

**THE
FUTURE OF
DOWNTOWN
URBAN RENEWAL:**

**River District
Downtown Waterfront
& South Park Blocks
Urban Renewal Areas**

**Urban Renewal Advisory Group
Westside Study**

Draft Report

2/27/08

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EXECUTIVE SUMMARY

In May of 2007, the Portland Development Commission (PDC) formed the Urban Renewal Advisory Group (Advisory Group) to make recommendations regarding the future of three downtown urban renewal areas (URAs): Downtown Waterfront, South Park Blocks, and River District. This report summarizes the Advisory Group's findings and recommendations.

1. DOWNTOWN WATERFRONT AND SOUTH PARK BLOCKS URBAN RENEWAL SHOULD BE CLOSED DOWN

The Advisory Group reached an early consensus that urban renewal areas should not be perpetual. Once a district has substantially achieved its goals, it should be closed. In the case of downtown Portland's two older districts (Downtown Waterfront and South Park Blocks), the Advisory Group determined that both districts had been successful and should be closed down.

A. Maximum indebtedness limits should not be increased for either district:

These two districts should be closed down in a way that allows for a phase-out period that provides PDC with the time and resources necessary to complete critical projects. The Advisory Group recommends, however, that PDC limit borrowing in the two districts to that which is necessary to complete those commitments. The Advisory Group recommends no extension or increase to the borrowing authority for either district when that authority expires this year.

B. To the extent possible, the amount of new debt should be limited to that which can be repaid no later than 2018: An Urban Renewal Area continues to exist and collect tax increment resources until all outstanding loans have been paid. The Advisory Group recommends that debt be repaid by 2018 for a full "close-out" of Downtown Waterfront. For South Park Blocks, a 2024 close-out should be considered if necessary to preserve all five of the Section 8 affordable housing projects in the district.

2. THE RIVER DISTRICT BOUNDARIES AND DEBT SHOULD BE EXPANDED.

In order to achieve the 2018 close-out goals for both of the older districts, the Advisory Group recognized and approved moving certain unfinished projects to River District through a River District boundary expansion. Most notably, a considerable amount of unfinished work in the Old Town/Chinatown neighborhood will be moved to River District.

The Advisory Group recognized that River District has been very successful in its first ten years. Unlike the two older districts, however, the Advisory Group recommends that the district should grow in terms of size and financial capacity to pursue: several pending catalytic projects, unfinished elements of its original plan, and those projects that cannot be completed in the two older districts.

A. Maximum Indebtedness in the River District should be increased: The Advisory Group recommends increasing River District maximum indebtedness from \$225 million to its current full financial capacity of \$536 million. This action would create approximately \$390 million for project funding from now until 2020.

B. The boundaries of the River District should be expanded: The Advisory Group also recommends expanding River District by the maximum statutory limit of 61 acres. Approximately 45 acres should be used to address blight conditions and promote development opportunities in Old Town/Chinatown. An additional nine acres should be used to complete other critical projects that are currently in Downtown Waterfront or South Park Blocks. Up to seven acres should be designated for future expansions including possible island district formations.

C. Explore creating “Island Districts”: The concept of an “island district” is relatively new. It is a potential mechanism by which to extend the financial capacity of exceptionally successful urban renewal areas such as River District to help other parts of the community that would not otherwise benefit directly from this urban renewal tool. Individual Advisory Group members have recommended island districts to help build a school for the David Douglas School District and a possible domestic violence victim assistance center.

3. BEGIN TO SET UP THE NEXT GENERATION OF CENTRAL CITY URBAN RENEWAL ACTIVITIES

As it concluded its work, the Advisory Group also identified steps that should be taken now to prepare for future downtown urban renewal work.

A. Downsize Downtown Waterfront and South Park Blocks. PDC should work with the Office of Management and Finance to determine whether these districts may be reduced in size as part of each district’s close-out strategy, and work with the Bureau of Planning to develop recommendations for what blocks may be removed from the districts.

B. Identify Potential New Districts. PDC should lead a community effort to identify potential new urban renewal areas for downtown. PDC should collaborate with Portland’s Bureau of Planning to ensure that these urban renewal opportunities and challenges are addressed in the Central Portland Plan Update.

C. Develop Interim Development Strategies. PDC should work in collaboration with Portland’s Bureau of Planning to ensure adequate consideration of urban renewal challenges and opportunities pending completion of the Central Portland Plan Update.

D. Provide a more definitive role for Multnomah County. The Advisory Group agreed that Multnomah County should have a more clearly delineated role in major decisions to expand or extend an existing district or create a new one.

FOREWORD

The purpose of this document is to provide a clear and concise overview of the Urban Renewal Advisory Group's recommendations regarding the future of three downtown urban renewal areas: Downtown Waterfront, South Park Blocks and River District.

Urban renewal laws and tax increment financing regulations create an extremely complex web of rules and financial considerations. To keep this report accessible to as many people as possible, we have avoided jargon, and when possible we have provided analogies that will hopefully make some of the more complex issues more understandable. For those of you who would like more specifics, this document includes many links to the detailed source materials that the Advisory Group used throughout its deliberation.

In an effort to reduce paper consumption, we will use an electronic copy of this report as the primary means of distribution. A limited number of hard copies of the main body of this report will be distributed. Readers will be directed to website locations for appendices and source materials. This report and associated materials can be found at <http://www.pdc.us/four>.

If you do not have access to a computer or Internet service, please contact Bob Durston at the Portland Development Commission (503-823-9189). He can provide you printed copies of all source materials.

I. BACKGROUND

1. THE ASSIGNMENT

Last Spring the Portland Development Commission convened the Urban Renewal Advisory Group (Advisory Group) to set the future course of three downtown urban renewal areas (URAs): South Park Blocks, Downtown Waterfront and River District. (See [memo](#) from PDC Executive Director Bruce Warner.) The Advisory Group was asked to consider three questions:

Should River District boundaries be expanded?

Should River District's maximum indebtedness be increased?

When should South Park Blocks and Downtown Waterfront end?

In more general terms, the Advisory Group's assignment was to determine: when the two older districts (South Park Blocks and Downtown Waterfront) should close; and what, if any, projects should be moved into River District? While this assignment appears simple, it is in actuality a very complex puzzle with many interrelated variables that make it comparable to a Rubik's Cube. When you move one piece, several others move out of position.

This report summarizes the Advisory Group's response to these three questions and its recommendations for next steps.

