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March 10, 2010

Project #:7152

TO: John Southgate and Karla Antonini
FROM: Nick Popenuk
**SUBJECT: SUMMARY OF FINANCIAL ANALYSIS FOR PROPOSED
DOWNTOWN HILLSBORO URBAN RENEWAL AREA**

ECONorthwest conducted financial analysis to support the Downtown Hillsboro Urban Renewal Plan, including projections of tax increment financing (TIF) revenues that would be generated in the proposed urban renewal area (URA). This memorandum gives a brief summary of the methods and results of the financial analysis. The memorandum is organized around three of the key figures used in the report, and describes the methods used to calculate these figures:

- TIF revenue
- Total project costs
- Maximum indebtedness

In this memorandum we describe these methods as a linear process. In practice, this methodology was an iterative process. The final calculations were the result of numerous refinements of TIF projections, project costs and schedules, and borrowing assumptions (including bond amounts, terms, and schedule).

1 TIF REVENUE

Tax increment financing (TIF) is the primary funding tool used within urban renewal areas. Tax increment financing revenue is generated within a URA when a designated area is established, and the normal property taxes within that area are 'frozen' (called the *frozen base*). The frozen base for the proposed Downtown Hillsboro URA is \$444.1 million.

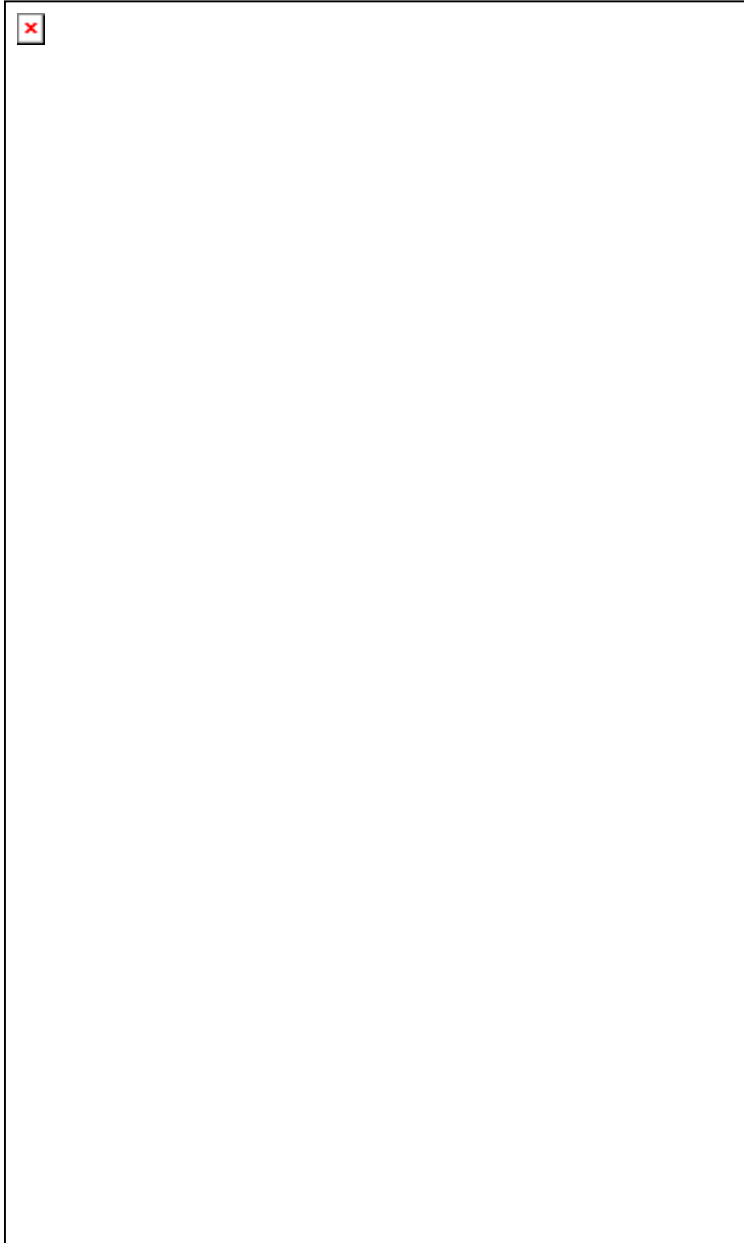
Growth in assessed value within that area through either property appreciation or new taxable investment becomes the *increment* or *incremental value*. Taxing jurisdictions continue to collect tax income from the frozen base, but agree to release assessed value above the frozen base to the URA. The amount of TIF revenue in a given year is calculated by multiplying the incremental value by the applicable tax rate. For new urban renewal areas, the applicable tax rate is not the same as the consolidated tax rate.

