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# Milwaukie Urban Renewal Feasibility Study

## Deliverable 2: Tax Increment Revenue Projections

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## I. INTRODUCTION

This memo summarizes the tax increment revenue projections for the Milwaukie Urban Renewal Feasibility Study Area and is Deliverable 2 under our professional services agreement. We have previously submitted and reviewed with the City, Deliverable 1, which is a Market Analysis and Tax Increment Revenue Projection Methodology. Deliverable 2 extends the findings provided in Deliverable 1 to include actual tax increment revenue forecasts and possible bonding schedules in relation to the tentative project schedule. This summary is accompanied by an Excel workbook that can be used to analyze alternative study area boundaries.

This memo describes our initial analysis of the tax increment revenues that might be generated by appropriate urban renewal investments and general growth of the City in the recommended feasibility study area.

## II. STUDY AREA

We divided the initial study area into subareas as shown in Figure 1 below.

Figure 1: Feasibility Study Subareas

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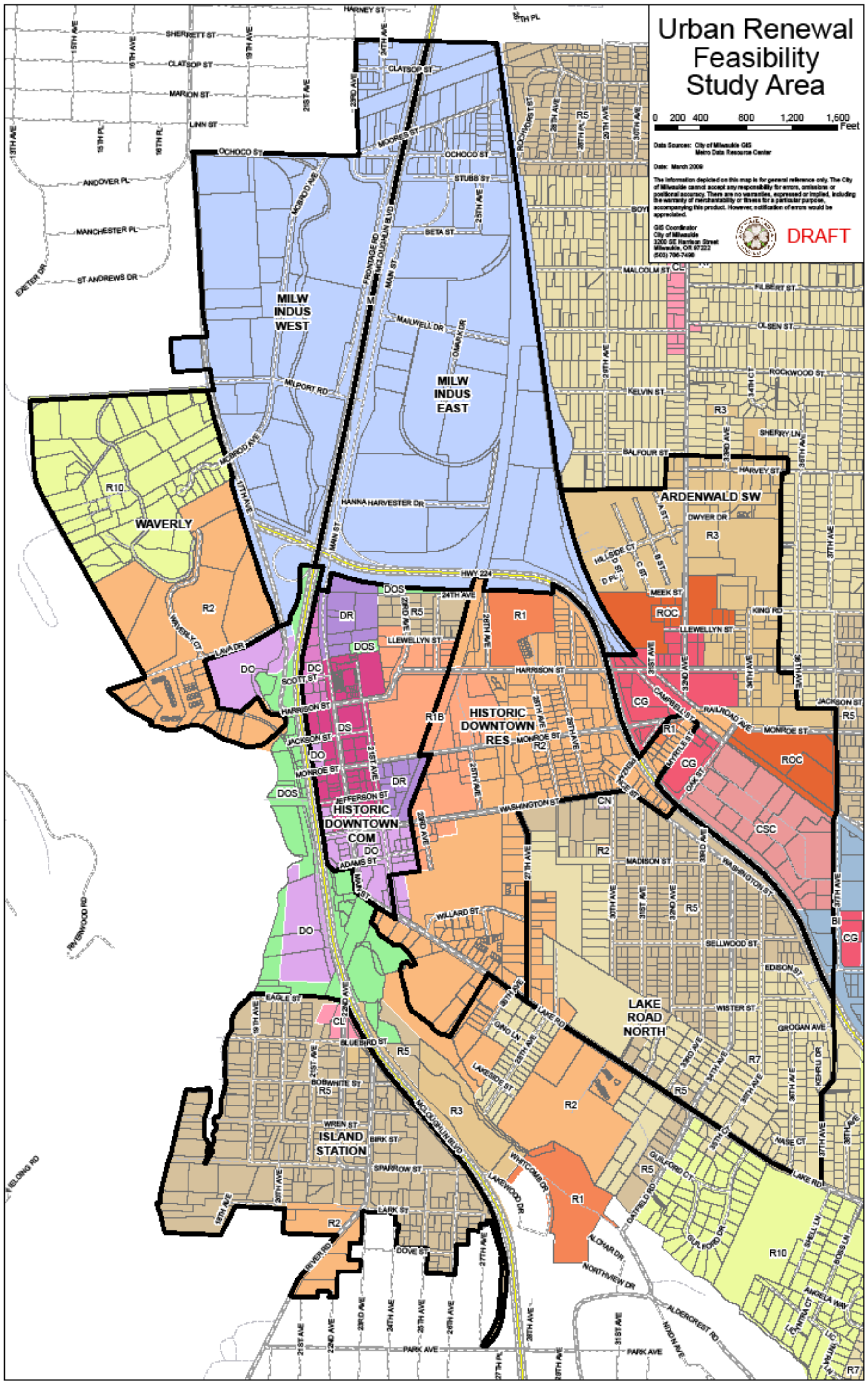


