COMMUNITY INVESTMENT

TOOLKIT

VOLUME 1

Financial Incentives

COMMUNITY INVESTMENT TOOLS

Metro

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Acknowledgments

The toolkit was developed through extensive research and collaboration with representatives from local governments, nonprofit organizations, and stakeholder groups, as well as developers, investors, and citizens through advisory committees and public forums such as the Regional Forum held in June 2006. We would like to thank everyone for participating and contributing to this volume of the toolkit. In particular, we would like to express our appreciation to the following individuals for their extra efforts in this regard:

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Financial Incentives Toolkit

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Regional choices for how we grow

In 1995 citizens of the region developed Metro's 2040 Growth Concept, a vision for how the region grows that is based on a set of shared community values identified through an extensive public process. These values have been reconfirmed over the years through public opinion research. The vision of the 2040 Growth Concept is to establish complete communities that include:

- safe and stable neighborhoods for families
- compact development that uses both land and money more efficiently
- a healthy economy that generates jobs and business opportunities
- protection of farms, forests, rivers, streams and natural areas
- a balanced transportation system to move people and goods
- and housing for people of all incomes in every community.

Since Metro adopted the 2040 Growth Concept in 1995, updated population forecasts predict the region will grow even more rapidly than initially expected, bringing new opportunities as well as new challenges. More people and the accompanying needs for land to provide jobs and housing place a premium on the efficient use and redevelopment of urban land. Rising costs for public facilities and services further highlight the need for efficient use and reuse of the limited supply of land that already has access to urban services, including roads, sewers, transit, and schools. An additional consideration is the aging of our population; as people get older, they often seek higher-density housing within walking distance of transit, retail areas, and medical facilities. Metro's New Look at Regional Choices is an effort to identify what we've been doing well in the region to achieve the vision of the 2040 Growth Concept, capitalize on our successes, and focus our efforts where we need to do better.

Policy framework

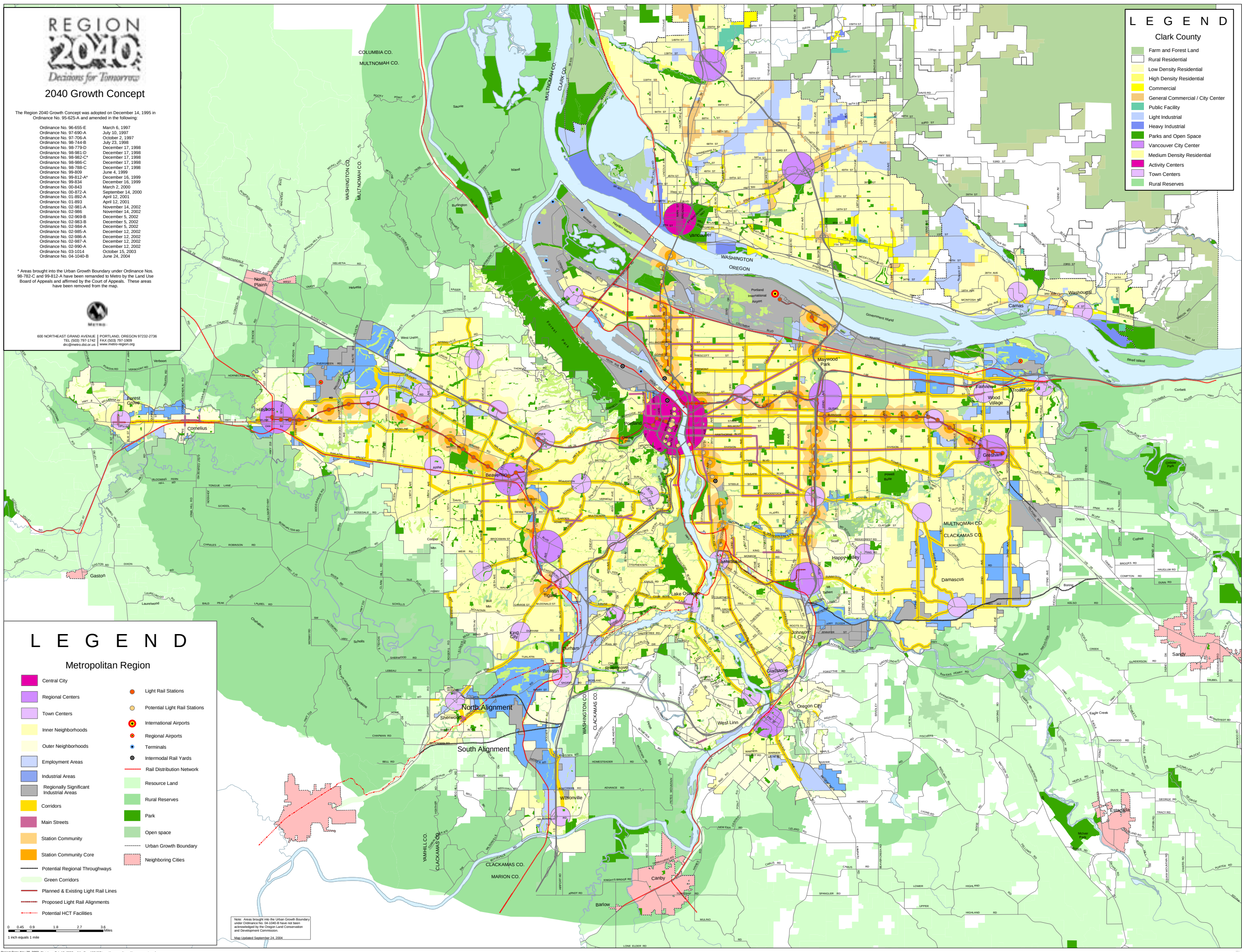
In 2006, the Metro Council and regional leaders developed a policy framework composed of six integrated elements that are intended to accelerate the achievement of the benefits envisioned in the 2040 Growth Concept. The policy elements are guided by principles stating that all regional growth and investment decisions should reinforce and support growth in centers, corridors and employment areas; that decisions to expand the boundary will balance urban needs with protection of agricultural and important natural areas; and that a collaborative approach is crucial to the successful implementation of the 2040 Growth Concept.

The six policy elements are:

1. Focus fiscal resources and taxation tools to stimulate development in centers, corridors and employment areas
2. Coordinate growth with neighboring communities
3. Base urban growth boundary expansion decisions on urban performance
4. Designate and plan urban reserves
5. Designate areas that shall not be urbanized
6. Prioritize and invest in transportation improvements that support efficient development and strengthen the economy

Investing in our communities

The first policy element is to focus efforts to stimulate investment in existing communities. A key component of investing in our communities is to develop strategies, partnerships, and tools to best use the land in centers, along corridors, and in employment and industrial areas. There are many examples of successful public investment that has stimulated private development within the region and in our neighboring cities, including several communities around light rail stations, Lake Oswego's downtown, and the South Waterfront area in Portland to name just a few.



More than one million additional people are expected to live in the metro region by 2040. Accommodating such growth while maintaining the quality of life residents expect will require substantial investment from the public and private sectors. Regional leaders have emphasized the importance of maximizing the land development potential in existing communities to help balance urban land needs with the importance of preserving land for the agricultural economy and retaining natural features.

The 2040 vision calls for growth to be concentrated in nearly 40 regional and town centers, along transit corridors, and in employment and industrial areas as an important strategy to maintain livable communities and support a strong economy. The benefits of developing in centers and along corridors include greater transportation choices, better air quality, and more effective targeting and coordination of public investments. Mixed-use centers also maintain consistently high property values, create a sense of community, and attract new businesses. Promoting redevelopment and well-designed residential development along major transportation corridors, which typically have good transit access and are often developed in low-density commercial uses, can provide similar benefits.

However, higher intensity urban development with the amenities that allow for an enhanced quality of life and redevelopment of underused urban land sometimes requires a higher initial investment than traditional greenfield and suburban development. Creative solutions are needed to help cities work with developers and lenders to achieve the types of development that enhance our communities as the region grows.

Exploring policy choices for public investment

To better understand how public investment can encourage the efficient use of land, Metro has explored scenarios using MetroScope, a simulation model for testing planning policies in the urban land marketplace. These scenarios described the effect of targeting public investment in specific locations and compare low, medium, and high levels of public investment in mixed-use areas throughout the region between today and 2035. The results were evaluated to determine how much investment is needed to attract enough households and jobs to make these communities vital and self-sustaining. Investment is defined as reducing the construction costs in targeted areas – this can be accomplished through a variety of development incentives. Potential tools include financial incentives, changes to local codes, and design standards that reduce development costs. This toolkit provides examples of local successes using these tools and includes resources to help focus investment in our communities.

Comparing the results of the low, medium, and high investment scenarios indicate that the provision of public investment in targeted areas is likely to be an effective tool to spark private investment and therefore achieve the benefits envisioned in the 2040 Growth Concept. The low investment scenario presumes that local resources will not continue to be targeted to spur private investments in these areas. The medium investment scenario assumes that local governments in the region will continue investing public resources at the current level of effort. The high investment scenario represents a significant increase in public investments across the region to accelerate the implementation of the 2040 vision. Therefore, local decisions to build on current successes and expand the use of public resources to invest in our communities will shape the future of the metro region.

The analysis concludes that more investment could double the amount of housing developed in centers, while reduced investment in the region's centers pushes more jobs and housing out to our neighboring communities, increasing congestion and pressure on the transportation system.

Toolkit for investing in our communities

Metro's New Look at Regional Choices seeks to identify proven strategies and tools that can be used to stimulate investment in the region's centers, corridors, employment, and industrial areas to implement the 2040 Growth Concept. The strategies address:

- financial incentives
- local zoning and building codes
- urban design
- employment and industrial areas.

The toolkit provides local governments, developers, nonprofit organizations, property owners, and investors with important information, considerations, and local perspectives for the various investment tools in the region. Highlighting the region's success stories, the toolkit demonstrates how these strategies are achieving results and serves as a guide for future investors. With technical assistance from Metro consultants, this toolkit will help these investors build vibrant downtowns and main streets and create places for businesses to flourish.

The toolkit was developed through extensive research and collaboration with representatives from local governments, nonprofit organizations, and stakeholder groups, as well as developers, investors, and citizens through advisory committees and public forums such as the Regional Forum held in June 2006.

Achieving the benefits envisioned in the 2040 Growth Concept relies on initiative by local leaders and governments. Metro and its partners will continue to build awareness of innovative and successful development strategies and work to provide technical assistance to local leaders and practitioners. Metro's technical assistance will help facilitate the use of new and existing fiscal tools and resources, modify local policies, and broaden public awareness of these tools and policies and the potential benefits they bring for local community development. The toolkit is an integral component that complements this technical assistance. The toolkit supplies information and resources to help local communities achieve the benefits envisioned in the 2040 Growth Concept in a way that best fits their community needs.








Toolkit

Introduction

Financial incentives:
tools for investing in our communities

Financial incentives are mechanisms to help achieve healthy communities throughout the region by reducing development costs for smart growth projects and stimulating the types of development desired and appropriate for different areas. Specific financial incentives, when used in the region's centers, corridors and employment areas, can encourage investments that help reach a balance between jobs and housing, create unique blends of urban amenities, and reduce transportation trips.

Tools for investing in our communities

Mixed-use, pedestrian-oriented development projects built around special places typically require a much higher up front cost, resulting in a higher risk to investors and developers regardless of impressive mid- and long-term returns. Thus, financial incentives can bridge the gap between traditional financing levels and the costs of building higher quality, more sustainable projects and make these desired developments possible in the region's centers and corridors.

Historically, federal funding programs have provided most of the financial resources for local community and economic development efforts. Current use of federal funding programs in the region such as Community Development Block Grants, Low Income Housing Tax Credits, and New Market Tax Credits can help achieve 2040 objectives. However, in the case of most federal funding programs, policy objectives and funding levels are set at the national level and then administered by state, county, or local agencies. Thus the local community does not determine the amount of available financial resources or programmatic guidelines. In addition, most federal funding programs help stimulate investment in low-income and underserved communities, and therefore, are available to a limited number of communities in the metro region.

These limitations, combined with an overall decrease in funding for these federal programs, present cities and counties with the need to find new sources of revenue to fund local community development activities. Several financial incentives exist in the region that can promote opportunities for efficient land use and investment in 2040 centers, corridors, and employment areas. Oregon's Vertical Housing Program, Oregon's Transit-Oriented Tax Exemption, brownfields assessment and cleanup funds, urban renewal and tax increment financing, local improvement districts, economic improvement districts, business improvement districts, impact-based system development charges, and enterprise zones are all financial incentives used to stimulate investment in the region's centers, corridors, industrial and employment areas. Many of these also promote housing choices for all citizens of the region.

Many cities and counties in the region are currently using financial incentives successfully as a method of encouraging development in specific locations. The following map, on page 5, depicts some of the financial incentives currently used by local cities and counties. Not all of the financial incentives used by local jurisdictions appear on the map. The tools depicted on the map relate to specific geographic areas, districts,

or zones within a city or county as opposed to being a site-specific or regionwide tool. The investment tools represented on the map include: the Vertical Housing Program, Transit-Oriented Tax Exemption programs, urban renewal areas, and improvement districts as well as enterprise zones, an important financial incentive in employment and industrial areas, which is discussed in further detail in the section of this guide that focuses on strategies for employment and industrial lands.

The financial incentives section of the toolkit explores and assesses the potential use of each of these incentive programs through additional application and modification. It also highlights the use of each financial incentive in the region and the issues and considerations that arise from the use of these tools. The various cities or counties in the metro region face different political, regulatory, and financial situations and will need to assess which financial tool or combination of tools can best stimulate investment in their communities. Thus the following section of the toolkit also examines the flexibility and applicability of each of the tools to the different types of cities and counties in the region.

It can be complicated to develop compact, mixed-use projects, particularly due to cost premiums to achieve vertical mixed-use in locations without existing comparable development types. Conventional financing for these types of projects may be difficult to implement, and creative approaches have often been necessary to close financing gaps. The financial incentives described in this section of the toolkit can serve to help close financing gaps; often several incentives need to be used in effective combinations.

Metro houses several technical and financial assistance programs that help overcome these financing gaps by encouraging or providing the use of financial incentives. Metro's Transit Oriented Development and Centers implementation program has been providing this assistance in various communities in the region, which includes several of the success stories highlighted in this guide. Metro's TOD/Centers program brings about the construction of "transit villages" and projects that concentrate a mix of retail, housing and jobs in areas around regional light-rail systems and other transit lines and in regional and town centers. The TOD/Centers program operates through a series of cooperative agreements between Metro, local jurisdictions and private developers. Metro's TOD/Centers program staff are experienced in working with local jurisdiction staff and developers to make complicated projects work, and provide both funds to purchase key properties and important technical resources. Examples of projects that have utilized this program include North Main Village in Milwaukie, and the Crossings and the Beranger in Gresham.

