PUBLIC BANKING CAN ADVANCE PORTLAND'S HOUSING AFFORDABILITY POLICIES

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THE TIME HAS ARRIVED FOR A PUBLIC BANK OF OREGON

For over twenty years politicians and citizens have been calling for the creation of a Bank of Oregon, which would keep money in the state and invest in sustainable development. Public banking is distinguished from private banking by its mandate to serve the public interest. Privately-owned banks are obligated to shareholders whose highest priority is usually short-term profits. Public banks are able to reduce taxes within their jurisdictions because bank's profits are returned to the general fund, providing an added source of income for cities and states and funds for projects like infrastructure, renewable energy, and affordable housing.

Adopting the Bank of North Dakota as a national model, several states are now proposing to put public money to work for the public good. The public banking movement in Oregon began in 2011 with the introduction of HB 2972 followed by HB 3452, authorizing a publicly owned bank that would partner with community banks and credit unions. The Working Families Party of Oregon was and still is a major proponent. In the 2019 session, Oregon state representatives considered a House bill that would create a state-chartered banking system for the cannabis industry. We should expand the scope of the charter's authority in the upcoming 2021 session with a new bill.

THE PROBLEM OF UNEQUAL PROPERTY TAX BURDEN

Oregon's property tax revolt started in 1990 with the passage of the Measure 5 ballot initiative limiting the property tax rate to $15 per $1,000 assessed value. In 1997 voters approved Measure 50 which limits the increase in assessed value of all individual properties to 3 percent annually. This cap on the growth of real market values (RMV), recalculated as maximum assessed value (MAV), created large inequities where homes of equal value are taxed at vastly different levels.

In early 2019 Common Ground OR/WA engaged the Northwest Economic Research Center (NERC) at Portland State University to conduct a study of the effects of an alternative land-based tax system in two contrasting Portland communities. Inner Northeast (INE) is a rapidly gentrifying residential and commercial district where MAV assessments lag far behind RMV; Outer Southeast (OSE) is a low property value community with MAV and RMV assessments in closer alignment. Many of its residents are lower income, displaced from inner city neighborhoods by rising housing costs.

The NERC study confirms the inequities caused by the Measure 50 assessment limitations compounded over the past 22 years. A home assessed at $500,000 MAV located in INE is subject to a property tax of about $4,700; an equivalent property located in OSE would experience a tax of about $6,000. Property owners in OSE are making up the difference for the artificially low tax levies owed by INE owners.

THE LAND TAX IS A PARTIAL SOLUTION

Reverting to RMV assessments will help shift tax burdens away from low value communities like OSE, but this alone does not solve the universal problem caused by the equal rate tax system. Taxing land and improvements at the same rate produces perverse incentives – to withhold capital investments in buildings and to hold land for speculative gain. Under the current system, taxes will increase by making major structural improvements. The land value tax (LVT), on the other hand, is conceived to produce desirable incentives – to invest in substantial property improvements rather than speculate on sites and raise the costs for later occupants. In the U.S., the model for LVT is found in Pennsylvania cities that place a high tax rate on land and a low rate on improvement values. The NERC study concluded that RMV assessments coupled with separate rates on land and improvement values results in a significantly more balanced tax rate than the present Oregon tax system. An LVT system would also be slightly income progressive.

The logical solution for property owners in OSE is to reverse the assessment ratio by investing in building upgrades or new infill construction. This will raise the improvement-to-land ratio and reduce tax burdens under LVT.

Fortunately, Oregon state legislators and city councils are stepping up. The passage of House Bill 2001 strikes down local bans on duplexes for every low-density residential lot in all cities with more than 10,000 residents and all urban lots in the Portland metro area. On the heels of HB 2001, Portland city council passed the landmark Residential Infill Project (RIP), virtually eliminating exclusive single family zoning. It legalizes triplexes, fourplexes, and attached townhomes on lots where only single-detached houses were allowed.

Much of the outer southeast community was originally developed as semi-rural when lots were platted for septic sewerage. OSE is characterized by modest houses on large lots, the average lot size exceeding 9,000 square feet. Typical inner-city lots are platted at less than 5,000 square feet. Integrating "missing middle" housing types into the fabric of single-family neighborhoods can potentially make both existing and new housing more affordable.