2. THE URBAN RENEWAL ADVISORY GROUP

The Advisory Group members are:

Member	Affiliation
Charles Wilhoite	PDC Commissioner/URAG Co-Chair
Erik Sten	Portland City Commissioner/ URAG Co-Chair
Mark Rosenbaum	PDC Chairperson
Dan Saltzman	Portland City Commissioner
Jeff Cogen	Multnomah County Commissioner
Don Hanson	Portland Planning Chairperson
Jon Kruse	Citizen Member/Joint Budget Group

The Group met nine times from May 2007 through March 2008 and heard from the following panels of community stakeholders:

Meeting Date (Meeting Materials available online)	Topic
May 22, 2007	Financial and Technical Overview
June 26, 2007	Review of Downtown Waterfront, South Park Blocks and River District
July 31, 2007	Pearl District Neighborhood Association/Visions/OTCT Land Use River District Boundary Expansion Recommendations
September 29, 2007	Panels on Policy Perspective and Housing
October 23, 2007	Panel on Jobs and the Economy
November 27, 2007	Panels on Infrastructure and Arts & Education
December 18, 2007	Financial Review and Discussion of URAG Preferred Options & Priorities
January 15, 2008	Preliminary Recommendations
March 4, 2008	Final Recommendations

3. THE STARTING POINT

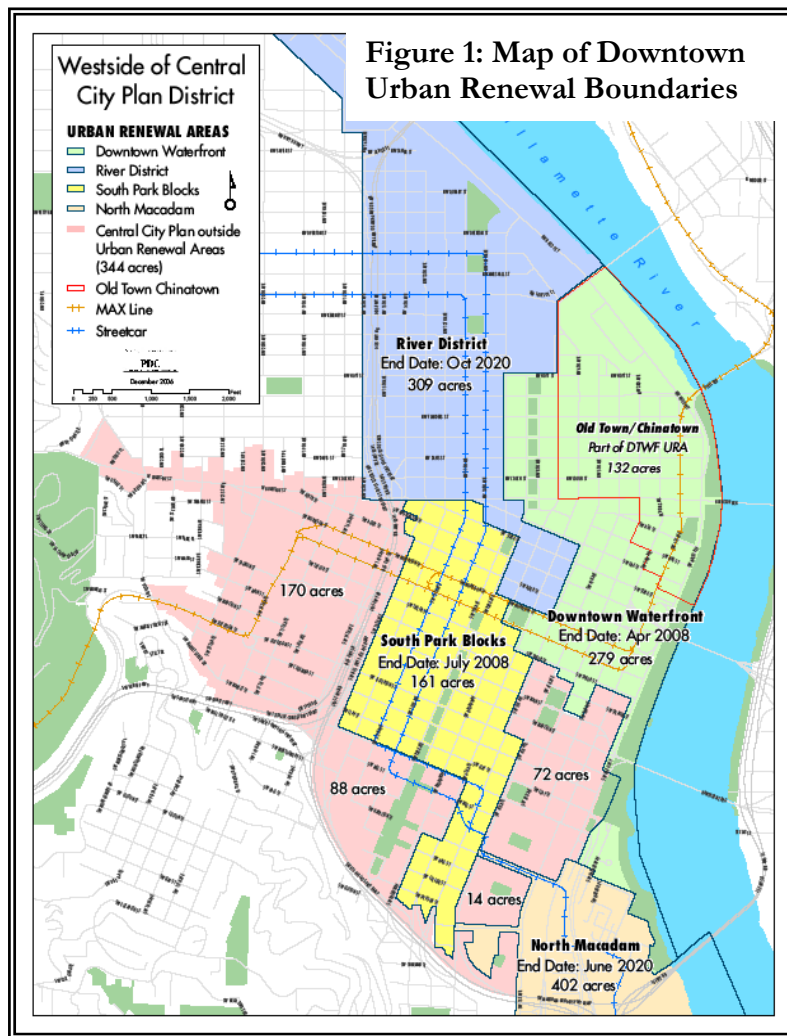
A. Current Status of the Three Downtown Urban Renewal Areas

[Downtown Waterfront](#) and [South Park Blocks](#) are mature districts. They both face expiration dates later this year—the dates when they can no longer issue additional bonded indebtedness. Downtown Waterfront is also approaching its maximum indebtedness limit—the maximum debt that may be incurred over the life of the district.

[River District](#) on the other hand is a relatively young district with a huge amount of untapped financial capacity. At its current rate of production, it will meet its current maximum indebtedness limit by 2012—well before its 2020 expiration date.

While urban renewal work remains to be done in the two older districts, the question will be how much of that work can be done before the districts expire, and what, if any, of the work can be transferred to River District where more resources may be available to complete that unfinished work?

For more information on these three downtown districts, please view the [June 26th Urban Renewal Advisory Group presentation](#).



B. 2004 Study Recommendations

Following the most recent extension of Downtown Waterfront from 2004 to 2008, the Central City Urban Renewal Area Study Review Committee was formed to consider two specific questions:

1. *Can PDC and the City implement a boundary change where Old Town/Chinatown could be shifted from Downtown Waterfront URA to the River District URA?*
2. *What are the residual effects of being able to issue and pay off debt in each one of these districts?*

The Old Town/Chinatown area covers 132 acres in the northeast corner of Downtown Waterfront. It includes two of our community's most significant historic areas: Skidmore/Old Town and Chinatown/New Japantown Districts. It also has been Portland's former skid row area, and is currently home to several social service agencies serving Portland's homeless population. While the neighborhood's hard work has produced many amazing accomplishments in recent years, much work remains to be done.

The 2004 Committee conducted a thorough examination of what is possible with respect to this unique neighborhood in either Downtown Waterfront or River District, and concluded that River District could be expanded to complete the unfinished work in Downtown Waterfront.

While the 2004 Committee recommended that Old Town/Chinatown needs be addressed with remaining Downtown Waterfront resources, it also determined that some areas of Old Town/Chinatown would need to be moved to River District. It reached this conclusion, because:

...there are blocks in OT/CT that are clearly blighted, but will almost certainly not see new development by the time the DTWF Plan reaches its last date to issue debt (April 2008).

It is now 2008 and much work still remains to be done in Old Town/Chinatown. The 2004 Committee's recommendations helped reframe the Advisory Group's assignment into two more precise questions:

- 1. If Downtown Waterfront and South Park Blocks are to expire this year, what, if any, acreage from those two districts should be moved to River District?**
- 2. Should River District's maximum indebtedness be increased to meet those new project requirements in addition to the River District's existing requirements?**

The Urban Renewal Advisory Group's assignment builds off of the 2004 Committee recommendations regarding Old Town/Chinatown—expanded to include consideration of all three downtown urban renewal areas. Since much of the 2004 Study remains valid, the newly constituted Urban Renewal Advisory Group chose to take up where the 2004 Committee left off. (The [2004 Committee report](#) contains a significant amount of information that remains pertinent to today's work.)

4. THE RULES OF THE GAME: KEY URBAN RENEWAL RULES

The relationship among these three downtown districts is very complex, and the Advisory Group's task is somewhat analogous to a puzzle. In order to understand how the pieces might fit together, the Advisory Group first needed to understand the following rules of urban renewal development and tax increment financing.

A. MAXIMUM INDEBTEDNESS

When urban renewal areas are formed, they are assigned a maximum indebtedness limit. The maximum indebtedness limit is the maximum amount of debt that may be incurred during the life of the district. It is not dissimilar to what a homeowner might do when deciding how much of a loan she might be able to carry when purchasing a home. But instead of one's income, the maximum indebtedness limit for an urban renewal area depends on how much growth in assessed value can be anticipated for the taxable property in the district. The incremental growth in the tax base roughly translates into the district's anticipated income capacity.

Unlike our homebuyer who borrows money to buy a single asset that will hopefully appreciate in value, PDC borrows money to invest in urban renewal development activities with the hope that overall property values will grow. PDC invests in local infrastructure (e.g., parks, transportation systems), affordable housing, and a variety of public-private developments. If it invests wisely, the district's assessed property value grows and the tax increment from the growth of this value goes to pay off the outstanding urban renewal bonds.

As a general rule, the maximum indebtedness limit for a district can be changed by an urban renewal area plan amendment. While such amendments are not simple, increases in a district's maximum indebtedness limit are fairly common as a district matures, its financial capacity increases and new priorities surface.

But while increasing the maximum indebtedness limit for River District is possible, the same is not true with respect to Downtown Waterfront and South Park Blocks. These are older districts and they operate under a special set of rules. They are part of a group of urban renewal areas known as Option 3 Districts. Following a series of property tax limitation measures in the mid-1990's, local jurisdictions were allowed to fund their existing districts with a combination of a special levy tax on the entire city and a fixed amount of tax increment growth within each district.