Metro's recommendations

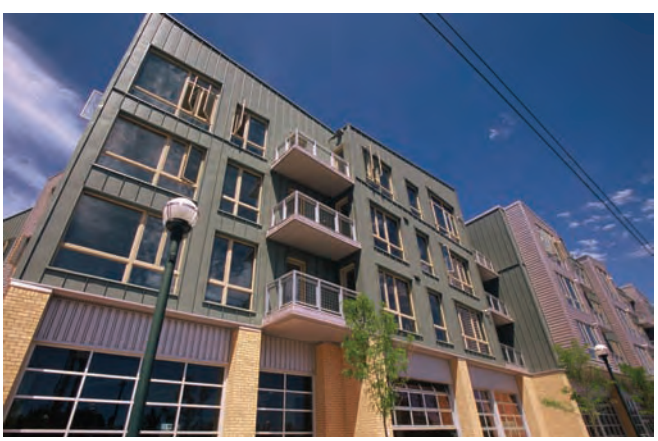
Through the process of developing this guide and documenting the successful use of these financial incentives by cities and counties in the region, Metro has identified the following recommendations to increase investment in our communities and accelerate implementation of the 2040 Growth Concept:

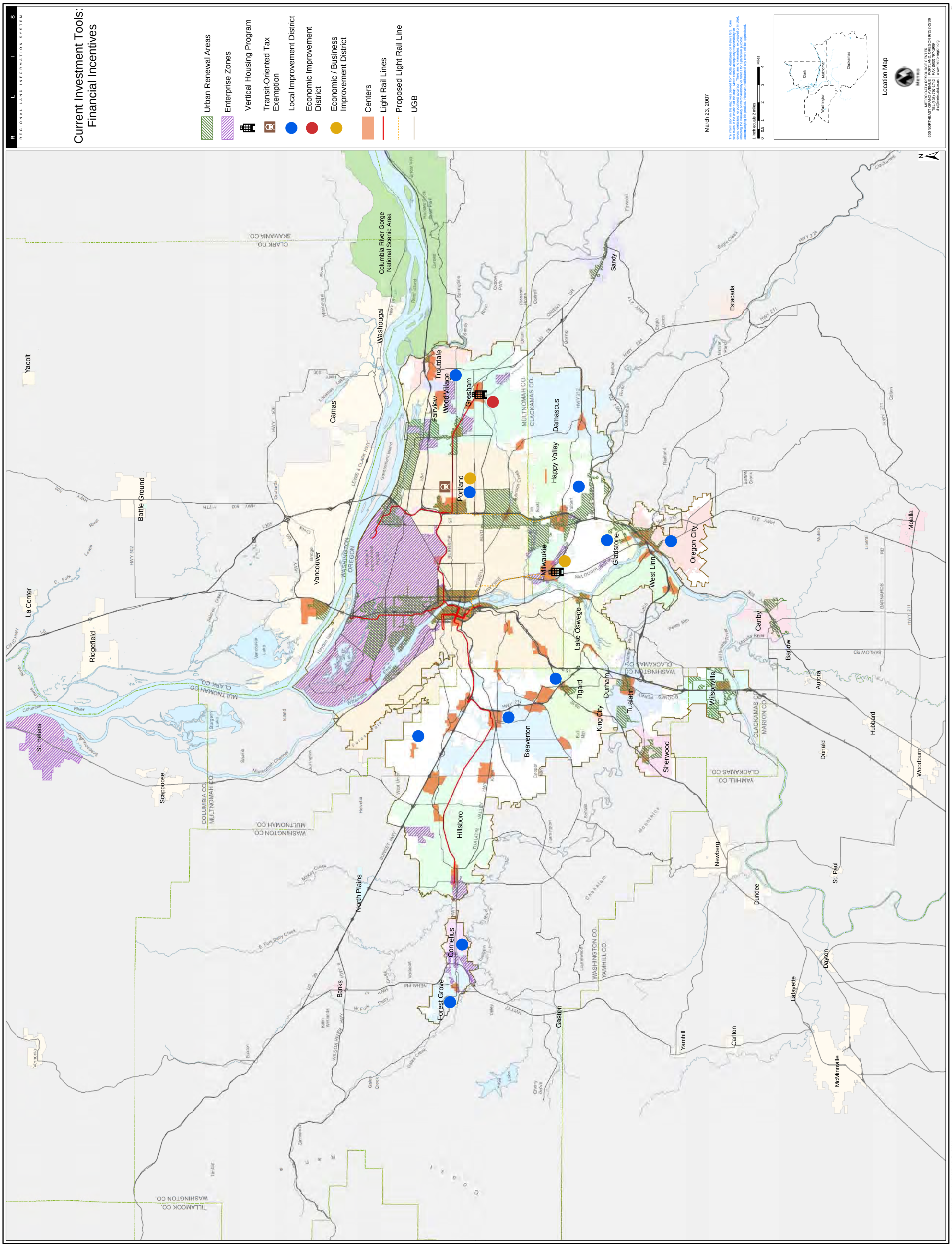
- Continue using these incentives to encourage dense, mixed-use housing and employment opportunities.
- Increase the use of these programs in our centers, corridors, and employment areas making local policy changes where needed in order to maximize the effective use of these tools.
- Consider collaborating with other local jurisdictions, stakeholders, and organizations to explore state legislative changes to make these tools work even better, particularly in the following areas:

  Vertical Housing Program: Explore ways to prevent special taxing districts from opting out of a Vertical Housing Development Zone after the zone is established.

  Urban Renewal and Tax Increment Financing (TIF): Modify the financing structure to provide some increase in fiscal return to local taxing districts prior to the expiration of the urban renewal area (e.g. rate of inflation, the increment increase on the land value, a kickback after set time periods) or expand the allowed costs under TIF to cover non-construction related items (e.g. fire trucks) in order to reduce opposition from local taxing districts, and create additional TIF authorities in order to use TIF separately from Urban Renewal.

  Local Improvement Districts: Expand what services and improvements the assessment fees can recover and also reduce the financial risks to local jurisdictions by clarifying the long-term liability and by tying the upfront costs to property owners.




R L I S
REGIONAL LAND INFORMATION SYSTEM
Current Investment Tools:
Financial Incentives
Urban Renewal Areas
Enterprise Zones
Vertical Housing Program
Transit-Oriented Tax Exemption
Local Improvement District
Economic Improvement District
Economic / Business Improvement District
Centers
Light Rail Lines
Proposed Light Rail Line
UGB
March 23, 2007
Location Map
Yacolt
La Center
Battle Ground
Ridgefield
Vancouver
Camas
Washougal
St. Helens
Scappoose
Columbia River Gorge National Scenic Area
Troutdale
Fairview
Wood Village
Gresham
Portland
Damascus
Happy Valley
Sandy
Estacada
Milwaukie
Gladstone
Oregon City
West Linn
Lake Oswego
Tigard
Durham
Tualatin
King City
Beaverton
Wilsonville
Sherwood
Canby
Barlow
Molalla
Aurora
Hubbard
Donald
Woodburn
Hillsboro
North Plains
Cornelius
Forest Grove
Banks
Gaston
Newberg
Dundee
St. Paul
Dayton
Lafayette
Yamhill
Carlton
McMinnville
CLARK CO.
SKAMANIA CO.
MULTNOMAH CO.
CLACKAMAS CO.
WASHINGTON CO.
YAMHILL CO.
COLUMBIA CO.
MARION CO.
TILLAMOOK CO.
WASHINGTON
OREGON

North Main Village,
vertical housing project,
City of Milwaukie

Toolkit

Financial incentives

Vertical Housing Program

Oregon's Vertical Housing Program offers a financial incentive to stimulate mixed-use development in centers and along corridors. It encourages developers to build dense, mixed-use projects in specific areas designated by local jurisdictions by reducing costs at the front end of the developer's investment through a temporary tax relief on the improvements. With immediate relief from a significant increase in taxes, developers can invest additional funds in projects that often have higher initial costs.

The nuts and bolts

Oregon's Vertical Housing Program (VHP) encourages construction or rehabilitation of properties in targeted areas called Vertical Housing Development Zones (VHDZs) by providing a tax abatement opportunity for higher density, mixed-use developments in these areas. The VHP provides the region with a strong financial tool for spurring housing and mixed-use to help achieve the growth envisioned for our 2040 centers and corridors. Developers, citizens, local jurisdictions, and the region benefit from the VHP, which is apparent when analyzing the applicability and manageability of the program as well as its effects on local taxing entities and local and regional community values.

How to use it: A local jurisdiction, or a combination of jurisdictions, may apply to the state for the designation of a Vertical Housing Development Zone (VHDZ). The state considers the proximity of light rail station areas, transit-oriented areas, and core areas of urban centers to help determine the merits of a proposed VHDZ. Once a VHDZ is approved, developers follow local project standards and codes, but apply directly to the state for the Vertical Housing tax abatement for projects within the zone.

To be eligible, projects must:

- be entirely located within an approved VHDZ
- be comprised of a multiple-story building, or a group of buildings, which include at least one multiple-story building
- include a portion of residential and nonresidential uses
- construct or rehabilitate each building included in the project
- follow required application procedures
- establish the costs of all new construction and improvements
- calculate residential development into equalized floors[1] contained in the project, not counting parking, patio, or porch areas unless granted an exception.

Abatement: All projects meeting state regulations receive the property tax abatement on the improvement value for a 10-year period. The number of floors constructed or rehabilitated for residential use in proportion to the total square footage of a project determines the tax exemption rate the developer will receive. The rate of the abatement ranges from 20 to 80 percent:

- 20 percent for one floor of housing
- 40 percent for two floors of housing
- 60 percent for three floors of housing
- 80 percent for four or more floors of housing.

Existing use of the tool in the region: Since the state created the program 10 years ago, it has approved four projects. The state approved most of these projects between May 2005 and October 2006. Currently in the region, only the cities of Gresham and Milwaukie have established Vertical Housing Development Zones. Alternatively, the City of Beaverton has decided to use this investment tool on a project-by-project basis, only pursuing a VHDZ for a project it wants to secure.

1. "Equalized Floor" means the quotient that results from the division of total square footage of a project (as determined by the Department) by the number of actual floors of the project that are at least 500 square feet per floor. Definition from OAR Chapter 813, Division 013.

Success story

City of Milwaukie

The City of Milwaukie set up a Vertical Housing Development Zone in 2002 at the request of a developer that needed the abatement to make a proposed mixed-use project in the city's downtown financially feasible. When the developer first approached the city, it was unaware of the VHP. When the city established the VHDZ, its sole intention was to secure the proposed development project. Thus, the VHDZ only encompassed the project site.

Before filing the VHDZ application, the City of Milwaukie met with special taxing districts (e.g. the fire district) within the proposed zone in order to explain the benefits of the program and relieve concerns about tax abatement. By working with special taxing districts, the city gained their full support and participation in the VHDZ. Learning that the tax abatement only applies to improvements, is limited to a maximum of 80 percent, and lasts only 10 years helped special taxing districts recognize that the improvements from the project would provide a greater benefit through an increase in overall tax revenue and may serve to attract additional development in the area. Both the city and the state recognize this outreach as a critical component to the success of Milwaukie's VHDZ and an important step for other jurisdictions to take when developing a Vertical Housing Program.

The City of Milwaukie regards the VHP as an ideal tool for smaller cities to provide an incentive to a developer since the tax abatement is limited and acquiring it is very manageable. If another developer hesitates and needs the assistance on a project, the city will consider using the VHP again and applying for another VHDZ either for the project site or to encompass a larger area in its downtown.

North Main Village project, City of Milwaukie, September 2006

"As Milwaukie's city manager, I have been actively involved in the creation of a vertical housing tax abatement zone. I believe that it is an economic development tool that works. Moreover, I believe that it is a tool that can be readily used by small jurisdictions such as mine."

– Mike Swanson
City Manager,
City of Milwaukie

Vertical housing

Keep in mind. . .

"The VHP is superior to earlier tax abatement programs in two ways: it is streamlined and predictable. The streamlined process means that once the city has approved the program, it is not necessary to go through a permit process at the local level. The program is predictable in that developers know that if they propose a project that meets the definitions in the VHP ordinance, they receive the abatement."
– Janet Young, Economic Development Director, City of Gresham

Applicability: Cities and counties can set up a VHDZ as broad as a downtown area or as specific as a project site. In addition, there is no limit to the number of VHDZs a city or county may designate. This allows cities or counties to establish a VHDZ encompassing multiple sites in order to stimulate development in a specific area and minimize staff time processing the tax abatements or to establish site specific VHDZs for each project the city or county approves of in order to prevent giving unnecessary tax abatements and also to acquire additional community returns. Whether applied on a project-by-project basis or through a broader VHDZ, cities and counties can use this tool in numerous centers and corridors to increase density and mixed-use development. In addition, state statutes authorize local jurisdictions to acquire property located in a VHDZ for the purpose of developing vertical housing projects.

Manageability: This financial incentive demands minimal staff resources and expertise from the local jurisdiction and is relatively easy to use for both local jurisdictions and developers. Creating a VHDZ only requires a short, manageable application, and once a jurisdiction establishes a VHDZ it continues indefinitely. However, a jurisdiction can modify or discontinue its VHDZ at any time with a brief application to the state. This quick, non-restrictive program is easy to manage and also helps reduce unnecessary tax abatements.

Taxing districts: Municipalities and local taxing districts will not receive the total tax revenue generated on development improvements occurring within the VHDZ until the 10-year abatement period is over. This may be difficult for cities with limited resources. However, the tax abatement is limited to a portion of the tax revenue generated by qualifying improvements in the VHDZ. This minimizes the reduction in tax revenue to special taxing districts especially in comparison to other tax abatement programs. Often, the tax revenue generated to these taxing districts is higher than the revenue generated by the current use even with the Vertical Housing tax abatement in place.

Special taxing districts can opt out of the VHDZ while the city is establishing the zone or at any time after it is established. This could affect the amount of the tax abatement after it is approved for a project. This is of particular concern where special districts provide many municipal services. Thus far, local taxing districts affected by the Vertical Housing Program have participated in the local VHDZ recognizing the long-term benefits of increased development and overall revenue increases.

Community: The Vertical Housing Program does not replace or override any of the local building and planning regulations in the various jurisdictions, and thus it maintains design standards suitable for the local community. In addition, if a city or county chooses to apply the Vertical Housing Program on a site-by-site basis, it can apply the tax abatement to projects developing higher quality and sustainably designed projects.

Oregon statutes also allow cities and counties to acquire or dispose of real property located in the VHDZ for the purpose of developing vertical housing projects. The jurisdiction may sell this acquired property at real market value or, if it will prudently encourage the development of a vertical housing project, at a lesser value. This and the additional property tax abatement on the tax lot encourage the development of housing, including affordable housing units, and mixed-use development in various communities.

Success story

City of Gresham

The City of Gresham received approval for its Vertical Housing Development Zone from the state in March 2006. Gresham's VHDZ covers a large area of their regional center. In the past, the City of Gresham established a transit-oriented tax exemption program (TOTE) for a similar purpose of encouraging more mixed-use, dense development, particularly housing, in its center. However, that process included additional rules and required a public hearing process that left developers with uncertainty about receiving the abatement. Gresham determined that the VHP was a better tool for the city since public input occurs at the forefront, when the jurisdiction establishes the VHDZ and eliminates the public hearing process for each development project. Thus the City of Gresham conducted a public process to establish the VHDZ and public input led toward acceptance of the program. Now, when developers apply for the abatement, the state guarantees approval of the abatement to qualifying projects since the public process already approved the VHDZ.

The City of Gresham's experience with tax abatement financing resulted in more dense and attractive developments than were possible without the abatement. Thus, under the VHP, the city chose to establish a broad VHDZ in order to send a strong signal to the development community and attract mixed-use projects to this area. However, Gresham is also willing to consider other VHDZs on a case-by-case basis elsewhere in the city. Since adopting the VHDZ, the city of Gresham has received several inquiries from developers regarding the VHP and one developer planning to locate a project in the VHDZ submitted a project application to the state for the abatement.

Beranger Development Project, pending approval of the VHDZ abatement, City of Gresham

"Mixed-use development is extremely challenging and, coupled with high cost penalties due to its construction type and potential rents or sales not supporting pro forma gaps, it takes every tool available to reduce these gaps. Once understood, the Vertical Housing Program truly is a win/win tool for the jurisdiction, developer and taxing district. It facilitates the development of a project that has a much higher value than what would be developed otherwise, usually offsetting the abated taxes. When the abatement ends, a property with up to three to five times the market value of what would have otherwise been built, becomes fully taxable."

– Mike Rossman,
Peak Development, LLC,
Beranger Development
Project, City of Gresham

Vertical housing

Keep in mind. . .

Housing choices: The program provides abatements for both rental and for sale housing. If the project includes rental units, the developer directly receives the benefit of reduced costs over the first ten years of the project due to the partial tax abatement. When developing for sale housing, the tax abatement is passed on to the buyer who receives a partial property tax abatement over the first ten years. This reduction in costs to the buyer can help the developer secure quicker sale of the units. Alternatively, the developer could consider the reduction in monthly housing costs to the buyer in determining the sale price of the units and potentially capture some of the value of the tax exemption in the final sale price. Ultimately the local community benefits from additional rental and home ownership opportunities.

If a development project contains at least one equalized floor of low-income housing, the developer also receives a partial property tax exemption on the land value. The developer must identify in the application whether the project contains affordable housing units for persons or families with 80 percent or less of the area median income and continue to meet that requirement for the entire period for which the vertical housing project is certified. In the region, 80 percent household median income is approximately $38,000 in annual income for a single person, which equates to $850 per month in housing costs. This feature of the tool is particularly effective at achieving mixed-income housing developments, and when used in conjunction with other incentives and funding resources, it has the ability to improve the feasibility of projects comprising entirely affordable units.

Success story

City of Beaverton

The City of Beaverton assessed the local applicability of the Vertical Housing Program. It decided not to establish a VHDZ, but rather to use the program as a strategic tool on a case-by-case basis. The city prefers to maintain control of the certification process for projects the city supports and that have a distinct reason for the tax abatement. This allows the City of Beaverton to assure the abatement is only given when needed to finance the project or when a public benefit is provided by the project (e.g. plaza, route to transit, park, etc.). It also allows the City of Beaverton to place additional requirements on the development project in exchange for the tax abatement. By using this approach with the VHP, the City of Beaverton implements this investment tool through a development agreement for the project and then applies for a VHDZ for the project site.

