Oregon

Homebuyers Tax Credit or Rebate

Analysis: Architecture 2030

Plan Summary

The Homebuyers Tax Credit or Rebate (Plan), outlined here, is a jobs and revenue producing plan for implementation by the State of Oregon. It builds on the success of the federal First Time Homebuyer's Tax Credit – a means of increasing home sales and renovations in a distressed housing market. The Plan marries a refundable state tax credit or rebate with energy reduction targets in order to dramatically increase private spending, stimulate new building construction, expand the local tax base, renovate the existing residential building stock, reduce the foreclosed home inventory, and generate much needed jobs and tax revenue.

The Plan includes a one-time:

- $4,000 State tax credit or rebate for purchasing a HERS 50 new home, or purchased existing home renovated to a 50% energy reduction;
- $6,000 State tax credit or rebate for purchasing a HERS 25 new home, or purchased existing home renovated to a 75% energy reduction;
- $8,000 State tax credit or rebate for purchasing a Zero-Net-Energy (ZNE) or HERS 0 new home, or purchased existing home renovated to ZNE.

Under the Plan, each dollar ($1) of State incentive would generate approximately:

- $15.23 in construction spending and $17.46 in indirect and induced spending;
- $1.13 in State and Local Government taxes from construction spending, and $1.29 from indirect and induced spending; and
- $0.15 in property taxes

A $10 million Plan, for example, would not only pay for itself but would:

- create 2,468 jobs, quickly and cost effectively;
- increase home buyers cash flow and property values;
- decrease building energy consumption and operating costs;
- generate $24.20 million in total state and local government tax revenue and $1.52 million in annual property taxes – $11.28 million of this amount *before* the $10 million in incentives is given.

Background

Due to declining revenue, state and local governments struggling to balance their budgets are reluctantly cutting jobs, making budget cuts and raising taxes and fees to keep themselves afloat after a downturn in the economy that includes the longest declines in state tax revenue on record. As Washington plans trillions of dollars in spending cuts over the coming years, precious little federal money will be available for infrastructure and job-creation programs, increasing the already onerous financial pressures on states, counties and cities.

With the political acrimony in Washington expected to continue, state and local governments cannot wait for Washington to create the badly needed jobs, economic activity and resultant revenue they need to sustain themselves; they must use the options available and undertake the task on their own – and they can.

Housing Market Key

Whether the topic is jobs, unemployment, the economy or revenue, the housing market is a central part of the problem and solution. Never has the importance of the housing market been so keenly felt.

A quick look at the statistics makes the point. Whereas the overall U.S. unemployment rate is currently at 7.9%, the construction unemployment rate is 11.4%[1], Residential construction spending has declined 57.74%[2] from March 2006 to September 2012.

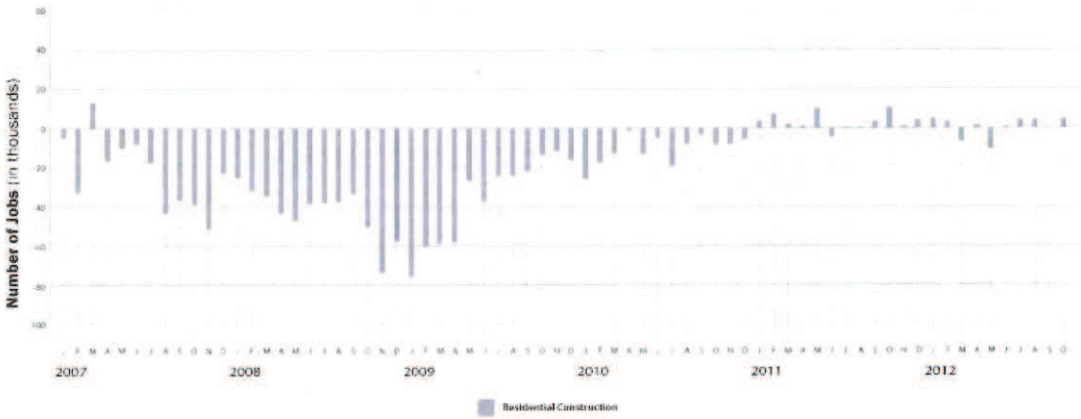

Figure 1. **U.S. Monthly Job Losses or Gains in Residential Construction**

---

[1] Department of Labor. Bureau of Labor Statistics. Available online: http://www.bls.gov/iag/tgs/iag23.htm.

