**Notice of Cancellation of Planning Commission Meeting**

There will not be a 7:00 p.m. regular session of the City of Newport Planning Commission meeting held on the evening of **Monday, March 24, 2014**. There will be a 6:00 p.m. work session, however.

## AGENDA & Notice of Planning Commission Work Session Meeting

The Planning Commission of the City of Newport will hold a work session meeting at **6:00 p.m., Monday, March 24, 2014,** at the Newport City Hall, Conference Room "A", 169 SW Coast Hwy., Newport, OR 97365. A copy of the meeting agenda follows.

The meeting location is accessible to persons with disabilities. A request for an interpreter for the hearing impaired, or for other accommodations for persons with disabilities, should be made at least 48 hours in advance of the meeting to Peggy Hawker, City Recorder, 541-574-0613.

The City of Newport Planning Commission reserves the right to add or delete items as needed, change the order of the agenda, and discuss any other business deemed necessary at the time of the work session.

## NEWPORT PLANNING COMMISSION
## Monday, March 24, 2014, 6:00 P.M.

## AGENDA

**A. Unfinished Business.**

1. Further discussion regarding the potential formation of a North Side Urban Renewal District.

**B. New Business.**

1. Reminder of Volunteer Appreciation Banquet, April 22nd at 6:00 p.m. at the Oregon Coast Aquarium.

**C. Adjournment.**

# City of Newport

**Community Development Department**

# Memorandum

To: Newport Planning Commission/Advisory Committee

From: Derrick Tokos, Community Development Director

Date: March 21, 2014

Re: Draft Feasibility Study for Northside Urban Renewal District

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Enclosed is a copy of the draft feasibility study prepared by ECONorthwest. Please review the document and flag any areas where you have questions or concerns. For this work session, I am planning to walk through each of the elements of the study and compile your comments. I'll then provide them to ECONorthwest so that they can prepare a response, make any needed edits, and finalize the report.

Once the report is finalized, staff will be in a position to distribute the document and/or meet with the affected taxing districts to get their feedback. Once that step is complete then the feasibility study can be scheduled as an action item before the Commission, so that it can provide a recommendation to the City Council as to whether or not the City should initiate the process of forming an Urban Renewal District.

ECONorthwest
ECONOMICS • FINANCE • PLANNING

**DATE:** March 20, 2014
**TO:** Derrick Tokos
**FROM:** Nick Popenuk and Tessa Krebs
**SUBJECT:** EVALUATION OF NEWPORT URBAN RENEWAL OPTIONS

The City of Newport is considering the creation of an urban renewal district (URD) to implement economic development projects for the area north of the Yaquina Bay Bridge. This memorandum evaluates three potential URA options, including analysis on how much tax increment finance (TIF) revenue might be generated, what projects could be funded, and over what period of time. Note that the three boundaries evaluated in this memorandum are not the City's only options. They illustrate a range of possibilities that the City could consider, including smaller vs. larger boundaries, and less vs. more maximum indebtedness (i.e., the total amount of urban renewal project costs.).

This memorandum is organized into the following sections:

- **Introduction/Background** describes the purpose of the report and how urban renewal works.
- **Methods** describes the steps used in our analysis and the source of key assumptions.
- **Results** presents the TIF revenue projections and project list for each of three potential URD boundaries, along with a discussion of the pros and cons of each boundary option.
- **Compression considerations** describes how compression works and the potential impact of creating a new Newport URD on compression losses for other taxing districts.
- **Conclusions** summarizes the most important key findings, comparing the three boundary options. It is intended to help the City make an informed decision on which boundary option(s) should be focused on next year as the City creates a formal urban renewal plan and report.
- **Appendix A** provides maps of the three potential urban renewal areas.

# Introduction/Background

The City of Newport, Oregon is interested in conducting a feasibility study for an urban renewal district (URD) to serve the area north of the Yaquina Bay Bridge. The action to "evaluate creation of an urban renewal district north of Yaquina Bay" is specifically called out in Action 6.1 of the Newport Economic Development Strategy.

Although the Economic Development Strategy recognizes the numerous potential uses of urban renewal, the Strategy does not identify the specific geography, or specific uses of urban renewal for the City of Newport. Thus, the purpose of this feasibility study is to examine how different URD boundaries might be able to help the City achieve its economic development goals. This report provides the City of Newport with baseline data to understand the financial capacity of a new URD north of the Yaquina Bay Bridge.

## What is Urban Renewal?

Urban renewal is a state-sanctioned program used by over 50 cities and counties in Oregon to help them, through partnerships with the private sector, implement adopted plans to revitalize specified areas within their jurisdiction. Urban renewal, through the provision of tax increment financing (TIF), can provide for capital improvements such as parks, water and waste water infrastructure, parking facilities, and transportation improvements that stimulate private investment and attract new businesses, jobs, and residents. It can also be used to assist with development activities that are approved in an urban renewal plan, such as storefront improvement loans, property acquisition, and site preparation.

In Oregon, planning and analysis associated with the creation of a new URD is guided by state statute (ORS Chapter 457). The statutes stipulate that URD plans must find the proposed URD is eligible for urban renewal because of existing *blight*, typified by conditions such as deteriorated buildings and lack of adequate infrastructure. The plan must also contain goals and objectives, authorized urban renewal projects, a limit on the expenditures, specific provisions regarding acquisition and disposition of land, and provisions regarding how the plan may be amended in the future.

## What is TIF?

Tax increment financing is the primary funding tool used within URDs. Tax increment revenue is generated within a URD when the assessed value within that area is 'frozen' (often called the *frozen base*). Any taxes generated within that area from growth in assessed value through either appreciation or new investment becomes the *increment*. Taxing jurisdictions continue to collect tax income from the frozen base but agree to release assessed value above the frozen base to the URD. The URD then can obtain loans or issue bonds to pay for identified public improvements and/or investments in private projects that are in the public interest. The tax increment is used to pay debt service on these projects.

## What is Revenue Sharing?

In 2009, the Oregon Legislature enacted HB 3056, which, among other things, established a system of revenue sharing for urban renewal areas. These revenue sharing provisions only apply to urban renewal areas approved after 2009 and older urban renewal areas that have been amended to increase maximum indebtedness since 2009. When urban renewal areas attain certain thresholds of annual tax revenue, some of this tax revenue is released from the urban renewal area and shared with the other taxing districts.

When tax revenues reach 10% of the URD's maximum indebtedness, then the amount going to the URD will be capped at that level, and all additional tax revenue will be shared with other taxing districts. Additionally, when revenues reach 12.5% of the maximum indebtedness, TIF revenues for the URD are capped at the amount.

## What is Maximum Indebtedness?

Maximum indebtedness (MI) means the amount of the principal of indebtedness included in a plan pursuant to ORS 457.190 and does not include indebtedness incurred to refund or refinance existing indebtedness. This is the total amount that can be spent from tax increment proceeds for projects, programs and administration.

## How does Oregon Property Tax work?

Citizen initiatives have changed the way that property taxes are raised in Oregon, and have limited the growth of assessed value and property tax revenues for taxing jurisdictions. Measure 5, passed in 1990, introduced tax rate limits. Measure 50 passed in 1996, cut taxes, introduced assessed value growth limits, and replaced most dollar-limited *levies* (an amount) with permanent tax *rate limits*.

Measure 5 introduced limits on the taxes paid by individual properties. It imposed limits of $5 per $1,000 of real market value for school taxes and $10 per $1,000 of real market value for general government taxes. These limits apply to all property taxes, other than those levied to repay voter-approved general obligation bonds.

Under Measure 50, most levies were replaced by permanent limits on tax rates. The permanent rate limit is fixed, and does not change from year to year. In addition to the permanent rate, taxing districts may impose general obligation bond levies and local option levies. The sum of all the tax rates (including permanent rates, local option levy rates, and rates for bonds and other levies) of all taxing districts in a given levy code area is known as the *consolidated tax rate*.

Measure 50 changed the concepts of "assessed values" and "tax rates." Assessed value no longer equals real market value. Real market value is the sale price for property that changes hands between a willing seller and a willing buyer in the open market. Assessed value is the value assigned to that property for tax purposes. Growth in maximum assessed value for existing properties is limited to 3% per year.

## What is Compression?

Some jurisdictions in Oregon do not receive the full amount of property taxes that should be levied, due to "compression," which occurs as a result of the rate limits enacted by Measure 5. These rate limits apply to the *real market value* of properties, rather than to the assessed value. If taxes to be raised on an individual property exceed the Measure 5 limits ($5 per $1,000 for education, or $10 per $1,000 for general government), then the tax bill for that property is reduced or "compressed." Compression loss means some properties pay less in taxes than are calculated by the product of the assessed value and consolidated tax rate.

