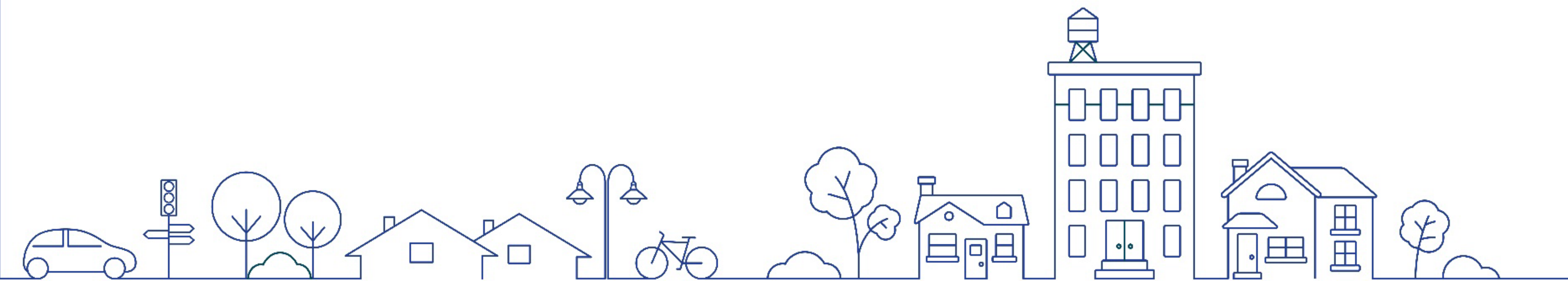
Oregon Municipal Handbook

CHAPTER 26:
ECONOMIC DEVELOPMENT



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Chapter 26: Economic Development

Introduction

This chapter addresses different avenues municipalities can explore to spur economic development within their jurisdiction. Topics will include urban renewal, economic improvement districts, and enterprise zones.

I. What is Economic Development
II. Urban Renewal
III. Economic Improvement Districts
IV. Enterprise Zones

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What is Economic Development?

Economic development is a concerted effort on the part of municipalities to influence the direction of private sector investment toward opportunities that can lead to sustained economic growth within the community. In turn, sustained economic growth can enhance local incomes, spur profitable business opportunities for employers and generate tax revenues, which can then be reinvested to maintain the infrastructure to support continued growth.

This chapter focuses on the primary tools cities have to encourage economic growth and development within their communities: urban renewal, economic improvement districts and enterprise zones.

Urban Renewal

Background:

Urban renewal is a re-development tool that cities and counties use to revitalize blighted areas within their communities. "Blight" means areas that "are detrimental to the safety, health or welfare of a community."[1] Indicators of blight include buildings that are unsafe or unfit for their intended purpose, overcrowding, and inadequate streets and other rights of way.[2]

Dozens of Oregon cities and counties already utilize urban renewal to add economic vibrancy to otherwise blighted areas in their communities. Re-vitalized communities may attract business, create jobs, and stimulate a local economy, while property value growth increases local tax rolls. In addition, urban renewal may provide a city or county with increased flexibility in working with private parties to complete development projects.

[1] ORS 457.010(1).
[2] *Id*.

Urban renewal projects and programs can include: the building of infrastructure such as streets or water, sewer or wastewater utilities to support new development; construction of public buildings or facilities; streetscape and transportation improvements such as lighting, trees, sidewalks, and pedestrian or bicycle routes; storefront grant or recruitment and retention programs for existing businesses; historic preservation projects; and more. If a city or county is considering urban renewal, the first step is to conduct a preliminary feasibility study to determine whether a blighted area actually exists, what projects would address the blight, and specific parameters for the urban renewal area.

Urban Renewal Agency Creation and Authority:

Each city and county inherently contains a public body known as an urban renewal agency ("URA").[3] However, such URA is not authorized to act until the city or county's governing body permits the URA to do so.[4] A city or county activates its URA by declaring, via nonemergency ordinance, that a blighted area exists and that there is a need for a URA to function in the area.[5] The ordinance must specify whether the URA will exercise its powers via: (1) a housing authority; (2) a designated board or commission of at least three members; or (3) the city or county's governing body itself (provided that the URA is a legal entity separate from the governing body of the city or county).[6] Broadly, a URA may make plans to rehabilitate and repair buildings, enforce land use laws, rehouse persons and property displaced by urban renewal projects,[7] borrow money and accept financial assistance,[8] and more.

