

**THE
FUTURE OF
DOWNTOWN
URBAN RENEWAL:**

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

**Urban Renewal Advisory Group
Westside Study**

Final Report

March 4, 2008

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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 AREAS 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 2024: 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 2024 for a full "close-out" of both Downtown Waterfront and South Park Blocks.

2. EXTEND AND EXPAND RIVER DISTRICT URBAN RENEWAL AREA

In order to achieve the 2024 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. Extend River District from 2020 to 2021: The Advisory Group recommends extending the district's expiration date by one year. The extension will increase the district's financial capacity by a little more than \$27 million. The additional capacity will be used to support Multnomah County's efforts to replace two aging downtown facilities.

B. Maximum Indebtedness in the River District should be increased: The Advisory Group recommends increasing River District maximum indebtedness from \$225 million to its 2021 financial capacity of \$563 million. This action would create approximately \$416 million for project funding from now until 2021.

C. The boundaries of the River District should be expanded: The Advisory Group recommends expanding River District by approximately 40.5 acres to address blight conditions and development opportunities in Old Town/Chinatown; and approximately ten acres to complete other critical projects that are currently in Downtown Waterfront or South Park Blocks. Up to 11 acres should be designated for future expansions including possible island district formations.

D. 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.

E. Assist Multnomah County with Capital Needs: The Advisory Group recommends setting aside \$35 million to assist Multnomah County with its capital needs, beginning with \$10 million in 2015.

F. Release acreage under Interstate 405. Approximately 30.7 acres will be removed from River District, because its location under Interstate 405 limits its re-development potential. This is a housekeeping measure with little substantive impact for River District.

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 determine which blocks should 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. Give Multnomah County A Meaningful Voice. The Advisory Group agreed that Multnomah County should have a meaningful voice in major decisions to expand or extend an existing district or to 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

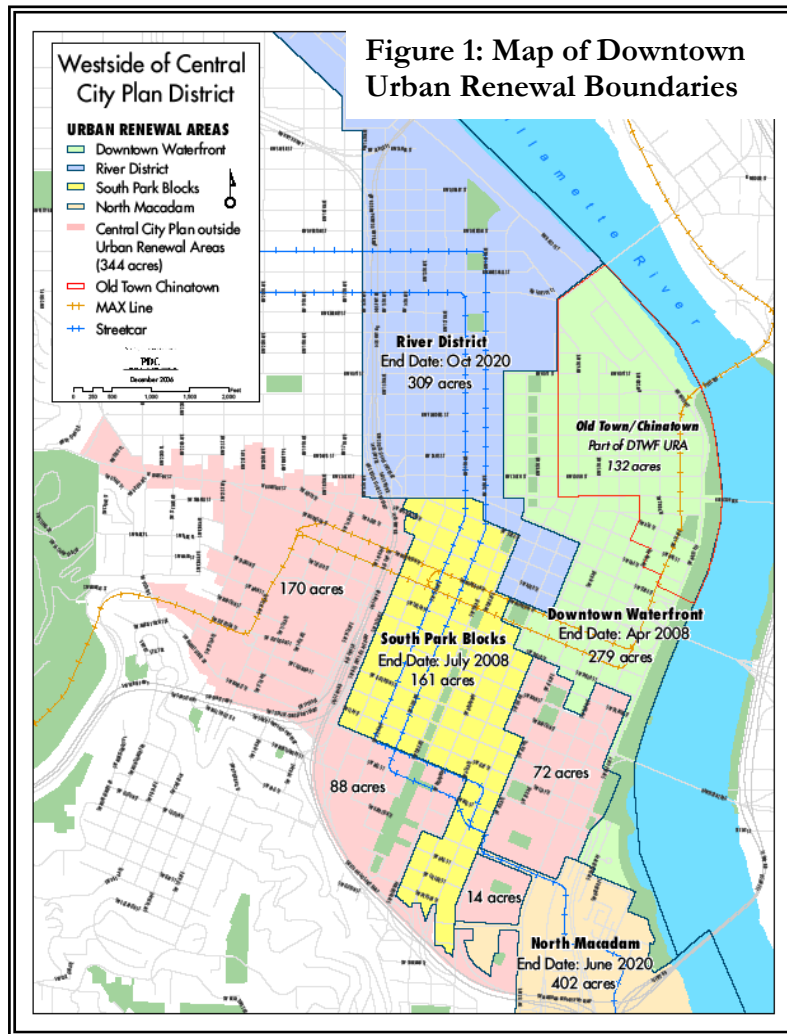
A. Current Status of the Three Downtown Urban Renewal Areas

