# Urban Renewal and Tax Increment Financing

## What is Urban Renewal?

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 which 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, utilities and street systems in poor repair or needing upgrading.

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

## How is an Urban Renewal Program Started?

For an area to be designated as an urban renewal area, a city normally completes a feasibility study to determine appropriate boundaries and to analyze the financial feasibility of the area, including the impacts on the other taxing jurisdictions. Depending on the results of the feasibility study, and input from taxing jurisdictions and the public, the city will determine whether they want to proceed with the development of an urban renewal plan. Before a plan can be adopted by a City Council, the city must first establish an urban renewal agency. The urban renewal plan and the accompanying urban renewal report document the blighting conditions in the urban renewal area which qualify it for the use of urban renewal.

An urban renewal plan establishes an urban renewal boundary, goals and objectives for the area, and outlines projects and programs which 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 projects when funding will become available to pursue projects within the area. The urban renewal plan must be adopted by the City Council.

## What is the Adoption Process for an Urban Renewal Plan?

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

Non-emergency ordinances can be referred to voters within 30 days of adoption.

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

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

- Construction or improvement of public facilities including streets, utilities, parks and other public uses.
- Acquisition and improvement of property
- Participation with developers for property improvement, or the creation of jobs.
- Rehabilitation of existing buildings.

## How are Urban Renewal Plans Financed?

Urban renewal is one of the few remaining tools for encouraging local economic development. It is unique in that it has its own funding source, tax increment financing. At the time an urban renewal plan is adopted, the county assessor calculates the total assessed value of the area and establishes this value as the "frozen base" for the area. Growth above the base is called the "increment". Tax increment revenues are the property tax revenues generated off the increase in the assessed values over the frozen base (not including rates for General Obligation Bonds and Local Levies approved by voters after October, 2001). This concept is shown in the chart on the next page.

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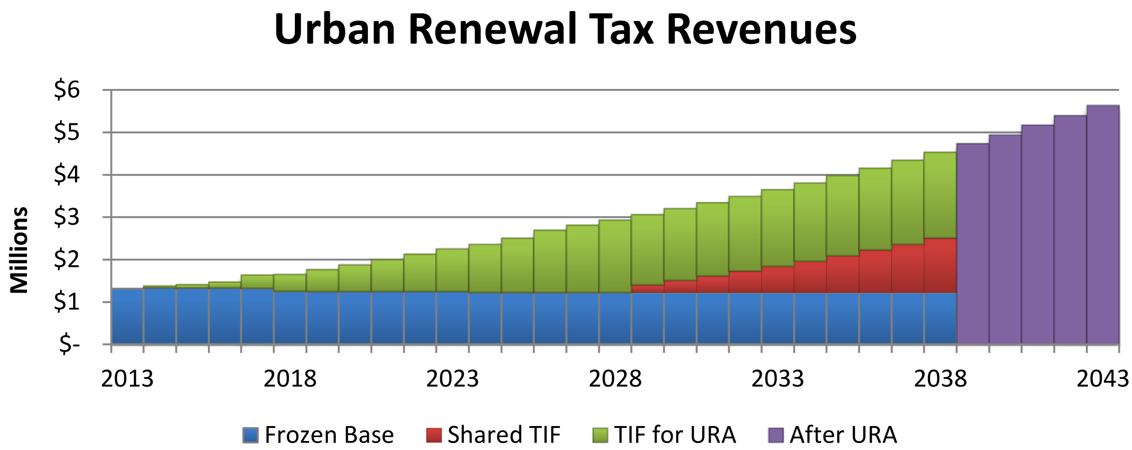


## How Does Tax Increment Financing Affect Overlapping Taxing Districts?

Taxing jurisdictions gain revenues through the collection of property taxes. Property tax increases come through new development and the statutory limit of 3% increase in assessed values on existing real property. During the use of tax increment financing, the permanent rate property taxes on the **growth** in assessed value in the urban renewal area are allocated to the Urban Renewal Agency and not the taxing district. The taxing jurisdictions still are 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. Shared TIF as shown in the chart above refers to meeting thresholds as defined in ORS 457 where TIF revenues must be shared with overlapping taxing jurisdictions.

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

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

Most property tax payers will **not** see an increase in property taxes as a result of a new urban renewal area. If there is an increase, it is due to bond or local option levies which were adopted prior to October of 2001 and are still collecting revenues. Three are very few local option levies still in existence that were issued prior to October 2001. These impacts are typically VERY small. However, once an urban renewal plan is adopted in an urban renewal area, tax payers within that area will see a line item on their property tax statements for urban renewal. This can be quite confusing because even if you are not physically located in the area, you will see an indication of the impact of urban renewal on your property tax bill. Your overall tax bill does not increase, but the allocation of revenues received from your payment is changed as a portion of that payment now goes to urban renewal. This is called “division of taxes” and is the administrative way that assessors must show the calculation of the tax increment revenue.

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