Plan Requirements and Implementation:

Once activated, the URA has the responsibility of drafting an urban renewal plan and accompanying report. An urban renewal plan must include the following components:[9]

a. A description of each urban renewal project to be undertaken.
b. An outline of the major actions planned for the urban renewal area.
c. A map and legal description of the urban renewal area.
d. An explanation of the plan's relationship to local objectives.
e. An indication of proposed land uses, maximum densities, and building requirements for each urban renewal area.
f. A description of temporary or permanent relocation methods used for persons and businesses within the renewal area.
g. An indication of what properties (if any) may be acquired by the URA and how those properties will be disposed (by sale, lease, or otherwise), together with a schedule for acquisition and disposition.
h. If the plan includes the use of ad valorem taxes or tax increment financing, the maximum amount of indebtedness that may be issued or incurred under the plan.

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[3] ORS 457.035(1).
[4] *Id*.
[5] *Id*.
[6] ORS 457.045.
[7] ORS 457.170; ORS 457.180.
[8] ORS 457.190.
[9] ORS 457.085(2)(a)-(j).

i. A description of possible future "substantial" amendments to the urban renewal plan, including amendments that (1) add more than one percent of land to the urban renewal area and/or (2) increase the maximum amount of indebtedness that may be issued or incurred under the plan.
j. If a project includes a public building (such as a fire station, police station, or public library), an explanation of how the public building serves or benefits the urban renewal area.

Urban renewal plans are also subject to statutory limitations and requirements. If a plan includes the use of ad valorem taxes, the associated urban renewal area is limited by its maximum total acreage and assessed value.[10] If a city or county has a population of more than 50,000, these limits are either 15% of the total assessed value of that city or county, or 15% of the total acreage of that city or county.[11] If a city or county has a population of less than 50,000, these limits are either 25% of the total assessed value of that city or county, or 25% of the total acreage of that city or county.[12]

In addition, plans must conform with a city or county's acknowledged comprehensive plan[13] (though a city or county may approve a URA without conformance to its comprehensive plan if the area is in need of re-development due to a flood, fire, hurricane, earthquake, storm, or other natural disaster for which the city or county has sought assistance under federal law).[14] Furthermore, any given property may only be included in one urban renewal area at a time.[15] Finally, each plan must include the maximum amount of indebtedness that may be issued or incurred under the plan.[16] This maximum amount of indebtedness must be based on good faith estimates and comply with statutory limitations.[17]

The report that accompanies an urban renewal plan must contain:[18]

a. A description of the conditions in the urban renewal area and the expected impact of the plan;
b. Reasons for the selection of each urban renewal area in the plan;
c. The relationship between each project to be undertaken under the plan and the existing conditions in the urban renewal area;
d. The estimated total costs for each project and the sources of moneys to pay the costs.
e. The anticipated completion date for each project;
f. The estimated amount of moneys required for each urban renewal area under and the anticipated year in which indebtedness will be retired or otherwise provided for;
g. A financial analysis of the plan with enough information to determine the plan's feasibility;

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[10] ORS 457.420.
[11] ORS 457.420(2)(a)(A) & (B).
[12] ORS 457.420(2)(b)(A) & (B).
[13] ORS 457.085(3).
[14] ORS 457.160.
[15] ORS 457.420(3).
[16] ORS 457.190(3)(a).
[17] ORS 457.190(4).
[18] ORS 457.087(1)-(9).

h. A fiscal impact statement that estimates the impact of the tax increment financing, both until and after the indebtedness is repaid, upon all districts levying taxes on property in the urban renewal area; and
i. A relocation report that includes (a) an analysis of existing residents or businesses required to relocate as a result of the urban renewal agency's implementation of the plan; (b) a description of the methods used for the relocation of persons living, and businesses situated, in the urban renewal area; and (c) the cost range of each existing housing unit to be destroyed or altered and the new units to be added.

Once the urban renewal plan and report are drafted, the URA submits them to the city or county's governing body, as well as each taxing district affected by the plan, for review and approval.[19] Affected taxing districts have 45 days to provide written recommendations on the plan to the URA, and urban renewal plans that include public building projects require special concurrence from affected taxing districts.[20] After the statutorily required 45-day period has passed, the city or county governing body may approve the plan via non-emergency ordinance.[21] The city or county must follow all public notice and hearing requirements throughout its approval process.[22] Finally, the city or county must send a copy of the ordinance approving the urban renewal plan to the URA, which must record the plan with the recording officer of each included county.[23]

Following the plan's approval, the URA must prepare an annual financial report for the city or county before January 31 of each year.[24] Designed to encourage public transparency into urban renewal financing, each URA must annually report its maximum indebtedness, how much of that money has already been used, and an estimate of future money to be received.[25]

