



MEMORANDUM

To: Wink Brooks, City of Hillsboro
Ric Stephens, Alpha Community Development

From: Tess Jordan & Eric Hovee

Subject: South Hillsboro Infrastructure Funding Review

Date: February 14, 2008

This memorandum reviews existing revenue sources and additional funding options for infrastructure construction within the South Hillsboro Plan Area. It also provides preliminary revenue estimates and compares these with preliminary engineering cost estimates to determine funding gaps. This review is intended for inclusion with overall development program documentation.

Contents of this memorandum are organized to cover:

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REGULATORY CONTEXT

Infrastructure funding for new communities is an issue with which the region and state are currently wrestling. In the Portland metro area, the newly incorporated communities of North Bethany, Damascus and Pleasant Valley are all in the process of developing new funding tools to cover the significant cost of creating the roads, sewers and parks a community requires. The task is complicated by the scale of the costs, the fact that there are minimal existing residents in these 'future urban communities,' and the timing gap between when infrastructure is needed (up front) and development-associated revenue streams are realized.

Particularly for roads, current charges levied against new development are insufficient to cover the cost for creating an entire infrastructure network where none currently exists. This appears to be true for planned communities within all metro area counties. For Washington County, this is in part by design; the Transportation Impact Fee was intended to cover a portion, but not all of

transportation needs, with the balance coming from state, federal and other local sources that have proven insufficient or failed to materialize.

For the South Hillsboro Plan Area, SDC/TIF revenue estimates are sufficient to cover estimated infrastructure costs for water, sewer and stormwater, but cover an estimated 67% of parks costs and 15% of transportation development (that will serve South Hillsboro and other existing needs). Neither parks nor roads are typically fully funded by SDC and TIF dollars. Hillsboro assumes developers would pay the full cost of local streets inside their developments; these local streets have not been included in the transportation cost estimate. Many possible avenues of additional funding are discussed within this memo to address the transportation gap related to non-local streets and the parks gap. For most of these avenues, the legal, political and administrative feasibility require further research.

At this early planning stage, a recommended financial strategy has yet to be developed. However, several possible tools have been outlined that can be combined or in some cases, used in isolation, to achieve the funding the Plan Area will require. Development of a refined strategy will rely upon city leadership and partnership with Plan Area landowners and developers, and likely input from Washington County and Metro as well.

INFRASTRUCTURE RESPONSIBILITY & CURRENT REVENUE SOURCES

This section reviews the main categories of infrastructure and current mechanisms for their provision and funding. Categories of infrastructure funding considered are transportation, water, sanitary sewer and storm water and parks.

Transportation

Responsibility: Primary transportation infrastructure is built and maintained by the following entities:

1. *Oregon Department of Transportation*, which maintains state highways. In Hillsboro, this includes Highway 26, Tualatin-Valley Highway, and Farmington Road.
2. *Washington County*, which maintains most arterials and some collectors within the City of Hillsboro plus all roads in unincorporated areas of the county (including, currently, the South Hillsboro Plan Area).
3. *City of Hillsboro*, which maintains all streets within the city limits not under state or county jurisdiction. The City would acquire responsibility for streets within the South Hillsboro Plan Area upon annexation except those on the County road network.

Current Revenue Sources: Two primary sources of funding are currently in place for funding new infrastructure development in Hillsboro.

1. *Developer contributions.* Typically, developers cover costs for on-site streets (internal to their development) and for the portion of off-site costs viewed as triggered by the increased demand that new development will generate.

- 2. *Countywide Traffic Impact Fee (TIF)*.** This is a countywide tax – enacted in 1986 and expanded to incorporated areas in 1990 – in which the City of Hillsboro participates. TIF generates approximately \$11 million annually, split between the county’s 14 jurisdictions. Fees are based on a countywide rate per development type x average number of weekday trips (which vary per use, see Appendix A).

TIF funds can be used for any project impacting a roadway listed in the Base Report, which is essentially a list of the county’s arterials and collectors. The report is updated every 1-2 years via a Board of County Commissioners Resolution and Order. Hillsboro’s arterial and collector streets are represented on this list; new road projects (such as the Cornelius Pass extension) could be added at the City’s request.

Developers can earn credit against the TIF by submitting a receipt for the construction or improvement of a roadway listed in the Base Report. Capacity-oriented elements of the project (vs. streetscape) are eligible for credit.

The TIF contrasts with the city’s remaining developer fees in that it is a tax rather than a System Development Charge.

Water

Responsibility: The City of Hillsboro is currently served by two water entities. Areas north of US Hwy 26 (Sunset Hwy) and east of Cornelius Pass Rd are served by the Tualatin Valley Water District (TVWD); addresses west of Cornelius Pass and south of US 26 (Sunset Highway) are served by the Hillsboro Water Department (HWD). In accordance with the Urban Service Agreement between TVWD and the city, the service area boundary between TVWD and HWD follows TV Hwy east from Cornelius Pass Rd and then turns south along SW 209th Ave, such that the proposed South Hillsboro Plan Area is entirely within the HWD service area.

Current Revenue Sources:

- 1. *Developer contributions.*** These direct developer incurred costs are negotiated, but generally encompass all on-site and nearby off-site costs. Over-sizing pipes to provide capacity for future off-site development is typically not the developer’s responsibility, but may be reimbursed by the service provider.
- 2. *System Development Charges (SDCs).*** In Oregon, jurisdictions can impose SDCs for water, wastewater, storm drain, transportation, parks and schools. Two types of SDCs are allowed: improvement (new infrastructure that must be provided to serve new development); and reimbursement (a portion of the existing remaining capacity within existing infrastructure that new development will utilize). In addition, SDC fees can be structured to recover ‘other costs’ (planning, compliance reporting) and annual inflation. Hillsboro’s schedule for water SDCs is included in Appendix A.