[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. Without this status the district would lose the benefits of special levy resources which are required

by our bondholders. Consequently, an increase in 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 through its current 2020 expiration date 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 a cumulative maximum 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 allowable 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 an Option 3 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 either South Park Blocks or Downtown Waterfront 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:

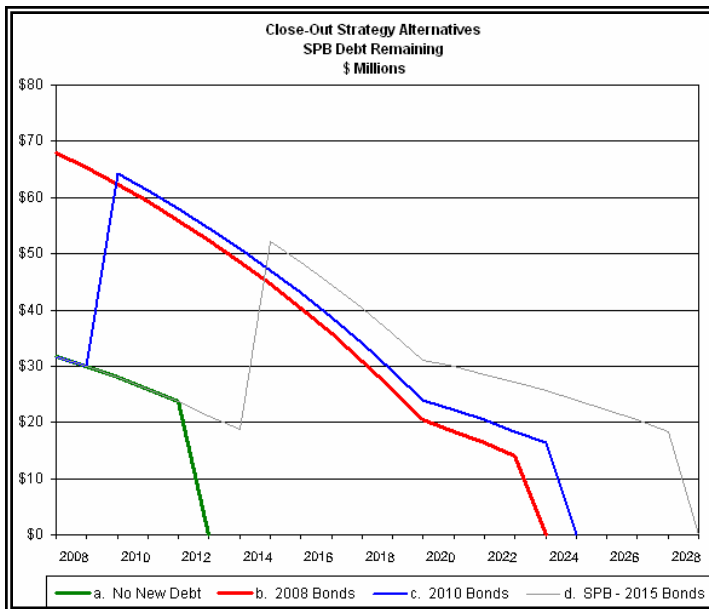
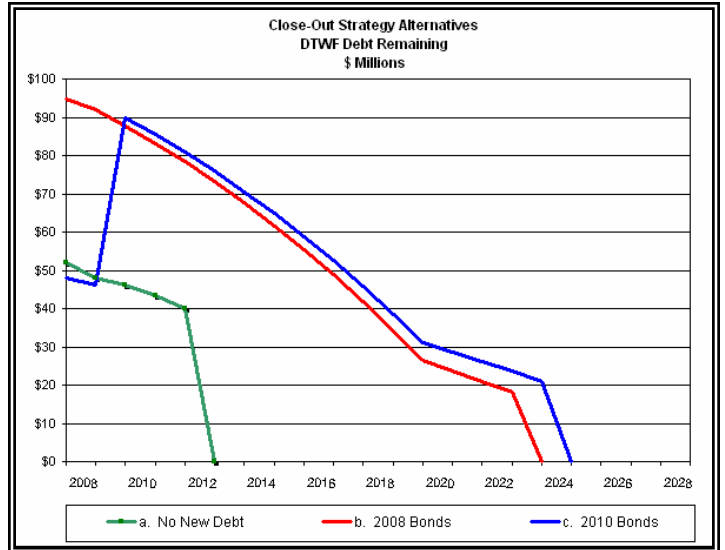
RULE 6. An extension for Downtown Waterfront's expiration date is not useful because the district will reach most of its maximum indebtedness limit without it.

RULE 7. An extension for South Park Blocks' expiration date may not be useful because its financial capacity grows relatively slowly. Although it will have significant maximum indebtedness remaining when it expires this year, an expiration date extension would only generate small amounts of financial capacity.