[2] U.S. Census Bureau, *Value of Private Residential Construction Put in Place excluding rental, vacant, and seasonal residential improvements.* Available online: http://www.census.gov/construction/c30/c30index.html.

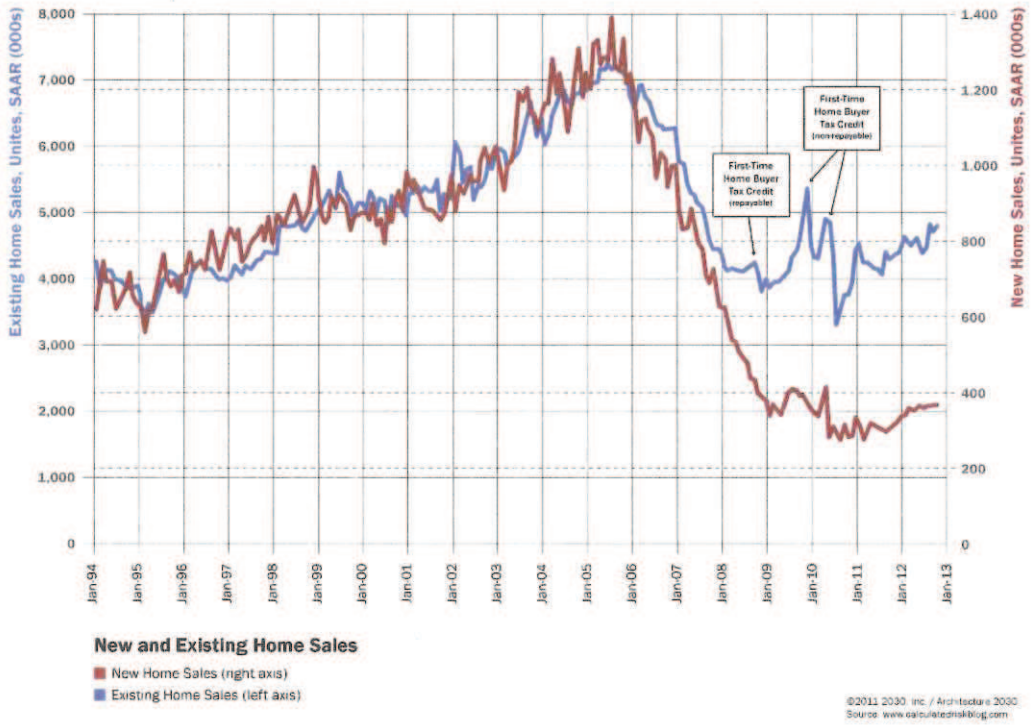

Figure 2. **Existing and New Home Sales**
Source: U.S. Census Bureau / http://www.crgraphs.com/

