- Exemption on improvements and land can be granted up to 10 consecutive years.
- City of Bend can write their own exemption formula so long as the number of consecutive property tax years for which the exemption is granted, up to a maximum of 10 years, increases directly with the percentage of units that are rented to households making an income at or below 120% AMI
- Only in use in Tillamook County, Oregon; state sunset in 2027

### **Multiple Unit Property Tax Exemption (MUPTE)**

- Applies to projects in Core Areas, or transit-oriented areas or zones, that develop multiple residential units within a single development
- Requires approval from taxing districts that make up 51% of combined tax levy
- City has the ability to develop eligibility requirements that could incentivize the developer to include specific public benefits into the project such as a minimum percentage of units available to people making lower incomes, design elements, and more.
- 100% exemption on improvements only (not land)
- Exemption can be granted up to 10 years
- If project incorporates low-income or affordable units, then deed restriction could be granted for longer than 10 years
- City exploring developing programs caps based on unit goals particularly for this program. Current state sunset in 2032.
- Currently in use in Eugene, Salem, Cottage Grove, and Newport