Sanitary Sewer and Storm Water

Responsibility: Sewer is maintained by City of Hillsboro Public Works Department and Clean Water Services. The City operates the collector and trunk sewers smaller than 24” in diameter

within city limits and collects all fees. Clean Water Services operates and maintains sewage treatment facilities, sewer lines in unincorporated areas (including, currently, the Plan Area), and sewer lines 24” and greater within Hillsboro.

CWS and Washington County currently share the responsibility of providing South Hillsboro with public stormwater management. CWS responsibilities include public stormwater system master planning, operation and maintenance of the conveyance system, regional water quality treatment and detention facilities, and discharge to natural drainage ways. Washington County oversees drainage improvements in the public right-of-way associated with County roads and unincorporated areas outside city jurisdiction. Once properties annex into the City the City will be responsible for operation and maintenance of the public conveyance systems.

Current Revenue Sources:

1. ***Developer contributions.*** These are negotiated, but typically include all on-site and off-site improvements as necessary to connect to existing system and through the development to the furthest property line to serve upstream properties. Again, over-sizing to accommodate other future off-site or area-wide development is one cost that would be excluded from this category, but may be reimbursable.
2. ***SDCs.*** Storm/surface water SDCs are dedicated to projects listed in Hillsboro or Clean Water Service’s Master Plans. The City’s fee schedule is listed in Appendix A.

Parks

Responsibility: The City of Hillsboro’s Parks Department is responsible for the development and maintenance of all parks and open space within its boundaries. Parks situated outside of incorporated areas are the responsibility of the Washington County Facilities and Parks Services Division (except those within the SB 122 planning area which corresponds to the school district boundary line).

Current Revenue Sources:

1. ***SDCs.*** The City’s fee schedule is listed in Appendix A.
On rare occasions, SDCs have been reduced for homes within a Planned United Development because sufficient parks and/or recreational facilities are constructed by the developer.

COST & REVENUE COMPARISON

The following table compares infrastructure cost estimates generated by Alpha Community Development with SDC and TIF revenue estimates according to projected residential units and commercial building square footage. The Plan Area has been divided into six different ‘development areas,’ or possible phases; costs and revenue are reported for each area.

As anticipated, transportation is the area in which revenue falls most significantly short of costs. At this stage, transportation costs and revenue have been combined with stormwater costs and revenue, due to the joint approach with which engineering cost estimates were prepared. Across the entire Plan Area, there is a transportation/stormwater shortfall of close to \$172 million. Estimated revenue generates only \$31 million of the required \$203 million, or 15%. Although reporting for these two types of infrastructure is combined, the bulk of dollars – both cost and revenue – are associated with transportation.

Of the six development subareas identified, the largest transportation/stormwater fund deficits are associated with the largest development subareas: Area 3, Northeast/Reed's Crossing (\$53.6 million); Area 4, South of Reed's Crossing (\$45.6 million); and Area 5, South of Rosa (\$35.1 million).

Estimated parks costs – which includes wetlands remediation and trail development costs – also exceeds estimated parks revenue by close to \$19 million for the entire plan area. The deficit is associated with three development subareas. The bulk of the deficit – \$17 million – is associated with Area 2, the Western Area.

For the remaining types of infrastructure revenue is sufficient to cover costs. *Note:* for this memorandum it is assumed that sewer and stormwater are combined.

The following caveats should be kept in mind when reviewing these initial estimates:

- Revenue numbers are preliminary estimates and subject to revision. All estimates are in current (2007) dollars and not inflation adjusted to year of construction.
- Residential units were estimated by the City of Hillsboro and equal 80% of the maximum density allowed in the proposed Comprehensive Plan designations. If the Plan Area develops at maximum density – as was the case in Witch Hazel – SDC and TIF revenue would correspondingly increase. A 20% increase in residential construction could generate an additional \$6 million in TIF revenue and \$23 million in SDCs.
- Similarly, if the market favors lower density development – and zoning does not prevent lower densities from being built – SDC and TIF revenue would be lower than these estimates (albeit with some infrastructure cost also potentially being reduced).
- Estimated commercial square footage was based upon building prototypes generated by Fregonese Calthorpe, which informed the generation of the Hybrid Scenario. Non-residential development occurs within four land use types: Town Center, Neighborhood Center, Flex and Civic. Within the Town Center and Neighborhood Center, most commercial development was programmed at an FAR of approximately 0.35 (single story with surface parking). Eight acres of Town Center and three acres of Neighborhood Center were assumed to develop as mixed use buildings, with ground floor commercial uses and upper story residential. The extent to which the market delivers these building types is another source of possible variance between these estimates and actual SDC and TIF revenue.
- Commercial building SDCs and TIF were estimated based on five building prototypes (two office and three retail prototypes) that were circulated among City of Hillsboro planning and engineering staff. These prototypes are assumed to provide a sufficient level

of detail for this first sketch analysis. The aggregation of these prototypes into the various land use areas is detailed in Appendix B.

- Civic revenues describe water, sewer and stormwater SDCs and TIF associated with four planned schools, three elementary and one middle school. Parks SDCs are not levied on schools. Estimates were based on a 76,000 square foot elementary school currently being planned. The middle school was assumed to be 60% larger, and fees were correspondingly increased by 60%. Costs for school construction and funding sources available have not been addressed here.

