

# OREGON LAW CENTER

921 SW Washington, Suite 516  
Portland, OR 97205

## HB 2446

### **Extension on the Sunset of the Capital Gains Tax Exemption for Certain Sales of Manufactured Home Parks**

For Public Hearing Thursday, April 18, 2013

Co-Chairs Burdick and Barnhart, and members of the joint committee,

The Oregon Law Center has prepared the following responses to the Joint Tax Credit Committee's policy questions about the **Tax Exemption for Manufactured Housing Park Sales**. We hope this is helpful to you as you consider the extension of the sunset of this exemption to 2020. As members of the Manufactured Housing Landlord Tenant Coalition, we urge your support of this bill, and passage out of the Joint Tax Credit Committee.

#### **Brief summary of HB 2446:**

**Under current law, amounts realized as a result of a sale of a manufactured dwelling park to a tenants' association, a non-profit organization, or a housing authority are exempt from the capital gains tax. The tax exemption sunsets in 2014; the bill would extend the sunset to 2020.**

#### **1. What is the public policy purpose of this exemption?**

The tax exemption provided by HB 2446 is an important tool for preserving affordable manufactured home park communities. The exemption for sales to residents or to non-profits encourages park landlords, if they wish to sell their parks, to sell to entities that will preserve the park, not close it, and limit future rent increases.

HB 2446 is a companion bill to HB 2447A, which extends the sunset on the tax credit for park residents who are displaced by a closure of a park. The credit and the exemption were both initially passed in 2005, through a bill sponsored by Rep. Jerry Krummel (R-Wilsonville) to provide relief for the many Oregonians who were forced to move because of the closure and sale of manufactured home parks across the state. In the mid 2000's, with skyrocketing land prices, many park owners chose to close, redevelop as higher end housing, or sell parks, putting residents at risk of losing their most valuable asset or at risk of increased rents demanded by new owners.

Many park residents live on a fixed income. When a park closes, they cannot afford move their homes (and often the home cannot be moved). If rent increases suddenly as a result of a sale to a new landlord, park residents cannot afford to pay and are forced to move. The cost and struggle of moving creates significant health, safety, and financial burdens for these residents.

Manufactured home park communities are Oregon's largest source of private affordable housing. We cannot afford to lose this valuable asset. The tax exemption is one way to incentivize the sale of a park to tenants, non-profits, or housing authorities who can act in the tenants' best interests to keep rents affordable and avoid closure or redevelopment.

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## **2. Who directly benefits from the exemption?**

The exemption directly benefits park owners who chose to sell their parks to tenants or non-profit organizations. The credit indirectly benefits residents of manufactured home parks who will not have to move if the park is not closed, redeveloped, or sold to a private entity that may raise rents as high as the market can bear.

Residents of manufactured home parks tend to be low-income and elderly. A report created by the Manufactured Home Owners of Oregon in 2008 concluded that two thirds of households in manufactured homes make less than \$30,000 per year, 41% make less than \$20,000 and 13% less than \$10,000. 54% of the owners are 55 or older, 29% are 65 or older and 17% are 75 or older. More than a quarter of residents are senior women living alone.

## **3. What is expected to happen if this exemption fully sunsets?**

If the exemption fully sunsets, there would be a negative impact on park owners and on the vulnerable population which is at higher risk of displacement by future park sales. Without the benefit of the tax exemption, offers made by tenant associations, non-profits, or housing authorities would be less competitive in the market, and park owners may be less likely to sell to entities that would keep parks open and rents affordable. Park residents would struggle to manage the cost of increased rents, or of moving and finding a new place to call home. Some low-income residents may suffer homelessness as a result.

## **4. Could adequate results be achieved with a scaled-down version of the exemption?**

No. Generally speaking, non-profit organizations, tenant associations, and housing authorities are at a significant disadvantage competing in the private market. Not only do they have fewer assets, they can expect to reap fewer profits in rent due to their commitment to maintaining affordability. The full extent of the exemption is necessary in order to have the desired effect of incentivizing sales to these entities.

## **5. What would be the effect of reducing the exemption by 50 percent?**

Reducing the credit by 50% would significantly reduce the incentive to sell to entities dedicated to preservation and affordability, making it more likely that residents on fixed incomes would be displaced by a park sale or rent increases.

**6. What background information on the effectiveness of this type of exemption is available from other states?** We are not aware of other states using this tool, though we believe some states are contemplating the adoption of similar strategies. Tax exemptions are a common and effective tool for developing and preserving affordable housing.

## **7. Is use of a tax exemption an effective and efficient way to achieve this policy goal?**

Yes. The Department of Revenue administers this exemption for eligible sales as part of its usual course of tax business. There is no fiscal impact to the Department for administering this exemption. The Department of Revenue has estimated that between 2006 and 2010 the total revenue impact to the state was “about \$500,000.” The Governor estimates that during the next two biennia, the cost impact will be less than \$100,000 each.

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## **8. What other incentives (including state or local subsidies, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?**

There are a number of other provisions of state law that together work to achieve the policy goal of supporting residents who are at risk because of the sale or closure of a manufactured home park. Each provision is important in itself, and as a part of a web of protections for vulnerable Oregonians:

- HB 2447A is a partner bill to HB 2446. The two incentives address the problem of park closures from both sides. HB 2446 extends the sunset on the Capital Gains Tax exemption for park owners who sell their parks to residents or non-profits, who will keep the park open and maintain affordable rent levels. HB 2446 incentivizes sales to residents or non-profits, and HB 2447A helps residents who have to move if there is not a sale to the residents or to a non-profit that will keep the park open.
- Park owners are partners in this effort to help residents. If they sell and close the park, current state law requires that they make a payment to residents of \$5,000, \$7,000, or \$9,000, depending on the size of the home. ORS 90.645(1)(b)
- Park owners must provide residents with at least a year's notice prior to closure. ORS 90.645(1)(a)
- Current law provides that displaced park residents may not be charged for abandoned homes that cannot be moved from the park. ORS 90.645(5)(b)

## **9. Could this credit be modified to make it more effective and/or efficient? If so, how?**

The current tax exemption structure is very efficient. It is administered during the Department of Revenue's normal course of business, and has no fiscal impact on the Department. The exemption is available only on qualifying sales. When there is not a qualifying sale, the tax exemption costs nothing. When there is a qualifying sale, the exemption is available. The exemption is targeted, efficient, and effective.