As Option 3 Districts, Downtown Waterfront and South Park Blocks have a set amount of revenues to pay debt. Under state law, they cannot expand their maximum indebtedness without losing their Option 3 status and the benefits of

special levy resources. Consequently, an increase the maximum indebtedness of either district is not feasible.

The rules for maximum indebtedness for the three downtown districts are:

RULE 1. As Option 3 Districts, the maximum indebtedness limits for Downtown Waterfront and South Park Blocks cannot be increased.

RULE 2. River District's maximum indebtedness can be increased because it has the financial capacity to repay additional bonds and it is not an Option 3 district. (River District's financial capacity is sufficient to increase its maximum indebtedness from \$225 million to \$536 million.)

B. BOUNDARIES

Urban Renewal Area boundaries are set at the time districts are formed. Over time boundaries can expand or contract subject to various legal requirements and specific project needs.

Boundaries can expand during the life of a district, but under state law, expansions are limited to 20% of an area's original acreage. South Park Blocks has already reached its maximum size (161 acres), and Downtown Waterfront, at 279 acres, has used all but 3.2 acres of its maximum size. River District has its original boundaries so it can grow by 61 acres or 20% of its original 309 acres.

Districts can also shrink, although any decrease in a district's total assessed value of more than 10% requires the approval of Ambac—the agency that provides insurance on our urban renewal bonds.

Moving property from one district to another requires shrinking one district while expanding the other. For example, if we move property from Downtown Waterfront into River District, we need to determine if we can expand River District while downsizing Downtown Waterfront. Since we know that River District can grow by 20%, an addition would be allowed as long as it did not cause River District to grow by more than 61 acres. We can also shrink Downtown Waterfront by up to 10% without approval and by more than 10% with Ambac's approval.

The rules for moving boundaries are:

RULE 3. River District can be expanded up to 61 acres (20% of 309 acres).

RULE 4. Moving property from Downtown Waterfront or South Park Blocks to River District is a two-step process. First the property must be released from its current district, and then it can be used to expand River District.

RULE 5. If we downsize a district by more than 10% of its total assessed value, we must obtain permission from Ambac.

C. EXPIRATION DATES.

Every urban renewal area has an expiration date. This date represents the latest date by which new bonded indebtedness may be issued for the district. The expiration dates for the two older downtown districts occur this year: Downtown Waterfront (April 2008) and South Park Blocks (July 2008). River District expires in October 2020.

Expiration dates can be extended fairly easily and they are often extended when necessary to complete work in a district. Both South Park Blocks and Downtown Waterfront are operating under past extensions.

An extension of River District may be warranted due to its robust growth. If we extend River District from its current 2020 expiration date to just 2024, the district's financial capacity would grow by another \$190 million.

The rules related to expiration date extensions are:

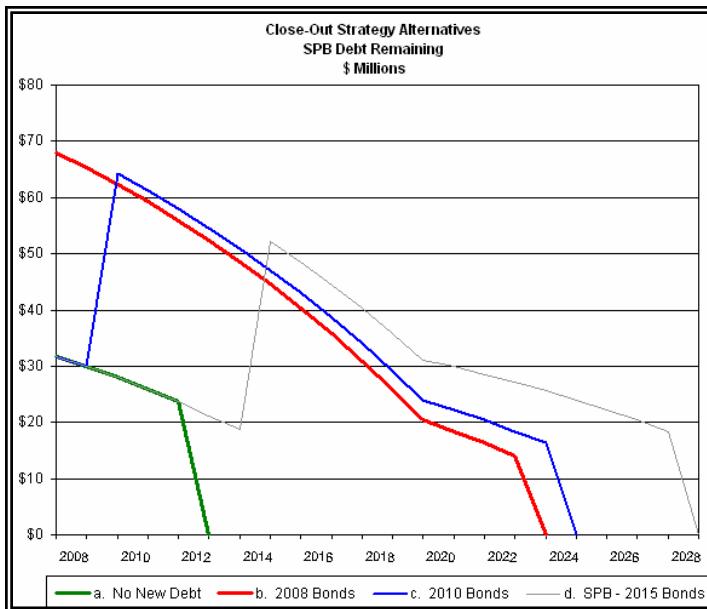
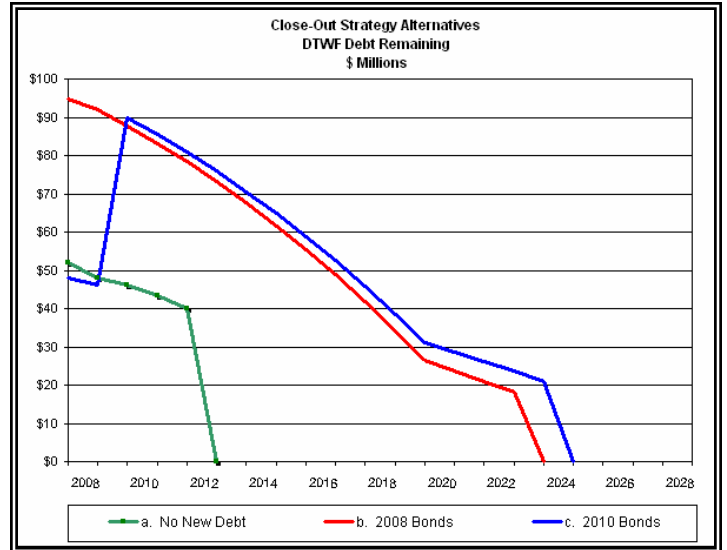
RULE 6. An extension for Downtown Waterfront's expiration date is not useful, because it can reach most of its maximum indebtedness limit without it.

RULE 7. An extension for South Park Blocks' expiration date may not be useful. Because its financial capacity grows relatively slowly, it will have significant maximum indebtedness remaining when it expires this year.

RULE 8. An extension for River District's expiration date may be useful; because the district's financial capacity grows relatively quickly.

D. CLOSE-OUT DATES

More significant to this discussion than expiration dates are close-out dates. Although “expiration dates” set the last date to incur new bonded indebtedness; a district continues to exist until all outstanding debt has been repaid. The “close-out” date is the date when the last debt payment has been made, and the district ceases to exist. When the district ceases to exist, tax increment revenues are released to taxing jurisdictions and property within that district may be used to form a new district.



Close-out dates are pieces of this puzzle because additional debt in either Downtown Waterfront or South Park Blocks will extend their respective close-out dates. The close-out dates could range from 2013 if no new debt is issued to 2024 if the districts borrow their full debt capacity prior to their 2008 expiration dates.

Figures 2 and 3 represent the tools used to identify target close-out dates

RULE 9. The amount of debt incurred prior to a district’s expiration date determines its close-out date.

RULE 10. Except for Option 3 districts, tax-increment revenues are not returned to the taxing jurisdictions until the district reaches its close-out date. (In Option 3 districts, the fixed increment is released only after the close-out date. Taxing jurisdictions in those districts, however, do benefit from any growth above the fixed increment throughout the life of the district.)

RULE 11. Property within an existing urban renewal area cannot be used to form a new urban renewal area until the original district reaches its close-out date or the property is legally released from the district.

5. THE TWISTS: SHARING THE WEALTH

During the Urban Renewal Advisory Group's deliberations, several interesting concepts were proposed. Most of the proposals involved different strategies to share River District's extraordinary success with other parts of the community.