# Methods

The methods used in our analysis, included the following key steps:

- Step 1. Define boundary options
- Step 2. Identify projects and costs.
- Step 3. Determine applicable tax rates.
- Step 4. Forecast growth in assessed value.
- Step 5. Calculate TIF and revenue sharing.
- Step 6. Create a draft finance plan.

## Step 1. Define boundary options

The City of Newport asked us to evaluate three different boundary options. Each boundary option also included a few variations on a fairly consistent list of economic development projects. Exhibit 1 is a map displaying all three boundary options.

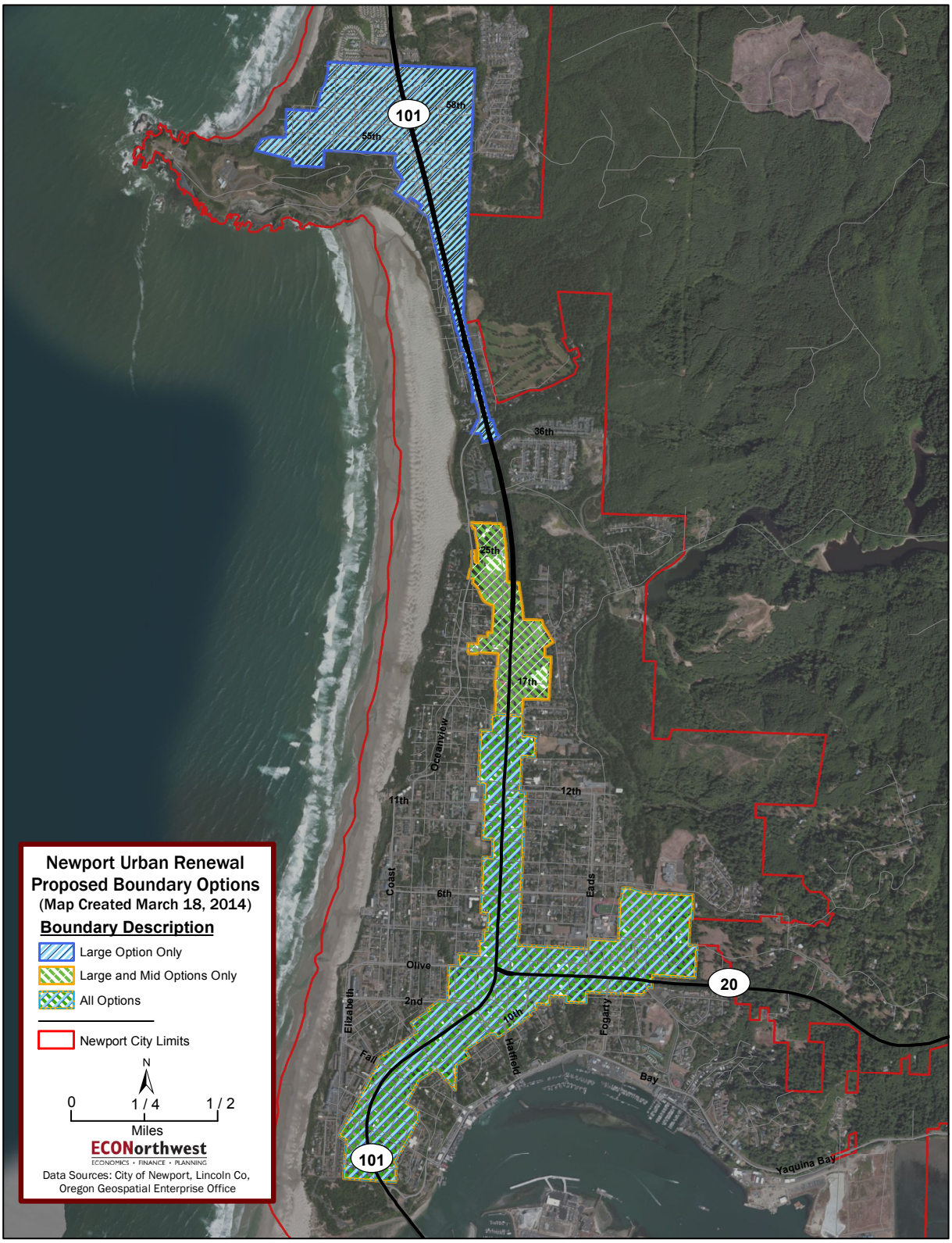
The first option, the *Small Option*, includes 282 acres of downtown Newport centered around the Highway 101 / Highway 20 intersection. Total assessed value of the area is $146,294,830 million. The list of projects to be included in this option result in a maximum indebtedness of $40 million.

The *Mid Option* includes all of the area from the Small Option, plus a larger area that extends north along Highway 101 to include additional commercially zoned parcels in the area. It has a total of 345 acres, and $198,769,630 million in assessed value. This boundary was also modeled with a smaller maximum indebtedness (i.e., a lower amount of urban renewal funding for economic development projects). This allows us to evaluate an option that would emphasize a more targeted use of urban renewal, accelerating the timing of project construction, debt repayment and URD retirement. The maximum indebtedness for this option would be $30 million.

The third and final area is the *Large Option.* It is the biggest boundary, encompassing 525 acres, and $269,652,460 million in assessed value, including all of the area from the Small and Mid Options plus the Agate Beach area and a section of Highway 101 right-of-way extending south of Agate Beach. This option has the highest maximum indebtedness, including additional projects to serve the Agate Beach area. Maximum indebtedness for this option would be $45 million.

Note that State statutes limit the total amount of assessed value and acreage that can be included in urban renewal districts in a City. Because the City of Newport already has one existing URD, South Beach URA, it is important to ensure that the proposed boundary options do not exceed the citywide limitations. Our analysis shows that the City has capacity for 619 acres, and $300.8 million in assessed value to add to new URDs. All three boundary options included in this analysis are within these citywide limits.

## Exhibit 1. Map of Three Boundary Options



## Step 2. Identify projects and costs

As mentioned in the previous option, the three boundary options have three different project lists, and project cost estimates, and therefore three different maximum indebtedness figures. The list of projects and cost estimates were provided by City staff, and reviewed by ECONorthwest. These cost estimates are shown below in Exhibit 2. Note that the cost estimates shown in Exhibit 2 are not necessarily the total costs for each project, but the portion of each project cost to be funded with TIF from a new URD. Also note that the values shown in Exhibit 2 were adjusted by the City to account for future inflation. Ultimately, these project costs would be examined more closely and refined before adopting a formal urban renewal plan for the area.

**Exhibit 2. Estimated project costs, Newport URD boundary options**

| Project Name | Small Option | Mid Option | Large Option |
|---|---|---|---|
| Agate Beach improvements to existing local street ROW | N/A | N/A | $1,000,000 |
| Agate Beach Neighborhood Refinement Plan | N/A | N/A | $100,000 |
| Agate Beach storm drainage improvements | N/A | N/A | $1,500,000 |
| Agate Beach US 101 access and collector upgrades | N/A | N/A | $750,000 |
| Benches, public art | $250,000 | $250,000 | $250,000 |
| Billboard removal | $500,000 | $500,000 | $500,000 |
| Construct public safety building | $5,000,000 | N/A | $5,000,000 |
| Construction of couplet and related ROW improvements | $12,500,000 | $10,000,000 | $12,500,000 |
| Downtown Revitalization and Couplet Refinement Plan | $100,000 | $100,000 | $100,000 |
| Intersection realignment (e.g. US 101 and NW 6th) | $1,000,000 | $1,000,000 | $1,250,000 |
| Multi-purpose building (fairgrounds redevelopment) | $3,000,000 | $3,000,000 | $3,000,000 |
| Parking improvements | $1,000,000 | $1,000,000 | $1,000,000 |
| Right-of-way acquisition | $500,000 | $500,000 | $500,000 |
| Signal installation or adjustment | $500,000 | $500,000 | $500,000 |
| Site prep for reuse (demolition, lot aggregation, etc.) | $2,500,000 | $2,500,000 | $2,500,000 |
| Storefront façade loans/grants | $1,000,000 | $1,000,000 | $1,000,000 |
| Strategic site acquisition for economic development | $5,000,000 | $5,000,000 | $5,000,000 |
| Street tree and landscape island enhancements | $250,000 | $250,000 | $250,000 |
| US 101 water line upgrade | N/A | N/A | $600,000 |
| Utility undergrounding | $4,000,000 | $2,700,000 | $4,000,000 |
| Wayfinding improvements | $200,000 | $200,000 | $200,000 |

Note that the total project costs are estimated to be $37.3 million in the Small Option, $28.5 million in the Mid Option, and $41.5 million in the Large Option. Our assumptions for maximum indebtedness round theses numbers up to $40 million, $30 million, and $45 million,

respectively. This provides a cushion to account for administrative costs, which are not included in the estimates shown in Exhibit 2.