Urban Renewal Financing

Although a URA may use a variety of methods to fund its urban renewal effort,[26] tax increment financing ("TIF") is the most common funding mechanism. Upon a plan's adoption, the county assessor establishes the current assessed value of all property in the urban renewal area and then freezes that tax base.[27] As tax values increase beyond this frozen base, the resulting tax revenues become the URA's and can be used to finance the plan. Any tax revenue that is generated above the frozen base is called the "increment." When an urban renewal plan expires, the frozen base does as well, and the city or county will resume receiving taxes on the area's total assessed value.[28] State law establishes the process for evaluating a property's assessed value, the

[19] ORS 457.089.
[20] *Id*.
[21] ORS 457.095
[22] *See* ORS 457.095-ORS 457.120.
[23] ORS 457.125.
[24] ORS 457.460.
[25] *Id*.
[26] In addition to TIF, a URA may use the sale of property, loans, grants, and bonds to finance an urban renewal effort.
[27] ORS 457.430(1).
[28] ORS 457.450.

maximum total and annual increases a county assessor may make, and the proper procedure for handling surplus funds.[29]

Amendments, Transfers of Authority, and Terminations

Any substantial change made to an urban renewal plan must be approved and recorded in the same manner as the original plan.[30] A URA may not increase a plan's urban renewal area by more than 20 % of the total land area of the existing plan area without taking any subsequent reductions of the area into account.[31] In addition, a URA may only increase the maximum indebtedness under a plan if the total increase from all amendments does not exceed 20 % of the plan's initial maximum indebtedness (as adjusted by statute).[32]

A URA may transfer its authority via ordinance to another authorized body at any time.[33] However, a URA may only be terminated if the need for it no longer exists.[34] If terminated, all files, facilities, and personnel will transfer to city or county and the city or county will take the URA's place in any outstanding legal actions, contracts, or other obligations of the URA.[35] A URA may not be terminated if any portion of indebtedness still exists.[36]

[29] ORS 457.470; ORS 457.450.
[30] ORS 457.220(2).
[31] ORS 457.220(3).
[32] ORS 457.220(4).
[33] ORS 457.055.
[34] ORS 457.075.
[35] *Id*.
[36] *Id*.

EIDs: Economic Improvement Districts

Economic Improvement Districts ("EIDs") are public-private partnerships in which local property and business owners elect to make a collective contribution to the maintenance, development, and promotion of the district. A city may raise revenues for an EID in two distinct ways: (1) assessments on real property within the district; and (2) new or increased business license fees on businesses located in the district. All funds raised through either method must be used for "economic improvements" benefitting properties and businesses within the district. Qualifying improvements include planning or management of development or improvement activities, landscaping and maintenance of public areas, promotion of commercial activity or public events, activities in support of business recruitment and development, improvements in parking systems or enforcement, and other similar projects.[37]

To create an EID, the city must draft an ordinance establishing a procedure for raising revenue (whether by assessment or business license fee) for the cost of the economic improvement, which the ordinance must describe.[38] In particular, the EID ordinance must:

- Describe the qualifying economic improvement project to be undertaken or constructed;
- Contain a preliminary estimate of the probable cost of the economic improvement and, if imposing assessments, the proposed formula for apportioning cost to specially benefited property;
- Describe the boundaries of the benefiting district;
- Specify the number of years, up to five, in which assessments will be levied or business license fees will be imposed; and
- Include provisions for notices of the economic improvement, assessment/fee, and required hearing to affected property owners or business operators.[39]

Not sooner than 30 days after the city provides notice to affected parties, the city must hold a public hearing, called a remonstrance hearing, to allow those affected by creation of the district to voice support or opposition. If 33 % or more of the parties affected by the assessment or license fee object, then the ordinance fails and the city may not create the EID [40] If less than 33 % object and the city still wishes to move forward with the EID, then the city may not levy an assessment on the property of an owner who objected at the public hearing,[41] but may decide whether or not to exclude a person conducting business who objected to the business license fee.[42]

If, after the hearing, the city passes the ordinance establishing the EID and imposes assessments on properties within the district, then it must mail or personally deliver notice of the final

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[37] ORS 223.112(2); ORS 223.141(4).
[38] ORS 223.114(1); ORS 223.144(1).
[39] ORS 223.117(1).
[40] For assessments, the economic improvement project must be terminated "when written objections are received at the public hearing from owners of property upon which more than 33 percent of the total amount of assessments is levied." ORS 223.117(2)(e). For business license fees, the project must be terminated "when written objections are received at the public hearing from more than 33 percent of persons conducting business within the economic improvement district who will be subject to the proposed business license fee." ORS 223.147(2)(d).
[41] ORS 223.118(1)(a).
[42] ORS 223.147(2)(c)-(d).

