



URBAN RENEWAL AND TAX INCREMENT FINANCING

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INTRODUCTION

This report provides background information on urban renewal and tax increment financing so that concerns such as fairness, public participation, priorities, and continuation of urban renewal districts can be addressed. It includes (1) historical information on urban renewal programs and tax increment financing, (2) an explanation of the tax increment financing process and (3) a discussion of urban renewal and tax increment financing activity in Lane County and in Oregon.

URBAN RENEWAL

Urban renewal programs were designed to solve the problems of urban blight. Urban blight has been recognized as a problem in the United States for the past fifty years. In 1941 the Federal Housing Administration published "A Handbook for Urban Development for Cities in the United States" in which the problems of blight, redevelopment and rehabilitation were addressed. The program was delayed by World War II and became active again in 1949 with the urban renewal statute, "Title I of the Housing Act of 1949."¹ After 1949 the emphasis shifted from low-cost housing to the redevelopment of cities. Cities throughout the nation benefited as the federal government provided funding procedures and standards for urban renewal.

The federal government insisted that state and local governments share in the responsibilities of urban renewal. It mandated, first, that states pass enabling legislation and, second, that local governments provide matching funds. In 1951 the Oregon legislature responded by passing an urban renewal law (ORS Chapter 457) that enabled local governments to receive urban renewal grants.² It did not provide detailed standards and procedures since those were already mandated by federal law. In 1957 legislative changes in Chapter 457 allowed city councils or county commissions, as well as separate bodies appointed by the city or county, to function as urban renewal agencies.³

Passage of the Federal Housing and Community Development Act of 1974 phased out the direct federal involvement in urban renewal programs and repealed the federal rules and regulations that governed renewal projects and supported ORS 457.⁴ The Oregon Legislature determined that an analysis of the urban renewal statutes was necessary and as a result the "Report of the Joint Interim Task Force of Urban Renewal Financing" was completed by December 1977.

The study led to legislation in 1979 that substantially rewrote urban renewal statutes in Oregon to provide detailed regulations, standards and procedures. A municipality (county as well as city) must determine that an area is "blighted." One of the changes made by the 1979 legislature was the definition of "blight". Originally "blighted areas" meant areas with dilapidated and overcrowded buildings which were detrimental to the community.⁵ The new law broadened the definition of blight significantly (ORS 457.010) to include such conditions as faulty planning, mixed character or shifting of uses, disuse of property, lack of proper utilization of areas, or the existence of inadequate streets. The new law also limited the percentage of land area and percentage of assessed valuation that could be included in urban renewal districts. See page 8.

Oregon Revised Statutes 457.035 deals with the creation of urban renewal agencies: "(1) In each municipality . . . there hereby is created a public body corporate and politic to be known as the Urban Renewal Agency of the municipality."

After the designated Urban Renewal Agency presents its renewal plan, the governing body may approve the plan which includes all of the requirements listed in ORS 457; for example, anticipated completion date, estimated amount of money required, anticipated year in which indebtedness will be retired, and a fiscal impact statement for all taxing entities. The plan may be approved only after public notice, hearing, and consideration of public testimony and planning commission recommendation (ORS 457.220) by non-emergency ordinance.

Any substantial change made in the plan shall, before being carried out, be approved and recorded in the same manner as the original plan (ORS 457.220,2). The plan is presumed valid for all purposes 90 days after adoption. "No direct or collateral attack on the action may thereafter be commenced." (ORS 457.135) A municipality may terminate an urban renewal agency if it is determined that it is no longer needed. However, "No urban renewal agency shall be terminated under this section unless all indebtedness to which a portion of taxes is irrevocably pledged for payment is fully paid." (ORS 457.075).

TAX INCREMENT FINANCING

The first mandate of the federal government's Housing Act of 1949 required that states pass enabling legislation. The second mandate required that local governments provide matching funds. California addressed that second requirement by passing the first tax increment financing (TIF) law in 1951.⁶ Oregon followed in 1960 when voters approved tax increment financing as a constitutional amendment. Implementing legislation was passed in 1961 (ORS 457.410 to 457.450).

Tax increment financing became a major funding method after the passage of the Federal Housing and Community Development Act of 1974; the federal urban renewal program that had provided major funding for rehabilitation projects was terminated. Now, community development block grants and other federal funds could be used to help finance renewal projects, but major funding responsibilities were shifted from the federal to the local level.