## Step 3. Determine applicable tax rates

All property within the three boundary options are located within two tax code areas (104 and 107) that have the same tax rate. Details of the applicable tax rate are shown below in Exhibit 3. Note that some of these taxing districts (Port of Newport, Lincoln County School District, and Oregon Coast Community College) also have rates for general obligation (GO) bonds. However all of these bonds were approved after 2001, and Oregon statutes preclude new URDs from including GO bond rates for all bonds approved after 2001. Tax rate information was obtained from Lincoln County Assessor Summary Table 4a.

**Exhibit 3. Applicable tax rates for Newport URD boundary options, FY 2013-14**

| District | Tax Code Areas: 104 and 107 |
|---|---|
| Lincoln County | 2.8202 |
| Animal Service | 0.1100 |
| Solid Waste | 0.0000 |
| Extension | 0.0451 |
| Transportation | 0.0974 |
| Port of Newport | 0.0609 |
| City of Newport | 5.5938 |
| Pacific Communities Health | 0.3625 |
| **General Government Subtotal** | **9.0899** |
| Lincoln County School Unit | 4.9092 |
| Oregon Coast Community College | 0.1757 |
| Linn-Benton ESD | 0.3049 |
| **Education Subtotal** | **5.3898** |
| **Consolidated Rate** | **14.4797** |

## Step 4. Forecast growth in assessed value

The Lincoln County Assessor provided us with data on the assessed value of all properties in the City of Newport for FY 2013-14. This allowed us to determined the current assessed value of each boundary option. Growth rates for assessed value vary over time, depending on market cycles and new development. In Oregon, appreciation is capped at 3.0% per year, which means any growth above 3.0% per year requires new development to occur.

We looked at recent historical trends in the City of Newport to determine a reasonable growth rate to use for our analysis. Exhibit 4 shows historical growth in assessed value citywide from 2003 to 2014. This shows annual growth varying from 1.2% per year to 5.7% per year, with an average annual growth rate of 3.65%. However, this period includes an historically severe economic recession, and future growth rates (particularly in the short-term) are estimated to be higher than in recent years, as real market values recover.

**Exhibit 4. City of Newport, historical growth in assessed value, FYE 2003 to 2013**

| Year | Assessed Value |
|---|---|
| 2003 | $892,940,492 |
| 2004 | $928,401,219 |
| 2005 | $973,762,350 |
| 2006 | $1,025,083,252 |
| 2007 | $1,083,840,382 |
| 2008 | $1,142,444,797 |
| 2009 | $1,189,556,877 |
| 2010 | $1,221,882,368 |
| 2011 | $1,243,219,850 |
| 2012 | $1,261,955,470 |
| 2013 | $1,277,344,380 |

For our analysis, we assumed annual average growth in assessed value of 4.5% per year. Actual growth may vary, and during the planning stages of adopting an urban renewal plan for a specific URD boundary, the City will want to look at a range of growth rates (higher and lower). However, for the purposes of our analysis, comparing the relative merits of three potential boundary options, our results are easier to understand by looking at only one assumption for assessed value growth.

Note that for FY 2014-15, our forecast of assessed value also included known development. The process of establishing assessed values results in a lag time between when construction occurs and when the value of that new construction activity hits the tax rolls. This means that any new development in 2013 won't be added to the tax roll until FY 2014-15. The City provided us with a list of building permits issued in 2013. These permits were mapped to determine which construction projects occurred within each of the three boundary options. Construction costs and the countywide "changed property ratio" were used to estimate the initial assessed value of this new development. This development is shown in FY 2014-15 of our forecasts.

## Step 5. Calculate TIF and revenue sharing

Calculating TIF revenue is relatively straightforward. After forecasting assessed value as described in Step 4, we subtract the initial assessed value (the frozen base) to determine the "excess value." This excess value is multiplied by the applicable tax rate to determine the total amount of TIF revenue. Then, the revenue sharing thresholds are applied to determine the portion of TIF revenue that will be collected by the URD and the portion that will be shared with overlapping taxing districts.

## Step 6. Create a draft finance plan

The final step in the analysis was to take the annual forecast of TIF revenue for the URD, and translate it into a financing plan showing the year projects would be funded, the debt incurred, and the schedule for retiring the debt. The results of the financing plans for each URD boundary option are described in the following section.

## Results

In this section we describe the results for each of the three boundary options that were evaluated. Our analysis sheds light on several key considerations when evaluating potential URD boundaries: (1) The amount and costs of projects that would be completed, (2) the maximum indebtedness, (3) the year the first substantial project could be completed, (4) the year all projects would be completed, and (5) the year all debt would be repaid.

### Small Option

Exhibit 5 shows our forecast of assessed value, TIF revenues, revenue sharing, and the portion of TIF received by the URD. We estimate the URD would receive $4.8 million in TIF over the first 10-years, $24.3 million over the first 20-years, and $62.9 million over the first 30-years.

**Exhibit 5. Small Option TIF Forecast**

| Fiscal Year Ending | Assessed Value | Frozen Base | Excess Value | Tax Rate | Total TIF | TIF for URA | Shared |
|---|---|---|---|---|---|---|---|
| 2015 | $153,569,598 | $146,294,830 | $0 | 14.4797 | $0 | $0 | $0 |
| 2016 | $160,480,230 | $146,294,830 | $7,274,768 | 14.4797 | $0 | $0 | $0 |
| 2017 | $167,701,841 | $146,294,830 | $14,185,400 | 14.4797 | $205,401 | $205,401 | $0 |
| 2018 | $175,248,424 | $146,294,830 | $21,407,011 | 14.4797 | $309,967 | $309,967 | $0 |
| 2019 | $183,134,603 | $146,294,830 | $28,953,594 | 14.4797 | $419,239 | $419,239 | $0 |
| 2020 | $191,375,659 | $146,294,830 | $36,839,773 | 14.4797 | $533,429 | $533,429 | $0 |
| 2021 | $199,987,563 | $146,294,830 | $45,080,829 | 14.4797 | $652,757 | $652,757 | $0 |
| 2022 | $208,987,003 | $146,294,830 | $53,692,733 | 14.4797 | $777,455 | $777,455 | $0 |
| 2023 | $218,391,419 | $146,294,830 | $62,692,173 | 14.4797 | $907,764 | $907,764 | $0 |
| 2024 | $228,219,034 | $146,294,830 | $72,096,589 | 14.4797 | $1,043,937 | $1,043,937 | $0 |
| 2025 | $238,488,890 | $146,294,830 | $81,924,204 | 14.4797 | $1,186,237 | $1,186,237 | $0 |
| 2026 | $249,220,890 | $146,294,830 | $92,194,060 | 14.4797 | $1,334,942 | $1,334,942 | $0 |
| 2027 | $260,435,829 | $146,294,830 | $102,926,060 | 14.4797 | $1,490,338 | $1,490,338 | $0 |
| 2028 | $272,155,442 | $146,294,830 | $114,140,999 | 14.4797 | $1,652,728 | $1,652,728 | $0 |
| 2029 | $284,402,436 | $146,294,830 | $125,860,612 | 14.4797 | $1,822,424 | $1,822,424 | $0 |
| 2030 | $297,200,546 | $146,294,830 | $138,107,606 | 14.4797 | $1,999,757 | $1,999,757 | $0 |
| 2031 | $310,574,571 | $146,294,830 | $150,905,716 | 14.4797 | $2,185,069 | $2,185,069 | $0 |
| 2032 | $324,550,427 | $146,294,830 | $164,279,741 | 14.4797 | $2,378,722 | $2,378,722 | $0 |
| 2033 | $339,155,197 | $146,294,830 | $178,255,597 | 14.4797 | $2,581,087 | $2,581,087 | $0 |
| 2034 | $354,417,180 | $146,294,830 | $192,860,367 | 14.4797 | $2,792,560 | $2,792,560 | $0 |
| 2035 | $370,365,953 | $146,294,830 | $208,122,350 | 14.4797 | $3,013,549 | $3,013,549 | $0 |
| 2036 | $387,032,421 | $146,294,830 | $224,071,123 | 14.4797 | $3,244,483 | $3,244,483 | $0 |
| 2037 | $404,448,879 | $146,294,830 | $240,737,591 | 14.4797 | $3,485,808 | $3,485,808 | $0 |
| 2038 | $422,649,079 | $146,294,830 | $258,154,049 | 14.4797 | $3,737,993 | $3,737,993 | $0 |
| 2039 | $441,668,287 | $146,294,830 | $276,354,249 | 14.4797 | $4,001,527 | $4,001,527 | $0 |
| 2040 | $461,543,360 | $146,294,830 | $295,373,457 | 14.4797 | $4,276,919 | $4,069,230 | $207,689 |
| 2041 | $482,312,811 | $146,294,830 | $315,248,530 | 14.4797 | $4,564,704 | $4,141,176 | $423,528 |
| 2042 | $504,016,887 | $146,294,830 | $336,017,981 | 14.4797 | $4,865,440 | $4,216,360 | $649,080 |
| 2043 | $526,697,646 | $146,294,830 | $357,722,057 | 14.4797 | $5,179,708 | $4,294,927 | $884,781 |
| 2044 | $550,399,040 | $146,294,830 | $380,402,816 | 14.4797 | $5,508,118 | $4,377,030 | $1,131,089 |

