# Sutherlin Urban Renewal Feasibility Study







November 21, 2019

Jerry Gilham Brian Elliott Kristi Gilbert 126 E Central Avenue City of Sutherlin Sutherlin, Oregon

Dear Sutherlin Team,

The Urban Renewal Feasibility Study for Sutherlin is attached. The study has been completed by Elaine Howard Consulting, LLC and Tiberius Solutions LLC. It shows that a new urban renewal area could be adopted and comply with both the statutory acreage and assessed value limitations. It identifies blighting conditions that will allow for formation of an urban renewal agency. It identifies the potential amount of tax increment revenues that could be received and the resulting dollars available for projects in the urban renewal area over a 25-year duration.

Thank you to your staff who has been very responsive and helpful in providing information for the completion of this study.

The next steps to consider, if the city council decides to proceed, are identified in the study.

Sincerely,

Maine Admourd

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# **Executive Summary**

The City of Sutherlin, Oregon is conducting a feasibility study for an urban renewal area (URA) to serve the downtown and other undeveloped property south of the downtown and surrounding Exit 136 off Interstate 5. The purpose of this feasibility study is to

- determine the study area boundary meets the limitations imposed under ORS 457 on acreage and assessed value in an urban renewal area,
- establish blight occurs in the study area,
- examine the financial feasibility of urban renewal in the study area and to
- examine the impacts on taxing districts as a result of the potential of creating an URA in Sutherlin.

This report provides the City of Sutherlin with baseline data to understand the financial capacity of a new URA. The assumptions are for a 25-year URA with an assessed value growth rate of 3% as directed by the city.

# Methods

The methods used for this feasibility study to establish potential maximum indebtedness and define impacts on the taxing jurisdictions included the following key steps:

Step 1. Define boundary options.

- Step 2. Identify money available for projects.
- Step 3. Determine applicable tax rates.
- Step 4. Forecast growth in assessed value.
- Step 5. Calculate tax increment revenue and revenue sharing.
- Step 6. Create a draft finance plan.
- Step 7. Present to Sutherlin City Council.

## Step 1. Define boundary options

The City of Sutherlin defined the boundary option as shown in Figure **1**. It encompasses 565.77 acres, and \$104,034,472 in assessed value in FY 2018/19.<sup>1</sup>

ORS 457 limits the total amount of assessed value and acreage that can be included in urban renewal districts in a city the size of Sutherlin to 25% of acreage and 25% of assessed value. This potential URA does not exceed the assessed value and acreage statutory authority for urban renewal in Sutherlin, see Table 1. The assessed value of the proposed URA is based on fiscal year end (FYE) 2019 data as the FYE 2020 data was not available. Therefore, the comparison to overall City AV is also using FYE 2019 data.<sup>2</sup>

Table 1 - Statutory	Limitation	on Assessed	Value a	and Acreage
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	Acreage	Assessed Value
Urban Renewal Area	565.77	\$104,034,472
City of Sutherlin	4,064	\$534,945,184
Percent in URA	13.92%	19.4%

Source: City of Sutherlin and Douglas County Assessor

<sup>&</sup>lt;sup>1</sup> This number has been inflated by 3% to reach the estimated frozen base number in Table 4. Three percent is the assessed value growth assumption being used for this Feasibility Study. <sup>2</sup> The AV of the City in FYE 2021 is \$566,361,766.



Figure 1 – Potential Urban Renewal Boundary

# Step 2. Identify money available for projects

A detailed finance plan was developed for Sutherlin by Tiberius Solutions LLC. The finance plan includes information on how much and when tax increment (TIF) revenues will be available. A more detailed discussion of the finance plan will occur in step six of this document. A summary of the amount of money available for projects in 2020 constant dollars given a 25-year URA is approximately \$15.4 million with a projected maximum indebtedness of \$23.3 million. The maximum indebtedness is the figure that is adopted by the city council when an urban renewal plan is adopted.

The difference between dollars for projects and maximum indebtedness is due to inflation increasing the project costs over time. When an urban renewal plan is drafted, the cost for projects to be accomplished in the URA are identified in constant 2019 dollars. However, the actual cost of those projects increases over time. The urban renewal area is projected to last 25 years, so there is inflation during that full time period. For example, a project estimated to cost \$1 million in 2019 dollars will actually cost approximately \$1.3 million in year 10, using a 3% inflation rate.

# Step 3. Determine applicable tax rates

All properties within the boundary options are located within tax code areas 13001 and 13002. Properties in tax code 13001 have a slightly higher tax rate due to the WC Sutherlin Permanent Rate Levy. Details of the applicable tax rate are shown below in Table 2. There are no general obligation (GO) bonds impacted by the proposed boundary as Oregon statutes preclude new URAs from including GO bond rates for all bonds. Tax rate information was obtained from Douglas County Assessor Summary Table 4a and the Douglas County FY 2019/2020 Tax Book.

The Sutherlin School District 130 and the Douglas County Education Service District are not *directly* affected by the tax increment financing, but the amounts of their taxes divided for the urban renewal plan are shown in the charts. Under current school funding law, property tax revenues are combined with State School Fund revenues to achieve per-student funding targets. Under this system, property taxes foregone because of the use of Tax Increment Financing are replaced, as determined by a funding formula at the State level with State School Fund revenues.

Taxing District	Tax Code Area 13001	Tax Code Area 13001
Jurisdiction Name	Rate	Rate
Douglas County	1.1124	1.1124
City of Sutherlin	5.6335	5.6335
WC Sutherlin	0.5079	
SV 4H Extension Service	0.0600	0.0600
Subtotal	7.3138	6.8059
ED Douglas	0.5296	0.5296
SC Sutherlin 130	4.0815	4.0815
Umpqua CC	0.4551	0.4551
Subtotal	5.0662	5.0662
Total	12.3800	11.8721

## Table 2 - Applicable Tax Rates for Sutherlin Feasibility Study, FY 2019/20

Source: Douglas County Assessor Tax Book FY 2019/202

## Step 4. Forecast growth in assessed value

The Douglas County Assessor provided data on the assessed value of all properties in the City of Sutherlin for FY 2018/2019. The new assessed values were not yet available at the time of this financial analysis. The current assessed value of the boundary option is determined from that information. Growth rates for assessed value vary over time, depending on market cycles and new development. In Oregon, appreciation is capped at 3.0% per year, which means any growth above 3.0% per year requires new development to occur.

