

Memorandum

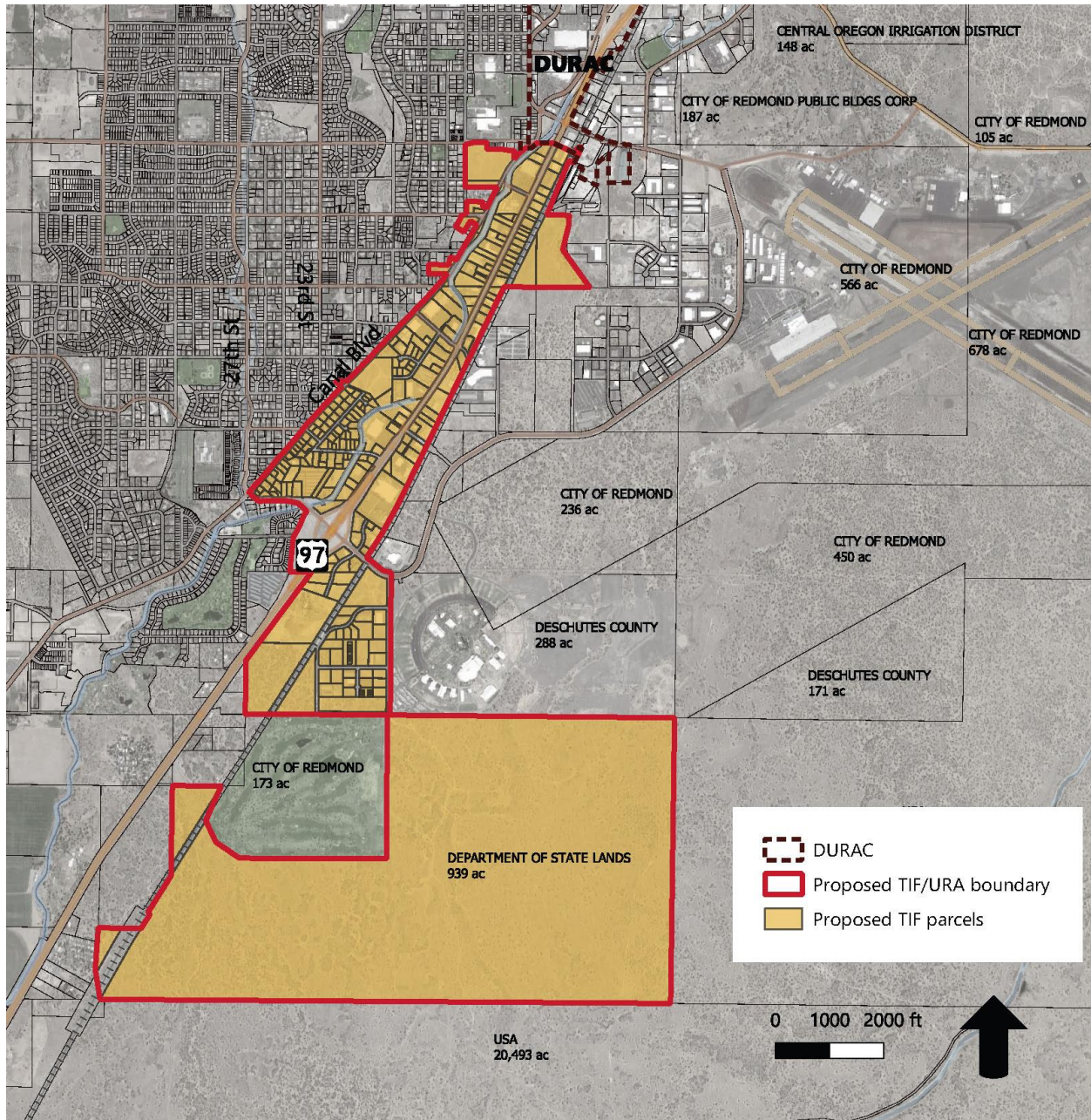
Date June 28, 2019
To Scott Woodford, City of Redmond
From Chris Zahas, Leland Consulting Group
Andy Parks, Leland Consulting Group
CC Andy Johnson, HDR
Subject US97 Urban Renewal Analysis
Project US 97 South Redmond Corridor

The US 97 South Redmond Corridor project is a collaboration between the City of Redmond and Oregon Department of Transportation. The project identifies numerous roadway, bicycle, and pedestrian improvements that will improve safety, enhance connectivity, and allow for businesses to continue to thrive in the face of future traffic growth. Funding to construct the improvements, either all at once or in phases, will need to come from a variety of local and state sources. To further evaluate potential funding sources, the partners requested a high-level evaluation feasibility analysis of an urban renewal district in the corridor. The following summarizes the analysis and findings for a potential urban renewal district inclusive of the area that transportation improvements are planned, followed by more detailed discussion of the analysis and findings.