A. ISLAND DISTRICTS

Portland City Commissioner Erik Sten introduced the [concept of an island district](#). The concept would allow PDC to add a non-contiguous parcel to a successful district such as River District for the purpose of funding projects outside the original urban renewal area. The tool would be used only when a district has significantly outperformed the original estimates of its financial capacity—in other words, a district like River District.

As proposed, an island district would only need a nominal nexus to the host urban renewal area. Commissioner Sten proposed an island district to help the David Douglas School District build a new school. His reasoning was that the success in River District had an indirect impact on central city housing costs. In turn, those rising housing costs sent families east to find more affordable housing. In essence the housing price boom in River District created a spike in the number of families living in the David Douglas School District. The district now needs more classroom space to accommodate the new families moving to that district. To address this urban renewal impact on David Douglas, Commissioner Sten proposed using River District resources to help build a new school.

Subsequently, Commissioner Dan Saltzman proposed a possible island district for a service center for domestic violence victims. The Advisory Group has also received a request from Portland Community College for help with a capital project at its Cascade Campus.

B. EARLY CLOSE-OUT

Both the Portland Business Alliance and League of Women Voters argued for the early close-out of downtown urban renewal areas by limiting any new debt.

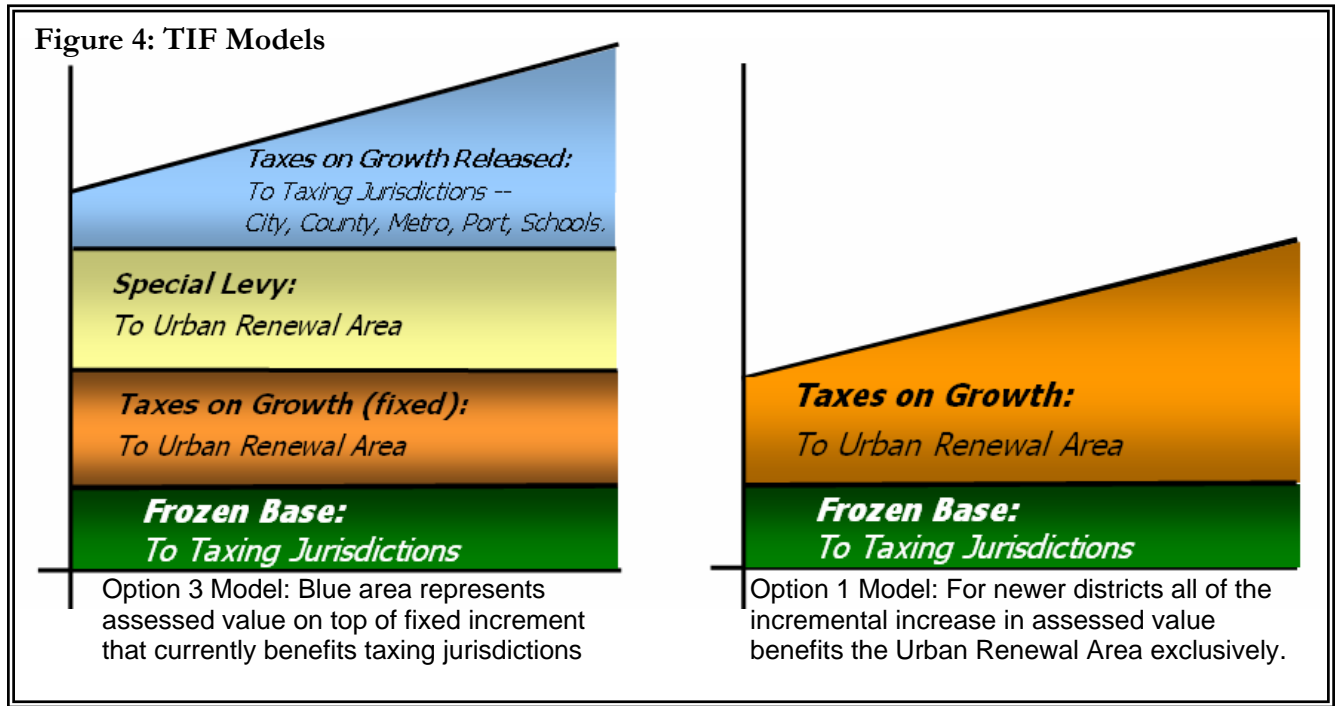
[The League recommended](#) early close-out to ensure that the use of urban renewal funding is limited to that which is necessary to address concentrated areas of blight. Districts should be closed as quickly as possible in order to

return their full assessed value to the property tax rolls. The League favors returning urban renewal areas to the full benefit of taxing jurisdictions as soon as possible.

[The Portland Business Alliance argues](#) for the defeasance (or early pay-off) of Downtown Waterfront and South Park Blocks debt to keep the “close-out” period as short as possible. They are concerned that an extended “close-out” period would harm the downtown’s ability to retain its current momentum and position as the region’s economic engine. A defeasance strategy would release the growth in assessed value to taxing jurisdictions while also expanding the acreage available for a potential new downtown urban renewal area. The Alliance favors a strategy that maximizes future urban renewal options downtown as soon as possible.

C. MULTNOMAH COUNTY’S REQUEST

Commissioner Jeff Cogen made the argument that Multnomah County should realize a direct benefit from urban renewal efforts. (See [Memo 1](#), [Memo 2](#) and associated [map](#)). Although taxing jurisdictions will ultimately benefit from the growth in an urban renewal area’s tax base, they do not realize the full benefit from property tax growth until the district closes. A district closes only after it has paid off its urban renewal debt. (Option 3 districts are the exception since tax increment revenues are fixed. Taxing jurisdictions realize the benefit of growth above the fixed increment throughout the life of the district but the fix increment is released only after the district closes.)



Within the context of downtown Portland, Commissioner Cogen suggested that urban renewal proceeds should be returned to the benefit of the taxing jurisdictions as soon as possible. However, recognizing that important urban renewal work remains to be done downtown, he was not opposed to expanding River District's maximum indebtedness if doing so would provide a tangible benefit for the County.

One way to provide a direct benefit to the County would be to help it replace two of its older downtown office buildings. Multnomah County owns both the McCoy Building in Downtown Waterfront and the Mead Building in River District. Both would be suitable for redevelopment if alternative office space was available.

The Mead and McCoy buildings are older office buildings that suffer from deferred maintenance. Replacing these buildings would help the County with its annual operating costs and provide a redevelopment opportunity. The Lincoln Building is currently available for acquisition and may be a suitable replacement facility. Cogen requested that the Advisory Group move both the Lincoln Building and the McCoy Building from Downtown Waterfront to River District and reserve up to \$40 million to help Multnomah County with its capital needs.

D. RELEASING PARTS OF RIVER DISTRICT CAPACITY

The Advisory Group also looked at the possibility of releasing part of the River District's financial capacity by downsizing the district. If acreage were released from River District, the taxing jurisdiction would realize the full benefit of the incremental increase in the released area's assessed value.

As an example, if we released River District acreage equivalent to \$150 million in assessed value, the City and County would each realize approximately a \$500,000 annual increase in tax revenues in the first year. Annual revenues on the released acreage would grow to over \$800,000 after five years.

While the release of property from an existing urban renewal area is technically feasible, the City would need the approval of Ambac—the agency that provides insurance on our urban renewal bonds. Releasing property from River District would also reduce that district's future financial capacity with respect to its maximum indebtedness limit and its ability to complete additional projects.

