Tax Increment Financing and Urban Renewal

By Elaine Howard

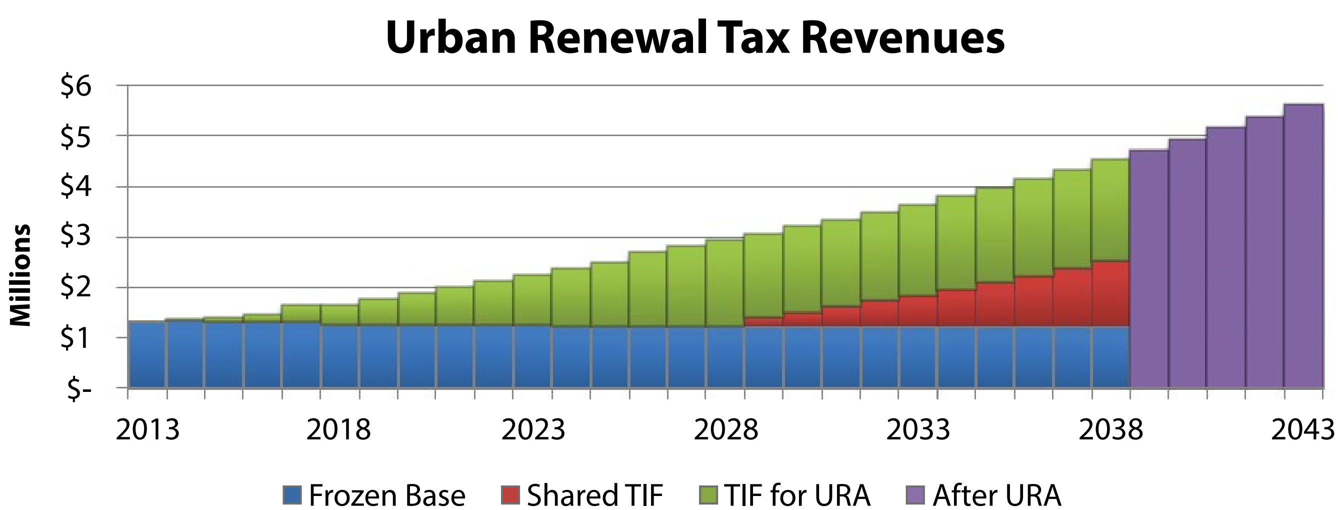
Tax increment financing, which follows the creation of an urban renewal area by a city or county, is an invaluable tool for helping create economic vitality in communities throughout Oregon. This type of financing is authorized under state law, implemented locally, and allows for the concentrated use of property tax revenues to facilitate economic growth in certain designated areas of a city or county. These areas can have a variety of deficient conditions, including infrastructure that is in need of upgrading; buildings that could benefit from storefront improvements or more full renovation; or low property values, which indicate the necessity of additional efforts to facilitate development.

The underpinning theory of urban renewal is that if these properties and the surrounding infrastructure are upgraded, they will contribute more substantially to the local economy and to the property taxes which support all of the taxing jurisdictions.

How Does Tax Increment Financing Work?

Urban renewal is unique in that it has its own funding source: tax increment financing (TIF). At the time an urban renewal plan is adopted, a county assessor calculates the total tax assessed value of the area and establishes this value as the "frozen base" for the area. Growth above the base is called the "increment." Tax increment revenues are the property tax revenues generated off the increase in the assessed values over the frozen base. These taxes from the growth in the urban renewal area go to the urban renewal agency for use within the urban renewal area. Taxes off the frozen base continue going to all of the taxing jurisdictions.

The amount of funds an urban renewal area may use is determined by setting a maximum indebtedness. This is the total amount of money that can be used on projects, programs and administration of the urban renewal area. It is based on



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balancing the project needs in the area with the timeframe desired for use of the tax increment tool. Typical new urban renewal plans are for 20-25 years. Interest on any borrowing (bonds, lines of credit) is not counted towards the maximum indebtedness. Urban renewal plans adopted after 2009 have the potential for revenue sharing when certain thresholds of tax increment generation are met. This potential is indicated in the chart on the previous page.

What Types of Programs or Projects are Eligible Under Urban Renewal?

Urban renewal agencies can do certain projects or activities under an adopted urban renewal plan. These activities generally include:

- **Construction or improvement of public facilities including streets and utilities.**

The Barber Street extension project in Wilsonville bridges the Coffee Creek wetlands and connects approximately 2,500 planned units of new residential development in the Villebois neighborhood of Wilsonville to transit services at South Metro Area Rapid Transit's (SMART) Central station and the Westside Express Service commuter rail station, located on the east side of the wetlands. By providing alternative routes for vehicle traffic, this urban renewal-funded project will improve fire department access to Villebois, school bus access to Lowrie Primary School, and reduce traffic congestion on Wilsonville Road. Additionally, this connection improves bike and pedestrian connectivity within the city and will tie into a future phase of the Tonquin Trail.