Definition of tax increment financing (TIF)

The State of Oregon Legislative Revenue Office Research Report #28-77, (September 1977) explains the tax increment process (page 2):

"The theoretical cornerstone of TIF is that the property values in the urban renewal area where this public investment is being made will increase substantially as new business is attracted. In other words, the infusion of public funds into an area will act as seed money to further investment of private funds. TIF attempts to use the growth in property value from the new private investment as a separate source of property tax revenues to pay back the initial public investment.

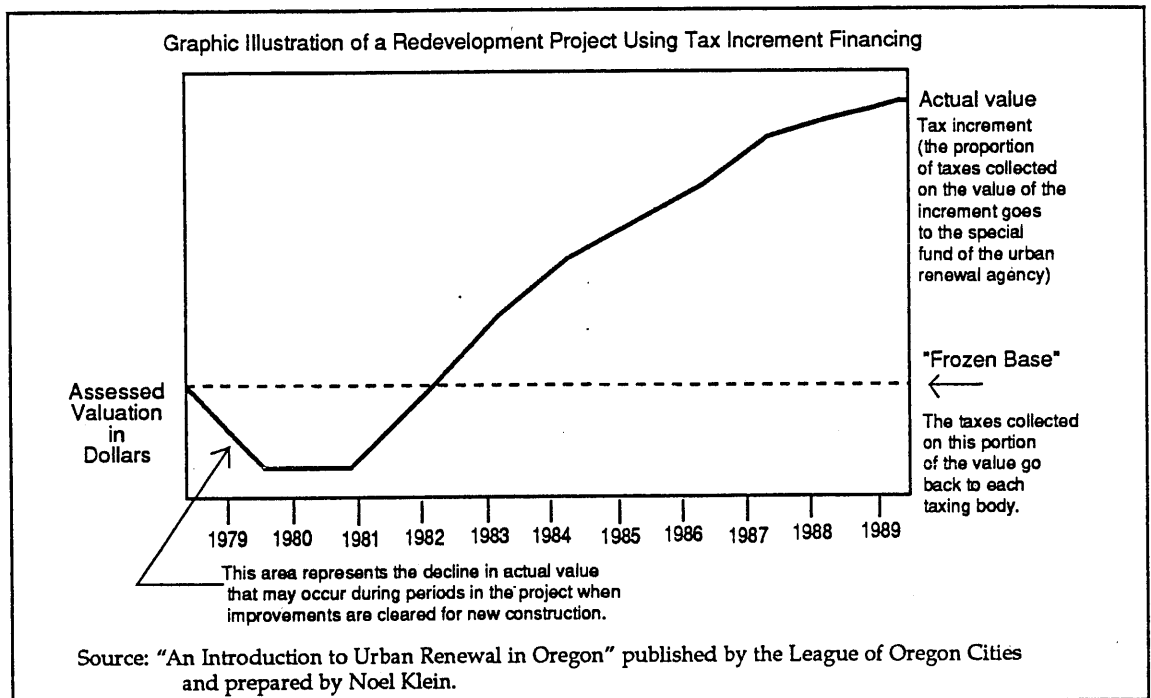
This separate revenue source is created by "freezing" the value of property in the urban renewal district as of a specified date. Henceforth, calculations of the property tax rate for taxing districts encompassing the renewal area uses the "frozen" value of the renewal area rather than the current value. Hence, for each succeeding tax year, the county assessor has both a 'frozen' value for calculating the tax rate and a current market value for applying the rate. [Note: see graph on page 4.]

Now, a few years later, if our previously mentioned cornerstone is intact, the renewal agency has issued bonds, made investments in renovating the CBD [Central Business District which is the theoretical urban renewal area], and has attracted many new private investments in the revitalized downtown area. Hence, the current market value of CBD property far exceeds the "frozen" value. Recall that the county assessor has been using the frozen value for calculating the tax rate, and each taxing district is recovering its allocated share of property tax revenues based on that frozen value. However, when the tax rate is applied to the current market value in the CBD, an amount in excess of that necessary to fund the taxing district's levies in the CBD is generated.

This excess [which is the "increment" of TIF] amounts to the tax rate times the difference between the "frozen" value and the current market [assessed] value. These additional tax revenues are utilized to repay the renewal bonds. When the bonds are all repaid, the value in the renewal area is "unfrozen" and the calculation of tax rates returns to using the current market value of the renewal area. When this takes place, the property tax rate for all taxing districts tends to decrease because of the infusion back into the system of dramatically increased value in the urban renewal area."