Recent historical trends in the City of Sutherlin were reviewed to determine a reasonable growth rate to use for the analysis. Table 3 shows historical growth in assessed value in both the City of Sutherlin and Douglas County from 2008 to 2020. This shows annual growth varying from .7% per year to 5.9% per year in the City of Sutherlin with an average annual growth rate (AAGR) from 2008-2020 of 3.47%. The annual growth rate in Douglas County varies from 1.8% to 4.7% in, with an average annual growth rate (AAGR) from 2008-2020 of 2.92%. The financial forecasting in this study uses a 3.0% growth rate. After review of initial assumptions with City of Sutherlin staff, staff directed our team to use the 3% assessed value growth rate and project for a 25-year urban renewal time frame.

	Douglas Count	ty	City of Suthe	rlin
FYE	AV	% Change	AV	% Change
2008	\$6,885,723,214		\$376,025,801	
2009	\$7,212,272,535	4.70%	\$395,055,275	5.10%
2010	\$7,401,780,678	2.60%	\$417,944,043	5.80%
2011	\$7,538,417,900	1.80%	\$435,695,036	4.20%
2012	\$7,734,492,563	2.60%	\$448,056,435	2.80%
2013	\$7,934,556,418	2.60%	\$451,118,182	0.70%
2014	\$8,147,317,561	2.70%	\$463,360,912	2.70%
2015	\$8,394,309,886	3.00%	\$475,528,622	2.60%
2016	\$8,576,128,282	2.20%	\$481,750,152	1.30%
2017	\$8,899,421,933	3.80%	\$495,945,040	2.90%
2018	\$9,136,135,643	2.70%	\$509,812,934	2.80%
2019	\$9,504,941,445	4.00%	\$534,945,184	4.90%
2020	\$9,727,382,109	2.30%	\$566,361,766	5.90%
FYE 2013-FYE 2020		3.00%		3.40%
FYE 2008-FYE 2019		2.92%		3.47%

#### Table 3 – Assessed Value Growth in the City of Sutherlin and Douglas County

Source: Douglas County Assessor, City of Sutherlin AAGR: Average Annual Growth Rate

## Step 5. Calculate tax increment revenue and revenue sharing

Calculating tax increment revenue is done by forecasting assessed value, based on assumed assessed value growth as described in Step 4, and then subtracting the initial assessed value (the frozen base) to determine the "excess value". The excess value is that amount of growth in the URA including both new development (exception value) and the annual growth of assessed values within the URA. This excess value is multiplied by the applicable tax rate to determine the total amount of tax increment revenue, also referred to as TIF. Then, the revenue sharing thresholds are applied to determine the portion of tax increment revenue that will be collected by the URA and the portion that will be shared with overlapping taxing districts. Table 4 shows the projections of assessed value, tax increment revenues, delinquencies and the portion of TIF projected to be received by the URA. Tax increment revenues would begin in FYE 2022 if an URA is adopted by the Sutherlin City Council by November 30, 2020.<sup>3</sup> If the URA is approved after that date, the first year of tax increment is delayed.

The amounts projected to be available for projects over incremental time periods are shown in Table 7.

The analysis is for a 25-year time period for collecting TIF. The total net TIF revenues for a 25year time period is \$27,835,448. This includes 5% adjustment for discounts (from paying early), delinquencies (unpaid taxes), truncation loss (lost revenue due to rounding of tax bills), and compression loss; plus prior year tax collections. The total TIF collections of \$27,835,448 is higher than the maximum indebtedness as the maximum indebtedness does not include interest paid on any borrowings. Interest rates of 5% are forecasted for borrowings.

The assumptions include anticipating properties with Enterprise Zone exemptions to come on the tax rolls when those exemptions expire. One property in the URA boundary is currently receiving an Enterprise Zone abatement on three separate tax accounts. The abatement, totaling \$25.8 million in assessed value in FYE 2020, will be fully taxable in FYE 2023, showing a large jump in increment in that year.<sup>4</sup>

<sup>&</sup>lt;sup>3</sup> An urban renewal area is adopted through a non-emergency ordinance which does not go into effect for thirty days after adoption.

<sup>&</sup>lt;sup>4</sup> Note: Historically, the value of the E-Zone property has declined over the past five years but appears to have essentially stabilized in value over the past couple of years. Between now and when the value comes back on the tax roll (FYE 2023), Tiberius Solutions LLC assumed no change in value. In subsequent years, they assumed 3% annual growth in AV for the E-Zone property, so it would be consistent with what was assumed in the rest of the area

