

Issue Brief: Middle Income Property Tax Exemption (HB 2705)

According to the State's OHNA, approximately 30% of Bend's supply of housing should be available to those making 80-120% AMI, our middle-income population. Residents within this income range represent a critical sector of our workforce including engineers, teachers, and IT professionals.

At present, and despite the development and utilization of many innovative policy tools, Bend has a shortage of housing that is affordable for our middle-income population:

- Maximum home price in today's market for this population is \$475,000.
- Bend median home price currently \$680,000 (8/10 months above \$700,000 in 2022 - YTD reported)

These prices have put increasing pressure on middle income populations to find affordable rental properties. Wages have not kept pace with home prices, even in spite of the modest recent downturn, and the shortage is likely to persist and perhaps even worsen without additional policy tools and incentives.

The goal of this legislation is to bring market rate developers "to the table" to develop more affordably, while increasing property tax revenue long-term by spurring development that likely would not otherwise have occurred.

Currently there are very limited options in Oregon to incentivize middle-income housing and there are no other federal or state funding sources or incentives for this group. One of the few tools cities have to incentivize needed housing is property tax exemptions.

We know of several developers who feel they're able to reduce rental price to middle income affordable levels with the benefit of a property tax exemption tailored to middle income housing.

HB 2377 (2017) created a local option property tax exemption that allows this type of rental housing to receive an exemption for a period of up to 10 years. It passed unanimously in both chambers. However, Tillamook County is the only adopter to date, having done so in 2019. And it has thus far gone unused.

HB 2377 allows for an up to 100% property tax exemption for up to 10 years. The length of the exemption over that timeframe is scaled by the proportion of qualified units to total units. For example, a property that is 10% qualified would receive 100% tax exemption for one year. A project with 100% qualified units would receive a full exemption for each of the ten years.

Our proposal is to add an additional option that would allow jurisdictions to scale the annual amount of an exemption to the percent of qualified units. The revised formula would allow 10 full years of property tax exemption with the amount of the exemption scaled to the number of qualified units. For instance, a property that is 10% qualified would receive a 10% exemption from property taxes each year for the entire 10-year period.