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Report on Tax Increment Financing in Oregon

City Club of Portland (Portland, Or.)

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Report on
TAX INCREMENT FINANCING IN OREGON

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The City Club membership will vote on this report on June 14, 1991. Until the membership vote, the City Club does not have an official position on this report. The outcome of the membership vote will be reported in the City Club Bulletin (Vol. 72, No.2) dated June, 6, 1991.

TAX INCREMENT FINANCING IN OREGON

EXECUTIVE SUMMARY

Tax Increment Financing ("TIF") was originally used to provide local matching funds for federal urban housing projects. 1979 Legislation expanded TIF in Oregon to include economic development projects in which housing and traditional urban renewal may play no part.

TIF allows urban renewal districts to collect property tax revenues generated by an increase in assessed value of district properties. Through TIF, local governments can use a portion of their property tax revenues to promote and shape economic growth. TIF revenue often serves as "seed money" leveraging state and federal funds, other local funding mechanisms and private investment. Your Committee concludes that TIF has resulted in economic and non-economic benefits for many Oregon communities.

To allow for the continuing use of TIF in Oregon, your Committee recommends that the Legislature enact pending legislation which provides a broad definition of "bonded indebtedness," thereby exempting a substantial portion of TIF revenues from Measure 5 limitations. In addition, your Committee recommends passage of pending legislation that will spread the effect of tax increases related to TIF broadly and require disclosure of TIF on property tax statements.

TIF districts that include properties already under development, and therefore sure to increase their assessed value, create "windfall" increments. Your Committee recommends that captured "windfall properties" be returned to the regular tax rolls in a timely manner. Having found the annual financial reports maintained by some urban renewal agencies confusing, your Committee recommends that the Legislature mandate a format for annual reports which includes a comparison of budgeted and actual expenditures for the prior year and for the entire project to date. The responsible municipality should review annual reports for format compliance.

Although we value the broad range of improvements made possible by use of TIF in Oregon, your Committee recommends enacting legislation that requires a specific percentage of TIF revenues from urban renewal districts to be set aside in appropriate cases for development or improvement of low to moderate income housing.

The Minority supports the Majority recommendations but expresses concerns about the overuse of TIF. The Minority recommends that urban renewal agencies be required to find that other funding methods are not feasible and that development would not occur "but for" the use of TIF.

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LIST OF ABBREVIATIONS USED IN THIS REPORT

AORA	Association of Oregon Renewal Agencies
DWURA	Downtown Waterfront Urban Renewal Area
EID	Economic Improvement District
LID	Local Improvement District
PDC	Portland Development Commission
TIF	Tax Increment Financing

TAX INCREMENT FINANCING IN OREGON

I. Introduction.

Tax Increment Financing ("TIF") in Oregon originally provided local matching funds for federal urban housing projects. Today, TIF supports a variety of local economic development activities and improvements to infrastructure in both populated and unpopulated areas. The role that TIF plays in Oregon has been substantially expanded and includes instances in which federal funds, housing and traditional urban development play no part.

In 1989, the Board of Governors charged this Committee to study TIF and to report on the strengths and weaknesses of Oregon's use of TIF. Although this report contains some recommendations for improvement, your Committee believes Oregon has benefitted and will continue to benefit from TIF. TIF has helped to promote development and has provided a valuable tool by which local governments can shape development in appropriate directions.

In November 1990, Oregon voters approved Ballot Measure 5. Because the property tax limitations contained in Measure 5 will affect the use of TIF in Oregon, this report considers the implications of Measure 5 for TIF. The report concludes that with proper action by the Legislature, TIF should remain a viable means of promoting local urban renewal and economic development.

II. What is Tax Increment Financing?

Tax Increment Financing works as follows: When a municipality adopts an urban renewal plan that includes TIF, the county assessor "freezes" the assessed value of real property within the urban renewal district. (ORS 457.430). As property values thereafter increase due to normal appreciation or as a result of new local development, property taxes are levied on property in the urban renewal district based on current assessed values. Taxes collected on the increment between the frozen value and the current value are the source of revenue for TIF. Tax revenue resulting from this increment can only be used to pay for urban renewal. (ORS 457.440).

A. The Background of TIF.

TIF is one of many ways Oregon's cities and counties ("municipalities") finance urban renewal. Municipalities originally used TIF as a local source of funds to match federal subsidies for urban renewal. These early urban renewal projects focused primarily on providing adequate housing and related community development following demolition of blighted properties.

In the early 1970s, the federal government substantially reduced funding for many urban renewal and development programs. No longer simply a source of matching funds for federal programs, TIF became an important way for municipalities to promote urban renewal projects on their own. Appendix A lists Oregon's urban renewal districts in effect as of February 1991.

B. 1979 Oregon Legislative Changes.

The permissible uses of TIF were expanded in 1979. Oregon lawmakers recognized that communities could be improved by stimulating economic development with or without housing. The requirement that urban renewal plans result in "no net loss" in housing was eliminated.

The Legislature also expanded the definition of "blight" (the key term for defining an urban renewal district) to include, "[a] growing or total lack of proper utilization of areas, resulting in a stagnant and unproductive condition of land potentially useful and valuable for contributing to the public health, safety, and welfare." (ORS 457.010(1)(h).) Blight may now be found to exist whenever a municipality finds that property is used in a suboptimal manner. Faulty planning, improper access, irregularly shaped lots and many other conditions also qualify. In short, "blight" can almost always be found.

To improve public scrutiny of renewal efforts, including TIF, the 1979 legislation requires local development agencies to prepare detailed annual reports addressing the uses and effects of TIF. The 1979 amendments also require that an urban renewal plan be approved by the municipality's governing body by non-emergency ordinance after "public notice and hearing and consideration of public testimony" (ORS 457.095.) A municipality can no longer adopt a plan without a hearing under the guise of an "emergency," as some municipalities had previously done. The public must now be given the opportunity to be heard on every plan.

The 1979 Legislature also restricted the percentage of a municipality's assessed value that can be captured in an urban renewal district and from which a tax increment can be generated. Municipalities with a population of more than 50,000 may not "freeze" (or "capture") more than 15 percent of their assessed value, while municipalities with a population of less than 50,000 may not capture more than 25 percent of their assessed value. (ORS 457.420.) As of 1990, urban renewal districts within the City of Portland had captured about 9 percent of the total assessed value of its real property.

C. Specifics of Urban Renewal Agencies.

1. Creation and Control.

Although TIF financing has been available since 1979 for projects having nothing to do with "urban" areas or "renewal," Oregon law still refers to the entities that employ TIF as "urban renewal agencies." Oregon's urban renewal statutes authorize an urban renewal agency in every municipality (i.e., city and county) in the state. (ORS 457.035.) An agency is activated when a municipality declares that a "blighted area" exists that would benefit from the involvement of the agency.

The municipality may decide to control the agency itself, or may allow a board, a commission, or a local housing authority to do so. (ORS 457.045.) Municipalities may transfer control of an agency at any time. (ORS 457.055.) Municipalities can also terminate an agency after satisfying any related indebtedness. (ORS 457.075.)

2. Powers.

Urban renewal agencies have the power to conduct investigations to aid in preparing plans and reports. Agencies also have the power to implement the plans after adoption, including the power to purchase or condemn land by eminent domain and to sell or lease lands.