FYE	Total Assessed	Frozen Base	Increment	Tax Rate	Gross TIF	Adjustments	Net TIF	Net TIF	Net TIF
	Value	Assessed Value				-	(Current	(Prior	(Total)
							Year)	Year)	
2022	113,681,278	107,155,507	6,525,771	12.2048	79,646	(3,982)	75,663	-	75,663
2023	142,921,796	107,155,507	35,766,289	12.3313	441,046	(22,052)	418,993	1,135	420,128
2024	147,209,450	107,155,507	40,053,943	12.3212	493,511	(24,676)	468,836	6,285	475,121
2025	151,625,733	107,155,507	44,470,226	12.3128	547,551	(27,378)	520,174	7,033	527,206
2026	156,174,506	107,155,507	49,018,999	12.3057	603,212	(30,161)	573,051	7,803	580,854
2027	160,859,742	107,155,507	53,704,235	12.2996	660,543	(33,027)	627,515	8,596	636,111
2028	165,685,535	107,155,507	58,530,028	12.2944	719,593	(35,980)	683,614	9,413	693,026
2029	170,656,102	107,155,507	63,500,595	12.2899	780,415	(39,021)	741,395	10,254	751,649
2030	175,775,786	107,155,507	68,620,279	12.2859	843,062	(42,153)	800,909	11,121	812,030
2031	181,049,060	107,155,507	73,893,553	12.2824	907,588	(45,379)	862,209	12,014	874,222
2032	186,480,531	107,155,507	79,325,024	12.2792	974,050	(48,703)	925,348	12,933	938,281
2033	192,074,947	107,155,507	84,919,440	12.2764	1,042,506	(52,125)	990,381	13,880	1,004,261
2034	197,837,196	107,155,507	90,681,689	12.2739	1,113,016	(55,651)	1,057,365	14,856	1,072,220
2035	203,772,312	107,155,507	96,616,805	12.2716	1,185,640	(59,282)	1,126,358	15,860	1,142,219
2036	209,885,481	107,155,507	102,729,974	12.2695	1,260,444	(63,022)	1,197,422	16,895	1,214,317
2037	216,182,044	107,155,507	109,026,537	12.2676	1,337,491	(66,875)	1,270,617	17,961	1,288,578
2038	222,667,504	107,155,507	115,511,997	12.2658	1,416,850	(70,843)	1,346,008	19,059	1,365,067
2039	229,347,528	107,155,507	122,192,021	12.2642	1,498,590	(74,930)	1,423,661	20,190	1,443,851
2040	236,227,954	107,155,507	129,072,447	12.2627	1,582,782	(79,139)	1,503,643	21,355	1,524,998
2041	243,314,794	107,155,507	136,159,287	12.2614	1,669,500	(83,475)	1,586,025	22,555	1,608,580
2042	250,614,237	107,155,507	143,458,730	12.2601	1,758,819	(87,941)	1,670,878	23,790	1,694,669
2043	258,132,664	107,155,507	150,977,157	12.2589	1,850,818	(92,541)	1,758,277	25,063	1,783,341
2044	265,876,643	107,155,507	158,721,136	12.2578	1,945,577	(97,279)	1,848,298	26,374	1,874,672
2045	273,852,941	107,155,507	166,697,434	12.2568	2,043,179	(102,159)	1,941,020	27,724	1,968,744
2046	282,068,529	107,155,507	174,913,022	12.2559	2,143,708	(107,185)	2,036,523	29,115	2,065,638
TOTAL:					28,899,137	(1,444,959)	27,454,183	381,264	27,835,446

## Table 4 - Projected TIF Revenues over a 25 Year Period

# Step 6. Create a draft finance plan

The final step in the analysis is to take the annual forecast of TIF for the URA and translate it into a financing plan showing the years in which projects would be funded, the debt incurred, and the timing for retiring the debt. For the 25-year plan, the available funding is in constant 2020 dollars, meaning, for example, the \$15,554,787 in available funding under the 3.0% growth scenario means Sutherlin could specify \$15,554,787 of projects, programs and administration in today's costs for that scenario. The difference between the Maximum Indebtedness and the Available Funding is the cost of inflation increasing the project costs over time.

In most URAs, the projects would be completed in a shorter timeframe than the life of the district. The district lasts longer in order to pay off remaining debt. If a shorter term of urban renewal is desired, that can be accomplished by issuing less debt and therefore having less maximum indebtedness and less funding to do projects. Conversely, a longer district would provide additional TIF revenue to complete additional projects.

Table 5a-5c shows a 25-year URA duration and shows the projected Debt Service Fund. Table 6a-6c show the projected Projects Fund, allocating revenue to potential future projects. City staff requested the finance plan show the ability to use \$500,000 in TIF in FYE 2022 and FYE 2024. This is shown in Table 6a.

	Total	FYE 2022	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Resources									
Beginning Balance									
Interest Earnings									
TIF: Current Year	27,454,183	75,663	418,993	468,836	520,174	573,051	627,515	683,614	741,395
TIF: Prior Years	381,265		1,135	6,285	7,033	7,803	8,596	9,413	10,254
Total Resources	27,835,448	75,663	420,128	475,121	527,206	580,854	636,111	693,026	751,649
Expenditures									
Debt Service									
Scheduled Payments									
Loan A	(802,426)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)
Loan B	(802,426)			(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)
Loan C	(6,740,377)						(337,019)	(337,019)	(337,019)
Loan D	(2,890,269)								
Loan E	(2,331,082)								
Total Debt Service	(13,566,580)	(40,121)	(40,121)	(80,243)	(80,243)	(80,243)	(417,261)	(417,261)	(417,261)
Debt Service Coverage Ratio		1.89	10.44	5.84	6.48	7.14	1.50	1.64	1.78
Transfer to URA Projects Fund	(14,268,868)	(35,542)	(380,007)	(394,878)	(446,963)	(500,611)	(218,850)	(275,765)	(334,387)
Total Expenditures	(27,835,448)	(75,663)	(420,128)	(475,121)	(527,206)	(580,854)	(636,111)	(693,026)	(751,649)
Ending Balance									

