



Portland Business Alliance Urban Renewal Analysis/Budget Task Force

Recommendations Regarding the Budgets of Downtown Waterfront, South Park Blocks & River District Urban Renewal Areas

Background

The Portland Business Alliance (the Alliance) participated with other stakeholders and Portland Development Commission (PDC) staff in the development of the three Westside urban renewal district budgets: Downtown Waterfront, South Park Blocks, and River District. The Alliance has participated in a series of meetings throughout December 2007 to construct the budgets in alignment with the recently adopted Alliance policy regarding the further issuance of debt in Downtown Waterfront and South Park Blocks and the geographic expansion of River District boundary. The policy included recommendations to accelerate the debt payoff of Downtown Waterfront and South Park Blocks by issuing no further debt in order to form a new district as early as 2012 and thus reduce the amount of time downtown is without the tax increment financing (TIF) tool available. The recommendations included the expansion of River District into parts of Old Town/China Town neighborhood, and to hold 10-15 percent of acreage in reserve for unforeseen opportunities that come up in the near term. The goal of the Alliance throughout budget discussions for these districts was to align the policy recommendations with project priorities and resource allocation, and to address the expenditures of the three districts as an interrelated strategy.

It is apparent from the budget discussions that there are more projects in Downtown Waterfront and South Park Blocks than there are TIF resources available, even if bonds were issued up to the maximum indebtedness. Early defeasance is a strategic way to accomplish more of those projects in a shorter timeframe by paying off the districts' debt and establishing a new district as early as 2012. Early defeasance does not mean that priority projects must wait for a new district; some combination of River District expansion, a smaller TIF bond issuance or bridge financing must be identified for priority projects. Under this framework, we propose the following considerations to ensure projects currently in Downtown Waterfront and South Park Blocks are funded with respect to their timing and location.

Recommendations

As a point of beginning, the Future of Urban Renewal discussions underway by the Urban Renewal Advisory Group (URAG) and the budget development discussions must be considered in tandem. Decisions regarding the future of Downtown Waterfront and South Park Blocks and the expansion of River District are interrelated and creating a budget in isolation of these discussions is awkward and can potentially work at cross purpose. While the timing of these processes cannot be adjusted, a collaboration of the efforts must occur so budgeting and policy decisions can be made strategically to fund priority projects in the near term reduce the amount of time during which tax increment financing is unavailable as a tool in downtown.

It is imperative that fiscal discipline is exercised across all expenditure categories in Downtown Waterfront, South Park Blocks, and River District to avoid a “gold rush” mentality of adding new projects, in which some are unlikely to happen in the window of time between 2008 and the time a new district can start. Adding projects to budget lists irrespective of accelerated district end dates as directed by the policy officials of the URAG will result in the under-funding of important projects that have long been priorities of the community. All expenditure categories must be subjected to the same conservatism. Specifically, the 30 percent TIF set aside for affordable housing should be limited to 30 percent of the budget resources for all districts. Economic development and development expenditures should be made on projects that demonstrably result in additional catalytic development and investment; particularly in Downtown Waterfront and South Park Blocks to lessen the impact of the intervening years between debt payoff and when a new district can occur.

It is critical to be mindful that some projects generate increment, and some indirectly generate increment, while others do not generate any increment. The 30 percent set aside of TIF resources for affordable housing is a significant allocation of resources to an expenditure category of projects that generally do not generate tax increment, making this an even more critical issue. In this time of constrained resources, finding a balance of projects that meet priorities is essential; affordable housing projects are important, but Council has previously determined that 30 percent of an urban renewal budget is the appropriate number. For River District, there are large budgeted expenditures for infrastructure, catalytic development and affordable housing. Given that it is an Option 1 district and its financial capacity is directly related to the amount of increment the district can generate, a strategic approach to funding projects in all expenditure categories over time must be applied in order to efficiently maximize on the tax increment financing tool.

Staffing and administration costs remain an issue, particularly in Downtown Waterfront and South Park Blocks, where the districts are expiring and likely to issue little or no new debt. With the inevitability of declining resources, the percentage of the budget allocated to administration should be reduced accordingly. Similarly in River District, the Alliance recommends that staffing and administration costs be reduced as a percentage of the entire budget; percentages in expiring districts should at least be equal, if not less, than this appropriation.