Urban renewal agencies frequently coordinate federal, state and local efforts to benefit an area. In addition, TIF funds are often combined with other funds from federal or state grants, general obligation bonds, special assessments on affected properties, general fund monies, local improvements districts, and private loans and investment.

3. Adopting an Urban Renewal Plan: The Inception of TIF.

Urban renewal agencies must “provide for public involvement in all stages in the development of an urban renewal plan.” (ORS 457.085.) A plan must describe the project and explain the relationship between the plan and “definite local objectives regarding appropriate land uses and improved traffic, public transportation, public utilities, telecommunications utilities, recreational and community facilities and other public improvements.” The plan must also state whether the agency will acquire any land and must describe any plans for that land (e.g., retention, resale or lease). The plan must also contain a budget and describe any use of TIF. (ORS 457.085.)

Urban renewal plans are adopted by local ordinance. Where land directly affected by a plan lies in more than one municipality, each affected municipality must approve the plan.

The agency must subsequently file annual reports that disclose: (i) the amount of TIF funds received and indebtedness incurred during the prior year; (ii) the amount and purpose of any expenditure during the prior year; and (iii) a revenue and expenditure budget for the current year. The agency must give public notice of the filing of the report and must “set forth in full” information on the effects of the plan upon local taxing districts. (ORS 457.460.)

4. Other Local Sources For Redevelopment Financing.

TIF is but one locally available means municipalities may employ to fund local development. Your Committee presents the following review of other local financing options which are often combined with TIF revenues for specific projects.

a. Special Assessments.

Special assessments are most commonly used to recover the cost of an improvement that directly benefits identified property, such as a local sewer system. This is usually accomplished by forming a local improvement district (“LID”). A LID is primarily used when an improvement can be shown to benefit specific and identifiable property owners who then bear the cost.

Use of LIDs for urban renewal is somewhat limited. Public facilities and improvements often must be completed or at least under way before new property owners and end users appear. Ideally, TIF brings in early money to support infrastructure improvements and to spread the financing “burden” beyond the immediate improvement area.

Another type of special assessment district is the Economic Improvement District (“EID”). An EID is restricted by state law to 1 percent of the total assessed value of property within the proposed district, excluding residential property. Whether used independently or as a part of an overall urban renewal effort, a major advantage of an EID is its flexibility. EIDs can fund public improvements and facilities and can also fund downtown management, business start ups and expansion, technical assistance and promotions. However, for urban renewal purposes, EIDs suffer from the limitations discussed above with respect to LIDs.

b. User Fees.

User fees are amounts received for specific services benefitting the person charged. User fees apply to an increasing number of local government service, including water, sewer and zoo admission.

User fees primarily cover the cost of operating and maintaining facilities and, to a lesser extent, the repayment of revenue bonds issued to finance new facilities. Parking revenues, for example, often finance both the capital and operating costs for parking structures.

c. Negotiated Exactions and Impact Fees.

Local governments sometimes require that developers pay negotiated exactions and impact fees as a condition of granting approval for a development. These can take the form of monetary contributions to, or the dedication of sites for, common facilities (e.g., schools, parks, public streets and utilities) and off-site arterial improvements. Viewed as a quasi-tax on developers, exactions and impact fees are a means by which the new development helps pay for the cost of on-site and off-site improvements necessary to serve the new development.

d. Debt Financing.

In Oregon, cities and counties are authorized to sell general obligation and revenue bonds to support infrastructure improvements.

General obligation bonds are secured by the issuer's legal obligation to levy a property tax, without limit, as needed to satisfy bond indebtedness. Such bonds typically carry a lower interest rate because of their high quality. General obligation bonds require voter approval, which severely limits their use in the urban renewal context. Voter approval is often too cumbersome and unpredictable a source for funding specific urban renewal projects.

Revenue bonds do not require approval by the electorate. The security and source of funds for repayment is a specific and identified source of revenue, such as a tax increment or revenues derived from a particular project or improvement. Unlike general obligation bonds, revenue bonds frequently are used in urban renewal areas. Revenue bonds are largely limited, however, to financing major revenue-producing facilities (e.g., an arena, convention center or parking structure) or financing improvements in areas where substantial growth is clear.

III. How Does TIF Fit Into Oregon's Property Tax System?

A. Oregon's Property Tax System and TIF Prior to Measure 5.

Measure 5 aside, Oregon uses a tax base rather than a tax rate system. This means that the voters of a taxing district initially approve the maximum amount of revenue that a district may raise: the tax base. Subject to certain limitations, the tax rate is computed by dividing the tax base by the assessed value of all taxable property within the district. If, for example, the voters of a district approve a \$25,000 tax base and the district has taxable property assessed at a fair market value of \$1 million, the tax rate is 2.5 percent or \$25 per \$1,000 of assessed valuation. The total property tax levied on any given parcel of property equals the sum of the millage rates for each taxing district in which the property is located—\$X for the school district, \$Y for the fire district, and so forth—multiplied by the property's assessed value.

Under the tax base system, property tax revenues do not automatically rise with increases in assessed values. If, for example, the assessed value for all properties in a given district increased by 100 percent in one year and the tax base did not change, the tax rate per \$1,000 of assessed value would be reduced by 50 percent. This makes Oregon's property tax system significantly different from the systems in many other states in which an increase in assessed value proportionately increases the property taxes due.

The Oregon Constitution allows tax bases to increase six percent per year without voter approval. Additionally, voters may approve larger permanent tax bases and pass special or serial levies that allow taxing districts to raise specified dollar amounts over a specified number of years.

TIF does not directly affect the tax base of any district, but instead changes the disbursement of tax revenues and the total amount of revenue raised. The mechanics of TIF work as follows:

After approval of an urban renewal plan, the value of the property within the plan area is "frozen" at its current level with respect to local taxing districts. The county continues to levy taxes at the general tax rate on the property at its most current assessed value, but local taxing districts receive only the amount raised on the "frozen" value of the property. The increase in assessed value that occurs after the "freeze" is the "increment" and the tax revenue collected thereon is the "tax increment," which goes to the urban renewal agency.¹

Over time, the effect of TIF on tax rates within the taxing jurisdiction depends on:

- the extent to which the plan attracts investment to the area that would not otherwise have occurred
- the cost of development or redevelopment
- the length of time until the tax increment becomes part of the affected taxing districts' tax revenues
- the extent to which new investment requires services that burden the local taxing districts
- the extent of inflation on real property values, generally

A renewal agency must use the funds derived from TIF to satisfy economic obligations incurred to finance an urban renewal plan. These obligations commonly include bonds. Such bonds are generally nonrecourse, the urban renewal agency generally need not repay the underlying obligation if the tax increment is insufficient.

B. TIF Under Measure 5.

1. An Overview of Measure 5.

Measure 5 amends the Oregon Constitution by creating a ceiling on property taxes. Beginning in the July 1, 1991-June 30, 1992 fiscal year, property taxes for non-school purposes are limited to 1 percent of property value. The limitation for school purposes is 1.5 percent for fiscal year 1991-92, and decreases by 0.25 percent per year until it reaches 0.5 percent in 1995-96. Subject to certain exceptions, total Oregon property taxes in fiscal year 1995-96 and subsequent years may not exceed 1.5 percent.