assessment to each affected property.[43] The notice must explain that the owner of the affected property has the right to apply—within ten days after notice of final assessment is first published—to the city to pay the assessment in installments over a period of up to 30 years, with interest. [44] If not paid within the ten-day period, final assessments as well as accrued and unpaid interest and penalties become a lien on the property.[45] The city must keep detailed records of the EID, descriptions of the affected properties, names of property owners, and amounts of unpaid final assessments.[46] In addition, a city may issue bonds up to the unpaid balance of the final assessment plus the amount necessary to fund a debt service reserve and to pay financing costs from the bonds.[47]

Once an EID is established, it becomes a mandatory funding source from within the district for the benefit of the entire district. EIDs have used program funding for services such as graffiti abatement, sidewalk cleaning, and snow removal, as well as events such as a sidewalk sale and holiday tree lighting. Many cities opt to form advisory committees primarily composed of impacted property owners and businesses to advise the city on EID expenditures.[48]

When an EID expires, the city may renew it by passing a new ordinance—and holding another hearing—as long as the city complies with the requirements of establishing a new EID.

EIDs are popular with developers because the district benefits from the improvements relatively quickly but the payment obligations may be deferred for up to 30 years or even transferred to future property owners (who generally must pay the outstanding assessment in full when the property is transferred).

[43] ORS 223.127(2); ORS 223.210(1)
[44] ORS 223.127(2); ORS 223.210(1); ORS 223.215(2).
[45] ORS 223.127(1); ORS 223.230(3); ORS 223.393.
[46] ORS 223.127(2); ORS 223.230(1).
[47] ORS 223.127(2); ORS 223.235(1)-(2).
[48] ORS 223.119; ORS 223.151.

Enterprise Zones

Background:

Another economic development tool for local governments is enterprise zones. Enterprise zones exempt certain businesses within the zone from local property taxes on new investments for a period of time in order to attract private business investment, help resident businesses reinvest and grow, and ultimately revitalize areas of the state experiencing economic hardship.

The Oregon Legislature originally established Oregon's enterprise zone program in 1985, allowing a maximum of 30 zones that would each relieve tax burdens for qualifying businesses for ten years.[49] By 1989, the governor had designated all 30 zones throughout the state, and the cap was increased several times until 2015 when the Legislature lifted it entirely.[50] As of the date of publication, there are 76 enterprise zones in the state: 58 rural and 18 urban.[51] The program is set to sunset in June 30, 2025, unless extended by the Legislature.[52]

Cities, counties, tribal governments, and ports, or a combination of such jurisdictions, may designate an enterprise zone in an area that exhibits significant hardship based on economic measures set out in statute.[53] The local government(s) that designated the zone becomes the zone's "sponsor," and administers the program within the zone,[54] while Business Oregon ensures the zone and its sponsor(s) complies with the statutory requirements laid out in state law. There are currently five types of enterprise zones: standard, Long-term Rural Enterprise Zone Facilities, Electronic Commerce Zones, Tribal, and Rural Renewable Energy Development Zones.[55] Each type of enterprise zone has different requirements, benefits, and incentives, but this section focuses on the standard enterprise zone.

Requirements to Designate Enterprise Zone:

An enterprise zone must be located in an area in which:

- 50% or more of the households have incomes below 80 % of the median income of the state;
- The unemployment rate is at least two percentage points greater than the comparable unemployment rate for the state;
- The percentage of persons or families below the federal poverty level is at least five percentage points higher than the statewide poverty incidence rate;
- The 10-year change in population is at least 15 percentage points below the state's corresponding population change; or

[49] Enterprise Zones in Oregon: Local Sponsorship, https://www.oregon.gov/biz/Publications/Sponsorship%20Guidebook.pdf ("Sponsorship Guidebook"), p.2.
[50] LPRO Issue Brief, p.1.
[51] BizOr website, https://www.oregon.gov/biz/programs/enterprisezones/Pages/default.aspx (last visited 10/7/2022).
[52] ORS 285C.255.
[53] ORS 285C.090.
[54] ORS 285C.050(20)
[55] LPRO Issue Brief, p.2.

- Equally severe economic indicators that substitute for those specified that are evaluated by Business Oregon.[56]

An urban zone may not exceed 12 square miles in size, while a rural zone may not exceed 15 square miles. A zone may be noncontiguous (subject to distance requirements),[57] and multiple jurisdictions may join together to cosponsor a single zone.

