



STATE OF OREGON

**Research Report**

***LEGISLATIVE REVENUE OFFICE***

H-197 State Capitol Building  
Salem, Oregon 97310-1347

(503) 986-1266

<http://www.leg.state.or.us/comm/lrohome.htm>

Research Report # 1-00

February 2000

**The Urban Renewal Program –  
Under the Past and Current Property Tax Systems**

**Summary**

Oregon's urban renewal (UR) program has made numerous changes in the 1990s since the passage of Measure 5 and now Measure 50. This report outlines the transformation of the UR program into its current state under Measure 50 (See the Glossary at the end of the report for definitions of terms). Some of the major revisions are as follows:

- ◆ Ends the levy based, shared property tax system for urban renewal
- ◆ Existing urban renewal agencies have two main funding sources from the property tax system. For most UR agencies, the largest share of their revenue is from the division of tax.
- ◆ All but one UR agency, with an existing plan, can impose special levies if needed. Special levies are classified as local government taxes and subject to the Measure 5 government limit.
- ◆ New UR plans, those adopted after December 6, 1996, have one funding source, the division of tax. This revenue for urban renewal plans is collected by districts which levy taxes within the urban renewal area. Annually, these plans must levy 100% of the division of taxes.
- ◆ The type of taxing district, which imposes the taxes, dictates the Measure 5 category of the division of tax amount for UR agencies. It can be classified as education, government or exempt bond taxes.

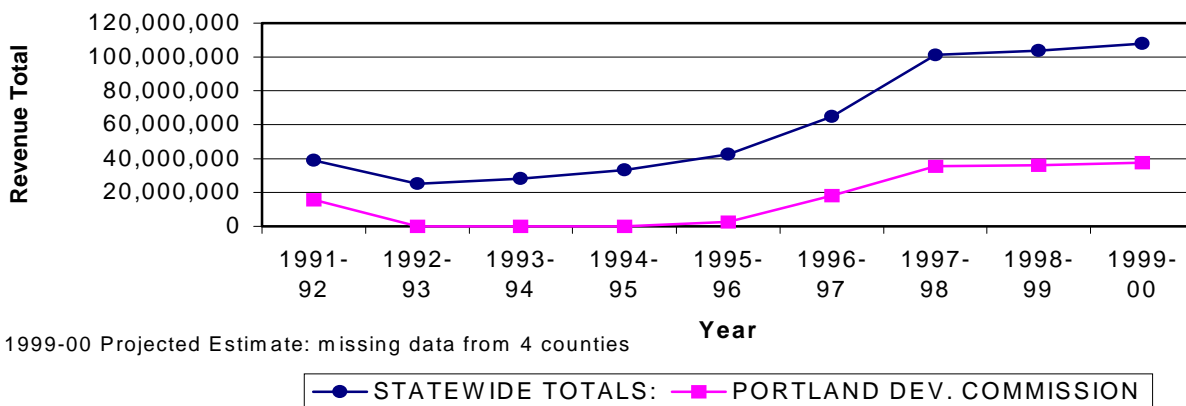
The urban renewal program was first established in the Oregon constitution in 1960 and has experienced numerous changes especially since the passage of property tax limitation Measures 5 and 50 in the 1990s. This research report discusses trends in the urban renewal program since the 1997 legislative session and outlines the program through 3 distinct periods:

- 1) Pre 1990, prior to the passage of Measure 5
- 2) The Measure 5 period, 1991-1997 and
- 3) The post Measure 50 period, beginning in 1997