We estimate it would take 3 years for the URA to generate enough TIF revenue to complete a sizable project. For the purposes of our analysis, we used the Fairgrounds Building as the first multimillion-dollar project to be funded. We anticipate all projects could be completed by FYE 2035, and that all debt could be repaid by FYE 2041. The total TIF needed to finance all projects would be $54.1 million.

Advantages of the Small Option include:

- A smaller boundary requires less acreage and less assessed value, which leaves more citywide capacity for other urban renewal districts. This gives the City added flexibility to amend URDs to add in other properties if needed to respond to future economic development opportunities.
- A smaller boundary sends a signal to the public and to affected taxing districts that the City is being targeted in its use of urban renewal, having a lesser impact on annual property tax collections. This can be an important political issue in some communities.

Disadvantages of the Small Option include:

- Larger boundaries with more diverse property types have a more diversified portfolio of property, making them less susceptible to downturns affecting a specific neighborhood or a specific type of property. This boundary has a relatively small area and includes almost exclusively retail and commercial properties. Thus, this boundary is more vulnerable to potential declines in assessed value.
- The smaller boundary means growth in assessed value is likely to happen more slowly. There is less land to accommodate new development, and a lower frozen base value to generate appreciation of existing property. Slower growth in assessed value means it can take longer to accomplish urban renewal projects, and longer to pay off the debt and close down the URD.

## Mid Option

Exhibit 6 shows our forecast of assessed value, TIF revenues, revenue sharing, and the portion of TIF received by the URD. We estimate the URD would receive $6.9 million in TIF over the first 10-years, $33.9 million over the first 20-years, and $68.7 million over the first 30-years.

**Exhibit 6. Mid Option TIF Forecast**

| Fiscal Year Ending | Assessed Value | Frozen Base | Excess Value | Tax Rate | Total TIF | TIF for URA | Shared |
|---|---|---|---|---|---|---|---|
| 2015 | $210,895,164 | $198,769,630 | $12,125,534 | 14.4797 | $0 | $0 | $0 |
| 2016 | $220,385,446 | $198,769,630 | $21,615,816 | 14.4797 | $312,991 | $312,991 | $0 |
| 2017 | $230,302,791 | $198,769,630 | $31,533,161 | 14.4797 | $456,590 | $456,590 | $0 |
| 2018 | $240,666,417 | $198,769,630 | $41,896,787 | 14.4797 | $606,653 | $606,653 | $0 |
| 2019 | $251,496,406 | $198,769,630 | $52,726,776 | 14.4797 | $763,468 | $763,468 | $0 |
| 2020 | $262,813,744 | $198,769,630 | $64,044,114 | 14.4797 | $927,339 | $927,339 | $0 |
| 2021 | $274,640,362 | $198,769,630 | $75,870,732 | 14.4797 | $1,098,585 | $1,098,585 | $0 |
| 2022 | $286,999,179 | $198,769,630 | $88,229,549 | 14.4797 | $1,277,537 | $1,277,537 | $0 |
| 2023 | $299,914,142 | $198,769,630 | $101,144,512 | 14.4797 | $1,464,542 | $1,464,542 | $0 |
| 2024 | $313,410,279 | $198,769,630 | $114,640,649 | 14.4797 | $1,659,962 | $1,659,962 | $0 |
| 2025 | $327,513,741 | $198,769,630 | $128,744,111 | 14.4797 | $1,864,176 | $1,864,176 | $0 |
| 2026 | $342,251,860 | $198,769,630 | $143,482,230 | 14.4797 | $2,077,579 | $2,077,579 | $0 |
| 2027 | $357,653,193 | $198,769,630 | $158,883,563 | 14.4797 | $2,300,587 | $2,300,587 | $0 |
| 2028 | $373,747,587 | $198,769,630 | $174,977,957 | 14.4797 | $2,533,628 | $2,533,628 | $0 |
| 2029 | $390,566,227 | $198,769,630 | $191,796,597 | 14.4797 | $2,777,157 | $2,777,157 | $0 |
| 2030 | $408,141,707 | $198,769,630 | $209,372,077 | 14.4797 | $3,031,645 | $3,031,645 | $0 |
| 2031 | $426,508,084 | $198,769,630 | $227,738,454 | 14.4797 | $3,297,585 | $3,074,396 | $223,189 |
| 2032 | $445,700,948 | $198,769,630 | $246,931,318 | 14.4797 | $3,575,491 | $3,143,873 | $431,618 |
| 2033 | $465,757,491 | $198,769,630 | $266,987,861 | 14.4797 | $3,865,904 | $3,216,476 | $649,428 |
| 2034 | $486,716,578 | $198,769,630 | $287,946,948 | 14.4797 | $4,169,386 | $3,292,347 | $877,040 |
| 2035 | $508,618,824 | $198,769,630 | $309,849,194 | 14.4797 | $4,486,524 | $3,371,631 | $1,114,893 |
| 2036 | $531,506,671 | $198,769,630 | $332,737,041 | 14.4797 | $4,817,932 | $3,454,483 | $1,363,449 |
| 2037 | $555,424,471 | $198,769,630 | $356,654,841 | 14.4797 | $5,164,255 | $3,541,064 | $1,623,191 |
| 2038 | $580,418,572 | $198,769,630 | $381,648,942 | 14.4797 | $5,526,162 | $3,631,541 | $1,894,622 |
| 2039 | $606,537,407 | $198,769,630 | $407,767,777 | 14.4797 | $5,904,355 | $3,726,089 | $2,178,266 |
| 2040 | $633,831,590 | $198,769,630 | $435,061,960 | 14.4797 | $6,299,566 | $3,824,892 | $2,474,675 |
| 2041 | $662,354,012 | $198,769,630 | $463,584,382 | 14.4797 | $6,712,563 | $3,750,000 | $2,962,563 |
| 2042 | $692,159,942 | $198,769,630 | $493,390,312 | 14.4797 | $7,144,143 | $3,750,000 | $3,394,143 |
| 2043 | $723,307,138 | $198,769,630 | $524,537,508 | 14.4797 | $7,595,146 | $3,750,000 | $3,845,146 |
| 2044 | $755,855,959 | $198,769,630 | $557,086,329 | 14.4797 | $8,066,443 | $3,750,000 | $4,316,443 |

We estimate it would take 2 years for the URA to generate enough TIF revenue to complete a sizable project. For the purposes of our analysis, we used the Fairgrounds Building as the first multimillion-dollar project to be funded. We anticipate all projects could be completed by FYE 2029, and that all debt could be repaid by FYE 2036. The total TIF needed to finance all projects would be $42.7 million.

Advantages of the Mid Option include:

- This boundary has the smallest maximum indebtedness, based on the assumption that some projects (like the public safety building) could be funded from other sources, and that some infrastructure projects (like the couplet and utility undergrounding) could be partially funded through a Local Improvement District (LID), a tool that is commonly used in communities across Oregon. By having a smaller maximum indebtedness, the URD could accomplish all of its projects sooner, and close the district sooner, having less of an impact on overlapping taxing districts.

Disadvantages of the Mid Option include:

- Like the Small Option, the Mid Option is comprised almost exclusively of retail and commercial property. An over-reliance on one type of property in one location can make a URD more susceptible to downturns in the real estate market for that property type in that neighborhood.
- By reducing the maximum indebtedness of the area, it means that other funding sources will need to be found to pay for portions of critical projects like the public safety building, couplet, and utility undergrounding. If other funding sources cannot be found, or if they are politically unpopular, then it could make it more challenging to complete these projects.

