Residential* Construction Excise Tax

In 2016, the Oregon Legislature approved the use of a Construction Excise Tax (CET) as a means to fund affordable housing (SB-1533). The tax may not exceed one percent of the permit valuation for residential construction permits issued by a city or a county (local government). The tax may be imposed on improvements to residential real property that result in a new residential structure or additional square footage in an existing residential structure, including remodeling that adds living space. CET is not required but is instead an optional affordable housing revenue source that is decided at a local government level.

*Note: A CET for commercial and industrial construction is also optional under this legislation but there are no proceeds received by the State of Oregon through this local tax option.

- Local government agencies implementing a Residential Construction Excise Tax are instructed to utilize 4% of all proceeds for administrative fees to recoup expenses incurred from implementation of CET.
- The remaining proceeds are to be distributed by formula.
- Oregon Revised Statutes direct 15% of this formula to Oregon Housing & Community Services (OHCS) for the purposes of providing down payment assistance for homeownership programs.

Because funds are received through taxation at a local level, OHCS has determined it appropriate to return these dollars to the communities that implemented the program. Current OHCS homeownership programs in these communities are therefore augmented with additional down payment assistance dollars widening the scope and depth of eligible assistance for families pursuing the goal of homeownership.

OHCS has developed a policy to guide the utilization of these funds.

**Additional Information:**
[Homeownership Centers Page](#)
State of Oregon

Oregon Housing & Community Services

Construction Excise Tax Policy

Revised March 27, 2019
Version 1
I. **Purpose**

In 2016, the Oregon legislature passed SB1533 authorizing cities and counties to implement a construction excise tax (CET) for the purpose of expanding the availability of affordable housing. Locally authorized construction excise taxes placed on residential construction are capped at one percent (1%) of the permit valuation for residential construction permits issued by the city or county. Receipts are to be distributed on a formula basis (ORS 320.195) after any refunds are paid and the deduction of four percent (4%) administrative fees have been taken by the local jurisdiction implementing the tax. Per ORS 320.195 Section 3, Subsection (b), a total of fifteen percent (15%) of the residential CET receipts are to be distributed to Oregon Housing and Community Services (OHCS) to fund homeownership programs that provide down payment assistance. This CET Policy is being implemented to provide guidance on how OHCS will execute its responsibilities as associated with the construction excise tax legislation.

II. **Policies & Procedures**

1. **Overview**

   The construction excise tax is a local jurisdiction tax that each Oregon community may choose to implement. Tax jurisdiction is based upon construction permit responsibilities. CET may be implemented individually or in coordinated with other tools, such as with inclusionary zoning, to provide important affordable housing opportunities on a local level. Only receipts from residential construction are to be distributed to OHCS for homeownership programs providing down payment assistance. Receipts from commercial and industrial CET policies are to remain at the local level and distributed as required in ORS 320.195 (4). Therefore, collections at the local level should assure proper separation if both a residential and a commercial or industrial construction excise tax is implemented.

2. **OHCS Collection Process**

   CET is authorized throughout Oregon but is not required. Therefore, OHCS must rely on local jurisdictions to self-report and pay residential CET distributions to OHCS as required by law. To educate local governments about their requirements under this law, OHCS will market the homeownership down payment assistance program benefits in coordination with local responsibilities associated with residential CET program receipts. This will be done electronically where possible (through website or e-mail) but also may be done in other ways as determined appropriate by OHCS. OHCS will track local jurisdictions that implement residential CET policies and target these communities from time to time in an effort to remind them of the benefits and requirements associated with the OHCS role in this program.
Local Government Payments

By statute, a city or county that imposes a construction excise tax is to deposit these receipts in their general fund as soon as practical after the end of each fiscal quarter. From the residential portion of the CET, fifteen percent (15%) of these funds are to be distributed to OHCS to fund homeownership programs providing down payment assistance. To assure fulfillment of the OHCS role and to provide guidance to the OHCS homeownership partners, Oregon Housing & Community Services will anticipate regular deposits from participating jurisdictions consistent with statute. Authorized uses of CET receipts are prescribed in ORS 320.195. OHCS plays a limited but important role as related to enhancing homeownership opportunities. To fulfill that role, OHCS relies on local government to submit receipts accurately and consistently.