Once a jurisdiction identifies an area as a potential enterprise zone, it may begin the process of designation. The jurisdiction should begin gathering the data necessary to demonstrate local economic hardship to qualify for an enterprise zone, and determine the other jurisdictions including local taxing districts, counties, ports, or tribal governments that may need to participate in or consent to the designation. Because Business Oregon oversees the enterprise zone program throughout the state, a city that is interested in exploring designating an enterprise zone should engage Business Oregon early in the process.

Designating an enterprise zone officially begins when the sponsoring government sends a formal advisory to Business Oregon stating its intent to designate an enterprise zone and providing documentation such as a map indicating the proposed zone's boundary and data on social and economic conditions that support designation as an enterprise zone.[58] Business Oregon reviews the documentation submitted, determines whether it meets the statutory requirements, and notifies the jurisdiction of its determination.

The sponsoring government must hold a public meeting to discuss the proposed enterprise zone, and must make the map, data, and written commentary of other jurisdictions available to the public at the meeting.[59] At least 21 days before the meeting, the sponsoring government must provide notice of the meeting to the relevant local taxing districts, soliciting written comments and inviting representatives to appear at the meeting, and must also provide notice to the county assessor. [60]

Not sooner than seven days after the public meeting, the sponsoring government must designate the enterprise zone by duly passed resolution, which must acknowledge any cosponsors and their duties, and must state that the zone does not compromise or override other ordinances or affect comprehensive plans.[61] Except in cases of re-designation, the enterprise zone designation becomes effective on the adoption date of the last resolution by a sponsoring or consenting government.[62]

Zones terminate by law on the June 30 that occurs 10 years after the zone designation, unless terminated earlier by the zone sponsor(s).[63]

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[56] ORS 285C.090; Sponsorship Guidebook, p.12.
[57] ORS 285C.090(3)-(4).
[58] OAR 123-650-4000(1).
[59] OAR 123-650-5100.
[60] OAR 123-650-5000.
[61] OAR 123-650-4800.
[62] Sponsorship Guidebook, p.13.
[63] ORS 285C.245(2).

Benefits to Eligible Businesses:

The standard enterprise zone exemption provides for total exemption from ad valorem property taxation for eligible businesses within the zone for three tax years,[64] but that period may be longer for rural enterprise zones[65] or upon agreement of the sponsor and the eligible business.[66] In addition to the standard exemption, a sponsor may add local incentives such as discounts in fees, regulatory assistance, or enhanced public services, [67] and there are additional optional benefits for construction-in-process[68] and publicly-owned real estate.[69]

In order to be eligible for the benefits in an enterprise zone, a business must operate within the zone and must provide goods, products or services to other businesses, organizations, or itself. Qualifying activities include manufacturing, assembly, fabrication, processing, shipping or storage.[70] Businesses engaged in retail sales or services, child care, housing, retail food service, health care, entertainment, financial services, professional services, leasing space to others, property management, or construction are explicitly excluded, as are businesses providing goods or services to the general public or for personal or household use.[71] Although tourism businesses are generally excluded from enterprise zone benefits, within the first six months of designation, a sponsor may elect by resolution to extend enterprise zone benefits to hotels, motels or destination resorts within the enterprise zone.[72]

To qualify for enterprise zone benefits, an eligible business must increase its full-time permanent employment within the zone by the greater of ten percent of its workforce or add one additional employee,[73] and must maintain a consistent level of business operations throughout the exemption period.[74] In addition, the eligible business may not diminish employment elsewhere in the state.[75] Finally, with few exceptions, the eligible business must enter into a first-source hiring agreement with a publicly funded job training provider that refers qualified candidates for jobs at the eligible business.[76]

Eligible investments include newly constructed buildings; major additions, modifications or improvements of existing buildings; and large, immobile equipment and tools;[77] and the minimum investment required is $50,000.[78] Non-qualifying investments include land, existing

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[64] ORS 285C.175.
[65] ORS 285C.403(3)(c).
[66] ORS 285C.160.
[67] ORS 285C.105(1)(b); Sponsorship Guidebook, p.6.
[68] ORS 285C.170.
[69] ORS 285C.110.
[70] ORS 285C.135(1).
[71] ORS 285C.135(2).
[72] ORS 285C.070.
[73] ORS 285C.200(1)(c).
[74] ORS 285C.210.
[75] ORS 285C.200(4).
[76] ORS 285C.050(10); ORS 285C.215.
[77] ORS 285C.180(1).
[78] ORS 285C.185(1).

buildings, existing equipment, most rolling stock (such as forklifts and delivery trucks) and most personal property.[79]

[79] ORS 285C.180(3).