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## Appendix E

### Response to Study Charter Question #1

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**Question #1:**

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

This report briefly describes what is known about Old Town/Chinatown (“OT/CT”) and its urban renewal projects, the Downtown Waterfront Urban Renewal Area, and the River District Urban Renewal Area. It then describes how that knowledge combines to suggest a strategy based on the assumption that the goal is to give OT/CT the best opportunity to have urban renewal resources available for projects and programs in a timely matter.

#### ***What we know about the Old Town/Chinatown Urban Renewal Projects***

**This section of the report provides findings on the costs of identified Old Town/Chinatown projects which are in the PDC Adopted Budget for 2004/2005**

PDC has identified projects in “OT/CT” that are expected to be funded with tax increment revenues from the Downtown Waterfront Urban Renewal Area (“DTWF”) from a period beginning in fiscal year 2004-05 and ending in fiscal year 2008-09.

Based on PDC’s 2004-2005 Adopted Budget, those projects have a total cost of about \$70.1 million<sup>1</sup> (when you include indirect costs). See Appendix “C” for a list, description, and their location proximate to OT/CT.

It is reasonable to assume the total cost of completing the community’s desires for OT/CT projects exceeds \$70.1 million, perhaps by a significant amount. This is because the OT/CT community and other stakeholders will likely identify additional needs over the period of time between 2005 and 2008.

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<sup>1</sup> Source: PDC 2004-2005 adopted budget (through 2008-2009). Page 43-44.

### ***What we know about the Downtown Waterfront Urban Renewal Area (DTWF)***

#### **Section two of the report identifies the financial capability of the Downtown Waterfront urban renewal area to finance OT/CT project requirements.**

From a period beginning in 2004-2005; the total financial resources for DTWF are about \$120.9 million. This figure is comprised of DTWF's current resources/requirements from the 2004-2005 Adopted Budget (\$42.1 million); and forecasted resources from 2005-2006 through 2008-2009 (\$78.8 million [\$10.0 million in non-debt resources and \$68.8 in remaining indebtedness]<sup>2</sup>. Of the 120.9 million, \$97.7 million in resources are forecasted for expenditures through 2008-2009<sup>3</sup>.

Of the \$78.8 million in debt and non-debt resources, \$49.6 million is expected to be used for future OT/CT projects<sup>4</sup>; \$6.7 million is budgeted for non-OT/CT projects; which leaves \$22.4 million available for other projects. While there are not budgeted commitments for this amount there are projects under consideration<sup>5</sup>.

In the assessment of the capabilities of DTWF to finance OT/CT projects; the following needs to be considered:

- DTWF cannot increase its maximum indebtedness without jeopardizing its right to collect special levy.
- DTWF shares the taxes on growth of property value with surrounding taxing districts. This sharing returns over 60 cents on every dollar to these taxing districts.
- As an Option 3 urban renewal area<sup>6</sup>, DTWF can collect special levy. The amount that can be collected is higher than the special levy that currently must be allocated to DTWF to pay its outstanding bonds.

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<sup>2</sup> See Appendix A "Sources and Uses".

<sup>3</sup> See Appendix B "DTWF Project Details".

<sup>4</sup> See Appendix C "OT/CT Project Details".

<sup>5</sup> See Appendix B.

<sup>6</sup> Option 1 and Option 3 urban renewal areas are those Districts that are authorized to collect special levies and were also permitted to choose a divide-the-taxes option. "Option 1" districts collect the full amount of the divide-the-taxes revenues (the amount is not fixed). "Option 3" districts collect a **fixed** amount of divide-the-taxes that does not change. Portland only has Option 1 and Option 3 districts. The choice of options had to be made by July 1, 1998, and cannot now be changed. While the City is authorized to collect a special levy for Central Eastside, there are no current plans to do so.

- Issuing future DTWF bonds will commit more of the special levy to DTWF, and that additional special levy will be necessary to pay those future bonds.
- The special levy currently expected to be allocated to DTWF will be sufficient to pay all outstanding DTWF bonds, plus future indebtedness equal to DTWF's maximum indebtedness.

### ***What we know about the River District Urban Renewal Area (“RD”)***

**Section three quantifies the financial capability of the River District urban renewal area and assesses its ability to meet the projects need of OT/CT.**

The total financial resources for RD through 2007/2008 are about \$79.2 million. This figure is comprised of RD's current resources/requirements from the 2004-2005 Adopted Budget (\$34.6 million); non-debt resources (\$6.2 million); plus the anticipated debt to be issued through 2007/2008 (approximately \$38.4 million)<sup>7</sup>. All of these resources are committed and budgeted for projects that have been implemented, committed or contracted<sup>8</sup>.

By FY 2008/2009; it is anticipated that RD will have a remaining indebtedness \$85 million. \$16.1 of that indebtedness is expected to be spent in 2008/2009 to complete projects in the current 2004/2005 Adopted Budget. That leaves the RD with \$68.9 million in remaining, and currently uncommitted, indebtedness from 2009 – 2020. While RD's has currently uncommitted indebtedness; there are large catalytic projects (such as the renovation of the Meier & Frank Building and the 2004 Park Avenue Vision Plan) which will require some of this capacity.

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<sup>7</sup> See Appendix A.

<sup>8</sup> See Appendix D “RD Project Details”.

