

# EUGENE CITY COUNCIL AGENDA ITEM SUMMARY



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## Work Session: Housing Tools and Strategies – Construction Excise Tax

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Meeting Date: January 14, 2019  
Department: Planning and Development  
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Agenda Item Number: 2  
Staff Contact: Denny Braud  
Contact Telephone Number: 541-682-8817

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### ISSUE STATEMENT

Housing affordability and availability is a long-standing and growing problem in Eugene. In response to multiple work sessions on the topic, council directed staff to implement a six-month process to identify potential tools and strategies available to the City to address housing affordability, availability and diversity for all income levels. A key tenet of the direction was to include broad stakeholder engagement in the process. Staff summarized the community engagement process, the outcomes from that process, and recommended next steps for council in early December 2018.

This Housing Tools and Strategies process identified a number of options to increase the inventory of affordable housing, including establishing a Construction Excise Tax. Today's work session is focused on the option of establishing a CET as a local source of funding for an Affordable Housing Fund.

### BACKGROUND

The community and City Council have clearly stated, in a variety of public engagement processes and policy documents, that an adequate supply of housing is a high-priority goal. One of the seven Envision Eugene Pillars is:

*Provide housing affordable to all income levels.*

The City has many programs and tools that aim to increase the supply of housing across the income spectrum. The problem, however, continues to grow.

In the first half of 2018, council had multiple work sessions that focused on housing supply issues, covering accessory dwelling units, missing middle housing types, state laws that affect housing, and a construction excise tax. In these different work sessions, City Council asked for information that would provide actions to achieve specific outcomes:

- Reduce the cost to build diverse housing types at various levels of affordability;
- Establish a local funding source for affordable housing; and
- Support the Envision Eugene pillars.

At the end of May, council directed staff to implement a process that would tie together the many overlapping initiatives and proposals that address housing issues. The goal of the process was to provide council with an objective, fact-based work product informed by stakeholder perspectives and to guide future policy decisions to achieve the above outcomes.

Staff implemented the Housing Tools and Strategies project to meet this council directive. The HTS project has had three basic elements:

- Identify housing issues through stakeholder engagement;
- Identify potential tools, strategies, and actions; and
- Evaluate potential tools, strategies, and actions.

Staff contracted with two consultants to support the HTS project: a professional facilitator (Carrie Bennett of Learning Through Difference, LLC) to implement the stakeholder engagement process and an economics firm (Strategic Economics) to provide technical analysis of the tools and strategies that can address the affordability of housing in Eugene.

### ***Engagement Process***

The engagement process focused on assembling a Working Group of 36 stakeholders representing three broad categories: housing affordability, development barriers, and community values. The Working Group members agreed that the challenge of housing affordability in Eugene is indeed a problem and one that the City can and should act to address. The group agreed that the impacts of housing (un)affordability extend far beyond those experiencing the problem directly with negative impacts rippling throughout the community.

In all, the working group discussed and evaluated 83 different options of ways that the City might increase the affordability, availability and diversity of housing in Eugene. The options fell into four broad categories:

- Strategy 1: Remove Land Code Barriers
- Strategy 2: Reduce the Time and Cost Burden for Development of Housing
- Strategy 3: Increase Inventory of and Access to Affordable Units
- Strategy 4: Other

In addition to the direct engagement with the Working Group, staff conducted research regarding best practices to address housing affordability. Staff looked both at best practices from other cities and collaborated with Better Housing Together, a community-led initiative with over 40 member-organizations working to increase the affordability, diversity and supply of housing in Lane County.

Better Housing Together conducted extensive outreach in 2018 with individuals who play a direct role in bringing housing to the market, including real estate professionals, affordable housing developers, architects, private builders, and others. They provided insight into how the City's policies and administrative procedures affect the cost and type of housing production in Eugene.

### ***Triple Bottom Line Framework***

The project addressed the Triple Bottom Line framework primarily from the standpoint of considering social equity, through the deliberate involvement of traditionally under-represented populations on the Working Group. Values related to economic prosperity and environmental sustainability were surfaced by the group members as part of defining housing affordability as a 'wicked problem' that requires trade-offs between these values. Economic prosperity was also considered in the work done by Strategic Economics on the project. Participants were, in essence, considering the TBL as they deliberated with each on the various options to address barriers to housing affordability.

At the December 12, 2018, work session, council directed staff to implement 12 items that are administrative in nature that can reduce the cost of constructing housing in Eugene. Staff are focused on moving these items forward as quickly as possible in 2019 and will keep council updated on progress being made. At that time, council deferred consideration of a CET until January 2019. Staff will also be bringing back for council consideration the remaining recommendations identified through the Housing Tools and Strategies process that require council action to implement.

