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DATE: August 19, 2013 **ECO Project #: 21466**

TO: Sean Farrelly and Kenny Asher, City of Tigard

FROM: Nick Popenuk, ECONorthwest

SUBJECT: CITY CENTER URBAN RENEWAL AREA – TAX INCREMENT REVENUE FORECAST

The City of Tigard ("City") asked ECONorthwest to forecast future tax increment finance ("TIF") revenues that would be generated by the City Center Urban Renewal Area ("URA"). This memorandum summarizes the results of the TIF forecast.

How urban renewal works

Urban renewal is a program used by over 50 cities and counties in Oregon to help revitalize specified areas within their jurisdiction. TIF is the primary finance tool for urban renewal areas. TIF revenues are generated when a URA is established and the assessed value of all property in the area is 'frozen' (called the *frozen base*). Over time, the total assessed value in the area increases above the frozen base. The assessed value in the area above the frozen base is called the *incremental assessed value*. The taxing jurisdictions that overlap the urban renewal area continue to collect tax revenue from the frozen base, but tax revenue generated from the incremental assessed value goes to the URA in the form of TIF revenues.

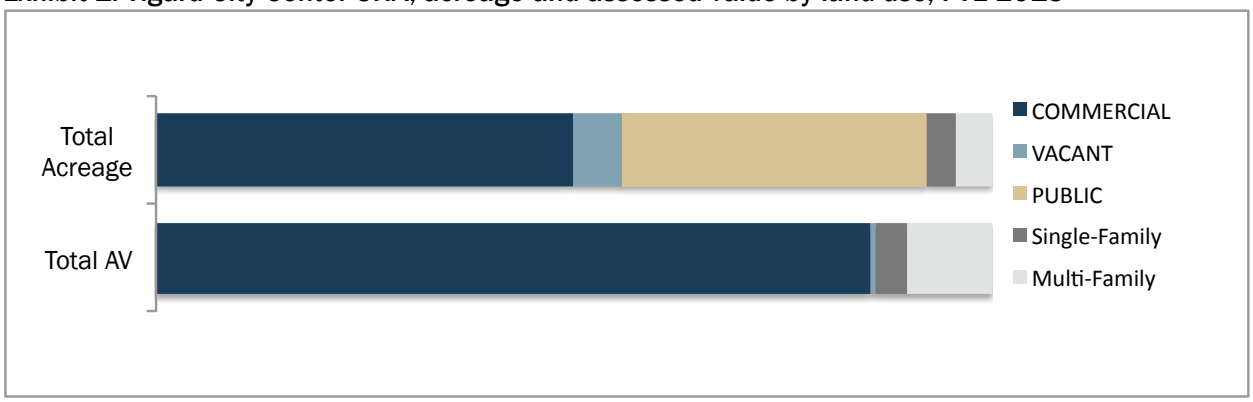
About the City Center URA

The City Center URA Plan was adopted in December 2005. The frozen base of the URA is $69,207,308. The City Center URA Plan identifies the projects that should be carried out in the URA using TIF revenues, as well as a total limit on the amount of TIF revenues that can be spent on these projects (called the *maximum indebtedness*).[1] The maximum indebtedness limit of the City Center URA is $22,000,000. The URA includes 193.71 acres of land. Three maps are included as attachments to this report. Each map shows the boundaries of the URA.

Exhibit 1 shows a breakdown of all parcels in the URA by land use. Commercial property is the predominant land use, including 50% of the acreage and 85% of the assessed value of the URA. Publicly-owned (tax-exempt) property is the next largest land use, with 37% of the acreage of the URA. Additionally, the area includes small amounts of single-family, multifamily, vacant, and other land uses.

[1] Note that the expenditure of TIF on interest payments for debt that finances urban renewal projects is not counted toward the maximum indebtedness limit.

Exhibit 1. Tigard City Center URA, acreage and assessed value by land use, FYE 2013



Calculated by ECONorthwest with source data from the Washington County Office of Assessment and Taxation.

Fiscal Year Ending ("FYE") 2008 was the first year in which the URA was eligible to receive TIF revenues. Exhibit 2 shows the historical growth in assessed value and TIF revenues for FYE 2008 to FYE 2013. Assessed value of the URA grew rapidly from $72,433,669 in FYE 2008 to $95,604,035 in FYE 2011. There was virtually no change in assessed value from FYE 2011 to 2012, and a decline in assessed value from FYE 2012 to 2013. Average annual growth in assessed value in the URA since 2008 has been 5.1% per year. In FYE 2013 (the most recent year for which data are available), the URA received $304,379 in TIF revenues.

Exhibit 2. City Center URA, historical assessed value and TIF revenues, FYE 2008-2013

FYE	Total AV	Frozen Base	Excess Value	Tax Rate	TIF
2008	$ 72,433,669	$ 69,207,378	$ 3,226,291	13.3623	$ 43,111
2009	$ 78,530,005	$ 69,207,378	$ 9,322,627	13.3091	$ 124,076
2010	$ 89,594,452	$ 69,207,378	$ 20,387,074	13.2221	$ 269,560
2011	$ 95,604,035	$ 69,207,378	$ 26,396,657	12.9589	$ 342,072
2012	$ 95,335,863	$ 69,207,378	$ 26,128,485	12.8703	$ 336,281
2013	$ 92,888,162	$ 69,207,378	$ 23,680,784	12.8534	$ 304,379

Compiled by ECONorthwest with source data from the Washington County Office of Assessment and Taxation.