Putting it together

The Vertical Housing Program is a financial incentive that can stimulate desired investments in centers and along corridors region wide. The program is particularly useful when targeted to specific areas where the local housing market is relatively flat or in local housing markets that are on the cusp of achieving sufficient rents or sale prices to support unsubsidized multi-story mixed-use development. However, the Vertical Housing Program contains the flexibility to allow each locale within the region to designate VHDZs in an approach appropriate to reaching its own community's goals.

Cities with more resources, a strong development interest, or higher land values may choose to apply the program on a project-by-project basis in order to limit tax abatements to only those projects that need it, provide additional community benefits, or make maximum density and preferred facilities (e.g. affordable housing or a parking structure) feasible. The Vertical Housing Program also provides cities or counties that have limited resources an opportunity to attract investments. Each city or county in the region has the ability to apply the Vertical Housing Program in a way that is most suitable for that area in order to focus density and increase investment in its centers and corridors.

Tips for implementing the Vertical Housing Program at the local level:

- Analyze the housing market and community environment in the city or county and choose the most applicable approach to meet the local community's needs.
- Calculate the local jurisdiction's threshold for the tax abatement before establishing a VHDZ.
- Work with special taxing districts when considering applying for a VHDZ.
- Consider the goals in the city or county when pursuing a VHDZ and the option of applying additional local requirements to achieve these goals by using the program on a site-by-site basis.
- Set a future date to analyze the results of using the program and reconsider the local jurisdiction's need for using the program and the appropriate approach.

City staff were involved in drafting the legislation that created the VHP, and the city supports it in concept. However, the lack of local control of approval of a property tax abatement for a project after a VHDZ is established has led the city to the position that we will only apply for a VHDZ for a project site after we are certain the project would benefit the citizens of Beaverton.

– Hal Bergsma,
Principal Planner,
Community Development Department,
City of Beaverton

Resources

For additional information on Oregon's Vertical Housing Program, including application materials, visit:

Oregon Housing and Community Services (OHCS)
725 Summer St. NE, Suite B
Salem, OR 97301-1266
(503) 986-2000
http://www.ohcs.oregon.gov/OHCS/HFS_VerticalHousingProgram.shtml

OHCS Metro Regional Advisor's Office
123 NE 3rd St., Suite 470
Portland, OR 97232
(503) 963-2289
http://www.ohcs.oregon.gov/OHCS/DO-RegionalAdvisors.shtml

For more information on the use of the Vertical Housing Program in the region, contact:

City of Gresham
Community and Economic Development
1333 NW Eastman Parkway
Gresham, OR 97030
(503) 661-3000
http://www.ci.gresham.or.us/departments/cedd/

City of Milwaukie
Community Development
City of Milwaukie Johnson Creek Facility
6101 SE Johnson Creek Blvd.
Milwaukie, OR 97206
(503) 786-7600
http://www.cityofmilwaukie.org/departments/cdadmin/cdadmin.html

City of Beaverton
Community Development
PO Box 4755
4755 SW Griffith Drive
Beaverton, OR 97076
(503) 526-2494
http://www.beavertonoregon.gov/departments/CDD/

For more specific details on the statutory guidelines of the VHP, see Oregon Administrative Rules (OAR) Chapter 803, Division 013 at:
http://arcweb.sos.state.or.us/rules/OARS_800/OAR_813/813_250.html

The Crossings,
TOTE recipient,
City of Gresham

Toolkit

Financial incentives

Transit-Oriented Development Tax Exemption (TOTE)

The Transit-Oriented Development Tax Exemption encourages the construction of transit-supportive, multiple-unit housing in urban centers in order to improve the balance between the residential and commercial nature of those areas. It seeks to ensure full-time use of urban centers as places where citizens of the community have an opportunity to live as well as work. Local jurisdictions design the local application of the TOTE to encourage dense, mixed-use projects in transit-oriented areas by reducing operating costs through a property tax exemption on the improvements. With immediate relief from a significant increase in taxes, projects become feasible and developers can invest additional funds in these developments.

The nuts and bolts

The TOTE provides the region with a strong financial tool for spurring density, housing and mixed-use development to help achieve the growth envisioned for our 2040 centers and corridors. Developers, citizens, local jurisdictions, and the region benefit from local TOTE programs, which is apparent when analyzing the applicability and manageability of the program as well as its financial and community-based outcomes.

State law enables cities and counties to establish and design programs to attract new development of multiple-unit housing, and commercial and retail property, in areas located within a light rail station area, transit oriented area or downtown (city core) area by means of a local property tax exemption. According to state statutes, the local programs shall emphasize the following:

- the development of vacant or underutilized sites in light rail station areas, transit oriented areas or core areas, rather than sites where sound or rehabilitable multiple-unit housing exists
- the development of multiple-unit housing, with or without parking, in structures that may include ground level commercial space
- the development of multiple-unit housing, with or without parking, on sites with existing single-story commercial structures
- the development of multiple-unit housing, with or without parking, on existing surface parking lots
- the preservation, construction, addition or conversion of units at rental rates or sale prices accessible to a broad range of the general public.

How to use it: To use the Transit-Oriented Development Tax Exemption, cities and counties need to adopt, by resolution or ordinance through a public process, the provisions of ORS 307.600 to 307.637. Then, the city or county shall designate an area within which it proposes to allow exemptions through its TOTE program, which the city or county may amend at a later date. In addition, a city or county with a population of over 300,000 may apply the TOTE within a designated urban renewal or redevelopment area. A city may designate core areas, light rail station areas, or transit-oriented areas whereas a county may designate areas as light rail station areas or transit-oriented areas but may not designate core areas. A county's use of the tool is not limited to its unincorporated areas.

- **Light rail station area** means an area defined in regional or local transportation plans to be within one-half mile radius of an existing or planned light rail station.
- **Transit-oriented area** means an area defined in regional or local transportation plans to be within one-quarter mile of a fixed route transit service.

Once the jurisdiction establishes a TOTE area, cities or counties shall develop an application form as well as standards and guidelines to consider applications and make determinations about applying the TOTE. Applicants must apply on or before Feb. 1 the year prior to which the applicant is requesting the exemption. The city or county may permit the applicant to revise an application prior to making a final decision.

The local jurisdiction has 180 days to approve or deny an application for the TOTE. Before approving use of the TOTE for a project, a city or county must hold a public hearing in order to determine whether the project meets the qualifications. In addition, to receive the TOTE, a project needs the approval from local taxing districts represent-

Success story

City of Gresham

In the past, the City of Gresham has used the transit-oriented tax abatement. The projects receiving the TOTE resulted in significantly more dense and attractive projects than would have been possible without the exemption.

Receiving the tax abatement motivated the developers and helped make the projects feasible. The program proved successful in the City of Gresham resulting in more dense, attractive development projects near transit such as Central Point and Gresham Central Apartments. Each project required a public hearing process to decide whether or not the developer would receive the tax exemption. This was a lengthy process due to political considerations in the City of Gresham.

Despite these complications, the city recognized the importance of the exemption and continued to use the program until the state implemented the Vertical Housing Program. The City of Gresham saw this new program as a means to encourage similar development patterns while minimizing the review process experienced in Gresham with the locally controlled TOTE program.

Central Point (top, left), Landmark at 8th (top, right) and The Crossings all received the TOTE, City of Gresham

The nuts and bolts

ing 51 percent or more of the total combined rate of taxation levied on the property. Final action upon an application by the city or county shall be in the form of an ordinance or resolution approving or denying the application and the jurisdiction must provide to the applicant, in writing, the reasons for a denial.

Qualifying projects: In order for a local jurisdiction to approve a project for the TOTE, the project must meet the definition of a multiple-unit housing project:

- involves the production, rehabilitation, establishment or preservation of housing affordable to those with a defined level of household income in an agreement between a public agency and the property owner OR
- develops new structures, stories or other additions to existing structures as well as structures converted in whole or in part from another use to dwelling units.

It also needs to meet the following criteria:

- includes the minimum number of dwelling units as specified by the local jurisdiction
- excludes transient accommodations, including hotels and motels
- integrates design elements benefiting the general public as specified by the local jurisdiction, such as open spaces, parks, child care facilities, and pedestrian design elements
- conforms with all local plans and planning regulations applicable at the time the TOTE application is approved
- meets the local jurisdiction's basic requirements for a TOTE application
- relates physically or functionally to and enhances the effectiveness of the light rail line or mass transportation system if located in a light rail station or transit oriented area.

Tax exemption: If approved, the property receives a 100 percent tax exemption on the "improvement" value for all residential areas. The exemption may also include the parking constructed as part of the multiple-unit housing construction, addition, or conversion. In the case of a converted structure or additions to a structure, only the increase in value attributable to the addition or conversion is tax exempt. The tax exemption applies only to the taxes levied in that jurisdiction and of those taxing districts that agree to participate. The exemption can last for no more than 10 successive years. Local jurisdictions may terminate an approved Transit-Oriented Tax Exemption for failure to complete construction or comply with Oregon statute or local TOTE program provisions.

Existing use of the tool in the region: Since the state authorized local jurisdictions to establish abatement programs for transit-oriented development projects, numerous projects have received the TOTE. Currently in the region, only the City of Portland has an active transit-oriented development abatement program. In the past, the City of Gresham used the TOTE and approved several projects to receive the exemption.

Success story

City of Portland

The City of Portland created its Transit Oriented Development (TOD) tax abatement in 1996 to provide the TOTE to high density housing and mixed-use projects located on vacant or underutilized sites along transit corridors whose design and features encourage building occupants to use public transit. The PDC manages the TOD abatement program and sets the requirements and guidelines for projects eligible to receive the TOTE. The cost to apply in Portland is $5,000.

Project sponsors must first demonstrate that the property tax exemption is necessary to make the project financially feasible. The project must also contain ten or more dwelling units. The project design must provide for a continuous pedestrian connection to a light rail station or mass transit system, include one or more of several specific design features, and must provide one or more public benefits.

The Bookmark Apartments, in the Hollywood Town Center, is a mixed-use development with a ground floor library branch that received the TOTE through Portland's TOD abatement program. Other projects made feasible through Portland's program are Russellville Commons Townhouse Apartments at Southeast 102nd Avenue and Pine Street in a light rail station community on the abandoned Russellville School site; Gateway Towers in the Gateway Regional Center and the Cooper Street Town Homes in the Lents Town Center.

Ten years after implementing the program, Portland is still committed to providing tax abatements to multiple-unit housing projects in TOD areas. In 2006, the city renewed the TOD abatement program with revisions in order to increase the effectiveness of the program. With additional financial and staffing resources in the City of Portland, the advantages of a locally designed program outweigh complications experienced similar to those in Gresham.

The Bookmark Apartments in Hollywood Town Center, City of Portland

"The TOD Tax Abatement program has been an invaluable tool in our condominium developments in the Gateway area of northeast Portland. Nearly 93 percent of all purchasers have qualified for the tax abatement, and it is safe to say that nearly all of them would have been unable to qualify for their loans had they not had the advantage of the lower payment this afforded them. The TOD Tax Abatement program has increased our absorption rate and reduced our marketing costs, which has allowed us to keep our unit prices extremely affordable. The result in Gateway is 138 homeowners who would most likely still be renting if it were not for this program."

– Gordon C. Jones,
Real Estate Developer

Keep in mind. . .

Local programs: The Transit-Oriented Tax Exemption, similar to the Vertical Housing Program, provides local tax abatement for dense, mixed-use housing. However, with the TOTE program the jurisdiction has more control, because it establishes its own program and guidelines and approves the abatement locally. This enables a jurisdiction to tailor the program to the local needs. A jurisdiction may require an applicant to demonstrate the abatement is necessary to achieve economic feasibility for the project and may also leverage or require the project to develop other public benefits.

On the other hand, local control does require sufficient staff resources to develop and administer a local program. Taking advantage of the TOTE takes a significant amount of staff time to understand the state TOTE guidelines and then to create the local program and review abatement applications. The jurisdiction can offset the financial costs by setting an application fee with the assistance of the county assessor in an amount sufficient to cover the cost incurred by the local government in administering the program.

Even after setting up the program, the review requires a public hearing process which adds an additional time commitment for both the jurisdiction and the developer. This process carries a financial risk for the developer by slowing down the development process and presenting uncertainty as to whether or not the applicant will receive the abatement. The jurisdiction may also incorporate a pre-application meeting into the application process in order to reduce the risk to developers by providing information up front on how to prepare successful applications.

Community: This tax exemption encourages the development of housing and mixed-use development in centers and corridors. Since the state gives programmatic control to the local jurisdiction, the city or county can also leverage public benefits for the needs of the local community such as affordable housing, open space, ground floor service or commercial use, family-oriented recreational facilities, sustainable designs, or transit amenities. In addition, this program does not replace or override any of the local building and planning regulations in the various jurisdictions, and thus it maintains design standards suitable for the local community. There is no limit to the number of TOTE areas a jurisdiction may designate. Therefore, a program can be tailored to the specific needs of a variety of locations.

Housing choices: The state enacted legislation to provide the TOTE in order to promote the development of multiple-unit housing in core areas and transit areas. The program provides the tax exemption for both rental and for sale housing. This provides the local community with additional rental and home ownership opportunities, particularly in central areas with access to public transportation and services.

If the project includes rental units, the developer directly receives the benefit of reduced costs over the abatement period (maximum of 10 years) of the project. When developing for-sale housing, the tax abatement is passed on to the buyer who receives the tax abatement for up to ten years or longer if it is an affordable housing unit. Combined with the access to transit, which results in a potential reduction in personal transportation costs, the reduction in purchase price can help the developer secure quicker sale of the units. Alternatively, the developer could consider the reduction in monthly housing costs to the buyer in determining the sale price of the units and potentially capture some of the value of the tax exemption in the final sale price.

The TOTE program encourages the preservation and creation of housing that is affordable to all segments of the population through the use of the 100 percent tax exemption for these types of properties in a TOTE area. Furthermore, a city or county may designate the entire city or county as a TOTE area in order to allow this tax exemption for affordable housing under an agreement between the public agency and the property owner. Likewise, the city or county may extend the duration of the TOTE for this type of affordable housing as long as it remains low-income housing under the agreement. This encourages a long-term supply of affordable housing units. If utilizing a TOTE for this type of housing, state statute requires the applicant to demonstrate that the TOTE is necessary to preserve or establish the low-income units. In addition, a local jurisdiction may establish its own housing affordability guidelines such as requiring qualifying projects to include a specific percentage of affordable housing units for different household median income ranges.

Fiscal impacts: The exemption provides 100 percent property abatement on the improvement value for the residential areas of a project rather than a partial abatement. In addition, if taxing jurisdictions representing 51 percent or more of the assessed value in the county approve the project for abatement, then the entire abatement is still received. This is more attractive to developers than a partial abatement program such as Oregon's Vertical Housing Program, which reduces the abatement a developer receives based on local taxing authorities that decide to opt out. Conversely, projects requesting the TOTE may receive additional opposition from local taxing districts, because of an increase in the loss of revenue they will experience.

Although local taxing districts will not gain tax revenue on project improvements during the temporary abatement, they will experience a significant increase in tax revenue after the expiration of the abatement. In most cases that increase in tax revenue would not have occurred without the project. If the TOTE secures the project, then the temporary exemption provides an integral role in increasing the livability and financial well being of an area. In addition, since the state gives programmatic control to the local jurisdiction, the city or county may require an applicant to demonstrate that the abatement is necessary for the project to achieve economic feasibility. This ensures local jurisdictions and taxing districts do not lose needed tax income due to giving unnecessary abatements.

In cities or counties that require transit supportive features, such as Portland, these features can raise the construction cost of a project significantly. Thus, in cities or neighborhoods not located in a strong housing market, affordable housing may not be an appropriate requirement or public benefit need whereas increasing density may be the primary goal and program requirement in order to promote investment in transit as a growth management strategy in keeping with the 2040 Growth Concept.

Additional TOTE projects include the Cooper Street Town Homes (top), Lents Town Center; Gateway Towers (center), Gateway Regional Center; and Russellville, City of Portland (bottom)

TOTE

Putting it together

One strategy for achieving the goals of the 2040 Growth Concept is to direct development to regional and town centers and along corridors in order to create higher-density areas that combine housing, employment, retail, and cultural and recreational activities in a walkable environment that is well-served by transit. The locally implemented TOTE program encourages this type of development, and both the City of Gresham and the City of Portland have experienced these results through successful use of the TOTE program. Additional centers and corridors can benefit from using the TOTE to encourage local investment and achieve development patterns that support the 2040 Growth Concept.

