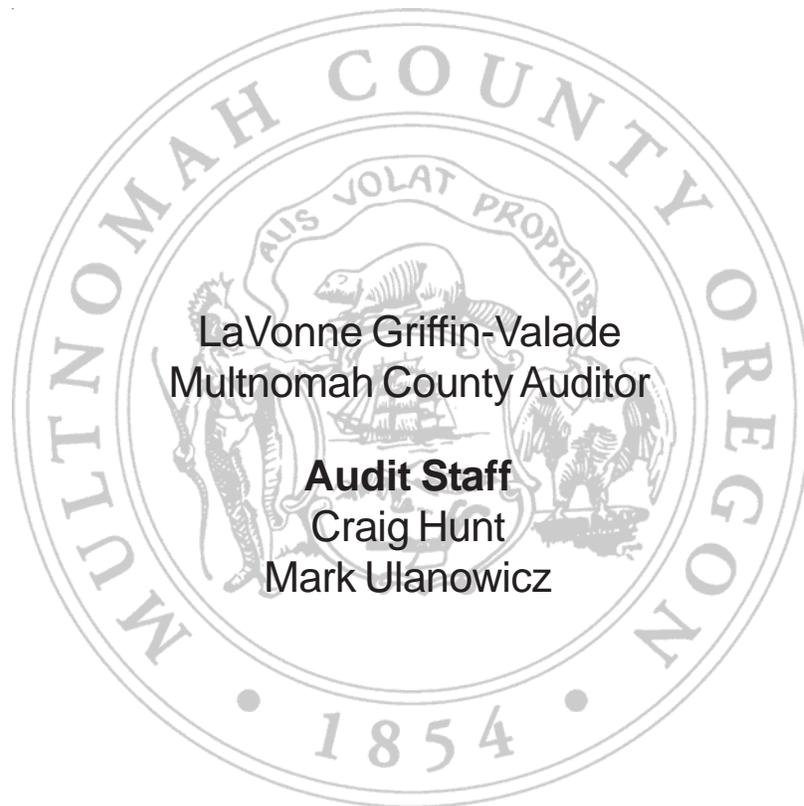


Audit of Tax Abatement Programs

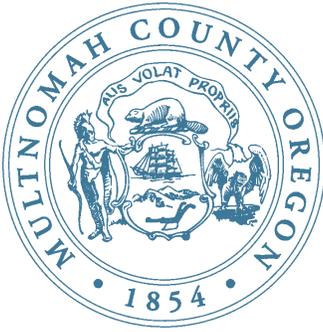
January 2008



LaVonne Griffin-Valade
Multnomah County Auditor

Audit Staff
Craig Hunt
Mark Ulanowicz

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



LaVonne Griffin-Valade Multnomah County Auditor

501 SE Hawthorne Room 601
Portland, Oregon 97214
Phone: (503) 988-3320

MEMORANDUM

Date: January 31, 2008

To: Ted Wheeler, Multnomah County Chair
Maria Rojo de Steffey, Commissioner, District 1
Jeff Cogen, Commissioner, District 2
Lisa Naito, Commissioner, District 3
Lonnie Roberts, Commissioner, District 4

From: LaVonne Griffin-Valade, Multnomah County Auditor

Re: Audit of Tax Abatement Programs

The attached report covers our audit of the participation and role of Multnomah County in the five tax abatement programs administered by the City of Portland. Support for affordable housing efforts has long been an important policy for Multnomah County decision-makers and residents. At the same time, Multnomah County is responsible for maintaining an accurate tax roll and providing a broad array of programs and services.

We initiated this review at the request of the Chair's Office. We verified and quantified a number of compliance concerns that were initially identified by the Assessment & Taxation division. We found several problems that led to improperly approved tax abatements, some going back several years. Further, we were able to calculate an estimate of substantial losses for two recent tax years due to those improper abatements.

Our audit recommendations focus on strengthening assurance procedures and monitoring by Assessment & Taxation. We also recommend that Multnomah County, the City of Portland, and the Oregon Department of Revenue collaborate to clarify and update the statutes governing tax abatement programs.

We want to thank staff from Assessment & Taxation for their assistance and cooperation throughout the audit. We also appreciate the assistance provided by the Multnomah County GIS office and by the City of Portland's Bureau of Planning and the Portland Development Commission.

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LaVonne Griffin–Valade
Multnomah County Auditor

Audit Team:
Craig Hunt
Mark Ulanowicz

Audit Report

Tax Abatement Programs – January 2008

Executive Summary

We reviewed the participation and role of Multnomah County (County) in the five property tax abatement programs administered by the City of Portland (City). The Chair's Office requested this audit after Assessment & Taxation (A&T) identified several compliance concerns. We substantiated and quantified a number of the issues initially raised by A&T.