Summary

With assistance from staff and the project team we determined and evaluated a study area directly related to the transportation improvements. The study area includes 283 individual parcels representing 1,330.86 acres, including a 939-acre parcel owned by the Department of State Lands (DSL). The DSL parcel is outside, but contiguous to, the city limits. The process to annex that property into the city is already underway. The total assessed value of these properties in fiscal year 2019 is \$136.3 million. Seventy-four, or 26% of the parcels, representing 1,107 acres, or 83% of the land area, have no improvements, i.e., the entire value of these properties is limited to land value.

Figure 1. Draft South Redmond Urban Renewal Boundary



Source: Leland Consulting Group

Oregon statutes require that the amount of land area within all urban renewal districts in a city may not exceed 25 percent of the city's total land area. The total land area of the study area and Redmond's existing downtown district is 2,033 acres, or 17.85% of the City's total land area, including the addition of the DSL parcel noted above. The DSL parcel may be included in the urban renewal district and annexed later into the City.

There are several significant pending developments within the study area that, if an urban renewal district were formed quickly, could create significant tax increment in the near term to fund infrastructure projects that, in

turn, would facilitate additional redevelopment and new development. The following projects and the estimated real market value, assessed value, and project timing are included in each of the high-level analyses to determine forecasted property tax increment and debt capacity impacts for the district. Debt capacity is the total amount of debt the urban renewal district can support at a given point in time with the forecasted property tax revenues given the debt terms provided.

Table 1. Anticipated Projects

Project	Units or square feet	Real Value (000s)	Assessed Value (000s)	Completion	Annual Tax Increment ¹	Debt Capacity (millions) ²
Hotel	107	\$ 16,580	\$ 10,230	FY 2021	\$ 158,671	\$ 1.46
Hotel	100	15,000	9,255	FY 2022	143,549	1.32
Commercial	10,815	2,000	1,234	FY 2022	19,140	.18
Residential	116	30,000	18,510	FY 2023	287,098	2.65
Total		\$ 63,580	\$ 39,229		\$ 608,457	\$ 5.61

Source: City of Redmond, Leland Consulting Group

In addition to the above developments, property tax increment and debt capacity was forecast assuming no other new development in the study area, and also using various percentage rates of growth via new development over a period of 40+ years. Additionally, existing development was assumed to increase in value by 2.9% annually. Presented below is the summary findings of projected valuation including the above projects and additional development for 0%, 1%, 2%, 3% and 5% annual growth rates in years 3, 5, 10, 15, and 20.

Table 2. Property taxes (000s)

Annual growth percentage	Year 3	Year 5	Year 10	Year 15	Year 20
0%	\$ 775	\$ 978	\$ 1,471	\$ 2,040	\$ 2,695
1%	856	1,130	1,842	2,705	3,749
2%	940	1,289	2,251	3,472	5,024
3%	1,026	1,457	2,700	4,357	6,564
5%	1,208	1,817	3,737	6,545	10,652

Source: Leland Consulting Group

¹ Estimated property taxes to District upon completion, unadjusted for annual valuation increases

² Assumes 15-year debt issue, 3.5% interest rate, 125% debt coverage ratio

Table 3. Debt capacity – in millions³

Annual growth percentage	Year 3	Year 5	Year 10	Year 15	Year 20
0%	\$ 7.2	\$ 9.0	\$ 13.6	\$ 18.8	\$ 24.8
1%	7.9	10.4	17.0	24.9	34.5
2%	8.7	11.9	20.7	32.0	46.3
3%	9.5	13.4	24.9	40.2	60.5
5%	11.1	16.8	34.4	60.3	98.1

Source: Leland Consulting Group

We further evaluated the reasonableness of the assumed growth assumptions within the study area relative to the City overall and the characteristics of the parcels within the study area. Without transportation improvements within the study area, growth is likely to be limited, whereas with transportation and other infrastructure improvements, annual growth of 3%-5%, possibly more, over an extended period of time is reasonable.