Our recommendation regarding the feasibility study area is to include the Waverly, Historic Downtown Commercial, Historic Downtown Residential and Ardenwald subareas. This area contains approximately $220,000,000 in assessed value that is just under 15% of the total assessed value of the city of Milwaukie. The basis for this recommendation are listed below.

1. It includes the subareas containing all the opportunity sites identified by staff and the consultant team. We project that, because of their location, size and current land use, opportunity sites will capture almost all of the new development and rehabilitation activity in the overall study area. We find that the subareas containing the opportunity sites, in general, have the greatest potential for additional redevelopment and rehabilitation because of the land use designations and the sometimes low value of existing improvements.

2. It does not include primarily single family residential neighborhoods (North Lake Road, Island Station) where residents and property owners may view their inclusion in an urban renewal area as a threat to neighborhood stability. These neighborhoods are largely developed, and while investment in existing homes is occurring and will continue to occur, there does not seem to be a need for urban renewal investments to continue this trend.

3. It does not include the Milwaukie East and West Industrial subareas. These areas are largely built out and have little vacant land. Many of the existing buildings, though occupied, are not designed to meet current industrial space preferences, such as high volume space or flexible space. Previous study of the area by the City of Milwaukie has concluded that demand for industrial space in these areas is weak because of the common need to demolish existing buildings before constructing new space. The costs of this extra site development work render the properties uncompetitive when compared to vacant industrial land in the metro area. The high cost of the site work make it incompatible for inclusion in this urban renewal plan, given the needs for the development of the opportunity sites and the project list identified by city staff. Commercial uses that might support the higher development costs are not allowed under the zoning.

   No LRT station is planned for the area (there are stations north near Tacoma and south at Lake Road). Improvements necessary for improving vehicle access to and from the area from McLoughlin and Highway 224 are anticipated to be quite expensive and may be far off in the future.

This recommendation is for urban renewal feasibility study area purposes only. If the City decides to prepare an urban renewal plan, the planning will include a further analysis of what areas are most suitable for urban renewal.

Note that this suggested urban renewal feasibility study area contains less than 15% of the maximum 25% of the city's assessed value and 11% of the maximum 25% of the city's acreage. If adopted as an urban renewal area, this would preserve capacity for additional property to be included in an urban renewal area at a future time.

## III. METHODOLOGY

*TAX INCREMENT REVENUE PROJECTIONS*

Tax increment revenues are a function of the growth in assessed value in an urban renewal area ("incremental assessed value") and the property tax rate applied to that growth under state law ("consolidated billing rate"). (The consolidated billing rate will not include tax rates for General Obligation ("GO") bonds approved by voters prior to October, 2001 or any Local Option Levies.)

For the growth in incremental assessed value, we have used the development programs for the opportunity sites and the market values for the different types of development contained in the market analysis (apartment, condo, retail in centers, other retail, office and lodging).
Nancy Guitteau of Urban Land Economics then projected a development schedule in five year increments. We then spread the projected development evenly within each five year period (20% each year) except for the lodging which is projected to be developed as a single project in a single year.

The real market value of the new development was based on the real market values per unit (dwelling unit or square foot) for 2009 and inflated annually at projected rates. Then the real market values were converted to assessed values using projected Changed Property Ratios (CPR's). Finally, we projected annual rates of appreciation (increases in assessed value subject to the 3% maximum). This gave us a total assessed value by year.

We then subtracted the projected value of the feasibility study area in FY 09/10 (the "frozen base") to calculate the incremental assessed value. Finally, we applied the projected consolidated billing rate (which consists of the total of the permanent rates and decreasing rates for the GO bonds approved prior to October, 2001).

This calculation provides the maximum annual tax increment revenues. We took the annual revenue stream and calculated the debt or borrowing that could be supported by those revenues to give a sense of the financial capacity of the projected tax increment revenues by year. In all cases the projection period is from FY 2011/2012 to FY 2030/2031, a twenty year period.