We identified approximately \$4.5 million in property taxes that were improperly abated in the 2004-2005 and 2005-2006 tax years alone. Most of this represented a tax revenue loss to jurisdictions other than the City, such as school districts, service districts, and the County. We found that the improper abatements were the result of the problems listed below:

- The City did not have the level of participation from other taxing jurisdictions required to exempt all property taxes included in the *Single Unit Housing* program from 1998 until June 2007.
- For some programs, the City incorrectly exempted properties that were located outside of the appropriate jurisdictional boundaries.
- The City had not been adequately monitoring the exemption status of properties in some programs.
- In a number of construction projects, the City did not follow statutory requirements regarding the timing of abatement program applications.

Because improper tax abatements existed prior to the two tax years we analyzed, the problems noted above suggest that the total loss of tax dollars was significantly higher than the \$4.5 million we identified.

We found that A&T had controls in place to meet the County's statutory responsibilities. However, as a major stakeholder in the City's tax abatement programs, we recommend that the County strengthen assurance procedures and oversight of those programs. We recommend that A&T annually report on these programs to provide information to the Board as part of the regular re-evaluation of County participation with the City. Further, we recommend that the City, County, and Oregon Department of Revenue work together to clarify and update governing statutes to reflect changes in Oregon's property tax laws.

Background

Tax abatement programs provide incentives to help governments accomplish various economic and social objectives. The State of Oregon established several property tax abatement programs that allow cities or counties within the state to temporarily reduce property taxes for certain housing development and rehabilitation projects. These abatement programs are intended to help revitalize targeted areas and improve both the quality and quantity of housing in these areas.

The five tax abatement programs that are the subject of this audit have different objectives, but share roughly the same administrative structure. Four of the five programs are administered by the Portland Development Commission (PDC) in the City and one program is administered by the City's Bureau of Planning.

Tax Abatement Programs

Single Unit Housing (ORS 307.651 to 307.687)

- Purpose
 - stimulate the construction of new single-unit housing in distressed urban areas of the city
 - promote residential infill development on vacant or underutilized lots
 - encourage homeownership
 - reverse declining property values
- Requirements for an individual or family to qualify
 - new residence must be constructed in a designated "homebuyer opportunity area" within the city
 - must be occupied by the owner during the exemption period
 - the value of the home must be 120% or less of the median sales price of houses in the city
- Taxes are exempt on the value of the new construction for 10 years, but the land is not exempt
- Program began in 1989, expired in 2003, and was reestablished in 2005

Core Area Multiple-Unit Housing (ORS 307.600 to 307.637)

- Purpose
 - encourage the construction of transit-supportive, multiple-unit housing in designated core areas of the city
 - improve the balance between the residential and commercial nature of core areas
 - ensure full-time use of the core areas as places where citizens have an opportunity to live as well as work
- Requirements to qualify
 - preservation, construction, addition to, or conversion of property to new multiple-unit housing must be within a core area designated by the City or within an urban renewal area
 - project must be a minimum of 10 units and meet other City criteria
- Exemption is for a period of 10 years and the associated land is not exempt
- Program began in 1975

Transit-Oriented Development (ORS 307.600 to 307.637)

- Purpose
 - promote private investment in transit-supportive, multiple-unit housing near light rail stations and in transit-oriented areas
 - attract new development of multiple-unit housing and commercial and retail property in areas located within a light rail station area or transit-oriented area
- Requirements to qualify
 - property must be multiple-unit housing located within ½ mile of a light rail station or within ¼ mile of a bus line and within areas designated by the City
- Exemption is for a period of 10 years and the associated land is not exempt
- Program began in 1996

Nonprofit Corporation Low Income Housing (ORS 307.540 to 307.548)

- Purpose
 - benefits low-income renters
 - is available for qualifying property located within the city
- Requirements to qualify
 - program is available for low-income housing property held by charitable, nonprofit organizations
 - applies to residential improvements and land owned, leased, or managed by eligible nonprofit corporations – properties may be fully or partially exempt
- An application is required annually
- Program began in 1985 and is the only one of the five programs administered by the City's Bureau of Planning

Rehabilitated Residential Property (ORS 308.450 to 308.481)

- Purpose
 - make sound additions to the housing stock
 - provide incentives to rehabilitate substandard property and to convert transient accommodations and nonresidential structures to permanent residential units
- Requirements to qualify
 - property must be located within the city
- Increases in the assessed value that result from rehabilitation work is exempt from property tax for 10 years
 - existing value of the improvements before rehabilitation and the land are not exempt
- Program began in 1975

In general, A&T relies on the City to authorize which properties should be included on the tax roll as exempt and which exemptions should be removed when properties no longer qualify. The City is responsible for administering all five tax abatement programs covered in this audit and for complying with Oregon Revised Statutes. The City also added additional requirements for the programs in City code.