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.

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.

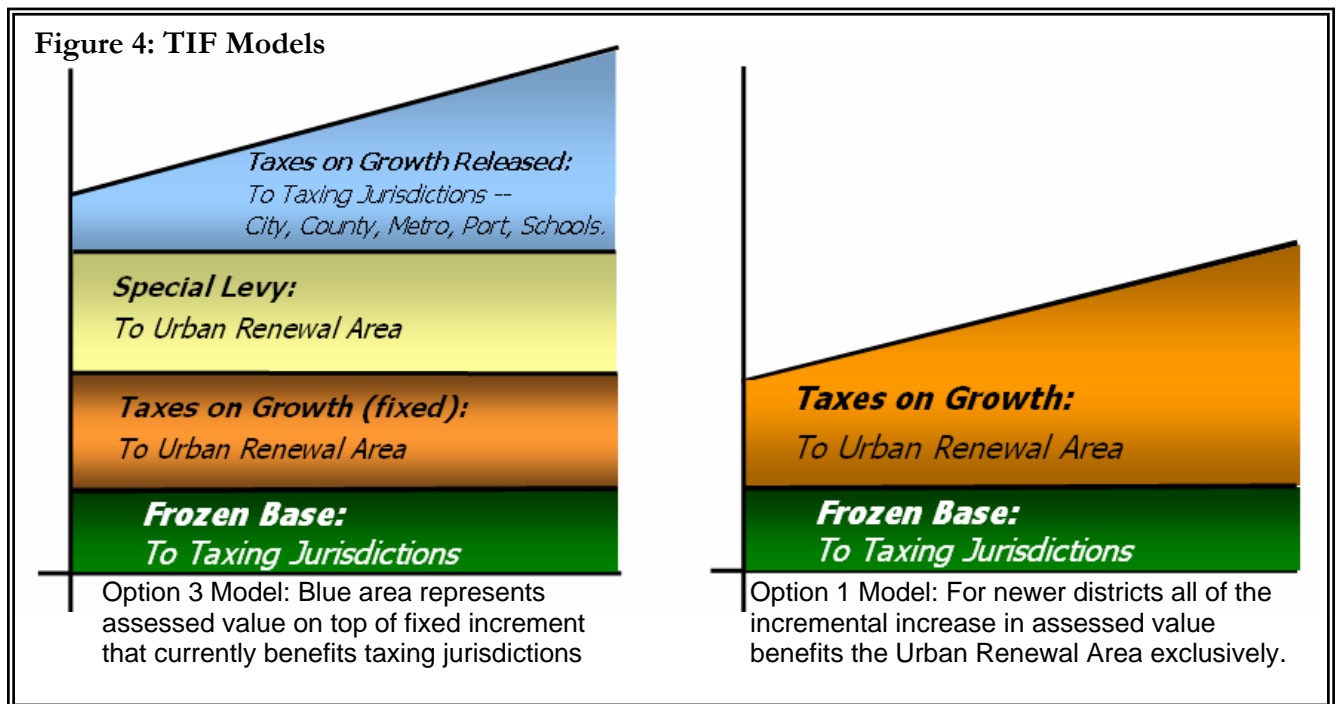
[The League recommended](#) early close-out to ensure that the use of urban renewal funding is limited to that which is necessary to address concentrated areas of blight. Districts should be closed as quickly as possible in order to return their full assessed value to the property tax rolls. The League 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, and the Advisory Group agreed that efforts to combat blight must consider not just buildings but people as well. (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. Pursuant to Commissioner Cogen's request, the Advisory Group agreed to move the Lincoln Building and the McCoy Building from Downtown Waterfront to River District and to set aside \$35 million to assist 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 River District is technically feasible, the City would need to comply with certain bond covenants that may involve bondholder authorization. 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.

