CITY OF LAKE OSWEGO

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MEMORANDUM

TO: Mayor Hoffman
Members of the City Council
Alex D. McIntyre, City Manager

FROM: Brant Williams, Economic and Capital Development Department
David Powell, City Attorney

SUBJECT: Analysis of the Effects of Existing and Proposed Urban Renewal Areas on Lake Oswego School District Revenues

DATE: April 4, 2011

This memo provides an analysis of the financial effects of the existing East End Redevelopment Area and a possible future Foothills District urban renewal plan on the Lake Oswego School District. It is anticipated that further discussions about Foothills and the current Foothills Framework planning process will rely on this information.

Urban renewal and its impacts on taxing districts is complex, especially school districts. Some of these complexities are due to evolving state regulations for both school funding and urban renewal. Measures 5 and 50 have also had significant impacts on each of these.

While there are additional issues and much debate around urban renewal and its direct and indirect effect on overall tax revenues and school funding state-wide, this paper focuses solely on Lake Oswego's urban renewal agency and school district.

Urban Renewal Generally

When an urban renewal area is formed, the assessed value of the property within that area is "frozen" at the value existing on the date the area's urban renewal plan is adopted. The various taxing districts (schools, cities, counties, special districts, etc.) within that urban renewal area continue to receive the property tax revenue that results from applying their tax rates to this frozen amount. As a general rule, the urban renewal agency receives the revenue resulting from applying the tax rates of all the taxing districts to any growth in assessed value above the frozen base (the "tax increment"). Under 1997 Ballot Measure 50, growth in assessed value is limited to 3% per year, except when a property is redeveloped, divided or re-zoned. The tax increment revenue may be used by the urban renewal agency only to pay indebtedness incurred for urban renewal projects authorized under the urban renewal plan.

Revenue from LOSD Permanent Tax Rate

a. Existing Urban Renewal Area

The Lake Oswego Redevelopment Agency (LORA) currently administers a single urban renewal district, the East End Redevelopment Area. Adoption of the East End Redevelopment Plan established a frozen tax base equaling the 1987-88 assessed value of the property within that area.[1] The Lake Oswego School District (LOSD) continues to receive the tax revenue that results from applying its permanent tax rate to the frozen base, while LORA receives the revenue by applying this rate to the tax increment. Nevertheless, because of the complexities of the state school funding mechanism, the diversion of tax increment revenue to LORA does not result in a direct, equivalent loss of revenue to the School District.

The state distributes money from the State School Fund to each school district based primarily upon on a per-pupil formula. However, in order to equalize school funding across the state, the amount that would otherwise be distributed to a particular school district is reduced by an amount equal to that district's local property tax revenue. Consequently LOSD's state grant is reduced by its permanent tax rate revenue, including revenue from applying that rate to the frozen base in the urban renewal area. If the amount of tax increment revenue LORA receives from LOSD's permanent tax rate were instead received by LOSD, the school district's state grant would be further reduced by an identical amount. Therefore, the division of taxes benefitting the existing urban renewal area does not cause a direct, net loss of revenue to the School District.

There is, however, a relatively small indirect impact because, if there were no existing urban renewal area, the local revenue LORA receives would decrease the state grant amount to LOSD, and that offset would benefit the statewide school funding formula. A greater Lake Oswego offset would mean that the available state funds could be allocated to a slightly higher per-pupil grant rate across the state. District officials estimate that LOSD currently receives approximately 1% of every additional school funding dollar available to the state. Therefore, if there were no existing urban renewal district, it is possible that LOSD would receive additional state funding equal to approximately 1% of the tax increment funds from the LOSD permanent tax rate that would otherwise have gone to LORA.

b. Proposed Foothills District Urban Renewal Area

A likely funding source for redeveloping the Foothills District is tax increment from the formation of a new urban renewal area comprising properties within the District. It would combine Foothills properties currently in the East End Redevelopment Area with the Foothills industrial properties not in that urban renewal area. Transferring properties from the East End Redevelopment Area would effectively reset the value of their frozen base from the properties' assessed value in 1987-88 to their current assessed values (as of the date of the new urban renewal plan).

Applying the LOSD permanent tax rate to this new, larger frozen base would direct significantly more permanent property tax rate revenue to the School District than it currently receives from those properties. Over time, LORA would receive tax increment revenue as assessed values increase above the

[1] The East End Redevelopment Plan has been amended on two occasions to add properties to the urban renewal area. The frozen tax base for those added properties would equal their assessed value as of the date of the plan amendment.

new plan area's frozen base. As with the existing East End Redevelopment Area, the increment LORA receives from the new area represents revenue that would otherwise be part of the School District's local revenue calculation under the State School Fund grant.