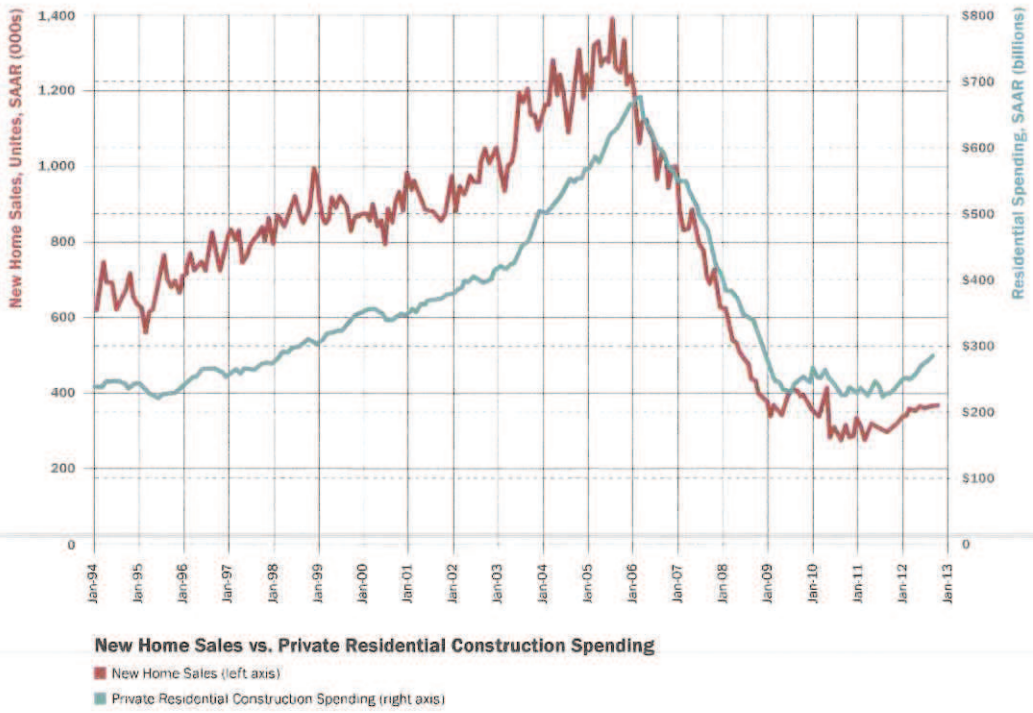

Figure 3. **New Home Sales and Private Residential Construction Spending**
Source: U.S. Census Bureau / http://www.crgraphs.com/

After three years of steady decline in existing and new home sales (2006 to 2008), it is instructive to note the end of the decline and increases in existing home purchases due to the federal First Time Home Buyer Tax Credit (2008 to June 2010), and the end of the steep decline in new home purchases in 2009 when the tax credit became non-repayable to the IRS.

According to the IRS, 2.7 million homebuyers took advantage of the First-Time Homebuyer Tax Credit from 2009 through 2010 – 32,297 Oregon homebuyers took advantage of the tax credit.

While the tax credit appears to have arrested the sharp decline in existing home sales, it failed to create housing renovation jobs because it was not tied to construction, and while homes traded hands and the decline in property values slowed, very little renovation construction materialized.

When the tax credit became non-repayable in 2009, it stopped the decline in new home sales and increased both new home purchases (by approximately 25%, see Figure 4) and new residential building construction.