### ***Current Trends in Oregon's Urban Renewal Program***

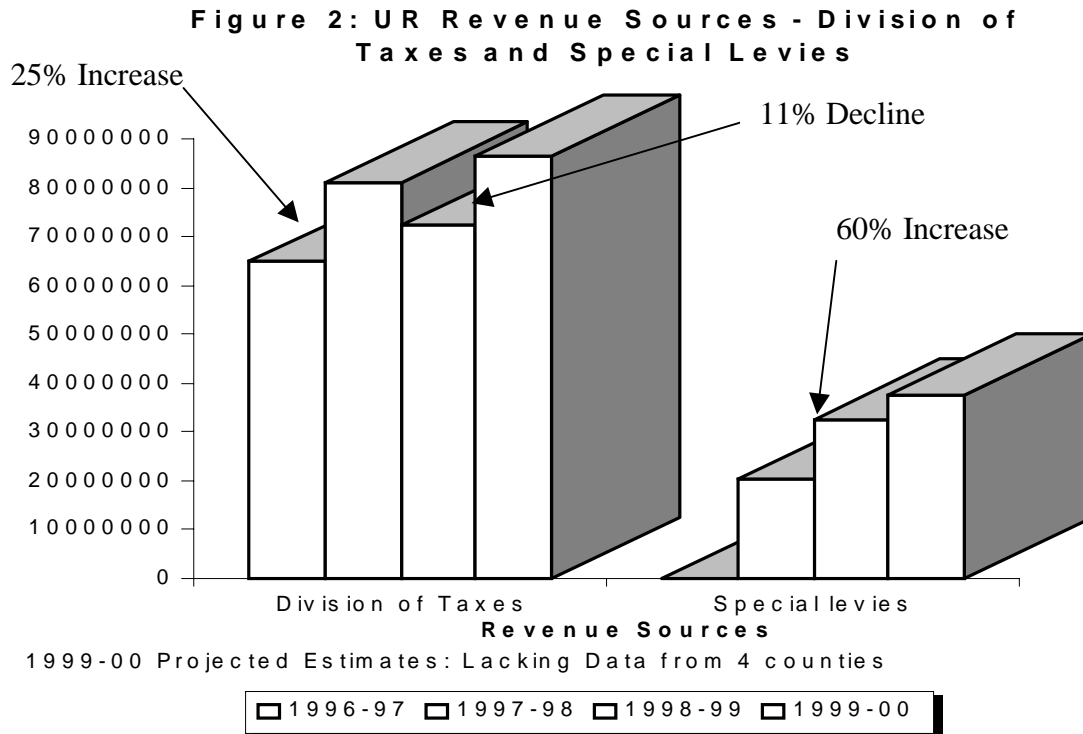
- ◆ In 1997-98, the first year of Measure 50 implementation, UR property tax revenue increased by 56% to \$101 million. In 1998-99, total UR tax revenue increased 3.5% to \$104.8 million. From preliminary estimates for 1999-00, it is estimated that UR tax revenue will increase to approximately \$108 million.

**Figure 1: Urban Renewal Revenue - 1991-00**

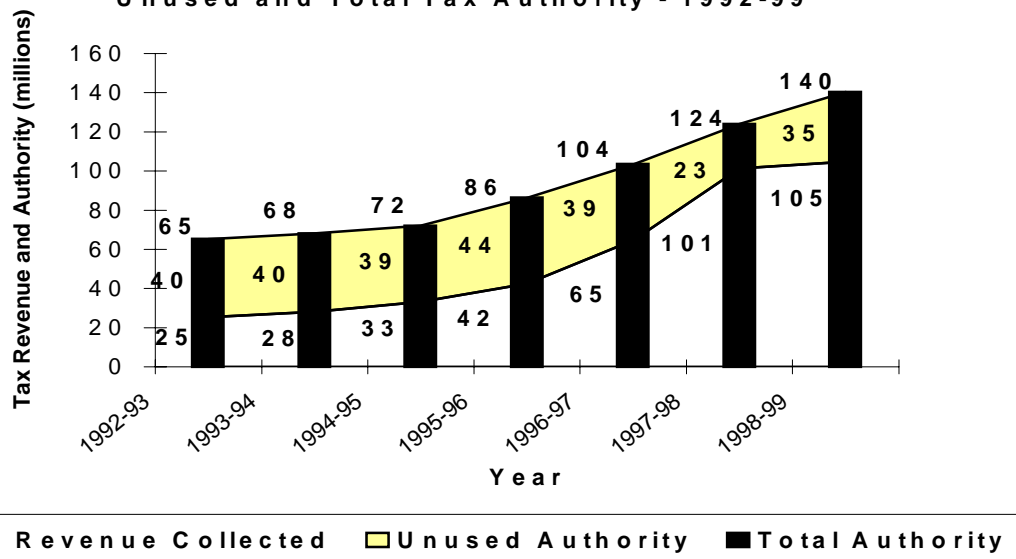


- ◆ Figure 1 illustrates that the Portland Development Commission (PDC), Portland's UR agency, had UR property tax revenue trends very similar to all UR agencies statewide. This agency collected over 1/3 of all the UR taxes statewide in 1998-99. Changes in Portland's UR revenue have a significant effect on total revenue statewide and can help explain the revenue cycles statewide.
- ◆ Figure 2 reveals that the majority of UR agencies' revenue comes from the division of tax and not the taxes from special levies.
- ◆ Figure 2 illustrates a 25% increase in UR revenue from the division of taxes between 1996-97 and the first year of Measure 50, 1997-98. Part of the reason for the increase in tax revenue is because in 1996-97, some UR agencies did not collect their entire division of tax authority. In 1997-98, all UR agencies were required to collect their entire division of tax amount. There was a decline of 11% in division of

tax revenue between 1997-98 and 1998-99. This decline was the result of the PDC not collecting their full division of tax authority for certain UR plans. Between 1998-99 and 1999-00, there was an increase in division of taxes collected, due to increases in increment value throughout the state.