E. RELEASING PARTS OF DOWNTOWN WATERFRONT AND SOUTH PARK BLOCKS

Similarly, the Advisory Group considered the possibility of releasing some acreage from the two older downtown districts.

Because Downtown Waterfront and South Park Blocks are Option 3 districts, the repayment of outstanding indebtedness is ensured by a combination of a special

levy and fixed tax increment revenues. In both districts, the assessed value of property within the district far exceeds that which is necessary to meet the district's current debt coverage ratio requirement. Theoretically, the size of both districts could be reduced by up to 50% and still meet the relevant bond requirements.

Releasing acreage from either district does not benefit any taxing jurisdictions. As Option 3 districts, taxing jurisdictions are already benefiting from any increment generated beyond the fixed amount dedicated to debt repayment. Releasing acreage, however, will free up property which could then be used to form a potential new downtown urban renewal area. With the approval of the bond insurance carrier, up to 140 acres could be released in Downtown Waterfront, and up to 89 acres could be released in South Park Blocks. Subject to these constraints, released acreage could be used to form a new district as soon as they are released.

F. OTHER CONSIDERATIONS

1. Central Portland Plan

Portland's Bureau of Planning has launched an ambitious update of the City's Comprehensive Plan. The effort will take two years to complete and will include an update of the Central Portland Plan. The Advisory Group kept this planning process in mind as it considered the future of these three urban renewal areas. PDC staff has worked closely with Planning staff to ensure that the Advisory Group's recommendations complement, to the extent possible, the planning process. The Advisory Group also looked for ways to maximize what urban renewal resources might be available to implement the updated plan when it is completed.

2. FY 2008-09 Budget

PDC's budget development process for FY 2008-09 (including a new five-year financial forecast) is currently underway. The Joint PDC/City Council Budget Work Group has been tracking the Urban Renewal Advisory Group's deliberations. (The two groups have four overlapping members to ensure maximum levels of coordination.) Although it has made every attempt to keep its decisions consistent with the preliminary recommendations of the Advisory Group, some deviations have occurred.

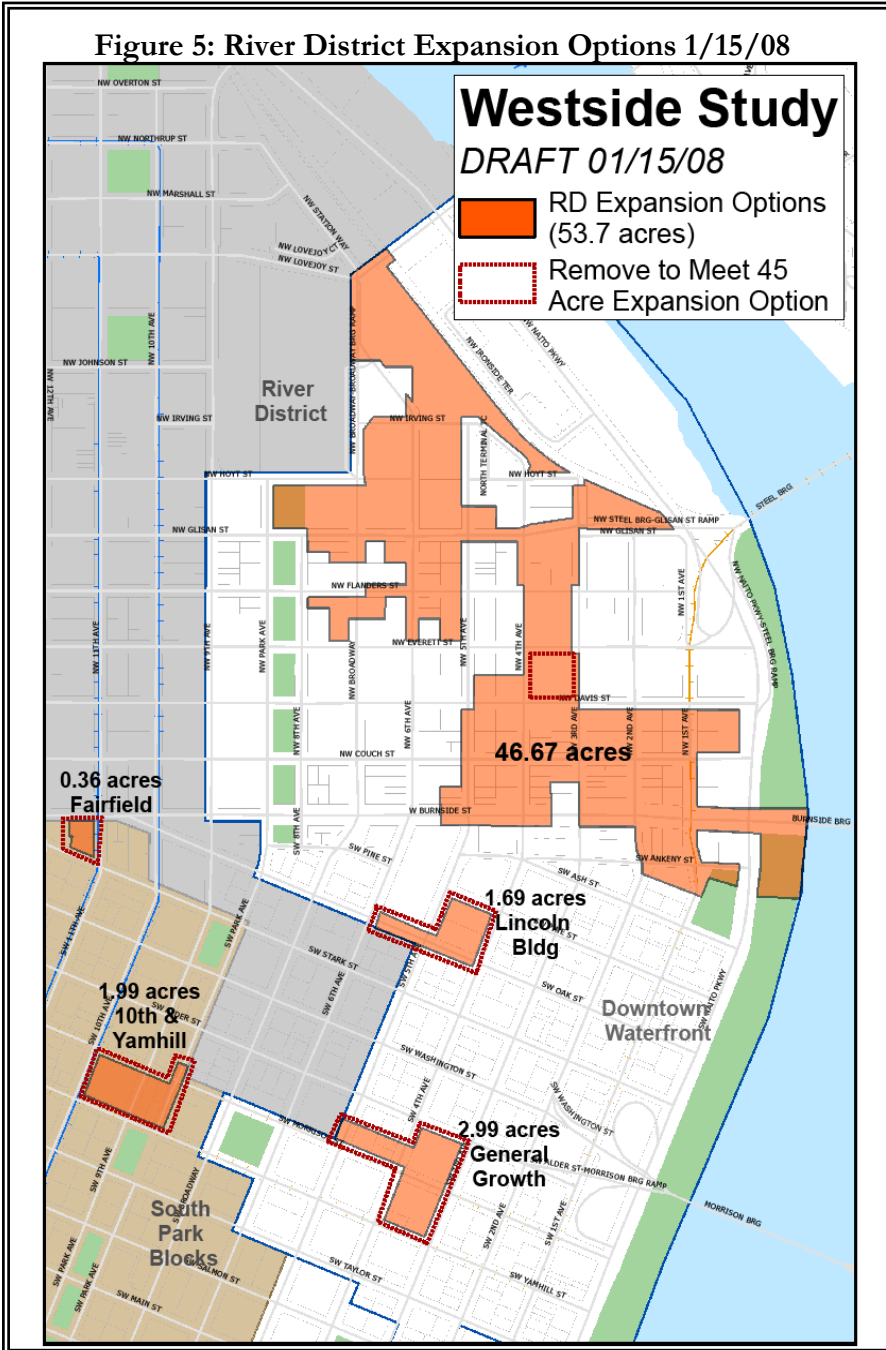
NOTE: *The Budget Work Group will complete its work prior to the Advisory Group's last meeting on March 4, 2008. The Budget Work Group's recommendations with respect to these three downtown urban renewal areas will be presented at that meeting. Some inconsistencies between the Advisory Group's recommendations and the Budget Work Group's recommendations will be highlighted for the Advisory Group's consideration. .*

II. RECOMMENDATIONS: HOW THE PIECES FIT TOGETHER

After thorough consideration of relevant urban renewal operating rules and stakeholder input, the Advisory Group adopted the following recommendations.

RECOMMENDATION 1: Expand RD by approximately 54 contiguous acres, reserving up to seven acres for possible island districts or other priorities.

Figure 5: River District Expansion Options 1/15/08



RATIONALE: The Advisory Group's boundary recommendations encompass the following specific projects or general development areas:

Old Town/Chinatown (approximately 46 acres): The Advisory Group agreed with the 2004 Review Committee that the Old Town/Chinatown neighborhood should benefit from additional urban renewal investment. Staff recommended boundaries after extensive discussions with area residents, business owners and other downtown stakeholders. While minor disagreements may remain, the map represents a general consensus regarding the re-development potential of the neighborhood.

Lincoln and McCoy Buildings (approximately 2 acres): The Advisory Group added these two buildings to River District to open an opportunity to work with Multnomah County on some of its capital needs. The County currently owns the McCoy and Mead Buildings. These two buildings are old and need to be replaced. The Lincoln Building is privately owned and may be an appropriate replacement facility.