The Legislative Task Force comments: "Ideally, this system produces an excess between the amount of taxes collected based on the current market value and the amount the tax revenue would have been at the frozen value. This surplus is the increment, and it is deposited with the urban renewal agency.

This [the increment] becomes their revenue source. It is then used by the agency to pay the principal and interest on any indebtedness incurred by the agency in financing its projects. TIF funds may be the only source of revenue for an agency, or may be supplemented by loans or grants from public or private sources, general fund monies, lease revenue bonds, or tax allocation bonds. The latter would be secured and repaid with future tax increments. The urban renewal agency may elect to "pay as they go" with the increment funds providing a direct cash flow to the project. This is a slow process, however, and not generally followed."



Each government entity (such as a school district, city, county or a special service district) specifies the amount of tax dollars it is entitled to levy. The Oregon Constitution determines how local governments set that amount. After each local government has submitted its specified amount, the tax assessor totals those amounts, figures the amount needed per thousand of assessed valuation and sets the tax rate.

An increase in assessed valuation (except in a TIF district) lowers the tax rates; an increase does not provide local governments with more revenue. Whether or not there is a TIF district, all local governments receive their required funds. Taxpayers within the TIF districts pay taxes on their total assessed valuation at the same rate as other taxpayers but that portion of taxes paid on the increment is set aside to fund the TIF district and does not go to the local taxing districts.

During the life of a TIF district, the affect on tax rates depends on what would have happened if there had been no TIF district. If there is no increase in assessed valuation in the district, tax rates will be the same. If the area's valuation would have decreased without TIF, tax rates will be higher. If the area would have developed at the same rate without TIF as it did with TIF, then tax rates would be lower. Once a TIF district is closed, the increment is available to all taxing districts and tax rates go down but revenue does not increase.

LOCAL PARTICIPATION

Springfield, Cottage Grove, Veneta and Eugene have all used tax increment financing to fund their urban renewal projects.

SPRINGFIELD. Springfield became one of the first cities to use tax increment financing for urban renewal. The project redeveloped a fire-damaged industrial and residential area between Second and Third Streets. It was approved by voters in an advisory election, but in 1971 and 1973 proposals for the Gateway districts and the downtown area met with less favorable approval. In November 1973 the City Council voted to approve TIF but in February 1974, as a result of a successful initiative drive, Springfield citizens voted a city charter amendment that would require voter approval of any TIF. A retroactive clause would force the city to either drop the current funding plan or submit it to the voters. In 1987 a Private Investment Incentive Plant (PIIP), a form of TIF to market the city of Springfield to development interests, failed at the polls. Most recently on September 19, 1989, Springfield voters in a mail-in election rejected the latest TIF plan for community development in the Gateway area.⁸

COTTAGE GROVE. City Attorney Gary Ackley, stated that a tax increment district created in 1968 has been terminated. "The city is completing the projects which were committed to the program and funded prior to the termination but the actual tax collection related to the tax deferral program is no longer in effect." The program was administered through the Lane County Housing Authority.⁹

The Legislature's Task Force Report, 1977, states: "Cottage Grove had one of the earliest non-federally assisted programs. A tax increment project initiated in 1968 responded to problems of inadequate septic tanks. They claimed their program worked well, few problems were encountered and noted the value of citizen participation."

A list of TIF revenues (provided by the State Revenue Office) shows that in 1985-86 Cottage Grove's tax increment district had a base value of \$3,208,288 and an excess value of \$15,534,322. The latter amount is incorporated in the city's assessed valuation on which the tax rate is based.

VENETA. Veneta is also included on the Tax Revenue Office's list. In 1986-87 Veneta had a TIF district base of \$8,577,683 and an excess value of \$1,531,418.

EUGENE. In 1965 the Eugene City Council established an Urban Redevelopment Commission which later became the Eugene Renewal Agency (ERA).¹⁰ This independent governmental authority was established in 1967 to implement the Central Eugene Project and Urban Renewal Plan. In 1982 the City Council assumed the powers of the ERA and appointed the Downtown Commission as an advisory board.