Tips for implementing the TOTE at the local level:

- Consider implementing a program in your jurisdiction to provide a TOTE to qualifying projects along main streets, frequent bus corridors, in light rail station areas, and along future light rail corridors.
- Carefully consider and seek advice on what guidelines and steps in the local application process to include in the local program.
- Assess what requirements and optional benefits the community needs and the local market can implement in determining the guidelines of the program.
- Consider providing developers with a choice of which public benefit(s) to incorporate into the project in order to provide flexibility to the developer and to meet the needs at a specific project location.

TOTE

Resources

For more specific details on the TOTE guidelines, see:

ORS Chapter
307.600 – 307.637
http://www.leg.state.or.us/ors/307.html

For additional information or clarification about the Portland TOD abatement programs, contact:

Portland City Code
Chapter 3.103
Portland Development Commission
(503) 823-3269
http://www.pdc.us/housing_serv/hsg_development/todguide.asp

For information on Gresham's past experiences, contact:

City of Gresham
Community and Economic Development Department
1333 NW Eastman Parkway
Gresham, OR 97030-3825
(503) 618-2504

The Oregon Convention Center was built on an old brownfield site, City of Portland

Toolkit

Financial incentives

Brownfields Assessment and Cleanup Funds

Properties with unknown environmental conditions deter communities, developers, and investors from developing these sites due to cleanup complications and added costs, leaving communities with unused and underutilized properties. The region's centers, corridors and employment areas contain such "brownfield" sites. Through brownfields assessment and cleanup funds from the state and the Environmental Protection Agency (EPA), cities, counties and property owners can identify and clean up brownfield sites, leading to their redevelopment. Recycling brownfields within the urban growth boundary helps reduce sprawl and implement the 2040 vision.

Keep in mind. . .

"A brownfield site is real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant."[2] In 1994, the EPA created the Brownfields Program to address the nation's 600,000 abandoned or underused properties due to suspicion of contamination. The program took a locally based approach to implement solutions and ensure benefits from the revitalization efforts remained in local neighborhoods. In 2002, the program expanded to incorporate technical assistance for a range of non-Federal brownfields stakeholders.

The U.S. EPA's Brownfields Program focuses on four basic principles: protecting the environment, partnering for success, stimulating the marketplace, and promoting sustainable reuse. The program empowers local brownfields programs primarily by providing grants for environmental assessment, cleanup, and job training activities. Brownfields programs and funds provide the region with a strong financial tool for spurring the redevelopment of underutilized lands for housing, mixed-use, and job creation opportunities in order to help achieve the growth envisioned for our centers, corridors, and employment areas. Developers, citizens, local governments, and the region benefit from recycling brownfields, which is apparent when analyzing the financial and community-based impacts of the program.

How to use it: The EPA Brownfields Program now provides funding for revolving loan fund grants, cleanup grants, and assessment grants of which the first two require a 20 percent cost share.

- **Revolving Loan Fund grants:** for coalitions to provide no- or low-interest grants from a revolving loan fund to carry out cleanup activities at brownfield sites
- **Cleanup grants:** for cleanup activities at a specific brownfield site
- **Assessment grants:** for site-specific or community-wide proposals that inventory, characterize, assess, and conduct cleanup and redevelopment planning and community involvement related to brownfield sites

Eligible applicants in the Metro region that may apply for these grant programs include: a unit of local government, quasi-governmental entity that operates as an agent of the local government, a government entity created by a state legislature, or a regional council or group of general purpose units of local government, a redevelopment agency, the state or an Indian Tribe. In addition, nonprofit organizations[3] may apply for site-specific cleanup grants. Also, a coalition of a group of two or more eligible entities may submit one revolving loan fund grant proposal under the name of the coalition. Finally, to receive a cleanup grant, the applicant must be the sole owner of the property that is the subject of its cleanup grant proposal.

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2. "Brownfields 2006 Grant Fact Sheet: Metro, Portland, OR." U.S. Environmental Protection Agency. May 2006.

3. "Nonprofit organization" means any corporation, trust, association, cooperative, or other organization that is operated mainly for scientific, education, service, charitable, or similar purpose in the public interest; is not organized primarily for profit; and uses net proceeds to maintain, improve, or expand the operation of the organization. Definition from Section 4(6) of the Federal Financial Assistance Management Improvement Act of 1999, Public Law 106-107, 31 USC 6101, Note.

Success story

City of Portland

Since 1996, the City of Portland has worked with businesses and communities to foster the restoration and reuse of contaminated land and promote revitalization of neighborhoods in Portland. Through public and private partnerships, the city has cleaned up and recycled hundreds of acres of contaminated property and created thousands of jobs, while promoting brownfields redevelopment, pollution prevention, and greenspace protection.

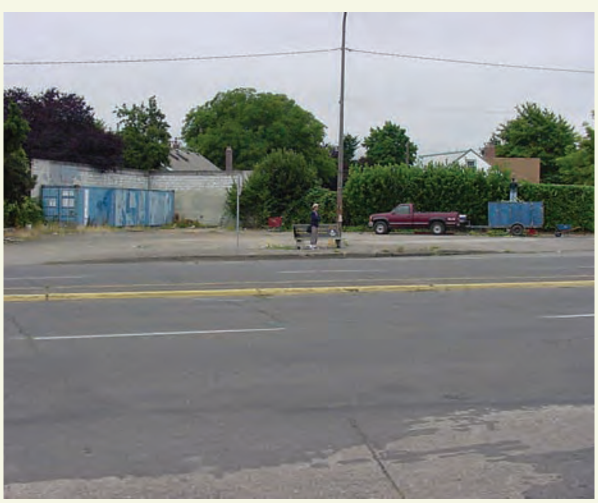
In 1998, Portland received national recognition as one of sixteen Brownfield Showcase Communities located throughout the United States. Today, the Portland Brownfield Program continues to restore properties and revitalize the city's neighborhoods by providing Environmental Site Assessments (ESAs) and technical assistance on properties throughout Portland.

The Portland Brownfield Program assisted in the redevelopment of a site at North Interstate Avenue and North Skidmore Street. Formerly a gas station, this site remained a vacant lot prior to redevelopment. The Environmental Site Assessment identified petroleum contamination that led to cleanup efforts, which isolated the contamination.

Redevelopment of the site resulted in a new building which now houses a coffee shop, dance studios, office and workshop space. The developer utilized sustainable building practices and products during waste disposal and construction. The City of Portland recognizes redevelopments such as this as an important component of continuing to revitalize the community along the North Interstate corridor.

"Successful brownfield redevelopment achieves environmental, economic and social goals all in one project. For example, the Arciform project took a blighted property, cleaned it up and integrated green building in a manner that supported small business. Brownfield projects also have risks, but public programs such as those at the City of Portland and Metro help to answer the unknowns and make formerly unthinkable projects feasible again."

– Clark Henry,
Portland Brownfield Program,
City of Portland



Photographs of the site at North Interstate Avenue and North Skidmore Street before (left) and after (right), City of Portland

The nuts and bolts

Currently, the EPA reviews all applications on a yearly basis with grant applications generally due the December prior to the year for which an entity is requesting funds. When reviewing the applications and issuing the different grants, the EPA considers the following factors: community need, impact on human health and the environment, site eligibility or selection process, effective use of existing infrastructure, community involvement, leveraging of other funds, eligibility for funding from other sources, and the ability to manage grants.

Brownfields Law excludes the following three types of properties from funding eligibility:

- facilities listed (or proposed for listing) on the National Priorities List
- facilities subject to unilateral administrative orders, court orders, administrative orders on consent or judicial consent decrees issues to or entered into by parties under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly known as Superfund
- facilities that are subject to the jurisdiction, custody or control, of the U.S. government.

In addition, no part of a grant or loan from EPA may be used to pay costs at a brownfield site for which the recipient of the grant or loan is potentially liable. Potentially liable parties consists of current owners and operators of a facility, owners and operators of a facility at the time of disposal of a hazardous substance, parties that arranged for the treatment or disposal of hazardous substances, and parties that accepted hazardous substances for transport to disposal or treatment facilities.

The South Waterfront Redevelopment project began with major environmental challenges and now is quickly developing into a dense, mixed-use neighborhood with residential units, public services, riverfront amenities, a section of the Willamette Greenway and public transit connections. City of Portland

Success story

Metro

Through a grant awarded by the U.S. Environmental Protection Agency (EPA), Metro has developed a Brownfields Recycling Program to provide technical and financial assistance to local jurisdictions, landowners and other stakeholders. In collaboration with local jurisdictions and regional experts, Metro will research and select properties for Environmental Site Assessments.

Site selection will focus on properties that are located in communities where a significant portion of the census tracts has a household income below the median income for the region or contain a higher percentage of minority populations than the regional average, are not currently served by other EPA brownfields programs, and have a high potential for positive economic, social, and environmental impacts. Findings from these assessments will aid in the development of plans to move sites toward cleanup and redevelopment.

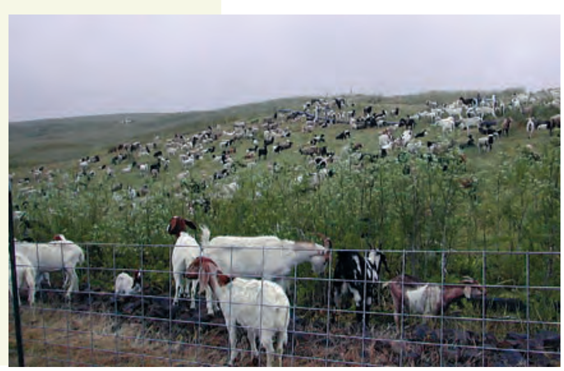
Metro can assist local governments working with property owners and developers in their communities to overcome redevelopment obstacles by providing assistance in the investigation of potentially contaminated properties, identifying and securing funding in the form of grants and loans, and accessing technical resources needed for site cleanup and redevelopment. Metro will also conduct informational meetings and technical workshops with property owners, developers, local jurisdictions, regulators, and environmental experts.

In providing assistance, Metro will draw on its experience with the acquisition of more than 8,000 acres of land for natural areas as well as the 240-acre St. Johns Landfill, the region's primary waste disposal site for 50 years until it closed in 1991. Metro took over operations from the City of Portland in 1980 and assumed ownership in 1990. Since then, Metro has implemented a restoration program designed to convert the site from a liability to a community asset within the Metro-managed Smith and Bybee Wetlands Natural Area. The program includes environmental protection and monitoring systems, habitat development using native plants, streambank repair, and planning for trails that will connect the site to the St. Johns neighborhood. Currently, Metro is also conducting a detailed site investigation to identify and remediate any remaining risks not controlled by the existing program.

"Through this program, the region has an extraordinary opportunity to identify the most contaminated sites and promote their restoration as community assets. Brownfield cleanup provides significant opportunities to create jobs in the region by developing industrial and mixed-use centers, as well as affordable housing, parks or open spaces."

– David Bragdon, Metro Council President

St John's landfill before and after (far right) cleanup and redevelopment by Metro, City of Portland



The nuts and bolts

However, certain liability protections also exist to protect owners and prospective purchasers of contaminated properties who are not responsible for the contamination (and not affiliated with a responsible party) and comply with certain specific conditions provided in federal statute CERCLA §107. In addition, the Brownfields Law clarified the innocent landowner defense and established liability protections for contiguous property owners and bona fide prospective purchasers of contaminated land.

Despite these recent improvements, the federal liability protections remain quite limited. In Oregon, the Prospective Purchaser's Agreement (PPA) offers additional support to prospective purchasers of contaminated land. The PPA is a legally binding agreement with Oregon's Department of Environmental Quality (DEQ), which defines and limits the buyer's potential liability to DEQ for environmental cleanup of the property. In return for this liability release, the purchaser must provide the state with a substantial public benefit such as commitment to perform substantial cleanup or productive reuse of a vacant facility.

Both federal and state programs, despite their limitations, can be integral to the acquisition, cleanup, and redevelopment of contaminated property. A PPA reduces the potential risk for both buyers and investors making redevelopment possible. Likewise, property owners or prospective purchasers of a contaminated site that qualify for one of the federal liability protections also become eligible for funding, which can bridge a financing gap for a brownfield redevelopment project.

In order to qualify for any of these programs, landowners must comply with certain obligations to take "appropriate care" after purchasing a property, and a prospective landowner must conduct "all appropriate inquiries" prior to purchasing a property.

- **Appropriate care** includes cooperating and not impeding with cleanup, site access, site information requests, and legal notice requirements; stopping any continuing releases, preventing future releases, and preventing or limiting human and environmental exposure to releases; and complying with land use controls.
- **All appropriate inquiries** is the federally mandated process of evaluating a property's environmental conditions and assessing potential liability for any contamination. These must be conducted or updated within one year prior to the date of acquisition of a property by an environmental professional.

Existing use of the tool in the region: Currently in the region, Gresham, Portland, Clackamas County and Metro have received EPA funds and established brownfields programs. Individual property owners have also applied for and received federal and state site-specific assessment and cleanup funds to redevelop and revitalize properties.

Success story

Clackamas County

Clackamas County received an EPA assessment grant in May 2002 and a second in September 2006. The county's primary objective is to stimulate the cleanup and redevelopment of brownfields in order to reuse the county's industrial land areas. The county's goal is to collaboratively redevelop strategic brownfield sites and to focus on economic diversification and revitalization that will help the county to create more jobs, increase property values, and reduce blight and health hazards for its citizens.

The county used its EPA funds to host brownfields forums, reach out to industrial property owners to assist them with brownfields issues, conduct environmental site assessments on certain properties, and develop a remediation plan with cleanup strategies and next steps for selected sites. Clackamas County provided in-depth technical assistance to forty property owners, completed twenty-seven Phase I ESAs, and conducted seven Phase II ESAs of which six received "no further action" letters from the Oregon Department of Environmental Quality. These sites are now an asset to the county and are ready for reuse or redevelopment.

Clackamas County found ten sites with redevelopment potential if cleanup efforts could be stimulated, six sites already in the clean up process, and four sites with property owners willing to cover cleanup costs or uninterested in addressing contamination issues in the near term due to the ongoing businesses located on those sites. After conducting these assessments, the county can now pursue grants for those sites ready for cleanup efforts and explore incentives for private sector brownfields redevelopment.

"The EPA Pilot Assessment program has been critical to Clackamas County's brownfield program and successful in spurring industrial property owners to understand and address contamination issues on their sites. Technical assistance and assessment funds are effective incentives for redevelopment. The ultimate goal of the program is economic development, increased assessed values, additional sites for traded sector industries and family wage jobs."

– Renate Mengelberg,
Clackamas County Business and Economic Development Services

Keep in mind. . .

Community: The redevelopment of brownfield sites provides economic, social and environmental benefits and reinvigorates communities through the facilitation of job growth, creation of affordable housing, parks and open spaces, elimination of health risks, and an increase in the community's tax base. The community benefits from reclaiming these properties from blight and recycling them into spaces that provide the community with an improved image, a sense of pride and an important neighborhood asset. Recycling these sites also utilizes existing infrastructure and removes development pressure from undeveloped, open land by focusing growth within the urban growth boundary.

However, designation of a brownfield without providing clear information about the site and a plan for mitigation can create a stigma for that property and the surrounding properties. Even though there is little requirement for formal community involvement in project planning, working with the community and property owners is essential to a successful brownfields program.

Financial: Federal and state programs provide liability assistance and funding to assess and clean up brownfield sites. This reduces the contamination risks and financial burdens to potential property owners and redevelopment projects. The federal program leveraged more than $6.5 billion in private and public funds for brownfields cleanup and redevelopment creating approximately 25,000 new jobs. However, the application for these funds is extremely competitive. Less than half of applicants receive funding, and besides the revolving loan fund, grants do not exceed $200,000 each. Federal funding also comes with Davis-Bacon wage requirements, which can increase project costs. In addition, certain communities struggle with the political will to address blighted properties and the lack of additional economic incentives needed for development.

Local programs: The federal Brownfields Program provides states with the authority to design and implement independent cleanup programs. This allows a state to focus resources and tailor their local programs to address their specific situations and concerns. As a result, Oregon could establish the Prospective Purchaser Agreement program to provide additional liability protections and develop a number of financial and technical assistance programs under the DEQ and Oregon Economic and Community Development Department to more successfully facilitate the redevelopment of local brownfield sites. Local jurisdictions and nonprofit organizations can also obtain federal EPA funds to set up locally tailored and targeted programs that can finance the assessment and clean up of brownfield sites. This offers another resource to property owners, prospective purchasers and local communities.