East Retail Core (approximately 3 acres): Recognizing the importance of maintaining the vitality of the retail core, the Advisory Group recommends that this area (located on the east end of the retail core) be added to River District to improve underutilized retail space and to participate in the possible expansion and upgrade of Pioneer Place Mall and 3rd and Alder garage.

10th & Yamhill Garage (approximately 2 acres): This is a city-owned garage with ground floor retail space. Redevelopment of this site is a high priority for the City, Portland Business Alliance and the neighborhood. It also includes a redevelopment block which has a planned office tower.

O'Bryant Square (approximately 1.5 acres): Similarly, O'Bryant Square is a city-owned park that would benefit from redevelopment. It is currently underutilized and its inclusion in River District was recommended by the City's Parks Bureau and Bureau of Planning. Redevelopment of the park would make it more inviting to city residents and visitors while also helping to promote the retail core.

Fairfield (0.36 acres): This PDC-owned Section 8 multi-family housing project is a significant federally-subsidized housing resource for our community's most vulnerable citizens. The building requires an extensive rehabilitation to ensure its long-term preservation.

The Advisory Group agreed to reserve up to seven acres for future use. The Advisory Group received several proposals for possible island district projects. A small reserve of acreage for future River District expansion would also be available to address any as-yet-unknown needs or opportunities, and as a tool to jump-start implementation of the pending Central Portland Plan.

RECOMMENDATION 2: Close-Out Downtown Waterfront and South Park Blocks by 2018.

RATIONALE: The Advisory Group generally agreed that urban renewal areas should not be perpetual, and that both South Park Blocks and Downtown Waterfront have been successful in meeting their urban renewal goals.

Any additional new debt for either district should be kept to a minimum in order to keep the close-out periods as short as possible for both districts. The goal should be: 1) to return both districts' fixed increment to the taxing jurisdictions as soon as possible; and 2) to maximize the community's options with respect to forming a new district downtown.

The Advisory Group did suggest an exception to the recommended 2018 close-out date target for South Park Blocks. Additional resources may be necessary to ensure preservation of all five Section 8 affordable housing projects in the district. None of the Section 8 projections were included in the adopted FY 07-08 budget so additional funding will be required. The costs of this preservation effort will depend on building conditions and the current owners' plans for their buildings.

RECOMMENDATION 3: River District's maximum indebtedness should increase from \$225 million to its full maximum financial capacity of \$536 million. This would provide \$390 million for project funding from now to the district's 2020 expiration date.

RATIONALE: Without an increase in maximum indebtedness, River District will only have \$106 million left from its original \$225 million maximum indebtedness. Based on project demands within its existing boundary, River District's current spending limit would be reached by 2012-13.

In addition, every acre added to River District represents a potential need for additional urban renewal investment. Some potential projects will require substantial investments. In order to accomplish these new priorities in addition to the district's existing project list, the Advisory Group recognized that the district would need additional resources.

The recommended increase in the district's maximum indebtedness is based on a moderately conservative estimate of its future financial capacity.

RECOMMENDATION 4: Look for ways to reduce the size of Downtown Waterfront and South Park Blocks.

RATIONALE: As Option 3 districts, both Downtown Waterfront and South Park Blocks have more assessed value (and acreage) than is required to provide repayment of bonds. The combination of fixed tax increment revenues and a share of special levy revenues allow both districts to meet their financial obligations. The Advisory Group recommends that we work with the bond insurance company to release some of the excess acreage in both districts.

The potential exists to downsize both districts by approximately half of their original acreage without violating our debt coverage requirements. While the mortgage industry crisis has created considerable uncertainty in the bond market

world, the Advisory Group believes that negotiations with our financial partners may allow us to downsize both districts.

A release of this acreage allows us more options: 1) to consider a new downtown urban renewal area; 2) to free up acreage under our overall 15% cap on citywide urban renewal acreage; and 3) to allow the released acreage to operate without unnecessary bond-related restrictions. The release of any acreage from an Option 3 district has only marginal benefits to taxing jurisdictions since the amount of tax increment is already fixed.

RECOMMENDATION 5: Consider forming one or more new downtown urban renewal areas (e.g., Lincoln HS, PSU, Con-Way Site).

RATIONALE: The Portland Development Commission should work collaboratively with the Bureau of Planning and community stakeholders to assess potential properties for possible designation as new urban renewal areas. This work should occur contemporaneously with the Central Portland Plan process; but the Advisory Group recommends that if a new urban renewal area is deemed advisable, work should begin immediately on its formation. Since increment grows slowly in the early years of any district, the early formation of a new district would give it time to generate the financial capacity necessary to start implementation of the Central Portland Plan Update upon its completion in 2010.

RECOMMENDATION 6: Create interim development strategies pending the completion of the Central Portland Plan Update for such topics as:

- a. Economic Development/Retail**
- b. Section 8 Preservation/No Net Loss Housing Policy**
- c. Multnomah County Office Space**

RATIONALE: After hearing about the challenges and opportunities facing downtown, the Advisory Group recommends that the Portland Development Commission develop interim strategies to address several areas of concern. While the Advisory Group recognizes that the Central Portland Plan will address these issues, interim strategies may be appropriate pending completion of the plan update.

For example, the City has a No Net Loss Affordable Housing Policy that commits it to the preservation or replacement of all existing affordable housing downtown. The City's policy, however, relies heavily on urban renewal resources for its preservation and replacement efforts. As both Downtown Waterfront and South Park Blocks come to an end, non-TIF resources need to be identified to continue efforts to maintain the No Net Loss goal.

Similarly, the Advisory Group recognized the need to keep the downtown economic environment healthy and competitive. The Central Portland Plan will address the retail and economic development needs of downtown, but the Advisory Group did not want to lose any momentum pending the completion of the plan. Consequently, the Advisory Group recommends that PDC work with its community partners including the Bureau of Planning and the Portland Business Alliance to develop an interim plan to maintain the economic health of the central city pending the adoption of the Central Portland Plan Update.

Multnomah County has a variety of downtown real estate holdings. It also has a need to upgrade several of its facilities (e.g., County Courthouse, McCoy Building, Mead Building). The Advisory Group believes that a more direct conversation with Multnomah County regarding its capital needs may produce some options worthy of consideration.

Other issues to be covered by the Central Portland Plan Update may also warrant interim consideration. The Advisory Group recommends that PDC work with the Bureau of Planning to identify topics for which additional interim plans should be considered pending completion of the update.

RECOMMENDATION 7: Give Multnomah County a more definitive role in the expansion or extension of existing URAs and the creation of new ones.

As an Advisory Group member, Multnomah County Commissioner Jeff Cogen argued that Multnomah County should have more of a voice in the use of the renewal tool in our community. Except for the City of Portland, Multnomah County is the taxing jurisdiction most affected by the formation of urban renewal areas. Given the foregone revenue implications of tax increment financing, Commissioner Cogen argued successfully that Multnomah County's interests need to be considered more directly in the decision to create or extend an urban renewal area.

Current law only requires that taxing jurisdictions be consulted when forming or amending a district. None of the Advisory Group members including Commissioner Cogen recommended giving the County veto authority over the formation of a new district. The Advisory Group did, however, find a consensus recommending a more definitive role (such as the County's participation in this process) in expanding or extending an existing district.

The issue of foregone revenues is an interesting one. It is a bit of a "chicken-or-egg" conundrum. One might argue with some merit that the foregone revenue from a growing tax base in a new district would not have occurred "but for" urban renewal investments.