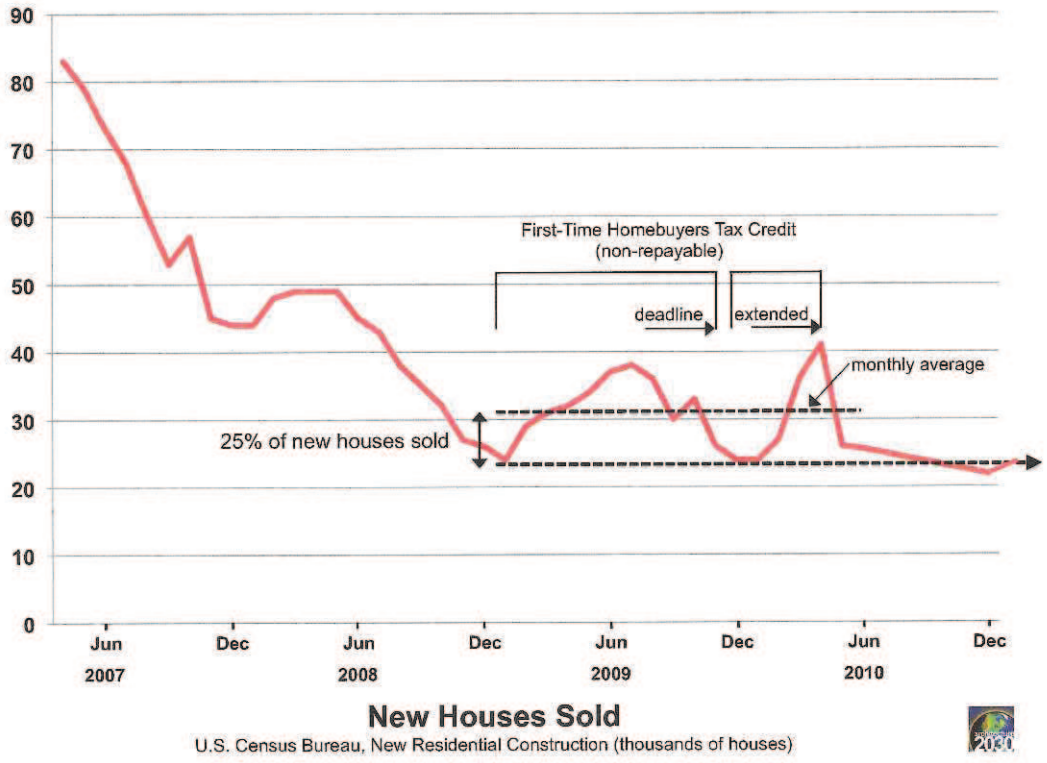

Figure 4. **New Home Sales 2007 - 2010**
Source: U.S. Census Bureau

The Plan

In Oregon, for a state government incentive to be effective at creating jobs *and* revenue, the following minimum conditions must be met:

- each $1 of government incentive must leverage *more than* $14 of local construction spending, and
- construction spending must take place prior to receiving the incentive.

The minimum 1:14 ratio – incentive to construction spending – is the break-even point, where the incentive is approximately equal to the state and local government taxes (LG) collected (i.e., $1 of government incentive equals $1 of tax collected).

While there are many incentives and loan programs for weatherization, efficient products and equipment, and renewable energy systems, there are relatively few incentive programs for stimulating new *affordable* high-performance housing construction and targeted major renovations. The following Plan for creating jobs, increasing state and local government revenue, and jump-starting a high-performance building residential market, calls for creating a one–time program incorporating a refundable tax credit or rebate for new housing, and purchased and renovated homes, that meet either a minimum zero-net-energy (or HERS 0), 75% energy reduction (or HERS 25), or 50% energy reduction (or HERS 50).

The Plan not only builds upon the success of the expired First Time Home Buyer Tax Credit to generate home sales, it ties the incentive to construction spending. The Plan includes a:

- $4,000 State tax credit or rebate for purchasing a HERS 50 new home, or purchased existing home renovated to a 50% energy reduction;
- $6,000 State tax credit or rebate for purchasing a HERS 25 new home, or purchased existing home renovated to a 75% energy reduction;
- $8,000 State tax credit or rebate for purchasing a Zero-Net-Energy (ZNE) or HERS 0 new home, or purchased existing home renovated to ZNE.

New Home Construction

The tax credit or rebate is given for new homes constructed after the Plan is initiated, or new homes permitted for construction prior to the end date of the program and granted an occupancy permit within eight months thereafter. The tax credit or rebate also applies to owner-built new homes. Compliance is met by the new home purchase agreement with a certified HERS Rating (Optional compliance method: or a professional engineer's certification that the home achieves the equivalent HERS energy reduction target using the Simulated Alternative Performance Path of the IECC 2004 edition, with IECC compliance equal to HERS 100).

For example, a homebuyer purchasing a 2,200 square foot home would pay $1,826 a year in energy costs[3]. A homebuyer purchasing a similar 2,200 square foot home that met a HERS 0, HERS 25 or HERS 50 rating would be eligible for a state tax credit or rebate and would save the following amount:

---

[3] U.S. Department of Energy, Energy Information Administration. *2005 Residential Consumption Survey, Table US1. Total Energy Consumption, Expenditures, and Intensities, 2005, Part 1: Housing Unit Characteristics and Energy Usage Indicators*

HERS Rating	Added Home Cost	Added Annual Cost (4%, 30-year mortgage)	Annual Energy Savings @ $0.83/SF[4]	One-Time State Tax Credit or rebate
0 (ZNE)	$30,000	$1,718.70	$1,826.00	$8,000
25	$20,000	$1,145.80	$1,369.50	$6,000
50	$10,000	$572.90	$913.00	$4,000

Under the Plan, a homebuyer purchasing a 2,200 square foot zero-net-energy (ZNE - HERS 0) home would receive an $8,000 one-time tax credit or rebate and save $1,826.00 a year in energy costs. After the first year, the ZNE home will continue to save money each year compared to an average Oregon home through reduced energy costs. Savings is dependent on the cost of energy, and as energy prices increase, the annual amount saved each year increases.