Measure 5 does not, however, wholly replace the tax base system with a tax rate system. Under Measure 5, as before, individual local taxing districts in Oregon must still seek voter approval for a tax base. The difference arises if the sum of the local tax rates for individual taxing districts computed by the old method exceeds either the school or non-school limitation.

If the net tax rate computed under the old method exceeds either the school or non-school limitation under Measure 5, the tax rate or amount of revenue allocable to each school or non-school taxing district will be proportionately reduced. Assume, for example, that a local fire district has a voter-approved tax base of \$1 million, that all other non-school local taxing districts have a total voter-approved tax base of \$9 million, and that all of these districts have the same geo-

¹ By contrast, Iowa law limits financing of renewal projects to 50 percent of the tax increment revenues. The remaining 50 percent is allocated to the general fund to pay for normal public services that the new development consumes.

graphic boundaries. If the application of Measure 5 limited property tax revenues to \$7.5 million instead of the full \$10 million, the local fire district would receive \$750,000 (\$1 million x .75). Revenues to the other local taxing districts would be proportionately reduced as well.

2. TIF and the Bonded Indebtedness Exemption.

Much of the funding raised by TIF may be exempt from the Measure 5 rate limitations. Measure 5 exempts property taxes imposed for "payment of principal and interest on bonded indebtedness authorized by a specific provision of this constitution."

Measure 5 does not define "bonded indebtedness." Since TIF funds are often used to repay bonds or other governmental debt instruments, the adoption by the Legislature of a broad definition of "bonded indebtedness" may make it possible for local governments to continue using TIF without regard to the Measure 5 limits. The Executive Committee of the Association of Oregon Renewal Agencies ("AORA") supports a broad definition of bonded indebtedness. Such a definition is presently pending in the Legislature (HB 2550).

Measure 5 will also require the allocation of the exempted TIF bonded indebtedness among taxing jurisdictions. One approach would be to treat renewal areas as taxing districts (which they are not under present law) and impose the entire additional TIF burden on property located within a particular renewal area. This would, in effect, shift the entire cost of the bonded indebtedness portion of TIF to the property within the renewal area.

Another approach, and the one proposed by AORA and others directly involved in the TIF process, is to spread the incremental tax obligation among all property located in taxing districts which overlap with the renewal area. This approach is closer in spirit to the methodology that applied to the calculation of tax rates prior to Measure 5. The "freezing" of values prior to the adoption of Measure 5 meant that, at least in the short run, other property owners in the affected taxing districts paid somewhat higher tax rates to raise the tax base amounts.

Legislation that is presently pending would take a position that is somewhat between these two but is closer to the latter alternative. Under House Bill 2609, the TIF amount would be spread over the county or city that created the urban renewal district. For example, the Portland Development Commission ("PDC") was created by the City of Portland; consequently, any tax increment created by a PDC project would not be collected from Multnomah County taxpayers outside of the Portland city limits. Taxpayers outside of the city or county creating the urban renewal district could still incur some additional tax, however, depending upon the amount of incremental value within the urban renewal district and whether the limitations in Ballot Measure 5 come into play.

To the extent that the bonded indebtedness exemption is allowed, some property owners may pay tax at a rate that exceeds the Measure 5 limitations. Your Committee believes that individual property tax statements should disclose the tax rate attributed to urban renewal activities. Pending legislation provides for this as well (HB 2609).

3. TIF and Non-Bonded Indebtedness.

Regardless of the definition applied to bonded indebtedness, it is likely that at least a portion of TIF funds will not qualify. Since no other exemption from Measure 5 applies, TIF non-bonded indebtedness could lead to competition for limited property tax funds among non-school local government agencies. If TIF competes

materially with funding for other local government services such as fire and police protection, the result is likely to be a sharp curtailment in the use of TIF. In fact, one proposal before the Legislature would give municipalities the option to limit the use of TIF for non-bonded indebtedness (HB 2609).

IV. Oregon's Use of TIF: An Evaluation.

A. Project Viability: Do TIF Projects Pay for Themselves?

The core assumption behind TIF is that renewal activities will generate a tax increment sufficient to pay for the public improvements in question—or, at least, to pay the portion not paid for by other private or public funding sources. This has generally been the case. TIF-financed bonds have never been placed into default, and the use of TIF in Oregon does not appear likely to leave local development agencies with a substantial amount of nonfunded or underfunded future liabilities.²

Renewal agencies assert that when renewal is complete, the resulting increase in property values generates tax revenues that greatly exceed those of the prior blighted area. If projects continue for many years, as in downtown Portland, the payback is postponed. PDC estimates the amount of assessed value returned to the tax rolls at least offsets the assessed increment from the property currently diverted from the taxrolls, and property owners break even. This analysis may oversimplify the cost or benefit to taxpayers because it fails to consider the time value of diverted money.

B. Market Imperfections and the "But For" Principle.

Although our society's preferred mechanism for allocating goods and services is the market, there are many situations in which the market cannot be relied upon. For example, highway systems, police, and fire protection are what economists call "public goods." From a societal viewpoint, the market alone will not provide a proper level of such goods.

Market mechanisms may also fail to bring about an appropriate allocation of resources for other reasons. Suppose, for example, that a particular urban or rural area is underdeveloped because private investors are unwilling to invest in an area where certain basic services do not exist. If the services were provided, the increased value to all affected landowners might more than justify the total cost of needed improvements even though no one landowner or group of landowners would have a sufficient economic interest to provide the services in advance. Alternatively, suppose that no one property owner would be willing or able, "but for" government assistance, to amass a sufficiently large parcel of property to justify a major investment in infrastructure. With government assistance, the resulting project may prove beneficial to all.

It is not always possible to quantify the total societal benefits of a public investment. For example, public access to the Willamette River from downtown Portland measurably increases the value of nearby real estate. The overall public benefit of this access in terms of livability, however, is far more significant but not quantifiable.

The principal argument surrounding TIF concerns whether it makes public benefits possible that would not otherwise occur or would only occur in a less satisfactory manner.

² The closest circumstance to a failure of which your Committee is aware involved the St. Johns Urban Renewal Project, which was intended to provide low and moderate housing within the St. Johns area of Portland. After detailed analysis by PDC showed that the housing would not generate a sufficient tax increment to pay for the required bonds, the project was placed on hold. If the St. Johns project had included economic development activities in addition to housing, it is possible that the resulting tax increment would have been large enough to pay for the required bonds.

1. Proponents' Arguments.

TIF proponents commonly contend that, "but for" the renewal plan and TIF, property values in the plan area would have increased only negligibly, if at all. Consequently, the "freeze" period will not significantly affect local taxing districts. The argument continues by asserting that when an urban renewal plan is successfully completed, the value of the improved property returned to the tax rolls is likely to be great enough to reduce the tax rate. This is especially likely to the extent that the renewal plans and TIF serve as a catalyst for attracting various other federal, state and local government or private sector funding or investment sources.³ Proponents urge consideration of not only the quantity of development, but also its quality and timing.