This argument can be harder to make when a district has been in operation for some time and the issue becomes whether a district should be extended or expanded beyond its original plan. The question for taxing jurisdictions becomes: do the potential community benefits of additional urban renewal development outweigh the foregone tax revenues associated with the expanded use of the tool?

The Advisory Group agreed that it would be appropriate to give the County a more definitive role. The Multnomah County Commission and the Portland Development Commission will be holding a joint meeting this spring to discuss the issue in more detail.

III. IMPLICATIONS OF RECOMMENDATIONS

1. BUDGET

A. Boundary Adjustments

The Advisory Group's boundary recommendations will have a significant impact to the budget's of all three urban renewal areas. Before the River District boundary can expand into an existing district (either Downtown Waterfront or South Park Blocks), that overlapping area must first be removed from the district of origin. When the property involves a specific project, the budget line-item for that project also needs to move from the district of origin to River District.

For example, the Fairfield Hotel (a Section 8 affordable housing project) is currently located on 0.36 acres of South Park Blocks and is contiguous to River District. If the River District boundary is expanded to include this parcel, that acreage must first be released from South Park Blocks. The costs associated with the rehabilitation of the Fairfield Hotel (a Section 8 affordable housing project) must also be moved from the South Park Blocks to the River District budget.

In order to map the budget implications of the proposed boundary changes, the Advisory Group used a [decision-tree](#) to illustrate the movement of projects from either Downtown Waterfront or South Park Blocks to River District. The decision-tree map demonstrated how many projects would be moved to River District pursuant to the proposed boundary expansion.

B. Assigning Liabilities and Benefits

If property is moved from one district to another, the debt incurred in one district remains a liability for that district even after the property moves to another district. Conversely, any program income, including proceeds on the sales of property or repayment of loans, remains with the urban renewal district that paid for the original investment that is now producing program income.

Why is this important? This is important because the timing of any transfer of a specific project becomes critical. For example, some of the Ankeny-Burnside projects in Downtown Waterfront are time-sensitive. If the costs are incurred in Downtown Waterfront, they cannot later be transferred as liabilities to River Districts. Consequently, the URAG will not recommend transferring time-sensitive projects that may be jeopardized if the boundary amendment process may be delayed. This is particularly important to the Ankeny-Burnside suite of projects that are time-sensitive with respect to projects related to the University of Oregon, Mercy Corps, Saturday Market and the Bill Naito Company Development Plan.

C. Island Districts

The Advisory Group set aside a reserve of approximately 7-10 acres. The purpose of the reserve is to have acreage available for unanticipated needs or opportunities including possible use for one or more island districts. If the City Council adopts a policy supporting island districts, some portion of the River District's resources needs to be available to support island districts.

D. 2018 versus 2024 Close-Out Dates

By setting the target close-out date for Downtown Waterfront and South Park Blocks at 2018, the Advisory Group will be forcing cuts to the adopted FY 07-08 budgets for both of those districts.

When PDC adopted its FY 2007-08 budget, it used the assumption of the Joint PDC/City Council Work Group that both districts would maximize their financial capacity prior to their expiration dates this year. Under this scenario, both districts would borrow the maximum amount of debt available prior to their 2008 expiration date--\$52 million for Downtown Waterfront and \$32 million for South Park Blocks. If they incur these amounts, their close-out dates will 2024.

In order to achieve the 2018 close-out target, the budgets for Downtown Waterfront and South Park Blocks would need to be cut by \$22 million and \$11 million respectively. To reach the 2018 close-out target, projects in their adopted FY 2007-08 budgets must be reduced, eliminated or moved to River District.

This balancing exercise was made even more difficult as new projects were added to the budgets for both districts during the year. For example, the community had an opportunity to acquire the Grove Hotel for affordable housing preservation. The facility had been poorly managed by the private owner to the detriment of residents and the neighborhood. When the opportunity to purchase it arose, Downtown Waterfront resources were needed to acquire it and fund very critical repairs to the building.

E. River District's Maximum Indebtedness and Five-Year Cash Flow

While River District has been hugely successful and its maximum indebtedness can be significantly increased, its urban renewal resources are not unlimited. If PDC and City Council adopt the Advisory Group's recommendation to increase its maximum indebtedness from \$225 million to \$536 million, the district will have approximately \$390 million available for projects through the remaining life of the district—from now to 2020. (The \$390 million figure is net of financing and administrative costs and the \$119 million already spent in the district.)

This is a wealth of urban renewal resources but the revenue available in the first five years is more limited. Current projections of the district's financial capacity

and five-year cash flow indicate that the new district will have \$212 million to spend in the first five-years. This is true only if the district's maximum indebtedness is increased to \$536 million. If there is no increase in maximum indebtedness, the district will only have the remaining \$106 million of its original \$225 million maximum indebtedness. We anticipate that we will reach that original maximum indebtedness limit by FY 2012-13.

River District	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Capacity - \$390 MI	\$23.0M	\$42.2M	\$43.1M	\$31.0M	\$38.4M	\$33.9M	\$211.7M
No Max. Ind. Change - \$225 MI	\$23.0M	\$32.8M	\$26.2M	\$17.2M	\$19.4M	\$9M	\$119.4M

The cash-flow problem arises as we merge the expectations of all three districts. Remember most of the projects being moved into River District from South Park Blocks and Downtown Waterfront were expected to be funded this year. Moving those projects into River District only increases the number of projects that are expected to be completed in the near future. The initial estimate of near-term projects in River District already exceeds \$450 million dollars. Clearly, some additional cuts need to occur and the five-year financial plan needs to focus on time-sensitive projects.

2. IMPACT ON TAXING JURISDICTIONS

A. Re-setting the Frozen Base

When urban renewal areas are formed, the assessed value of the property within the district is frozen. This is known as the "frozen base." Property taxes on the frozen base benefit taxing jurisdictions throughout the life of the district. When property is moved from one urban renewal area to another the "frozen base" of the property's assessed value resets to today's value.

Generally, resetting the "frozen base" will benefit taxing jurisdictions since taxes on the higher "frozen base" stay with the taxing jurisdictions. This is not true with respect to Option 3 districts.

As Option 3 districts, Downtown Waterfront or South Park Blocks benefit from their frozen base and any assessed value growth above the district's "fixed increment." Since the districts' revenues are limited to the fixed increment plus a share of the special levy, re-setting the base for a limited number of acres in either district will not produce new revenues for the taxing jurisdictions.

