

HOUSING PRODUCTION ACCELERATION STRATEGIES

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Prepared by: Hau Hagedorn,
Community Investments Manager

Department: Planning, Development, and
Research

Presenters:
Malu Wilkinson, Deputy Director,
PD&R Hau Hagedorn, Community
Investment Manager, PD&R

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ISSUE STATEMENT

In 2024, the Governor of the State of Oregon declared a housing and homelessness crisis and set a goal of 30,000 new housing units to be produced within the State by 2035. This calls for Metro to deploy all available tools to accelerate housing production to help address the housing crisis. In the Regional Housing Coordination Strategy (RHCS) Metro identified priority actions that align with work funded by Metro's Construction Excise Tax (CET). These specific actions would make up a proposed Housing Production Accelerator Fund (HPAF).

Staff has had conversations with Councilors about three potential actions to accelerate housing production in the region. These include:

1. A one-time investment of \$5M of CET reserves. This would make funding available for regional partners to advance housing development.
2. Renaming the 2040 Planning and Development Grant program and further tightening its focus on accelerating development across the region
3. Consideration of a limited duration waiver of the CET for housing production in jurisdictions that simultaneously waive system development charges (SDCs) to incentivize housing production.

Action 1 (\$5M investment of CET reserves) provides a clear benefit to jurisdictions seeking to remove barriers to housing development. *Action 2* (grant program adjustments) also makes funding available for housing development and clarifies the purpose of this funding. *Action 3* (temporary CET waiver) could send a message to the market and jurisdictional partners that Metro is deploying all available tools to support housing production in our region. However, the actual benefit to developers is low. With a maximum fee of \$12,000 per project (often significantly less), the CET is small compared to other taxes, fees and system development charges. As a result, the actual benefit to developers of waiving the

CET is low. Implementing a waiver for only housing projects also adds complexity for the local jurisdictions that collect the tax.

ACTION REQUESTED

Staff requests Council guidance on the potential actions to accelerate housing production to be implemented through a Council resolution to be considered early in 2026.

IDENTIFIED POLICY OUTCOMES

2040 Grant Program

The purpose of the 2040 Planning & Development Grant program is to fund planning work in the region that supports our regional vision for growth. The grants are funded through the construction excise tax (CET), which was established in 2006 for the purpose of funding regional and local planning. The grants are intended to facilitate planning that makes land ready for development, supports economic prosperity, and implements Metro's long-term plan for livable communities, as outlined in the 2040 Growth Concept.

Regional Housing Coordination Strategy

Directed by the new requirements under the Oregon Housing Needs Analysis (OHNA) program, Metro is required to adopt a Regional Housing Coordination Strategy (RHCS) every six years. The RHCS identifies the actions Metro will take over the next six years to advance housing production, access to opportunity, affordability, and choice in greater Portland. This strategy emphasizes Metro's critical role in advancing regional solutions and supporting the efforts of cities and counties in accelerating housing production. Though Metro does not zone land or build homes, Metro plays an important part in helping to create the conditions for success, addressing the gaps in capacity and resources, and supporting coordination.

Impact of the requested action

Creation of the HPAF would help implement actions identified in the Regional Housing Coordination Strategy, supporting local jurisdictions in their housing production targets and removing barriers to housing development. The fund would support the following activities to accelerate housing production in the region:

- **Housing pre-development and technical assistance.** Fund pre-development activities necessary to unlock public properties and other properties where an owner is interested in developing affordable housing, but lacks the knowledge and expertise required. This type of technical assistance can offset costs for land use studies and other pre-development activities including site surveys, feasibility studies, area plans and other activities that prepare sites for development. In addition, this action can provide grants to local jurisdiction staff to support activities that accelerate permit reviews, provide contracted services for cities and counties to expedite permit reviews, site suitability studies to identify sites ready for housing

development, and update development standards and procedural requirements to remove barriers and delays in permitting.