# IV. ANALYSIS

## A. Real Market Values and Assessed Values

Table 1 (Table 4.4 from the Market Analysis) below shows the projected development schedule in five year increments. The projections from the Market Analysis show the development of the opportunity sites *with the appropriate public investment through urban renewal and other sources.* The scope of the feasibility study does not include analyses of what specific investments at what cost would be required to move these projects ahead. For the sake of this projection, we are assuming that those investments are made.

Table 1: Projected Development Schedule

Table 4-4

**NEW DEVELOPMENT SCHEDULE AND MARKET VALUATIONS**

| | | ***Period in which New Development Occurs*** | | | |
|---|---|---|---|---|---|
| | Total Dev (SF) | 2010-2014 | 2015-2019 | 2020-2024 | 2025-2029 |
| ***Retail (Total)*** | 160,200 | | | | 0 |
| ***In Centers*** | 100,000 | 20,000 | 60,000 | 20,000 | 0 |
| ***In MXD Buildings*** | 60,200 | 0 | 25,200 | 35,000 | 0 |
| ***Office*** | 148,500 | 0 | 64,000 | 46,500 | 38,000 |
| ***Housing (Total)*** | 574 | | | | |
| ***Apartments*** | 300 | 160 | 124 | 16 | 0 |
| ***Condominiums*** | 274 | 0 | 190 | 84 | 0 |
| ***Lodging*** | 200 | 0 | 0 | 0 | 200 |

Source: Urban Land Economics

Table 2 (Table 5.6 from the Market Analysis) below shows the real market unit values in 2009 dollars for the projected development.

Table 2: Real Market Unit Values

Table 5-6

**FINAL PROJECTED VALUES FOR MILWAUKIE URBAN RENEWAL LAND USES**

| | Retail In Centers | Retail In MXD | Office | Apts. (Unit) | Condos | Lodging (Room) |
|---|---|---|---|---|---|---|
| INCOME APPROACH | $203 | $154 | $141 | $88,172 | N/A | N/A |
| COMPARABLE SALES | | | $192 | $94,229 | $220,283 | $139,176 |
| Multi-tenant | $201 | N/A | | | | |
| Single-Tenant | $466 | N/A | | | | |
| **FINAL PROJECTED VALUE** | **$260 1/** | **$155** | **$150** | **$90,000** | **$210,000** | **$135,000** |

1/ Assumes 75% of space is in shopping centers and 25% is in single-tenant buildings.

Source: Urban Land Economics.

The real market values above were inflated by 0% for calendar year 2010, 1% per year for 2011 and 2012, and 2% per year for all years after 2012.

To convert the real market values to assessed values, we projected the CPR’s, using a single CPR for all the development types. (The current CPR’s are close enough for that assumption.) The ratio is projected to rise slowly to a level of .59 and stay at that level throughout the projection period.

Table 3 below shows the projected development, real market values, CPR’s and assessed values for the projection period. In terms of appreciation and growth in addition to opportunity sites, we project increases of 2.75% for FY 2010/2011 and FY 2011/2012 and then 3% annually for the remainder of the projection period.