Tax rates

The first step in forecasting TIF revenues is calculating the total consolidated tax rate (the sum total of all applicable permanent, local option levy, and general obligation bond rates for all taxing jurisdictions overlapping the URA). Because permanent rates are, by definition, permanent,[2] and Oregon Revised Statutes (ORS) exclude all local option levies and general obligation bonds approved after October of 2001 from the calculation of TIF revenues for URAs like the City Center URA, there is relatively little change in the consolidated tax rate for the City Center URA over time.

Generally speaking, change in the City Center URA tax rate is limited to the gradual decrease and eventual termination of tax rates for old (pre-2001) general obligation bonds. As shown

[2] Note that there are a few exceptions for jurisdictions that levy a tax rate less than the total amount allowed by their permanent rate limitation.

previously in Exhibit 2, this has resulted in a gradual decrease in tax rate from $13.3623 per $1,000 of assessed value in FYE 2008 to $12.8534 per $1,000 in FYE 2013.

Exhibit 3 shows the future forecast tax rates for the City Center URA through FYE 2030. The rate is anticipated to slowly decline until FYE 2019, when all pre-2001 general obligation bonds are retired, and the rate stabilizes at $11.9692 per $1,000 of assessed value (the sum of the permanent rates for all jurisdictions).

Exhibit 3. Tigard City Center URA, forecast of future consolidated tax rate, FYE 2013 – 2030

FYE	Tax Rate
2013	12.8534
2014	12.6796
2015	12.5433
2016	12.3559
2017	12.1717
2018	12.1717
2019	11.9692
2020	11.9692
2021	11.9692
2022	11.9692
2023	11.9692
2024	11.9692
2025	11.9692
2026	11.9692
2027	11.9692
2028	11.9692
2029	11.9692
2030	11.9692

Calculated by ECONorthwest with source data from the Washington County Office of Assessment and Taxation as well as 2013 Certified Annual Financial Reports (CAFRs) for overlapping taxing districts.

Assessed value

The forecast of assessed value is at the heart of any TIF forecast. In Oregon, there are four types of assessed value: real, personal, utility, and manufactured. Real property includes land and improvements, which is what most people traditional think of as taxable property and accounts for 80 to 90% of total assessed value in most jurisdictions. In the City Center URA, real property accounts for 81% of the total assessed value of the area, and therefore is the focus of our analysis of assessed value.

Real property

Change in assessed value of real property comes from two sources: appreciation (or depreciation) and "exception" events.

Appreciation

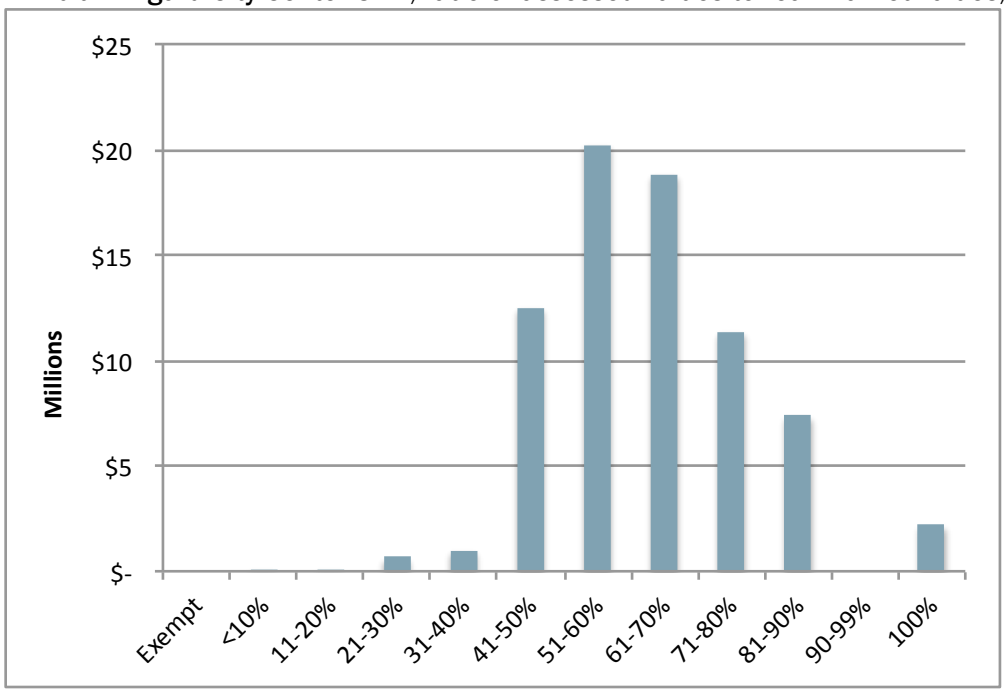
Appreciation (or depreciation) is the result of changing market values for an existing property account. Many property accounts experience large changes in their market values over time,

generally trending upward, but with cycles of appreciation and depreciation along the way. Oregon's property tax system removes much of this volatility from taxable property values, by severing the connection between real market values and assessed values. Properties in Oregon are assessed at the lower of their real market value or "maximum assessed value." For the vast majority of properties in Oregon, their maximum assessed value is well below their real market value, providing a cushion for any declines in real market value. The volatility of real market values has essentially been replaced by the predictability of maximum assessed values, which are limited by the Oregon constitution to a 3.0% increase each year.