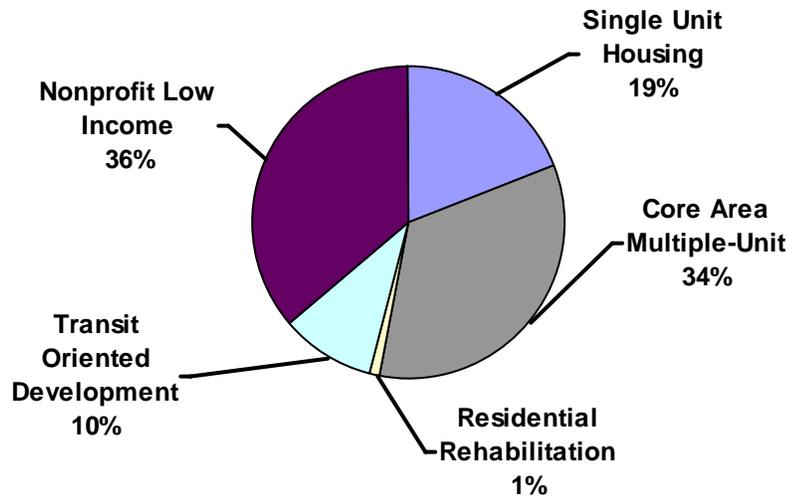
For the *Single Unit Housing*, *Core Area Multiple-Unit*, and *Transit-Oriented Development* programs, the County's statutory responsibilities are substantially limited to receiving property tax exemption information from the City and making adjustments to the tax roll based on the information received. For the *Nonprofit Low Income* and the *Residential Rehabilitation* programs, the County has a responsibility to determine the proper value of the exemption. The Oregon Department of Revenue is responsible for ensuring that the City properly administers the programs. However, their involvement to date has been limited.

Tax year 2006-2007 abatements

In tax year 2006-2007, approximately \$12.5 million of property taxes were abated for the five programs administered by the City. Although the *Single Unit Housing* program represents 19% (\$2.4 million) of total exempt taxes, it has most of the administrative workload with 2,021 (67%) of the five programs' 3,038 accounts. In contrast, the *Core Area Multiple-Unit Housing* program has only 192 (6%) accounts but has 34% (\$4.2 million) of total exempt taxes.

Exhibit 1

Percent of total tax exemptions by program – 2006-2007



Source: Auditor's Office Analysis

Note: Does not take into account Measure 5 compression, if any

These property tax exemptions can reduce the property tax revenues of multiple taxing jurisdictions, depending on where the properties are located in the city. The extent to which a jurisdiction sees a reduction in revenue depends on the number and value of properties within its boundaries that are granted exemptions.

There were 127 levy areas in Multnomah County in tax year 2006-2007. Each levy area is a unique combination of taxing jurisdictions. Exhibit 2 below shows an example of how the total tax rate for properties can vary depending on the levy area where they are located. Further, Exhibit 2 shows how property tax revenues are distributed within two actual levy areas, the various jurisdictions that receive tax revenue within each levy area, and the amount individual jurisdictions receive.

Exhibit 2

Example comparing two levy areas in Multnomah County – 2006-2007

Levy Area A			Levy Area B		
Jurisdiction	Tax Rate per \$1000	Percent	Jurisdiction	Tax Rate per \$1000	Percent
Portland Public Schools	4.843	24.01%	David Douglas School District	6.3497	29.22%
Multnomah Education Service District	0.4238	2.10%	Multnomah Education Service District	0.4238	1.95%
Portland Community College	0.4495	2.23%	Mt. Hood Community College	0.4719	2.17%
City of Portland	7.2349	35.87%	City of Portland	7.2349	33.30%
Multnomah County	4.9031	24.31%	Multnomah County	4.9031	22.57%
Urban Renewal Rate	1.8694	9.27%	Urban Renewal Rate	1.8985	8.74%
Metro Service District	0.2586	1.29%	Metro Service District	0.2586	1.19%
Port of Portland	0.0653	0.32%	Port of Portland	0.0653	0.30%
TriMet	0.0905	0.45%	TriMet	0.0905	0.42%
East Multnomah Soil & Water Conservation	0.0312	0.15%	East Multnomah Soil & Water Conservation	0.0312	0.14%
Total	20.1693	100%	Total	21.7275	100%

51 percent requirement

The City has chosen to participate in all five programs. Oregon Revised Statutes allow the City to exempt its share of property taxes for qualifying property in all of the programs. Other jurisdictions within a levy area can choose to participate with the City for a particular program. If the participating jurisdictions' tax rates, when combined with the City's tax rate, account for 51 percent or more of the total tax rate then all of the remaining jurisdictions in the levy area are obliged to participate. If the combined tax rates of participating jurisdictions are less than 51 percent, then only those taxes associated with the participants are exempt from collection.