Table 3: Projected Real Market Value and Assessed Value by Year

| Fiscal Year Ending June 30 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| UNIT VALUES | | | | | | | | | | |
| Retail in Ctrs | 260 | 263 | 265 | 271 | 276 | 281 | 287 | 293 | 299 | 305 |
| In MXD Buildings | 155 | 157 | 158 | 161 | 165 | 168 | 171 | 175 | 178 | 182 |
| Office | 150 | 152 | 153 | 156 | 159 | 162 | 166 | 169 | 172 | 176 |
| Apartments | 90,000 | 90,900 | 91,809 | 93,645 | 95,518 | 97,428 | 99,377 | 101,365 | 103,392 | 105,460 |
| Condominiums | 210,000 | 212,100 | 214,221 | 218,505 | 222,876 | 227,333 | 231,880 | 236,517 | 241,248 | 246,073 |
| Lodging | 135,000 | 136,350 | 137,714 | 140,468 | 143,277 | 146,143 | 149,066 | 152,047 | 155,088 | 158,190 |
| | | | | | | | | | | |
| INFLATION | | | | | | | | | | |
| Inflation % | 0% | 1% | 1% | 2% | 2% | 2% | 2% | 2% | 2% | 2% |
| | | | | | | | | | | |
| DEVT SCHEDULE | | | | | | | | | | |
| Calendar Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Retail in Ctrs | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 |
| In MXD Buildings | | | | | | 5,040 | 5,040 | 5,040 | 5,040 | 5,040 |
| Office | | | | | | 12,800 | 12,800 | 12,800 | 12,800 | 12,800 |
| Apartments | 32 | 32 | 32 | 32 | 32 | 25 | 25 | 25 | 25 | 25 |
| Condominiums | | | | | | 38 | 38 | 38 | 38 | 38 |
| Lodging | | | | | | | | | | |
| | | | | | | | | | | |
| REAL MARKET VALUE | | | | | | | | | | |
| Annual RMV | | | | | | | | | | |
| Retail in Ctrs | 1,040,000 | 1,050,400 | 1,060,904 | 1,082,122 | 1,103,765 | 3,377,519 | 3,445,070 | 3,513,971 | 3,584,251 | 3,655,936 |
| In MXD Buildings | 0 | 0 | 0 | 0 | 0 | 845,679 | 862,592 | 879,844 | 897,441 | 915,390 |
| Office | 0 | 0 | 0 | 0 | 0 | 2,078,473 | 2,120,043 | 2,162,444 | 2,205,693 | 2,249,807 |
| Apartments | 2,880,000 | 2,908,800 | 2,937,888 | 2,996,646 | 3,056,579 | 2,416,225 | 2,464,550 | 2,513,841 | 2,564,118 | 2,615,400 |
| Condominiums | 0 | 0 | 0 | 0 | 0 | 8,638,655 | 8,811,429 | 8,987,657 | 9,167,410 | 9,350,759 |
| Lodging | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | |
| Total | 3,920,000 | 3,959,200 | 3,998,792 | 4,078,768 | 4,160,343 | 17,356,553 | 17,703,684 | 18,057,757 | 18,418,913 | 18,787,291 |
| ASSESSED VALUE | | | | | | | | | | |
| CPR | 0.56 | 0.57 | 0.58 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 |
| AV | 2,195,200 | 2,256,744 | 2,319,299 | 2,406,473 | 2,454,602 | 10,240,366 | 10,445,173 | 10,654,077 | 10,867,158 | 11,084,502 |

Table 3: Projected Real Market Value and Assessed Value by Year, continued

| Fiscal Year Ending June 30 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| UNIT VALUES | | | | | | | | | | |
| Retail in Ctrs | 311 | 317 | 323 | 330 | 336 | 343 | 350 | 357 | 364 | 371 |
| In MXD Buildings | 185 | 189 | 193 | 197 | 201 | 205 | 209 | 213 | 217 | 221 |
| Office | 179 | 183 | 187 | 190 | 194 | 198 | 202 | 206 | 210 | 214 |
| Apartments | 107,569 | 109,720 | 111,915 | 114,153 | 116,436 | 118,765 | 121,140 | 123,563 | 126,034 | 128,555 |
| Condominiums | 250,994 | 256,014 | 261,134 | 266,357 | 271,684 | 277,118 | 282,660 | 288,313 | 294,080 | 299,961 |
| Lodging | 161,353 | 164,580 | 167,872 | 171,229 | 174,654 | 178,147 | 181,710 | 185,344 | 189,051 | 192,832 |
| | | | | | | | | | | |
| INFLATION | | | | | | | | | | |
| Inflation % | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% |
| | | | | | | | | | | |
| DEVT SCHEDULE | | | | | | | | | | |
| Calendar Year | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Retail in Ctrs | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | | | | | |
| In MXD Buildings | 7,000 | 7,000 | 7,000 | 7,000 | 7,000 | | | | | |
| Office | 9,300 | 9,300 | 9,300 | 9,300 | 9,300 | 7,600 | 7,600 | 7,600 | 7,600 | 7,600 |
| Apartments | 3 | 3 | 3 | 3 | 3 | | | | | |
| Condominiums | 17 | 17 | 17 | 17 | 17 | | | | | |
| Lodging | | | | | | 200 | | | | |
| | | | | | | | | | | |
| REAL MARKET VALUE | | | | | | | | | | |
| Annual RMV | | | | | | | | | | |
| Retail in Ctrs | 1,243,018 | 1,267,878 | 1,293,236 | 1,319,101 | 1,345,483 | 0 | 0 | 0 | 0 | 0 |
| In MXD Buildings | 1,296,803 | 1,322,739 | 1,349,193 | 1,376,177 | 1,403,701 | 0 | 0 | 0 | 0 | 0 |
| Office | 1,667,318 | 1,700,664 | 1,734,677 | 1,769,371 | 1,804,758 | 1,504,353 | 1,534,440 | 1,565,129 | 1,596,432 | 1,628,360 |
| Apartments | 344,220 | 351,105 | 358,127 | 365,289 | 372,595 | 0 | 0 | 0 | 0 | 0 |
| Condominiums | 4,216,700 | 4,301,034 | 4,387,055 | 4,474,796 | 4,564,292 | 0 | 0 | 0 | 0 | 0 |
| Lodging | 0 | 0 | 0 | 0 | 0 | 35,629,419 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | |
| Total | 8,768,059 | 8,943,420 | 9,122,288 | 9,304,734 | 9,490,829 | 37,133,773 | 1,534,440 | 1,565,129 | 1,596,432 | 1,628,360 |
| ASSESSED VALUE | | | | | | | | | | |
| CPR | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 |
| AV | 5,173,155 | 5,276,618 | 5,382,150 | 5,489,793 | 5,599,589 | 21,908,926 | 905,320 | 923,426 | 941,895 | 960,733 |

