

OREGON CITY URBAN RENEWAL AGENCY OREGON CITY, OREGON

FINANCIAL IMPACT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Prepared by

City of Oregon City
Finance Department

Available at: www.orcity.org



Introduction

Urban renewal agencies must prepare an annual report for the governing body and the general public in accordance with Oregon Revised Statute 457.460 (ORS 457.460). The report is to include a financial summary of the preceding year and the budget for the new fiscal year. It also includes an analysis of the financial impact of carrying out the urban plan on the tax collections for each of the overlapping governmental units within the Agency's taxing districts.

The following elements must be included as part of the financial summary:

- ♦ the amount of money received during the preceding fiscal year;
- ♦ the purposes and amounts for which any money received were expended during the preceding fiscal year;
- ♦ an estimate of moneys to be received during the current fiscal year;
- ♦ a budget setting forth the purposes and estimated amounts for moneys that are to be expended during the current fiscal year;
- ♦ an analysis of the impact, if any, of carrying out the urban renewal plan on the tax collections for the preceding year.

The Urban Renewal Concept

Urban renewal is a process authorized by Oregon law (ORS 457) to finance improvements in those neighborhoods and districts that need special attention and revitalization and meet the ORS definitions of "blight". Examples of blight include buildings that are unsafe or unfit for occupancy, inadequate streets, or environmentally contaminated areas. Tax increment financing is used in these areas to improve blighted conditions through public investments that stimulate private development. Due to the existing conditions, private real estate developers, property owners or business owners are unable to generate a sufficient profit on potential development in the area, thus stalling private investment.

The types of urban renewal activities undertaken generally include development of infrastructure and public amenities (i.e., streets, utility lines, lighting, public open spaces, building improvements, and parks). As the result of publicly funded efforts, investment becomes feasible for private developers. Developments consistent with the city's urban renewal plan are then allowed to go forward. Additionally, Urban Renewal allows a city to increase the level of public investment by providing funds that other regional, state or federal governments will match for a specific project.

It is intended that the private sector will provide the majority of the redevelopment funding by selectively investing over a period of time. Initial public funding is committed together with incentives identified in the plan components to:

- ♦ Construct necessary infrastructure improvements,
- ♦ Attract private investment, and
- ♦ Provide amenities.

Tax Increment Financing

The major source of funding for urban renewal projects has been tax increment financing. Once a district is established, the tax valuation for the district is “frozen.” As properties appreciate in value, the increase in taxes (the “increment”) generated above the frozen base are used to pay for the outlay or debt on specific projects within the urban renewal plan. These tax increments are used to fund indebtedness for capital projects or to repay municipal bonds issued to finance improvements that will revitalize the district. New taxes are not imposed to fund urban renewal.

This type of financing works by identifying an area where property values are not rising as rapidly as the rest of the community; drawing a line around it; planning for major public improvements like roadways, street lighting, parks, and other amenities; selling bonds to finance the public costs; implementing the plans for public improvement; and encouraging private investment in the area. Then, as property values rise and bring an increase in tax revenues, that increase sets the limit for the property taxes levied to pay off urban renewal bonds.

Three Ballot Measures -- Measure 5 (1990), Measure 47 (1996), and Measure 50 (1997) – made significant changes to Oregon’s system of property taxation. Those changes impacted tax increment revenue calculations and are reflected in the revenue calculations in this report.

To determine the amount of the taxes levied, the total assessed value within each urban renewal area is segregated by the county assessor into two parts: (a) the total taxable assessed value in the district at the time the Urban Renewal Plan was adopted (the base or “frozen” value); and (b) the difference between the frozen base value and the current total assessed value (the incremental value or “excess”). The urban renewal agency is entitled to the amount of property taxes levied on the increase in property values within the urban renewal area. This revenue is used to pay the indebtedness incurred in carrying out the projects designated in the Urban Renewal Plan.