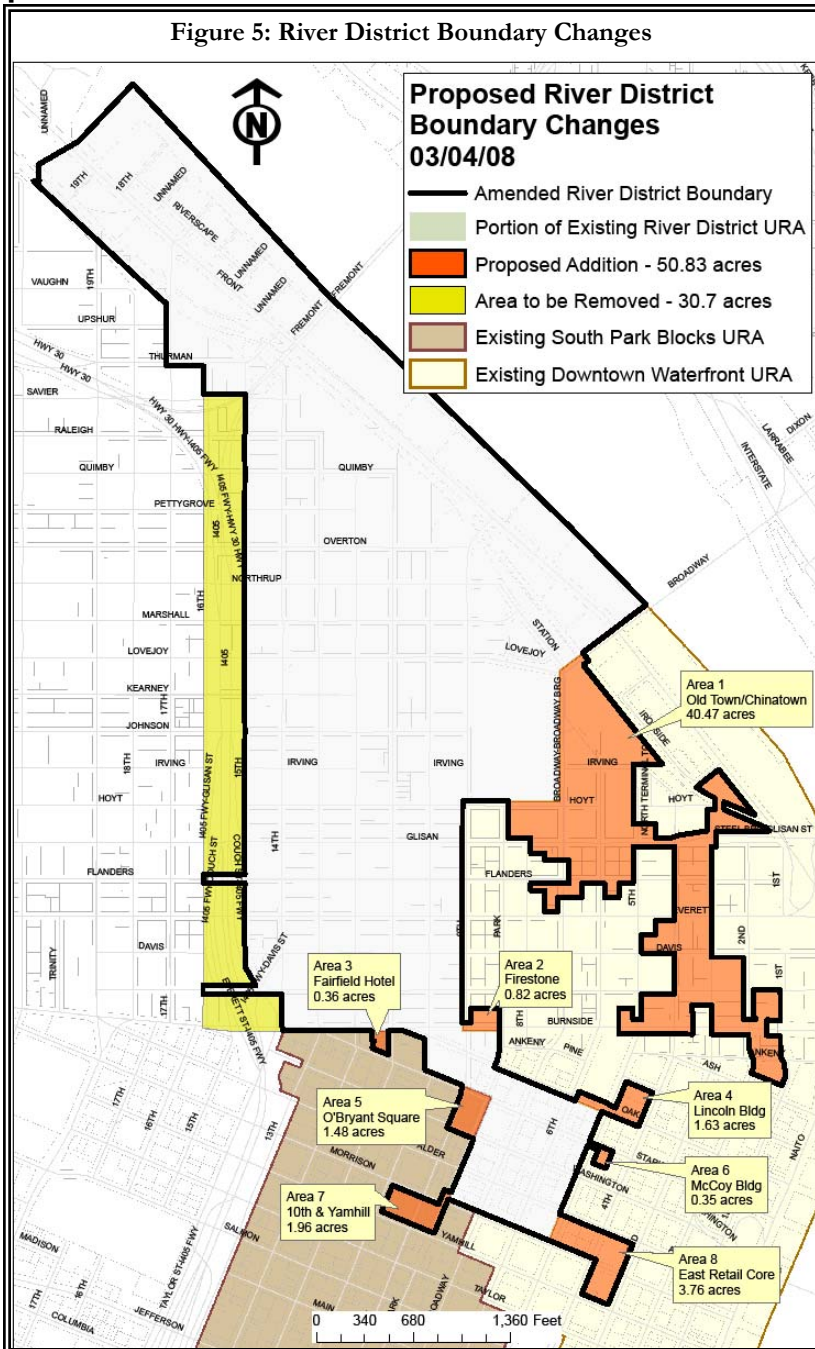
2. FY 2008-09 Budget

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.

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 River District by 50.83 contiguous acres, reserving approximately 11 acres for possible island districts or other priorities.



RATIONALE: The Advisory Group adopted a set of general criteria to be applied to future boundary expansion proposals. [See Appendix A.](#)

Using these criteria as general guidelines, the Advisory Group recommended that the following specific projects or general development areas be added to River District:

Area 1. Old Town/Chinatown (40.47 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.