Figure 1. Infrastructure Cost and SDC/TIF Revenue Comparison

Area	Units	Square Feet	Water	Sewer	Parks	Transportation & Stormwater
1 Golf Course to 229th						
Cost Estimate			\$503,000	\$180,000	\$181,000	\$5,970,000
Revenue Estimate						
Residential	507		\$2,830,000	\$1,530,000	\$2,160,000	\$1,730,000
Commercial						
Civic						
Total			<u>\$2,830,000</u>	<u>\$1,530,000</u>	<u>\$2,160,000</u>	<u>\$1,730,000</u>
GAP			\$2,327,000	\$1,350,000	\$1,979,000	-\$4,240,000
2 Western Area						
Cost Estimate			\$1,091,000	\$490,000	\$18,185,000	\$15,750,000
Revenue Estimate						
Residential	272		\$1,520,000	\$820,000	\$1,160,000	\$930,000
Commercial						
Civic		76,421	\$29,000	\$76,000		\$92,000
Total			<u>\$1,549,000</u>	<u>\$896,000</u>	<u>\$1,160,000</u>	<u>\$1,022,000</u>
GAP			\$458,000	\$406,000	-\$17,025,000	-\$14,728,000
3 Northeast/Reed's Crossing						
Cost Estimate			\$3,554,000	\$1,780,000	\$16,727,000	\$69,188,000
Revenue Estimate						
Residential	4,144		\$23,150,000	\$12,540,000	\$17,610,000	\$12,730,000
Commercial		439,880	\$2,179,000	\$754,000	\$1,225,000	\$2,616,000
Civic		198,747	\$76,000	\$198,000		\$240,000
Total			<u>\$25,405,000</u>	<u>\$13,492,000</u>	<u>\$18,835,000</u>	<u>\$15,586,000</u>
GAP			\$21,851,000	\$11,712,000	\$2,108,000	-\$53,602,000
4 South of Reed's Crossing						
Cost Estimate			\$2,475,000	\$720,000	\$13,720,000	\$50,950,000
Revenue Estimate						
Residential	1,602		\$8,940,000	\$4,850,000	\$6,820,000	\$5,280,000
Commercial		22,723	\$133,000	\$36,000	\$64,000	\$91,000
Civic		No new				
Total			<u>\$9,073,000</u>	<u>\$4,886,000</u>	<u>\$6,884,000</u>	<u>\$5,371,000</u>
GAP			\$6,598,000	\$4,166,000	-\$6,836,000	-\$45,579,000
5 South of Rosa						
Cost Estimate			\$2,886,000	\$2,326,000	\$7,593,000	\$41,579,000
Revenue Estimate						
Residential	1,879		\$10,490,000	\$5,680,000	\$7,990,000	\$6,430,000
Commercial						
Civic		76,421	\$29,000	\$76,000		\$92,000
Total			<u>\$10,519,000</u>	<u>\$5,756,000</u>	<u>\$7,990,000</u>	<u>\$6,522,000</u>
GAP			\$7,633,000	\$3,430,000	\$397,000	-\$35,057,000
6 South of Witch Hazel						
Cost Estimate			\$546,000	\$2,054,000	\$488,000	\$19,620,000
Revenue Estimate						
Residential	252		\$1,410,000	\$770,000	\$1,070,000	\$870,000
Commercial						
Civic						
Total			<u>\$1,410,000</u>	<u>\$770,000</u>	<u>\$1,070,000</u>	<u>\$870,000</u>
GAP			\$864,000	-\$1,284,000	\$582,000	-\$18,750,000
ALL AREAS						
Cost Estimate			\$11,055,000	\$7,550,000	\$56,894,000	\$203,057,000
Revenue Estimate						
Residential	8,656		\$48,340,000	\$26,190,000	\$36,810,000	\$27,970,000
Commercial		462,603	\$2,312,000	\$790,000	\$1,289,000	\$2,707,000
Civic		351,589	\$134,000	\$350,000		\$424,000
Total			<u>\$50,786,000</u>	<u>\$27,330,000</u>	<u>\$38,099,000</u>	<u>\$31,101,000</u>
GAP			\$39,731,000	\$19,780,000	-\$18,795,000	-\$171,956,000

Source: E.D. Hovee & Company, City of Hillsboro, Fregonese Associates, Alpha Community Development.

SUPPLEMENTAL FUNDING OPTIONS

The Plan Area faces two distinct issues in filling its parks and transportation funding gap:

- Locating and likely creating sources of funding to cover *costs beyond those covered by existing revenue sources*, and
- Establishing a financing mechanism acceptable to both the City and developers that will generate *cash flow* for infrastructure construction prior to development actually occurring (and receipt of the SDC/TIF funding stream associated with that development).

Each of these issues – the generation of funds and the timing of fund availability – will require attention as South Hillsboro area planning moves forward.

The following list of funding options was generated through conversations with city, county and metro staff and legal counsel, the Oregon Economic and Community Development Department (OECD) and the Oregon League of Cities. Documents created for and by other jurisdictions that have faced similar challenges in funding infrastructure have also been reviewed (as for Pleasant Valley, Villebois and North Bethany). Materials created by ECONorthwest for North Bethany are especially detailed with respect to their identification and assessment of potential new sources of infrastructure funding.

Potential supplemental sources of funding are briefly identified and described to include the following:

1. ***Property Taxes.*** Both the City of Hillsboro and Washington County have the authority to levy property taxes with double majority voter approval. However, local option levies are limited by several previous ballot measures, and any tax increase must be within those limits. It is unknown at this time whether the city or county has the ability to increase its local option levy due to statutory limitations.

General obligation bonds, in contrast, are not subject to the same limits other than double majority voter approval. These must be used for capital projects, a criterion which infrastructure investment should meet.

While a city or county-wide property tax has the potential to generate significant funds, one disadvantage is the perceived fairness of who pays versus who benefits from growth. A property tax spreads the unmet costs of growth across the entire community. However, this wide base also offers the potential of a relatively lower per property burden. Washington County voters have twice passed property tax measures to fund transportation investments, as described below.

2. ***Washington County Major Street Transportation Improvement Program (MSTIP).*** This program originated as a voter-approved property tax dedicated to transportation projects geographically distributed throughout the County. As a result of Ballot Measures 47/50, the MSTIP was combined with the general property tax, but the County Board continues to use it as a dedicated transportation funding source. This funding source has twice been renewed by voters, each time with a list of projects that accompanied the vote. The current list of projects is expected to be complete by 2012.