In other words, the vast majority of real property in Oregon appreciates at 3.0% each year. A small subset of properties (those with maximum assessed values at or near their real market values) have the potential to experience greater volatility in their assessed value. Thus, an important metric in evaluating the likely future appreciation for an area is the ratio of assessed values to real market values in an area.

Attachment A. Map of Tigard City Center URA AV/RMV Ratios shows the relationship between assessed value and real market value for every parcel in the URA. In the City Center URA, 97% of total assessed value of real property has assessed value to real market value ratios of 90% or less. In other words the vast majority of properties have a cushion, so that in the event that real market values decline, assessed values should still see 3.0% appreciation in the short-term. Exhibit 4 illustrates the breakdown of assessed value to real market values for properties in the City Center URA.

Exhibit 4. Tigard City Center URA, ratio of assessed values to real market values, FYE 2013



Calculated by ECONorthwest with data from the Washington County Office of Assessment and Taxation.

The results shown in Exhibit 4 suggest that 97% of all properties in the URA should be expected to see 3.0% annual appreciation regardless of changes in real market value in the near future. The question remains, what appreciation or depreciation should be expected for the very small subset of properties that have assessed values equal to 100% of real market values? These properties have no cushion and are subject to market forces that determine their annual changes in real market value.

Real market values nationally and regionally have been steadily rising for the past year, and it is likely that these trends will translate into increasing real market values in the Tigard City Center URA as well. This means it is likely that these properties will see growth of 3.0% or more in the short-term. However, to be conservative, our analysis assumes that these properties experience no growth in assessed values in the next few years. This results in a weighted average appreciation rate of 2.91% for all real property in the City Center URA. We carry this assumption through FYE 2015, after which point, we assume all real properties experience the maximum-allowed 3.0% annual growth.

Exception value

Exception value refers to changes in property values resulting from forces other than general appreciation or depreciation. This can include new construction, remodeling of an existing building, the sale of a property, or the appeal of a property's valuation. We investigated all of these potential sources of exception value to forecast future changes in assessed value for the City Center URA.

For new development we examined building permit data from January 1, 2012 through June 30, 2013. Due to the lag time between real estate market activity and the release of the tax rolls, any construction that occurred during calendar year 2012 has yet to come on the tax rolls, and will first be seen for FYE 2014. Thus, recent historical building permit data gives us a very good idea of short-term trends in exception value. However, the City Center URA experienced no new development or significant redevelopment during this time period, and therefore we assume zero exception value from new development through FYE 2015.

Similarly, the County Assessor confirmed that there were no property accounts within the City Center URA that appealed their valuations in FYE 2013, which removes this as a potential cause for short-term decreases in assessed value.

Finally, we looked at recent sales data to determine if some properties may see declines in value due to recent sales prices that are lower than their current assessed values. The County Assessor reported ten properties in the City Center URA have sold since January 1, 2012. Although most of those properties sold for well above their assessed values, two of those properties sold for less than their assessed values, which will likely result in a decrease in assessed value for the URA of $117,400 in FYE 2014.

To forecast long-term changes in assessed value from exception events, we evaluate the area's potential for new development. Attachment B. Map of Tigard City Center URA Vacant Land

shows all parcels that are officially vacant, according to data provided by Metro and the County Assessor. These maps show that other than a few large public right-of-way parcels, there are very few properties in the URA that are vacant. This limits new development in the area to redevelopment of non-vacant sites.

To determine the potential for redevelopment of non-vacant properties, we looked at the ratio of improvement to land value for properties in the URA. Attachment C. Map of Tigard City Center URA Improvement to Land Value Ratio shows each parcel's ratio of improvement to land value. Most properties in the URA have improvement values less than two times their land values, and many of those properties have improvement values less than their land values. In general, this indicates that much of the property in the URA is underutilized, which is conducive for redevelopment.

For our long-term forecast, FYE 2016 and beyond, we have assumed new development each year results in new assessed value equal to 1.0% of the prior year's valuation of real property. Combined with our appreciation assumptions discussed previously in this document, this results in a forecast of total growth in assessed value that is reasonable and conservative, given historical trends in Washington County and the City of Tigard.

Other property types

All of the analysis in the previous section was specific to real property. However, the area also includes assessed value for utility, personal (i.e., machinery and equipment), and manufactured (i.e., mobile homes). Combined, these property types account for 19% of the URA's total assessed value. These property types are less predictable than real property, as they do not have the same cushion between assessed value and real market value that real property does.

For the very small amount of manufactured property in the area (less than $50,000 of total value), our forecast conservatively assumes that it depreciates to $0 in FYE 2014, and remains at $0 throughout the duration of the forecast period.