The recent opening of the Pioneer Place project in downtown Portland, funded in part through TIF, provides a useful example. Before Pioneer Place was developed, older buildings on the project site were used for retail or office purposes. Given the critical location of Pioneer Place in the heart of downtown Portland, it is reasonable to assume that absent TIF support, some form of redevelopment would sooner or later have occurred. The critical question, however, is not just whether development would have occurred without TIF, but whether the quality and timing of the project compared to what might have occurred justifies the use of TIF. This type of "but for" analysis requires consideration of the resulting improvements on nearby properties as well. With respect to the Pioneer Place project, nearby property owners have made investments to their properties not contemplated prior to inception of the project.

2. Opponents' Arguments.

TIF opponents assert that the "but for" test often is not satisfied because, in many cases, much the same investment would occur even without TIF. The opponents further contend that in some instances, the tax increment may truly be a "windfall increment."

By definition, a "windfall" district involves the capture of a tax increment that would largely, if not wholly, have existed even in the absence of a renewal plan. Urban renewal district boundaries were drawn to take advantage of such developments in connection with the Clackamas Town Center, the Lloyd Center shopping center, and the PacWest Building in downtown Portland. TIF thus did not prompt these projects and cannot take credit for their existence. The value of the completed projects created the tax increment which helped finance nearby urban renewal. If these "windfall" districts had not been created, the previously announced or planned developments would likely have increased local property tax bases and therefore lowered property tax rates in the local taxing districts. It is thus particularly appropriate that the tax increments from "windfall" properties not be kept off of the normal tax rolls longer than is necessary to spur development.

Opponents also assert that, even if TIF assists a specific project, the same or similar development might have occurred elsewhere without TIF. For example, if the office building that is a part of Pioneer Place had never been built, its tenants undoubtedly would have been able to find other Class A office space in the downtown area.

3. Your Committee's Analysis.

The "but for" issue is extraordinarily complex. To analyze the issue for each TIF-financed project, it is necessary to know the conditions prior to the project, the

³ In the case of the Downtown Waterfront Redevelopment Area in Portland, for example, the ratio of TIF funds to other funds varied in different projects from 1 to 0 to as little as 1 to 21.

alternatives available at the time (e.g., other government projects, wholly private projects, etc.) and which alternatives would actually have been chosen. It is also necessary to predict how successful or unsuccessful those alternatives would have been over time. Although your Committee asked almost every witness to suggest a methodology and a means of quantifying the "but for" effects in a definitive, systematic, and reliable way, none were able to suggest a satisfactory method.

There unquestionably have been unsuccessful TIF projects. (See footnote 2) On the other hand, TIF has more often been used successfully as a catalyst to provide seed money for other public and private sector investments (e.g., Albany, Clackamas, Seaside, Salem and Northwest Front.) This includes the use of the "windfall increment" from the Clackamas Town Center to help finance improvements near the shopping center.

On balance, we believe that the use of TIF in Oregon has provided benefits which, "but for" TIF, would not have been realized. We cannot deny that there may be instances in which market forces, either by themselves or coupled with other government funding sources, would have led to equivalent or superior projects. We do not believe, however, that one should judge TIF by a standard that requires either perfection or clairvoyance.

C. Redistribution and Private Benefits.

Many government activities shift resources between different groups within society. This is most obvious, for example, with respect to programs designed to help the poor. As originally conceived, urban renewal redistributed wealth by underwriting the cost of redevelopment in "blighted" urban areas.

1. Traditional Urban Renewal Versus Economic Development.

TIF was originally intended to alleviate urban "blight" in general and to provide affordable housing in particular. Your Committee heard testimony from some Oregonians who wish to see its use redirected towards those ends. These critics believe that TIF is now used too broadly to foster economic development in areas that are neither "urban" nor "blighted" and for too many projects that have nothing to do with housing.

In Oregon today, TIF supports economic development projects more than urban residential rehabilitation. Legislation enacted in 1979 expressly approved the use of TIF for general economic development purposes unrelated to housing, and a broad political consensus presently exists that the promotion of economic development at both the state and local levels is essential to the continued well-being of the state and its citizens. The problem lies not in deciding **whether** to promote economic development but in deciding **where** to draw the line between subsidizing certain activities for economic development and devoting greater efforts to other public objectives such as providing additional housing for low and moderate income families.

Housing proponents believe Oregon communities may be short-sighted when planning economic development that does not include housing. One of the principal focuses of most urban renewal plans is job creation, spread across the salary spectrum. Without affordable housing within reasonable proximity to the renewal district, the jobs at the lowest end of the salary scale may go unfilled and the economic development plan may not be fully realized. In fact, Lincoln City and the Bend/Redmond area, have suspended economic development plans because insuf-

ficient affordable housing exists to attract new workers to those areas. Similarly, two of Oregon's fastest growing counties, Washington and Clackamas, are finding that affordable housing is one of the major impediments to sustained growth and their competitive position in the Portland metropolitan area. In addition, a study completed for the Portland Development Commission on the impact of a headquarters hotel in the Convention Center urban renewal district, indicated that the jobs created as a direct impact of a headquarters hotel would average less than \$10,000 per year. It will be difficult to attract and retain workers to fill such newly created jobs if affordable housing is not available. In apparent recognition of the importance of affordable housing, a new amendment to the Clackamas Town Center Urban Renewal District plan will reportedly contain a provision for housing.

Your Committee does not see the expanded use of TIF in Oregon as a shortfall. Nevertheless, your Committee believes that the legislature should restore a link between TIF and housing. The mechanics of a TIF/housing linkage could be relatively simple. A percentage, determined by the Legislature, of all TIF revenue received by the urban renewal agency would go into a fund for developing low and moderate income housing within the district. Your Committee recognizes, however, that not all urban renewal projects are suitable for residential development. Urban renewal agencies should be exempt from a housing fund requirement if they expressly find, after public hearing, that residential development is not appropriate within the district.⁴

2. Redistribution of Wealth Apart from Urban Renewal.

Absent an overriding social objective or a chance to bring about positive developments that would not otherwise occur (such as under the "but for" principle), our society often asks that those who benefit from a particular activity should pay for it. For example, gasoline taxes, which are used to support road maintenance and are assessed on a per gallon basis, tend to place the cost of maintaining roads more heavily on those who benefit directly from road maintenance.

Your Committee has concluded that TIF has produced "but for" benefits and has often been a successful catalyst for attracting public and private investments. In addition, the actual effect of the "freeze" on property owners in a taxing district generally appears to be relatively small. Thus, the issue in determining if TIF results in any adverse redistributive effects is not whether TIF makes a great many taxpayers worse off but whether the degree of benefit is reasonably consistent with the degree of "investment." Some degree of subsidy is needed at times to induce private developers to provide projects with desirable public features. On balance, we do not believe that Oregon's use of TIF materially promotes an inappropriate redistribution of wealth.

D. Political Criteria.

As discussed in Part II of this report, TIF alters the process used to raise and disburse property tax revenues in Oregon. TIF opponents argue that the ability to use TIF without a special vote of the relevant electorate makes TIF a potentially undemocratic tool.