The program currently generates approximately \$23 million annually to be used for transportation projects countywide, about twice the level of funding that TIF generates.

Washington County is currently undertaking a Transportation Funding Plan to consider funding options for future projects. One option is to develop a new MSTIP list. The County Board of Commissioners will ultimately decide on whether to renew this source or take another approach to the voters in 2008.

If the MSTIP is renewed, funds could support existing roads adjacent to the Plan Area (such as 209th and Cornelius Pass), the improvement of which would support Plan Area development. MSTIP funds are used to meet existing transportation deficiencies.

- 3. Increased SDC/TIF Rates.** Metro is moving to encourage this approach, as indicated through its July 2007 document ‘Promoting vibrant communities with System Development Charges.’ Steps being recommended include “unbundling” SDCs to separate cost elements, encouragement of best management practices, green design SDC discounts, and transition to “impact-based” SDCs (such as higher SDCs for greenfield than urban development to better accomplish real cost recovery objectives). Other ideas suggested by Metro include a differential (or location-based) SDC fee schedule that could reduce fees for higher density development with fewer occupants per unit, as well as lowering the level of service (LOS) standards for urban area infrastructure.

The Metro analysis also suggests that SDC rates should be set to aim for full cost recovery and that SDCs can be effective in influencing development patterns and encouraging development that is less taxing to infrastructure – including in-fill development and development that favors smaller units, lots sizes, and locations adjacent to transit systems. In Hillsboro, a full cost recovery TIF would presumably mean an increase in the TIF by a factor of more than three. For parks, full cost recover could be achieved with a 50% increase in SDCs charged. Political and public support for either strategy – and its impact on the Plan Area’s likely development – is at yet unknown.

- 4. Supplemental SDC:** An area-specific SDC was considered for the recent Witch Hazel Village concept planning area. In the South Hillsboro Plan Area, assigning an additional transportation SDC (versus the current TIF tax) and/or increasing the existing parks SDC have the potential to generate significant revenue. As with a city or countywide increase in TIF rates, public support for an area-specific approach to increase SDC fees is yet unknown.

The following tables broadly illustrate the total revenue associated with an increased development fee dedicated to transportation infrastructure.

Figure 2. Supplemental Transportation SDC Revenue Potential: Residential Development

Unit Type	Units	Current		Scenario 1		Scenario 2		Scenario 3	
		2007 Rate	Total Revenue	Fee per Unit (+56%)	Total Revenue	Fee per Unit (+216%)	Total Revenue	Fee per Unit (+369%)	Total Revenue
Detached & Townhomes	7,332	\$3,200	\$23,462,400	\$5,000	\$36,660,000	\$10,000	\$73,320,000	\$15,000	\$109,980,000
Apartments	1,324	\$1,952	\$2,584,400	\$3,000	\$3,972,000	\$6,000	\$7,944,000	\$9,000	\$11,916,000
	8,656		\$26,046,800		\$40,632,000		\$81,264,000		\$121,896,000

Source: E.D. Hovee & Company, LLC; City of Hillsboro.

Figure 3. Supplemental Transportation SDC Revenue Potential: Commercial Development

Use	Square Feet	Current		Scenario 1		Scenario 2		Scenario 3	
		Total Revenue	Increase	Total Revenue	Increase	Total Revenue	Increase	Total Revenue	
Commercial	462,603	\$2,554,000	100%	\$5,108,000	200%	7,662,000	300%	10,216,000	
Civic	351,589	\$355,000	100%	\$710,000	200%	1,065,000	300%	1,420,000	
	814,192	\$2,909,000		5,818,000		8,727,000		11,636,000	

Source: E.D. Hovee & Company, LLC; City of Hillsboro.

Under scenario 3, residential development raises an additional \$121.9 million and commercial development raises an additional \$11.6 million, for a total of \$133.5 million. With this funding strategy, the transportation funding gap would be reduced to approximately \$39 million, which could be met through one or more of the other funding options discussed.

The over-all gap in parks funding is smaller (\$18.8 million); a less aggressive SDC schedule is outlined to meet this gap. If the SDC charged (on a per unit basis for residential development and per parking space basis for commercial development) increased by 25%, the total gap would decrease to \$9 million. If the SDC fee schedule were increased by 50%, the gap would be eliminated.

Figure 4. Increased Parks SCD Revenue Potential

	Units/SF	Current		Scenario 1		Scenario 2	
		Rate per unit/parking space	Total Revenue	Increased Rate (+25%)	Total Revenue	Increased Rate (+50%)	Total Revenue
Residential Units	8,656	\$4,253	\$36,813,968	\$5,316	\$46,017,460	\$6,380	\$55,220,952
Commercial Development*	462,603	\$713	\$1,289,000	\$891	\$1,611,250	\$1,070	\$1,933,500
			\$38,102,968		\$47,628,710		\$57,154,452

*Note: Civic (schools) are not included as they do not pay parks SDCs.

Source: E.D. Hovee & Company, LLC; City of Hillsboro

5. **Local Improvement District (LID).** LIDs are similar to SDCs in that they charge only those who will benefit from the infrastructure investment. A LID is a semi-voluntary charge against property values requiring the support of 51% of landowners within the district; the boundaries of a district are flexible. Property owners can opt to pay over as many as 20 years and funds can be used for capital improvements or maintenance.

Unlike SDC or TIF funding, the LID is not triggered by land development and therefore may be viewed as a penalty against those who do not develop (to increase the value/revenue stream associated with their land). In the same vein, it can be a more reliable funding source than funds which would be realized only when and if development occurs.

In Oregon, LIDs have been used for small-scale projects such as local street improvement and for larger transportation improvements, such as the Portland downtown transit mall light rail extension and streetcar development. A key consideration in South Hillsboro's potential use of a LID is land owners' willingness and ability to contribute and the risk associated with possible future real estate downturns.