For utility and personal property, we have assumed no change in value through FYE 2015, followed by 1.0% annual appreciation for the duration of the forecast period. This is based on our experience with our urban renewal areas, in which annual changes in value for these property types can be volatile, but long-term trends exhibit slow growth.

Forecast

Exhibit 5 shows our assumed appreciation rates for all property types for all years of the forecast period.

Exhibit 5. Tigard City Center URA, property value appreciation assumptions, FYE 2013 - 2030

	Appreciation Assumptions			
FYE	R	U	P	M
2013				
2014	2.91%	0.00%	0.00%	-100.00%
2015	2.91%	0.00%	0.00%	0.00%
2016	3.00%	1.00%	1.00%	0.00%
2017	3.00%	1.00%	1.00%	0.00%
2018	3.00%	1.00%	1.00%	0.00%
2019	3.00%	1.00%	1.00%	0.00%
2020	3.00%	1.00%	1.00%	0.00%
2021	3.00%	1.00%	1.00%	0.00%
2022	3.00%	1.00%	1.00%	0.00%
2023	3.00%	1.00%	1.00%	0.00%
2024	3.00%	1.00%	1.00%	0.00%
2025	3.00%	1.00%	1.00%	0.00%
2026	3.00%	1.00%	1.00%	0.00%
2027	3.00%	1.00%	1.00%	0.00%
2028	3.00%	1.00%	1.00%	0.00%
2029	3.00%	1.00%	1.00%	0.00%
2030	3.00%	1.00%	1.00%	0.00%

Source: ECONorthwest

Exhibit 6 shows our assumed changes in assessed value from new development and other exception events for all years of the forecast period. Note that the assumptions for new development are shown in dollars per year, but are based on an underlying assumption of 1.0% of the prior year's real total real property valuation. FYE 2014 and 2015 are highlighted, because those assumptions are based on reported appeals, sales, and new development data from the City of Tigard and the Washington County Assessor.

Exhibit 6. Tigard City Center URA, assumed exception value, FYE 2014 – 2030

FYE	Appeals	Sales	New Dev	Total
2014	$ -	$ (117,400)	$ -	$ (117,400)
2015	$ -	$ -	$ -	$ -
2016	$ -	$ -	$ 799,692	$ 799,692
2017	$ -	$ -	$ 831,679	$ 831,679
2018	$ -	$ -	$ 864,946	$ 864,946
2019	$ -	$ -	$ 899,544	$ 899,544
2020	$ -	$ -	$ 935,526	$ 935,526
2021	$ -	$ -	$ 972,947	$ 972,947
2022	$ -	$ -	$ 1,011,865	$ 1,011,865
2023	$ -	$ -	$ 1,052,339	$ 1,052,339
2024	$ -	$ -	$ 1,094,433	$ 1,094,433
2025	$ -	$ -	$ 1,138,210	$ 1,138,210
2026	$ -	$ -	$ 1,183,739	$ 1,183,739
2027	$ -	$ -	$ 1,231,088	$ 1,231,088
2028	$ -	$ -	$ 1,280,332	$ 1,280,332
2029	$ -	$ -	$ 1,331,545	$ 1,331,545
2030	$ -	$ -	$ 1,384,807	$ 1,384,807

Source: ECONorthwest

Exhibit 7 combines all of our assumptions for future growth in assessed value into our final forecast of assessed value. We forecast annual growth of 2.21% in FYE 2014, which is constrained by the lack of new development and the sale of two parcels for prices below their previous assessed values. Longer-term, the area should recover from the recession to experience steady appreciation and some new development. We assume the area will be able to achieve average annual growth in assessed value of roughly 3.5% per year. It is likely, however, that this growth will not be as consistent as what is shown in Exhibit 7. New development will likely occur sporadically, and in larger increments.

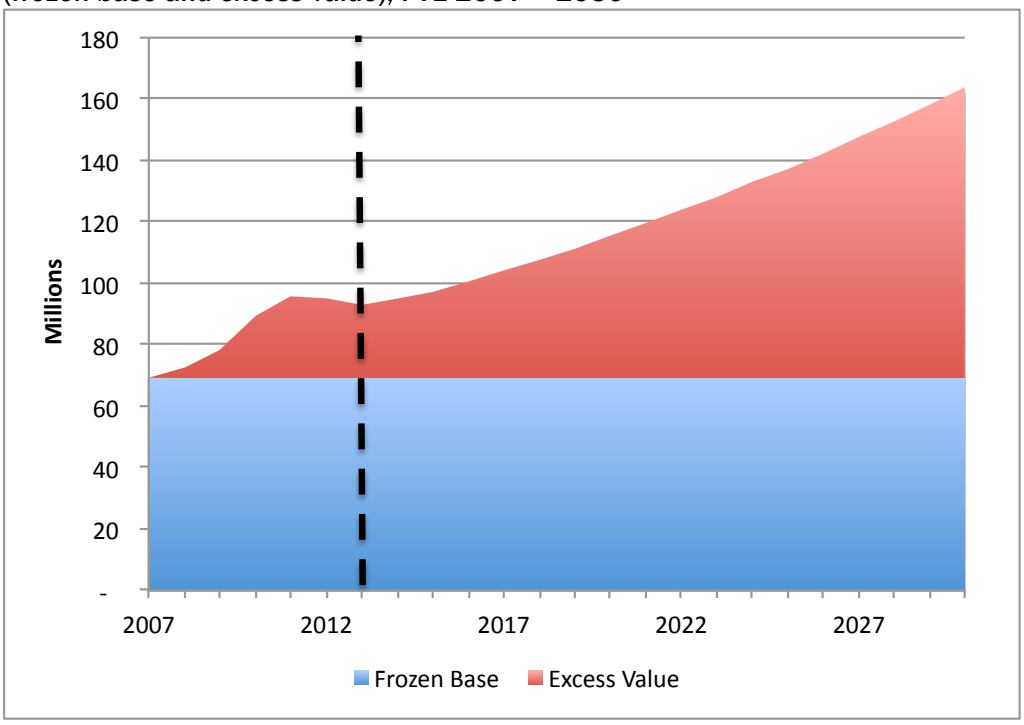
Exhibit 7. Tigard City Center URA, forecast of assessed value, FYE 2013 – 2030