1. Taxation Without Representation.

Opponents of TIF often assert that it results in a form of "taxation without representation" because the freeze on property values within the renewal district

⁴ In California, where 20% of all TIF revenue is set aside for low and moderate income housing assistance, housing monies need not be spent in the district from which they are raised. Due to the particular history of TIF in Oregon, your Committee has considerable doubt whether TIF funds can be spent out of district.

may increase property taxes paid by other property owners.⁵ Opponents also assert that it may be difficult for members of the public to be heard in the process leading to the development and adoption of renewal plans. In addition, when a renewal agency is created by a municipality, residents outside the municipality limits are not directly represented.

Citizen involvement is encouraged by Oregon statutes which mandate public procedures for the development, adoption and implementation of renewal plans. Procedures provide ample opportunity for public scrutiny and participation at both the development and implementation stages. While many citizens, particularly in large urban areas, may feel helpless when confronting local government, your Committee heard little evidence that there is a lack of access to the TIF planning process. When members of the public did choose to become involved, they were generally treated with respect and their concerns were heard. Your Committee also heard evidence that in smaller communities, there is substantial public involvement in the planning process of which TIF is a part.

In addition, and at a more fundamental level, the renewal agencies that develop and implement the plans are controlled either by elected officials or, if the elected officials prefer, by people who are appointed by and serve at the pleasure of elected officials. In our complex society, a great deal of decision-making authority is necessarily delegated to elected or appointed officials in order for the government to function. The appointed members of the Portland Development Commission ("PDC") which controls the use of TIF and numerous other development activities in Portland, unquestionably wield substantial power. Notwithstanding several past failures to communicate with the public, your Committee finds the PDC today generally responsive to its constituency.⁶

2. The Potential for Overuse or Abuse of TIF.

In the 1970s, Lincoln City officials attempted to place virtually the entire city in a renewal district in order to finance sewers using TIF. This effort, which threatened severe harm to other local government services, was ultimately averted. The incident became the impetus for a number of the public notice and planning requirements adopted by the 1979 Legislature. Citizen involvement aside, an important question raised by the Lincoln city case remains: Is TIF used because it is the best available method of financing, or because TIF happens to be easier for local government officials than other potentially preferable alternatives?

Historically speaking, the Oregon property tax base system created an incentive for the use of TIF because new economic development does not automatically provide local taxing districts with the resources needed to support services required by new development. To the contrary, and absent voter approval of a permanent tax base increase or a special or serial levy, the effect of new development simply tends to reduce the tax rates on other property owners within a taxing district. Because of the ability to derive tax revenues from the developmental "increment" while otherwise keeping the total tax bases of the local taxing districts unchanged, many local government officials came to view TIF as a way of "getting at" potential additional revenues made possible by new development without the need for

5 Although Oregon law does not require that voters approve the use of TIF, several local jurisdictions, including Albany, Tigard and Eugene, require by ordinance that TIF cannot be used unless local voter approval is obtained.

6 As a purely economic matter, we would also note that the taxation without representation argument only makes sense if, in fact, the net effect of TIF and TIF-related projects on other landowners within the same taxing districts is adverse. Your Committee believes that TIF projects generally do offer "but for" benefits, we reject the taxation without representation argument for this reason as well.

increased tax bases. We believe, for example, that this kind of logic accounts for the geographic boundaries of a number of the "windfall increment" renewal districts.

On balance, your Committee does not believe that TIF has been abused or overused. Your Committee also does not believe that substantial abuse or overuse of TIF is likely to occur in the future in light of recent passage of Measure 5. It is unlikely that local government officials will permit tax rates to rise significantly above the Measure 5 limits in the face of public scrutiny.

Nevertheless, citizen support for and confidence in the continued use of TIF in Oregon depend upon forthright, accurate records of urban renewal plans and expenditures. Although urban renewal plans and annual reports, required presently by State law, contain a great deal of information, your Committee feels they could be improved through standardization. AORA is an association of urban renewal agencies that seeks, among other things, to promote high professional standards for renewal plans and related activities. AORA may have a role to play in improving urban renewal agency reports.

E. Case Studies.

Four case studies illustrate several ways TIF has been used in Oregon.

The projects discussed below represent a broad range of issues and application of TIF. The Clackamas Town Center Development Area project illustrates the use of TIF to provide infrastructure in a suburban area impacted by a major regional shopping center. The Airport Way Plan is in the early stages of providing infrastructure and environmental mitigation to promote industrial economic development. The Seaside project was undertaken to revitalize a stagnant coastal community. The Downtown Waterfront project illustrates more traditional urban renewal in a large central business district.

1. The Clackamas Town Center Development Area.

a. Background.

In 1974, Clackamas County began considering the potential benefits of siting a regional shopping mall within the developing but unincorporated portions of northern Clackamas County. In the late seventies, the Hahn Corporation, a large California development firm, began purchasing land and applying for zone changes and other necessary land use approvals for a mall to be located near I-205 and Sunnyside Road. I-205 was still under construction at this time, with a scheduled completion date of 1984 or 1985.

The Clackamas Town Center Development Area (the "Clackamas District") was created in January 1981. The 1,200,000 sq. ft. Clackamas Town Center opened in March 1981. The development of Clackamas Town Center mall was never contingent on the availability of TIF, although an understanding may have existed that Clackamas County would provide additional infrastructure in the vicinity.

Findings of "blight" were based on an inadequate infrastructure system to accommodate an already emerging intensification of land use adjacent to the shopping center. No express provision for housing was made within the Clackamas Town Center Development Area. Reportedly, such a provision is under consideration for a future revision of the plan.

b. "But For" Considerations.

Creation of the Clackamas District was necessary, according to the Clackamas County Development Agency Director, to guide anticipated development near Clackamas Town Center. Through TIF, the County was able to fund and guide

infrastructure improvements to accommodate significant growth in commercial, industrial, and high density residential developments.

Substantial development within the I-205/Sunnyside area would probably have occurred even without creation of the renewal district. In essence, Clackamas County recognized the growth potential of the I-205/Sunnyside area and captured the "windfall" created from the Clackamas Town Center Development to help augment and control that potential. Given the funding constraints of Oregon's tax base system—in which new development does not automatically provide local governments with additional revenues with which to pay for services—the establishment of the Clackamas District was a reasonable step to help achieve these ends.

c. How and Why TIF Was Used.

Clackamas County citizens chose TIF to fund needed infrastructure. Although a special assessment district could have provided a more direct way of allocating some costs to directly benefitted properties, TIF was selected to spread the costs more widely.

The Clackamas District sold two bond issues to help finance infrastructure improvements: the first, for \$5 million, came in 1981. TIF revenue paid approximately \$1.2 million per year in principal and interest from 1982 to 1987 and the Clackamas District retired the bond issue in 1987. The Clackamas District sold a second bond issue for \$3.5 million in 1987. As of 1989, the Clackamas District had paid approximately \$500,000 of principal and interest. The present rate of payment would retire the bond issue in 20 years. The payment amount may be accelerated, however, as was the case in the repayment of the first issue. If the Clackamas District continues to generate sufficient tax increment, it may retire the second bond issue in seven to ten years. Debt financed improvements are a small part of the Clackamas District's activity. Most infrastructure has been financed on what amounts to a pay as you go basis.