6. **Real Estate Transfer Tax or Fee.** Oregon state law has kept this option off limits to most Oregon communities since 1989. Washington County is the one exception, with a pre-existing tax set at 1% of the sales price of real estate. This tax generated approximately \$6 million towards the county's general fund in 2005. Whether this tax could legally be increased is yet unknown from a legal perspective.

Funding infrastructure through a RETT (in part) means that residents throughout the county/city would contribute in proportion to the value of property they buy/sell, rather than whether or not the property being taxed will benefit from any particular infrastructure investment.

Legislation enabling the expanded use of RETT has been introduced and rejected at the state level numerous times. In 2007 the Oregon Housing Alliance came close to successfully lobbying for a statewide document recording fee, having found that a statewide fee or tax was equally as palatable as legislation enabling local jurisdictions to levy their own tax. This fee would have gone towards programs that target the housing needs of low-income families. It is expected to be revisited in 2009.

7. **Windfall Tax.** A windfall tax recaptures a portion of the increase in land value attributable to public action (such as annexation or incorporation into the UGB, as is planned for land within the South Hillsboro Plan Area). Britain appears to have enabled this type of tax in 2007, known as a Planning-Gain Supplement. As a basis of taxation, a windfall tax appeals to equity principles and has thus been a source of discussion over the years. However, a working model has yet to be enacted within the United States to our knowledge.

Metro investigated this potential revenue source in 2006, in part as a recommendation from the Measure 37 subcommittee (which recommended generating funds to pay for claims via a windfall tax). The Metro 'Fair Growth and Farmland Project' Committee determined that the tax could legally be structured as an excise or privilege tax, or specialized capital gains tax, and recommended parameters for the tax's structure.

However, the Council took no action on the report's recommendations, choosing not to pursue further investigation or possible implementation.

The Metro Council is now undergoing a New Look at Regional Choices to investigate how to pay for infrastructure (both new and aging). A windfall tax is not a current focus of the Council's discussions, although no options are off the table.

- 8. *Urban Renewal.*** Urban renewal and associated tax increment financing allows a district to spend future tax dollars on capital projects needed today, in theory, to facilitate the development that will generate those future tax dollars. It freezes the property value and tax revenue within a district and bonds against the anticipated future increase in value and taxes.

One controversial impact is that prospective tax revenue increases are diverted from the jurisdiction's general fund – and other special taxing districts – until urban renewal/tax increment backed bonds are repaid. Thus those that would most directly benefit from infrastructure pay its cost, but through taxes that would have paid for other public services in the absence of an urban renewal district.

Urban renewal can be an effective tool in raising significant funds and are often acceptable to the public because the revenue sources tapped are from development that ostensibly would not have happened without the urban renewal investment. However, jurisdictions are limited in the percent of their land area and property value that can be within urban renewal districts at one time. Political viability and city-wide funding priorities are both critical factors in determining the appropriateness of this tool.

- 9. *County Service District.*** State statute enables Counties to establish Special Districts, which operate similarly to an LID. The League of Oregon Cities describes the advantage of Special Districts over LIDs as greater leeway in demonstrating the nexus between the action and the property benefit – this may be simply a matter of precedent, as LIDs are often used for fairly simple transportation improvements. Special District Funds generated can be used for construction or operation of capital facilities.

A district's assessments can be based on property value, in which case, as a property tax, it is subject to the tax limits associated with Measure 50/47. In its analysis for North Bethany, ECONorthwest describes alternative assessment formulas based on factors such as land area, trip generation, proximity to facilities or franchise fees. The potential political and legal acceptability of these options is described as unknown. However, Washington County staff indicates that this is one avenue of possible funding that may be promising and worth pursuing.

A downside of this tool is that the authority to establish districts rests with counties and not cities; it would at minimum require significant coordination with Washington County. It is possible that the district's Board of Directors could be defined as Hillsboro's City Council; the legalities of this approach are as yet unknown.

- 10. *Excise Tax.*** In September 2007 Governor Kulongoski signed SB 1036, which enables school districts to levy a tax on construction and limits the use of this funding source by other entities. The bill grandfathered existing construction taxes such as Metro initiated in 2006, and allows existing excise taxes to be increased. The Metro tax goes towards

planning for areas newly brought into the UGB and is capped at \$6.3 million, estimated to be raised over three years.

Due to the passage of this bill, the only option for using this source to support infrastructure development may be via a regional fund supported by an increase in Metro's existing taxing ability. The legality of extending this tax is also unknown at this time.

As with general property taxes, one issue associated with this potential funding source is the relatively looser nexus between new construction throughout the region and infrastructure investments within the region's newest communities.

11. *Reimbursement District.* This is a tool that enables developers to repay one another directly without the city or county serving as an intermediary. If a developer contributes, for instance, an over-sized water line, a portion of the cost is determined to be a credit. Later developers then pay the original developer the value of that credit in lieu of some portion of an SDC charge.

Rather than a new source of revenue, this is a tool that moves risk and carrying costs from the city to the developer. Washington County Counsel Dan Olsen stated that this approach was used in the construction of the Woodburn Outlet Mall. In that case, any development that followed the outlet mall's construction within 10 years owed a portion of the I-5 interchange improvement costs to the outlet mall's developer. A developer's interest in pursuing this strategy is likely tied to the depth of his resources and his confidence that additional development will follow his own investment within a reasonable time frame.

12. *Homeowner Associations.* Like the reimbursement district, this is a tool for handling infrastructure costs without the city's involvement. This tool has not been employed for funding infrastructure within Oregon to our knowledge. Its advantages are that it does not require voter approval, it removes risk from the city and reduces the city's total taxes levied (which are limited to a certain percentage of the city's Real Property Value). It can also be attractive to developers because unlike an SDC, the cost of Homeowner Association dues will not be rolled into the home's purchase price.