Area 2. Firestone (0.82 acres): This is a potential redevelopment site adjacent to the North Park Blocks and with the Burnside-Couch corridor.

Area 3. 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.

Areas 4 & 6. Lincoln and McCoy Buildings (1.98 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.

Area 5. O'Bryant Square (1.48 acres): 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.

Area 7. 10th & Yamhill Garage (1.95 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.

Area 8. East Retail Core (3.76 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.

The Advisory Group agreed to reserve approximately 11 acres for future use. While the advisory group received several proposals for possible island district projects, it also recommended retaining a small acreage reserve to address any as-yet-unknown needs or opportunities, and as a tool to jump-start implementation of the pending Central Portland Plan.

NOTE: The Advisory Group also authorized staff to propose boundary reductions to release property under the Interstate 405. This property has limited redevelopment potential and it is identified in yellow in Figure 5. Property released from River District does not increase the 61-acre expansion potential of River District. It just decreases the number of urban renewal acres citywide which are subject to the statutory limit of 15% of the city's total land area.

RECOMMENDATION 2: Let Downtown Waterfront and South Park Blocks expire this year and limit additional debt to existing financial capacity to achieve a 2024 close-out date for both districts.

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. The Advisory Group recommends that both districts expire as scheduled this year after issuing bonds to maximize their financial capacity at the time of expiration. For both districts, the additional debt will create a 2024 close-out date.

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.

When considering the close-out date question, the Advisory Group explicitly identified preservation of the federally-subsidized Section 8 affordable housing projects in South Park Blocks as a top priority. The 2024 close-out date for South Park Blocks has allowed the joint budget committee to recommend approximately \$18.7 million for a variety of specified low-income housing, preservation and replacement projects, including Section 8 preservation and University Place replacement project. While this allocation should be enough for these critical preservation/replacement projects, other resources will be necessary to ensure full implementation of the City's No-Net Loss Policy with respect to other affordable housing resources throughout the central city.

NOTE: Commissioner Saltzman opposed the extension of these two districts beyond 2018. All other recommendations were made by a unanimous vote of the Advisory Group.

RECOMMENDATION 3: River District's expiration date should be extended to 2021 and its maximum indebtedness should increase from \$225 million to its full maximum financial capacity of \$563 million.

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 district's financial capacity through its current expiration date of 2020 is \$536 million. At its last meeting, the Advisory Group agreed to extend the district from 2020 to 2021 in order to further increase the district's financial capacity to \$563 million. This change was made to ensure adequate resources to assist Multnomah County in replacing its two aging downtown office buildings.

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

RECOMMENDATION 4: 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 acreage from an Option 3 district, however, does not benefit taxing jurisdictions. This is because the amount of taxes dedicated to urban

renewal debt repayment is fixed for the district and will not change with the release of acreage.

RECOMMENDATION 5: Consider forming one or more new downtown urban renewal areas (e.g., Lincoln High School, Portland State University, 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**

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 achieve 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.

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: Set aside \$35 million in River District URA funds to assist Multnomah County with its capital needs.

RATIONALE: 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 assisting Multnomah County with its brick and mortar needs will help address blight along the light rail corridor. It recommends setting aside \$35 million to assist Multnomah County with its capital needs, beginning with \$10 million in 2015.

RECOMMENDATION 8: The City of Portland and Multnomah County should enter into an agreement that any future decision to 1) create a new urban renewal area, 2) increase the maximum indebtedness of a urban renewal area or 3) change the date at which an existing urban renewal area expires, will be made in a collaborative process with the County having a meaningful voice in decisions.

RATIONALE: 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 urban 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, or creating a new one.

The Advisory Group agreed that the County should have a meaningful voice in future urban renewal decisions and encouraged the County and the City to reach

an agreement formalizing this expanded role for the County. 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 budgets 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 Advisory Group will not recommend transferring

time-sensitive projects that may be jeopardized if the boundary amendment process is 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 11 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 need to be available for that purpose.