Even better, RIP opens the opportunity to leverage the positive

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GUEST PERSPECTIVES (CONT.)

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incentives of a land value tax. The new zoning allows internal floor space to reach up to 70% of the lot area. Enlarging the building volume on a lot raises the ratio of improvement-to-land value. Because a split-rate LVT increases the tax rate on land, simultaneously reducing the rate on improvements, the revised property tax will be lower than the conventional equal rate tax.

It is property developers, not individual homeowners who will utilize the opportunity to undertake building conversions and expand housing supply. Property owners like those in OSE are least able to afford such investments.

Left with these circumstances, the high land-to-improvement value ratio found on large lots with modest houses could propel an upward tax shift when changing to the LVT system.

THE ADU OPTION

There could be a favorable outcome by employing a non-tax strategy. What can we leverage to solve the problem: 1) a surplus of serviced land on private lots; 2) the need for income generation to strengthen homeowners' financial solvency; 3) the general need for more low-income housing for renters.

About 70 percent of the Portland metro area is zoned for single-family housing. More local officials are adopting the view that more accessory dwelling units (ADUs) could help address the affordability problem. The economics of housing are driving owners to think about how to use their lot space more efficiently and generate supplemental income. The ADU model could help solve financial problems for both owners and renters. The City of Portland has created one of the most ADU-friendly policies in the country; there are over 2,000 ADUs constructed in Portland on two percent of the city's single-family lots. Now RIP can expand its potential use and LVT can turn it into a tax advantage.

Current Portland city regulations governing ADUs contain three criteria: (1) total accessory building coverage must be equal or less that 15 percent of total lot area; (2) internal floor space must equal 75 percent or less of the principal home's living area; OR (3) equal 800 square feet – whichever is less (Chapter 33.205 of the Portland Zoning Code). For analytical purposes we shall include a minimum standard of 500 sq. ft. for ADU internal space, considering the necessity to provide sufficient rentable space to meet income generation expectations. It is assumed that all ADU living space is ground floor.

According to these criteria, 89% of all developed single--family parcels in OSE are eligible for constructing an ADU of standard size or greater; 69% of all parcels meet or exceed the 800 sq. ft. maximum ADU size. On average, the lot area available for building an ADU is 1,377 sq. ft. For comparison, only 12% of single-family parcels in INE meet or exceed the 800 sq. ft. maximum, and the average lot area available is 717 sq. ft. Clearly, the opportunity is there to take advantage of the ADU construction option in the lower value, lower income outer southeast community.

HOMEOWNER LOAN ASSISTANCE

But financing an auxiliary housing unit is out of reach for many homeowners. The NERC analysis estimates that 40 percent of outer southeast households are 'cost burdened', spending more than 30 percent of their income on housing costs. Aiding the effort, Portland city waived development impact fees for ADUs, lowering the financial barrier marginally. Still, this is insufficient for lower income owners such as reside in outer southeast. More direct financial assistance is required.

What is needed is a public source of low-interest loan funds for low and moderate-income homeowners applying for ADU permits. Portland city commissioner Chloe Eudaly has lent her voice to this need, saying "I've been hell-bent on coming up with some kind of loan product an average homeowner could access (for building ADUs)."

In the Portland area, the minimum cost of a 400 sq. ft. basement or garage internal conversion unit is about \$80,000; a detached new construction unit could cost \$150,000. Without construction loans these householders could never participate in this means to ease the housing crisis by simultaneously receiving income support to remain in their homes, retaining their homeownership status, and contributing to the supply of affordable rental housing.

Community-based lending backed by a Bank of Oregon would directly benefit home-owning households, but what about renters? The University of Pittsburgh Medical Center and Urban Redevelopment Authority of Pittsburgh are proposing a Small Landlord Fund, which will give qualified landlords of buildings under five units access to low-interest loans of \$20,000 a unit or \$60,000 an apartment building for renovations that will qualify the structures for the federal Section 8 program. There are requirements for landlords to be in the program, including a promise to meet affordability guidelines — below 80 percent of area median income.

Now is the time for public officials and community leaders to step up and advance the cause of public banking in Oregon. Common Ground – OR/WA is prepared to work with a coalition of local organizations and state legislators who have previously sponsored legislation to create a Bank of Oregon.