The Oregon Museum of Science and Industry resides on an old brownfield site cleaned by Portland General Electric and the Bureau of Environmental Services' Brownfield Program. City of Portland

Success story

Ava Roasteria in Beaverton

Ava Roasteria is a new coffee shop located in the City of Beaverton's town center on the site of an abandoned gasoline station. Several years ago, Oregon's Department of Environmental Quality identified the site as a brownfield needing immediate attention. The previous owners were unable to finance the cleanup. At the time, the state paid for the evaluation of the contamination and installed monitors due to conern regarding groundwater contamination.

Interested in developing the property, NEEK Engineering signed a prospective purchaser's agreement with the DEQ and worked with the previous property owners in order to purchase their interests in the site. The firm then secured a cleanup loan with the Oregon Economic and Community Development Department, which works with property owners and DEQ to move brownfield projects forward.

NEEK Engineering removed four underground storage tanks and the contaminated soil. The firm also worked with the community to identify a desired future use of the building and with the city to design an innovative project that also met local code. Neighboring properties, frustrated by the contaminated site for years, sent letters of gratitude and support for the redevelopment work. NEEK Engineering also enjoys the income generated by the increased land values associated with moving the property from an abandoned gas station to an operating community business.

Ava Roasteria, site of a previously abandoned gas station, City of Beaverton

4. Lent, Christina. Fresh Brew: Ava Roasteria perks up a former brownfield site in downtown Beaverton. The Beaverton Valley Times, September 28, 2006.

"It's been an exciting addition to the downtown core. It serves as an example of the kinds of projects urbanized areas can utilize. I hope we see more of this kind of revitalization."[4]

– Rob Pochert,
Economic Development
Program Manager,
City of Beaverton

Putting it together

Properties with unknown environmental conditions exist throughout the region. In keeping with 2040, the region should prioritize the recycling of brownfields in order to reduce sprawl to surrounding farmland, forestland and natural areas and to promote investments, job growth, affordable housing, parks, and the elimination of health risks. Local jurisdictions, property owners, and developers can all benefit from recycling brownfields and using local and federal funding programs when needed in order to assess, cleanup, and redevelop these sites.

Tips for implementing a brownfields program at the local level:

- Prioritize the identification and redevelopment of brownfield sites in centers, corridors, and employment areas.
- Apply for federal community-wide and/or site-specific assessment and/or cleanup funds from the EPA.
- Develop outreach materials to inform the community of the benefits and plans for local brownfields initiatives.
- Work with local property owners to educate them and facilitate the move toward assessment, cleanup and redevelopment.
- Facilitate the connection between property owners, regulators, investors and developers in order to ease concerns and brainstorm opportunities.
- Seek technical and financial assistance from state, regional, and local jurisdictions with brownfields program experience.

Resources

If you know of a property that may be contaminated or would like more information about the Metro Brownfields Recycling Program including upcoming informational meetings, technical workshops and other resources, **contact Metro's Planning Department at (503) 797-1839**

For more information about local programs, eligibility, and technical support, contact:

City of Portland
Bureau of Environmental Services, Portland, OR 97204
(503) 823-5863 • http://www.portlandonline.com/BES/index.cfm?c=dfaai

Clackamas County
Business & Economic Development
9101 SE Sunnybrook Blvd., Clackamas, OR 97015
(503) 353-4329 • http://www.co.clackamas.or.us/business/assist/toolbox.htm

City of Gresham
Community and Economic Development Department
1333 NW Eastman Parkway, Gresham, OR 97030
(503) 661-3000
http://www.ci.gresham.or.us/departments/cedd/bia/industrial/brownfields.asp

The State of Oregon's Brownfields Redevelopment Fund is a direct loan and grant program to assist municipal and non-municipal applicants with environmental actions linked to site redevelopment that facilitates economic development or community revitalization. http://www.econ.state.or.us/brownfields.htm

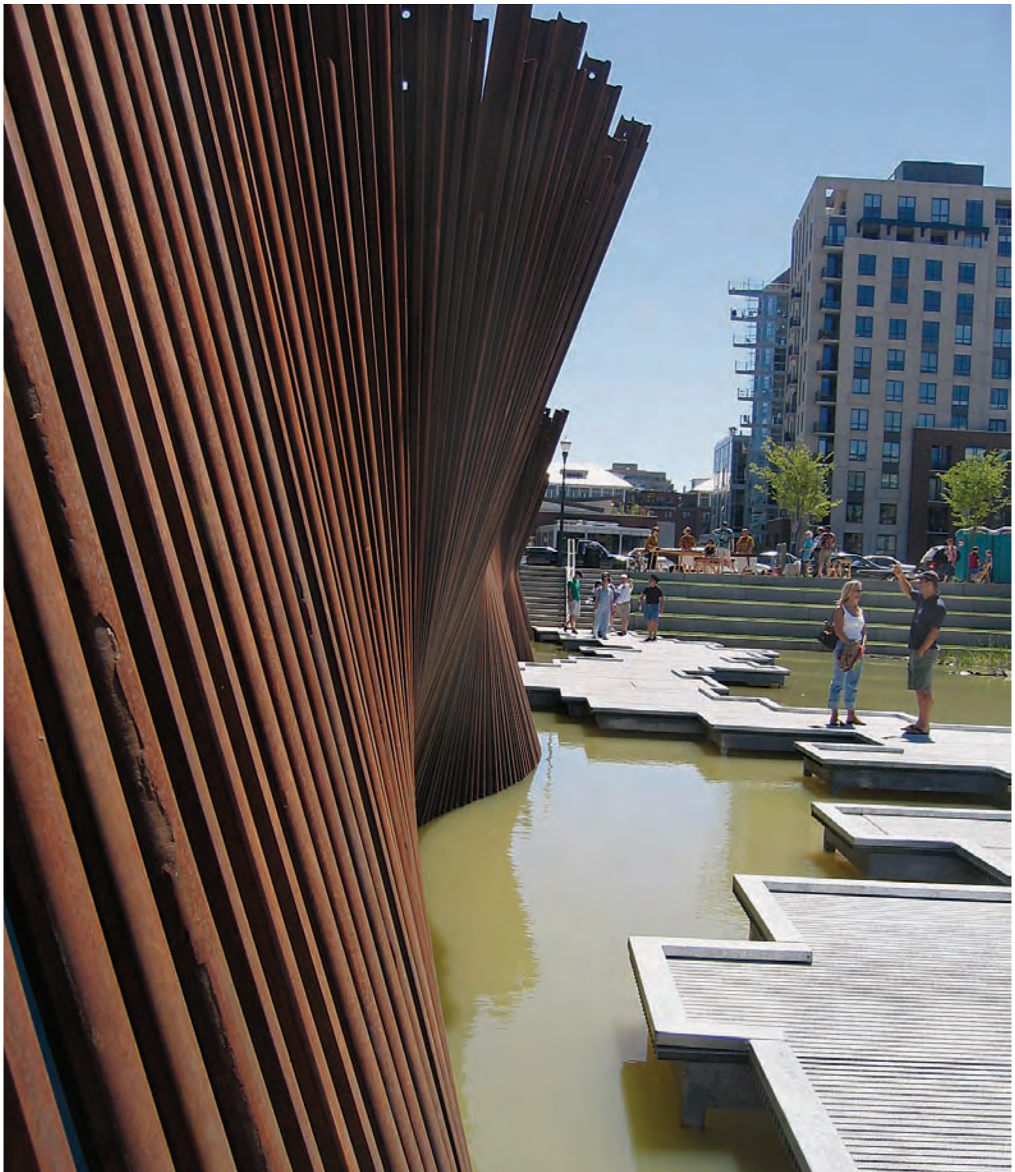
The Technical Outreach Services for Communities (TOSC) is a free program, housed at Oregon State University, that provides assistance to communities affected by environmental contamination. http://tosc.oregonstate.edu/

More information on EPA's Brownfields Cleanup and Redevelopment Program can be found online at http://www.epa.gov/brownfields

CERCLA §104(k) contains more detailed information on sites eligible for Brownfields funding. http://www.epa.gov/R5Brownfields/pdf/term_and_conditions_cleanup.pdf

Liability protection information for contiguous property owners and prospective purchasers can be found at http://www.epa.gov/compliance/resources/policies/cleanup/superfund/common-elem-guide.pdf

All appropriate inquiry information can be found at:
http://www.epa.gov/brownfields/regneg.htm
http://www.epa.gov/brownfields/aai/aai_final_factsheet.pdf



Tanner Springs Park in the Pearl District is part of the River District Urban Renewal Plan, City of Portland, Portland Development Commission

Toolkit

Financial incentives

Urban Renewal and Tax Increment Financing

In Oregon, urban renewal and its associated financial tool, tax increment financing (TIF), serve as a strong financial incentive to stimulate investment in targeted areas by borrowing against the projected increase in property values in those areas. Some of the region's centers, corridors, and employment areas suffer from a lack of investment due to a range of development risks that diminish confidence in investment returns, making them difficult to develop. Using TIF allows these areas to provide a substantial source of equity to make capital improvements and development projects financially viable while kick-starting private investments.

The nuts and bolts

Urban Renewal began as a federal program that offered municipalities federal loans and grants to redevelop communities and stimulate private investment in areas that otherwise would remain stagnant. In 1951, the Oregon Legislature enabled legislation for local urban renewal agencies. Voters approved a constitutional amendment in 1960, which authorized the use of tax increment financing to increase available local resources to match the federal urban renewal funds. In 1979, the Oregon legislature expanded the definition of "blighted" to make it relatively broad. This means central areas needing capacity improvements for their infrastructure as well as newly incorporated areas that are underdeveloped and lacking adequate infrastructure can both qualify as urban renewal areas.

Through TIF, the assessed value of real property within the defined area of investment is frozen and the authorized agency acquires capital by issuing bonds against the future projected increase in property taxes for that area. The bond proceeds are invested in improvements or projects within the area. Public and private investments in the designated area increase property values above the frozen assessment, and the tax revenue collected on the incremental property value is then used to service the bonded debt.

Urban renewal and the use of tax increment financing provide the region with a strong financial tool for spurring housing and mixed-use to help achieve the growth envisioned for our centers, corridors, and employment areas. Developers, citizens, local jurisdictions, and the region benefit from urban renewal, which is apparent when analyzing the applicability and financial impacts of the program as well as its effects on local communities in the region.

How to use it: Any municipality can benefit from tax increment financing if it establishes an urban renewal area, adopts an urban renewal plan, and manages these through an urban renewal agency consisting of the governing body or an independent organization. To be eligible:

- the urban renewal agency must complete an eligibility and feasibility study of an area
- an area must be defined by "blight," which consists of deteriorated buildings or lack of adequate infrastructure
- an urban renewal plan must contain goals and objectives, authorized projects, specific provisions for acquiring and disposing of land, expenditures, and a process for amending the plan
- projects must involve construction or improvement of streets, utilities, and other public uses; rehabilitation or conservation of existing buildings; acquisition and improvement of property; and/or resale or lease of property.

Oregon's statutes place limitations on the use of tax increment financing. This financial tool is limited to use within urban renewal areas. In addition, in municipalities with more than 50,000 people, according to the latest state census, the total land area of all the urban renewal areas using TIF in the municipality cannot exceed 15 percent of the total land area of that municipality, and the total assessed value for all the urban renewal areas using TIF in the municipality cannot exceed 15 percent of the total assessed value of that municipality (this excludes any increased assessed value for other urban renewal areas). For municipalities with less than 50,000 people, according to the

Success story

City of Sherwood

The City of Sherwood formed its Urban Renewal District on August 29, 2000 in order to rejuvenate the Old Town area. The goals and objectives of the Urban Renewal plan include promoting private development and performing arts; rehabilitating the existing buildings; and improving the streets, streetscapes, open spaces, local utilities, parking, and public facilities. In addition, the plan outlined an investment strategy for telecommunications infrastructure. This brought high speed Internet and free Wi-Fi hot spots into Old Town, which resulted in a business owner developing a multi-use building, relocating to Old Town, and increasing the tax rolls in the area. This represented the first building permit in Old Town in over forty years.

The City of Sherwood also worked with the school district in order to receive their support for the Urban Renewal area. Thus, the urban renewal plan included improvements for the local high school's playing fields and field house. Currently, the city has spent approximately $20 million of the $35 million generated through TIF on façade improvements, a civic building and library, street and utility improvements, high speed Internet hot spots, a multi-purpose facility for a field house and office space, a turf field for the high school, and the demolition and remediation of a blighted building in the city's Old Town.

New construction in Old Town sparked by the Urban Renewal Internet investment strategy, City of Sherwood

"The urban renewal process has been critical to Sherwood as we have revitalized our city's core. It has not only had a huge impact on our citizens, but, some of the projects made possible by urban renewal have had positive impacts on the region."

– Ross Schultz,
City Manager,
City of Sherwood

The nuts and bolts

latest state census, the total land area of all the urban renewal areas using TIF in the municipality cannot exceed 25 percent of the total land area of that municipality, and the total assessed value for all the urban renewal areas using TIF in the municipality cannot exceed 25 percent of the total assessed value of that municipality (this excludes any increased assessed value for other urban renewal areas).

Tax laws also place limitations on TIF. As a result of Measure 5 (1990), TIF is categorized as local government taxes subject to the $10 per $1,000 real market value tax limit. Measure 50 (1997) limits property taxes and results in 50 to 60 percent less revenue through TIF than under Measure 5. As a result, existing urban renewal plans were grandfathered and allowed to complete their projects without this limitation. Despite a decrease in revenue due to these tax measures, especially for new urban renewal areas, TIF remains a powerful financial tool for redevelopment projects.

Existing use of the tool in the region: In the Metro region, 10 of 25 cities and Clackamas County currently have urban renewal areas in place. In addition, three neighboring cities use urban renewal, and 11 of the 2040 centers are located or partially located within an urban renewal area. Urban renewal programs in the region have revitalized deteriorated communities, produced catalyst projects, and completed significant public improvements. The Portland Development Commission has received national recognition for its ability to provide extensive public improvements such as Tom McCall Waterfront Park, Pioneer Place, and Union Station. Despite the successful use of this tool, many jurisdictions within the region are not using urban renewal at all or to the capacity allowed by state law as shown in Table 1.

Table. 1. Use and capacity of urban renewal in the region[5]

Jurisdiction	Percent allowed in UR areas	Percent of total land in UR areas	Percent of assessed value in UR areas	Percent UR capacity used
Portland	15%	14.0%	9.4%	93.5%
Wilsonville	25%	22.1%	2.7%	88.5%
Sherwood	25%	19.2%	9.4%	77%
Gladstone	25%	18.1%	14.5%	72.4%
Gresham	15%	8.1%	7.4%	53.8%
Oregon City	25%	14.2%	2.7%	69.4%
Tualatin	25%	13.9%	.7%	55.5%
Unincorporated Clackamas Co.	15%	3.1%	.4%	20.8%
Tigard	25%	2.5%	not available	10.2%
Lake Oswego	25%	2.3%	1.0%	9.1%
Troutdale	25%	1.5%	not available	6.2%

5. The table shows the local jurisdictions in the region using urban renewal, the capacity (in percent) allowed by the state for that jurisdiction, the percentage of total land area designated within urban renewal areas for each jurisdiction, the total percent of the jurisdiction's assessed value that is within its urban renewal areas, and the remaining capacity for the use of urban renewal within the jurisdiction. The capacity used is measured by the percentage each jurisdiction is using of its total urban renewal capacity allowed in urban renewal areas.

Success story

Oregon City

The City of Oregon City established its urban renewal plan in 1983 and has two urban renewal districts: the Hilltop Urban Renewal District and the Downtown/North End Urban Renewal District. The plans' strategies focused on promoting activities, transportation, parks and open spaces, redevelopment assistance, civic improvements, infrastructure, property acquisition and planning and administration. The plan also established the maximum debt level for the urban renewal areas by estimating projects costs, the increment of increased value, and bonding and borrowing capacities.

Oregon City established the Hilltop District in 1989 and discontinued the area as an Urban Renewal district in 2005. The city estimated the net assessed value of the Hilltop District grew from $5 million to $65 million during this time period. A significant improvement in this district was the improvement and expansion of Beavercreek Road through TIF and funds from SDCs and Public Works.

The city established the Downtown/North End Urban Renewal District in 1990 in its 2040 Regional Center. Thus far, the city estimates the net assessed value of the Downtown/North End District grew from $50 million to $132 million with tax revenues increasing approximately $2.2 million. Objectives specific to this area include mitigating blighted conditions on an old landfill site, cultural and historical rehabilitation, and achieving 2040 Regional Center goals. The Seventh Street Corridor project provided a significant improvement to this district resulting in dozens of storefront improvements, additional restaurants, and a renewed interest in Oregon City. With matching funds from the Oregon Department of Transportation and the Metropolitan Transportation Improvement Program, the district's next major project encompasses significant improvements to McLoughlin Boulevard and the Riverfront.