D. 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 \$563 million, the district will have approximately \$416 million available for projects through the remaining life of the district—from now to 2021. (The \$416 million figure is net of financing and administrative costs and the \$119 million already spent in the district.)

While these urban renewal resources are significant, 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 Portland Development Commission's short-term 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. Since urban renewal revenues for Downtown Waterfront and South Park Blocks are already limited to the fixed increment plus a share of the special levy, re-setting the base for a limited number of acres by releasing them from either district will not produce new revenues for the taxing jurisdictions.

In fact, over time the relevant taxing jurisdictions will realize less benefit from any future growth in value on property transferred from Downtown Waterfront or South Park Blocks to the 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 for annexed property but any subsequent growth on it only benefits River District until that district closes in 2027.

B. State Law and Revenue Distribution

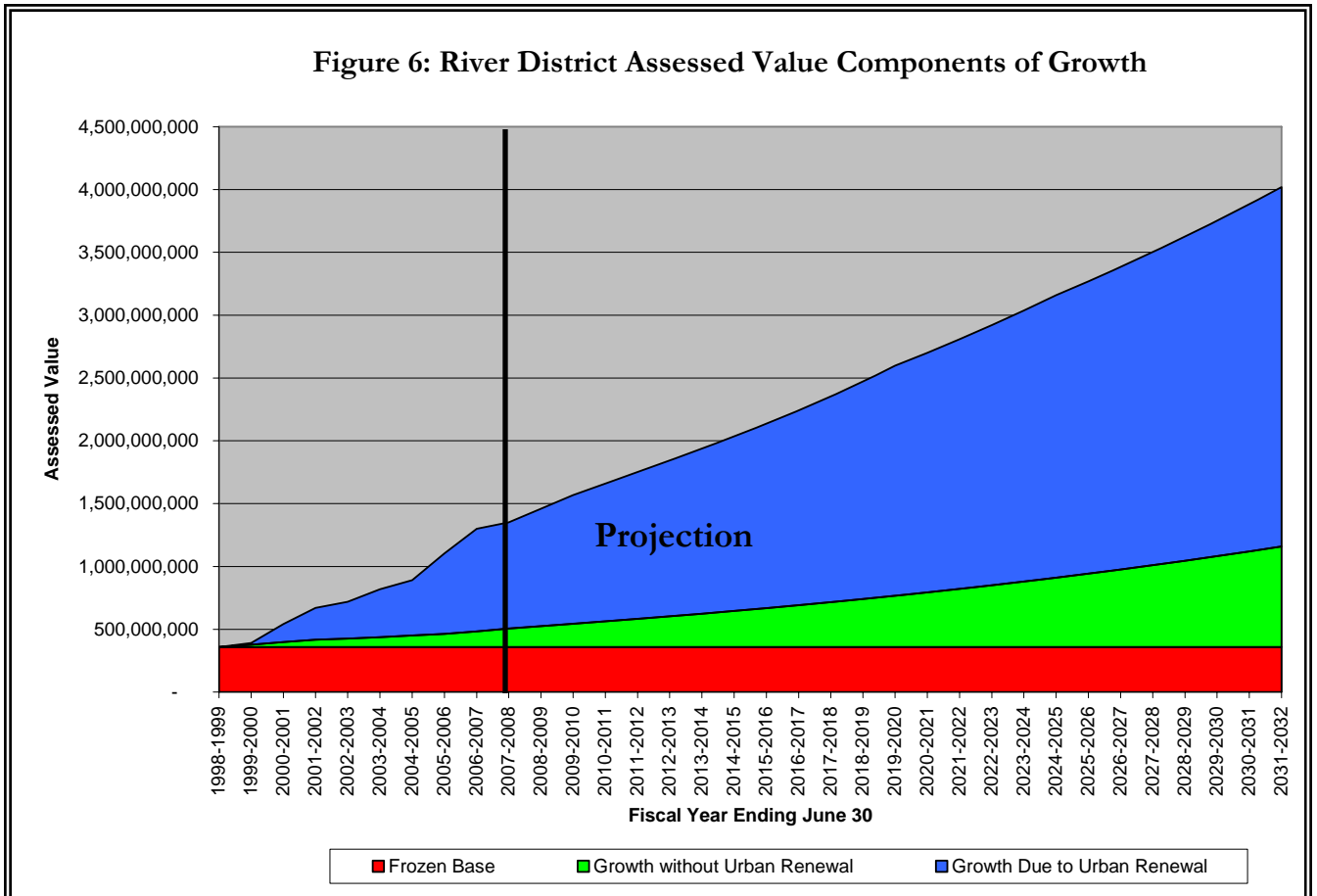
Under current law, tax increment revenues (permanent rate property tax revenues attributable to the growth in assessed value above the frozen base) within new urban renewal areas are entirely dedicated to urban renewal debt repayment. These tax revenues are not otherwise available to the city, county or other taxing jurisdictions. Therefore, while recommending the expanded use of this powerful tool in the River District, the Advisory Group recognizes that its financial pros and cons are an important topic for Portland Development Commission's conversation with its local taxing jurisdiction partners.