FYE	Assessed Value			Annual % Growth
	Appreciation	Exception	Total	
2013			92,888,162	
2014	2,169,242	(117,400)	94,940,004	2.21%
2015	2,261,528	-	97,201,532	2.38%
2016	2,571,399	799,692	100,572,623	3.47%
2017	2,669,085	831,679	104,073,387	3.48%
2018	2,770,627	864,946	107,708,960	3.49%
2019	2,876,178	899,544	111,484,682	3.51%
2020	2,985,899	935,526	115,406,107	3.52%
2021	3,099,955	972,947	119,479,009	3.53%
2022	3,218,520	1,011,865	123,709,394	3.54%
2023	3,341,772	1,052,339	128,103,505	3.55%
2024	3,469,901	1,094,433	132,667,839	3.56%
2025	3,603,099	1,138,210	137,409,148	3.57%
2026	3,741,569	1,183,739	142,334,456	3.58%
2027	3,885,521	1,231,088	147,451,065	3.59%
2028	4,035,175	1,280,332	152,766,572	3.60%
2029	4,190,755	1,331,545	158,288,872	3.61%
2030	4,352,503	1,384,807	164,026,182	3.62%

Calculated by ECONorthwest

Exhibit 8 puts this forecast of assessed value into context, by comparing historical and forecast growth in assessed value for the City Center URA. Historical average annual growth in assessed value for the area has been about 5% per year, which is higher than the forecast growth rate of about 3.5% per year, but overall Exhibit 8 shows future growth that is generally compatible with the brief historical data for the area.

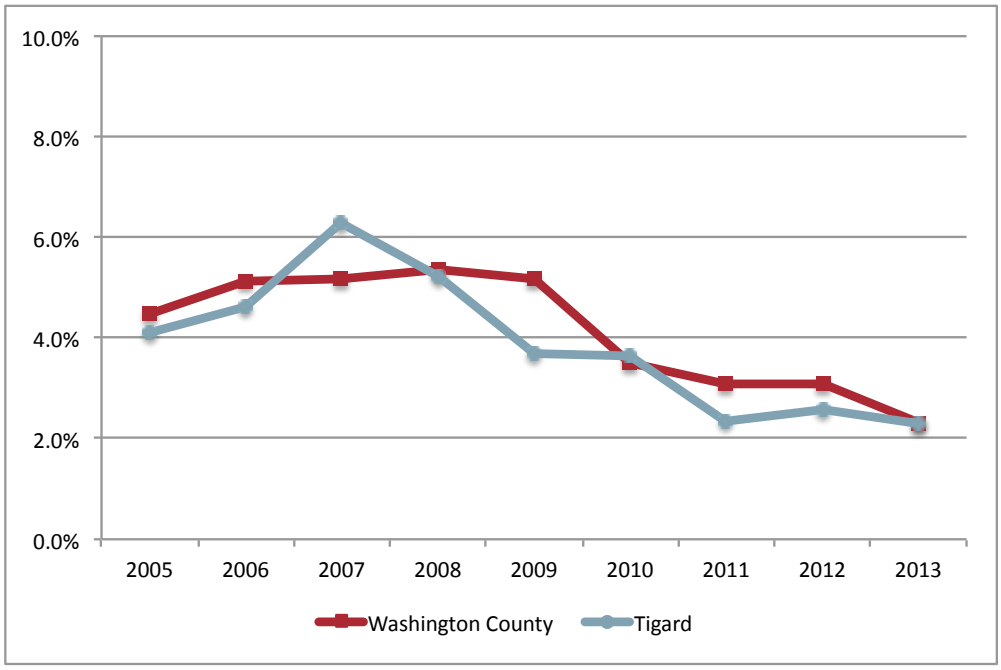
Exhibit 8. Tigard City Center URA, historical and forecast growth in assessed value (frozen base and excess value), FYE 2007 – 2030



Calculated by ECONorthwest, with historical data from the Washington County Office of Assessment and Taxation.