The adjusted "frozen" tax base was \$37.2 million when the Clackamas District was created in 1981. In fiscal year 1980-81, the assessed value increased by \$27.1 million. In fiscal year 1981-82, the assessed value increment rose to \$99.2 million, largely because of the addition of Clackamas Town Center itself. This \$72.1 million increase is the source of the so-called "windfall increment," which the Clackamas District used to help fund and guide nearby development. No other fiscal year increase in assessed value was as dramatic as 1981-82. A large decrease in assessed value in the TIF district resulted from the return of the Town Center mall to the tax rolls in 1989. From 1980 to 1989, the Clackamas District generated total TIF revenues in excess of \$20 million dollars.

d. Other Considerations.

In reviewing the annual reports for Clackamas District, your Committee found the reports inadequate to understand how TIF revenues were spent. Your Committee believes that the Clackamas District has not fully complied with statutory reporting requirements with respect to actual expenditures. Although separate audit reports provide a record of actual expenditures, the categories vary from year to year and the reports are not detailed. Also, in recent years, expenditures are not separated by project when more than one project is under way.

2. The Airport Way Plan.

a. Background.

The Portland City Council adopted the Columbia South Shore Urban Renewal Plan on May 15, 1986. The plan is an element of Portland's Comprehensive Plan

and is administered by the PDC. The plan's name was changed to the Airport Way Urban Renewal Plan ("Airport Way Plan") in 1989. The Airport Way Plan encompasses nearly 2,800 acres east of the Portland International Airport and is bounded roughly by 82nd Avenue, 185th Avenue, Sandy Blvd., and the Columbia River.

Prior to implementation of the Airport Way Plan, approximately 500 acres of the area were used for commercial or industrial purposes (primarily warehousing and manufacturing) and 70 acres were in residential use. Over 1,700 acres were classified as "open," and the balance was dedicated to transportation and other public uses. This large open area has been important to planners because it is adjacent to the Portland International Airport and the state's largest metropolitan area. The area had remained underdeveloped into the mid-1980s largely because of environmental difficulties (including the presence of wetlands, flooding and toxic wastes). In addition, less than 18 percent of the area had sanitary sewers when the project began. These conditions provided the basis for the finding of "blight." In fact, this project provides the largest example, in terms of acreage, of "underdevelopment blight" studied by your Committee.

The Airport Way Plan includes both a transportation master plan and a storm drainage master plan. A U.S. Army Corps of Engineers Regional Permit will allow filling of some wetlands and streamlining of the related environmental compliance process. TIF funds covered the local costs associated with the permitting process.

b. "But For" Considerations.

Your Committee heard testimony that growth and development would have occurred without the adoption of the Airport Way Plan. Your Committee concluded, however, that the growth would have been slower and more expensive for both the public and private parties "but for" the renewal effort. The PDC stated that the formation of an urban renewal district and the financing of the regional permit application process by TIF (at a cost of \$235,000) was the only means at PDC's disposal to "get the ball rolling," and that without the regional permit, development of the area would not have occurred to the satisfaction of the Portland Comprehensive Plan or state and federal environmental mandates. Planning was also crucial in achieving a \$15,000,000 Federal Highway Administration grant and a \$6,000,000 Oregon Department of Transportation allocation, which provided the seed funds for redevelopment activities in the area.

c. How and Why TIF Was Used.

TIF was used to support planning and to match state and federal expenditures approved for the area once the planning was complete. In this sense, the Airport Way Plan is reminiscent of the days when TIF provided the matching funds for federal urban renewal and housing projects. However, neither provision for new housing or replacement of substandard housing are part of the Airport Way Plan. The PDC considers the area undesirable for residential development due to noise and industrial hazards associated with the airport facility.

Although \$21 million in bonds (to be repaid by TIF) were recently issued to finance portions of the Airport Way Plan, TIF is just one part of the total planned public investment of \$55,000,000. Special assessments, City of Portland funds, Multnomah County funds, TIF, and state and federal funds combine to finance the project. The transportation and sewerage elements will cost approximately \$45,000,000 over the next 15 years, and TIF will provide \$14,000,000 to this effort. TIF is also projected to provide \$5,000,000 of the total \$7,700,000 needed for recreation and open space improvements. Airport Way project management costs are fully funded by TIF.

The plan also authorized PDC to establish a Development Financing Fund to provide financial assistance to commercial parties interested in locating within the area. TIF will fully fund the Financing Fund, which over the life of the project should total \$1,832,000.

The area generated tax revenues on an assessed value of \$136,500,000 (the "frozen base") in 1985-86 and is projected to have an assessed value of \$335,500,000 when it is returned to the tax rolls at plan completion in 2011.

d. Other Considerations.

Major objections to the Airport Way Plan and its use of TIF arose from residents and officials of the Parkrose School District who expressed dismay at their lack of meaningful input to the planning process and concern that they would shoulder an unwarranted amount of the financing burden.

Your Committee found no convincing evidence that Parkrose area taxpayers will suffer a material additional tax burden because of the Airport Way Plan. Although the use of TIF in connection with the Airport Way Plan increased property taxes by 1.9 percent over what they would otherwise have been for Parkrose School District residents during the 1990-91 tax year, the projected total dollar effect per year is fairly small (approximately \$40 per year for 1990-91 on property assessed at \$100,000). Nonetheless, your Committee believes the public input process initially conducted by PDC was inadequate, and it fostered much mistrust and ill will at the time.

3. The Downtown Waterfront Urban Renewal Area.

a. Background.

Leading retailers and property owners developed the Downtown Plan to improve downtown parking and eliminate the busy thoroughfare separating east downtown from the riverfront. The Downtown Waterfront Urban Renewal Area ("DWURA") plan was approved by the City Council on April 25, 1974 as a multi-faceted approach with no initial time set for completion. DWURA's 324 acres include much of downtown Portland's retail and commercial core. The DWURA plan, in conjunction with the Central City Plan, is administered by the Portland Planning Bureau.

The primary objectives of the Downtown Plan and of the DWURA plan were to create open and accessible public space near the Willamette River, to support and enhance the retail core, to promote historic preservation, to facilitate transportation access, to maintain existing low income housing, to promote additional housing for citizens of all economic classes, and to establish the south waterfront area and the Pioneer Square area. Also of primary concern was the maintenance of a desirable mix of land uses, e.g., to prevent office towers from dominating the downtown area.

Fourteen amendments over the past 17 years have allowed the DWURA plan to evolve and answer many of the needs set forth in the City's Comprehensive Plan with positive redevelopment such as: Tom McCall Waterfront Park, which provides scenic and recreational areas; Riverplace, which incorporates middle to high income housing, retail space, and a hotel; Pioneer Square, which serves a vital need for open space in downtown Portland; and Pioneer Place, which brings a new element to the retail atmosphere of the downtown area.

b. "But For" Considerations.

Some DWURA projects, such as Tom McCall Waterfront Park, have been popular since their inception. Others, such as Riverplace, were not generally popular

when they were begun. Still others, such as Pioneer Place, provoked a great deal of questioning at the time regarding the most beneficial scope and size of the project and other factors. In a number of cases, including Pioneer Place, it was by no means clear at the outset that the project would be a financial or aesthetic success.

