



Where Life is Sweet

Mayor and Members of the City Council
STAFF REPORT
For the Meeting of October 10, 2022

Title/Subject

A public hearing is scheduled to consider the formation of the Southwest Hermiston Urban Renewal Area.

Summary and Background

On March 14, 2022, the city council accepted the feasibility report for the proposed new urban renewal area in the southwest quadrant of the city and directed staff to prepare an urban renewal plan for this area. The report is now complete and a public hearing on the proposed new urban renewal area plan is required.

Attached to this staff report are both the urban renewal report which details the financial impacts of urban renewal district formation and administration, and the urban renewal plan which is more focused on the physical projects within the urban renewal area.

The plan has been prepared by a consulting team made up of representatives of Elaine Howard Consulting, Tiberius Solutions, and FCS Group, as well as city staff. The plan is prepared according to the requirements for urban renewal plans in ORS Chapter 457.

The new urban renewal district focuses on encouraging residential development in the 350+ acre tract in the southwest quadrant of the city located at the intersection of Feedville Road and Highway 207. The urban renewal plan creates a series of infrastructure projects intended to alleviate the blighting conditions on the site which lead to a lack of development. Lack of infrastructure is considered a blighting condition which may be remedied through urban renewal per ORS Chapter 457. At full buildout it is estimated that approximately 1,300 housing units will be built as well as several commercial nodes and public service areas.

Several infrastructure projects are proposed. First, a 6,000+/- foot water line will be constructed across the property to connect the existing water transmission line in Highway 207 to a future reservoir. Second, a two-million-gallon water reservoir will be constructed. This reservoir will provide storage to meet fire demand as well as daily demand for the entire development as well as providing additional storage for the remainder of the city as planned in the water system master plan. Third, upgrades to the Joseph booster station will increase flow in the Highway 207 transmission line, providing adequate water to charge the reservoir. Fourth, approximately 5,300+/- feet of new gravity fed sewer will be installed in Highway 207 connecting the development to existing municipal sewer in Highway 207 at Gettman Road

(Urban Renewal Plan Page 13). The proposed budget for the infrastructure upgrades is \$9,017,400 in 2022 dollars. It is important to note that the infrastructure plan does not account for future transportation upgrades. Transportation infrastructure is scalable and the development will not need the improvements necessary for full build-out at the beginning of the development with few housing units constructed. Therefore, transportation infrastructure will be financed through special impact fees associated with the overall development plan, rather than through the urban renewal district.

In addition to the infrastructure projects, urban renewal funds will be used to create a regional park and trail network in the area. The regional park is proposed as a 38-acre site, encompassing the large basalt butte on the site as well as the new reservoir. Recreational facilities of a regional nature, such as athletic fields, skate park, and a trail network will create a park of significance to the entire city and west Umatilla County. Several small, neighborhood parks and local trails are also proposed (Urban Renewal Plan Page 14). The proposed budget for park development is \$4,752,000 in 2022 dollars.

In order to facilitate lower cost, workforce housing, a system development credit is proposed. A developer will be eligible for reimbursement of system development charges after building targeted housing. The proposed budget for these credits is \$1,050,000 in 2022 dollars.

Administrative overhead is also included in the plan. Overhead includes debt service on infrastructure loans, staff costs, legal publications, etc. The proposed budget for overhead is \$511,885 in 2022 dollars.

Urban Renewal diverts the tax revenues from new development within the area to the Urban Renewal Agency, rather than allowing them to go to existing districts, like the City, County, etc. That revenue is what is used to pay for projects and programs in the SHURA Plan.

In order to front-load these projects and stimulate development capable of paying for itself, staff proposes to borrow up to \$12 million to install the necessary utilities. In which case, the subsequent SHURA revenue would predominantly be aimed at paying off that debt.

It is anticipated that the Plan will take nineteen years of tax increment collections to implement. The maximum amount of indebtedness that may be issued for the Plan is not to exceed \$18,100,000 (Eighteen Million One Hundred Thousand dollars). Detailed financial analysis is in the Report Accompanying the Southwest Hermiston Plan (Report).

Under the state's school funding model, schools operating budgets are held harmless by Urban Renewal, since state income-tax funding backfills any shortfalls in local budgets to ensure consistent per-student revenues for schools.