- **Development of parks, way-finding signage and other public uses.**

The Garden of Surging Waves in Astoria, a park that commemorates Chinese heritage in the community, was funded through a variety of sources, including tax increment financing. It is directly adjacent to the downtown core and within blocks of the recently renovated Liberty Theater, both projects key in bringing economic vitality and livability to Astoria.

- **Participation with developers for property improvement, or the creation of jobs and housing.**

The Face Rock Creamery was a project of the Bandon Urban Renewal Agency and a private developer. At present they have 15 new permanent full-time employees and four

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seasonal employees plus additional work for delivery transportation and milk truck drivers as well as the temporary jobs for construction. The business serves as a key tourist attraction at the north portal to Bandon.

The La Grande McLean Family Dental property was partially funded through an urban renewal grant. The project added jobs in the urban renewal area and services to the community.

- **Rehabilitation of existing buildings**

Sandy has an innovative storefront program, bringing in an architect to design the new exterior façade in keeping with a theme established for the downtown core.

How Does Tax Increment Financing Affect Overlapping Taxing Districts?

Financially and through improvements.

Taxing jurisdictions are impacted by tax increment financing both directly through the division of taxes for the urban renewal agency, but also impacted due to the positive impacts of urban renewal projects. Urban renewal agencies gain revenues through the collection of property taxes. Property tax increases come through new development and the statutory limit of 3 percent increase in assessed values on existing real property. During the use of tax increment financing, the permanent rate property taxes on the growth in assessed value in the urban renewal area are allocated to the Urban Renewal Agency and not the taxing district. The taxing jurisdictions still are able to collect the property tax revenues from the assessed value of the frozen base, but increases in revenues are allocated to the Urban Renewal Agency for use within the urban renewal area. In many urban renewal areas, that growth from new investment would not have occurred but for the use of urban renewal which has stimulated the growth. Shared TIF as shown in the chart above refers to meeting thresholds as defined in ORS 457 where TIF revenues must be shared with overlapping taxing jurisdictions. The impacts on schools and education serviced districts are more indirect, as they are funded through the State School Fund that is comprised of other sources of revenues including property taxes.

Once an urban renewal area is terminated, there generally will be an increase in property tax revenues to all taxing jurisdictions. This increase of property tax revenue is a result of the ability to concentrate funding in a specific area, encouraging the area to develop properly.

Many urban renewal projects improve infrastructure to allow for new development, both creating new jobs and housing for the community. These infrastructure projects are often helpful to the local fire districts as they provide water service or improved roads. This infrastructure also encourages business growth, and encouraging the growth of local businesses supports surrounding neighborhoods as well as provides job opportunities within the community. Other projects help increase the livability in a city by developing much needed public facilities. Employment opportunities and livability are key in families making decisions to move to or remain in communities, providing students for the schools. Since schools are funded on a per-pupil basis, the retention and growth of families in a community is a vital component to supporting schools. The improvement of buildings in a community help in the visual appearance but often help in addressing fire and life safety issues, key issues for fire districts.

How Does Tax Increment Financing Affect Property Tax Payers' Tax Bills?

Most property tax payers will not see an increase in property taxes as a result of a new urban renewal area. If there is an increase, it is due to bond or local option levies which were adopted prior to October of 2001 and are still collecting revenues. There are very few local option levies still in existence that were issued prior to October 2001. These impacts are typically VERY small. However, once an urban renewal plan is adopted in an urban renewal area, tax payers within that area will see a line item on their property tax statements for urban renewal. This can be quite confusing because even if you are not physically located in the area, you will see an indication of the impact of urban renewal on your property tax bill. Your overall tax bill does not increase, but the allocation of revenues received from your payment is changed as a portion of that payment now goes to urban renewal. This is called "division of taxes" and is the administrative way that assessors must show the calculation of the tax increment revenue.

For More Information

The Association of Oregon Redevelopment Agencies (AORA) has a website, *www.orurbanrenewal.org*, that contains additional information and publications on urban renewal, including a Best Practices Manual for AORA members. AORA is presently working on a video presentation to tell the stories of successful projects. Check back on the website in the fall. ■

Learn more about urban renewal at the 90th LOC Conference, September 24-26 in Bend.

Consultant Elaine Howard will be presenting a concurrent session on urban renewal and enterprise zones, followed by a tour of the city of Redmond's downtown revitalization efforts.

For more information, check out the conference guide contained in this issue of *Local Focus*.