Central Eugene Project. There was active public participation during the planning for the Central Eugene Project. The Central Eugene Project Report, written in 1977, refers to a \$35,000 pledge of private funds from downtown members of the Chamber of Commerce and an 18-month planning effort involving official city bodies and hundreds of local citizens. It also states that a 100 member citizens' advisory committee, Special Committee on Renewing Eugene (SCORE), had been established in October 1966 to provide active citizen participation in carrying out the plan for revitalization of downtown Eugene. SCORE met 14 times during the structural survey and planning phase. SCORE would hear a preliminary presentation, hold a discussion meeting, and then a decision-making meeting. The meetings were always open to the public and averaged 100 in attend-

with the final presentations drawing an overflow crowd of 300.¹¹ After dozens of public and committee meetings the Central Eugene Project was adopted by the City Council in 1968.¹²

The Urban Redevelopment Commission, a six-member group of citizens appointed by the City Council in 1965, was asked to develop a proposal for solving three problems: downtown parking, the blight of the central business district, and lessened commercial activity downtown as a result of competition from the Valley River Shopping Center to be constructed just 1.5 miles from the city center.¹³

The report by the Renewal Agency staff in 1977 describes conditions as they existed in the late sixties and progress that had been made in solving the problems of parking, blight and a viable downtown area by 1977. Today's Renewal Agency staff provides current information on accomplishments that have occurred as of 1989.

Parking. In 1969 all parking spaces were metered or for hire and 1,825 spaces were available in 30 lots for shopper parking. Only 220 spaces, or nine percent, were in public ownership. By 1976 all spaces were free to shoppers and patrons with no time limit and 2,765 spaces were available (52 percent increase). In 1976 85 percent of shopper parking was in permanent public ownership.¹⁴ No increase of land area for parking was needed because two parking structures had been constructed.

Now in 1990, according to Jerry Gill, city staff, 3,841 parking spaces are available within the Central Eugene Project. (The Hult Center parking facility and the Conference Center have been added since 1977.) Now, 16 percent are privately owned and 84 percent are publicly owned; 49 percent of all the spaces are in publicly owned parking structures and the 926 spaces that are free to the public have time limits.

Blight. In 1967 substandard buildings and a high vacancy rate were conditions of blight in the downtown area. The 192 buildings in the project area were rated as follows: 29 (15%) of the buildings were standard, 78 (41%) were deficient, and 85 (44%) were substandard¹⁵. Downtown offices had a vacancy rate of 25.6 percent in 1969 and five percent of all retail space was vacant. Vacancies along the mall were less than 3 percent in the six years prior to 1977.¹⁶

The removal of conditions of blight resulted in a substantial increase in assessed valuation. The frozen base for the Central Eugene Project is \$39,190,272. The 1977 report states that total assessed property value within the project area was \$41,841,974 in 1972 and jumped to approximately \$66 million by 1977 or a 57 percent increase in five years.¹⁷ The state legislature's Joint Interim Task Force tells of the success of the downtown project. "Plaudits were given Eugene's agency when it was announced in November, 1977, by the Downtown Research and Development Center of New York that the 35-block Central Eugene project had been judged best in their population category for Successful Development Techniques for Downtown Projects. It was one of five projects cited nationally for excellence. Design was not the only consideration. The effectiveness of the project in terms of stimulating revitalization and economic development of the downtown area was a prime factor."¹⁸ Based on 1989-90 assessment data, the estimated Central Eugene Project taxable assessed value is \$98,218,574.¹⁹

A 1989 fact sheet compiled by city staff lists the following accomplishments: "Urban renewal is responsible for construction of Eugene's pedestrian mall with its landscaping and fountains, the relining of all sanitary sewers in downtown, upgrading of downtown streets and public right-of-ways including repaving and widening where necessary, upgrading of traffic signals and controls, underground utilities, storm sewers, sidewalks, landscaping and street furniture, and improvements of the L.T.D. transit area including widened sidewalks, landscaping, street furniture, shelters and information kiosk.

Key projects have included the pedestrian mall, land for the Hult Center, construction of the Community Conference Center (adjacent to the Hilton Hotel), Arcade and Conference Center parking garages, and the more recent Broadway Project which updated a two-block section of the pedestrian mall. More than 25 new private buildings including the Hilton Hotel, Citizens Building, Park Willamette Building, Scan Design, South Park Building, Atrium Building, Seymour's, Harry Ritchie's, Valley Stationery and The Broadway were developed on renewal agency-owned property. Renewal-funded rehabilitation loans were instrumental in saving and restoring several historic buildings downtown including the Smeede Hotel, Schaefer Building and McDonald Theatre".