Exhibit 9 provides additional context for our forecast of assessed value growth for the City Center URA. Exhibit 9 shows the annual growth in assessed value for the City of Tigard and Washington County, each year from FYE 2005 to 2013. Prior to the recession, both jurisdictions routinely experienced annual growth in assessed value ranging from 4% to 6%. During the recession, this growth dropped into the 2% to 3% range. This data suggests that, on average, if the Tigard City Center URA were to receive it's "fair share" of regional growth, then it would likely result in annual growth of about 4%, which is slightly higher than what we have assumed in our forecast.

Exhibit 9. Washington County and City of Tigard, annual percentage growth in assessed value, FYE 2005 – 2013



Calculated by ECONorthwest with source data from the Washington County Office of Assessment and Taxation.

TIF Revenues

After calculating the consolidated tax rate and forecasting future assessed value, the calculation of TIF revenues is straightforward. Exhibit 10 shows the forecast growth in TIF revenues from FYE 2013 to 2030. TIF revenues which were $304,379 in FYE 2013 are expected to grow to over $1 million per year by the end of the forecast period.

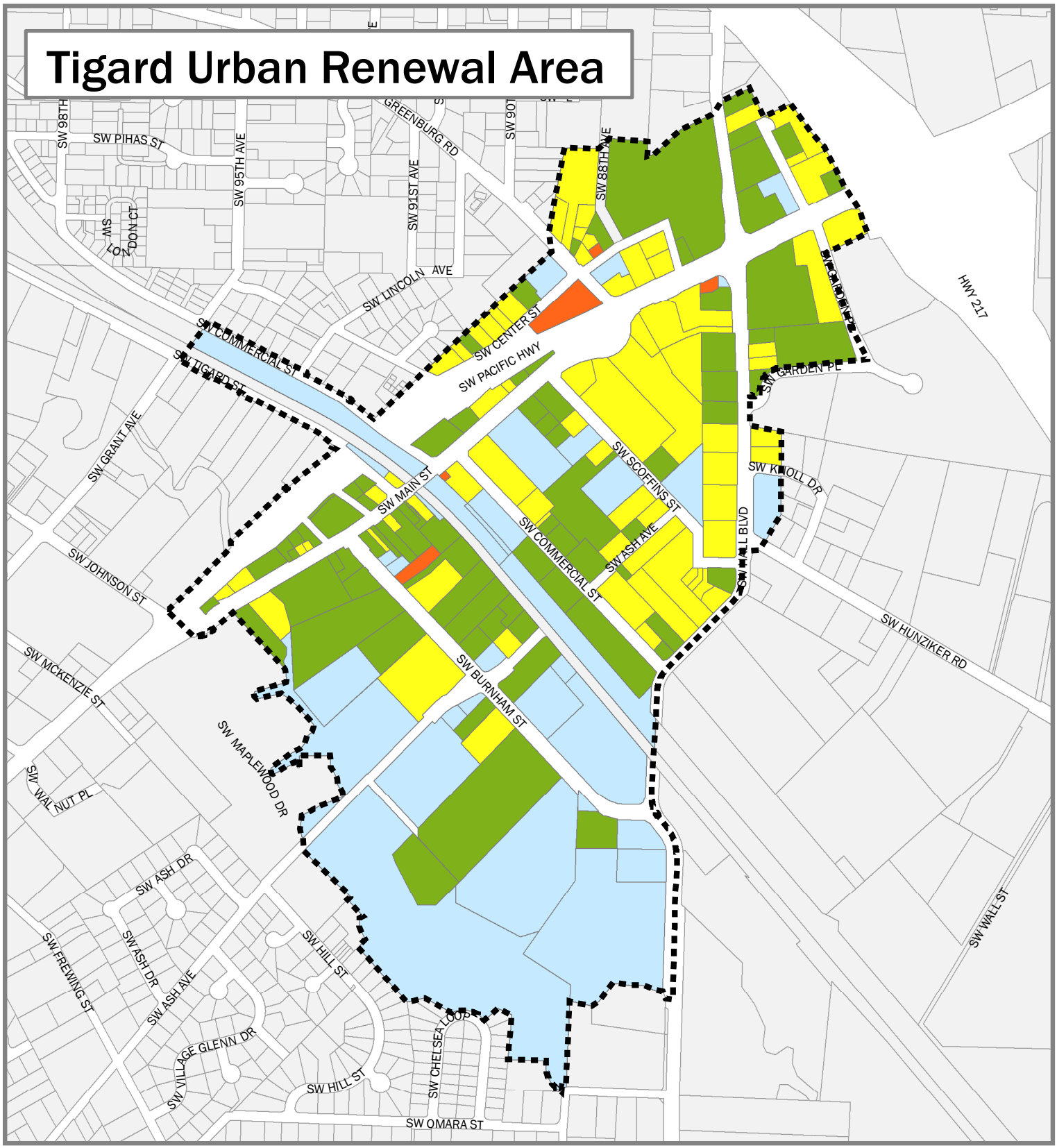
Exhibit 10. Tigard City Center URA, forecast of TIF revenues, FYE 2013 – 2030