## B. Consolidated Billing Rate

The consolidated billing rate was projected (see Table 4 below) based on FY 2008/2009 rates. We projected GO Bond rates to decline by 10% each year until the consolidated rate equals the total of the permanent rates. In FY 2008/2009 the consolidated billing rate was $17.3830 per $1,000 of assessed value. By FY 2019/2020 the rate is projected to equal the total of permanent rates of $15.4929 per $1,000.

Table 4: Projected Consolidated Billing Rate

| **Fiscal Year Ending June 30** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Permanent Rates | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 |
| Total Bonds Approved Before 10/2001 | 1.8901 | 1.7011 | 1.5121 | 1.3231 | 1.1341 | 0.9451 | 0.7560 | 0.5670 | 0.3780 | 0.1890 | 0.0000 | 0.0000 |
| | | | | | | | | | | | | |
| Grand Total | 17.3830 | 17.1940 | 17.0050 | 16.8160 | 16.6270 | 16.4380 | 16.2489 | 16.0599 | 15.8709 | 15.6819 | 15.4929 | 15.4929 |

| **Fiscal Year Ending June 30** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Permanent Rates | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 |
| Total Bonds Approved Before 10/2001 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| | | | | | | | | | | | |
| Grand Total | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 |

## C. Tax Increment Revenues

Table 5 below shows the projected annual tax increment revenues. The projected annual revenues take into account the reductions in the maximum revenues resulting from undercollection of property taxes and Measure 5 compression. The total permanent rates of the general government taxing districts (subject to the $10/$1,000 *real market value* constitutional limit) is $9.6959 per $1,000 *assessed value*. With the impacts of tax increment financing, this rate is projected to increase above $10.0000/$1,000 *assessed value* in FY 2017/2018. However, the rate will exceed the constitutional limits only for property assessed at or very close to its real market value. The vast majority of properties in Milwaukie are assessed well below their real market value. (Last fiscal year the total assessed value in the City was 58.1% of the total real market value.)

The terms used in the table are self explanatory but some notes are provided below.

| | |
|---|---|
| Prior Total Assessed Value | Assessed Value from previous year |
| Appreciation + General Dev't % | This percentage equals appreciation within the 3% maximum and new development outside of opportunity sites |
| Appreciation + General Dev't $ | The dollar amount resulting from the percentage growth rate. |
| Opportunity Site Development | From Table 3. |
| Total Assessed Value | Prior year's total plus appreciation, general development and opportunity site development assessed value |
| Frozen Base | Projected assessed value of the urban renewal area at the time of adoption of the Urban Renewal Plan |
| Incremental Assessed Value | Growth in assessed value over the frozen base |
| Tax Rate | Consolidated billing rate |
| Tax Increment Revenues | Incremental Assessed Value Times Consolidated Billing Rate |
| Net of Compression and undercollection @ 4% | This takes into account compression and undercollection. |