- **Expand the brownfield grant program.** Expand resources available for brownfield assessment and explore grant opportunities for small scale remediation that leads to middle housing and multi-family housing development. Funding for Brownfield site assessment complements existing federal grants to support additional sites that otherwise would not be able to access Metro's current site assessment program.
- **Support local Housing Production Strategy (HPS) implementation.** Assist cities and counties with approved Housing Production Strategies to meet their housing production targets with grants to help implement actions that are consistent with allowable uses for CET funds identified within the Metro Code.
- **Technical assistance to support planning and implementation of housing production, affordability and choice.** Identify and provide a pool of technical assistance, on-call experts to support jurisdictions with non-site specific planning and implementation activities that result in housing production or funding for staff that enables jurisdictions to process more permits for housing.
- **Explore regional land bank strategies.** This effort will explore land banking activities in the region and develop a plan for a regional land bank that identifies the necessary legal framework, governance structures, and operational guidelines to support cross-sector collaboration and investment.

Budget needs

Creating the HPAF would require Metro staff time for implementation. Managing an effective grant program that achieves goals defined by the Metro Council necessitates dedicated staff. PD&R staff would work with the COO to design and implement the grant and technical assistance programs through amending the CET Administrative Rules and identifying any needed Metro Code changes.

POLICY QUESTION(S)

- Does the Metro Council support allocating \$5M from the Construction Excise Tax fund balance to create a Housing Production Accelerator Fund (HPAF)?
- Would the Metro Council like to direct a refocus and renaming of the 2040 Planning and Development Grants to support development readiness?
- Would the Metro Council like to implement a limited duration waiver of the CET for housing projects in jurisdictions that have implemented a waiver of SDCs for housing?

BACKGROUND

Construction Excise Tax (CET) history

In 2006, the Metro Council enacted the CET to generate revenue for planning work by local governments in areas where the UGB has been expanded. The CET was vigorously opposed by the Homebuilders Association, and in 2007 the HBA helped get a bill passed in Salem that prohibited local governments from adopting new CETs. Because Metro's tax was enacted prior to the 2007 legislation, it was exempted from the statewide prohibition on new CETs. In 2016, the state law was amended to allow cities and counties (but not Metro) to exist by virtue of pre-dating the 2007 state law.

The scope of Metro's allowable uses for CET funds has expanded over the last 20 years as regional planning needs have evolved. Today this relatively low tax provides critical program funding for Metro's 2040 Planning and Development and Community Placemaking grants. Grants and technical support go to local jurisdictions and non-profit organizations to support economic development and community stabilization.

CET rate

The CET rate is 0.12% (0.12 cents per dollar) and applies to new housing construction or major renovations above \$100K. It is collected by local jurisdictions and turned over to Metro. Affordable housing projects and non-profit organizations are exempt. The program generates approximately \$3.6M annually; we do not know exactly how much of this comes from the development of housing, but we estimate about 50%. Of all jurisdictions in the region, the City of Portland produces the largest amount of CET revenue - over \$1M each year. Due to the low tax rate and \$12K maximum cap, CET collections are a very small portion of the total fees imposed on new housing development throughout the region. For example, a new single-unit home with an improvement value of \$500,000, the CET would amount to \$600.

Table 1: CET Rates and Exemptions

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|-----------------------|--|
| Rate | 0.12% (.0012) |
| Applied to | New construction or major renovations (\$100K or more) |
| Maximum tax liability | <p>\$12K (this reflects the tax on a \$10M construction project; .0012 x \$10M)</p> <ul style="list-style-type: none"> • Due to the cap, any project over \$10M (e.g. a \$200M project) would have a tax liability of \$12K • A \$5M project would have a tax liability of \$6K • A \$100K project would have a tax liability of \$120 • Any project under \$100K has no CET liability |
| Exemptions | <ul style="list-style-type: none"> • Construction valued at less than \$100K • Affordable housing (60% AMI) • Any tax-exempt organization |