Under the Plan, a homebuyer can receive an $8,000 tax credit or rebate, and purchase a zero-net-energy home that is worth substantially more and at a lower annual cost, than an equivalent non-ZNE home.

Foreclosed Homes / Major Renovation

Foreclosure notices were filed against 1.9 million properties in 2011, with filings rising slightly during the first half of 2012, rising 2.8 percent from the first half of 2011 to the same period this year. According to a recent report from Standard and Poor's, the United States won't burn through its supply of distressed homes for nearly four years, underscoring the massive "shadow inventory" weighing down the housing market. The shadow inventory includes properties for which borrowers are 90 days or more delinquent on mortgages, foreclosures, and bank-owned properties.

In 2011, there were 22,492 foreclosure home filings in Oregon, 1,978 of these in month of December.[5] Communities with unoccupied foreclosed homes experience property value declines and become a magnate for increased vandalism and violent crime. To address this situation, the buyers of foreclosed or existing homes that have been renovated to Plan standards, or buyers who purchase and renovate a foreclosed or existing home to Plan standards, are also eligible for the one-time state tax credit.

---

[4] U.S. Department of Energy, Energy Information Administration. *2005 Residential Consumption Survey, Table US1. Total Energy Consumption, Expenditures, and Intensities, 2005, Part 1: Housing Unit Characteristics and Energy Usage Indicators*

[5] Norman, D., Real Estate Industry News *Foreclosure actions in 2011 hit lowest level since 2007!* January 12th, 2012. Available online: http://www.realestateindustrynews.com/foreclosures/foreclosure-actions-in-2011-hit-lowest-level-since-2007/

Revenue / Jobs / Allocation

Under the Plan, each dollar ($1) of incentive would generate approximately:

- $15.23 in construction spending and $17.46 in indirect and induced spending;
- $1.13 in State and Local Government taxes from construction spending, and $1.29 from indirect and induced spending; and
- $0.15 in property taxes

A $10 million Plan, for example, would not only pay for itself but would:

- create 2,468 jobs, quickly and cost effectively;
- increase home buyers cash flow and property values;
- decrease building energy consumption and operating costs;
- generate $24.20 million in total state and local government tax revenue and $1.52 million in annual property taxes - $11.28 million of this amount *before* the $10 million in incentives is given.

Pairing tax credits or rebates for homebuyers with energy reductions turn out to be economically powerful, both in creating an immediate demand for construction jobs and generating significant construction spending.

A minimum of 40% of the state allocation should be for incentives for new home construction.

The following table illustrates the jobs and tax benefits at various levels of State allocations:

State Allocation (million)	Construction Spending (million)	Leverage	Direct Jobs	Total Jobs	Direct State/LG Taxes (million)	Indirect & Induced State/LG Taxes (million)	Property Taxes (million)
$10	$152.35	15.2x	792	2,468	$11.28	$12.93	$1.52
$1	$15.23	15.2x	79	247	$1.13	$1.29	$0.15

Note: all numbers and multiplications are rounded to the nearest integer.

Plan assumptions:

- Of the homes taking advantage of the Plan:
  - 9.00% of the Plan homes would have been built or renovated to Plan standards and sold anyway – no additional construction spending.
  - 64.33% of the Plan homes would have been built or renovated to code and sold anyway – additional construction spending for upgrade to Plan standards (conservative estimate as targeted existing and foreclosed homes are expected to incorporate additional renovation construction).
  - 26.67% of the Plan homes are new homes – additional construction spending equals cost of the home less the land cost.