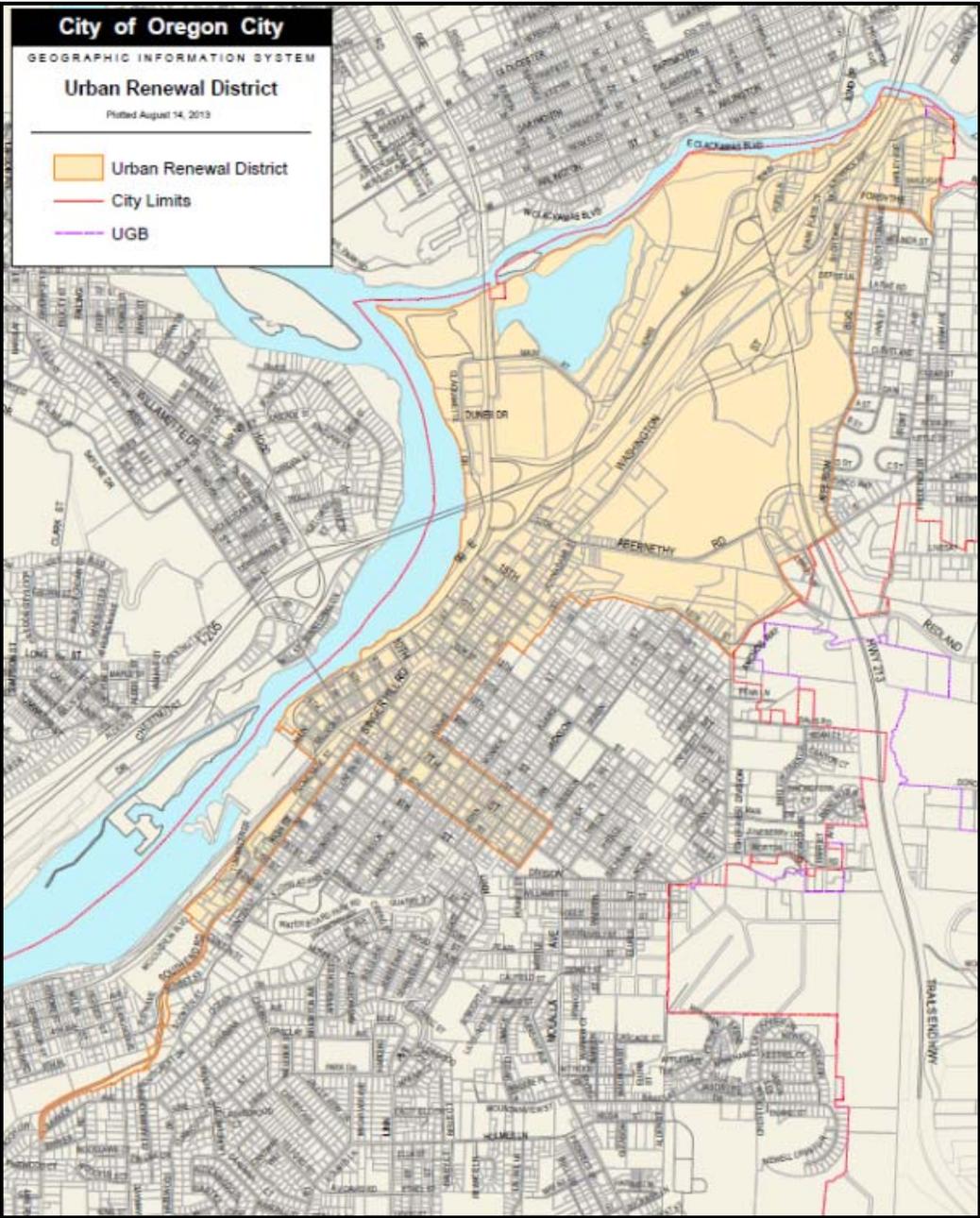
Oregon City’s Urban Renewal Plan

The City of Oregon City established the Downtown/North End Urban Renewal District pursuant to Oregon Revised Statutes (ORS) Chapter 457, the Oregon Constitution, and all applicable laws and ordinances on December 19, 1990, after adoption of Ordinance 90-1062. Subsequently the City adopted ordinance 07-1014, in 2007 establishing the maximum indebtedness of the Plan in the amount of \$130,100,000. The City’s downtown/north end redevelopment area consists of approximately 845 acres, all within the Oregon City’s city limits. In 2019, the total budget is \$8,427,900.

The Urban Renewal Agency is a separate legal entity from the City of Oregon City that is established under State law. Oregon Revised Statutes Chapter 457.035(1) creates “a public body corporate and politic to be known as the urban renewal agency” for each municipality.

The Oregon City Urban Renewal Commission (OCURC) is responsible for providing oversight for urban renewal activities in the District as specified in the Plan. The OCURC is composed of seven voting members: Oregon City’s Mayor, four City Commissioners and two additional members from the community.