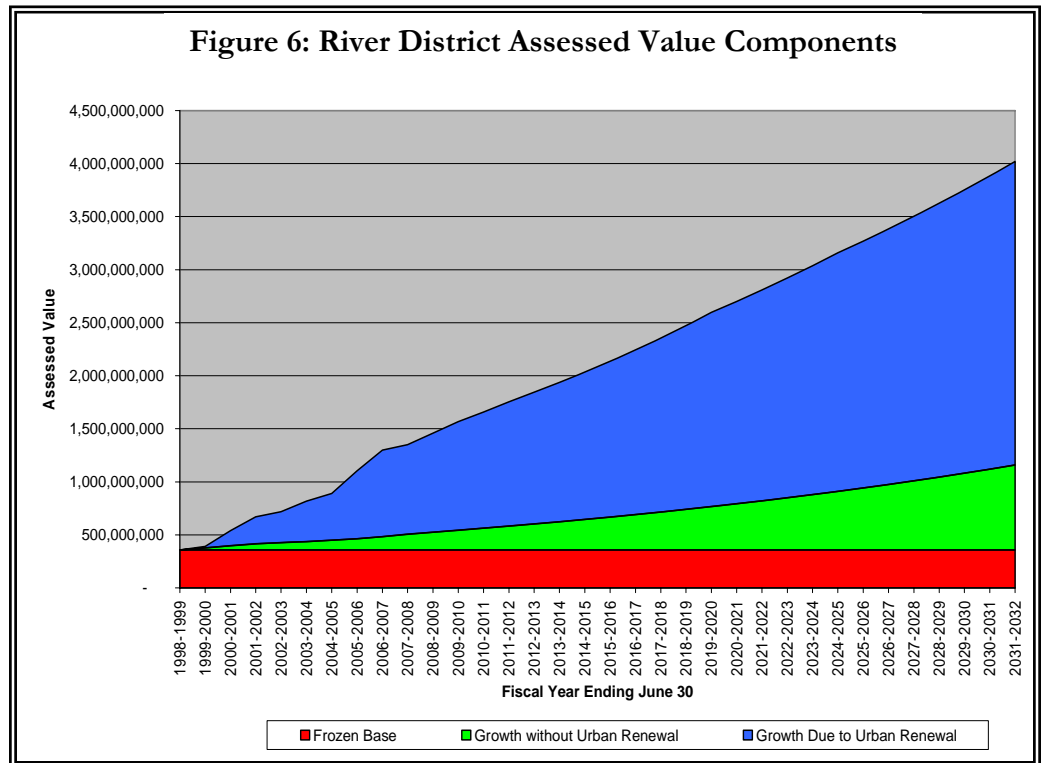
In fact, over time these taxing jurisdictions will realize less benefit from any future growth in value on property transferred from Downtown Waterfront or South Park Blocks to River District. As a new district, all revenues associated with growth in River District accrue to the sole benefit of the urban renewal area. So when property is transferred to River District, the frozen base resets but any subsequent growth only benefits River District because newer districts do not share the benefit of assessed value growth the same way as do Option 3 districts. Growth above the frozen base in River District will only go to debt repayment until its close-out date in 2026.

B. State Law and Revenue Distribution

1. Early Returns on River District Investments

We have already made substantial investments in the River District so a natural question would be: why invest more? Until we close-out the River District by paying off its debt, the district will be the sole beneficiary of its growth in assessed value. When debt is paid off, the tax revenues revert back to the benefit of the taxing jurisdictions.

When considering the impact of urban renewal law on the other taxing jurisdictions, however, one needs to consider the “but for” proposition: how much tax revenue would the taxing jurisdictions have realized “but for” urban renewal investments. The figure below illustrates the “but for” differential in River District between the district’s actual assessed value growth compared to the citywide average growth (the lower curve) over the same period. Clearly, urban renewal investments combined with market forces to launch a very successful redevelopment of this district.



River District has performed extremely well, but that success story was not easy to predict when the district was first formed. In 1998, River District was an aging warehouse district with the region's largest rail yard occupying a significant portion. The district's development potential faced many impediments:

- The Lovejoy Ramp created transportation challenges for local circulation and served as a physical divider through what has become the Pearl neighborhood.
- The rail yard covered many acres and soil contamination was a major barrier to redevelopment.
- The warehouse district was under-utilized and many of buildings were deteriorating.
- New urban living models (e.g., lofts, condos) were an untested commodity in this market.

Urban renewal investments overcame all of these barriers and the River District is now a home to nearly 6,000 new housing units (1,680 affordable to low-income residents), just under 1,000 new jobs and number of important public improvements such as the streetcar, Jamison Square and Tanner Springs Parks and the replacement of the Lovejoy Ramp.

The Portland Development Commission used tax increment financing to pay for the \$119 million that has been spent in the district. This debt will be repaid from tax revenues produced by assessed value growth over the district's frozen base. This is not a new tax, and River District property owners pay their share of property taxes.

When assessing the overall benefits of tax increment financing, the challenge is to weigh the added value of the public investment. Given the robust real estate markets of the past decade, some level of enhanced growth would have happened in River District, but it would not have happened on the same scale. Few would argue that River District would have realized today's level of success without significant urban renewal investments. In other words, "but for" urban renewal investments, taxing jurisdictions would have realized only relatively modest increases to property tax revenues in the district. Consequently, the amount of revenues that did not go to taxing jurisdictions was fairly modest and needs to be balanced against the benefits of jobs, economic development, minority contracting, and small business

2. The Costs of Future River District Investments

The "but for" argument is relatively easy to make with respect to a new district where barriers have chilled development activities. Although assessing the true cost of foregone revenues is more art than science, common sense tells us that a significant portion of the foregone revenues may not have materialized without the initial urban renewal investment.

Many challenges and opportunities remain in River District. Centennial Mills and Union Station are publicly owned historic sites in need of restoration. A number of public infrastructure needs remain to be addressed (e.g., transportation improvements, parks, affordable housing and schools). And with the Advisory Group's recommendations, several unfinished projects will be moved into River District, most notably 10th & Yamhill garage redevelopment, the homeless access center and the goal of fulfilling the potential of Old Town/Chinatown's renaissance.

The potential increase in the River District's maximum indebtedness from \$225 million to \$536 million represents one of the single largest jobs and economic development efforts ever made in the City of Portland. The additional \$390 million in tax increment revenues will produce jobs and economic development on a wide range of fronts: affordable rental and ownership housing, high-employment companies and organizations, a wide range of small and medium-sized businesses that are the backbone of our economy, and sustainable mass transit such as the Portland streetcar. In addition, PDC's new Business Equity and Workforce Policy means that 20% of the total construction cost of these projects should go to minority and women owned and emerging small businesses. Absent the constitutional dedication of urban renewal taxes to PDC, these taxes would go to the county (\$112 million), the city (\$118 million), education districts (\$142 million), and other local governments (\$4 million).

(The present value of these amounts is \$197 million: City \$62 million; County \$59 million; Other Local Governments \$2 million, Portland Public Schools \$64 million and other education districts \$10 million.)

The new close-out date for River District with the increased maximum indebtedness limit will be 2025-26. All tax revenues from the River District will then go to the other taxing jurisdictions starting in 2026-27.

As this proposal works its way through the approval process in the form of a River District Urban Renewal Area Plan Amendment, the Portland Development Commission will have ongoing conversations with its taxing jurisdiction partners. This consultation is required by law but it is also part of an important community dialogue on whether further investment in River District is warranted.

Urban renewal development is not just about growing the community's tax base. The Portland Development Commission's responsibility is to build stronger neighborhoods with family wage jobs and housing that is affordable to all income levels. In assessing the impact on taxing jurisdictions of an increase in River District investment, the community also needs to consider any direct benefits to taxing jurisdictions combined with benefits such as business license fees, jobs, public improvements (e.g., parks, transportation improvements, affordable housing). This analysis will require additional consideration and will be

addressed as the Portland Development Commission reviews the Advisory Group's recommendations with its taxing jurisdiction partners.

IV. NEXT STEPS

These recommendations will be submitted to the Portland Development Commission Board. If the board accepts the recommendations, it will propose plan amendments for all three downtown urban renewal areas. We anticipate the following dates for action:

KEY DATES

Portland City Council's Approval of Downtown Waterfront Bonds	March 19
PDC Board adopts plan amendments.	May 15
Consultation with Taxing Jurisdictions	March-May
Portland Planning Commission Plan Amendment Review	June 03
Portland City Council Adopts Plan Amendments	June 18 & 25

Other anticipated PDC Board and City Council actions are:

South Park Block Bond Approval Process	May-June
FY 2008-2009 Budget Process	Feb-June