- Incentive allocation assumptions – 40% to HERS 50, 30% to HERS 25, and 30% to HERS 0 homes.
- Average home value in Oregon in the first quarter of 2012 is $294,149.[6]
- The added home cost for a HERS 50 is a 4% premium over the average home value, a HERS 25 is an 8% premium over the average home value, and a HERS 0 is a 12.2% premium over the average home value.
- Direct State/LG taxes and the number of direct jobs created are based on Plan new construction spending.[7,8,9]
- Indirect and Induced Spending is based on Type II final-demand multipliers of 2.06 for Construction and 1.51 for Real Estate.[10]
- Indirect and Induced State/LG taxes are based on Plan indirect and induced spending.
- The number of total jobs created is based on direct, indirect and induced spending.
- Property taxes are based on new construction spending and new homes' land costs.
- Average property tax rate in Oregon is $8.71 per $1,000.[11]

Summary and Recommendation

The Plan calls for creating a refundable tax credit or rebate for new home purchases and purchased and renovated foreclosed and existing homes that meet a minimum zero net energy (or HERS 0), 75% energy reduction (or HERS 25), and 50% energy reduction (or HERS 50) target.

With the Federal Reserve poised to keep interest rates low over the next few years, it is the ideal time to leverage state and local government incentives to generate local building sector jobs, increase tax revenue, and stimulate the growth of an affordable high-performance housing market.

Architecture 2030 recommends that the state customize the Plan and work with Local Governments and lending institutions to consider adding additional incentives such as fast track permitting, fee waivers, energy audits, limited property tax abatements, lower mortgage interest rates and other incentives as appropriate.

---

[6] Davis, Morris A. and Jonathan Heathcote, 2007, "The Price and Quantity of Residential Land in the United States," Journal of Monetary Economics, vol. 54 (8), p. 2595-2620; data located at Land and Property Values in the U.S., Lincoln Institute of Land Policy http://www.lincolninst.edu/resources/

[7] Emrath, P. National Association of Home Builders (NAHB). *Home Building's Direct Impact on the U.S. Economy. Table 2. Fiscal Impacts of Building an Average Housing Unit on the U.S. Economy in 2005.* Source: NAHB estimates, based primarily on data from the U.S. Bureau of Economic Analysis.

[8] U.S. Census Bureau, *States Ranked by Total State Taxes and Per Capita Amount: 2005*, December 14, 2009. Available online: http://www.census.gov/govs/statetax/05staxrank.html

[9] Job estimates are based on multipliers for New Residential Construction Spending from the Political Economy Research Institute (PERI). Indirect jobs are jobs created in industries such as transportation, administrative services, etc. Induced jobs are jobs that are created when workers spend their earnings on retail goods, fuel, food, etc.

[10] U.S. Bureau of Economic Analysis. *RIMS II Multipliers.* Source: U.S. Department of Commerce, Bureau of Economic Analysis

[11] Siniavskaia, N., National Association of Home Builders. *Property Tax Rates After the Housing Downturn*, Special Studies, April 4, 2011, Available online: http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=155396&channelID=311

Notes:

Each $1 million in state incentives will support approximately 325 Plan mortgages.

State and Local Government tax revenue estimates are calculated for both direct construction spending and indirect and induced private spending.

*Reduced rate mortgage incentive - participating banks may offer a reduced interest rate (0.125 percent) Plan mortgage - cost to bank is ½ discount point. Why would banks and the mortgage lending industry participate in the Plan? The normal gross bank (or lending institution) income for home mortgages is approximately 2% of the mortgage amount. Under the Plan, bank income would drop to 1.5% of the mortgage amount, however, banks would make up the difference in additional mortgage volume and higher loan amounts. Other bank benefits include community engagement, profitable loans, improved reputation, new relationships with local businesses, and a reduced rate of loan defaults. Additionally, the secondary mortgage market for Plan loans, which look no different than conventional loans, is already established. The secondary market allows banks to sell mortgages, giving them new funds to offer mortgages to new borrowers.