This final section of the Advisory Group's report takes a closer look at these pros and cons.

1. Early Returns on River District Investments

In order to assess the “cost” of an urban renewal designation to taxing jurisdictions, one must consider how much growth would have accrued in the district “but for” the taxable development promoted by urban renewal investments. In other words, how much tax revenue would the taxing jurisdictions have realized, if the district had not been formed and the urban renewal investments had not been made?

Figure 6 illustrates the “but for” differential in River District between the district’s actual assessed value growth (with tax increment investments) and citywide average growth (without investments). Obviously, urban renewal investments combined with market forces to launch a very successful redevelopment of this district and trigger a substantial growth in its tax base. In fact, the River District contains some of the region’s highest growth in property value—growth that has far outpaced the citywide average.



Although River District has performed extremely well, 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 of it. Redevelopment of the district faced many impediments:

- The Lovejoy Ramp created transportation challenges for local traffic circulation and served as a physical divider within the area that has become the Pearl neighborhood.
- The rail yard covered many acres and soil contamination discouraged many developers from becoming involved.
- The warehouse district was under-utilized and many of buildings were deteriorating.
- New urban living models (e.g., lofts, condos) were an untested housing product in this market.

The City's urban renewal investments in River District, however, helped to overcome these impediments and led to the creation of a neighborhood now known as the Pearl with its many public amenities. In total, the Portland Development Commission invested \$119 million in urban renewal resources to address blight and remove barriers to development. That investment has produced nearly 6,000 new housing units (1,680 affordable to low-income residents), almost 1,000 new jobs, and several important public improvements such as the streetcar, Jamison Square and Tanner Springs Parks, and the replacement of the Lovejoy Ramp.

Given the robust real estate markets of the past decade, some level of enhanced growth in River District was inevitable, but it is extremely unlikely that it would have happened on the same scale and density without urban renewal investments. Few would argue that River District would have realized today's level of success without these significant investments. In other words, "but for" urban renewal investments, taxing jurisdictions would have realized a relatively small increase in property tax revenues from the district. Most would agree that urban renewal in River District has been very successful to date and that taxing jurisdictions will receive an excellent return on this investment—both in terms of direct community improvements as well as increased property tax revenues when the district closes in 2027.

2. The Need for Additional 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 these revenues would not have materialized without the initial urban renewal investment.

The argument becomes more difficult, however, with respect to additional investment in a mature district. With respect to the River District, the natural question is: why invest more?

a. Needs & Opportunities

This question was answered for the Advisory Group by the testimony of panelists who identified many challenges as well as opportunities remaining in River District. Centennial Mill is a publicly-owned historic site in need of restoration. The US Post Office is a significantly underutilized site which could be redeveloped into a major employment center for the city. Additionally, the district still has a significant number of public infrastructure needs (e.g., transportation improvements, parks, affordable housing and schools) that must be addressed.