#### Table 5a - Finance Plan, Tax Increment Fund Part 1

	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	FYE 2037	FYE 2038
Resources									
Beginning Balance									
Interest Earnings									
TIF: Current Year	800,909	862,209	925,348	990,381	1,057,365	1,126,358	1,197,422	1,270,617	1,346,008
TIF: Prior Years	11,121	12,014	12,933	13,880	14,856	15,860	16,895	17,961	19,059
Total Resources	812,030	874,222	938,281	1,004,261	1,072,220	1,142,219	1,214,317	1,288,578	1,365,067
Expenditures									
Debt Service									
Scheduled Payments									
Loan A	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)
Loan B	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)
Loan C	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)
Loan D			(192,685)	(192,685)	(192,685)	(192,685)	(192,685)	(192,685)	(192,685)
Loan E								(233,108)	(233,108)
Total Debt Service	(417,261)	(417,261)	(609,946)	(609,946)	(609,946)	(609,946)	(609,946)	(843,054)	(843,054)
Debt Service Coverage Ratio	1.92	2.07	1.52	1.62	1.73	1.85	1.96	1.51	1.60
Transfer to URA Projects Fund	(394,768)	(456,961)	(328,335)	(394,315)	(462,274)	(532,273)	(604,371)	(445,524)	(522,013)
Total Expenditures	(812,030)	(874,222)	(938,281)	(1,004,261)	(1,072,220)	(1,142,219)	(1,214,317)	(1,288,578)	(1,365,067)
Ending Balance									

#### Table 5b - Finance Plan, Tax Increment Fund Part 2

	FYE 2039	FYE 2040	FYE 2041	FYE 2042	FYE 2043	FYE 2044	FYE 2045	FYE 2046
Resources								
Beginning Balance								
Interest Earnings								
TIF: Current Year	1,423,661	1,503,643	1,586,025	1,670,878	1,758,277	1,848,298	1,941,020	2,036,523
TIF: Prior Years	20,190	21,355	22,555	23,790	25,063	26,374	27,724	29,115
Total Resources	1,443,851	1,524,998	1,608,580	1,694,669	1,783,341	1,874,672	1,968,744	2,065,638
Expenditures								
Debt Service								
Scheduled Payments								
Loan A	(40,121)	(40,121)	(40,121)					
Loan B	(40,121)	(40,121)	(40,121)	(40,121)	(40,121)			
Loan C	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)	(337,019)
Loan D	(192,685)	(192,685)	(192,685)	(192,685)	(192,685)	(192,685)	(192,685)	(192,684)
Loan E	(233,108)	(233,108)	(233,108)	(233,108)	(233,108)	(233,108)	(233,108)	(233,108)
Total Debt Service	(843,054)	(843,054)	(843,054)	(802,933)	(802,933)	(762,812)	(762,812)	(762,811)
Debt Service Coverage Ratio	1.69	1.78	1.88	2.08	2.19	2.42	2.54	2.67
Transfer to URA Projects Fund	(600,797)	(681,944)	(765,525)	(891,736)	(980,408)	(1,111,861)	(1,205,933)	(1,302,827)
Total Expenditures	(1,443,851)	(1,524,998)	(1,608,580)	(1,694,669)	(1,783,341)	(1,874,672)	(1,968,744)	(2,065,638)
Ending Balance								

#### Table 5c - Finance Plan, Tax Increment Fund Part 3

#### Table 6a - Finance Plan, URA Projects Fund Part 1

	Total	FYE 2022	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Resources									
Beginning Balance									
Interest Earnings									
Transfer from TIF Fund	(14,268,868)	(35,542)	(380,007)	(394,878)	(446,963)	(500,611)	(218,850)	(275,765)	(334,387)
Bond/Loan Proceeds	(9,000,000)	(500,000)		(500,000)			(4,200,000)		
Total Resources	(23,268,868)	(535,542)	(380,007)	(894,878)	(446,963)	(500,611)	(4,418,850)	(275,765)	(334,387)
Projects, Programs, and Admin	(23,088,868)	(525,542)	(380,007)	(884,878)	(446,963)	(500,611)	(4,334,850)	(275,765)	(334,387)
Financing Fees	(180,000)	(10,000)		(10,000)			(84,000)		
Total Expenditures	(23,268,868)	(535,542)	(380,007)	(894,878)	(446,963)	(500,611)	(4,418,850)	(275,765)	(334,387)
Ending Balance									

Source: Tiberius Solutions LLC

#### Table 6b - Finance Plan, URA Projects Fund Part 2

	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	FYE 2037	FYE 2038
Resources									
Beginning Balance									
Interest Earnings									
Transfer from TIF Fund	(394,768)	456,961	328,335	394,315	462,274	532,273	604,371	445,524	522,013
Bond/Loan Proceeds			2,000,000					1,800,000	
Total Resources	(394,768)	456,961	2,328,335	394,315	462,274	532,273	604,371	2,245,524	522,013
Projects, Programs, and Admin	(394,768)	(456,961)	(2,288,335)	(394,315)	(462,274)	(532,273)	(604,371)	(2,209,524)	(522,013)
Financing Fees			(40,000)					(36,000)	
Total Expenditures	(394,768)	(456,961)	(2,328,335)	(394,315)	(462,274)	(532,273)	(604,371)	(2,245,524)	(522,013)
Ending Balance									

#### Table 6c - Finance Plan, URA Projects Fund Part 3

	FYE 2039	FYE 2040	FYE 2041	FYE 2042	FYE 2043	FYE 2044	FYE 2045	FYE 2046
Resources								
Beginning Balance								
Interest Earnings								
Transfer from TIF Fund	600,797	681,944	765,525	891,736	980,408	1,111,861	1,205,933	1,302,827
Bond/Loan Proceeds								
Total Resources	600,797	681,944	765,525	891,736	980,408	1,111,861	1,205,933	1,302,827
Projects, Programs, and Admin	(600,797)	(681,944)	(765,525)	(891,736)	(980,408)	(1,111,861)	(1,205,933)	(1,302,827)
Financing Fees								
Total Expenditures	(600,797)	(681,944)	(765,525)	(891,736)	(980,408)	(1,111,861)	(1,205,933)	(1,302,827)
Ending Balance								

Table 7 indicates the financial capacity of the URA in 5-year increments, both in actual dollars and in rounded dollars.