In order to reach the 51 percent threshold to exempt all the applicable tax for a specific property, the City needs other jurisdictions to participate in a program. The most expedient way to achieve the 51 percent threshold is to gain the participation of either a school district or Multnomah County. Using Exhibit 2 as an example, combining the City of Portland rate (7.2349) with the Multnomah County rate (4.9031) would yield a combined rate of 12.138 -- 60 percent of Levy Area A's rate and 56 percent of Levy Area B's rate.

Until June of this year, the County had only participated in the *Transit-Oriented Development* program. At one time, Portland Public Schools participated in the other four programs – which satisfied the 51 percent requirement for properties located in the Portland Public Schools district. Other jurisdictions in Multnomah County have not formally adopted resolutions to participate with the City.

In tax year 2006-2007, properties with approximately \$3 million of County property taxes were on the tax rolls as exempt under the five tax abatement programs administered by the City. In April 2007, A&T raised questions about the timing and approval of some pending *Single Unit Housing* program exemptions and reported the issues to the County Chair's Office. After a series of discussions with the City, the County decided to participate in all programs except *Residential Rehabilitation*.

Audit Results

After A&T identified several compliance concerns, the Chair's Office asked the Auditor's Office to initiate a review of the County's participation and role in the programs. We substantiated and quantified the issues initially brought forward by A&T. We found that:

- The City did not have the required 51 percent participation for exemption of all property taxes associated with the *Single Unit Housing* program from 1998 until June 2007. During this period, only the City's share of property taxes should have been exempt.
- The City should not have approved exemptions for property that was located outside the Portland Public Schools (PPS) district boundaries because the 51 percent requirement was not met.
- The City approved properties for exemptions that were outside the boundaries of the City of Portland and/or were outside the designated program boundaries.
- The City had not adequately monitored compliance. Based on information recently sent to the City from A&T, many properties no longer qualify for a tax exemption.
- The City did not always send an ordinance or resolution approving the exemptions to A&T by the statutory deadline.
- The City did not follow statutory requirements regarding the timing of abatement program applications in a number of cases.

The County is obligated to put properties on the tax roll for exemptions that the City approves. However, A&T's initial review of the programs and our analysis of program compliance found that the City did not have a strong record of ensuring compliance with the abatement programs' statutory requirements. This puts the County in the position of certifying tax exempt property on the tax roll that is not in compliance with the statutes. Moreover, approving properties that do not comply with program requirements undercuts the intent of the programs themselves and may result in taxing jurisdictions investing money in projects that do not meet program objectives.

We also found that the structure of the programs did not keep up with changes in the property tax environment in the state. The 51 percent requirement was written into the statute at a time when all the taxing jurisdictions had a stake in county tax collections that was equal to the percentage of their taxes in the levy area. The situation has changed for school districts because the way schools are funded has changed, with the state making up for a portion of revenue lost when tax abatements are approved. As a result, a school district now has a vote on tax abatements that is greater than its effect on their revenue.

51 percent requirement was not always met

Since the inception of the abatement programs, affected property owners have received the maximum exemption of property taxes possible. The maximum exemption reduces the property tax revenues for all taxing jurisdictions within levy areas. However, in some cases, the City did not have the authority to grant the maximum exemption because the 51 percent requirement was not met.

The City did not achieve the 51 percent participation necessary for the maximum tax abatement for the *Single Unit Housing* program for eight years (tax years 1998-1999 through 2005-2006). PPS had agreed to participate in this program, but the resolution detailing this agreement expired in 1998 and was not renewed. For those eight years, only the City's share of the taxes for the *Single Unit Housing* program should have been abated. Instead, every taxing jurisdiction lost its share of taxes for these properties. Exhibit 3 shows an estimate of the amount of taxes lost -- by taxing jurisdiction -- for two of the eight years that the *Single Unit Housing* program did not meet the 51 percent requirement.

Exhibit 3

Single Unit Housing Program: estimated property taxes improperly approved for full abatement for tax years 2004-2005 and 2005-2006

Taxing Jurisdiction	Amount
Multnomah Education Service District	\$ 102,523
Parkrose School District	4,150
David Douglas School District	135,962
Portland Public Schools	1,203,472
Mt. Hood Community College	10,822
Portland Community College	101,365
CFP #1 Fire District	698
Port of Portland	15,806
East Multnomah Soil & Water Conservation	4,761
Metro	63,834
Multnomah County	1,185,458
TriMet	25,808
Urban Renewal	418,502
TOTAL	\$ 3,273,161

Source: Auditor's Office Analysis

Note: Does not take into account Measure 5 compression, if any

In addition, a smaller number of properties receiving property tax exemptions are within the boundaries of other school districts, such as the David Douglas or Centennial. We did not find the required approval from the appropriate school district for any of these properties for the *Single Unit Housing*, *Nonprofit Low Income*, and *Residential Rehabilitation* programs. Only the City's share of taxes should have been abated for these properties from the programs' inception through tax year 2005-2006.