## Large Option

Exhibit 7 shows our forecast of assessed value, TIF revenues, revenue sharing, and the portion of TIF received by the URD. We estimate the URD would receive $9.2 million in TIF over the first 10-years, $45.5 million over the first 20-years, and $97.8 million over the first 30-years.

**Exhibit 7. Large Option TIF Forecast**

| Fiscal Year Ending | Assessed Value | Frozen Base | Excess Value | Tax Rate | Total TIF | TIF for URD | Shared |
|---|---|---|---|---|---|---|---|
| 2015 | $269,652,460 | $269,652,460 | $0 | 14.4797 | $0 | $0 | $0 |
| 2016 | $285,049,964 | $269,652,460 | $15,397,504 | 14.4797 | $0 | $0 | $0 |
| 2017 | $297,877,213 | $269,652,460 | $28,224,753 | 14.4797 | $408,686 | $408,686 | $0 |
| 2018 | $311,281,689 | $269,652,460 | $41,629,229 | 14.4797 | $602,778 | $602,778 | $0 |
| 2019 | $325,289,365 | $269,652,460 | $55,636,905 | 14.4797 | $805,605 | $805,605 | $0 |
| 2020 | $339,927,387 | $269,652,460 | $70,274,927 | 14.4797 | $1,017,560 | $1,017,560 | $0 |
| 2021 | $355,224,119 | $269,652,460 | $85,571,659 | 14.4797 | $1,239,052 | $1,239,052 | $0 |
| 2022 | $371,209,203 | $269,652,460 | $101,556,743 | 14.4797 | $1,470,511 | $1,470,511 | $0 |
| 2023 | $387,913,617 | $269,652,460 | $118,261,157 | 14.4797 | $1,712,386 | $1,712,386 | $0 |
| 2024 | $405,369,729 | $269,652,460 | $135,717,269 | 14.4797 | $1,965,145 | $1,965,145 | $0 |
| 2025 | $423,611,366 | $269,652,460 | $153,958,906 | 14.4797 | $2,229,278 | $2,229,278 | $0 |
| 2026 | $442,673,878 | $269,652,460 | $173,021,418 | 14.4797 | $2,505,298 | $2,505,298 | $0 |
| 2027 | $462,594,203 | $269,652,460 | $192,941,743 | 14.4797 | $2,793,738 | $2,793,738 | $0 |
| 2028 | $483,410,941 | $269,652,460 | $213,758,481 | 14.4797 | $3,095,159 | $3,095,159 | $0 |
| 2029 | $505,164,434 | $269,652,460 | $235,511,974 | 14.4797 | $3,410,143 | $3,410,143 | $0 |
| 2030 | $527,896,833 | $269,652,460 | $258,244,373 | 14.4797 | $3,739,301 | $3,739,301 | $0 |
| 2031 | $551,652,190 | $269,652,460 | $281,999,730 | 14.4797 | $4,083,271 | $4,083,271 | $0 |
| 2032 | $576,476,538 | $269,652,460 | $306,824,078 | 14.4797 | $4,442,721 | $4,442,721 | $0 |
| 2033 | $602,417,982 | $269,652,460 | $332,765,522 | 14.4797 | $4,818,345 | $4,818,345 | $0 |
| 2034 | $629,526,791 | $269,652,460 | $359,874,331 | 14.4797 | $5,210,872 | $4,677,718 | $533,154 |
| 2035 | $657,855,496 | $269,652,460 | $388,203,036 | 14.4797 | $5,621,064 | $4,780,266 | $840,798 |
| 2036 | $687,458,992 | $269,652,460 | $417,806,532 | 14.4797 | $6,049,714 | $4,887,429 | $1,162,286 |
| 2037 | $718,394,647 | $269,652,460 | $448,742,187 | 14.4797 | $6,497,652 | $4,999,413 | $1,498,239 |
| 2038 | $750,722,406 | $269,652,460 | $481,069,946 | 14.4797 | $6,965,749 | $5,116,437 | $1,849,312 |
| 2039 | $784,504,915 | $269,652,460 | $514,852,455 | 14.4797 | $7,454,909 | $5,238,727 | $2,216,182 |
| 2040 | $819,807,636 | $269,652,460 | $550,155,176 | 14.4797 | $7,966,082 | $5,366,521 | $2,599,562 |
| 2041 | $856,698,979 | $269,652,460 | $587,046,519 | 14.4797 | $8,500,257 | $5,500,064 | $3,000,193 |
| 2042 | $895,250,433 | $269,652,460 | $625,597,973 | 14.4797 | $9,058,471 | $5,639,618 | $3,418,853 |
| 2043 | $935,536,702 | $269,652,460 | $665,884,242 | 14.4797 | $9,641,804 | $5,625,000 | $4,016,804 |
| 2044 | $977,635,854 | $269,652,460 | $707,983,394 | 14.4797 | $10,251,387 | $5,625,000 | $4,626,387 |

We estimate it would take 2 years for the URA to generate enough TIF revenue to complete a sizable project. For the purposes of our analysis, we used the Fairgrounds Building as the first multimillion-dollar project to be funded. We anticipate all projects could be completed by FYE 2029, and that all debt could be repaid by FYE 2037. The total TIF needed to finance all projects would be $64.8 million.

Advantages of the Large Option include:

- This boundary has the largest maximum indebtedness, which means it has the greatest ability to implement economic development projects in the City.
- This boundary has the largest area, including single-family and multifamily residential property in the Agate Beach area. This boundary has the most diverse portfolio of property, making it the least susceptible to downturns in the real estate market for any specific neighborhood or type of property.
- Because of the large area and assessed value, this boundary has the potential to experience more rapid growth in TIF revenue than the other boundary options, allowing more projects to occur sooner.

Disadvantages of the Large Option include:

- As the largest option, with the highest maximum indebtedness, this option may invite criticism from affected taxing districts or the general public who are afraid of the impact of urban renewal on other taxing districts.
- By including Agate Beach, the URD becomes less focused. Questions will need to be answered about the relative priority of Agate Beach vs. the Hwy 101 commercial corridor in terms of their economic development potential. As TIF revenue becomes available, how will the needs of Agate Beach be prioritized vs. the needs of the Hwy 101 commercial corridor?
- The large option leaves the least amount of remaining citywide capacity for urban renewal. This means that the City would have limited capacity to amend a URD to bring in more property to respond to future economic development opportunities.
- In many communities, the general public is ill informed about urban renewal. When residential areas, like Agate Beach, are included in a URD, residents of the area can raise strong objections to their inclusion in the area, even though there are no tangible negative impacts to being in a URD, and in fact there are many benefits that come from the ability to fund much needed economic development projects and cure blight in the area.

## Compression considerations

Property owners are taxed on the combined rates of general government, education, and debt service for all overlapping governments that provide services to that property. In most cases, the taxes to be raised from an individual property are calculated as the consolidated tax rate multiplied by the assessed value. When the taxes to be raised using this methodology exceed the Measure 5 limits on real market value, the assessor must reduce the taxes to be raised until they equal the legal limits.

Exhibit 8 shows actual compression losses for taxing districts that overlap the proposed URD boundary options. Note that compression losses for all general government entities are less than 0.00% of total tax revenue. No general government district experienced more than $100 of compression losses last year. For education districts, however, compression losses are more significant, with compression losses equally 1.79% of the taxes to be raised.

**Exhibit 8. FY 2013-14 property tax compression losses, selected taxing districts, Lincoln County**

| District | Total AV | Amount Tax Rate Will Raise | District's Compression Loss | Percent Compression Loss |
|---|---|---|---|---|
| **General Government** | | | | |
| LINCOLN COUNTY GENERAL | 6,781,928,457 | 18,051,962 | (84) | 0.00% |
| LINCOLN COUNTY ANIMAL SERVICE | 6,781,928,457 | 704,105 | (3) | 0.00% |
| LINCOLN COUNTY EXTENSION SERVICE | 6,781,928,457 | 288,683 | (1) | 0.00% |
| LINCOLN COUNTY SOLID WASTE | 6,781,928,457 | - | - | |
| LINCOLN COUNTY TRANSPORTATION SVC | 6,781,928,457 | 623,453 | (3) | 0.00% |
| CITY OF NEWPORT | 1,734,020,940 | 6,081,290 | (93) | 0.00% |
| NEWPORT RFPD | 272,500,790 | 242,183 | - | 0.00% |
| PACIFIC COMMUNITIES HEALTH | 3,461,172,570 | 1,192,455 | (6) | 0.00% |
| PORT OF NEWPORT | 1,734,020,940 | 97,327 | (1) | 0.00% |
| Subtotal - General Government | | 27,281,458 | (191) | 0.00% |
| **Education** | | | | |
| LINCOLN COUNTY SCHOOL DIST | 6,781,928,457 | 31,423,549 | (576,976) | -1.84% |
| LINCOLN COUNTY LIBRARY | 6,781,928,457 | 851,463 | (1) | 0.00% |
| OREGON COAST COMMUNITY COLLEGE | 6,781,928,457 | 1,124,647 | (20,650) | -1.84% |
| LINN-BENTON-LINCOLN ESD | 6,781,928,457 | 1,951,650 | (35,834) | -1.84% |
| Subtotal - Education | | 35,351,310 | (633,460) | -1.79% |
| **Total** | | **89,914,226** | **(633,842)** | **-0.70%** |

Source: Lincoln County Assessor, Table 4a

The reason why education districts are experiencing more compression than general government districts, is because their tax rates are higher, relative to the Measure 5 limits. Looking at tax code areas 104 and 107 as an example, the total general government tax rate is $9.0899, and the total education rate is $5.3898 per $1,000 of **assessed value**. Measure 5 limits property tax collections for general government to $10 per $1,000 and for education to $5 per $1,000 of **real market value**.