"Urban renewal districts provide a creative way for cities to invest in their future by using long term public funding to leverage private investment for projects that can transform a community to a more livable place. These projects often include downtown redevelopment, affordable housing, infrastructure improvements and economic development."

– Dan Drentlaw,
Community Development Director,
City of Oregon City

Transportation improvements and historic rehabilitation completed in Oregon City's Urban Renewal districts, City of Oregon City

The nuts and bolts

The map on page 47 shows regional capacity for urban renewal by land area. It depicts what percentage each jurisdiction is using of its total urban renewal capacity by land area. The jurisdictions represented in white use zero percent of their capacity, as they do not have urban renewal areas, and therefore have 100 percent of their capacity available, whereas the jurisdictions with the darkest shade are close to meeting their urban renewal capacity allowed by state law.

The city and county capacity by assessed value is not depicted on the map. According to state law, the use of urban renewal cannot exceed the same percentage in either land area or assessed value within a jurisdiction. In the Metro region, the percent of total land area in urban renewal areas exceeds the percent of total assessed value in urban renewal areas for every jurisdiction in the region as shown above in Table 1. Thus, at this time, the capacity for urban renewal for each jurisdiction is measured by the difference between the total land area currently in urban renewal areas and the percent allowed by state law for each jurisdiction.

Keep in mind. . .

Fiscal impacts: By establishing an urban renewal area, local jurisdictions can use tools such as low-interest loans and selling land at “fair reuse value” in order to lower redevelopment costs and stimulate activity in disinvested urban and non-urban areas. Tax increment financing provides an immediate funding source, which can leverage additional sources of revenue and private sector partnerships in order to complete important or more extensive public improvement projects. However, some communities lack the economy to gain enough of an increment to finance any consequential redevelopment. Alternatively, unnecessary subsidies for the private sector could occur if too much land is included in an urban renewal area or if the market is nearly ready to invest in that area.

Taxing districts: Local taxing districts, such as schools and fire departments, do not gain revenue from the increase in tax value for the properties located in an Urban Renewal area until the program expires even though the urban renewal improvements often add new customers that the local districts need to serve. Therefore, these taxing districts sometimes oppose urban renewal in their communities. Jurisdictions in this region have resolved this opposition by including projects for the taxing districts in the urban renewal plan. Another local solution, used by the City of Wilsonville, is to periodically modify the urban renewal area boundaries to return properties back to the tax rolls at their total assessed value, and thus, provide the taxing districts with additional tax revenue before the completion of the urban renewal plan.

Local experts and practitioners have discussed other approaches that would require modifications of the existing law. One solution would allow certain taxing entities to opt out in order to get the urban renewal area approved. Another would limit the tax increment to the improvements only, which would allow the taxing entities to capture revenues from the increased land value. Taxing entities could also collect the share of the

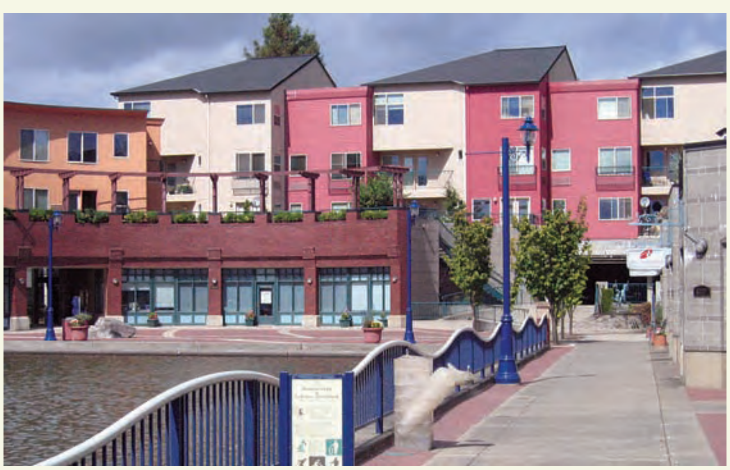
Success story

City of Tualatin

The City of Tualatin established its first Urban Renewal area in 1975 with the adoption of the Central Urban Renewal Plan. Initially, the city adopted urban renewal to alleviate blighted conditions in the city's core caused by a manufacturing industry within the commercial district. Over the years, the city expanded the original Central Urban Renewal area and attempted to develop a Village Square during the late 1980's. The city turned to community members for input and received clear direction for a pedestrian oriented downtown with a strong civic focus.

The result of this engagement was the Tualatin Commons development at the heart of the Central Urban Renewal District. Tualatin Commons consists of a mix of restaurants, office buildings, a hotel, townhomes and apartments, and open space surrounding a 3-acre lake. The city's plan for this area also outlines future improvements to remove blight and to further ensure the vitality of the Tualatin Commons and downtown area including projects to add pedestrian crossings, and enhance the streetscape and signage. The city's last amendment of the Central Urban Renewal plan occurred on May 22, 2002.

Tualatin adopted a second urban renewal area in 1982, the Leveton Tax Increment District. The city annexed a large area of land located west of the existing city limits in order to provide the level of infrastructure and services necessary to support appropriate industrial development. The city wanted the area for a highly demanded campus-like industrial development. The area provided a significant opportunity for this with its single property owner, relatively flat landscape, and accessibility within the region. The city established an urban renewal area in order to use tax increment financing to add services such as sewer, water and roads to the annexed area, which was blighted, underdeveloped, and faced a variety of physical and economic obstacles to its future use. The result is the Tualatin Business Campus, significant infrastructure investment, and an opportunity for the city to recruit businesses.



Tualatin Commons, a project located in Tualatin's Urban Renewal area, City of Tualatin

"Tualatin lacked a strong identity of its own and was in danger of becoming simply an ordinary suburb—that is, until a combination of circumstances and vision and hard work led to a solution: the development of a central place, a downtown, a civic "living room" on a 19-acre site. This new city center has given Tualatin a unique and positive identity. Its realization testifies to the power of a true public-private partnership."[6]

— Dave Leland, Developer

6. Unsprawl Case Study: Tualatin Commons, Oregon. http://www.terrain.org/unsprawl/4

Keep in mind. . .

revenue from increased improvement values that is tied to the rate of inflation. In addition, expanding the costs allowed under urban renewal to allow local jurisdictions to provide items such as fire trucks and park maintenance would reduce the costs of and opposition from local taxing districts. Finally, a change to current law that would allow a pass through agreement to provide resources to the local taxing districts after a certain time period, but before the end of the urban renewal period.

Housing choices: Urban renewal is an effective program with the potential to help achieve a number of public policy objectives. Through local legislation a portion of TIF revenue can be dedicated to a specific policy objective, including the provision of affordable housing. The Portland Development Commission and the City of Portland, guided by the city's Comprehensive Plan Housing Policy, adopted policy (Ordinance No. 180547) that dedicates 30 percent of TIF revenue over the life of all city urban renewal districts for the sole purpose of developing, rehabilitating and preserving housing for households with incomes below 100 percent of median family income.

While the Portland 30 percent TIF set aside is applicable to all urban renewal districts, proposed income guidelines under consideration as of January 2007 would allow variation between districts in the allocation of revenues to housing units serving 0 to 30 percent, 30 to 60 percent, and 60 to 100 percent of median family income. However, it should be noted that the proposed income guidelines would require a minimum threshold expenditure on housing serving 0 to 30 percent median family income and cap expenditure on housing serving 60 to 100 percent median family income. Flexible income guidelines allow for a more targeted approach that considers housing policy objectives for each individual district.

Community: Although new urban renewal areas commonly incorporate community involvement as an integral component to their plans, some of the first urban renewal programs in the country cleared large areas, demolishing entire neighborhoods, in order to rebuild these areas. This can still stir up fear and opposition to new urban renewal programs. In addition, defining an area as "blighted" can carry a negative stigma. Furthermore, many urban renewal programs lead to and do not reduce the impacts of gentrification, and therefore, current residents oppose urban renewal in fear of their eventual displacement. In this region, some jurisdictions also have provisions in their charters requiring voter approval for urban renewal areas or even prohibiting the use of urban renewal due to previous community opposition.

Some jurisdictions in the region have resolved community issues by limiting the use of eminent domain, remaining transparent and honest through the urban renewal planning and development processes, working with and gaining the support of the local fire departments and school districts, and by demonstrating the jurisdiction's current and past planning and development successes to the local citizenry.

Flexibility: While tax increment financing was authorized in Oregon as an urban renewal financing method, many other states have enacted legislation that permits the use of TIF as a funding mechanism for local jurisdictions to finance redevelopment in other areas. Using TIF independently from urban renewal would enhance the flexibility of this tool in the region. Jurisdictions could continue to use urban renewal as a powerful redevelopment tool but could also use TIF for other areas and development opportunities where it is important to remove the additional barriers associated with urban renewal.

Some situations in which TIF can be used outside of urban renewal include:

- in non-blighted areas that may just need infrastructure improvements
- in small business districts where setting up a separate urban renewal agency and plan would be unmanageable but the area needs upfront financial assistance to improve the area and attract additional revenue
- and in communities where urban renewal would face opposition.

Using TIF independently also allows site specific and small TIF districts as opposed to the traditionally large urban renewal areas.

These small TIF districts often face less opposition from local taxing districts because the opportunity cost of forgone incremental tax revenue is less than in a large urban renewal area. Despite consisting of small areas that generate less tax increment for investment, many main street programs and business improvement districts have successfully used TIF to make important streetscape, façade, and infrastructure improvements to attract and retain development, commercial tenants, and pedestrian and consumer activities. Using TIF separately from urban renewal would allow additional communities in the region, particularly those in centers and along corridors, to use TIF to encourage additional development. In order to take advantage of this financial tool in these situations, legislative authority would need to change state statute by adding a section defining redevelopment areas and enabling the use of TIF in such defined areas.

Tax increment financing helped fund the redevelopment of the Heritage Building (before, left and after, right) in the Convention Center Urban Renewal Area, City of Portland, Portland Development Commission

Putting it together

Urban renewal provides a powerful financial tool that can enable redevelopment projects to improve local infrastructure, revitalize communities, and spur additional investments to the area. In this region, jurisdictions of various sizes and attributes have experienced great success from using urban renewal.

As outlined by Tashman Johnson, LLC, most successful urban renewal plans in Oregon are rooted in a clear vision for the area, contain a re-evaluation process, link to adopted community plans, provide flexibility to take risks, anticipate and resolve controversial issues, maintain honesty with the local citizens, and leverage other resources.[7] Likewise, projects including a mix of residential and industrial or commercial uses generate the greatest increment and more fully revitalize a community.

Tips for implementing urban renewal and tax increment financing at the local level:

- Use urban renewal and TIF in centers, corridors, and employment areas to make important infrastructure and redevelopment projects possible or more extensive.
- Determine the financial capability for establishing an urban renewal area/TIF district.
- Calculate the estimated time needed to generate enough of a tax increment to service the debt on the first project.
- Analyze community reception to urban renewal/TIF and resolve any issues in order to make urban renewal/TIF districts possible in the local jurisdiction.
- Work with special taxing districts to alleviate their concerns and establish support for the urban renewal area/TIF district and plans.
- Consider setting aside a portion of the tax increment to finance public goods and social infrastructure such as affordable housing.

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7. Tashman Johnson, LLC (2002). Urban Renewal in Oregon: History, Case Studies, Policy Issues, and Latest Developments.

Success story

Other states

The State of Michigan uses tax increment financing independently as a powerful financing tool for various re-investment programs. State law authorizes four TIF authorities. Downtown development authorities focus on business and main street districts. A general TIF authority is broader and focuses on all types of urban neighborhoods. Both capture the tax increment within the set plan boundaries. A local development financing authority focuses on employment and economic growth and captures the tax increment on each eligible property or within certified business and technology parks, and a brownfields authority focuses on brownfield redevelopment zones capturing the tax increment for each of the brownfield parcels included in the brownfields plan (one or more parcels). A city can set up more than one TIF authority, but only one of each type. Each authority has a slightly different focus, but the general purpose for all of them is not to reinvest in blighted areas, but to prevent deterioration and promote economic development, revitalization and historic preservation in all areas.

The State of Massachusetts also uses tax increment financing separate from Urban Renewal through the Development Improvement Financing program. Cities and towns are eligible to utilize this financing alternative without qualifying the district as blighted, substandard, or economically impaired. A city or town first designates a development district and a corresponding development program, which must be certified by the state. Each district must have an implementation and financial plan for infrastructure and development improvements. A development district may be as small as one parcel or may comprise up to 25 percent of a town or city's land.

The State of Vermont established a new Tax Increment Financing District Program in 2006 despite a different political environment than when most TIF programs were established in the 1970's and 1980's. The program was companion legislation to their growth centers program in order to provide a new financial mechanism for municipalities to fund infrastructure improvements, such as sewer and parking, within their growth centers. The purpose is to provide revenues for improvements in the district, which will stimulate development, employment, and economic vitality without a requirement for "blight" in the community. Eligible communities are expected to be able to submit applications for TIF District designation beginning in 2007.

Urban renewal

Resources

For additional information on urban renewal in Oregon, and to link to additional Urban Renewal Resources, visit:

The Association of Oregon Redevelopment Authorities
http://orurbanrenewal.org/

For more information about local programs, visit:

City of Portland
222 NW Fifth Ave., Portland, OR 97209
(503) 823-3200
http://www.pdc.us

City of Sherwood
22560 SW Pine Street, Sherwood, OR 97140
(503) 625-4202
http://www.ci.sherwood.or.us/index.html

City of Oregon City
P.O. Box 3040, 320 Warner Milne Road, Oregon City, OR 97045
(503) 657-0891
http://www.orcity.org/

For information on programs using TIF separately from urban renewal, visit:

The Council of Development Finance agencies
http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/tifstatestatutes.html

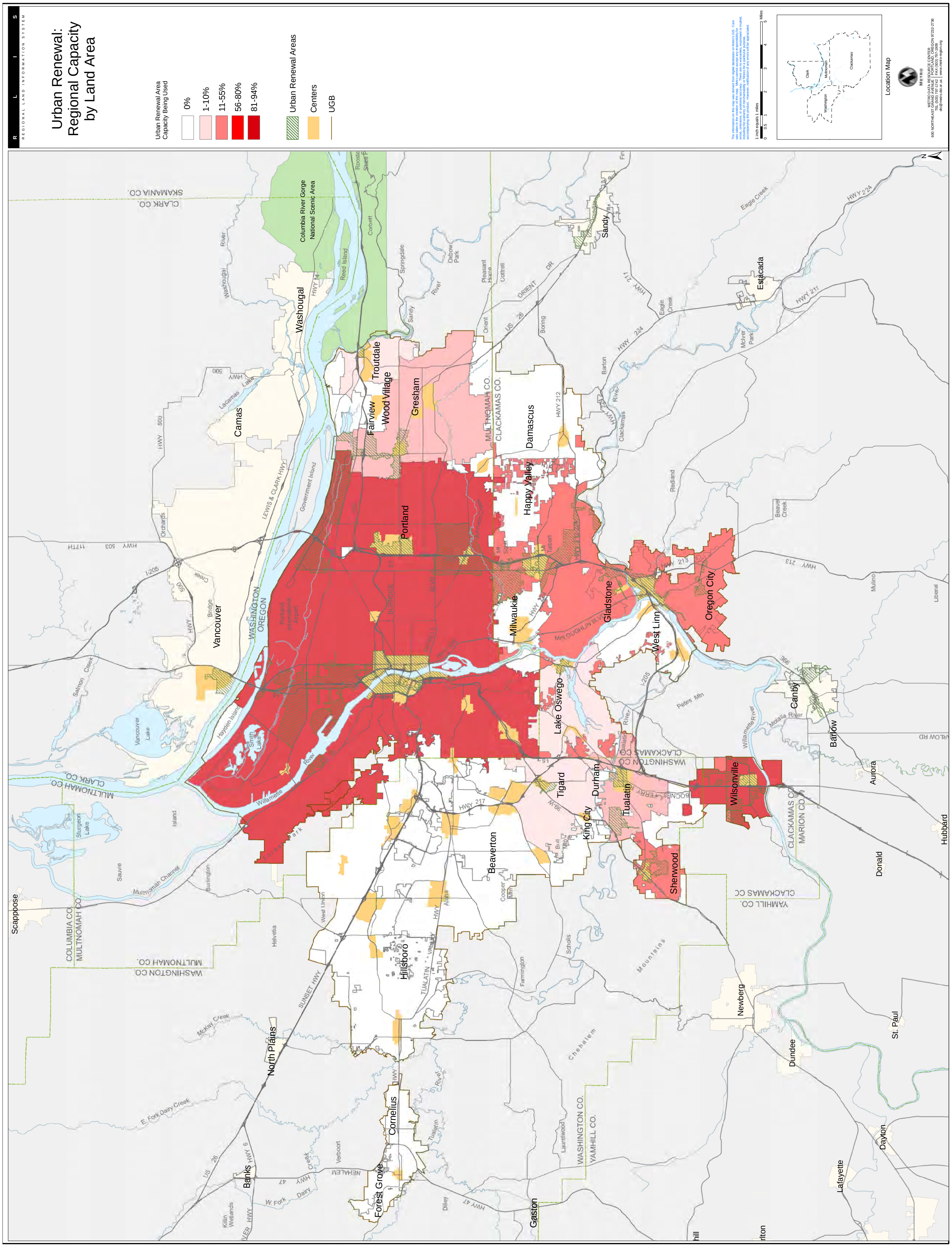
State of Michigan TIF Authorities
Citizens Research Council of Michigan
Livonia Office: (734) 542-8001 • Lansing Office: (517) 485-9444
http://www.crcmich.org/EDSurvey/toc.html#fpta