Exhibit 4 is an estimate of the amount of taxes abated -- by taxing jurisdiction -- for two of the years that the *Nonprofit Low Income* and *Residential Rehabilitation* programs had not met the 51 percent requirement. (Note: The *Single Unit Housing* program amounts are included in Exhibit 3.)

Exhibit 4

Nonprofit Low Income & Residential Rehabilitation Programs: estimated property taxes improperly approved for full abatement for tax years 2004-2005 and 2005-2006

Taxing Jurisdiction	Amount
Multnomah Education Service District	\$ 32,169
Parkrose School District	12,885
David Douglas School District	342,722
Reynolds School District	18,831
Centennial School District	98,966
Mt. Hood Community College	35,784
Port of Portland	4,959
East Multnomah Soil & Water Conservation	1,635
Metro	20,031
Multnomah County	372,045
TriMet	8,126
Urban Renewal	123,014
 TOTAL	 <u>\$ 1,071,167</u>

Source: Auditor's Office Analysis

Note: Does not take into account Measure 5 compression, if any

Over 99% of the amount shown is for the *Nonprofit Low Income* program

Because the County participated with the City in the *Transit-Oriented Development* program since its inception, the City has met the 51 percent requirement for that program for all applicable properties in the county. Additionally, in 1975, PPS agreed to participate with the City in the *Core Area Multiple-Unit* program for properties located inside PPS boundaries. Based on available data, the 51 percent requirement was met for this program for at least the last three tax years (2004-2005 through 2006-2007). If all properties that received an exemption for this program since 1975 were located within PPS boundaries, the 51% requirement was also met in this program.

Some individual properties did not qualify for exemptions

Recently, County A&T staff discovered that three *Single Unit Housing* program properties which the City granted an exemption were located outside the City of Portland's boundaries. Because these properties are outside the City's boundaries, they do not qualify for the exemption.

Properties included in the *Single Unit Housing* program also must be located within a Homebuyer Opportunity Area (HBO) designated by the City. When the Auditor's Office compared the location of the *Single Unit Housing* properties to HBO areas, we found seven additional properties that do not appear to be located within an HBO and should not have qualified for a tax exemption.

The Auditor's Office also found one property in the *Nonprofit Low Income* program that was located outside the Portland city boundaries. This property also should not have qualified for an exemption.

The length of time these properties received an exemption ranges from one to ten years. In total, A&T estimates that these 11 properties cost applicable taxing jurisdictions about \$78,000 in property tax revenues. A&T is allowed to collect back taxes for these properties for up to five years.

Some properties did not continue to qualify for exemptions

Once properties qualify for a tax exemption, they must continue to qualify each year to receive the exemption. For example, when an exempt property in some programs is sold, the new owner must meet income eligibility requirements in order for the property to continue to qualify for the exemption. Also, owner occupancy is now a requirement of the *Single Unit Housing* program. The City is responsible for monitoring exempt properties to ensure that they continue to qualify.

County A&T keeps extensive data on properties, including when a property transfers to another owner and when the mailing address for the tax bill differs from the physical location of the property. A&T provided this information to the City to investigate 109 properties on the 2006-2007 tax roll for the *Core Area Multiple-Unit Housing, Transit-Oriented Development*, and the last two years of the *Single Unit Housing* programs.

After the City's investigation, 55 of the 109 properties (50%) did not continue to qualify to receive a tax exemption. The exempt taxes on these 55 properties were approximately \$84,000 in tax year 2006-2007.

A&T was not provided information by the statutory deadline

Historically, the City sent A&T the exemption applications for the *Single Unit Housing* program. County A&T used the information in these applications to put properties on the tax roll. According to A&T, some of the applications were received past the statutory deadline. When information needed to claim an exemption is sent to the County late, it can delay the tax exemption. A delayed exemption can confuse and financially stress homebuyers who had counted on their tax exemption to begin earlier.

It is not necessary for the City to send individual exemption applications to A&T. Instead, Oregon Revised Statutes requires the City to send an ordinance or resolution by April 1 of each year that approves all of the applications and authorizes A&T to put the exempt property on the tax roll. A&T did not always receive an ordinance or resolution in the past.

The timing of some applications did not meet statutory requirements

Oregon Revised Statutes limit the exemption for *Single Unit Housing* to construction proposed to take place after the date of the application. A&T and the Auditor's Office found applications that did not meet this statutory requirement.

Because the program is meant to stimulate construction in certain areas of the city, construction that is completed prior to applications raises the question of whether development would have occurred without the program.