A preliminary analysis was conducted to assess potential financial impacts to the LOSD if a new urban renewal area is established for the Foothills District. The following was assumed for the purpose of this exercise:

- A new Foothills urban renewal area is established in the 2012-13 tax year and includes the properties in the Oswego Pointe development and the Oswego Village Shopping Center (all currently within the existing East End Redevelopment Area), the 17 acres of taxable industrial property, and the 13 acres of non-taxable industrial property (the Tryon Creek Wastewater Treatment Plant) in the Foothills District;
- Taxable assessed value (AV) increases at the rate of 3% each year; and
- The current frozen base value for the Oswego Pointe and Oswego Village properties is $13.9 million based on the average ratio of frozen base to current taxable assessed value for the entire East End Redevelopment Area.

Removing the Oswego Pointe and Oswego Village properties from the existing East End Redevelopment Area in 2012-13 will reset their frozen base value from an estimated $13.9 million to a projected $76.7 million. Applying LOSD's permanent rate to this new frozen base would redirect an additional $2.7 million in permanent property tax rate revenue to LOSD over the next ten years.

Establishing a frozen tax base value for the Foothills Industrial Properties not currently in the existing East End Redevelopment Area is projected to reduce LOSD's permanent property tax rate revenues by $59,000 over the same ten-year period.

Therefore, based on this analysis, removing the Oswego Pointe and Oswego Village properties from the East End Redevelopment Area and creating a new urban renewal area for the entire Foothills District is expected to have a net positive impact of over $2.6 million in permanent property tax revenue received by LOSD over the next ten years.

However, as stated previously, this new revenue to LOSD would, in turn, decrease the state grant to LOSD by an identical amount, and that offset would benefit the statewide school funding formula by $2.6 million. The statewide redistribution of this $2.6 million would result in an overall net gain for LOSD of $26,000 over ten years, assuming again that LOSD receives approximately 1% of any increase to the State School Fund.

Revenue from LOSD Local Option Levy

The Lake Oswego School District currently has a local option levy that produces revenue in excess of the amount realized from the District's permanent property tax rate. In November of 2008, District voters renewed the local option levy through 2014-2015 at a maximum rate of $1.39 per $1,000 of assessed value.

a. Existing Urban Renewal Area

Most Oregon urban renewal agencies do not receive tax increment revenue from other agencies' local option levies. This is because state law provides that urban renewal areas having what met the definition of an "existing urban renewal plan" under the statutes implementing Ballot Measure 50, or having an urban renewal plan adopted after October 6, 2001, do not receive revenues from local option levies that are approved after that date. To meet the definition of an "existing urban renewal plan," urban renewal agencies with plans that existed when Ballot Measure 50 went into effect were required to adopt a maximum indebtedness limit by July 1, 1998. The Lake Oswego Redevelopment Agency adopted a limit for the East End Redevelopment Plan by the required deadline. However, this action was referred to the voters by a referendum petition. The measure was defeated at the November, 1998 election, nullifying the earlier adoption of the maximum indebtedness limit. For this reason the East End Redevelopment Plan is considered an "other urban renewal plan" under state law. One of the consequences of that designation is that LORA receives tax increment revenue from LOSD's local option levy.[2]

As with the permanent property tax rate, LORA receives the revenue realized from the application of the LOSD local option levy rate to the growth of assessed value over the frozen base in the East End Redevelopment Area. However, determining whether there is a corresponding net loss of revenue to the School District is more complex.

Unlike revenue from the School District's permanent property tax rate, the amount of local option levy revenue received by LOSD that does not exceed a limit equaling the lesser of a certain amount calculated on a per pupil basis[3] or 20% of LOSD's State School Fund grant, (referred to in this memo as the "state deduction limit") is not deducted from the State School Fund grant. Receipts subject to the state deduction limit include only the revenue actually received by the School District, which would not include the local option revenue diverted to the urban renewal agency. So if the School District's local option levy receipts, exclusive of the amount that goes to the urban renewal agency, equal or exceed the state deduction limit, the additional amount diverted to the urban renewal agency is not revenue that would otherwise be realized by the School District. If the urban renewal area did not exist and the revenue that currently goes to LORA were instead added to the District's actual receipts, that additional revenue would add to the amount that exceeds the state deduction limit, and would then be offset by a corresponding dollar-for-dollar reduction in the amount of state funds LOSD would receive.

On the other hand, if the School District's actual local option receipts are below the state deduction limit (assuming that is not the result of a voluntary reduction of the local option rate by the District), it could be said that the revenue received by the urban renewal agency by reason of the local option levy is

[2] The local option levy consequence is the result of subsequent legislation that could not have been anticipated at the time of the November, 1998 election. Furthermore, the LOSD local option levy was not implemented until 2000-2001. What was known at the time of the 2008 election was that the nullification of the adopted maximum debt limitation would prevent LORA from taking advantage of the urban renewal special levy opportunity that was created by state law to mitigate for the effects of the "cut and cap" provisions of Ballot Measure 50.

[3] This is described in state law as $1,000 per district extended weighted average daily membership (calculated per a statutory formula), increased each fiscal year after 2009-2010 by three percent above the amount allowed for the prior fiscal year.

revenue that would otherwise directly benefit the School District (to the extent of the urban renewal agency revenue that does not exceed the amount of the “gap” between School District’s receipts and the state deduction limit).