Massachusetts TIF Program
http://www.mass.gov/envir/smart_growth_toolkit/pages/mod-diftif.html

Vermont TIF District Program
Department of Economic Development
Vermont Economic Progress Council
National Life Building, Drawer 20
Montpelier, VT 05620-0501
(802) 828-5256
http://www.thinkvermont.com/vepc/index.html

For more specific details on the statutory guidelines of urban renewal and TIF in Oregon, visit:

ORS Chapter 457 at http://www.leg.state.or.us/ors/457.html


RLIS
REGIONAL LAND INFORMATION SYSTEM
Urban Renewal: Regional Capacity by Land Area
Urban Renewal Area Capacity Being Used
0%
1-10%
11-55%
56-80%
81-94%
Urban Renewal Areas
Centers
UGB
Location Map
Portland
Vancouver
Gresham
Beaverton
Hillsboro
Lake Oswego
Tigard
Wilsonville
Oregon City
Milwaukie
Happy Valley
Damascus
Troutdale
Fairview
Wood Village
Camas
Washougal
Gladstone
West Linn
Tualatin
Durham
King City
Sherwood
Forest Grove
Cornelius
North Plains
Sandy
Canby
Estacada
Newberg
Columbia River Gorge National Scenic Area

The Hillsboro City Council approved a LID in August 1996 to build pedestrian and streetscape improvements as well as transit amenities to implement the vision of the downtown light rail improvements, City of Hillsboro

Toolkit

Financial incentives

Improvement Districts (LIDs, BIDs and EIDs)

By establishing Improvement Districts, local jurisdictions can provide another incentive for investment in centers, corridors and employment areas. Improvement districts fund integral physical and visual improvements as well as the activities needed to maintain these vibrant, healthy neighborhoods and to attract additional development, investment and public use.

The nuts and bolts

Improvement districts are assessment districts in which property owners choose to be assessed a fee, which is collected on their behalf by the local jurisdiction in order to finance local improvements or to promote a business area. Slight differences exist between Local Improvement Districts (LIDs), Economic Improvement Districts (EIDs), and Business Improvement Districts (BIDs).

These improvement districts provide communities with a financial tool to pay for infrastructure and program management activities that support the growth envisioned for our centers, corridors, and employment areas. Developers, citizens, local jurisdictions, and the region benefit from the use of improvement districts, which is apparent when analyzing the applicability and manageability of the program as well as its effects on local communities.

Table. 2. Improvement districts: types and attributes

Improvement district	Funding source	Finances	Approval source	Time period	Jurisdictional use
Local Improvement District (LID)	Fee collected from property owners	Infrastructure improvements	Ordinance or resolution by local jurisdiction	Until project debt is fully paid	Cities of Beaverton, Cornelius, Forest Grove, Gladstone, Hillsboro, Oregon City, Portland, Tigard and Wood Village; Clackamas and Washington counties
Economic Improvement District (EID)	Assessment to property owners of businesses	Non-physical revitalization programs and projects	City council approval	Five years; renewal option	City of Gresham
Business Improvement District (BID)	A fee or surcharge to the business owner on the business license	Non-physical revitalization programs and projects	City council approval	Five years; renewal option	City of Portland
Economic and Business Improvement District combined	Assessment to property owners and a fee or a surcharge to the business owner	Non-physical revitalization programs and projects	City council approval	Five years; renewal option	Cities of Portland and Milwaukie

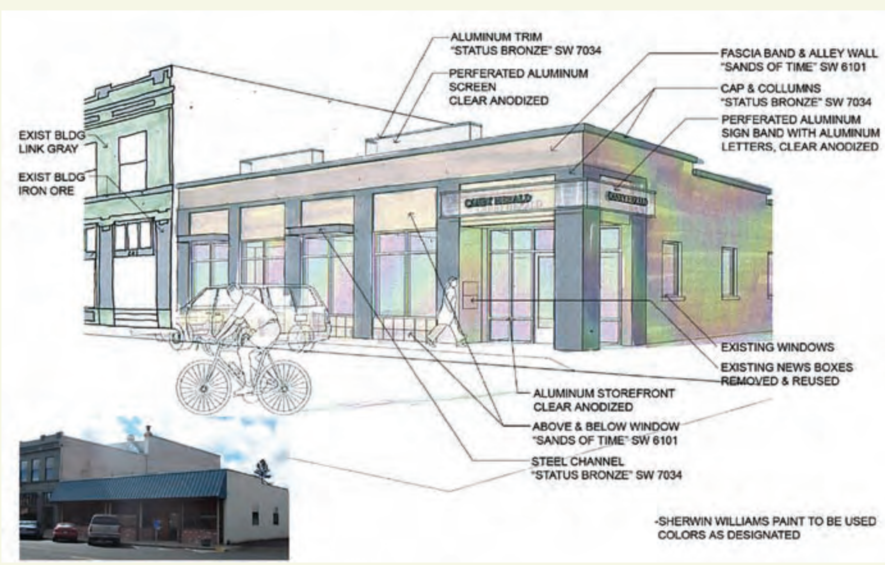
Success story

City of Canby

The City of Canby has an EID, which funds the operation of Canby Business Development (CBD) through assessments to commercial and industrial property owners. CBD is a nonprofit organization, started in 1994, which promotes and develops Canby's commercial and industrial areas while supporting continued revitalization efforts. The organization provides information and assistance to new and existing commercial and industrial businesses regarding development resources and available properties, as well as providing market, promotional, and technical materials and support.

In addition, CBD works with the Canby Urban Renewal District Agency to provide and implement projects such as a Commercial Market Analysis, Canby Downtown/Highway 99E Design Standards Project, Redevelopment Grant Program, and the Canby Façade Improvement Program. The Façade Improvement Program provides matching grants for design work and zero-interest loans for construction activities. The first project assisted by the Façade Improvement Program is the Canby Herald building, which is in the permit stage of development. The city's Urban Renewal program also provides funds to the CBD for the Redevelopment Grant program. The program provides financing to property owners in the downtown area in order to hire an architect and create a redevelopment plan for that property. Last year, the program awarded four grants. Three of these grants have advanced into $20 million in development projects.

The EID in Canby is a great example of how partnerships between agencies and the collaboration of financing can result in significant developments in a community. The City Council, the local Chamber of Commerce, and the Canby Business Development each have a role in the various projects. This combined effort of management and financing makes the programs feasible and successful.



The Canby Herald building with renderings of the facade improvements, Canby Business Development Facade Improvement Program, City of Canby

"I am an advocate of Economic Improvement Districts because they provide a stable funding source that allows staff to work for at least three to five years focused on specific projects rather than on fundraising. In Canby, the EID has been a great tool for marketing and recruitment of companies in the industrial park and revitalization projects in the downtown, because staff can focus on marketing and development efforts and responding to business inquiries."

– Catherine Comer,
Executive Director,
Canby Business Development

The nuts and bolts

Local Improvement Districts collect fees to pay for infrastructure improvements including new construction or the reconstruction of deteriorated facilities such as storm and sanitary sewers, street paving, curbs, sidewalks, water lines, recreational facilities, street lighting, and off-street parking. The local jurisdiction determines the cost to develop the improvements in order to establish the fee collected from the local property owners. The following are characteristics of a LID:

- State statute outlines collection guidelines for the assessments, but local governments (cities and counties) may impose additional procedural requirements.
- Many jurisdictions choose not to establish LIDs unless initiated by local property owners.
- If a jurisdiction initiates and imposes the assessment for local improvements, owners of any property charged may seek a review of the assessment.
- If a local government reaches its taxing limits imposed by Measures 5, 47, or 50, the LID needs voter approval for the city to issue LID bonds for particular projects.
- Payment continues until the debt from the project is paid.

Economic Improvement Districts are similar to Local Improvement Districts but are meant to fund non-physical projects as part of a revitalization program including business retention and recruitment, planning, promotion and marketing, maintenance, and management. It can also fund landscaping and the maintenance of public spaces as well as improvements in parking systems or parking enforcement. EIDs may determine the assessment fee in a variety of ways. Examples include basing the assessment on the value of the property, the amount of square footage of the parcel, linear footage of the storefront, or the assessed or market value of the building. In any year, the total assessment cannot exceed one percent of the real market value of all the real property located within the district.

Business Improvement Districts are similar to Economic Improvement Districts in what they fund as part of a revitalization program including business retention and recruitment, planning, promotion and marketing, landscaping, parking facilities, maintenance, and management. The difference is that the business owner pays a fee or a surcharge on the business license in a BID. As with an EID, the BID can establish various assessment criteria. Examples include the number of employees or the gross revenue of the business. BIDs may be voluntary, meaning a business can opt out, or involuntary.

Characteristics of Business Improvement Districts and Economic Improvement Districts are as follows:

- Only commercial properties may be assessed within the district.
- Only cities can establish a BID or EID, and the city council establishes the district.
- The district may continue for a maximum of five years; but it may be renewed indefinitely.
- Assessed properties decide the district boundaries, assessment formula, budget, and program.
- After the city council determines the amount of the assessment for each property in the district, property owners may object at a public hearing, and the council shall reconsider and may adopt, correct, or modify the proposed assessments.
- If property owners equaling more than 33 percent of the total assessment object, the council shall not pass the district; cities can choose to lower this percentage.

- A city council may choose to make the district voluntary or involuntary: voluntary means the council will waive the fee from those property or business owners objecting to the assessment, and involuntary means all property or business owners are obligated to pay the assessment fee if the district passes; however, a new owner of that property may agree to the assessment later, and the council must reapportion the assessment fees.
- Assessed property remains subject to assessment even after change of ownership.

Another option for improvement districts is to combine an EID and a BID to provide a more comprehensive funding mechanism for downtown revitalization projects. In addition, the existence of local improvement districts or urban renewal districts in a city does no affect the creation of an EID or BID.

How to use it: Typically local property and business owners benefiting from and paying for the improvements initiate improvement districts. Then they request, or petition, the city to establish a funding district on their behalf. Once the city council approves an enabling ordinance, the improvement district proposal or plan is sent to all affected property owners. The council then conducts public hearings. If there is no significant opposition from affected business and property owners, the council generally approves the improvement district. On average, passing a new improvement district can take a minimum of 10 to 12 months.

Steps to implement an improvement district successfully include:[8]

- forming a district committee composed of local owners and representatives from local organizations and government involved in downtown development ready to commit the time needed to form the district
- selecting the right funding mechanism for the district
- working with city staff to define roles and responsibilities in the collection process once the district passes
- setting well-defined and achievable goals for the local owners
- developing a district proposal, which establishes an assessment method and budget, designates boundaries, outlines organization programs and funding needs, and accounts for political and financial realities present in the area
- gathering support through local organizations, leaders and chamber of commerce
- administering the district program as outlined in the proposal
- highlighting achievements, involving owners and keeping owners informed for long-term management and district renewals.

Existing use of the tool in the region: Several local governments in the region currently use LIDs. These include: Beaverton, Cornelius, Forest Grove, Gladstone, Hillsboro, Oregon City, Portland, Tigard, Wood Village, Clackamas County, and Washington County. In addition, Wilsonville, Lake Oswego, and Sherwood have had LIDs in the past, but do not currently have active districts. This level of use reflects the widespread knowledge of LIDs and the benefits of their use to meet specific goals especially in the region's downtown areas. However, far fewer EIDs and BIDs operate within the region. The City of Portland has a BID and the City of Gresham has an EID. The City of Portland and the City of Milwaukie both have a combined EID/BID.

8. Oregon Downtown Development Association (1999). The EID/BID Handbook.

Keep in mind. . .

Fiscal impacts: Local Improvement Districts provide a source of funding for infrastructure improvements. LID bonds also increase the financial security for private developers by sharing the risk of new development with the local government and taking advantage of lower government interest rates. However, it is difficult for low-income areas to establish and maintain an improvement district. Nonetheless, the Lents neighborhood in Portland made a LID feasible by combining the property owners' contribution with a TIF contribution from the local urban renewal area. The City of Canby also combines funds from the BID and the urban renewal area to finance some of its economic development programs.

LIDs can also carry a significant financial risk. The final expenses for the infrastructure improvements remain unknown until a design is developed. If the project turns out to be expensive, this can cause the LID process to fall apart. This presents a huge risk to the party that initially put forth the money for the design process. Established LIDs also face the risk of property owners not being able to pay the fee in the future. The ultimate responsibility to pay this debt falls upon the local government bond issuer. According to state statute, assessments shall become a lien upon the property. Thus, a transfer of the property is subject to the lien, and the local government may cause the real property to be sold to collect unpaid assessments after one year from the due date of the assessment. This process and its implications can often cause a city council to deny a LID even if there is 100 percent support from the currently affected property owners.

Administrative: A city may find that managing several Local Improvement Districts at any one time is a cumbersome process. To resolve this issue, some jurisdictions in the region streamlined the LID process by using development agreements instead. This requires the developer to pay for the infrastructure improvements up-front at time of development. If the developer is not the sole owner, then the city collects payment from property owners as they move into the new development and returns these funds to the developer. The city can also incorporate the cost of staff time spent administering the LID into the assessment fee, which compensates the city for their work, but also increases the cost to the owners and decreases the feasibility of the LID.

Community: LIDs provide a source of funding for much needed and deteriorated infrastructure, and these improvements can increase the safety and value of the neighborhood. However, LIDs take strong commitment and consensus from the local property owners. It is very difficult for the property owners to come to a consensus on the improvements, how to complete them, and how much money they are willing to spend. In addition, this process can take months to complete. Regional representatives with experience establishing improvement districts also highlight the importance for a local jurisdiction to work on a marketing strategy for a BID or EID with the local property owners to shape the message before beginning promotion throughout the broader community. This can take a lot of one-on-one meetings with various groups to get the support needed to make these districts work.

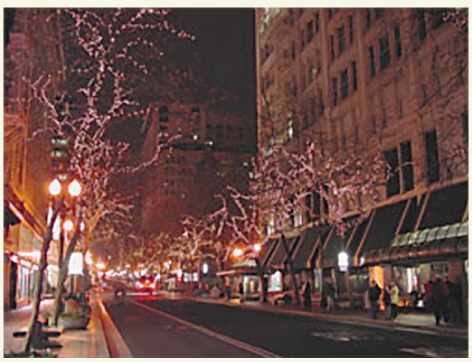
The voluntary EID and BID also present an important equity issue in the community. The property owners that opt out of paying for the improvements or services still receive the benefits paid for by the other owners in the district because of their location.

Success story

City of Portland

Downtown Portland's Business Improvement District (BID), one of the oldest, largest and most successful BIDs in the nation, encompasses a 213-block area of downtown Portland. Businesses within this district tax themselves to raise money that supplements publicly financed services for neighborhood improvement.

Portland's BID funds the Downtown Clean and Safe Program, which provides cleaning, security and community justice services downtown; the Downtown Retail and Marketing Program, which focuses on market research, retail advocacy, marketing and communication; and the Sidewalk Ambassador Program, which offers information and assistance to downtown visitors. The BID has been in place since 1988.[9]



Through the Downtown Retail and Marketing Program, Portland's BID funds the annual tree lighting and provides lights for the festive holiday season in downtown Portland

The City of Portland's Business Improvement District boundaries, http://www.portlandalliance.com

9. Portland Business Alliance (2006). http://www.portlandalliance.com

"Downtown property owners have been focused over the last year on public safety, and this reduction in crime shows that these efforts are working. We have seen a very positive impact downtown from our Clean and Safe Program and our work with Mayor Potter on public safety issues."

