



March 22, 2016

RE: Senate Bill 849

Chair Beyer and members of the Senate Transportation & Economic Development Committee:

Thank you for scheduling SB 849, Oregon First-time Homebuyer Savings Accounts, for a public hearing and possible work session today.

Home ownership is one of the largest creators of wealth for the middle class, and provides a number of societal benefits.

- Over the long-haul, home ownership tends to provide wealth accumulation for owners. A typical home owner's net worth was \$195,400 in 2013 compared to a renter's net worth of \$5,400, according to the Federal Reserve's Survey of Consumer Finances.
- Research on the subject has found that, other things being equal, children of homeowners do better in school (higher test scores and lower anti-social behaviors). Lower crime and lower drug usage were among the findings for the children of homeowners.
- Homeowners are more likely to be involved in community civic engagements, local elections, and volunteer work compared to renters –again with other things being equal. Health outcomes are also better with homeowners.
- In addition, first-time home buyers are the lifeblood of a healthy housing market. They are necessary for existing home owners to sell their homes to take a new job in another community or simply to move into another home that better fits their families' needs.

The number one obstacle to home ownership is the difficulty of saving for a down payment and other expenses associated with purchasing a home. The proposed legislation is designed to make it easier for individuals and families to save to buy their first home. In 2005, the home ownership rate in Oregon was 63.8 percent. About 41.9 percent of home owners were 25 to 34 year olds. **In 2015, younger households only make up 32.7 percent.**

#### **How it works**

1. An individual, or a guardian can open a bank account at a Credit Union or a Bank, designating the account as a first-time home buyer account with the Department of Revenue.
2. Deposits made by account holder(s) are a deduction from Oregon income. Deductions for non-account owners are not allowed. Only the account owner gets the tax treatment.
3. Interest earned on accumulated savings are a subtraction from taxation for the account owners.
4. Individuals and couples could save up to \$50,000 over a 10-year period.
5. There is a 10% penalty for non-qualifying withdrawal
6. Emergency withdrawals for medical emergency (and other catastrophic events) are allowed without penalty.

**Economic analysis:**

- 3,221 potential new first-time home buyer households are estimated to use this program over a five-year period.
  - 892 of these households (or 27.7 percent) will be one-person households.
  - 2,329 households (72.3 percent) will be 2+ person households.
- New housing construction: 161 households (or five percent) will purchase newly constructed housing units and the remaining 3,060 households will purchase existing housing units.
  - Generates \$61,176,736 in economic activity through construction.
  - Estimated to create 533 new jobs over the development period with related personal earnings of \$23,273,280.
- \$2,448 in new home spending for every renter-occupied to owner-occupied housing.
  - Generates \$11,576,532 in economic activity.
  - Estimated to create and support 101 full-time equivalent jobs with related personal earnings of \$3,434,000.

**What it costs:**

Short term loss, for long term gain: Initial fiscal shortfall of \$3,670,564 over a five-year period. \$51,693 in the first year of implementation to \$2,077,752 in year five of the program

However, positive revenue for the state is created through the program:

- a. Property taxes on new homes
- b. Transfer taxes (Washington County only)
- c. Document recording fees
- d. Income taxes generated by workers building new homes
- e. Income taxes generated by increased spending

**Benefit:**

With the \$3,670,564 in cost, the State is estimated to collect \$4,624,754 in gross revenues over the initial five-year period. **The net fiscal impact to the State, therefore, is estimated to be a \$954,190 gain.**

**For every \$1 dollar invested, \$1.26 in economic activity is created.**

**- AND -**

**An estimated 3,221 new home owners will be created. Providing financial independence for more Oregonians and freeing up additional rental units for future tenants.**