*TAX INCREMENT REVENUE PROJECTIONS*

Table 5: Projected Incremental Assessed Value and Tax Increment Revenues

| FY Ending June 30 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| Prior Total Assessed Value | 231,639,268 | 240,783,646 | 250,263,899 | 260,091,116 | 270,300,322 | 280,863,934 | 299,530,218 | 318,961,298 | 339,184,214 | 360,226,899 |
| Appreciation + General Dev't % | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Appreciation + General Dev't $ | 6,949,178 | 7,223,509 | 7,507,917 | 7,802,733 | 8,109,010 | 8,425,918 | 8,985,907 | 9,568,839 | 10,175,526 | 10,806,807 |
| Opportunity Site Development | 2,195,200 | 2,256,744 | 2,319,299 | 2,406,473 | 2,454,602 | 10,240,366 | 10,445,173 | 10,654,077 | 10,867,158 | 11,084,502 |
| Total Assessed Value | 240,783,646 | 250,263,899 | 260,091,116 | 270,300,322 | 280,863,934 | 299,530,218 | 318,961,298 | 339,184,214 | 360,226,899 | 382,118,208 |
| Frozen Base | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 |
| Incremental Assessed Value | 21,377,634 | 30,857,888 | 40,685,104 | 50,894,311 | 61,457,923 | 80,124,207 | 99,555,287 | 119,778,203 | 140,820,888 | 162,712,196 |
| | | | | | | | | | | |
| Tax Rate | 16.8160 | 16.6270 | 16.4380 | 16.2489 | 16.0599 | 15.8709 | 15.6819 | 15.4929 | 15.4929 | 15.4929 |
| | | | | | | | | | | |
| Tax Increment Revenues | 359,486 | 513,073 | 668,780 | 826,979 | 987,010 | 1,271,645 | 1,561,217 | 1,855,712 | 2,181,724 | 2,520,884 |
| Net of Compression @ 4% | 345,106 | 492,550 | 642,029 | 793,899 | 947,530 | 1,220,779 | 1,498,768 | 1,781,483 | 2,094,455 | 2,420,048 |

| FY Ending June 30 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| Prior Total Assessed Value | 382,118,208 | 398,754,909 | 415,994,174 | 433,856,149 | 452,361,626 | 471,532,064 | 507,586,952 | 523,719,880 | 540,354,903 | 557,507,445 |
| Appreciation + General Dev't % | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Appreciation + General Dev't $ | 11,463,546 | 11,962,647 | 12,479,825 | 13,015,684 | 13,570,849 | 14,145,962 | 15,227,609 | 15,711,596 | 16,210,647 | 16,725,223 |
| Opportunity Site Development | 5,173,155 | 5,276,618 | 5,382,150 | 5,489,793 | 5,599,589 | 21,908,926 | 905,320 | 923,426 | 941,895 | 960,733 |
| Total Assessed Value | 398,754,909 | 415,994,174 | 433,856,149 | 452,361,626 | 471,532,064 | 507,586,952 | 523,719,880 | 540,354,903 | 557,507,445 | 575,193,400 |
| Frozen Base | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 | 219,406,011 |
| Incremental Assessed Value | 179,348,897 | 196,588,162 | 214,450,137 | 232,955,615 | 252,126,053 | 288,180,940 | 304,313,869 | 320,948,891 | 338,101,433 | 355,787,389 |
| | | | | | | | | | | |
| Tax Rate | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 | 15.4929 |
| | | | | | | | | | | |
| Tax Increment Revenues | 2,778,635 | 3,045,721 | 3,322,455 | 3,609,158 | 3,906,164 | 4,464,758 | 4,714,704 | 4,972,429 | 5,238,172 | 5,512,178 |
| Net of Compression @ 4% | 2,667,489 | 2,923,892 | 3,189,556 | 3,464,792 | 3,749,917 | 4,286,168 | 4,526,116 | 4,773,532 | 5,028,645 | 5,291,691 |

## D. Tax Increment Debt Proceeds

The annual tax increment revenues shown in Table 5 above cannot, under state law, be used directly for urban renewal projects and programs. Rather, the annual revenues are to be used to support borrowings (bonds, loans, etc.) and the funds borrowed are then used for urban renewal projects. In practice, the borrowings can take the form of long term debt or bonds or short term debt which approximates a "pay as you go" approach. Short term debt can also take the form of services provided by the City or County for implementing an urban renewal plan, the cost of which is paid from tax increment revenues.