TIF has been used both to help assemble land and prepare project sites and to help fund the resulting projects under the DWURA plan. As a result, the DWURA plan has been the direct cause of private improvements to nearby properties in a number of cases. For example, the owners of the building directly north of Pioneer Place assert that their building improvements and the resulting ability to attract more prestigious tenants are directly related to the development of Pioneer Place. Much private investment in the downtown area probably would not have occurred absent the projects undertaken through the DWURA plan, many of which were funded in whole or in part through the use of TIF. The resulting success of TIF funded projects is not sufficient, however, to establish that significant benefits would not have occurred "but for" the use of TIF. The question is what would have happened in the absence of TIF.

Some of the projects under the DWURA plan could conceivably have been funded in part through greater reliance on general obligation bonds, local improvement districts or other sources and a lesser reliance on TIF funds. It is also theoretically possible that if PDC had negotiated more aggressively with private developers, it could have reduced the level of public subsidy and thus the level of TIF. However, your Committee believes that this is not the case. In general, the quality of the resulting projects and the benefits to Portland area taxpayers is not out of line with the degree of subsidy made available. Looking at the DWURA plan and its accomplishments as a whole, your Committee believes that equally beneficial results could not have been achieved without substantial use of TIF.

Your Committee believes that the use of TIF in connection with projects under the DWURA plan has met the "but for" test—particularly in light of the pressures, constraints and uncertainties inherent in the development process. We also believe that the PDC has generally acted in a rational manner in its use of TIF for DWURA plan projects.

c. How and Why TIF Was Used.

The initial DWURA plan required assembling and rehabilitating much land to create Tom McCall Waterfront Park. Acquiring land was also a key component of the Riverplace development and of the Pioneer Place project. In each case land assemblage, public improvements, and site preparation were funded 100 percent through TIF. The following is a comparison of the use of TIF to all other public sources for many projects within the DWURA plan:

Tom McCall Waterfront Park	1:0
Front and Davis Garage	1:8
North Transit Mall Extension	1:5
Pioneer Square	1:5
Historic Preservation Program	1:21
Riverplace	1:0
Pioneer Place	1:0

Over time, and as other government grants and transfer payments have become less available, the proportion of public subsidy funds contributed by TIF has increased. For example, the ratio of TIF funds to other public funds for the Pioneer Square and North Transit Mall projects was 1:5. For Riverplace and Pioneer Place, however, 100 percent (1:0) of public subsidy funds have come from TIF.

Most of the DWURA plan projects have involved substantial private investments in addition to TIF. For example, the ratio of private investment dollars to TIF dollars at Pioneer Place was approximately 6:1. By the time Riverplace is finished, the ratio of private investment dollars to TIF dollars for that project will be approximately 9:1.

d. Financial Data.

The DWURA plan has survived fourteen amendments and numerous bond issues. For instance, \$37 million of bonds were sold to finance projects within the DWURA plan during 1988. In 1989, PDC issued \$19.5 million in bonds. Total debt service during fiscal year 1987-88 was \$4,920,080 while total TIF revenue during the same year was \$9,402,716.

The assessed value of real property within the DWURA plan area was \$131,617,069 in 1974. By 1989 this had grown to \$479,182,435. These figures are not directly comparable, however, since many of the fourteen amendments to the DWURA plan included the addition of land to the district and property assessed at \$146 million was released from the district during fiscal year 1987-88.

4. The Seaside Trail's End Urban Renewal District.

a. Background.

The Seaside City Council created the Trails End Urban Renewal District in 1978 to make several improvements by which the City hoped to attract additional investment and tourist business. The district is subject to a "sunset clause," which will take effect in 1998. Growth restrictions due to inadequate sewers provided the basis for the finding of "blight." The plan does not have a housing component.

Property valued at approximately \$20 million was included within the district when it was formed. The value of property in the district now exceeds \$72 million, generating an increment over \$52 million. The 1989 tax increment revenue from the district exceeded \$1,100,000.

b. "But For" Considerations.

Given the strategic location of Seaside, it is safe to assume that some development would have occurred without TIF. However, your Committee believes that TIF financing and development of the urban renewal plan certainly accelerated development and made public improvements possible that were previously unattainable.

The late 1970s saw Seaside's ability to grow limited by the lack of adequate sewage treatment facilities. The City had voter authority to issue general obligation bonds to finance construction of the sewer plant. Thus, construction of the sewer plant and removal of the City's growth restriction would clearly have occurred without the use of TIF. However, it is questionable whether voters would later have agreed to issue general obligation bonds to finance the water main. Use of TIF in effect shifted a part of the infrastructure improvements to residents of the county and school district outside of the City of Seaside. Perhaps in response, local voters recently rejected for the third time, a school renovation bond issue which would have added \$0.77 per \$1,000 of assessed value to the levy rate. However, lifting Seaside's growth restriction permitted additional development throughout the community benefitting much more than downtown business.

c. How and Why TIF Was Used.

Although it might appear that property owners over a vast area are paying for improvements that benefit the tourist area of Seaside, those who benefit the most

—the retailers and the hotels—are in fact paying a substantial share of the cost. The hotel/motel tax revenues for 1989-90 exceeded \$800,000, while TIF revenues exceeded \$1,100,000. The businesses of the Prom have also voted to assess themselves for maintenance of the sidewalks and to improve the landscaping through a separate Prom maintenance assessment. Although your Committee believes the benefit to outlying property owners is not clear, the projects undertaken as part of the plan may well have helped to attract more people to Seaside, which in turn benefits retailers, grocers, etc.

d. Other Considerations.

The original renewal plan was not extremely detailed. Many of the improvement projects have occurred in serial fashion. This serial development keeps expenses down in current years by spreading the development over a longer period. The result has been the ability of the district to fund many of the projects by what amounts to a pay as you go basis without having to increase the outstanding amount of bonds. Your Committee believes the Trails End Urban Renewal District appears to have successfully blended together many financing tools to achieve its overall purpose, while placing the lion's share of the financing costs on those benefitting most directly.

IV. Conclusions.

In this report, we have reviewed how TIF has been used in Oregon. Your Committee believes that the following conclusions are warranted:

1. TIF has provided Oregon with a means by which local governments can use a portion of property tax revenues to promote and shape economic growth. In addition, TIF has often served in Oregon as "seed money," —leveraging state and federal funds, other local funding mechanisms and private investment. The use of TIF has resulted in positive economic and non-economic benefits.
2. Prior to 1979, TIF was used primarily to finance a portion of public improvements, including low or reduced cost public housing, in "blighted" urban areas. Since 1979, when the statutory bases for finding "blight" were greatly expanded, TIF has been available for almost any economic development project. The expanded availability of TIF has generally been appropriate and beneficial.
3. TIF has not resulted in taxation without representation. Before using TIF, a municipality must form an urban renewal district and complete an urban renewal plan. According to law, the district must be controlled either directly by local elected officials or by their designees. The law provides substantial opportunities for public involvement in the plan development and review process. Although the process is not perfect and mistakes have occurred, it generally works reasonably well.
4. A strong case exists for continuing to allow urban renewal districts to capture "windfall" properties such as the Clackamas Town Center, Lloyd Center, and the PacWest Center, within district boundaries.
5. Measure 5 is likely to lead to decreased use of TIF although it will not eliminate the use of TIF altogether if the Legislature adopts a broad definition of bonded indebtedness. Measure 5 is likely to lead to the curtailment or delay of urban renewal and economic development activities.
6. Annual financial reports required of renewal agencies should be useful. Some reports lack sufficient information to provide meaningful oversight.