– Sandra McDonough,
President and CEO,
Portland Business Alliance

Putting it together

Improvement districts provide an important mechanism to complete needed infrastructure improvements or to promote additional investment in a business area. This is apparent by the extensive use of these districts throughout the entire metro region. Jurisdictions of varying size and characteristics use these districts to make targeted investments and improvements in their local communities. The representatives from these areas consistently expressed that improvement districts are most successful when established for small, very localized projects due to the nature of the issues that can arise when establishing these districts and since this financial incentive is initiated and managed locally.

Tips for implementing improvement districts at the local level:

- Expand the use of improvement districts in centers, corridors, and employment areas.
- Market improvement districts by focusing on promoting the ideas and vision for the area and by highlighting the different benefits, including financial advantages, of the new investments.
- Develop outreach and resolution strategies to work with local property owners to establish consensus and implement and maintain LIDs, BIDs, and EIDs.
- Identify sources within your jurisdiction that can provide a matching fund to the assessment fees, especially to cover the costs associated with staff work time.
- Consider whether a voluntary or involuntary BID is most appropriate given the specific circumstances and try to find additional ways to resolve the equity issues that may arise from a voluntary BID.
- Explore less risky ways to fund the design work costs and upfront investments.

Resources

For additional information or to seek technical assistance in implementing a BID or EID in your jurisdiction, contact

Oregon Downtown Development Association
161 High St. SE #236
Salem, OR 97301
(503) 587-0574
http://www.odda.org/

For more information about local programs, eligibility, and technical support, visit:

City of Portland
Portland Business Alliance
200 SW Market St., Suite 1770, Portland, OR 97201
(503) 224-8684
http://www.portlandalliance.com/

City of Portland
Office of Transportation
1120 SW Fifth Ave., Rm 800, Portland, OR 97204
(503) 823-5185
http://www.portlandonline.com/transportation/index.cfm?c=35715

City of Canby
Canby Business Development
PO Box 438
253 NW Second Ave., Canby, OR 97013
(503) 266-3720
http://www.canbydevelopment.com/

For more specific details on the statutory guidelines, see:

ORS Chapter 223.387-223.401 (LIDs), 223.112-223.132 (EIDs), and 223.141-223.161 (BIDs)
http://www.leg.state.or.us/ors/223.html

Bioswale at the New Columbia housing development controls stormwater runoff, one way to reduce stormwater system development charges, City of Portland

Toolkit

Financial incentives

Impact-based System Development Charges

Creative approaches for applying System Development Charges (SDCs) can serve as a financial incentive for more efficient provision of facilities and services, to manage urban growth and reduce urban sprawl, and to encourage infill development. Cities and counties can restructure their SDC methods and fee schedules to more accurately capture the costs of infrastructure development, determine charges reflective of the impact of different development patterns, and promote development consistent with the 2040 Growth Concept Plan.

The nuts and bolts

System Development Charges (SDCs) provide a mechanism for local governments to pay for infrastructure needs associated with growth without raising taxes or fees for services. Government entities levy SDCs against developers at the time of development to cover the additional costs to serve the new development. Oregon law allows the collection of SDCs for only five types of infrastructure: water, wastewater, stormwater, transportation, and parks and recreation.

SDCs provide the most common source of funds for capital improvements in Oregon. However, most cities and counties assess a uniform SDC throughout the jurisdiction without consideration for the variation in impacts related to development design or location. This creates a disincentive for developers interested in building compact projects in centers and corridors that already have higher development costs. However, restructuring SDC fee schedules to reflect the real impact of development on infrastructure can reduce the financial burden of developing in centers and corridors, provide an incentive to build lower-impact projects and encourage development in areas with access to existing infrastructure systems.

How to use it: Cities and counties calculate SDC fees to recover the cost of infrastructure needed to serve new customers and can assess these SDCs differently in order to meet local needs. In accordance with Oregon law, SDCs may consist of reimbursement and improvement fees.

- **Reimbursement fees** recover the costs to serve future system users with facilities already constructed or under construction. In determining this fee, a local jurisdiction must consider the cost of the existing facilities, previous contributions and sources of financing, and the value of the unused capacity available for future system users.
- **Improvement fees** charge for the costs associated with capital improvements to be constructed. In determining this fee, a city or county must specify in an ordinance or resolution the projected costs of capital improvements as identified in an adopted plan, which is required to increase capacity and meet the demands of new development.

When determining the final SDC fee schedule, cities and counties can choose to charge one or both types of fees as well as the percentage of the costs it intends to recover through the SDC. Some jurisdictions also choose to recover the costs of developing their capital improvement plans (CIP) through SDCs by incorporating these planning expenses into the fees. Oregon statute allows SDCs to recover all costs of complying with the statutory provisions, which require the preparation of a capital improvement plan and development of a SDC methodology and accounting system.

State law also requires cities and counties to provide credits against improvement fees in the SDC if the developer constructs qualified public improvements. Local jurisdictions may choose to use this method as an opportunity to complete a more extensive public improvement. In some cases a well-capitalized developer can more efficiently construct a public improvement by including the cost in the overall project development budget, which in turn would limit the number of project funding sources and speed the pace of construction. In exchange for constructing and funding the public improvement the developer would receive credit toward SDC fees.

Success story

City of Wilsonville

The City of Wilsonville recently updated its SDCs working cooperatively with the development community in the adoption of the amendment and the methodology. The city established impact-based methodologies that help acquire the accurate and varying costs of development projects. The methodology includes costs associated with estimated project financing as well as a revenue credit provided for future rate payments needed to remedy existing deficiencies. The city also developed a compliance charge that recovers facility planning and SDC fund accounting costs.

Likewise, the city uses a demand system to determine SDC fees by identifying the different demands on facilities for various size dwelling units, number of persons per household, and type of development. Basing cost on demand also allows the city to develop alternate SDC calculations for specific developments such as projects built near light rail lines and senior citizen centers, which place less demand on the road system and more demand on public transit. The city also calculates and uses their transportation SDCs to cover pedestrian improvements and parking structures that are part of their transportation system.

In addition, the city uses supplemental SDCs to cover the costs of significant infrastructure improvements in developing areas with increased demand. For example, the demand at the ramp intersections on Wilsonville Road and at the adjacent intersections recently exceeded its level of service capacity. The city amended its transportation capital improvements plan to include its share of the improvement project. To pay back the initial financing, the city then calculated and collected a supplemental SDC from developments in the local area whose trip generation led to the need for the added capacity. The supplemental SDC allowed the city to add capacity, which led to new developments such as a $50 million mixed use development of commercial retail, office space, and residential apartments and condominiums.

"By basing SDCs on demand and the actual impact to infrastructure facilities, the city can offer developers an equitable adjustment process. The city will complete alternate calculations for specific development projects to reflect a project's actual demands so the fee will be fair."

– Mike Kohlhoff, Attorney, City of Wilsonville

The ramp intersections on Wilsonville Road before (left) and after(right) the infrastructure improvements that were funded, in part, by the supplemental SDC, City of Wilsonville

SDCs

The nuts and bolts

SDC methodologies generally include unit costs of capacity, revenue credits for other funding sources, and a demand schedule establishing capacity requirements for different type or sizes of developments. Impact-based SDCs and innovative approaches to calculating SDCs consider additional variations for each of these items when calculating their fee schedules. The best approaches reflect both full cost recovery, including facility planning and construction and SDC development and management, and recognition of potential cost variations across the service area. To the extent that development may be less costly to serve based on density, location, configuration, or other considerations, SDCs can be a tool to encourage this type of development, and at the same time fully recover infrastructure costs.

Existing use of the tool in the region: More and more jurisdictions throughout the country and the State of Oregon are implementing SDC methodologies designed to recover the real costs of infrastructure development and promote sustainable development patterns. Jurisdictions within the region that have adopted innovative SDC approaches with these goals in mind include the City of Gresham, City of Portland, and City of Wilsonville.

SDCs

Keep in mind

Housing choices: SDCs do increase the amount of upfront capital a developer must have, resulting in higher total per housing unit cost. However, some innovative SDC approaches address this issue by lowering SDCs for projects with a lower impact on public facilities. Thus, residential development located near transportation corridors and in mixed-use development areas, as well as housing developments that service specific populations that use transportation less frequently, would pay a lower transportation SDC than other housing projects.

Impact-based and innovative SDCs present a concern to some affordable housing advocates. If location and density impact SDC rates, developers may not find affordable housing feasible in areas with high SDCs resulting in the concentration of affordable housing to specific areas. However, some local jurisdictions may choose to waive, reduce, or defer the SDC fee for developments that include affordable housing. The reduction in upfront capital costs to the developer provides an incentive that improves the financial feasibility of an affordable housing project.

Manageability: Connecting SDCs directly to the specific projects included in facilities plans that are linked to capital improvement plans can require a lot of work up front for the jurisdiction to create alternative calculations and establish various SDC fees and funds that reflect the actual infrastructure improvement projects. Developing innovative SDC approaches, which include varying SDCs by location and development characteristics, may also take more time up front to develop the data to support the fee differentials, construct the SDC methodology, educate the public and elected officials, and implement necessary administrative procedures.

Success story

City of Gresham

The City of Gresham recently developed a new SDC methodology, which established three districts for calculating and collecting SDCs: Pleasant Valley, Springwater, and within current city limits. The city calculated the rates based on the costs of servicing these areas determined by facilities plans. Water and wastewater charges remained the same for all three areas, but the transportation facilities, parks, and stormwater facility charges increased in Pleasant Valley and Springwater due to the additional costs of the needed infrastructure projects in these areas. Location, lack of existing infrastructure facilities, and landscape features contributed to the increase in costs. The result of this approach is fees that are significantly higher in the new districts, compared to the current city limits.

In addition, the City of Gresham lowered its SDC fees due to the effect of low-impact design elements it established in its development codes. The city set green street requirements for street developments and improvements to help capture and manage the local rainwater. By integrating this green design element, the city did not need as many holding tanks, decreasing facility costs. Furthermore, the margin of cost differential between the green street designs and traditional streets was not significant. Thus, the overall SDC fee for development decreased while supporting lower impact development.

A property tax credit is also included in the city's SDC methodology to recognize the potential contribution of new growth to the costs needed to remedy existing deficiencies. The city also charges a compliance fee that includes the costs of master planning; annual SDC and capital improvement plan management, accounting, and reporting costs; and the costs associated with development of the SDC methodology. Finally, the methodology includes a basis for adjusting the fees annually for construction and land inflation. During the process of establishing the new SDC methodology, the city ensured the legal defensibility, educated the public, and built public and political acceptance for the differing SDC rates.

"Funding urbanization of major urban growth boundary expansion areas requires careful facility planning."

– Dale Jutila,
Department of Environmental Services,
City of Gresham



Using pervious pavers, porous concrete, and swales are all green streets practices that can reduce impact fees, City of Gresham

Keep in mind

However, as these methods become institutionalized within the region, they will enhance data availability and public awareness and may support further development and administration of such approaches. Furthermore, greater coordination among land use and facility planning functions and SDC approaches will develop data regarding the differing costs and impacts of various development patterns and designs. It can also make updating SDCs easier. Jurisdictions can reflect any changes made to planned facility projects by modifying that portion of the SDC calculation and developing a new SDC fee. Despite the additional up-front efforts, this process helps establish a more accurate SDC, and cities and counties can include these costs of planning for future capital needs and developing methodologies to pay for the facilities in the fees.

Equity: Applying a methodology that calculates SDCs directly based on capital improvement plans and planned facilities projects can establish a more accurate SDC fee schedule. Incorporating the different levels of demand on the infrastructure system from various types and locations of developments also helps establish a more accurate SDC fee schedule. In addition, this fee schedule promotes a more equitable approach by connecting the actual impact of a project to the SDC paid by that project.

More defined SDCs ensure that development and growth more accurately pays for itself and its impacts on the community's infrastructure without being compensated by the rest of the community or other developments. This helps maintain that compact, infill development near services pays for the infrastructure improvements in that area, but is not subsidizing the more expensive infrastructure expansions to newly developing areas.

Community: Cities and counties can face pressure from current residents and the development community regarding SDCs. Current residents are concerned about being charged twice and developers assume the up-front costs for the public improvements. As a result, many jurisdictions choose not to recover the full costs of new facilities through SDCs. However, if cities and counties can demonstrate that the SDCs are based on impact to the system and link the charges to impact, then where impact varies, different charges are defensible and this approach can gain more public and political acceptance. Politically, cities and counties also need to demonstrate the link between SDCs and overall community development goals. By connecting SDCs to facility plans based on comprehensive plans, the resulting SDC fee schedules can then promote development patterns envisioned by the community and create greater public and political approval.

Sustainability: Applying varying SDC rates based on the impacts to public facilities promotes sustainable development patterns. Lower SDC fees for low-impact, green development and compact infill and redevelopment may encourage developers to build more environmentally-friendly projects in sustainable locations.

Putting it together

Traditionally, cities and counties in Oregon determine SDC fees at the local level and make some distinctions between level of service and type of use. However, innovative SDC fee schedules base fees more specifically on the impact of the development to public facilities. This approach charges lower fees for development in areas with access to existing infrastructure and higher fees for projects in areas where little or no infrastructure is currently in place.

Metro hired a consultant to further research opportunities to recalibrate SDCs in the region. The study is intended to provide cities and counties with another potential tool to accelerate the implementation of the 2040 Growth Concept. As part of this work, a subcommittee representing city and county needs and expertise provided input and guidance throughout the process to inform and enhance the final report.

The report, "Promoting Vibrant Communities with System Development Charges," provides model approaches and recommendations for modifying SDCs throughout the Metro region in order to acquire the real costs of infrastructure development and promote more sustainable development throughout the region. These approaches outline SDC methodologies and approaches that promote more efficient provision of facilities and services, manage containment of urban growth to reduce urban sprawl, and encourage infill development. The model approaches for SDCs provide flexibility and applicability for the different cities and counties in the region.

Tips for implementing Impact-based System Development Charges at the local level:

- Coordinate land use and facility planning functions with SDC development.
- Ensure SDCs recover all of the costs needed to serve development as it is currently envisioned by the comprehensive plan and proposed through planned facilities projects.
- Define level of service standards for different development designs and locations when calculating SDCs.
- Consider having multiple SDCs based on the different impact and demand levels of various development patterns.
- Take into account the full array of costs needed to plan, design, construct, and finance public facilities for future growth and include these costs in the SDCs.
- Work with developers and educate the public whenever recalculating SDCs to build support for the new fee schedule and necessary infrastructure for projected development.
- Review the report, "Promoting Vibrant Communities with System Development Charges," for more information on the different calculation methodologies, compare to the jurisdiction's current methodology, and consider modifications to promote local and regional development goals.
- Use the report, "Promoting Vibrant Communities with System Development Charges," to revise SDC methods and fee schedules to incorporate applicable model SDC approaches.
- Regularly update fees and methodologies to keep pace with inflation and changing land use and facility plans.

Resources

To access "Promoting Vibrant Communities with System Development Charges," contact:

Metro
600 NE Grand Ave.
Portland, OR 97232
(503) 797-1839
http://www.metro-region.org

For more information on the use of Impact-based SDCs in the region, contact:

City of Gresham
1333 NW Eastman Parkway
Gresham, OR 97030
(503) 661-3000
http://www.ci.gresham.or.us

City of Wilsonville
Wilsonville City Hall
29799 SW Town Center Loop E
Wilsonville, OR 97070
(503) 682-4960
http://www.ci.wilsonville.or.us

For more details on the statutory guidelines for SDCs, see:

OAR 223.297
http://www.leg.state.or.us/ors/223.htm

For more information on innovative approaches to calculating and assessing SDCs, visit:

http://www.impactfee.org
http://www.impactfee.com

About Metro

Clean air and clean water do not stop at city limits or county lines. Neither does the need for jobs, a thriving economy and good transportation choices for people and businesses in our region. Voters have asked Metro to help with the challenges that cross those lines and affect the 25 cities and three counties in the Portland metropolitan area.

A regional approach simply makes sense when it comes to protecting open space, caring for parks, planning for the best use of land, managing garbage disposal and increasing recycling. Metro oversees world-class facilities such as the Oregon Zoo, which contributes to conservation and education, and the Oregon Convention Center, which benefits the region's economy.

Your Metro representatives

Metro Council President
David Bragdon

Metro Councilors
Rod Park, District 1
Brian Newman, District 2
Carl Hosticka, District 3
Kathryn Harrington, District 4
Rex Burkholder, District 5
Robert Liberty, District 6

Auditor
Suzanne Flynn

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www.metro-region.org

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