Because the education tax rate is more than $5 per $1,000 it is possible for properties to experience compression. With a general government tax rate less than $10 per $1,000 it is

theoretically impossible for any compression losses to occur. However, looking back at Exhibit 8, we do know that some compression is occurring for general government. This is due to two reasons.

First, the county is comprised of a patchwork of dozens of tax code areas, each representing a different combination of different taxing districts. Some of those tax code areas have higher tax rates, due to the presence of districts like the Seal Rock Water District, or the Lost Creek Park Road District. In those areas, the tax rate may exceed $10 per $1,000 of assessed value.

The second reason is that urban renewal changes the effective tax rates. Urban renewal is sometimes referred to as "division of taxes." That means that a portion of the taxes that would go to a jurisdiction like the City of Newport is instead divided off and sent to an urban renewal agency instead. The process that the County Assessor uses to collect TIF revenues for URDs results in a portion of each jurisdictions tax rate being carved off, and turned into a new urban renewal tax rate. A side effect of this process is that education districts that are impacted by urban renewal have their rates reduced a small amount, and that amount is added to the general government side of the compression equation.

Exhibit 9 shows an example of the impact of urban renewal on property tax rates. Tax code areas 104 and 107 are the areas that would be affected by a new URD in Newport north of the Yaquina Bay Bridge. Because these tax code areas are within the City of Newport, and because the City already has an existing URD, their tax rates are impacted by that URD. This has the net impact of reducing the education tax rate by $0.5983, and increasing the general government tax rate by the corresponding amount.

**Exhibit 9. Example of urban renewal impact on tax rates**

| Tax Code Area 104 and 107 | |
|---|---|
| Non-Adjusted Rates | |
| General Government | 9.0899 |
| Education | 5.3898 |
| UR Adjusted Rates | |
| General Government | 9.6882 |
| Education | 4.7935 |
| Existing URD Impact | 0.5983 |

Calculated by ECONorthwest with data from Lincoln County Assessor

A new URD in Newport would have a similar impact on tax rates. The magnitude of the impact is based on the magnitude of the TIF revenue collected by the URD. Thus, a new URD starting off with very low annual TIF revenues, will have a much smaller impact than a mature URD with relatively large annual TIF revenues. We estimate the impact of the Small Option URD would start at about $0.02 per year, and grow to about $0.15 per year after a decade, $0.25 per year after 20-years, and $0.35 per year after 30-years.

Based on this analysis, we conclude that a new URD would have a very small negative impact on compression losses for the City and for other general government taxing districts, and a small positive impact on education taxing districts. For most areas of the City, the general government tax rate would remain below $10 for many years.

As mentioned previously, the City's existing South Beach URD, has an annual impact, converting $0.5983 of education taxes into general government taxes. At some point in the future, this URD will be retired, resulting in that $0.5983 returning to the education side of the equation. This will mean more compression for education taxing districts in the area, and less risk of compression for general government.

Because tax rates apply to assessed value, and Measure 5 limits apply to real market value, the real estate market has a big impact on compression losses. When the market is strong, real market values for most properties are likely to be well above their assessed values. This provides a big "cushion," making compression losses highly unlikely, except in urban areas with very high tax rates. When the market is weak, like during the recent recession, then real market values fall, reducing or eliminating the gap between real market value and assessed value, and making properties more susceptible to compression in places where the tax rates exceed the Measure 5 limits. Because we are just exiting a severe recession, compression in future years is likely to be less than compression in the recent past, as property values increase.

One factor that can always increase the risk of compression losses is the passage of new local option levies that increase the consolidated tax rate. All of the analysis we conducted assumes that tax rates remain constant, other than the expiration of general obligation bond levies, which have no impact on compression. If the community decides to approve a local option levy tax increase, then this naturally means that the risk of compression losses will increase.

## Conclusion

Exhibit 10 summarizes the key findings for each of the URD boundary options.

**Exhibit 10. Boundary Options Summary**

| | Small Option | Mid Option | Large Option |
|---|---|---|---|
| **Description** | Downtown Newport area centered around the Highway 101 / Highway 20 intersection | Downtown Newport area centered around the Highway 101 / Highway 20 intersection, with an extension north of commercial parcels abutting Highway 101. | Downtown Newport area centered around the Highway 101 / Highway 20 intersection, with an extension north of commercial parcels abutting Highway 101 plus the Agate Beach area, and including Highway 101 right-of-way extending south. |
| **Acreage** | 282 | 345 | 525 |
| **Frozen Base** | $146,294,830 | $198,769,630 | $269,652,460 |
| **Total Project Costs** | $37,300,000 | $28,500,000 | $41,500,000 |
| **Year All Projects will be Completed** | 2035 | 2029 | 2029 |
| **Year Pay off Debt** | 2041 | 2036 | 2037 |
| **Total Maximum Indebtedness** | $40,000,000 | $30,000,000 | $45,000,000 |
| **Total TIF Revenue** | | | |
| 10 Years | $4,849,949 | $6,907,705 | $9,221,723 |
| 20 Years | $24,273,813 | $33,891,419 | $45,549,849 |
| 30 Years | $66,152,062 | $91,711,451 | $123,556,938 |

Our analysis finds that all three options are feasible, and none has any fatal flaws from a technical perspective. Thus, the decision on which boundary option to pursue comes down to the City's priorities.

- The Small Option suggests a strategy that limits the annual impact to other taxing districts and focuses economic development efforts on the Hwy 101 / Hwy 20 commercial areas. This option requires a tradeoff: It has less of an annual impact on tax revenues for overlapping taxing districts, but is more risky, and will take a longer period of time to generate sufficient revenue to pay for economic development projects.
- The Mid Option suggests a strategy that relies on other funding sources, like an LID, limits the total impact to other taxing districts and wraps up the URD as soon as possible. In this option, urban renewal funding for projects is substantially less than the other options, requiring additional sources to pick up the slack.
- The Large Option suggests a strategy that would leverage the full potential of urban renewal to achieve the City's economic development goals. By including a larger area with more assessed value, the URD would have greater TIF revenue potential, and be less at risk for economic downturns. With the largest project list and maximum indebtedness, this option has the greatest ability to implement the City's economic

development goals, and to do more of these projects sooner than the other options. However, this project also is the broadest use of urban renewal, which may draw political objections from residents or other taxing districts who may feel that the impact on other taxing districts isn't worth the benefits that these projects provide.

Although this analysis describes each of these three options independently, the City can mix and match elements of any of these options. During the next phase of this project, an urban renewal plan and report would be created that would refine the boundary and list of projects to more closely align with the City's priorities.