Downtown Waterfront and South Park Blocks

In order to accomplish early debt defeasance in Downtown Waterfront, the Alliance has worked with stakeholders in Old Town/China Town and River District to determine which projects, based on timing and location, could reasonably move into River District via the proposed expansion of up to 62 acres. The result of these discussions has generated a budget list that has reduced the Downtown Waterfront expenditures of committed projects significantly to make early defeasance possible. The Alliance recommends that PDC and the City of Portland seriously consider funding mechanisms alternative to TIF debt issuance for projects in Downtown Waterfront in order to fund important projects, alleviate some financial burden on River District, and terminate Downtown Waterfront as soon as possible to reduce the intervening years between debt payoff and the formation of a new district.

There are time-sensitive priority projects, which are catalytic in nature that must move forward in the near term and should be prioritized for funding, such as 10th and Yamhill Garage, key redevelopment or reconfiguration sites in both east and west ends of the retail core, development and infrastructure improvements including Burnside Couch Couplet and in the Ankeny/Burnside area. Funding these projects will revitalize adjacent areas and will leverage additional development. The 10th and Yamhill garage redevelopment will greatly improve the aesthetic quality and retail inventory in the west end of the retail core and should be funded. Ankeny Burnside projects that include development, redevelopment and infrastructure projects will spur additional private investment in this area and should also be funded. Retail redevelopment and reconfiguration, more of an opportunistic category, should have funding allocation for near term priorities in South Park Blocks, as outlined in the 2007 Downtown Retail Strategy Update. The Alliance has continually supported the Burnside/Couch couplet construction and recommends that the budget allocation in Downtown Waterfront for this project be added to the River District budget allocation to fully support PDC's portion of the total project cost.

In addition to these catalytic development projects, existing projects in Downtown Waterfront and South Park Blocks should be prioritized based on development readiness. PDC staff should analyze and appropriate resources under the framework of starting with earliest defeasance date possible (2012) to the latest defeasance date recommended by the URAG (2018) and when a new district can occur.

River District

The Alliance urban renewal policy regarding the River District expansion recommended 10 – 15 percent (9 to 13 acres) of the expanded area should be held in reserve for unforeseen opportunities. It is apparent from budget discussions that the cumulative requests throughout the process will, in effect, allocate all or nearly all of the 61 acres eligible for expansion. In this vein, the Alliance recommends that four acres of the recommended reserve and \$10 million of resources be allocated to incorporate portions of the east end of the retail core, due to timing of opportunities that will occur in the near term. The Retail industry is currently in an expansionary

period of a ten-year market cycle. Creating opportunities for retail development and recruitment, as identified in the 2007 Downtown Retail Strategy Update, is critical at this time to capture the momentum of retail market expansion. General Growth Properties has presented to the URAG regarding a major redevelopment of the Pioneer Place Rotunda building. Critical to this project's feasibility is the adjacent blocks in the east end of the retail core, including the 3rd and Alder garage site, and redevelopment opportunities on blocks including key retail corners such as 4th and Morrison to which funding should be allocated for development coinciding with Pioneer Place. The Alliance also maintains that there still be a reserve of the remaining acres for future opportunities, likely to occur along the south and north ends of the retail core.

The Alliance has recommended that certain projects currently located in Downtown Waterfront be moved into River District, including parts of the east end of the Retail Core and Ankeny Burnside. The result adds key increment-generating projects to River District, and enables Downtown Waterfront to accelerate its debt payoff so a new district can be created. With respect to maximum indebtedness in the River District, we support an increase to accommodate the projects that will be moved into the district during the expansion process.

The Alliance supports the Burnside/Couch couplet construction and recommends that the project is included in the expanded River District boundary and is funded in the River District budget at an amount that acknowledges the addition of Downtown Waterfront's share of the project cost into the total amount allocated in River District.

If satellite districts are pursued, they may offer another opportunity to fund priority projects, either within downtown or elsewhere that are not contiguous to the River District. However, in light of the limitation on expandable acreage and financial capacity of River District, the Alliance asks that City Council, PDC and the URAG forward specific request or requests of satellite districts so the magnitude of impact on existing and future projects, funding and expansion capacity can be understood.

Conclusion

The inevitable expiration of two urban renewal districts downtown has generated significant policy discussion regarding the future use of TIF in the downtown area. Urban renewal is a critical economic and community development tool for the City, with a primary purpose of removing blight. Used wisely, tax increment financing can result in increased economic activity, job creation, housing opportunities and higher property tax revenue returned to benefit taxing jurisdictions now or in the future depending on the type of district. The Alliance recommends that TIF should remain available as a resource to further the economic and civic role of the city in general and the downtown/central city in particular. To the extent that strategic approaches including early debt defeasance, fiscal discipline in all expenditure categories, and the use of existing resources on projects that leverage additional development and regeneration can be implemented, the more likely TIF will remain a viable and uninterrupted tool available for the downtown, the central city, and the city of Portland.