



Where Life is Sweet

Mayor and Members of the City Council
STAFF REPORT
For the Meeting of August 8, 2022

Title/Subject

Southwest Hermiston Urban Renewal Area (SHURA) Draft Plan Presentation

Summary and Background

WHAT IS BEING ASKED?

City Council directed staff, in March, 2022 to develop an Urban Renewal Plan for a 353-acre residential area in southwest Hermiston. City Staff worked with the top Urban Renewal consultant in Oregon, Elaine Howard Consulting and Tiberius Solutions, to develop a draft plan. Council is being asked to receive the draft plan, and move it forward for two months of public review and comment. Council will not be asked to make a final decision about SHURA formation until late Fall; after completing the required public outreach.

WHY ARE WE DOING THIS?

The purpose for forming SHURA is to extend necessary public utilities to the largest remaining single-owner tract of residentially zoned land in the City. Housing development has been a City Council priority every year since 2017, and in that 5.5 year stretch, nearly 600 housing units have been developed. The recent, and planned, development pattern clearly shows a need to open up significant swaths of land for more housing, as the remaining areas either get developed or raise prices due to dwindling supply.

Due to SHURA's location, more than a mile south of most city utilities, it is cost-prohibitive to develop a significant volume of housing without public investment. This area is the city's most recent urban growth boundary expansion area. After the departure of the C&B Feedlot from the site in the early 2000s, the city partnered with the landowners at the time to bring this area into the urban growth boundary to provide additional residential land and protect against future feedlot use. The City has a considerable investment in the land use planning for the site and has worked on several development proposals since annexing the land in 2004. None of the proposals came to fruition due to the considerable utility investment requirements which are beyond the capacity of most if not all private developers in the region.

By far the most expensive component of the necessary infrastructure is related to water and wastewater utilities, which will require construction of a 2 million gallon reservoir, 6,000 feet of

transmission piping, and significant upgrades to the Joseph Booster to supply the reservoir. All told, the water improvements alone are estimated to cost \$6,210,000. The plan also calls for installation of 5,300 feet of sewer main for \$2,806,000, bringing utility costs to a total of roughly \$9,000,000.

In addition to infrastructure, the plan also calls for development of a large 38-acre community park, with amenities appropriate to benefit residents of the entire city, as well as development of smaller neighborhood parks and trails throughout the area. The park components are estimated to cost \$4,700,000. Although the park components may not seem necessary on their face, staff believes that they are necessary to ensure that the tool of urban renewal actually functions as intended. Since the improvements can only be paid for when new investment is added to the area, if the area is undesirable for home-buyers due to a lack of amenities, then investment is likely to be slow, and risk a longer term that the City and Developer will be liable for infrastructure financing. Therefore, the park components are a critical aspect of ensuring that the SHURA functions as intended.

A final component of the SHURA is a program to incentivize workforce housing within the SHURA through a System Development Charge reimbursement. This program would be funded at approximately \$1 million.

It is projected that, at full build-out, the SHURA will be able to accommodate more than 1,300 housing units, an elementary school, a fire station, and neighborhood commercial uses.

HOW DOES IT WORK?

Urban Renewal simply 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).

WHAT ABOUT IMPACTS TO EXISTING SERVICES?

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.

Finally, 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.

HOW DO THE UPFRONT PROJECTS GET PAID FOR?

Staff has been concurrently working on a separate agreement with a large developer to ensure that early years' debt coverage needs are met. Since that Development Agreement and the SHURA are related, yet separate, I won't confuse the SHURA with too many details of the Development Agreement at this point. However, 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.

WHAT'S THE RISK TO THE CITY?

See Table 7 on page 14 of the report, specifically the row labeled, "Other Funding Sources." This is the row which assumes that debt has been incurred, and needs to be paid somehow, and shows the result of the annual debt payment, less any SHURA revenue available. You can see that it starts out at approximately \$1 million per year, until fiscal year 2029, when it begins to drop significantly with new value being added starting in 2029.

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.

However, it is important to understand why I call this a "worst case scenario."

1. Debt Term: This analysis assumes only a 20-year repayment term, while the loan financing which the City has been invited to apply is a 30-year term. A 50% longer repayment term significantly reduces the annual payment, and allows more time for home-building to reach a point where SHURA can pay for itself entirely.
2. Debt Structure: This analysis assumes that SHURA incurs all \$12M of debt for the day-1 infrastructure in FY '24, and that full annual repayment is required immediately. The IFA Loan financing being pursued will allow for design-only loans at the beginning, as well as interest-only payments on the construction loans until construction is complete.
3. Home Building Velocity: This analysis assumes only 30 homes per year, which is considered to be our conservative projection. Faster home-building speeds-up the time in which SHURA can pay for itself.

4. Home Occupancy Start: This analysis assumes the first homes don't get occupied until 2027 to hit the tax rolls for the FY '28-'29 year. It is likely that first homes will get occupied in 2025 to 2026.

WHAT'S NEXT?

1. The process for approval will include the following steps, in accordance with ORS 457.
2. Preparation of a Plan including opportunity for citizen involvement.
3. Agency review of the proposed Plan and accompanying Report on August 8, 2022.
4. Review and recommendation by the Hermiston Planning Commission on September 14, 2022.
5. Presentation of the Plan to the Umatilla County Commission in a briefing on September 14, 2022
6. Forwarding a copy of the proposed Plan and the Report to the governing body of each taxing district. The formal taxing districts letters will be sent out on August 9, 2022.
7. 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.

Tie-In to Council Goals

Goal #7: Fund infrastructure improvements to support new housing and enhance livability

Fiscal Information

See "What's the Risk to the City" above.

Alternatives and Recommendation

Alternatives

1. Move the plan forward for public comment and input from taxing districts as presented.
2. Move the plan forward for public comment and input from taxing districts with recommendations for amendments.
3. Stop and abandon the plan.

Recommended Action/Motion

Motion to move the plan forward for public comment and input from taxing districts as presented.

Submitted By:

Mark Morgan