# Newport Urban Renewal Proposed Large Option with Newport Zoning

(Map Created March 12, 2014)

## Zoning Designation

- C-1 Retail and Service
- C-2 Tourist
- C-3 Heavy
- I-1 Light
- I-2 Medium
- I-3 Heavy
- P-1 Public Structures
- P-2 Public Parks
- P-3 Public Open Space
- R-1 Low Density Single-Family
- R-2 Medium Density Single-Family
- R-3 Medium Density Multi-Family
- R-4 High Density Multi-Family
- W-1 Water Dependent
- W-2 Water Related

<white outline> Large Option Bndry

Public / Institutional Prop Type

N

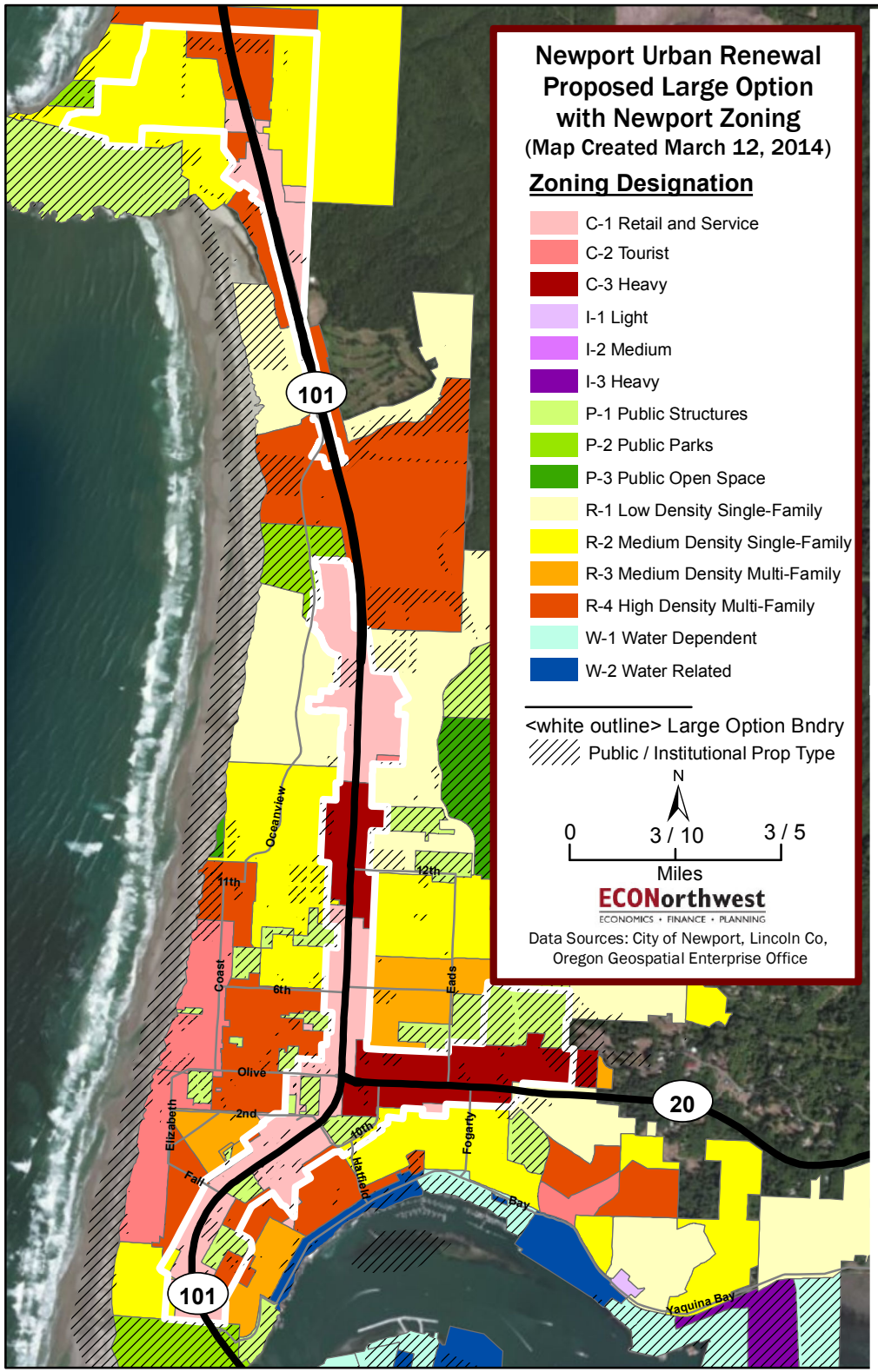
0 3 / 10 3 / 5

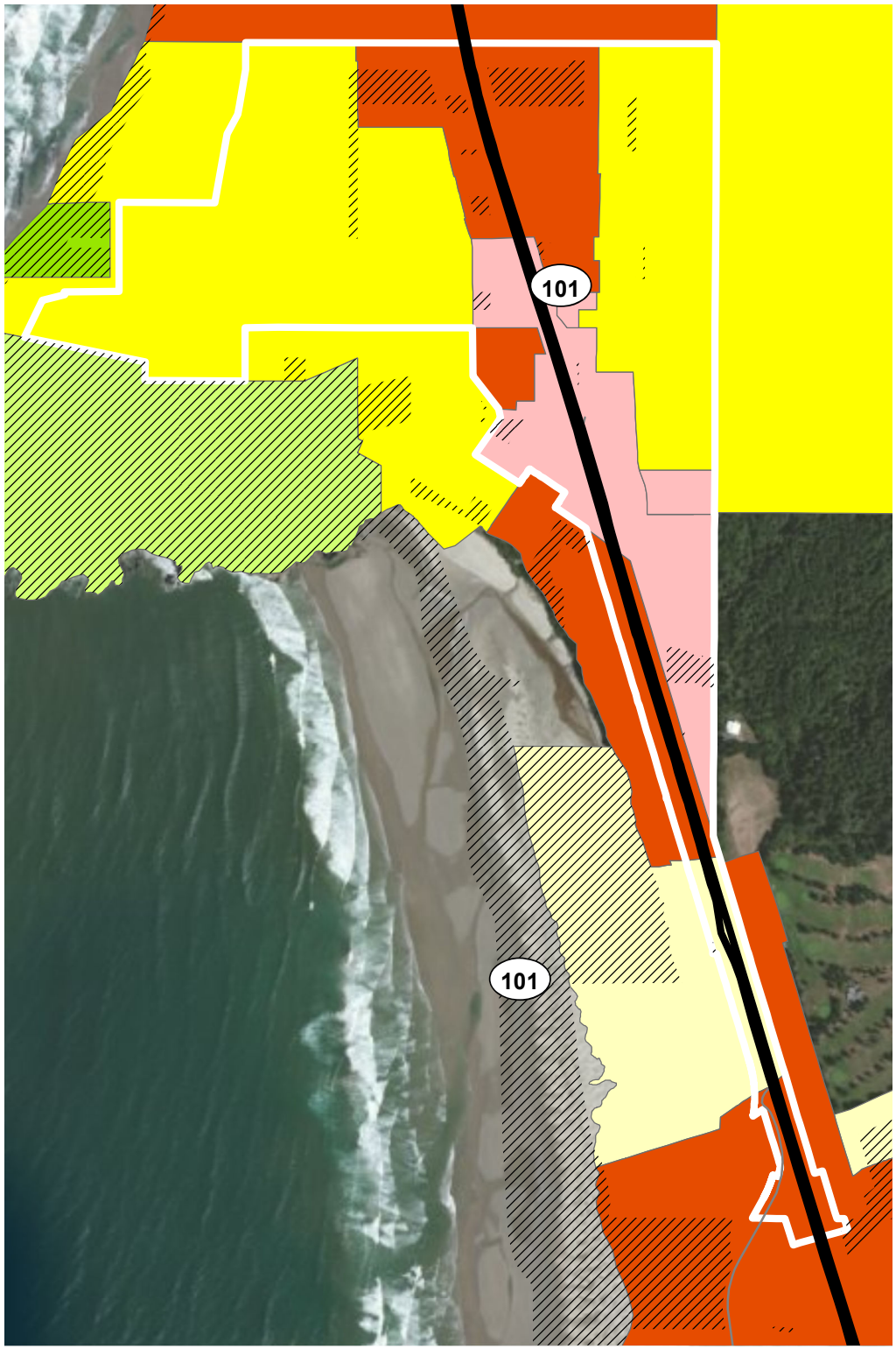
Miles

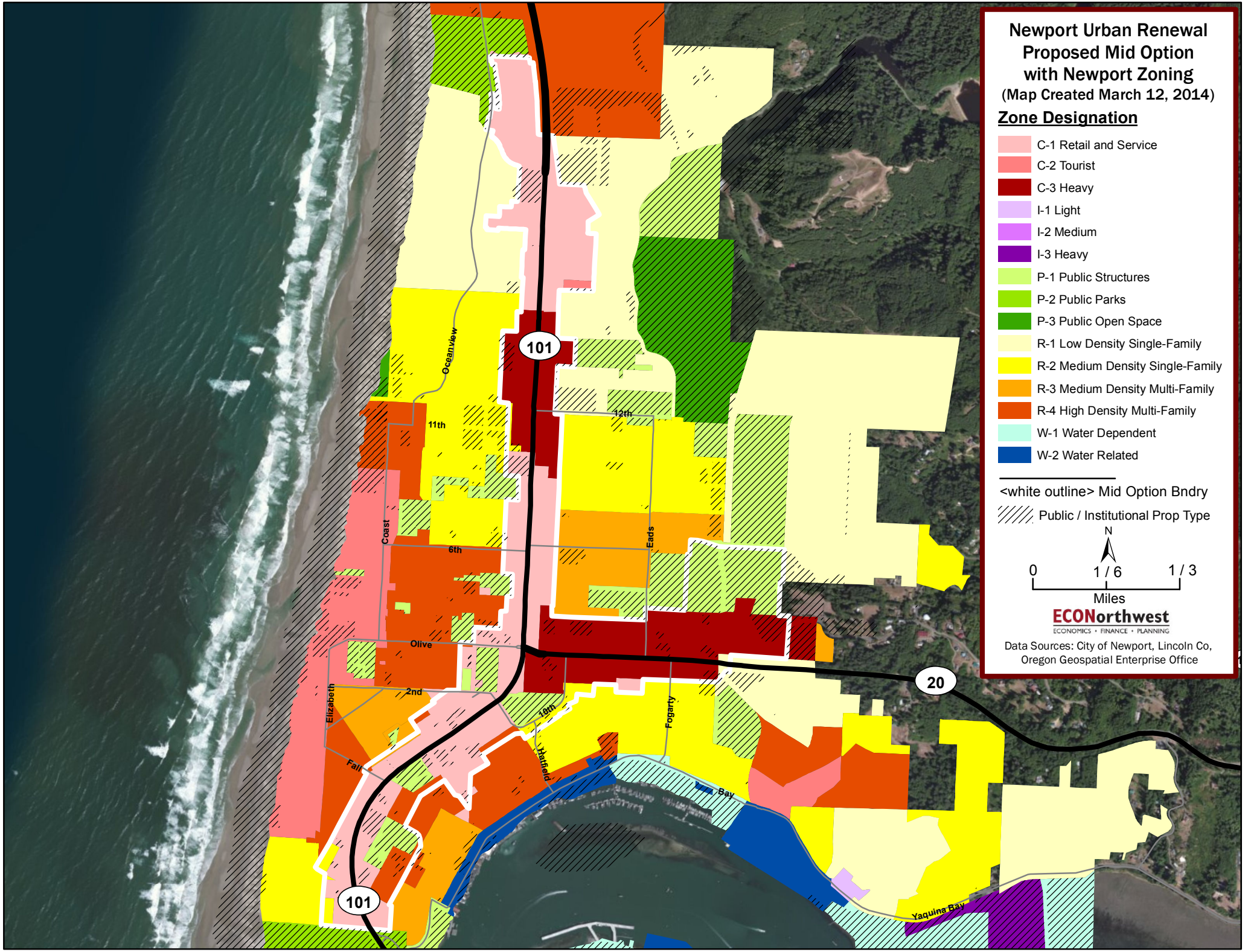
ECONorthwest

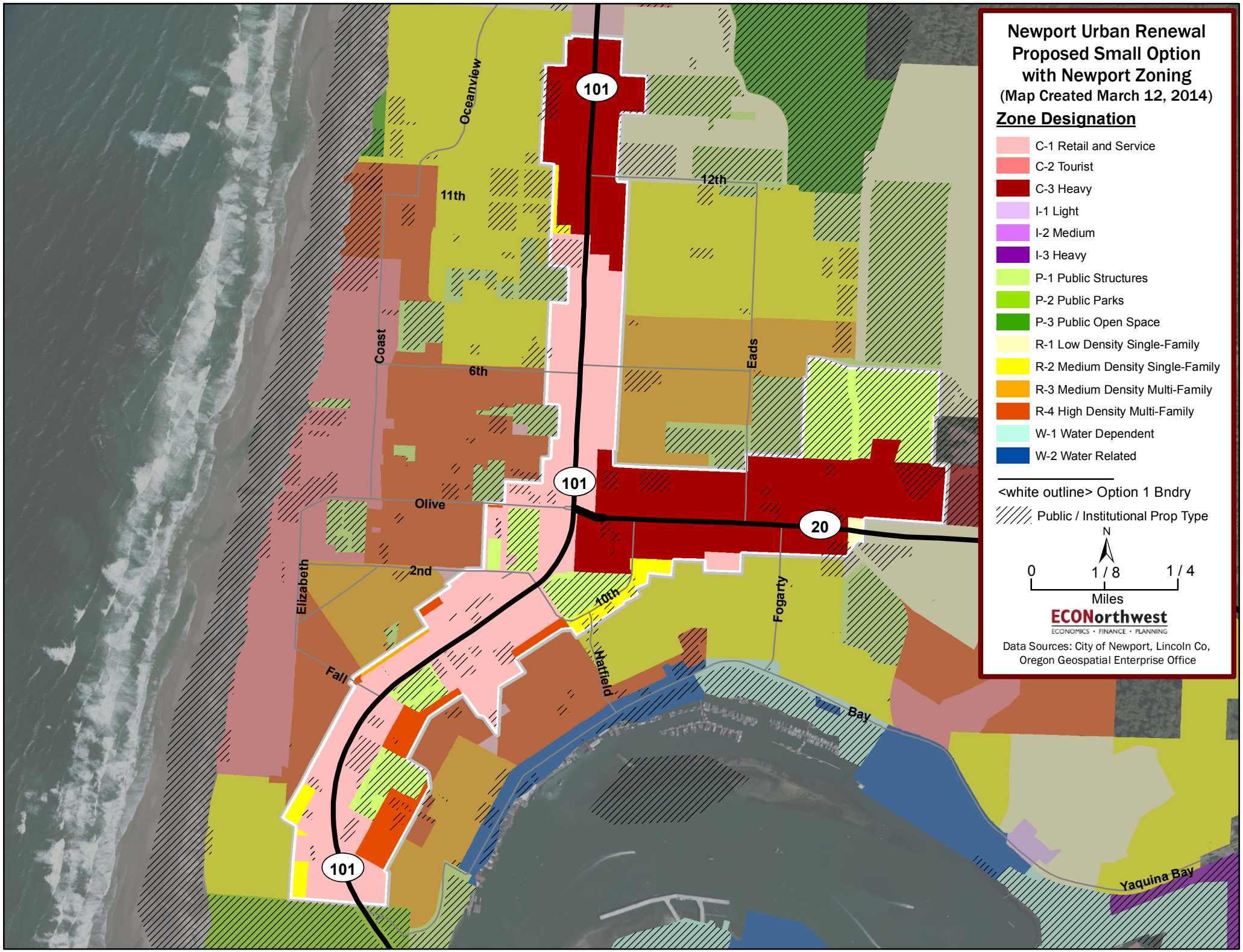
ECONOMICS • FINANCE • PLANNING

Data Sources: City of Newport, Lincoln Co, Oregon Geospatial Enterprise Office




Newport Urban Renewal
Proposed Mid Option
with Newport Zoning
(Map Created March 12, 2014)
Zone Designation
C-1 Retail and Service
C-2 Tourist
C-3 Heavy
I-1 Light
I-2 Medium
I-3 Heavy
P-1 Public Structures
P-2 Public Parks
P-3 Public Open Space
R-1 Low Density Single-Family
R-2 Medium Density Single-Family
