

### Why Use Urban Renewal?

Many cities have existing plans for how their city should develop, or capital improvement plans for infrastructure upgrades, but do not have a funding source to implement those plans. Urban renewal is one of the few tools for implementing city plans and for encouraging local economic development. It is unique in that it has its own funding source, tax increment financing.

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

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

### How is an Urban Renewal Program Started?

City officials will decide that they want to improve a specific area and that they need additional resources to accomplish this improvement. They direct the preparation of an urban renewal plan for review and potential adoption.

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

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

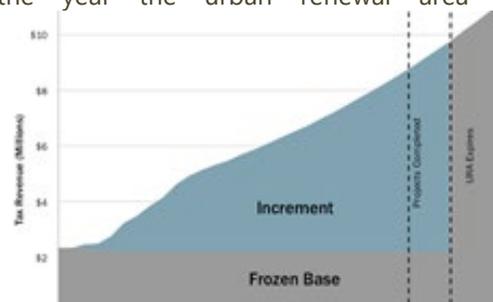
Urban renewal agencies can do specified projects or activities under an adopted urban renewal plan. These generally include:

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

### How does Tax Increment Financing Work?

While urban renewal itself does not increase property tax rates, it does function on the increases in property tax revenues from year-to-year. An individual property taxpayer’s property taxes may increase for two reasons, one, the assessor can increase property values at a rate of 3% per year and does so in most cases, and, two, if a substantial renovation is completed on a property resulting in increased assessed valuation.

When an urban renewal area is created, the property tax revenue from that area is diverted into two revenue streams. The first stream is what is called “the frozen base”. The frozen base is the property tax revenue from the total assessed value of the urban renewal area from the year the urban renewal area was formed.



The frozen base revenue stream continues to go to the regular taxing jurisdictions, such as the city, the county, and the school district. The second revenue stream is any increase over the frozen base which is called “the increment”. The increment represents the basis for tax increment financing and is any increase in property tax revenues above the frozen base. The second revenue

## Urban Renewal and Tax Increment Financing

stream goes to the urban renewal agency for use on projects, programs, and administration throughout the life of the district.

### Who Administers an Urban Renewal Program?

The urban renewal district is administered by the urban renewal agency. The urban renewal agency is appointed by the city council and is often the city council itself.

### How Does Tax Increment Financing Affect Overlapping Taxing Districts?

Taxing jurisdictions gain revenues through the collection of property taxes. During the use of tax increment financing, the permanent rate property taxes on the **growth** in assessed value in the urban renewal area are allocated to the Urban Renewal Agency and not the individual taxing districts. The taxing districts are still able to collect the property tax revenues from the assessed value of the frozen base but increases in revenues are allocated to the Urban Renewal Agency for use within the urban renewal area. In many urban renewal areas, that growth from new investment would not have occurred but for the use of urban renewal which has stimulated the growth. The impact on schools and education service districts is indirect, as they are funded through a state allocation based on per pupil counts. Property taxes fund a portion of the State School Fund, but not all of it. Once an urban renewal area is terminated, there generally will be an increase in property tax revenues to all taxing

jurisdictions. This increase of property tax revenue is a result of the ability to concentrate funding in a specific area, encouraging the area to develop properly.

### How Does Tax Increment Financing Affect Property Taxpayers?

Property taxpayers will **not** see an increase in property taxes as a result of a new urban renewal area. The allocation of revenues received from a property taxpayer's payment is changed as a portion of that payment would go to the new urban renewal area. This is called "division of taxes" and is the administrative way that assessors must calculate the urban renewal revenue. A concept chart showing how division of taxes works with urban renewal is shown below. The total taxes do not change, they are just distributed differently if there is urban renewal. The concept chart shows a 3% increase in taxes that would go to urban renewal and how those taxes would be divided. Notice that the total taxes in the final two columns are the same, they are just divided out differently to the different taxing entities.

If an urban renewal area is adopted in a city, all property taxpayers will see a line item on the property tax bills that shows a division of taxes for urban renewal. This is a result of the property tax limitations in Oregon. Again, this is not an increase in property taxes, merely a division of taxes already paid.

District Name	Permanent Rate	Property Value	Property Value Without UR	Property Value With UR
		\$100,000	\$103,000.00	\$103,000.00
City of Fairview	3.4902	\$349.02	\$359.49	\$349.02
Multnomah County	5.5734	\$557.34	\$574.06	\$557.34
Soil and Conservation	0.0919	\$9.19	\$9.47	\$9.19
Metro	0.1926	\$19.26	\$19.84	\$19.26
Reynolds SD	4.4626	\$446.26	\$459.65	\$446.26
Mt Hood CC	0.4917	\$49.17	\$50.65	\$49.17
Multnomah ESD	0.4576	\$45.76	\$47.13	\$45.76
Urban Renewal				\$44.28
	14.76	\$1,476.00	\$1,520.28	\$1,520.28