.



The Core Values created by the Urban Renewal Commission are as follows:

- Qualitative and quantitative return on investment
- Cultivating Resources, Processes and Investment in Underutilized or Affected Areas
- Make the Urban Renewal District a Destination
- Job Creation; Permanent and Temporary
- Economic Development
- Historical and Cultural Interpretation

Urban Renewal Impact

The Urban Renewal Agency's goals include the elimination of blight within the Area and implementation of the objectives of Oregon City's Comprehensive Plan, including designation of the City as a "Regional Center" within the State's largest metropolitan area. The Area continues to thrive with infrastructure and surface enhancements and community programs like farmers markets, special events, and holiday celebrations.

The area has been limited in its capacity to complete new capital projects to the extent that property tax increment revenue has been used to pay debt incurred to build existing improvements. The Clackamette Cove Project began construction this summer and is expected to generate a significant increase in tax increment revenue to support enhanced activities within the Urban Renewal Area. Phase I includes the construction of 244 units of garden-style apartments, approximately 8,000 square feet of office space and a 3,000 square foot recreational building. Phase I also entails all related infrastructure improvements, including Main Street improvements, with a pedestrian crossing, and utility lines. The assessed value of the area is projected to grow by 4.5% in fiscal year 2017-18.

On November 8, 2016, voters approved Measure 3-514 to amend the Oregon City Charter by prohibiting the use of existing tax increment revenues for any purpose other than retiring existing Urban Renewal Agency debt and any contractual obligations that existed prior to the vote. Existing investments in Urban Renewal Agency debt are secured for repayment under the new charter language. On July 18, 2017, the Circuit Court determined that Measure 3-514 is preempted by Oregon Revised Statutes Chapter 457. In essence, the Court found that the measure is inconsistent with State law and the Agency's expenditures are not restricted.

However the City had deferred various projects while awaiting the outcome of the Court's decision. Unspent funds resulted in an increase in fund balance during the year. Additionally, the upcoming adopted budget includes only expenses relating to debt repayment paid by tax increment revenues, payment of contractual obligations that existed prior to the effective date of the measure and operating expenses for properties owned by the Agency that are funded from rental income.

Effect of Urban Renewal on Taxing Districts

Carrying out an urban renewal plan has an effect on the amount of property taxes received by the overlapping taxing districts of Oregon City's urban renewal areas. The division of tax process results in some property taxes that may have been received by the taxing districts that levy property taxes with the urban renewal area being paid to the Urban Renewal Agency of Oregon City. The taxing districts forego a share of property tax income during the life of an urban renewal plan so the Urban Renewal Agency can carry out activities that increase property values in the long-term.

Passage of Ballot Measure 50 (Article XI, Section 11 of the Oregon Constitution) resulted in converting most property taxes (i.e., tax bases) from a levy-based system to a rate-based system. Schedules are provided later in this Report of the "post" Measure 50 financial impact by taxing district for Oregon City's Urban Renewal Agency. The following schedules show the impact of

the division of taxes on the overlapping taxing jurisdictions for the prior fiscal year and the current fiscal year. The schedules include each taxing entity's:

- ◆ Permanent taxing rate
- ◆ Calculated urban renewal rate that is effectively redirected from the permanent rate of the taxing entity to the urban renewal agency
- ◆ Calculated property taxes from each taxing entity that is redirected to the urban renewal agency
- ◆ Total levy of each entity
- ◆ Percentage of the division of taxes to the total levy of each entity
- ◆ Total amount of property taxes to the urban renewal agency from each urban renewal area

The shared value reflects the common value of the underlying properties that are within the City of Oregon City and the overlapping taxing entity.