R-3 Medium Density Multi-Family
R-4 High Density Multi-Family
W-1 Water Dependent
W-2 Water Related
<white outline> Mid Option Bndry
Public / Institutional Prop Type
N
0
1 / 6
1 / 3
Miles
ECONorthwest
ECONOMICS • FINANCE • PLANNING
Data Sources: City of Newport, Lincoln Co,
Oregon Geospatial Enterprise Office
101
20
Oceanview
11th
12th
Coast
6th
Eads
Olive
2nd
Elizabeth
19th
Fogarty
Hatfield
Fall
Bay
Yaquina Bay


Newport Urban Renewal
Proposed Small Option
with Newport Zoning
(Map Created March 12, 2014)
Zone Designation
C-1 Retail and Service
C-2 Tourist
C-3 Heavy
I-1 Light
I-2 Medium
I-3 Heavy
P-1 Public Structures
P-2 Public Parks
P-3 Public Open Space
R-1 Low Density Single-Family
R-2 Medium Density Single-Family
R-3 Medium Density Multi-Family
R-4 High Density Multi-Family
W-1 Water Dependent
W-2 Water Related
<white outline> Option 1 Bndry
Public / Institutional Prop Type
N
0
1 / 8
1 / 4
Miles
ECONorthwest
ECONOMICS • FINANCE • PLANNING
Data Sources: City of Newport, Lincoln Co, Oregon Geospatial Enterprise Office
101
Oceanview
11th
12th
Coast
6th
Eads
Olive
20
2nd
Elizabeth
10th
Fogarty
Hatfield
Fall
Bay
Yaquina Bay