The applicable tax rate includes the limited permanent rates of all overlapping taxing districts, as well as all local option levies or general obligation bonds, except for those approved after October, 2001.

When TIF revenues collected by the URA reach certain thresholds, a portion of the TIF is shared with overlapping taxing districts. The amount of the sharing depends upon TIF revenues as a percent of maximum indebtedness.

Based on our revenue projections, the assumed project schedule, and borrowing assumptions, we assume it could take 35 years to retire all debt incurred by the URA. During this 35-year period, the proposed Downtown Hillsboro URA would generate \$441.8 million in TIF revenue, including \$265.3 million for the URA, and \$176.5 million shared with other taxing districts. Figure 1 shows the TIF revenue that would be raised each year from FY 2010/11 to FY 2045/46.

Figure 1. Proposed Downtown Hillsboro URA, cumulative TIF revenue, FY 2010/11 to FY 2045/46, nominal dollars.



Source: ECONorthwest
All values are in nominal dollars, not adjusted for inflation.

2 MAXIMUM INDEBTEDNESS

The amount of TIF revenue generated does not equal total project costs. TIF revenue is the primary financing tool for urban renewal projects, but it can only be used to repay debt. Bonds must be issued, or loans incurred for the URA to fund projects. TIF revenue is then used to repay those bonds.

This means that TIF revenue needs to cover not only direct project costs, but issuance costs, interest payments, and reserve funds as well. Additionally, investors want to see a robust revenue stream available to repay the debt, in case actual collections fall short of projections. This is known as additional coverage. For example, if a coverage ratio of 1.25 were desired, and there was \$1,000,000 in debt service due, then investors would want to see \$1,250,000 of revenue forecast. This additional coverage provides investors added security. For the purposes of our analysis, we have assumed coverage ratios of at least 1.5 in most years.

Because of these additional costs, reserves, and coverage ratios, the \$265.3 million in TIF revenue forecast for the URA translates into much less borrowing capacity. ECONorthwest worked closely with the City and their financial advisor to develop a conservative financing program based on the projected TIF revenue, resulting in total borrowing capacity of \$95 million.

When an urban renewal area is created, the urban renewal plan must designate a limit on the amount of debt that the URA can incur. This limit on debt to be incurred is known as *maximum indebtedness*. In other words, this is the total amount of money that the URA can borrow over time. Debt can come in many forms, including bonds, lines of credit, or loans from banks, other public agencies, or other City funds.

State statutes place an upper limit on maximum indebtedness, based on the value of the frozen base in the URA. For the proposed Downtown Hillsboro URA, with a frozen base of \$441 million, maximum indebtedness could be set as high as \$220 million.¹ The \$95 million borrowing capacity identified in our analysis is below this limit.

3 TOTAL PROJECT COSTS

Maximum indebtedness does not equal total project costs. In addition to bonds and loans backed by TIF revenues, the URA will have other funding sources to pay for projects. These other funding sources are loan repayment and interest earnings. Some of the projects included in the Downtown Hillsboro URA Plan include loans to businesses, developers, and homeowners. When these loans are repaid, the funds can be used to pay for other projects in the area. Additionally, money in the URA fund will accrue interest, and these earnings can also be used for other projects.

These other sources of revenue mean the URA will be able to support project costs in excess of the \$95 million maximum indebtedness.

An early step in our analysis was identifying a list of potential projects for the proposed URA. These projects include investments in transportation infrastructure,

¹ The limit on maximum indebtedness is calculated as \$100 million plus 35% of the amount of the frozen base in excess of \$100 million.

affordable housing, storefront improvement loans, and more. A complete description of these projects is included in the Downtown Hillsboro Urban Renewal Area Plan.

The total project costs were estimated to be on the order of magnitude of several hundred million dollars. However, urban renewal is only one of the financing tools to be used on these projects. The City determined that total project costs to be funded by the URA would be \$101.4 million (including administration and finance costs). These costs are shown in figure 2.

Figure 2. Proposed Downtown Hillsboro URA, total project costs.



Source: ECONorthwest
All values in nominal dollars and not adjusted for inflation

It is worth noting that these project costs are expressed in nominal dollars, in other words, they have not been adjusted for inflation. Since these projects are scheduled to occur over several decades, the total cost would appear much lower if adjusted for inflation and presented in constant 2010 dollars.

4 SUMMARY

The proposed Downtown Hillsboro Urban Renewal Area is anticipated to generate \$441.8 million in TIF revenue over a 35-year period. The URA would collect \$265.3 million of this TIF revenue, and the rest would be shared with overlapping taxing districts.

The \$265.3 million in TIF revenue would support \$95 million in maximum indebtedness (bonds, loans, and lines of credit). The maximum indebtedness, plus additional program income (loan repayment and interest earnings) would be sufficient to fund \$101.4 million in total project costs over the life of the district.