Table 6 below shows the proceeds (amount borrowed) of tax increment revenue supported debt, consisting of long term (15 year) bonds and short term borrowings. These are the funds that are projected to be available for projects and programs.

Table 6: Projected Tax Increment Debt Proceeds

| **Fiscal Year Ending June 30** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
|---|---|---|---|---|---|---|---|---|---|---|
| Long Term Debt Proceeds | 2,865,668 | 0 | 2,465,561 | 0 | 2,536,797 | 0 | 4,577,336 | 0 | 4,946,419 | 0 |
| Short Term Debt Proceeds | 0 | 0 | 0 | 220,000 | 0 | 325,000 | 0 | 591,701 | 0 | 686,826 |
| | | | | | | | | | | |
| Total Debt Proceeds | 2,865,668 | 0 | 2,465,561 | 220,000 | 2,536,797 | 325,000 | 4,577,336 | 591,701 | 4,946,419 | 686,826 |

| **Fiscal Year Ending June 30** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** |
|---|---|---|---|---|---|---|---|---|---|---|
| Long Term Debt Proceeds | 4,758,319 | 0 | 4,335,103 | 0 | 4,653,083 | 0 | 9,311,012 | 0 | 0 | 11,359,485 |
| Short Term Debt Proceeds | 0 | 864,971 | 220,258 | 913,147 | 301,695 | 1,838,404 | 0 | 1,635,894 | 1,645,290 | 208,340 |
| | | | | | | | | | | |
| Total Debt Proceeds | 4,758,319 | 864,971 | 4,555,361 | 913,147 | 4,954,778 | 1,838,404 | 9,311,012 | 1,635,894 | 1,645,290 | 11,567,825 |

The amounts raised from long term bonds are calculated using a term of 15 years, an interest rate of 5.00% and a "coverage ratio" of 1.25. Coverage ratios are used to create a cushion between projected revenues and moneys needed for payments on debt. A ratio of 1.25 means that for every $1.25 of revenues, $1.00 can be used as the basis of a borrowing.

The total debt proceeds in year of receipt dollars, including inflation, is $61,300,000. However, the revenues and debt are greatest at the end of the urban renewal plan implementation and smallest at the beginning. It is common at the beginning of an urban renewal plan that investments are required that cost more than the urban renewal debt can provide.

## V. EFFECTS OF HB 3056

In the 2009 Legislative Session, a bill was passed and signed into law by the Governor that changes various aspects of urban renewal plans and tax increment financing. The two major effects that the new law would have on an urban renewal plan in Milwaukie are (1) a limit on the maximum indebtedness of the Plan depending on the size of the frozen base and (2) a requirement to share tax increment revenues with the overlapping taxing districts when annual revenues reach 10% of the maximum indebtedness. Both the limits and the requirements for sharing can be avoided if the City gains the concurrence of the taxing districts that levy 75% of the permanent rate taxes in the urban renewal area.

### A. Maximum Indebtedness

The $61,300,000 maximum indebtedness figure for an urban renewal plan based on the feasibility study is within the limits of the law and does not require concurrence by overlapping taxing districts.

### B. Tax Increment Revenue Sharing

If an urban renewal plan is developed, the analysis will include projecting the year that urban renewal debt is repaid. Generally, with revenue sharing the length of time needed to repay indebtedness is increased, and the total interest costs also increase. It would likely be possible to gain the concurrence of the overlapping taxing districts to devote all tax increment revenues to retiring debt instead of sharing the revenues with the districts. Once the debt is retired, all the incremental assessed value in the urban renewal area will generate revenues for those districts. This issue would be explored if the City decides to prepare an urban renewal plan.

## VI. CONCLUSIONS

Over an approximately 20 year period, it is reasonable to project that development within the Urban Renewal Feasibility Study Area, primarily on the identified “opportunity sites,” would result in a stream of tax increment revenues that would support debt totaling $61.3 million. Over the first five year period, FY ending 2012- 2016, total debt proceeds are projected to be approximately $8 million. Much, if not all, of these debt proceeds will likely be required to provide incentives for the development of the opportunity sites.

It would be a mistake to focus on the projected total financing capacity of an urban renewal plan at the expense of focusing on the critical beginning years. As the City considers an urban renewal plan it would be well advised to look in detail at how the early years of the plan would be managed.