In addition to Oregon Revised Statutes, County resolution 07-153 for the *Single Unit Housing* program adopted in September 2007 requires the City to ensure that applications are completed prior to the final approval of the building permit for the structure.

Statutes do not reflect important changes in the property tax system

The *Core Area Multiple-Unit* and *Nonprofit Low Income* programs are currently the two largest City programs accounting for 70 percent of the abated taxes in tax year 2006-2007. Portland Public Schools last approved a resolution for the *Core Area Multiple-Unit* program in 1975 and the *Nonprofit Low Income* program in 1985. These resolutions are still in effect even though conditions over this period of time have changed considerably.

The statutes covering tax abatement programs do not reflect the impact of the significant changes in the property tax system and the way schools are funded. Measure 5, approved in 1990, capped property taxes dedicated for school funding at \$5.00 per \$1,000 of real market value. This cut school funding and limited local communities' ability to pay for schools.

After passage of Measure 5, the Oregon legislature increased the state's funding for schools and enacted the School Equalization Formula in 1991 to distribute funds among all school districts in the state. Property taxes from each school district's permanent tax rate are included in the equalization formula, but bonds and levies are not included. Once the state distributes funds, school districts end up losing abated taxes from property taxes attributable to bonds and levies. However, school districts recover all or a portion of abated taxes attributable to the permanent tax rate.

As a result of the changes to the school funding formula, much of the abated taxes for qualifying properties do not result in a loss of revenues for individual school districts. When calculating the 51 percent requirement that allows the City to exempt the taxes of all taxing jurisdictions in the levy area where the properties are located, a school district's actual tax rate is, in effect, lower. This means that the combined tax rate of a participating school district and the City may actually be less than the 51 percent threshold that triggers exemption of all taxes.

Recommendations

The County is a significant stakeholder in the tax abatement programs administered by the City -- in tax year 2006-2007, the County's share of abated taxes was \$3 million. The amount of money at stake in these programs argues for greater County involvement. Although the County's authority is limited under Oregon Revised Statutes, as a stakeholder, the County should monitor the programs as a *condition of its continued participation*. The County needs more assurance that the tax abatement programs administered by the City are in compliance with the law and are meeting the programs' objectives.

Recent County resolutions 07-129 and 07-153 have already taken steps to increase the level of County oversight. County Resolution 07-129 states that the City should:

To the extent they do not exist, adopt clear standards, guidelines, and quality control monitoring systems for each program in accordance with the relevant ORS statutes.

Review each property under the relevant termination provisions and determine whether the current individual properties are meeting the standards as set forth in state law.

County Resolution 07-153 requires the City to provide annual reports on the programs to the Board of County Commissioners that show the results of City monitoring and compliance efforts to insure continued qualification. An annual certification signed by the executive director of PDC and Director of the Bureau of Planning is now required.

We recommend that the level of oversight go beyond what was established in these County resolutions. A&T is positioned with property tax data to assist the City with needed information, to monitor results, and to raise questions based on their expertise. We recommend:

1. Data from A&T should be provided to the City to help administer the programs. A&T can query property tax data on an annual basis for the City to verify that properties qualify and continue to qualify to receive exemptions. A list of properties was recently provided to the City to investigate and it was used to identify 55 properties that no longer qualified for exemptions.
2. The County needs further assurance that the City's internal control systems for the programs are in place and do not deteriorate over time. Accordingly, the County should request that the City put written procedures in place to administer the programs. Written procedures could have helped the City to better administer the programs when their staff turned over.
3. A&T should monitor the tax abatement programs and report to the Board of County Commissioners at least annually. The report should be based on A&T's interaction with the City and its own analysis of program data.

The report should comment on program compliance with applicable statutes, program administrative performance, and any other issues that may come to A&T's attention. This information will be essential to the Board when they regularly re-evaluate County participation with the City in these programs.

4. In addition to the written procedures in place for putting properties on and taking them off the tax roll, A&T should develop written procedures for monitoring and any other administrative responsibilities regarding the programs.
5. Current Oregon Revised Statutes for the tax abatement programs should be clarified and updated. The County and City, along with the Oregon Department of Revenue, should work together to advocate for appropriate revisions. For example:

The statutes need to be clarified to eliminate ambiguous or seemingly contradictory language in program requirements.

The statutes need to be updated to reflect the impact of property tax system changes and the resulting effect on the 51% requirement.

We understand that the Oregon Department of Revenue is planning to convene a workgroup in February 2008 to begin work on these and other program issues.

Scope and Methodology

The objectives of the audit were to:

- Evaluate whether Assessment and Taxation has adequate controls in place to ensure that County responsibilities for tax abatement programs are met.
- Determine whether tax abatement programs were properly approved to provide the City of Portland the authority to exempt property taxes in excess of its share.
- Assess whether the County has sufficient assurance that properties qualify to receive property tax exemptions and continue to qualify over the exemption period.

