

Urban Renewal and Tax Increment Financing

What is Urban Renewal?

Urban renewal is one of the few tools for encouraging local economic development. It is unique in that it has its own funding source, tax increment financing. Urban renewal is a program authorized under state law and implemented locally that allows for the concentrated use of property tax revenues to upgrade certain designated areas of a city or county. These areas are called “blighted” by state statute and typically contain sections of a city that are underdeveloped and not contributing fully to the local economy. They can have buildings which are in need of renovation, property which should be developed or redeveloped, or utilities and street and pedestrian systems in poor repair or needing upgrading.

The underpinning theory of urban renewal is that if these properties and the surrounding infrastructure are upgraded, they will contribute more substantially to the local economy and to the property taxes which support all of the taxing jurisdictions.

How is an Urban Renewal Program Started?

For an area to be designated as an urban renewal area, a city normally completes a feasibility study to determine appropriate boundaries and to analyze the financial feasibility of the area, including the impacts on the other taxing jurisdictions. Depending on the results of the feasibility study, the city will determine whether they want to proceed with the development of an urban renewal plan.

The City of McMinnville completed an urban renewal feasibility study in the spring of 2012 for an urban renewal area that encompasses both the downtown core and the Northeast Gateway area. The feasibility study determined that the potential urban renewal area met the statutory qualifications for blight and can produce tax increment for use in helping the area develop. The city directed the preparation of a draft urban renewal plan.

An urban renewal plan establishes an urban renewal boundary, goals, and objectives for the area, and outlines projects and programs that will help to improve the conditions in the area. The plan also sets a limit on the amount of money which can be used to fund these projects and programs, called a “maximum indebtedness”. The urban renewal plan is accompanied by a technical report which contains the financial Feasibility analysis and estimates when funding will become available to pursue projects within the area. The urban renewal plan must be adopted by the City Council.

What is the Adoption Process for an Urban Renewal Plan?

The planning for urban renewal typically involves review and input from a citizen committee and city staff. McMinnville has appointed a Technical Advisory Committee and a Community Advisory Committee to guide in the urban renewal plan preparation. An Urban Renewal Agency will be formed that will review the draft urban renewal plan. Once a draft plan is prepared and reviewed by the Urban Renewal Agency, it must be circulated to the impacted taxing jurisdictions for their review and comment. The plan must be presented to the Planning Commission and to the City Council. Any action by the City Council must be by non-emergency ordinance after a public hearing is held. Notice of the public hearing must be sent to each individual household in the city.

What types of Programs or Projects are Eligible under Urban Renewal?

Urban renewal agencies can do certain projects or activities under an adopted urban renewal plan. These activities generally include:

- Construction or improvement of public facilities including streets, sidewalks, utilities, parks, and other public uses
- Storefront improvements
- Participation with developers for property improvement
- Rehabilitation of existing buildings

How are Urban Renewal Plans Financed?

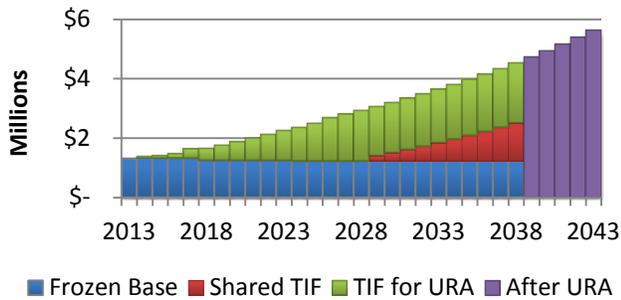
At the time an urban renewal plan is adopted, the county assessor calculates the total assessed value of the area and establishes this value as the “frozen base” for the area. Growth above the base is called the “increment.” Tax increment revenues are the property tax revenues generated off the increase in the assessed values over the frozen base (not including rates for General Obligation Bonds and Local Levies approved by voters after October, 2001). This concept is shown in the chart on the next page. The chart depicts a 25 year plan, but plans may be longer, depending on the timing of bond placements and the need for financing. This scenario shows the frozen base (blue) and the tax increment (TIF in green) that is anticipated to fund projects and programs in the urban renewal area. The chart also shows that some revenue sharing is anticipated with the taxing jurisdictions, shown in red in the chart. Revenue sharing commences when specified targets established in urban renewal law are



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met. The purple shows the projected tax revenues once urban renewal ends in the future.

Urban Renewal Tax Revenues



How Does Tax Increment Financing Affect Overlapping Taxing Districts?

Taxing jurisdictions gain revenues through the collection of property taxes. Property tax increases come through new development and the statutory limit of 3% increase in assessed values on existing real property. During the use of tax increment financing, the permanent rate property taxes on the **growth** in assessed value in the urban renewal area are allocated to the Urban Renewal Agency and not the taxing district. The taxing jurisdictions are still able to collect the property tax revenues from the assessed value of the frozen base, but increases in revenues are allocated to the Urban Renewal Agency for use within the urban renewal area. In many urban renewal areas, that growth from new investment would not have occurred but for the use of urban renewal which has stimulated the growth. This is true for the portion of the proposed urban renewal area that is in Northeast Gateway and is not served by adequate infrastructure.

The impact on schools and education service districts is indirect, as they are funded through a state allocation based on per pupil counts. Property taxes fund a portion of the state school fund, but not all of it. However, the McMinnville School District collects construction exist taxes off new development, and new residential and commercial development generated due to upgraded infrastructure in the area will pay this construction excise tax. In addition, if additional school age children reside in any of the projected new development, the school

district benefits as they are funded through a per pupil allocation, so added students means increased revenues.

Once an urban renewal area is terminated, there generally will be an increase in property tax revenues to all taxing jurisdictions. This increase of property tax revenue is a result of the ability to concentrate funding in a specific area, encouraging the area to develop properly.

How Does Tax Increment Financing Affect Property Tax Payers?

Most property tax payers will **not** see an increase in property taxes as a result of urban renewal. If there is an increase, it is due to bond or local option levies which were adopted prior to October of 2001 and are still collecting revenues. These impacts are VERY small, estimated at less than 20 cents a year on a property valued at \$100,000. However, once an urban renewal plan is adopted in an urban renewal area, tax payers within that area will see a line item on their property tax statements for urban renewal. This can be quite confusing because even if you are not physically located in the area, you will see an indication of the impact of urban renewal on your property tax bill. Your overall tax bill does not increase, but the allocation of revenues received from your payment is changed as a portion of that payment now goes to urban renewal. This is called "division of taxes" and is the administrative way that assessors must calculate the urban renewal revenue. A sample property tax bill is shown below. The total taxes does not change, they are just distributed differently if there is urban renewal.

	2013	2013
	Property Value	Property Value
	\$103,000.00	\$103,000.00
District Name		
Yamhill County	\$265.48	\$257.75
Yamhill County Ext. Serv.	\$4.62	\$4.49
Yamhill Co. Soil & Water	\$3.65	\$3.54
McMinnville School Dist.	\$427.39	\$414.94
Willamette Regional ESD	\$30.56	\$29.67
City of McMinnville	\$517.06	\$502.00
Chemeketa Library	\$8.43	\$8.18
Chemeketa Comm. Coll.	\$64.47	\$62.59
Urban Renewal		\$38.49
Total	\$1,321.65	\$1,321.65