In addition to existing district needs, the Advisory Group's boundary recommendations will bring several unfinished projects into River District—most notably, the 10th & Yamhill garage redevelopment, preservation of the City's historic Union Station, an expanded homeless access center, and the continued redevelopment of Old Town/Chinatown. Finally, various island district proposals will also draw on the River District's financial capacity in order to assist other blighted areas in the city.

The proposed increase in the River District's maximum indebtedness from \$225 million to \$563 million to meet these specific community needs will represent one of the single largest public investments ever made in the City of Portland. This investment will promote: 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 additional sustainable mass transit options (e.g., 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, women-owned, and emerging small businesses.

3. Costs

While much work remains to be done in River District, that work will come at a price. A \$388 million increase in maximum indebtedness to \$563 million will consume \$420 million in tax increment revenues. Absent the constitutional dedication of these tax revenues to the urban renewal program, these resources would go to taxing jurisdictions in the following amounts: the City (\$132 million); County (\$125 million); education districts (\$158 million); and other local governments (\$5 million). In today's dollars (or net present value) the amount is \$215 million: City (\$67 million); County (\$64 million); education districts (\$81 million) and other local governments (\$3 million). (Note: The state education funding formula will off-set most of the direct fiscal impact on the Portland Public School District and Multnomah Education Service District.)

The League of Women Voters testified in opposition to the River District extension. League representatives believe that the district has been successful and it should be closed as soon as possible to return these property tax revenues to the respective taxing jurisdictions. The League argues that the extension will “cost” taxing jurisdictions substantial resources over the life of the district and additional investment will not appreciably increase the district’s assessed value. They specifically requested that additional analysis be conducted to determine what amount of future assessed value growth in River District can be attributed to additional urban renewal investments.

Figure 6, above, shows the projected growth trend compared to the projected citywide average growth. League representatives argued that subsequent urban renewal investments would produce only marginal increases in the actual growth of the district. They recommend that if additional investments are necessary they should be made directly through general fund contributions once tax revenues are returned to the relevant jurisdictions.

4. Subsequent Discussions with Taxing Jurisdictions

As the Advisory Group’s proposed River District Urban Renewal Area Plan Amendment works its way through the approval process, 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 also has a responsibility 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 needs to balance the cost of urban renewal against the direct benefits taxing jurisdictions receive combined with other community-wide benefits such as new jobs, business license fees and 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
Consultation with Taxing Jurisdictions	March-May
PDC Board adopts plan amendments.	May 15
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

APPENDIX A

The Advisory Group used the following criteria to considered proposed additions to the River District Urban Renewal Area:

1. To what extent is the area poorly planned, underutilized, deteriorating, lack appropriate infrastructure or have other real estate based needs?
2. Would the URA produce increment and generate revenues sufficient to achieve area goals at a reasonable pace and within the life of the district?
3. To what extent would the URA and related strategies meet citywide goals and priorities?
 - economic development and job creation
 - housing development and affordable housing preservation
 - commercial and retail revitalization
 - neighborhood plans
 - regional and local capital improvement plans
4. To what extent would this action impair the ability of other taxing jurisdictions to deliver services to their constituents?
5. Is there a high level of community support in the area?
6. What are the potential development opportunities and is there willingness to redevelop?
7. What is the likelihood that the URA would significantly leverage city investment with private, state or federal government investment?
8. Will the proposed URA meet the technical, legal and financial criteria as stipulated by the statute, including citywide acreage and assessed value limitations?
9. What are the other urban renewal area options that would be foregone if this area were established?
10. How does the project or program investment directly advance goals of other taxing jurisdictions?

An electronic copy of this report can be found at <http://www.pdc.us/four/westside-study/default.asp>. If you do not have access to the internet or require any additional information on this topic, please call: Bob Alexander 503-823-3248 or Bob Durston 503-823-9189.