13. *Grants/Donations.* Of the Plan Area's infrastructure needs, parks and open space likely represents the best potential fit for grants and donations. Possible sources would be determined on a project basis. The initial comparison of infrastructure costs and revenues indicates an estimated parks gap of approximately \$19 million. The parks department has indicated that grants and donations would be a part of its funding strategy, along with general fund dollars and other approaches to be refined as plan area development moves forward. Grants and donations typically comprise a small portion of the funds necessary to develop parks facilities.

14. *Vehicle Registration Surcharge.* ECONorthwest's research for North Bethany indicates that Oregon counties can assess a \$15 registration surcharge, countywide, to two-year registrations. Washington County currently does not assess this fee. Proceeds would be relatively low (around \$2.2 million) and would need to be applied to projects countywide. The likelihood of such an initiative passing and whether this mechanism has been explored in the past has is as yet unknown.

15. Non-Local Sources of Funds. The most likely source of state support would be lower-cost loans than the City may be able to obtain independently, such as through the State Revolving Loan Fund. Additional Federal and state sources may be available; a comprehensive search has not yet been completed with this initial assessment. State representatives describe a funding package in the works for 2009 that would provide on on-going funding stream, but the magnitude and priorities associated with this package are unknown. The League of Cities is lobbying for \$170 million to be distributed among cities.

Based on the experience of other Metro area jurisdictions who are grappling with this issue – and the increasing trend of reduced federal support for state and local programs – support from larger government bodies appears likely to be extremely limited. Preliminary discussion with OECDD’s Capital Projects Division also indicates that, in the absence of new legislative initiatives, the infrastructure funding mechanisms and solutions that Oregon communities now seek will likely come from the communities who are most impacted by this issue, rather than from the state level.

16. Selective Classification of Arterials and Collectors. Study Area roadways will be classified as arterials, collectors, neighborhood routes and local streets according to their projected Average Daily Traffic. Arterial and collector streets constructed by developers qualify for Traffic Impact Fee credits. To qualify for credits, arterial and collector streets must be listed in the TIF Base Report. The City of Hillsboro has suggested not listing planning area arterial and collector streets on the Base Report, to enable TIF funds to focus on off-site roadway systems impacted by Study Area development.

LOCAL EXPERIENCE

Three comparable areas within the Metro region have undergone or are currently undergoing a funding strategy for infrastructure provision – Pleasant Valley (Gresham), Villebois (Wilsonville), and North Bethany (Washington County). The strategies that other jurisdictions have pursued are outlined below. Conversations with the jurisdictions are on-going and further details can be provided to inform South Hillsboro Plan Area discussions.

As these three brief case studies indicate, there appears to be no one single formula to funding infrastructure for major new developments in the Portland metro area. Each community has essentially tailored a strategy acceptable to pivotal property owner / development entities and to the community-at-large.

Pleasant Valley, City of Gresham

Pleasant Valley is an approximately 1,500 acre new neighborhood within the City of Gresham that was opened for development by Metro’s 1998 UGB expansion. A Development Agreement was signed in July 2007 outlining the provision of infrastructure to allow development to proceed.

The generation of a Development Agreement began with a prohibitive infrastructure cost estimate of approximately \$150 million (according to Bruce Hoyt, a consultant with Alpha

Community Development who worked on the process and was formerly City of Gresham staff). The city then looked at what infrastructure elements were most necessary to begin the development process and how this investment might be phased. It was determined that the cost of essential, first phase infrastructure was \$32 million.

Beyond this, a second conclusion was that the single most important thing the City could provide in this area was sewer. The City's SDCs were sufficient to generate \$32 million. While the total revenue appeared adequate, generating the funds prior to land development – when they are needed – became the next challenge.

Even at this lower cost, neither the city nor the area's three primary developers could generate the required funds and support associated holding costs of land prior to completion of build-out. The resulting development agreement serves as a process for parceling out improvements and associated costs to each entity. In the end, each party paid about half of the required amount. Essential elements of the Development Agreement achieved are as follows:

- The developers provided financing for a majority of the infrastructure required for Phase One development.
- Developers would be reimbursed \$14.3 million from the city in the forms of SDC credits applied when building permits are issued. SDC credits are to be placed in an escrow account and subtracted when permits are issued. Credits are allocated to developers based on percentages provided, but developers can transfer credits among themselves within the Phase I area. The agreement listed nine sewer, water and transportation projects eligible for these credits.
- Developers could – at their own initiative but with City Council approval – establish a reimbursement district (similar to a LID) to recoup additional SDCs.
- In turn, the city was obligated to construct three wastewater projects valued at \$15.9 million, financed through the State Revolving Loan Fund to be repaid with SDC revenue.

Primary concerns included a possible slow down in development that could reduce cash on hand to pay for future projects. Both parties agreed on a projection for housing absorption that formed the basis of the projected SDC stream. If absorption slows, the phasing of infrastructure projects will slow accordingly. A second concern was the need to carefully synchronize wastewater investments between the parties.

Villebois, City of Wilsonville

Villebois is an approximately 500 acre development (with 350 buildable acres) situated within the City of Wilsonville that is now roughly 25% built-out. About 200 acres are comprised of the former Dammasch State Hospital.

A development agreement was signed in May 2004 to provide an infrastructure financing package totaling \$141 million. The high cost of infrastructure to serve this district was due, in large part, to road improvements that would serve Villebois but were also critical to the City's overall transportation system. System-wide need included two I-5 freeway interchange improvements and two access roads that crossed significant wetlands.