The draft report includes a section on Revenue Sharing, which is a new requirement since the downtown Urban Renewal Area was created in 2013. Under the revenue sharing requirements, the new urban renewal district will only collect 100% of the tax increment until its assessed value reaches a set proportion of the maximum indebtedness for the area, at which point, the tax increment begins to be shared with other taxing entities. This section explains the thresholds in more detail, but you can see that existing taxing districts begin receiving revenue in 2036; however, you can also see from the assessed values, that this very conservative projection assumes that new homes don't hit the tax rolls until 2029. This means there would be 7 years where the SHURA receives all of the new revenue and existing entities receive zero. Since this conservative projection is built off of an assumption of only 30 homes

built per year, then existing districts would only see an impact of 280 new homes before they begin receiving increased revenue.

It is important to note that Urban Renewal only applies to permanent tax rates, not bonds. Therefore, every new home, from the day they are completed, will be paying for the school and fire district bonds. Assuming just 30 homes per year at an average assessed value of \$300,000 means the Hermiston School District receives an extra \$31,000 toward paying off its bonds in year one, and a total of \$6.6 million in 2022 dollars over 20 years. The Fire District would also see an extra \$1,400 in year one, and a total of \$300,000 over 20 years.

Staff has been concurrently working on a separate agreement with a large developer to ensure that early years' debt coverage needs are met. At its fundamental level, that development agreement will state that:

1. The City & Developer will partner to cover the debt until SHURA revenue can cover it.
2. The Developer will donate 1.5 acres of land to the Fire District (UCFD1) for a future station.
3. Impact Fee overlay will require one-time payments to UCFD1 per home.
4. Traffic Impact Fee will apply per-home, pending completion of the Traffic Impact Analysis.

Under the tentative terms with the developer, the City and developer would share that debt obligation. Therefore, the worst-case scenario for the city is approximately \$500,000 per year. This amount can be absorbed by the Utility Fund, and would be appropriate, considering that the water system improvements can provide expanded stored water capacity to the entire city.

Notice to citizens of consideration of an ordinance was given via utility billing enclosure. Notice was also placed on the City of Hermiston website. The process for approval has included the following steps, in accordance with ORS 457.

1. Preparation of a Plan including opportunity for citizen involvement.
2. Agency review of the proposed Plan and accompanying Report on August 8, 2022.
3. Forwarding a copy of the proposed Plan and the Report to the governing body of each taxing district. The formal taxing districts letters were sent out on August 10, 2022.
4. Presentation of the Plan to the Umatilla County Commission in a briefing on September 7, 2022
5. Review and recommendation by the Hermiston Planning Commission. The Planning Commission reviewed the Plan on September 14, 2022 and voted that the Plan conformed to the Hermiston Comprehensive Plan.
6. Open House to gain information on the Plan on September 14, 2022.
7. Notice to all citizens of Hermiston of a hearing before the City Council via utility billing enclosure.

8. Hearing by Hermiston City Council and adoption of the proposed Plan and accompanying Report by a non-emergency ordinance. The hearing and first reading of the Ordinance will be held on October 10, 2022 and the second reading and vote by City Council will occur on October 24, 2022. The ordinance must be a non-emergency ordinance, which means that the ordinance does not take effect until 30 days after its approval and during that period of time may be referred to Hermiston voters if a sufficient number of signatures are obtained on a referral petition.

Assuming the ordinance is adopted by the city council, then a notice that the Council has adopted the ordinance will be published four days after adoption in the East Oregonian. The plan will be recorded by the Umatilla County Clerk and will be transmitted to the Umatilla County Assessor.

Tie-In to Council Goals

This new urban renewal area implements Goal #9: Fund infrastructure improvements to support new housing and enhance livability

Fiscal Information

The proposed urban renewal area has a maximum indebtedness of \$18,100,000. This establishes the maximum amount the district will be able to borrow for project financing. Interest on the indebtedness is expected to total around \$8,000,000. Thus, the total outlay over the life of the district will be approximately \$26,500,000. A full description of the total financial impacts is included in Pages 11 through 23 of the attached urban renewal report.

Alternatives and Recommendation

Alternatives

1. Hold the public hearing and hold the first reading of the ordinance.
2. Stop and abandon the Plan.

Recommended Action/Motion

1. Review and discuss the proposed Southwest Hermiston Urban Renewal Plan
2. Conduct public hearing and take testimony on the Plan
3. Conduct the first reading of Ordinance 2341
4. Conduct second reading of Ordinance 2341 and adopt Plan at the October 24, 2022 City Council meeting

Submitted By:

Clinton Spencer, Planning Director