### ***Construction Excise Tax***

In 2016, the State of Oregon passed SB 1533, which enabled local jurisdictions to adopt a CET to support the development of affordable housing. A CET is a one-time tax imposed on new construction, where an established tax rate (percentage) is multiplied by the permit valuation of the construction permit. The CET is assessed at the time building permits are issued.

SB 1533 allows up to a 1 percent tax for residential construction but sets no limit on a tax rate for commercial construction. A CET would apply to the costs of improvements to residential property that result in a new residential structure or a remodel that adds living space and on improvements to commercial and industrial real property that results in a new structure or additional square footage.

Based on Eugene residential and commercial construction activity over the two year period from April 2016-2018, it was estimated that a 0.33 percent CET would generate almost \$1.0 million, a 0.5 percent CET would generate roughly \$1.5 million, and a 1 percent CET nearly \$3 million.

To date, at least nine jurisdictions in Oregon have adopted a CET.

### **RELATED CITY POLICIES**

There are multiple City plans and policies related to housing. The primary policy documents are briefly summarized below.

#### ***Eugene-Springfield 2015 Consolidated Plan***

The Consolidated Plan provides an assessment of local housing, homelessness and community development needs, identifies priority needs for use of funds received from HUD, and presents strategies to address the priority needs. The Consolidated Plan adopted by Eugene City Council in 2015 identifies low-income renters as a priority population and includes five specific strategies

for expanding affordable housing options and access for people with limited incomes. Staff will begin updating the Consolidated Plan in 2019.

### ***Envision Eugene Community Vision***

The seven pillars, or community values, include *Provide housing affordable to all income levels*. Housing strategies in the 2012 recommendation include planning for a higher proportion of multi-family housing in the future, expanding housing variety and choice, assessing the applicability of a housing and transportation affordability index, supporting subsidized affordable housing projects, and continuing existing programs that support preservation and rehabilitation of existing housing stock.

### ***Urban Growth Boundary Adoption Package***

Eugene's *Housing Needs Analysis* identifies a need for all housing types and price levels to meet the community's 20-year needs. In order to fit all of the community's needed housing inside the existing UGB, council directed staff to continue existing incentive programs for higher-density housing downtown and to increase the minimum density requirement in the R-2 medium-density residential zone. Council direction also launched the Clear and Objective standards update, Urban Reserves planning, and a Growth Monitoring program.

## **COUNCIL OPTIONS**

Council options are:

***Option 1.*** Direct the City Manager to prepare a draft ordinance for council consideration and *schedule a Public Hearing* to create a Construction Excise Tax to support an Affordable Housing Fund. The CET would include the following provisions:

- i. 0.33% tax rate effective July 1, 2019
- ii. 0.50% tax rate effective July 1, 2020
- iii. CET rate would apply to residential and commercial types of construction, consistent with state statute.
- iv. In addition to state-mandated exemptions, the following would be exempted from the CET: Affordable housing projects, projects receiving a Multi-Unit Property Tax Exemption, and houses priced at less than \$250,000.
- v. Establish an advisory committee to recommend CET allocations.
- vi. The total CET imposed on any single or multi-phase project would be capped at \$1,000,000.
- vii. During the first two years (July 2019 – June 30, 2021), the City will offset the cost of the CET paid by an applicant by an equivalent reduction in Systems Development Charges.
- viii. During the first two years (July 2019 – June 30, 2021), designate City funds, equivalent to the reduction in SDCs, to the appropriate SDC fund.
- ix. Designate \$500,000 per year of City funds to the Affordable Housing Fund.
- x. Council review of program every two years beginning in 2021

**Option 2.** Direct the City Manager to prepare a draft ordinance for Council consideration *at a future work session* to create a Construction Excise Tax (CET) to support an Affordable Housing Fund with the provisions in Option 1.

**Option 3.** Amend Option 1 or Option 2

**Option 4.** Take no action at this time.

### **CITY MANAGER'S RECOMMENDATION**

City Manager recommends Option 1.

### **SUGGESTED MOTION**

Move to direct the City Manager to prepare a draft ordinance for council consideration and schedule a Public Hearing to create a Construction Excise Tax to support an Affordable Housing Fund that includes the provisions described in Option 1.

### **ATTACHMENTS**

None

### **FOR MORE INFORMATION**

Staff Contact: Denny Braud, Community Development Division

Telephone: 541-682-8817

Staff E-Mail: [Dbraud@eugene-or.gov](mailto:Dbraud@eugene-or.gov)