The scope of the audit was generally limited to addressing compliance issues using information available from A&T. We reviewed the County's limited administrative responsibilities and extensive property tax data on exemptions. Our work was primarily focused on three programs administered by the Portland Development Commission (PDC): *Single Unit Housing*, *Core Area Multiple-Unit* and *Transit-Oriented Development*.

Although the PDC and the Bureau of Planning in the City of Portland administer the tax abatement programs, the audit focused on County responsibilities and interests. During the course of the audit, we met with the City of Portland Auditor's Office, and they also recently began an audit of the City's administration of the same tax abatement programs.

We interviewed the Assessor and Special Programs Manager from A&T, the Deputy County Attorney, the Program Director of Data and Policy Analysis at Portland Public Schools, staff from the Portland Development Commission and the City's Bureau of Planning, and a property tax representative from the Oregon Department of Revenue. We reviewed Oregon Revised Statutes for all of the exemption programs. We researched exemption program resolutions in place for the County, City, and Portland Public Schools.

With the help of County GIS, we mapped properties for the *Single Unit Housing* program on the 2006-2007 tax roll that do not appear to be located in Homebuyer Opportunity Areas. We followed-up on the listing of properties A&T sent the City to investigate if the property still qualified for a tax exemption.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Responses to Audit



Ted Wheeler, Multnomah County Chair

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To: LaVonne Griffin-Valade, County Auditor

From: Ted Wheeler, County Chair

Date: January 25, 2008

Re: Audit Report on Tax Abatement Programs

Our community faces an affordable housing crisis. Lack of affordable housing is an obstacle to Multnomah County's efforts to improve public safety, fight poverty and support families and children. It is essential that we develop new strategies to create and sustain affordable housing and that we continue to have broad support from the community.

That's why this audit report is so important. You and your staff have shone the bright light of accountability on a disturbing set of errors that inappropriately redirected public funds from other important public services. Demonstrating that these errors can be corrected is an important step in improving public confidence in affordable housing programs. Multnomah County is very interested in continuing to assist the City of Portland as they seek to bring their programs into compliance with Oregon law.

I appreciate the findings of your audit team that "A&T had controls in place to meet the County's statutory responsibilities." I commend the staff of A&T who brought these problems to light. You have all provided good service to the taxpayers.

We have taken the first steps to increase the level of oversight from the Board of County Commissioners regarding abatement programs that reduce funds available for other public services. I agree with you that it is appropriate for us as a major stakeholder in the property tax system to augment our role as the collector of property taxes by doing more to increase the transparency of the tax system including abatements. The Multnomah County Assessor and his staff stand ready to provide extra assistance to city abatement programs and additional reporting to the public as you propose.

As you note, our Assessor has provided the City of Portland with lists of properties with abatements that may not be in compliance with statutory requirements. Multnomah County will continue to provide this service. We look forward to the Oregon Department of Revenue's review of Portland City Council decisions regarding properties with questionable abatements and to a potential additional review from the City of Portland's Auditor.

I agree with the need to clarify and update the laws that authorize tax abatement programs but I also hope to encourage the Oregon Legislature to do more to improve this system. On one hand we need stronger protections for the jurisdictions that represent the services that lose funding through abatements because the conflicting demands should always be balanced. On the other hand we need state authorization for abatement programs that are more narrowly targeted to meet affordable housing needs. Some of the problems that have been uncovered are the result of a mismatch of state law and local needs.

Because every dollar that is lost through abatements reduces public services by a dollar; I believe that we need to be able to scrutinize abatement expenditures in the same way that we scrutinize budget expenditures. Unfortunately, currently abatements that provide affordable housing are often under the same program as abatements that do not support affordable housing and the County's options are limited to approving or disapproving the entire program. I hope to work with City of Portland leaders to improve our ability to balance public service priorities.

In closing, I want to thank you for investigating this issue quickly and thoroughly. The community benefits from the impartial review that your office provides. Your findings will be very useful to the Board of County Commissioners, the Oregon Legislature, Portland City Council and the public. Together we can maintain the effectiveness of tax abatements as a strategy for affordable housing.



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MULTNOMAH COUNTY OREGON

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To: LaVonne Griffin-Valade, County Auditor

From: Carol Ford, Department of County Management Director *CAF*

Randy Walruff, Assessment and Taxation Director/Assessor *RW*

Date: January 7, 2008

Re: Tax Abatement Program Review

The Department of County Management and the Assessment and Taxation Division (A&T) recognize the time that you and your staff have invested in the review of the tax abatement programs as managed by the Special Programs section. We would like to thank you for the thoughtful recommendations and thorough audit follow up. We appreciate the opportunity to comment on your findings and recommendations.