Pedestrian Mall. The creation of a pedestrian mall addressed the need to compete with the new shopping center. The Central Eugene Renewal Project report states that the idea of a pedestrian mall first surfaced years earlier. "In 1936 Fred Cuthbert, University of Oregon landscape architect faculty member, suggested plowing up Willamette Street, central artery of urban Eugene, to build a mall. No one took much note of Cuthbert's suggestion in 1936. Thirty-four years later Eugene Renewal Agency member, Ruth Miller, picked up a jackhammer and symbolically began mall construction in downtown Eugene.²⁰

In 1964 Eugene citizens had demonstrated their support of a pedestrian mall when they voted to amend the City Charter to provide for a pedestrian mall. By a vote of 16,392 yes to 9,902 no, the charter amendment authorized the City Council to plan, construct, and regulate a downtown pedestrian mall. The charter amendment stated in part: " It is hereby declared that in the central retail shopping area of the City of Eugene there is need to separate pedestrian travel from vehicular travel and that such separation is necessary to protect the public safety or otherwise to serve the public interest and convenience."²¹

In the late eighties, the pedestrian mall became a controversial issue when a proposal to reopen the mall to vehicular traffic was presented to the City Council. A public hearing before the City Council drew approximately 400 persons.

Riverfront Research Park. The newest tax increment district in Eugene is the Riverfront Research Park, an Urban Renewal District adopted by the City Council in September 1985, after all of the required hearings. The district is limited to a twenty year time span. The site includes about 148 acres located between Franklin Boulevard and the river. Existing land uses include commercial, industrial, residential, educational, and governmental. Ten acres are vacant. The Southern Pacific tracks and the millrace run the length of the area.

One of the major objectives of the plan is to add currently non-taxable property to the tax rolls and improve the existing taxable property. At this time, the value of the improvements in relation to the value of the land (I/L) is low for an area so near the city center. Excluding tax exempt property, the I/L ration is 1.6 to 1. A ratio of 3 to 1 or greater is recognized as the level for a prosperous and viable area.

Since its inception, the research park has been promised funds from state economic development funds. The state transportation department is allotting funds for the improvements connected with Franklin Boulevard which is a state highway. There have been delays in finding a developer; the first one chosen withdrew and the selection process was restarted. A new development firm has been chosen but the contract terms have not been finalized.²²

The Central Eugene Project and the Riverfront Research Park are the two active Eugene renewal projects. The completed projects are the East Campus Urban Renewal Project and the Danebo (States Street) Neighborhood Development Program.

The East Campus Urban Renewal Project involved the acquisition, demolition and sale of property in an area that includes Oregon Hall, the Student Health Center, and a portion of the Bean parking lot. It was planned in 1961, executed in 1963, completed in 1967, and funded with Housing and Urban Development funds.²³

The Danebo (States Street) Neighborhood Development Program was approved by the City Council, and implemented by the Urban Renewal Agency. Housing and Urban Development funds were made available on May 1, 1970. The project brought housing up to city standards, constructed public utilities, sidewalks, and streets and also created a city park.²⁴ The project, which included 200 properties in a 15-block Northwest Eugene area²⁵ was completed by 1973.

Eugene is considering at least two additional projects: the expansion of the Central Eugene Project, which has been tabled, and the Spectra-Physics plan being considered as a method of alleviating wetlands problems for Spectra-Physics and other industrial properties in the area.

CONCERNS

Many concerns about the urban renewal/tax increment process are being expressed today. Two of these concerns, the fairness of the percentage of acreage and assessed valuation that is included in urban renewal districts and the budgeting process, are addressed here.

Limitation 15%/15%. The state legislature in 1977 addressed the concern that some cities were abusing the tax increment process by including too large a portion of their area in tax increment districts. As an example, the task force said that Lincoln City reported 95% of its land area was in an urban renewal project.²⁶

The legislative remedy was to limit the land area for urban renewal districts. Cities of more than 50,000 population must not have urban renewal areas that exceed 15% of the total assessed value of the municipality -- exclusive of any increased assessed value for the urban renewal areas -- or exceed 15% of the total land area of that municipality. Cities with less than 50,000 population have a limit of 25%. (ORS 457.420)

Under state requirements, it is clear that Eugene is including only a small portion of its allowed area and assessed valuation in its tax increment districts. When comparing Eugene with a city of comparable size, Salem, it is apparent that Salem uses the urban renewal process much more extensively than Eugene does.