FYE	Assessed Value	Frozen Base	Excess Value	Tax Rate	TIF
2013	92,888,162	69,207,378	23,680,784	12.8534	304,379
2014	94,940,004	69,207,378	25,732,626	12.6796	326,279
2015	97,201,532	69,207,378	27,994,154	12.5433	351,139
2016	100,572,623	69,207,378	31,365,245	12.3559	387,546
2017	104,073,387	69,207,378	34,866,009	12.1717	424,379
2018	107,708,960	69,207,378	38,501,582	12.1717	468,630
2019	111,484,682	69,207,378	42,277,304	11.9692	506,026
2020	115,406,107	69,207,378	46,198,729	11.9692	552,962
2021	119,479,009	69,207,378	50,271,631	11.9692	601,711
2022	123,709,394	69,207,378	54,502,016	11.9692	652,346
2023	128,103,505	69,207,378	58,896,127	11.9692	704,940
2024	132,667,839	69,207,378	63,460,461	11.9692	759,571
2025	137,409,148	69,207,378	68,201,770	11.9692	816,321
2026	142,334,456	69,207,378	73,127,078	11.9692	875,273
2027	147,451,065	69,207,378	78,243,687	11.9692	936,514
2028	152,766,572	69,207,378	83,559,194	11.9692	1,000,137
2029	158,288,872	69,207,378	89,081,494	11.9692	1,066,234
2030	164,026,182	69,207,378	94,818,804	11.9692	1,134,905

Calculated by ECONorthwest

Based on these projections, we estimate that borrowing capacity for the URA would be about $1,975,000 in FYE 2014. The URA Plan states, "No new indebtedness to be repaid with tax increment revenues may be incurred after the twentieth anniversary of the effective date of the Plan." As the Plan was approved by voters in May of 2006, this requires all indebtedness to be incurred no later than FYE 2026. Assuming periodic borrowings over the life of the URA, the projected TIF revenues shown in Exhibit 10 could support up to $13,200,000 of total indebtedness to be incurred by FYE 2026. This is less than the $22,000,000 maximum indebtedness allowed by the URA Plan. Thus, to fully implement the Plan, the URA will need to generate more TIF revenue than we have forecast, tap into funding sources other than TIF, or extend the timeframe for incurring/retiring indebtedness.

Attachment A



Assessed Value as a percent of Real Market Value

- Under 60%
- 60-89%
- 90%+
- Exempt

0 0.1 0.2 mi

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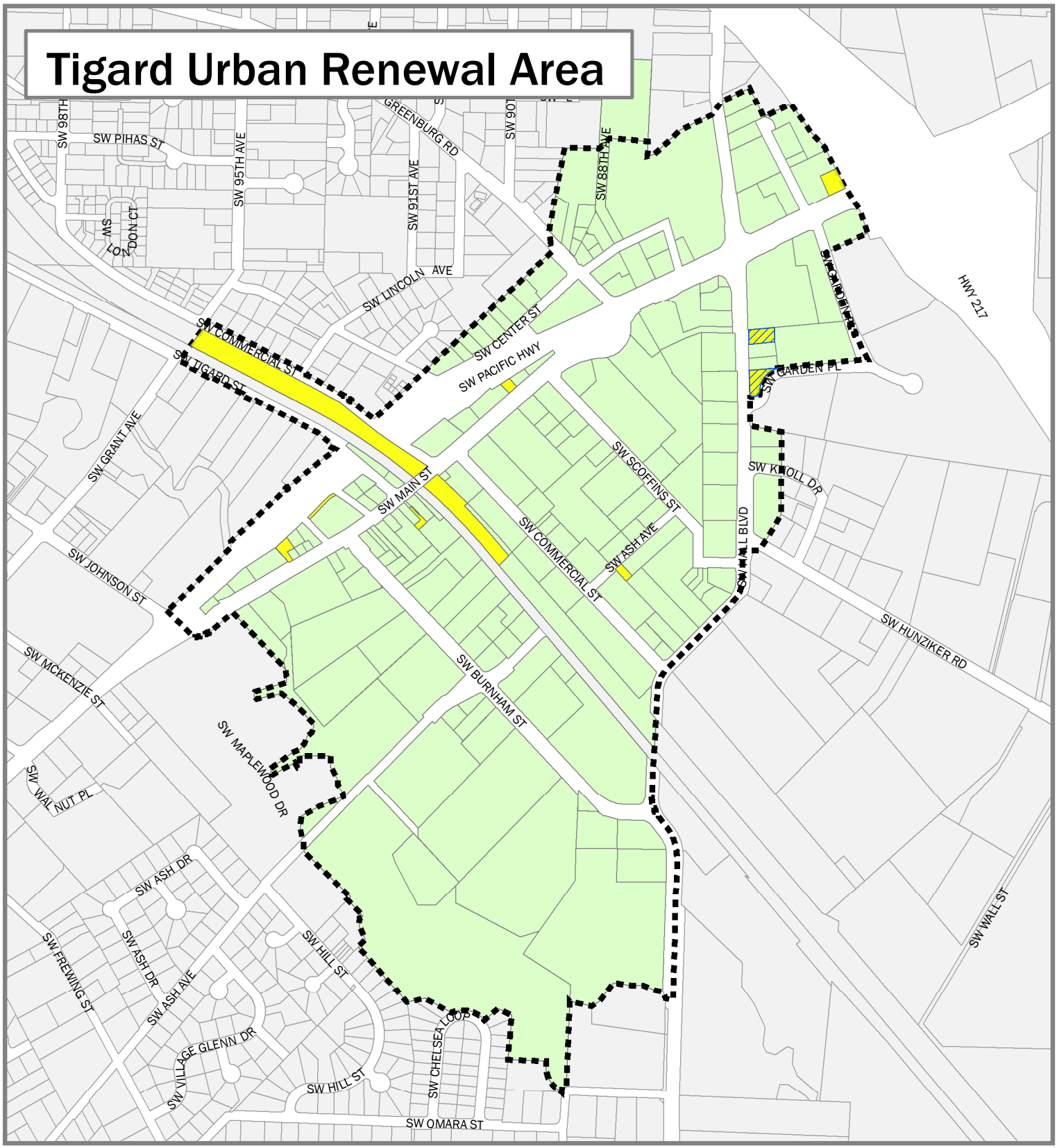
Attachment B