As with Pleasant Valley, the developer’s portion of the infrastructure package comprised approximately half of the total cost. At the time of the development agreement, the area consisted of two primary landowners and 19 smaller holdings. The following table provides a sketch outline of the project’s funding structure:

**Figure 5. Villebois Infrastructure Funding Sources (2002)
(In \$ Millions)**

Funding Source	Villebois Generated	Other Sources	Total
Private investment	\$70	--	\$70
Project SDCs	\$11	--	\$11
Project Urban Renewal	\$21	--	\$21
Grants (state, federal, regional)	\$9	\$15	\$24
Citywide SDCs	--	\$2	\$2
Eastside Urban Renewal	--	\$11	\$11
Utility Fees	--	\$2	\$2
	<u>\$111</u>	<u>\$30</u>	<u>\$141</u>

Source: Villebois Finance Plan Version 2.7

To cover a price tag over four times that of Pleasant Valley, Wilsonville used a wider array of funding mechanisms. Urban renewal – both within the Plan Area and in other parts of the city – generated \$32 million (or about 23%) of the funding total. Existing URA boundaries were expanded to encompass freeway interchange work and rail station access.

SDCs and utility revenues generated about \$15 million (or 11%) of the funding total. An Assessment District and LID were to be used as back up if SDCs failed to generate the anticipated funds.

Grants from a variety of sources yielded \$24 million (or 17%). Those grants included:

- \$6 million in Oregon Transportation Investment Act (2003) funds for Beckman Rd improvements. Public Affairs Director Danielle Cowen stated that the project qualified for these funds because it increased access to Washington County Commuter Rail and to the housing – needed regionwide – which the Villebois development would provide.
- \$800,000 in federal dollars for the Beckman Rd project.
- \$4.7 million in federal highway funds for the Barbur St connection to Villebois and to Commuter Rail.
- \$1.4 million from MTIP regional funds for Kinsman Rd, because of its importance to freight movements and adjacency to a Commuter Rail station.
- \$8 million in STIP funds for Wilsonville Rd I-5 interchange.
- \$4 million in federal grants for Villebois stormwater systems that would both address runoff and rechannel existing run-off that was misdirected by past farming and highway construction activities.

Costa Pacific – which purchased the 200 acre former Dammasch Hospital site – was instrumental in securing federal grants; the city led the effort to secure state and local funds.

North Bethany, Washington County

Washington County is currently planning the future development of North Bethany, an 800 acre UGB expansion area north of Beaverton that is anticipated to accommodate up to 5,000 households at build-out. The Board of County Commissioners has directed staff to develop a funding strategy to accompany the area's land use plan; the county is now underway with that two year process.

Urban renewal is currently viewed as a primary funding strategy being employed in this area. County commissioners voted in August to continue to investigate the feasibility of an urban renewal district and begin to determine details such as district boundaries. Commissioners also stated that they would consider urban renewal as one of multiple strategies to be employed.

Senior Planner Andrea Vannelli stated that a second promising funding strategy is something like a County Service District. As part of the planning process, it has been determined that significant funding from the federal or state sources is unlikely. The county is working closing with three developers out of five who own or have optioned 75% of the area's 800 acres.

APPENDIX A: 2007 CITY OF HILLSBORO SDC AND TIF RATES

System Development Charges	Rate	Basis
Sewer		
Residential	\$2,800	per Dwelling Unit (DU) or Dwelling Unit Equivalent (DUE)
Commercial/Industrial	\$2,800	Per DUE, varies by use
Storm/Surface Water		
Residential	\$500	per Engineering Standard Unit (ESU, 2,640 sf
Commercial/Industrial	\$500	per ESU, varies by use
All uses	-\$225	Credit for water quality improvements (filters, vegetation) - largely required
Parks		
Residential unit	\$4,253	per housing unit. 30% reduction for PUDs which provide parks.
Commercial/Industrial	\$713	per parking space. 30% reduction for PUDs which provide parks.
Water		
1-2 family residential	\$5,586	per DU
Commercial/Industrial		Varies by size of meter according to use and number of fixtures

Traffic Impact Fees	Rate	Basis
Transportation		
Business/commercial	\$81	x average daily trips, varies (according to Traffic Impact Manual)
Office	\$294	x average daily trips, varies (according to Traffic Impact Manual)
Industrial	\$308	x average daily trips, varies (according to Traffic Impact Manual)
Institutional	\$133	x average daily trips, varies (according to Traffic Impact Manual)
Residential	\$320	x average daily trips, varies (according to Traffic Impact Manual)

Source: City of Hillsboro Resolution and Order No. 07-31, *Clean Water Services Rates and Charges, City of Hillsboro Permit and System Development Fees*, conversations with Bernie Monahan, Brooke Cooper, Alfreda Cnossen, City of Hillsboro.