3. Community Receipt Tracking & Targeting

Because CET receipts are limited to the communities that have established a residential construction excise tax, OHCS has determined that homeownership benefit distribution should reflect receipts as much as possible. To that end, OHCS has committed to tracking CET receipts on a local level and redistributing this amount to partners servicing these communities on a like basis. At such time that three or more jurisdictions within a county adopt a residential CET, OHCS will combine funds and award distributions on a county level to partners covering that geography as awarded through existing Down Payment Assistance (DPA) solicitation.

4. Homeownership Network

OHCS will utilize its current homeownership partner network of providers for CET distribution. Local providers will be responsible to track CET funding separately from other funding sources (including other OHCS funding) for legislative and outcome based tracking purposes. OHCS will generally use current service providers within the current OHCS homeownership partner network. However, OHCS reserves the right to use providers that are not within their current homeownership network provided the CET distributions can be targeted to the CET jurisdiction by the provider (i.e. the provider can service the CET community).

5. No Administration Fees

Legislation authorizing the construction excise tax provided administrative funding for the collection jurisdiction only. OHCS and its homeownership partner network were not authorized administrative fees for distribution services within the statute which may result in limited participation by current network providers. In the event that current providers are unable or unwilling to use CET funding due to this lack of administrative offset, OHCS may utilize providers that will provide services to the CET jurisdiction. OHCS reserves the right to provide administrative funding for its homeownership distribution partners should any come available.
6. **CET - Homeownership Down Payment Assistance Requirements**

CET homeownership down payment assistance may be used independently or in conjunction with other down payment assistance homeownership funding. CET eligibility is restricted to low income families (below 100% of the area median income for the county in which the housing is located) purchasing a home within the construction jurisdiction of the CET generation entity. CET is limited to down payment assistance. Program rules will align with OHCS’ HOAP program as much as possible (contact OHCS Single Family Staff for additional information).

7. **OHCS Homeownership Partner Distribution**

Upon receipt of funds from a local CET participatory governing agency OHCS will align distribution with established solicitation partners. OHCS will align distribution networks with HOAP DPA grant agreement whenever possible.

III. **Reporting**

OHCS will require homeownership distribution partners to report CET fund uses consistent with HOAP DPA. Reporting information may include, but is not limited to the following information:

**Down Payment Assistance Program Update:**
- Summary of Program Status
- Challenges
- Program Changes
- Data Element Spreadsheet

**Work Plan / Timeline Status**
- Provide a narrative of work plan status to date, include accomplishments and setbacks

**Outcomes**
- Successes
- Measurable benefits Status
- Outreach Activities

**Additional Information about your Down Payment Assistance Program**
## Residential Construction Excise Tax – Participating Communities

<table>
<thead>
<tr>
<th>Name of City/County</th>
<th>Date Residential CET Passed</th>
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</thead>
<tbody>
<tr>
<td>2. City of Corvallis</td>
<td>11/7/2016</td>
</tr>
<tr>
<td>3. City of Cannon Beach</td>
<td>6/6/2017</td>
</tr>
<tr>
<td>4. County of Hood River</td>
<td>6/19/2017</td>
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<tr>
<td>5. City of Hood River</td>
<td>7/24/2017</td>
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<tr>
<td>6. City of Newport</td>
<td>8/7/2017</td>
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<tr>
<td>7. City of Milwaukie</td>
<td>11/21/2017</td>
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<tr>
<td>8. City of Medford</td>
<td>2/15/2018</td>
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<td>9. City of Bend*</td>
<td>2006</td>
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*CET established under previous legislative authority and not subject to the provisions of SB-1533

For additional information on local Construction Excise Tax policy ([link](#)).

*Source* – Oregon Housing Alliance