



COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

OREGON CHAPTER

Testimony of Eric Castle
Shorenstein Realty Services and 2017 NAIOP Oregon President
In Support of HB 2939
House Committee on Revenue
April 4, 2017

Chair Barnhart and Committee members, my name is Eric Castle. I am Vice President for Leasing at Shorenstein Realty Services in Lake Oswego, and serve as the 2017 president of NAIOP Oregon. Thank you for the opportunity to testify in strong support of HB 2939.

NAIOP, the Commercial Real Estate Development Association, is one of the leading organizations for developers, investors, owners & operators, brokers, and related professionals in office, industrial and mixed-use real estate throughout the United States, Canada, and Mexico. The Oregon Chapter's members represent a broad and diverse range of companies involved with commercial real estate activities in the Portland metropolitan area, including developers, owners, brokers, and managers, along with other professionals providing legal, finance, title, engineering, architectural, construction, and other services.

We strongly support HB 2939 which would correct an inconsistency in the law passed in 2016 regarding local governments' authority to impose construction excise taxes (CETs) for affordable housing. Under that law, CETs on new residential construction are capped at 1% of value, but there isn't a comparable cap for CETs on new commercial and industrial construction.

We believe that having a cap on the rate for a residential CET, and no comparable cap for commercial construction, is unfair and without any rational justification.

In reviewing the legislative history of SB 1533 that contained the provisions regarding CETs, both residential and commercial construction were subject to a 1% cap when the bill was amended by the Senate Committee on Human Services and Early Childhood. Upon subsequent referral to the Senate Committee on Revenue and Finance, however, another set of amendments was eventually adopted that deleted the cap for commercial and industrial. We can find nothing in the committee's records referencing a justification for this deletion.

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The lack of a CET cap on commercial construction is unique among all other CETs currently charged in Oregon. The CET allowed by statute for schools [ORS 320.176(2)] imposes a \$25,000 cap on nonresidential structures, Metro's regional CET for planning grants imposes a \$12,000 cap.

The lack of a commercial/industrial cap is also problematic in light of the fact that revenues from the commercial CET don't have the same limitations as revenues from the residential side. While 100% of residentially generated revenues must go toward affordable housing programs, only 50% of commercial revenues are mandated for that purpose, with the balance up to the complete discretion of local governments. Without a cap, this creates a strong incentive for local governments to view the commercial CET as a major potential source of additional revenue for general operations.

Attached to my written testimony is a presentation of three hypothetical examples of different commercial development projects and the amount of SDCs and fees that they would pay currently in the City of Portland. As you will note, the amount paid for the Inclusionary Zoning Construction Excise Tax is more than many of the SDCs.

Thank you for your consideration of these comments and please let us know if we can provide any additional information.

City of Portland Commercial Development Permitting Cost Examples¹

Example #1 – 200,000 sq. ft. warehouse valued at \$11,646,400

Transportation SDC	\$236,000
Stormwater SDC	\$89,751
Water SDC	\$11,998
Sewer SDC	\$11,424
Parks SDC	\$40,000
Inclusionary Zoning CET	\$116,464
School CET	\$29,900
Metro Planning CET	\$12,000
Additional Permitting Fees	\$175,072
Total Permitting Fees	\$722,609 (20.6% increase from 2015)

Example #2 – 80,000 sq. ft. four-story office building valued at \$10,360,320

Transportation SDC	\$291,220
Stormwater SDC	\$32,368
Water SDC	\$11,998
Sewer SDC	\$21,063
Parks SDC	\$146,400
Inclusionary Zoning CET	\$103,603
School CET	\$29,900
Metro Planning CET	\$12,000
Additional Permitting Fees	\$165,145
Total Permitting Fees	\$813,697 (26.2% increase from 2015)

Example #3 – 15,000 sq. ft. multi-tenant retail building valued at \$1,060,320

Transportation SDC	\$89,850
Stormwater SDC	\$17,213
Water SDC	\$5,999
Sewer SDC	\$7,497
Parks SDC	\$21,600
Inclusionary Zoning CET	\$10,603
School CET	\$9,000
Metro Planning CET	\$1,272
Additional Permitting Fees	\$39,294
Total Permitting Fees	\$202,328 (14.6% increase from 2015)

¹ Source: Mackenzie Multi-Jurisdiction Permit Fee & SDC Comparison (Fiscal Year 2016-17)