APPENDIX B: DETAILED REVENUE TABLE

Figure 6. Estimated Residential TIF and SDC Revenue

	Gross Acres	Net Acres	Units	Water	Sewer & Stormwater	Parks	TIF
1 Golf Course to 229th							
Single Family Detached							
Compact Neighborhood	9	8	107	\$600,000	\$320,000	\$460,000	\$340,000
Single Family Neighborhood	-	-	-				
Large Lot Single Family	74	67	400	\$2,230,000	\$1,210,000	\$1,700,000	\$1,280,000
Total	83	75	507	\$2,830,000	\$1,530,000	\$2,160,000	\$1,620,000
2 Western Area							
Single Family Detached							
Compact Neighborhood	12	11	143	\$800,000	\$430,000	\$610,000	\$460,000
Single Family Neighborhood	24	22	129	\$720,000	\$390,000	\$550,000	\$410,000
Large Lot Single Family	-	-	-	\$0	\$0	\$0	\$0
Total	36	33	272	\$1,520,000	\$820,000	\$1,160,000	\$870,000
3 Northeast Area/Reed's Crossing							
Single Family Detached							
Compact Neighborhood	169	152	2,470	\$13,800,000	\$7,480,000	\$10,500,000	\$7,900,000
Single Family Neighborhood	99	89	514	\$2,870,000	\$1,560,000	\$2,190,000	\$1,640,000
Large Lot Single Family	-	-	-	\$0	\$0	\$0	\$0
Total	268	241	2,984	\$16,670,000	\$9,040,000	\$12,690,000	\$9,540,000
Town Center							
Mixed Use Residential	9.1	8.2	196	\$1,100,000	\$590,000	\$830,000	\$380,000
Apartments/Condos (27)	27.3	24.5	589	\$3,290,000	\$1,780,000	\$2,500,000	\$1,150,000
Retail	9.1	8.2	-				
Total	45.4	40.9	785	\$4,390,000	\$2,370,000	\$3,330,000	\$1,530,000
Flex Use							
Apartments/Condos (27)	5.4	4.9	375	\$2,090,000	\$1,130,000	\$1,590,000	\$730,000
Retail	5.4	4.9	-				
Office	10.9	9.8	-				
Total	21.7	19.5	375	\$2,090,000	\$1,130,000	\$1,590,000	\$730,000
4 South of Reed's Crossing							
Single Family Detached							
Compact Neighborhood	56	50	688	\$3,840,000	\$2,080,000	\$2,930,000	\$2,200,000
Single Family Neighborhood	98	88	527	\$2,940,000	\$1,600,000	\$2,240,000	\$1,690,000
Large Lot Single Family	41	37	223	\$1,250,000	\$670,000	\$950,000	\$710,000
Total	194	175	1,438	\$8,030,000	\$4,350,000	\$6,120,000	\$4,600,000
Neighborhood Center							
Mixed Use Residential	1.9	1.7	35	\$190,000	\$110,000	\$150,000	\$70,000
Apartments/Condos (27)	7.1	6.4	129	\$720,000	\$390,000	\$550,000	\$250,000
Retail	0.5	0.4	-				
Total	9.5	8.6	164	\$910,000	\$500,000	\$700,000	\$320,000
5 South of Rosa							
Single Family Detached							
Compact Neighborhood	58	53	673	\$3,760,000	\$2,030,000	\$2,860,000	\$2,150,000
Single Family Neighborhood	177	159	953	\$5,320,000	\$2,880,000	\$4,050,000	\$3,050,000
Large Lot Single Family	47	42	253	\$1,410,000	\$770,000	\$1,080,000	\$810,000
Total	282	254	1,879	\$10,490,000	\$5,680,000	\$7,990,000	\$6,010,000
6 South of Witch Hazel							
Single Family Detached							
Compact Neighborhood	-	-	-				
Single Family Neighborhood	47	42	252	\$1,410,000	\$770,000	\$1,070,000	\$810,000
Large Lot Single Family	-	-	-				
Total	47	42	252	\$1,410,000	\$770,000	\$1,070,000	\$810,000
TOTAL			8,656	\$48,340,000	\$26,190,000	\$36,810,000	\$26,030,000

Source: E.D. Hovee & Company, City of Hillsboro, Fregonese Calthorpe, Alpha Community Development

Figure 7. Estimated Commercial TIF and SDC Revenue

	Gross Acres	Net Acres	Commercial SF	Water	Sewer & Stormwater	Parks	TIF
2 Western Area							
Civic							
Elementary school	8.6	6.1	76,421	\$29,000	\$76,000	-	\$77,000
3 Northeast/Reed's Crossing							
Civic							
Elementary school			76,421	29,000	\$76,000	-	77,000
Middle school			122,326	47,000	\$122,000	-	124,000
Total	32.6	29.4	198,747	\$76,000	\$198,000	-	\$201,000
Town Center							
Mixed Use Residential	9.1	8.2	75,080				
Apartments/Condos (27)	27.3	24.5	-				
Retail	9.1	8.2	133,846				
Total	45.4	40.9	208,925	\$980,000	\$390,000	\$720,000	\$1,130,000
Flex Use							
Apartments/Condos (27)	5.4	4.9	-				
Retail	5.4	4.9	79,946	\$489,000	\$134,000	\$235,000	\$254,000
Office	10.9	9.8	151,008	\$710,000	\$230,000	\$270,000	\$900,000
Total	21.7	19.5	230,954	\$1,199,000	\$364,000	\$505,000	\$1,154,000
4 South of Reed's Crossing							
Civic							
Existing	21.2	19.1		-		-	-
Neighborhood Center							
Mixed Use Residential	1.9	1.7	15,718				
Apartments/Condos (27)	7.1	6.4	-				
Retail	0.5	0.4	7,005				
Total	9.5	8.6	22,723	\$133,000	\$36,000	\$64,000	\$69,000
5 South of Rosa							
Civic							
Elementary school	9.4	8.5	76,421	\$29,000	\$76,000	-	\$77,000
TOTAL	148.54	132.03	814,192	\$2,446,000	\$1,140,000	\$1,289,000	\$2,708,000

Source: E.D. Hovee & Company, City of Hillsboro, Fregonese Calthorpe, Alpha Community Development.

Figure 8. Commercial Development Assumptions

	No Buildings	Building SF	Total SF
Town Center			
Basic Retail	16	7,000	112,000
Grocery	1	60,000	60,000
Restaurant	5	7,000	35,000
Total	22		207,000
Neighborhood Center			
Basic Retail	3	7,000	21,000
Flex			
Basic Retail	9	7,000	63,000
Restaurant	2	7,000	14,000
Medical Office	2	16,000	32,000
Basic Office	8	16,000	120,000
Total	21		229,000
Civic Uses			
Elementary School	2	76,420	152,840
Middle School	1	122,330	122,330
Total	3		275,170

Note: City of Hillsboro staff estimated SDC and TIF revenue for 5 building prototypes (basic retail, restaurant, grocery, medical office and basic office) that roughly correspond to Fregonese Calthorpe’s development assumptions. These prototypes were then combined to estimate build out within the Plan Area’s various commercial zones.

Source: E.D. Hovee & Company, City of Hillsboro, Fregonese Calthorpe, Alpha Community Development.