0 0.1 0.2 mi

Vacant Land in the Tigard URA

- Metro RLIS Vacant Land dataset (2012)
- Vacant (assessor's PROP_CODE)

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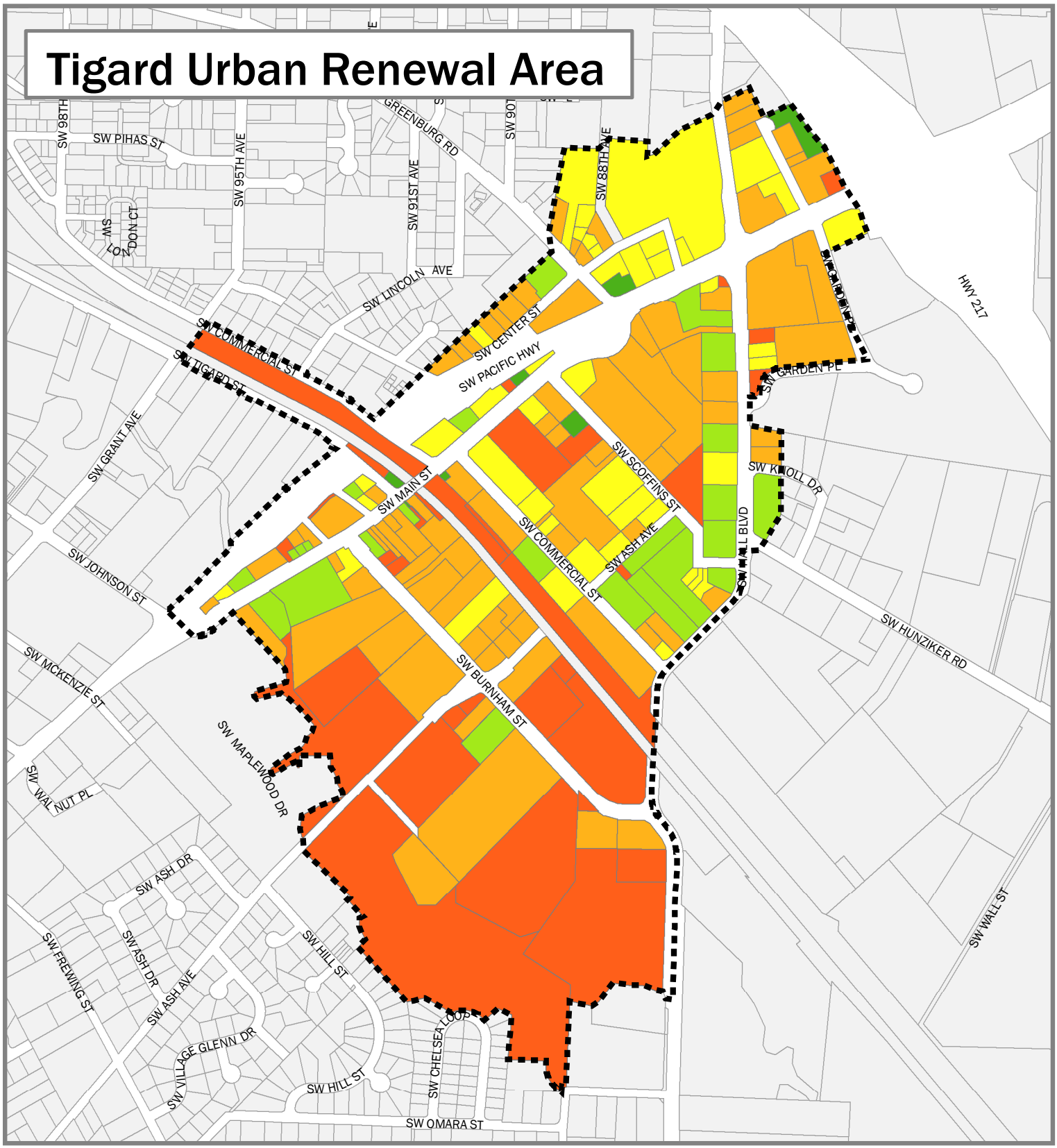
Attachment C

Tigard Urban Renewal Area



Improvement to Land Value Ratio

- 0
- 0.01 - 1
- 1.01 - 2
- 2.01 - 4
- Greater than 4

0 0.1 0.2 mi

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