7. For the most part, TIF is used in conjunction with other funds, such as parking revenues, state and federal aid, special assessments, and private investment, to finance renewal and infrastructure. On some occasions, it is possible that the renewal agency could have made less use of TIF and greater use of other funding sources.
8. Housing, a primary objective of the original TIF legislation, has taken a back seat to other economic development activities. Although a broad spectrum of affordable housing is generally needed to support economic development, TIF is not often used to further this objective directly.

V. Recommendations.

1. TIF should continue to be available in Oregon. To this end, the Legislature should provide a broad definition of "bonded indebtedness," require that the impact of TIF be spread among a larger spectrum of property owners than solely those within the applicable urban renewal district, and require that the tax rate attributable to urban renewal activities be disclosed.
2. The Legislature (with the assistance of AORA) should mandate a format for annual reports which should include a comparison of budgeted and actual expenditures for the prior year and for the entire project to date. Annual reports should periodically be reviewed for format compliance by the responsible municipality.
3. The Legislature should determine a percentage of TIF revenues from each urban renewal district that will be set aside for the development of affordable housing for low and moderate income households. An exemption should exist if the municipality or renewal agency expressly finds after public hearing, that housing should not be included within the district.
4. Urban renewal agencies should continue to capture "windfall" tax increments only for the period of time necessary to achieve their stated goals.

Respectfully submitted,

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Don Leadroot
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MINORITY REPORT

I. Discussion.

A Minority of your Committee is concerned that the 1979 amendment to the urban renewal statutes, which broadened the definition of "blight" to include the absence of infrastructure, encourages the overuse of TIF for economic development purposes. This creates a problem in deciding when to subsidize development projects in the name of "economic development" and when to assess the cost of infrastructure to directly benefitted properties. In other words, should development projects at prime locations, say at freeway interchanges, be subsidized by TIF or should properties at prime locations pay for nearby infrastructure that directly benefits them? Criteria need to be established to provide guidance to avoid utilization of TIF when it may not be needed, or when it would create inequities among developments, some of which are subsidized and some not.

There is a second aspect of "but for" that is not well understood. On the surface, it appears as if the increment pays for the renewal, but if the "but for" test is not true, it costs taxpayers in impacted jurisdictions twice: once as their tax rates do not decline with an increase in assessed value, and second as their public services are stretched to serve the new development. TIF only appears to fund urban renewal from the increment. In fact, property taxpayers in impacted taxing jurisdictions pay for TIF. Property owners within the urban renewal area receive the direct benefit of the renewal treatment at no additional cost over and above the property taxes they would pay anyway. In addition, this property tax increment in the urban renewal area is diverted for TIF purposes and is unavailable to pay for normal services, such as police, fire, and schools. Consequently, other property taxpayers in the impacted jurisdictions pay to service the new development in the renewal area.

II. Conclusions.

Although the Minority supports all the recommendations presented by the Majority, they additionally conclude that the trend to use TIF for economic development projects makes it more important than ever to apply strict "but for" tests. Because of the way in which TIF works in Oregon, it should only be used where there is a real "but for" situation. For instance, the minority feels the Clackamas Town Center project fails this test. There was a great growth potential and development around the Center would have occurred anyway. Development that would have occurred anyway should pay for its own infrastructure and other improvements by means of special assessment districts, impact fees, or developer agreements or exactions. TIF is not the appropriate tool in areas with a strong market. The Minority feels additional safeguards are needed so as not to overuse TIF for economic development, thereby creating inequities wherein developers in urban renewal areas receive subsidy, and development that occurs outside renewal areas pay for infrastructure.

III. Recommendation.

The Minority of your Committee makes the following additional recommendation:

When using TIF for economic development projects, the governing body of the urban renewal agency should be required to find that special assessment districts, impact fees, and other developer agreements and exactions are not feasible and that the development in the area would not occur "but for" the subsidy.

Respectfully submitted,
Kenneth Dueker
Robert Randall, Jr.

Appendix A

Tax Increment Financing (Urban Renewal) Districts

CO.	DISTRICT	FROZEN	EXCESS	RENEWAL
		VALUE	VALUE	REVENUE
		1990-91	1990-91	1990-91
Clac	Clackamas Town Ctr.	42,156,130	208,552,330	5,315,121
Clac	Clackamas Indust.#2	322,496,760	57,973,720	1,449,250
Clac	Lake Oswego #1	55,664,920	27,386,790	667,794
Clac	Government Camp UR5	30,224,600	3,989,010	70,572
Clac	Oregon City 3	6,981,930	4,559,750	155,912
Clat	Trail's End(Seaside)	20,867,118	54,384,829	1,123,101
Clat	Astor East (Astoria)	3,130,278	2,199,001	72,516
Coos	Coos Bay	61,252,213	0	0
Coos	Bandon	9,769,289	1,955,403	43,926
Coos	Coos County	40,311,976	15,192,328	343,952
Desc	Central Bend	54,991,619	15,152,045	329,214
Desc	Redmond	426,435	62,195	1,863
Hood	Cascade Locks	22,986,320	903,150	20,803
Hood	Hood River	13,776,280	12,749,230	277,746
Jack	Jackson County	125,533,500	7,036,300	168,700
Jose	Brg.Cor(Grants Pass)	75,499,358	11,421,898	236,299
Klam	Klamath Falls	54,578,154	2,021,511	48,774
Lane	Eugene	39,190,272	58,276,642	1,839,368
Lane	Veneta	8,538,740	3,328,637	111,133
Lane	Riverfront	32,493,374	4,337,233	136,895
Linc	So. Beach (Newport)	6,400,850	992,205	19,279
Linc	Lincoln City	38,590,985	5,187,091	137,644
Linc	Newport	14,460,457	70,529,915	1,825,533
Linc	Waldport	12,452,260	1,200,818	26,933
Linn	Lebanon 1	2,380,824	5,093,227	194,994
Linn	Lebanon 2	9,697,512	102,743	3,103
Linn	Albany	131,849,017	45,322,557	1,430,847
Mari	Fairview (Salem)	454,030	10,509,670	357,242
Mari	River Front (Salem)	20,682,587	117,743,503	4,002,308
Mari	Pringle Creek (Salem)	51,270,669	17,469,541	593,819
Mult	NW Front (Portland)	30,045,830	68,373,778	2,290,850
Mult	Downtown Water Front	97,406,603	374,998,032	12,564,234
Mult	St. John's (Portland)	3,685,122	1,010,715	33,864
Mult	South Park (Portland)	402,291,511	128,244,205	4,296,796
Mult	Central East Side	280,372,860	35,797,901	1,199,402
Mult	Columbia S. Shore	241,611,826	65,868,193	1,952,537
Wash	Leveton	4,591,339	6,374,389	181,070
Wash	Tualatin	17,362,950	55,936,626	1,528,556
Wash	Ronler Acres	46,202,535	29,981,399	833,330
	Total	2,432,679,033	1,532,218,510	45,885,279

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