LOSD local option levy revenues exceeded the state deduction limit in one tax year since its implementation in 2000. In that year, there would have been no direct net loss of revenue to the district as a result of the diversion of local option revenue to the urban renewal agency.

In an additional five tax years the District voluntarily reduced its local option levy rate to stay under the state deduction limit. To the extent that the LOSD rate reductions left a “gap” between the reduced LOSD revenues and the state deduction limit, it could be said that local option money received by LORA in those years up to the amount of the “gap” is money that otherwise would go to LOSD. However, it would be inaccurate to conclude that the existence of the urban renewal area actually caused the loss of that revenue to the school district. In those years where LOSD projected that the levy would exceed the state deduction limit, that projection would have occurred with or without the existence of the urban renewal area (in fact, if there were no urban renewal area, the limit would have been exceeded by an even greater amount). Therefore, with or without the urban renewal, the school district would have endeavored to reduce the levy rate to a level that the district estimated would produce revenue just under, but not exceeding, the state deduction limit. The existence of the urban renewal area would not have made a difference in the targeted reduced revenue level selected by the school district. Thus the revenue to LOSD that was realized from the local option levy after the voluntary reduction each year would have been the same whether or not the urban renewal area existed at the time the reduction was implemented. LOSD would not have received local option money within the voluntarily-created “gap,” with or without urban renewal.[4]

Therefore, during six of the eleven fiscal years of the LOSD local option levy, the existing urban renewal area has caused no direct loss of local option revenue to the school district. LOSD officials report that state budget projections for fiscal year 2011-12, based upon the governor’s proposed budget, do not create a scenario where the LOSD local option rate will need to be reduced for that year.

Even in those circumstances where the amount of local option levy taxes that are currently diverted to the urban renewal agency would only add to an LOSD local option excess over the state deduction limit if the urban renewal area did not exist, it nevertheless can be said that the existence of the urban renewal area has an indirect impact on LOSD revenue. As discussed in the preceding section on permanent property tax rates, any increase in the amount of the local LOSD offset would benefit the State School Fund, possibly increasing the statewide per-pupil formula. Again, it is estimated that LOSD would receive additional state support equaling approximately 1% the amount that is offset locally. Thus, under those circumstances, if the local option revenue that would otherwise go to the East End Redevelopment Area is redirected to LOSD, the school district would only benefit by 1% of that amount.

[4] It should be noted that, with an existing urban renewal area, the local option tax rate necessary to achieve a targeted level of net revenue to the school district would be slightly higher than what would otherwise be required This is because school district revenues do not include taxes that result from applying the rate to the properties in the urban renewal area.

b. Proposed Foothills District Urban Renewal Area.

Formation of a new urban renewal area in the Foothills district would be accompanied by the adoption of a new urban renewal plan. Because this would be a post-October 6, 2001 plan, LORA would collect no tax increment revenue from the LOSD local option levy in the new urban renewal area (see discussion in previous section). In fact, because the new area is anticipated to include a number of properties that were previously within the East End Redevelopment Area, LOSD would realize increased local option property tax receipts because of the termination of the current diversion to LORA of local option revenues from the increment for those properties. But, again, only the amount below the state deduction limit would be realized at face value.

Compression Issues

If the tax rates and levies of LOSD and other school taxing entities were to collectively exceed the Measure 5 limit of $5 per thousand of real market value in the future, the school entities' taxes will be subject to "compression," meaning they will be reduced proportionately until they are brought under the limit. By state law, local option levies must be reduced before permanent tax rates are compressed. With the existence of the urban renewal district, the portion of revenue realized from the application of the permanent tax rate to the increment value creates revenue for the urban renewal agency, which causes these tax revenues to be shifted from the $5 "school use" category to the $10 "other government" category. This transfer could in some cases free up room for school taxes under the $5 Measure 5 cap, thereby avoiding or minimizing the reduction of the local option levy receipts. In such a circumstance the existence of the urban renewal district could result in a net financial benefit to LOSD.[5]

Summary

For the existing East End Redevelopment Area, urban renewal has the following effects on LOSD revenue:

- For the permanent tax rate, LOSD's revenue loss is relatively small, especially in comparison to the amount of funds LORA would forego should steps be taken to make these funds available for school purposes.
- For the local option levy, the financial impact is dependent on the whether LOSD receipts for the local option levy are below the state deduction limit. For six of the eleven years that local option levy has been in existence, the East End Redevelopment Area has had no financial impact on LOSD revenues.

Creating a new Foothills District urban renewal area would have the following effects on LOSD revenue:

- For the permanent tax rate, LOSD would receive a relatively small increase in revenues.
- For the local option levy, a new urban renewal area would have no negative effects on revenues. Given the complexities of the limits for collections for the local option levy, it is not possible to determine the benefits for the local option levy with any certainty.

[5] As an example, per Tigard-Tualatin School District officials and the Washington County Assessor's office, the recent expiration of the City of Tualatin urban renewal area resulted in a substantial loss of local option revenue to the School District as a result of increased Measure 5 compression.