The creation of an urban renewal district of all or a portion of the study area is within the land area limitations established by State statutes. Due to pending development within the study area of significant projects, timely completion of an urban renewal plan and report and consideration of creation of an urban renewal area is critical to providing near-term funding assistance for the projects contemplated in the City/ODOT plan.

Discussion and Analysis

Compliance with Oregon Statutes for land area in urban renewal districts

ORS 457.420(2)(b)(B) provides that the total land area of urban renewal districts in a city may not exceed 25 percent of the city’s total land area. Redmond’s existing downtown urban renewal district consists of 701.7 acres and the total land area in the city is approximately 10,449 acres⁴. Excluding the DSL parcel from the study, the additional land area within an urban renewal district would be 391.86 acres. With this addition, the total land area within urban renewal districts would be 1,093.56, or 10.47%, well below the 25% threshold. With the addition of the DSL parcel, the City limits is assumed to expand via an annexation, to 11,388. Total acres in an urban renewal area would increase to 2,032.56, or 17.85% of the expanded City limits.

Additionally, ORS 457.420(2)(b)(A) provides that the total assessed value of urban renewal districts in a city may not exceed 25 percent of the city’s total assessed value. The City’s total assessed value in fiscal year 2019 is \$2.35 billion. The downtown district value is \$286 million (12.1% of the City total) and the Study Area value is \$136 million (5.8% of the City total). The total value of property within urban renewal districts would be approximately \$422 million or 17.9% of the City total.

³ Debt capacity is estimated based upon 15-year term, 3.5% interest rate, 125% debt coverage

⁴ Source: Report on the Twelfth Amendment to the Downtown Urban Renewal Plan

The following tables summarize compliance with the statute.

Table 4. Excluding the DSL parcel

Description	Acres	% of total City land area
Downtown district	701.7	6.72%
Study area – without DSL parcel	391.9	3.75%
Total	1,093.6	10.47%

Source: City of Redmond, Leland Consulting Group

Table 5. Including the DSL parcel⁵

Area	Acres	% of total City land area
Downtown district	701.7	6.16%
Study area – with DSL parcel	1,330.9	11.69%
Total	2,032.6	17.85%

Source: City of Redmond, Leland Consulting Group

Pending development projects

Two of the four development projects, including a hotel and a commercial project, are forecast to begin construction in 2019, with completion by fiscal year 2022. Another hotel and residential development are anticipated to begin construction in 2020, with completion by fiscal year 2023. The value of the hotels is anticipated to increase as occupancy increases with valuation stabilized by fiscal year 2025.

These projects have a significant impact on the financial feasibility of an urban renewal district, increasing the assessed value by approximately \$39 million and generating more than \$600,000 in property taxes annually. Without these projects, the feasibility of significant tax increment to fund transportation infrastructure is reduced as tax increment will be diminished in the near term, extending the timeframe for future development.

Growth

With respect to the growth rate for the study area, the City of Redmond has realized annualized growth in its assessed value during the past five years of an average 6.4%. This includes increases of approximately 2.9% on existing developed property. Therefore, growth due to new development is approximately 3.5% per year. Generally, growth within areas receiving significant public investment for infrastructure realize rates of growth greater than areas without such investment.

We evaluated the existing conditions in the study area noting that 83% of the property area, or 1,107 acres is undeveloped. This includes a 939-acre parcel owned by DSL that is outside the City limits, but adjacent to the City. Excluding this parcel, the study area includes 169 acres of undeveloped property, or 43% of the study area, excluding the DSL parcel.

⁵ The DSL parcel is assumed to be annexed to the City, therefore total acreage within City is increased to 11,388 acres

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Given the significant amount of undeveloped land, and overall relative low value of improvements within the study area, sustainable growth of 3.5% or greater over a period of 25 or more years in the study area is not unreasonable.

We have attached schedules for projected tax levies and debt capacity for fiscal year 2021 – 2045, including no growth other than from the four development projects noted, 1%, 3%, and 5% annualized growth. Additionally, increases to assessed value on existing properties is projected at 2.9%.