	Actual Dollars	<b>Rounded Dollars</b>
Total Net TIF	27,835,448	27,800,000
Maximum Indebtedness	23,300,000	23,300,000
Capacity (2020 \$)	15,418,341	15,400,000
Years 1-5	2,434,135	2,400,000
Years 6-10	4,662,390	4,600,000
Years 11-15	2,897,456	2,900,000
Years 16-20	2,775,182	2,800,000
Years 21-25	2,689,178	2,700,000

#### Table 7 - Financial Capacity Over Time

Source: Tiberius Solutions LLC

Note: Total TIF and Maximum Indebtedness are stated in year-of-expenditure (i.e., "nominal") dollars. Capacity has been adjusted for inflation and shown in constant 2020 (i.e., "real") dollars.

## **Impacts on Taxing Districts**

Tax increment financing through urban renewal is not finding "new" money. These tax revenues are generated from the existing property tax rates of other taxing districts that overlap the URA. An URA would impact these affected taxing districts by redirecting a portion of these property tax revenues to the URA. The impact to other taxing districts is measured in terms of "foregone revenue". Table 8 and Table 9 summarize the amount of foregone revenue that would be caused by the proposed URA. **Note that the foregone revenue for the School District and Education Service District does not have a direct impact on school funding, as funding is equalized at the State level.** 

The amount of foregone revenues is roughly equal to the amount of tax increment revenue needed to pay debt service on the maximum indebtedness.

In general, these impacts start off very small, and grow over time as the assessed value of the URA grows. For example, in Table 8, the City of Sutherlin is estimated to have a total impact of only \$34,925 in FYE 2022 (the first year in which tax increment would be collected), and an impact of \$949,486 in FYE 2046 (the 25<sup>th</sup> year tax increment would be collected).

To the extent that urban renewal investment is successful in stimulating new taxable development, not all of the foregone revenues should truly be categorized as impacts to taxing districts. Successful URAs cause new development to occur, above and beyond the level that would have occurred without urban renewal. In these situations, the property taxes would not have existed but for the URA's targeted investments, so even though these tax revenues show up as tax increment revenue, and as foregone revenues, they really should not be counted as a negative impact to taxing districts. Note that the analysis was **not c**onducted at the detailed level required to estimate the portion of tax increment revenue in the proposed URA that would likely be generated by new development dependent upon urban renewal investment. Also note that the annual growth rate used was 3%, the amount allowed each year for property tax increases of existing properties.

FYE	Douglas	City of	WC	SV 4H	Subtotal
	County	Sutherlin	Sutherlin	Extension	
	_			Service	
2022	(6,896)	(34,925)	(2,063)	(372)	(44,256)
2023	(37,901)	(191,939)	(15,634)	(2,044)	(247,518)
2024	(42,895)	(217,233)	(17,322)	(2,314)	(279,763)
2025	(47,630)	(241,212)	(18,873)	(2,569)	(310,284)
2026	(52,507)	(265,911)	(20,470)	(2,832)	(341,720)
2027	(57,531)	(291,351)	(22,115)	(3,103)	(374,100)
2028	(62,705)	(317,554)	(23,810)	(3,382)	(407,451)
2029	(68,034)	(344,543)	(25,556)	(3,670)	(441,802)
2030	(73,523)	(372,341)	(27,354)	(3,966)	(477,184)
2031	(79,177)	(400,974)	(29,205)	(4,271)	(513,627)
2032	(85,000)	(430,466)	(31,113)	(4,585)	(551,164)
2033	(90,999)	(460,842)	(33,077)	(4,908)	(589,826)
2034	(97,177)	(492,130)	(35,101)	(5,241)	(629,649)
2035	(103,540)	(524,356)	(37,185)	(5,585)	(670,666)
2036	(110,095)	(557,549)	(39,332)	(5,938)	(712,914)
2037	(116,846)	(591,738)	(41,543)	(6,302)	(756,429)
2038	(123,799)	(626,952)	(43,821)	(6,677)	(801,250)
2039	(130,961)	(663,223)	(46,167)	(7,064)	(847,415)
2040	(138,338)	(700,582)	(48,583)	(7,462)	(894,965)
2041	(145,936)	(739,062)	(51,072)	(7,871)	(943,942)
2042	(153,763)	(778,697)	(53,635)	(8,294)	(994,388)
2043	(161,824)	(819,520)	(56,275)	(8,728)	(1,046,347)
2044	(170,127)	(861,568)	(58,995)	(9,176)	(1,099,866)
2045	(178,679)	(904,877)	(61,796)	(9,637)	(1,154,989)
2046	(187,487)	(949,486)	(64,681)	(10,113)	(1,211,767)
TOTAL:	(2,523,370)	(12,779,031)	(904,778)	(136,104)	(16,343,282)