**Financial Impact of the Division of Taxes on Overlapping Taxing Jurisdictions
Fiscal Year Ending June 30, 2017**

Taxing District	Permanent Rate	Bonds Outside	Total	Incremental TAV (thousands)	Urban Renewal Tax Rate	Shared TAV (thousands)	Division of Taxes	Division of Taxes % of Total Levy within City
Clackamas County	\$ 2.4042	\$ -	\$ 2.4042	156,243	\$ 0.1215	\$ 3,089,503	\$ 375,639	4.97%
County Extension & 4-H	0.0500	-	0.0500	156,243	0.0025	3,089,503	7,812	4.97%
County Library	0.3974	-	0.3974	156,243	0.0200	3,089,503	62,091	4.97%
County Soils	0.0500	-	0.0500	156,243	0.0025	3,089,503	7,812	4.97%
City of Oregon City	4.4090	-	4.4090	156,243	0.2229	3,089,503	688,874	4.97%
ESD Clackamas	0.3687	-	0.3687	156,243	0.0186	3,089,503	57,607	4.97%
Fire #1 Clackamas County	2.4012	-	2.4012	156,243	0.1214	3,089,503	375,170	4.97%
Clackamas Community College	0.5582	-	0.5582	156,243	0.0282	3,089,503	109,354	4.97%
Port of Portland	0.0701	-	0.0701	156,243	0.0035	3,089,503	10,953	4.97%
Sch 62 - OC	4.9629	-	4.9629	156,243	0.2509	3,089,503	775,417	4.97%
Sch 62 - OC Bond	-	1.4305	1.4305	156,243	0.0576	3,089,503	178,164	4.97%
Srv 2 Metro	0.0966	-	0.0966	156,243	0.0048	3,089,503	15,093	4.97%
Vector Control	0.0065	-	0.0065	156,243	0.0003	3,089,503	1,015	4.97%
Totals	\$ 15.7748	\$ 1.4305	\$ 17.2053		\$ 0.8547		\$2,665,001	
Less: Truncation Loss								
Truncation Loss							(2,475)	
Compression Loss							(3,585)	
Total Levy							\$2,658,941	

Financial Reports

The following financial schedules account for the activities of Oregon City's Urban Renewal Agency. In accordance with ORS 457.460 (1), these reports were prepared using the same basis of accounting it uses to prepare its financial statements -- modified accrual basis of accounting. This report is available after the conclusion of the audit each year by January 31st from the Finance Department at Oregon City City Hall. Copies of the Agency's complete audited financial statements and other financial records are available online at:

<https://www.orcity.org/economicdevelopment/urban-renewal>

Financial Information for the Year Ended June 30, 2017

As summarized below, The Agency generated approximately \$2.39 million in tax increment property taxes in fiscal year ended June 30, 2017, an increase of approximately \$198,000 when compared to the 2016 fiscal year. Oregon City’s Urban Renewal Agency receives property taxes according to the division of taxes method calculation. These property taxes are used to finance various urban renewal projects and activities. Expenses decreased over that same period by approximately \$274,000, mainly due to the voter-approved measure mentioned above. Total taxes are anticipated to be \$2.45 million in fiscal year 2017-18, slightly higher than budgeted. Oregon City’s Urban Renewal Agency budget for fiscal years 2018 and 2019 was adopted on a biennial basis, and is shown below along with financial information for the 2016 and 2017 fiscal years.

Statement of Revenue and Expenditures and Changes in Fund Balance

	Actual 2015-16	Actual 2016-17	Biennial Budget 2017-19
Revenues:			
Property taxes	\$ 2,195,396	\$ 2,393,863	\$ 5,038,000
Miscellaneous	91,733	126,730	170,000
Total revenue	<u>2,287,129</u>	<u>2,520,593</u>	<u>5,208,000</u>
Expenditures:			
Materials and services	719,643	250,749	202,000
Development project incentives	6,814	47,867	700,000
Capital projects	142,801	317,644	-
Debt service	1,660,747	1,640,072	3,219,160
Contingency	-	-	38,000
Total expenditures	<u>2,530,005</u>	<u>2,256,332</u>	<u>4,159,160</u>
Revenues over (under) expenditures	(242,876)	264,261	1,048,840
Net change in fund balance	(242,876)	264,261	1,048,840
Beginning fund balance and contingency	<u>3,378,071</u>	<u>3,135,195</u>	<u>3,219,900</u>
Reserved ending fund balance	<u>\$ 3,135,195</u>	<u>\$ 3,399,456</u>	<u>\$ 4,268,740</u>

Note: Figures are based upon audited financial statements.

Detail on Major Projects

	Actual 2015-16	Actual 2016-17	Biennial Budget 2017-19
Development Project Incentives	\$ 6,814	\$ 47,867	\$ 700,000
Capital projects:			
Amtrak station	32,350	-	-
McLoughlin Blvd project phase II	110,451	308,145	-
Other capital programs	-	9,499	-
Total	\$ 149,615	\$ 365,511	\$ 700,000

Note: Figures are based upon audited financial statements.