When considering RD's capability to finance OT/CT projects it is important to consider the following:

- RD is a new urban renewal area with limited, but rapidly growing borrowing capacity. The district was created in 1998 and has a final date to issue debt of October 2020. As the district ages and urban renewal occurs, there is the possibility that needs may diminish and adjacent areas such as parts of OT/CT could be moved.
- Being a post 1996 urban renewal area, RD has no ability to collect a special levy<sup>9</sup>. RD collects only "divide the taxes" revenues, and current law requires it to collect all such revenues. So RD cannot collect any more than it currently does, until property values inside RD increase.
- RD has a maximum indebtedness of \$225 million, of which \$68.9 million is forecasted to remain entering fiscal year 2009/2010. The maximum indebtedness can be increased by doing a substantial amendment to the RD plan. This would require notice to all property taxpayers in Multnomah County and approval by the PDC Commission, and City Council; as well as review by the Planning Commission.
- The total financial resources for RD through 2007/2008 are about \$79.2 million. This figure is comprised of RD's current resources/requirements from the 2004-2005 Adopted Budget (\$34.6 million<sup>10</sup>); non-debt resources (\$6.2 million); plus the anticipated debt to be issued through 2007/2008 (approximately \$38.4 million)<sup>11</sup>. None of that amount is currently expected to be used for OT/CT projects.
- RD's current resources of about \$34.6 million are expected to be spent on RD projects that are currently in the RD plan. All of these resources are committed and budgeted for projects that have been implemented, committed or contracted<sup>12</sup>. Furthermore, it is unclear whether these bond proceeds could be used for OT/CT projects since bonds were issued in conformance with River District plan and OT/CT projects may not fit objectives of that plan.

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<sup>9</sup> Post-1996 Districts are urban renewal areas created after December 6, 1996. They are not permitted to impose special levies. Those districts can only collect divide-the-taxes revenues, and collect them in same manner as Option 1 districts.

<sup>10</sup> Source: PDC 2004-2005 Adopted Budget, page 49. Also see attached Appendix C.

<sup>11</sup> See Appendix D "RD Project Details".

<sup>12</sup> See Appendix D "RD Project Details".

- Adding property to RD increases its borrowing capacity relatively slowly. The Technical Team estimates that adding as much of OT/CT to RD as the law allows would increase RD's borrowing capacity by about \$3.3 million<sup>13</sup> during the next eight years. As an interim measurement, the borrowing capacity is increased by \$1.5 million by fiscal year 2008/2009.
- Because the amount of OT/CT projects that currently need financing through 2008-2009 exceed the current total financial resources of RD, RD cannot currently meet all of OT/CT's financing needs.
- In addition, the estimated total cost of all projects in the RD plan through 2008/2009, plus the estimated total cost of OT/CT projects over that same period of time (\$96.0 million + \$70.1 million = \$166.1 million) substantially exceeds the forecasted resources of RD (\$91.6 million). It therefore does not appear feasible to add OT/CT to RD immediately and finance all of the currently desired RD and OT/CT projects.

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<sup>13</sup> Assumes Assessed Value growth of 3 percent for OT/CT property moved to RD, and consolidated tax rate equal to \$21.8686/\$1,000 of Assessed Value. Assumes bonds are issued with a 20 year term, level debt service repayment schedule, and 7% interest rate. Additionally, tax increment collections are assumed to provide 1.50 times debt service coverage on outstanding bonds and new bonds, per City policy.

### ***Strategies for Financing OT/CT Projects***

**The conclusions in this section of the report provide an opinion of which of the two urban renewal areas (DTWF and RD) are best equipped financially to meet the community's priorities for completing projects in OT/CT. It suggests both a short and long term strategy based on the assumption that the goal is to give OT/CT the best opportunity to have urban renewal resources available for projects and programs in a timely manner.**

Through 2008-2009, OT/CT has at least \$70.1 million of financing needs out of DTWF's total resources of \$120.9 million. This assumes current needs of \$20.4 million out of the \$42.1 million currently available in 2004-2005; and an additional \$49.7 million from a \$40-\$45 million bond issue in 2005-2006; as well as other issuances of debt drawing on DTWF's \$22.4 million in remaining maximum indebtedness prior to April 2008.

RD is a newer district without about \$34.6 million of current resources and financing capacity; and cumulative resources and financing capacity of \$79.2 million through 2007/2008. None of that capacity could be used for OT/CT projects without displacing RD projects. RD will have \$68.9 million in financing capacity from 2009 – 2020 and while some of that will be needed for large catalytic projects (such as the renovation of the Meier & Frank Building and the 2004 Park Avenue Vision Plan); there will be significant indebtedness remaining in the future.

It therefore appears the way to provide OT/CT projects with the opportunity to have resources available for projects and programs in a timely manner is to finance as many of them as is reasonable through DTWF, and to finance those that are not financed through DTWF by moving them to RD at a later date.

Because there are significant limits on how much property can be moved to RD<sup>14</sup>, PDC must plan the location of the OT/CT expenditures from DTWF carefully, to make sure that the OT/CT projects that need RD financing can be moved to RD within those limitations.

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<sup>14</sup> According to State Statute, the initial area (acres) of a district cannot be increased by more than 20% of the plan's original size, for the life of the district. For River District this equals 62 acres. Insurance agreements with AMBAC limit the City to not withdraw more than 10% of the assessed value of taxable property in a district during any five-year period. For DTWF this equals \$84.3 million.