Table 6. Projected Tax Levies, Fiscal Year 2021-2045

Year	Fiscal Year Ending June 30,	Frozen Base (000's)	Projected Tax Levy - 0%	Projected Tax Levy - 1%	Projected Tax Levy - 3%	Projected Tax Levy - 5%
0	2020	-	-	-	-	-
1	2021	\$143,606	\$283,712	\$306,811	\$354,273	\$403,426
2	2022	143,606	579,414	629,366	733,208	842,509
3	2023	143,606	775,600	856,376	1,026,401	1,208,152
4	2024	143,606	888,327	1,003,104	1,247,765	1,513,551
5	2025	143,606	978,675	1,129,933	1,456,520	1,817,431
6	2026	143,606	1,071,645	1,261,693	1,677,589	2,145,336
7	2027	143,606	1,167,313	1,398,588	1,911,750	2,499,160
8	2028	143,606	1,265,757	1,540,834	2,159,699	2,880,917
9	2029	143,606	1,367,056	1,688,617	2,422,259	3,292,842
10	2030	143,606	1,471,286	1,842,170	2,700,361	3,737,308
11	2031	143,606	1,578,540	2,001,710	2,994,857	4,216,859
12	2032	143,606	1,688,896	2,167,470	3,306,740	4,734,301
13	2033	143,606	1,802,464	2,339,697	3,637,018	5,292,629
14	2034	143,606	1,919,334	2,518,625	3,986,778	5,895,069
15	2035	143,606	2,039,587	2,704,533	4,357,166	6,545,094
16	2036	143,606	2,163,329	2,897,699	4,749,393	7,246,459
17	2037	143,606	2,290,669	3,098,404	5,164,793	8,003,258
18	2038	143,606	2,421,685	3,306,910	5,604,683	8,819,834
19	2039	143,606	2,556,517	3,523,591	6,070,522	9,700,933
20	2040	143,606	2,695,242	3,748,693	6,563,831	10,651,643
21	2041	143,606	2,838,000	3,982,590	7,086,252	11,677,439
22	2042	143,606	2,984,899	4,225,591	7,639,492	12,784,277
23	2043	143,606	3,136,048	4,478,070	8,225,382	13,978,562
24	2044	143,606	3,291,571	4,740,413	8,845,829	15,267,181
25	2045	143,606	3,451,622	5,012,961	9,502,881	16,657,611

Source: Leland Consulting Group

Table 7. Projected Debt Capacity, Fiscal Year 2021-2045

Year	Fiscal Year Ending June 30,	Frozen Base (000's)	FFCO - 0% (million)	FFCO-1% (million)	FFCO-3% (million)	FFCO-5% (million)
0	2020	-	-	-	-	-
1	2021	\$143,606	\$2.61	\$2.83	\$3.26	\$3.72
2	2022	143,606	5.34	5.80	6.76	7.76
3	2023	143,606	7.15	7.89	9.46	11.13
4	2024	143,606	8.18	9.24	11.50	13.95
5	2025	143,606	9.02	10.41	13.42	16.75
6	2026	143,606	9.87	11.63	15.46	19.77
7	2027	143,606	10.76	12.89	17.61	23.03
8	2028	143,606	11.66	14.20	19.90	26.54
9	2029	143,606	12.60	15.56	22.32	30.34
10	2030	143,606	13.56	16.97	24.88	34.44
11	2031	143,606	14.54	18.44	27.59	38.85
12	2032	143,606	15.56	19.97	30.47	43.62
13	2033	143,606	16.61	21.56	33.51	48.77
14	2034	143,606	17.68	23.21	36.73	54.32
15	2035	143,606	18.79	24.92	40.15	60.31
16	2036	143,606	19.93	26.70	43.76	66.77
17	2037	143,606	21.11	28.55	47.59	73.74
18	2038	143,606	22.31	30.47	51.64	81.27
19	2039	143,606	23.56	32.47	55.93	89.38
20	2040	143,606	24.83	34.54	60.48	98.14
21	2041	143,606	26.15	36.70	65.29	107.60
22	2042	143,606	27.50	38.93	70.39	117.79
23	2043	143,606	28.90	41.26	75.79	128.80
24	2044	143,606	30.33	43.68	81.50	140.67
25	2045	143,606	31.80	46.19	87.56	150.00

Source: Leland Consulting Group