#### Table 8 - Impacts to Taxing Districts, General Government

FYE	ED	SC Sutherlin	Umpqua	Subtotal	Total All
	Douglas	130	CC	Education	
2022	(3,283)	(25,303)	(2,821)	(31,408)	(75,663)
2023	(18,044)	(139,061)	(15,506)	(172,610)	(420,128)
2024	(20,422)	(157,386)	(17,549)	(195,357)	(475,121)
2025	(22,676)	(174,760)	(19,486)	(216,922)	(527,206)
2026	(24,998)	(192,654)	(21,482)	(239,134)	(580,854)
2027	(27,390)	(211,085)	(23,537)	(262,011)	(636,111)
2028	(29,853)	(230,069)	(25,653)	(285,576)	(693,026)
2029	(32,390)	(249,623)	(27,834)	(309,847)	(751,649)
2030	(35,003)	(269,763)	(30,079)	(334,846)	(812,030)
2031	(37,695)	(290,508)	(32,393)	(360,595)	(874,223)
2032	(40,468)	(311,875)	(34,775)	(387,117)	(938,281)
2033	(43,323)	(333,882)	(37,229)	(414,435)	(1,004,261)
2034	(46,265)	(356,550)	(39,756)	(442,572)	(1,072,220)
2035	(49,294)	(379,899)	(42,360)	(471,553)	(1,142,219)
2036	(52,415)	(403,947)	(45,041)	(501,403)	(1,214,317)
2037	(55,629)	(428,717)	(47,803)	(532,149)	(1,288,578)
2038	(58,939)	(454,230)	(50,648)	(563,818)	(1,365,067)
2039	(62,349)	(480,509)	(53,578)	(596,436)	(1,443,851)
2040	(65,861)	(507,576)	(56,596)	(630,033)	(1,524,998)
2041	(69,479)	(535,454)	(59,705)	(664,638)	(1,608,580)
2042	(73,205)	(564,170)	(62,907)	(700,281)	(1,694,669)
2043	(77,042)	(593,746)	(66,205)	(736,993)	(1,783,341)
2044	(80,995)	(624,210)	(69,601)	(774,807)	(1,874,672)
2045	(85,067)	(655,588)	(73,100)	(813,755)	(1,968,744)
2046	(89,260)	(687,907)	(76,704)	(853,872)	(2,065,638)
TOTAL:	\$(1,201,345)	\$(9,258,472)	\$(1,032,348)	\$(11,492,168)	\$(27,835,447)

#### Table 9 - Impacts to Taxing Districts, Education

Source: Tiberius Solutions, LLC

Note that the foregone revenue for the School District and Education Service District does not have a direct impact on school funding, as funding is equalized at the State level.

# **Blight Findings**

ORS 457.010 defines blight and states that "A blighted area is characterized by the existence of one or more of the following conditions". In ORS 457.010, a full list of blighting conditions follows the general statement. The blight condition that exists in the feasibility study area is "(e)The existence of inadequate streets and other rights of way, open spaces and utilities ". The Existing Conditions analysis in this section identify the deficiencies in the transportation network and in the water and stormwater systems. These conditions constitute blight as defined by ORS 457.010. The official blight findings would be made in a future ordinance adopting the urban renewal plan. However, these blight findings are sufficient to allow for the creation of an urban renewal agency.

The Storm Drain Master Plan was completed by The Dyer Partnership Engineers & Planners, Inc. in 2014. The following projects within the urban renewal feasibility study area were identified in the Storm Drain Master Plan.

## **Table 10 – Storm Drain Master Plan Projects**

Project	Estimated Cost
N. State Street, bound by E. Central and Third Ave	\$230,845
N. Calapooia St, north of E. Central Ave	\$108,795
Between Gran Street and Branton Street, bound by W. Second	\$166,396
Avenue and W. Central Avenue	

These cost estimates include construction costs, engineering costs, legal and administrative costs, and property acquisition costs if appropriate. They were completed in February of 2014 and will need to be updated if designated as a project in a future urban renewal plan.

The Water Master Plan was completed by The Dyer Partnership Engineers & Planners, Inc in 2017. The following projects within the urban renewal feasibility study area were identified in the Water Master Plan.

#### Table 11 – Water Master Plan Projects

Project – Improvement Capital	Estimated Cost
Alley S. of 1 <sup>st,</sup> Umpqua/Will (8″)	\$60,000
Myrtle Street Water Line Improvement	\$89,000
E. 1 <sup>st</sup> Street Water Line Improvement – N State Street to N. Umpqua	\$273,000
Street	

The Sutherlin Transportation Systems Plan (TSP) identified the following projects in the Capital Improvement List. The project costs were using 2005 construction cost indexes and do not reflect unique costs such as significant environmental mitigation.

Block #	Project	Estimated Cost
	Waite Street Improvements	\$1,081,698
	Oregon Highway 138 – 5 lane upgrade from Ft.	\$3,406,698 (State)
	McKay to Comstock	
	I-5 Interchange- west side of IC at Oregon 138	\$2,192,667 (State)
	Connection from New Parkway to Central	\$1,506,566 (City)
	Ash Street – Central to 1st overlay	\$5,952
300	Dean Avenue E. overlay	\$17,340
100	Everett Avenue W. grind and inlay	\$17,262
200	Everett Ave W. overlay	\$10,760
8-900	First Avenue W. slurry seal	\$2,248
100	First Avenue E. cracking	\$200
200	First Avenue E. slurry seal minor cracking	\$2,164
300	First Avenue E. slurry seal pitted surfaces	\$9,665
4-500	First Avenue W. slurry seal	\$3,408
1200	First Avenue W. overlay	\$7,650
700	First Avenue W. slurry seal	\$2,088
	Front Street overlay	\$12,600
	Hawthorne Street overlay	\$34,400
	Oak Street grind and overlay	\$49,755
1300	Sunset Avenue overlay	\$12,580
	Sunset Street overlay	\$22,450
	Taylor Street slurry seal	\$18,344
	Umatilla Street S. grind and inlay	\$35,860
	Waite Street S. rebuild	\$600,000
	Willamette Street S. overlay	\$18,480

Table 12 – Transportation Systems Plan Projects

## **Next Steps**

This Urban Renewal Feasibility Study will be presented to the Sutherlin City Council. If they direct staff to pursue the development of an urban renewal plan, the following steps must be completed:

- 1. Establish an Urban Renewal Agency.
- 2. Decide whether to hire a consultant to assist in the urban renewal plan preparation and adoption process. The typical cost is from \$35,000 to \$40,000 and that cost difference is attributed to the number of meetings in the locality. The number of meetings varies depending on the type of public input that is used. Many cities form an advisory committee that meets three times to provide input on the preparation of the urban renewal plan. The advisory committee helps to inform the taxing districts of the potential use of urban renewal and helps to garner public input on and support for the formation of the urban renewal area. Public input is a required component of the urban renewal plan process. If an advisory committee is not used, a public Open House is usually held.
- 3. Decide on a public input strategy: Advisory Committee and Open House or only an Open House.
- 4. Prepare an Urban Renewal Plan (Plan) pursuant to ORS 457.085 including goals and objectives and projects to pursue.
- 5. Decide on the projects to be included in the Plan.
- 6. Complete the Report that accompanies the Plan. This Report must comply with ORS 457.085, both identifying existing conditions and establishing financial feasibility. There is generally a large amount of city staff input in this document, as existing conditions must be identified, and projects defined. FY 2018/19 data was used for this feasibility study as that was what was available at the time the financial feasibility was analyzed. If an urban renewal plan is authorized, this will be updated to FY 2019/20 data.
- 7. Present the draft Plan to the Urban Renewal Agency for their review, and if desired, passing a motion to start the public review process.
- 8. Public input that generally takes the form of a Public Open House.
- 9. Present to the Sutherlin Planning Commission for their finding of conformance of the Sutherlin Urban Renewal Plan with the Sutherlin Comprehensive Plan.
- 10. Present to the Douglas County Commission. No action on their behalf is required.
- 11. Consult and confer with affected taxing districts.
- 12. Conduct a public hearing in front of Sutherlin City Council, advertised to a specific group as identified in 457.120. Review of a non-emergency ordinance.
- 13. Publish notice if the ordinance for the Plan is adopted.
- 14. Complete a legal description of the URA that is typically done outside of the urban renewal plan consultant's contract. This legal description must be complete by the final action in front of City Council.
- 15. Timing of the adoption of a Plan is important. There are two important factors in timing. The first is which tax roll will be used to establish the frozen base. If the Plan is

adopted and the 30-day period for a non-emergency ordinance occurs prior to the certification of the FY 2020/2021 tax roll by the County Assessor (in early October), the frozen base that is established for the URA uses the FY 2019/2020 assessed values, based on values as of January 1, 2019. This potentially captures increases in assessed value growth as well as any new growth that will come on the tax roll in FY 2021/2022. If you do not adopt a plan by this timeframe, you will use property values as of January 1, 2020 as your frozen base. To meet the deadline of using January 2019 values for your frozen base, the Plan must be adopted by September 1, 2020.

The second important timing factor is when the Urban Renewal Agency will begin tax increment collections. If the Plan is adopted prior to Jan 1, 2021, increment will be distributed in FYE 2022. (This will happen if you meet the prior deadline of September 1, 2020.) If the Plan is adopted after January 1, 2021, the first increment is distributed in FYE 2023. To meet this deadline, the Plan must be adopted by December 1, 2020.

The process of preparing and adopting an urban renewal plan typically takes 6 - 8 months.

## **Background Information**

## What is Urban Renewal?

Urban renewal is a state-sanctioned program used by over 70 cities and counties in Oregon to help them, through partnerships with the private sector, implement adopted plans to revitalize specified areas within their jurisdiction. Urban renewal, through the provision of tax increment financing, can provide for capital improvements such as parks, water and waste water infrastructure, parking facilities, and transportation improvements that stimulate private investment and attract new businesses, jobs, and residents. It can also be used to assist with development activities that are approved in an urban renewal plan, such as storefront improvement loans, property acquisition, and site preparation.

In Oregon, planning and analysis associated with the creation of an URA is guided by state statute (ORS Chapter 457). The statutes stipulate that URA plans must find the proposed URA is eligible for urban renewal because of existing *blight*, typified by conditions such as deteriorated buildings and lack of adequate infrastructure. The plan must also contain authorized urban renewal projects, a limit on the expenditures, specific provisions regarding acquisition and disposition of land, and provisions regarding how the plan may be amended in the future.

## What is Tax Increment Revenue?

Tax increment financing is the primary funding tool used within URAs. Tax increment revenue is generated within a URA when the assessed value within that area is 'frozen' (often called the *frozen base*). Any taxes generated within that area from growth in assessed value ("*excess value*") through either appreciation or new investment becomes the *increment*. Expected new development and substantial rehabilitation is termed "*exception value*" and becomes part of the excess value. Taxing jurisdictions continue to collect tax income from the frozen base. Taxes off the assessed value above the frozen base is allocated to the URA. **This is a two-step process.** First the assessor determines the increase in value above the frozen base and the taxes that would be generated off that increase in value, then the assessor assigns a portion of that amount to each property tax bill in the city of Sutherlin. This is called "*division of taxes*". This does not mean individual property tax bills increase, it only means a portion of their tax bill is allocated to the urban renewal agency for use in the URA. The taxes are distributed in this way due to a legal decision in Shilo Inn Portland/205, LLC v. Multnomah County, City of Portland and the Portland Development Commission (April 18, 2002).

The URA then can obtain loans or issue bonds to pay for identified public improvements and/or investments in private projects that are in the public interest. The tax increment is used to pay debt service on these projects.

## What is Maximum Indebtedness?

Maximum indebtedness (MI) is the amount of the principal of indebtedness included in a plan pursuant to ORS 457.190 and does not include indebtedness incurred to refund or refinance existing indebtedness nor interest paid on debt. This is the total amount that can be spent from tax increment proceeds for projects, programs and administration during the life of an urban renewal plan.

# What is Revenue Sharing?

In 2009, the Oregon Legislature enacted HB 3056, which, among other things, established a system of revenue sharing for URAs. These revenue sharing provisions only apply to URAs after 2009 and older URAs that have been amended to increase maximum indebtedness since 2009. When URAs attain certain thresholds of annual tax revenue, some of this tax revenue is released from the URA and shared with the other taxing districts.

When tax revenues reach 10% of the URA's maximum indebtedness, then a portion of the TIF above that level is shared with overlapping taxing districts (specifically 25% of the TIF above this threshold remains with the URA, and the remaining 75% of TIF is returned to taxing districts). Additionally, when TIF revenues for the URA reach 12.5% of the maximum indebtedness, TIF revenues for the URA are capped at the amount, with all TIF revenues above 12.5% of maximum indebtedness being shared with overlapping taxing districts.