Eugene has a total 1989-1990 estimated taxable assessed value of \$3,200,952,657.²⁷ Salem's 1989-1990 true cash value is estimated to be \$2,515,000,000. Eugene's total assessed value of frozen bases is \$71,683,646 or 2.2 percent of the city's total assessed valuation. Salem's true cash value of frozen bases is estimated to be \$217,787,120 or 8.66 percent of the city's estimated total 1989-1990 assessed value.²⁸

The total incorporated land area for Eugene, as of July 6, 1989 is 24,349 acres. Salem has a total land area of 27,060 acres. The Central Eugene Project encompasses about 70 acres, or about 0.3 percent. This area combined with the Riverfront Park, approximately 148 acres, equals approximately 218 acres or less than one percent of the city's total land area in renewal districts. Salem's North Gateway Urban Renewal area, approved in 1989, is 1010.69 acres and represents 3.74 percent of the city's total area. When combined with Salem's other urban renewal areas, the total urban renewal area is 3,783.4 acres or 13.9 percent of the city's total land area.²⁹

Budget Process. Bob Hibsichman, city staff, describes the budget process: After staff preparation, a sub-committee of the Downtown Commission holds a minimum of two public meetings in which it considers the budget document in line item detail. Then the budget is reviewed by the full Downtown Commission and sent to the city manager. It is included in the overall city budget process as it goes first to the Budget Committee and then to the City Council for final approval.

The Urban Renewal Auditor's Report, June 30, 1988, states: "Because the City of Eugene, Oregon (City) has the ability to significantly influence Agency Operations and is responsible for Agency fiscal affairs, the Agency is considered to be a component unit of the City...As a result, the fund and account groups financial statements of the Agency are combined with the appropriate Eugene fund type and account groups financial statements...."³⁰

STATEWIDE PARTICIPATION

Jeffrey Tashman, president of the Association of Oregon Redevelopment Agencies(AORA), sent a list of cities and counties in Oregon that are known to have redevelopment programs: Albany, Astoria, Bandon, Beaverton, Bend, Boardman, Coos Bay, Eugene, Grants Pass, Hillsboro, Hood River, Keizer, Lake Oswego, Lebanon, Lincoln City, Medford, Newport, Oregon City, Salem, Seaside, Tualatin, Clackamas County, Coos County, and the Portland Development Commission. (Cottage Grove, Springfield, and Veneta are not on this list so apparently completed projects are not included.)

AORA is in the process of compiling approved urban renewal plans from each jurisdiction and other data regarding urban renewal in Oregon. In 1977 both the State Legislature and the City of Eugene analyzed and reported on urban renewal. Steve Bender (State Revenue Office), and Bob Hibsichman (city staff) say that no similar analysis has been made since.

SUMMARY

Urban renewal is a process used by federal, state, and local governments to deal with the problems of urban blight. Tax increment financing is a tool used by local governments to provide local funds for local urban renewal projects.

Initially, the federal government provided most of the funding but that responsibility has been shifted to local governments. The state provides enabling legislation (ORS 457) for the establishment of urban renewal agencies and lists the criteria for urban renewal plans and the use of tax increment financing.

The tax increment process is explained in this report by the study committee with excerpts from the State Revenue Office, the state Joint Interim Task Force Report and a graph from a League of Oregon Cities publication. Briefly, TIF is a means for using the increment generated from a development area to pay for the costs incurred by that development.

Springfield, Eugene, Cottage Grove and Veneta have all had urban renewal districts financed by tax increment funds. More than twenty other cities in Oregon have active urban renewal/tax increment districts. A comparison is made between the cities of Eugene and Salem which shows that Salem used TIF much more extensively than Eugene.

Public participation has been addressed. The voters decided at the state level, with a constitutional amendment, to allow cities to use the tax increment process. In Eugene they voted to establish the downtown pedestrian mall and in Springfield they voted to require voter approval for the establishment of urban renewal districts (the only city in Oregon with this requirement).

Not only did the citizens of Eugene vote to establish the downtown mall, but hundreds of persons were involved in the planning process in the 1960's. Residents can also be involved in the public hearing process. State law mandates that public hearings and meetings be held by the planning commission, budget committee, city council, and the urban renewal agency.

The committee considers this material to be background material for further study.