



HOUSING ALLIANCE

February 10, 2022

House Committee on Revenue
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Dear Chair Nathanson, Vice Chair Reschke, Vice-Chair Pham, and Members of the Committee:

I am writing to you today on behalf of the Oregon Housing Alliance to express our support for HB 4043, which would help maintain existing affordable housing stock in the State of Oregon.

The Oregon Housing Alliance is a coalition of ninety organizations from all parts of the state. Our members have come together with the knowledge that housing opportunity is the foundation on which all of our success is built – individual success as students, parents, workers, and community members as well as the success of our communities. We represent a diverse set of voices including affordable housing developers, residents of affordable housing, local jurisdictions, and organizations working to meet basic needs in every corner of our state.

We believe that all Oregonians need a safe, stable, and affordable place to call home.

Today, we simply don't have enough affordable homes for people who need them in communities across Oregon. People – our neighbors and members of our community – are struggling with homelessness, housing instability, rent burdens, and to make ends meet and put food on the table. For countless families and individuals, particularly from Black, Indigenous or other communities of color, access to a safe, stable, and affordable home is further out of reach than it has ever been.

As you know, privately held affordable housing is required under an affordable housing covenant to remain affordable for a number of years – most often thirty to sixty years. After a period of compliance has ended for an affordable housing development, its owner under current law would be able to opt out of affordability provisions, and could begin raising rents towards market rate, putting into jeopardy the currently available supply of affordable housing, and the financial well-being of its residents, families and individuals, who potentially could be priced out of their communities.

The Legislature has passed several laws in recent years to limit this risk for residents and communities, by requiring a right of first refusal if the owner is interested in selling, and other provisions which require advanced notice. The Legislature has also invested tens of millions of dollars to preserve, maintain, and rehabilitate housing over the previous decade and a half. These efforts are critical to maintain our existing affordable housing.

HB 4043 and the -1 amendments aim to offer an additional tool that would help to preserve existing affordable homes in the State of Oregon. An owner of affordable housing would be able to sell their

property to a buyer that would maintain its affordability by renewing restrictive covenants on the property for an additional thirty years. The seller would in turn receive a state tax credit as incentive for selling their property to a purchaser who would maintain affordability restrictions.

The -1 amendments:

Give a seller a tax credit that is a percentage of the purchase price in a way that also factors in the time that an owner has owned the building. The -1 amendments provide that:

- If a seller had owned the building for less than 5 years, there would be no benefit.
- If a seller had owned the building for 5 – 10 years, they would receive a 2.5% tax credit on the sales price.
- If a seller had owned the building for more than 10 years, they would receive a 5% tax credit on the sales price.

By structuring the benefit this way, we are trying to approximate capital gains taxes. We assumed that someone would need a larger benefit to offset having owned the building for a significant period of time, but we did not want to incentivize short-term ownership of these types of properties – although that would be unlikely because of the complicated requirements and compliance that come with owning affordable housing.

The -1 amendments add some safe guards:

- Any single property is only eligible for this tax credit once every thirty years.
- The seller receives the credit based on the sales price or the appraised value, whichever is less. The owner would need to provide OHCS with an appraisal as part of the application package and submit evidence confirming the final sale amount such as a title company settlement statement. This would help prevent any inflation of the sale price in an attempt to inflate the value of the credit.

Other safe guards are maintained in the base bill:

- The tax credit is neither refundable or transferrable.
- The bill maintains a cap of \$3 million per year.
- The bill prohibits transactions which have an identity of interest, or in other words, a sale between partners involved in the transaction.

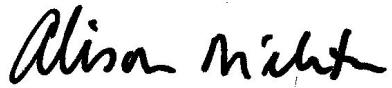
The bill would go into effect in the 2023 tax year, which will provide Oregon Housing and Community Services (OHCS) some additional time to stand up the program and its requirements. The bill directs that OHCS would manage the tax credit cap. If passed and implemented, an owner who was eligible for and wanted to receive this tax credit would apply to OHCS, who would then confirm the property's eligibility, and if funds are available, award the credit. The owner would then claim the credit on their taxes in the following year. If the cap had been reached, the owner could choose to apply to OHCS in the following calendar year.

HB 4043 is an opportunity to help create a win-win opportunity between owners of privately-held affordable housing reaching the end of their restricted use period, and current residents of affordable housing, and the current stock of affordable homes in the State of Oregon.

While the Legislature has invested nearly \$200 million in these efforts over the past fifteen years, additional investment is needed to meet the scale of the need to preserve our existing affordable housing. The tax credit created by HB 4043 can fill an important gap. A seller might be incentivized to sell a project to someone who will maintain a property as affordable, who can then assemble financing and wait for permanent funding to be available. Without this credit, though, sellers have no incentive to wait

for a buyer who will preserve the housing as affordable. These buyers will take longer to assemble financing, and there likely will be other barriers as well.

The Oregon Housing Alliance urges your support of HB 4043. Thank you for your time and service to our state.

A handwritten signature in black ink that reads "Alison McIntosh".

Sincerely,
Alison McIntosh
On Behalf of the Oregon Housing Alliance

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