The audit was initiated as a review of the County's participation and role in the abatement programs. Having read the assessment we find that we are in agreement with your conclusions. Generally, the results of the examination of the abatement programs substantiated the compliance concerns initially raised by A&T staff. Additionally, we agree with your opinion that the structure of the programs have not kept up with changes in the property tax environment.

In your report, you recommend that A&T strengthen assurance procedures and oversight of the property tax abatement programs, annually report on these programs providing information for Board consideration and participation with the City and that the County, City and Department of Revenue (DOR) work together to clarify and update governing statutes to reflect changes in tax law. A&T is currently updating procedures pertaining to these programs to better report findings and we welcome the opportunity to work with both, the City and the DOR, to more efficiently and effectively serve the public.

We appreciate the fact that your report recognizes our reliance on the City to administer the tax abatement programs in a responsible manner that complies with statute. The recommendations in this report will assist us in advancing a collaborative work situation that will benefit all taxpayers and jurisdictions.

Thank you for the care you took in completing this study.



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January 23, 2008

Ms. LaVonne Griffin -Valade
Multnomah County Auditor
501 SE Hawthorne, Room 601
Portland, Oregon 97214

Dear Ms. Griffin-Valade:

Thank you for completing your audit of the five tax abatement programs which are administered by the City of Portland and the Portland Development Commission.

Your audit memorializes nearly all of the issues that were jointly identified by the County Board, City Commissioner Erik Sten, and City/County/PDC staff over the course of the 2007 review of these programs. These programs are key tools for the City and the County to preserve and increase the supply of housing affordable to low-income households, promote transit-oriented development, and increase the home ownership rates in the City, particularly among minorities. We appreciate the county elected officials confirming the importance of all five tax abatement programs through their official action in October 2007.

We credit the new administration under Chair Wheeler and the new assessor, Mr. Randy Walruff, for bringing these improvements to our attention. It marked the first time PDC had been notified of procedural and technical improvements to these programs. PDC encouraged an audit last summer and we are all pleased to see the work is complete. Generally, we support your recommendations. Some of the changes you suggest to the State statutes would be a matter for discussion among the elected officials of the local taxing jurisdictions.

The PDC staff has already begun working with the County Assessment and Taxation office on many of your recommendations. This includes developing monitoring and compliance techniques, clarifying the timing of construction in relation to receipt of abatement. Further, we are following up on the County A&T staff recommendation to increase the cost of applying for the single-family abatement program by \$450, which request became effective January 1, 2008.

We concur with your opinion to develop written procedures to guide the oversight of these programs. The abatements began long before Bruce Warner became PDC's Executive Director and will hopefully continue in some form or fashion long after his tenure ends. Lack of clear written procedures, combined with new staff, seems to be at the root of the issues you identified.

It is clear the City, PDC and the County had partnered in administering and implementing these programs for decades. The relationship was very collaborative, and we jointly delivered socially-beneficial programs. However, we understand how the

statutory framework and its interplay with our programs could lead to confusion. Also, our programs now address some new housing priorities. For example, the single-family program has become one of the City's best tools for providing home ownership opportunities for minorities but this was not originally envisioned as a purpose of the program. This is a great time to review and make decisions to further our collective objectives.

Above and beyond the administrative improvements, we remain committed to working with City Council, Multnomah County, and other taxing jurisdictions to discuss the policy objectives of these programs. Our expectation is for the elected bodies to discuss the following issues:

- Who/what are the target groups, and what policies are we trying to advance?
- How/should you evaluate whether a program has served its time and needs to evolve/expire?
- Should programs adjust for household income?
- Should the Single Family New Construction program be complemented by a 1st home-buyer program available in more areas?
- Is the duration of the abatement appropriate?
- Are there other ideas for new abatement programs to help drive City or County priorities (abatements related to housing with amenities for children)?

Also, the City is beginning the *Portland Plan*, which is an update of the City's *Comprehensive Plan*, the *Central City Plan* and some other citywide policies. We intend to examine our residential property tax exemption programs in the context of this overall planning effort.

Thank you again for completing this work. Our primary focus is making sure Portlanders continue to access programs which make both rental housing and home ownership affordable and attainable.

We look forward to continuing the conversation.

Sincerely,



Bruce A. Warner, Executive Director
Portland Development Commission



Gil Kelley, Director
Bureau of Planning

tag



LaVonne Griffin-Valade Multnomah County Auditor

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Audit Report: *Tax Abatement Programs*
Report #08-01, January 2008
Audit Team Members: Craig Hunt & Mark Ulanowicz

The mission of the Multnomah County Auditor's Office is to ensure that County government is honest, efficient, effective, equitable, and fully accountable to its citizens.

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