The analysis for the study area studied indicates it would not begin revenue sharing in a projected 25 year lifetime of the URA.

# How does Oregon Property Tax Work?

Citizen initiatives have changed the way that property taxes are raised in Oregon and have limited the growth of assessed value and property tax revenues for taxing jurisdictions. Measure 5, passed in 1990, introduced tax rate limits. Measure 50 passed in 1996, cut taxes, introduced assessed value growth limits, and replaced most dollar-limited *levies* (an amount) with permanent tax *rate limits*.

Measure 5 introduced limits on the taxes paid by individual properties. It imposed limits of \$5 per \$1,000 of real market value for school taxes and \$10 per \$1,000 of real market value for general government taxes. These limits apply to all property taxes, other than those levied to repay voter-approved general obligation bonds.

Under Measure 50, most levies were replaced by permanent limits on tax rates. The permanent rate limit is fixed and does not change from year to year. In addition to the permanent rate, taxing districts may impose general obligation bond levies and local option levies. The sum of all the tax rates (including permanent rates, local option levy rates, and rates for bonds and other levies) of all taxing districts in a given levy code area is known as the *consolidated tax rate*.

# **Property Taxes and School Funding**

Although schools levy property taxes, these local property tax revenues do not have a *direct* impact on funding for local school districts. This is because the state "equalizes" school funding using a formula that takes into account property tax revenue generated at the local school district level, and revenue from the state's coffers generated by the statewide income tax, Oregon Lottery, and intergovernmental revenues.

Allocation of state revenues to local school districts comes in the form of "general purpose grants." The primary driver of the state allocation is the number of students in each district. The state multiplies the number of students by the general-purpose grant, with some adjustments for teacher experience and other factors. **Regardless of local property tax collections, each school district still receives the same amount of funding per student, with state funding making up the difference between local property tax revenues and the general-purpose grant amount.** 

## What is Compression?

Some jurisdictions in Oregon do not receive the full amount of property taxes that should be levied, due to "compression," which occurs as a result of the rate limits enacted by Measure 5. These rate limits apply to the *real market value* of properties, rather than to the assessed value. If taxes to be raised on an individual property exceed the Measure 5 limits (\$5 per \$1,000 of real market value for education, or \$10 per \$1,000 of real market value for general government), and the difference between the real market value and the assessed value is not great enough, then the tax bill for that property is reduced or "compressed." Compression loss means some properties pay less in taxes than are calculated by the product of the assessed value and consolidated tax rate.

Due to the tax rates relative to the Measure 5 limits, general government taxing districts could experience compression. The general government tax rates shown in Table 2 do not exceed the \$10 per \$1,000 of assessed value limitation. However, the education rates shown in Table 2 do slightly exceed the limitation of \$5 per \$1,000 of assessed value. The City of Sutherlin does not experience significant compression losses, with only \$54.88 of compression losses in tax year 2019/20. Douglas County experienced slight compression losses of \$19,178.61 in tax year 2019/20.

Note that urban renewal can have an impact on compression losses because urban renewal changes the effective tax rates of an area. Urban renewal is sometimes referred to as *division of taxes*. That means that a portion of the taxes that would go to a jurisdiction like the City of Sutherlin is instead divided off and sent to an urban renewal agency. The process that the County Assessor uses to collect tax increment revenues for URAs results in a portion of each jurisdictions tax rate being carved off and turned into a new urban renewal tax rate. A side effect of this process is that education districts that are impacted by urban renewal have their

rates reduced a small amount, and that amount is added to the general government side of the compression equation.

This means an URA in Sutherlin could also help to reduce compression losses for education districts.

## What are Enterprise Zones?

Some of the area in this URA feasibility study is also in an Enterprise Zone (Sutherlin Enterprise Zone map, Figure 2). At the time of this study, three separate tax accounts under one ownership are receiving Enterprise Zone benefits. The full amount of their assessed value is expected to go on the tax rolls in FYE 2023, providing a large jump in tax increment revenues. If other properties begin using these benefits, it will have an impact on projected tax increment revenues as Enterprise Zone benefits are tax abatements.

The following information is from the Business Oregon website. *In exchange for locating or expanding into any enterprise zone, eligible (generally non-retail) businesses receive total exemption from the property taxes normally assessed on new plant and equipment. Subject to local authorization, timely filings and criteria the benefits include:* 

- Construction-in-Process Enterprise Zone Exemption—For up to two years before qualified property is placed in service, it can be exempt from local taxes, which can cover more property than the regular exemption for commercial facilities under construction.
- Three to five consecutive years of full relief from property taxes on qualified property, after it is in service.
- Depending on the zone, local incentives also may be available.

## Criteria for Qualifying Projects

For the basic, three-year enterprise zone exemption period, the business needs to:

- *increase full-time, permanent employment of the firm inside the enterprise zone by the greater of one new job or 10% (or less with special-case local sponsor waivers);*
- generally have no concurrent job losses outside the zone boundary inside Oregon;
- maintain minimum employment level during the exemption period;
- enter into a first-source agreement with local job training providers; and
- satisfy any additional local condition that has been established (only) in an urban zone.

## Criteria for extended tax abatement (for a total of four or five years of exemption)

This includes the criteria for the three-year enterprise zone exemption as well as the following:

• compensation of new workers must be at or above 150% of the county average wage as set at the time of authorization.

- there needs to be local approval by written agreement with the local zone sponsor (city, port and county, or tribe); and
- the company also must satisfy additional requirements that the local zone sponsor may reasonably request in the agreement.

#### **Figure 2 - Enterprise Zone in Sutherlin**



## Sutherlin Oakland Enterprise Zone 2019

