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## Appendix H

# Key Terms and Concepts

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### **“Bond Declaration” and “Bond Covenants”**

When the City of Portland issues bonds it is required to make promises to the bond owners that are designed to protect the value of the bonds and make sure the City will be able to pay the bonds. Those promises are referred to as “covenants.” For the City’s outstanding urban renewal bonds, these covenants are contained in documents called “bond declarations.” There is a different bond declaration for each urban renewal district. Each bond declaration provides rules for amending its terms. A copy of the bond declaration is made available to bond owners, and bond owners would need to consent to material changes to the bond declaration.

### **“Bond Insurance”**

Bond insurance guarantees the payment of principal and interest on insured bonds. The City purchases bond insurance when the interest rate savings of insured bonds exceeds the cost of the insurance. The bond insurer guarantees the bond owners that, if the City does not pay the bonds, the bond insurer will. All the City’s outstanding Central City urban renewal bonds are insured by a single municipal bond insurance company.

### **“Divide-the-taxes revenues”/”Taxes on Growth”**

The traditional type of tax increment revenues are called “divide-the-taxes” revenues. They are essentially taxes on growth in property value above the “frozen base”. They are calculated by multiplying the consolidated tax rate by the incremental assessed value of property inside the urban renewal district. An amount of tax collections equal to the product of that multiplication is “divided” from other taxes and transferred to the urban renewal agency for use in the district. Divide the taxes revenues are collected automatically by the assessor; under current law they cannot be reduced by the City or PDC.

### **“Frozen Base”**

“Frozen base” refers to the assessed value of property on the date it is included in an urban renewal district. Taxes imposed on the frozen base are distributed to overlapping taxing bodies in the same manner as taxes that are imposed on property outside an urban renewal district.

### **“Incremental Value”**

The amount of tax increment revenues that can be collected for an urban renewal district is a function of the “incremental value” – the difference between the assessed value of property in the district when the property was included in the district (that value is called the “frozen base”) and the current assessed value. If property is removed from a district, the removal reduces the incremental value and the ability of the district to collect tax increment revenues.

**“Insurance Agreement”**

When bonds are insured the City may enter into an insurance agreement that contains additional promises for the benefit of the bond insurer that are not in the bond declaration. The bond insurer and the City can agree to change the insurance agreement at any time, but the City has no independent right to change it. The terms of insurance agreements are not typically disclosed to bond owners, and bond owners would not need to be notified if the terms of an insurance agreement were changed.

**“Last Date for Issuance of Debt”**

State law formerly required a deadline before which urban renewal plans have to issue debt. This date was to be included in all urban renewal plans. Tax increment financing can continue until all remaining bonds are repaid. Last dates for bond issuance are no longer required in urban renewal plans because “maximum indebtedness” limits provide sufficient protection against an urban renewal plan operating in perpetuity.

**“Maximum Annual Debt Service”**

Maximum Annual Debt Service is a defined term in the bond declarations. It refers to the highest, or greatest, amount of principal and interest payments that is due in any single fiscal year on senior lien bonds.

**“Maximum Indebtedness”**

Urban renewal plans have to contain a dollar limit on the amount of indebtedness (bonds and other debt) payable from tax increment revenues that could be issued in the future. Existing urban renewal plans could base the maximum amount of indebtedness on estimates of the costs of remaining projects. Maximum Indebtedness is the primary control over the lifetime of an urban renewal plan.

**“Maximum Tax Increment Revenue”**

Maximum tax increment revenues, or “MTIR” is a term used in the bond documents for urban renewal districts that have special levies. It refers to the total amount that could be collected in a **fiscal year** for a district. The MTIR is equal to the total amount of tax increment revenues that a district could have collected for fiscal year 1997-98 (assuming Measures 47 and 50 hadn’t passed), adjusted each subsequent year by the percentage change (up or down) in the incremental value for the district. The MTIR is roughly equal to the amount that a district that existed on December 6, 1996, could have collected if Measures 47 and 50 had not become law.

**“Option 1 and Option 3 Districts”**

Districts that have special levies also were permitted to chose a divide-the-taxes option (a tax collection option). “Option 1” districts collect the full amount of the taxes on growth in property value above the frozen base (which flows to taxing jurisdictions). The taxes on growth they collect are not fixed; they grow each year. “Option 3” districts collect a **fixed** amount of taxes on growth in property value<sup>1</sup>. Portland only has Option 1 (Central Eastside) and Option 3 districts (Airport Way, Downtown Waterfront, Oregon Convention Center, South Park Blocks). The choice of options was a requirement of Measure 50 and had to be made by City Council and PDC July 1, 1998, and can not be changed.

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<sup>1</sup> The divide the taxes collections are also always limited to the product of the consolidated tax rate times the incremental value. For Portland’s Option 3 districts, this product is currently substantially higher than the fixed, divide-the-taxes amounts.

**“ORS 457.220(3)”**

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.

**“ORS 457.420(2)(A)”**

The total frozen bases of City/PDC Urban Renewal districts cannot exceed 15% of assessed value (taxable property value) of the City.

**“ORS 457.420(2)(B)”**

The total land area within all City/PDC UR districts cannot exceed 15% of the total land area of the City.

**“Post-1996 Districts”**

Urban renewal districts created after December 6, 1996, are not permitted to impose special levies. Those districts can only collect revenues from taxes on growth in property value. They collect them in same manner as Option 1 districts.

**“Special Levies”**

Measure 50 permitted urban renewal districts that existed on December 6, 1996 to impose special levies in addition to taxes on growth in property value. The Special Levy is an additional \$15 million, City-wide property tax. If an urban renewal district has Special Levy, the Special Levy may be imposed each fiscal year in an amount that is equal to difference between the MTTR and the revenues from taxes on growth in property value. The City and PDC currently collect less than the maximum authorized special levies.