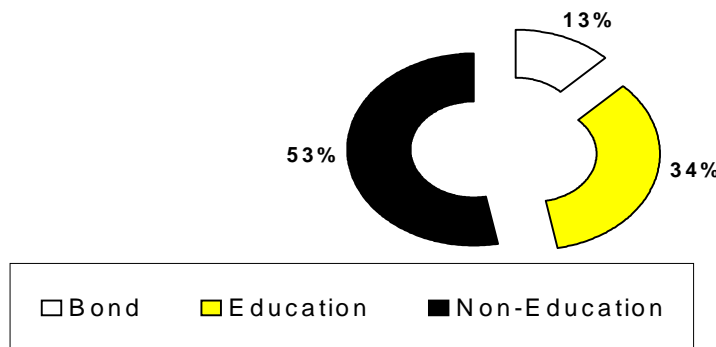


**Figure 3: Urban Renewal Revenue, Tax Authority Unused and Total Tax Authority - 1992-99**



- ◆ Figure 3 illustrates that between 1996-97 and 1997-98, unused tax authority fell from \$39 million to \$23 million. This result occurred because existing UR plans had the ability to impose special levies in addition to their division of tax authority. Measure 50 legislation gave UR agencies' another tool to raise revenue within their maximum tax authority.
- ◆ Figure 4, indicates that of the taxes collected off the increment value in 1998-99, the majority, 53%, were from non-education taxing districts, 34%, from educational districts and more than 13% from exempt bonds. Taxes from exempt bond levies are not subject to the Measure 5 tax limit.

**Figure 4: Breakdown of Urban Renewal Division of Taxes  
- 1998-99**



- ◆ UR division of tax will increase when more taxing districts, within an UR plan, receive voter approval for local option or Measure 5 exempt general obligation bonds.
- ◆ In 1997-98, 38 out of the 56 UR plans statewide certified their maximum tax authority. In 1998-99, 40 out of 54 plans certified their maximum authority. Even though more plans certified their entire maximum authority statewide, the division of tax revenue declined slightly between 1997-99, see figures 2 and 3. One main reason for the decline in the division of tax revenues is because the Portland Development Commission did not collect 100% of their division of tax authority. In 1998-99, a portion of the increment value was distributed back to the local districts. Between 1997 and 1999, division of tax revenue decreased but revenue from special levies in Portland increased so total revenue collected by the PDC UR agency still rose.
- ◆ All new and existing urban renewal plans include a maximum indebtedness that is issued over the life of the plan.
- ◆ Beginning tax year 1999-00, 16 counties do not have any active UR agencies.

- ♦ The oldest UR plan actively collecting taxes is Eugene UR, established in 1968. In 1998-99, there were no new UR plans or agencies. However, there are 2 new plans beginning in 1999-2000.

## ***Background***

The purpose of the Oregon urban renewal (UR) program is improving and preventing blighted areas. These areas are detrimental to the safety, health and welfare of a local community. They can also lead to declines in property tax revenues and general economic activity. Due to the negative revenue and social impacts of blighted areas, the state has recognized that redevelopment of these areas is in the public's best interest.

Cities or counties, wanting to reduce their blighted areas, can activate an urban renewal agency. Once activated, the urban renewal agency may develop a plan, which includes but is not limited to the following documents: a description of each renewal project to be undertaken, a map, description of the urban renewal area and a financial analysis of the impacts of the plan. Each affected taxing district receives and comments on the proposed UR plan.

Public hearings, on the proposed urban renewal plan, are held in the municipality or county proposing the plan. A notice of this hearing is sent to individual property owners within the municipality or county proposing the new plan. Officials, serving on the governing body of the municipality or county sponsoring the UR agency, must approve the plan. UR agencies do not need a majority vote of the taxpayers to activate the agency or establish a plan. However, an ordinance, adopting an UR plan or a substantial amendment to the plan, can be referred to voters. State law does not allow taxpayers to dissolve an UR agency by a local vote, once an UR agency is activated. In 1998-99, there were 39 urban renewal agencies carrying out 54 plans throughout Oregon. In 1999-00, two new UR agencies came into existence.

Once an UR plan area is established, property taxes are divided and urban renewal agencies collect the taxes, sell bonds and/or borrow money from financial institutions based on the UR plan's future tax revenue stream. Urban renewal agencies must use their property tax revenues to pay indebtedness.

## **Division of Tax**

Local taxing districts, which levy taxes within an UR plan area, distribute a portion of their property taxes to the UR agency. At the time the plan is adopted, property assessed value is "frozen" within the plan area boundaries. This is known as the base or frozen value. The increment or excess value is the portion of the total assessed value attributable to any increase in property value above the frozen value. The increment value is located within the UR plan boundary. The division of tax amount is the product

of the increment value and the total tax rates (sum of permanent, gap, local option and exempt bond tax rates\*) for all districts that impose taxes in the plan area. In 1997, the division of tax calculation was simplified but the law failed to clearly specify who is actually paying the tax.

### Maximum Tax Authority or Authority to Tax

The maximum tax authority or authority to tax establishes an annual limit on the amount of taxes an UR agency can collect for a particular plan. After the 1991 Measure 5 legislative changes, an authority to tax for each plan was established. Each UR plan's authority to tax consisted of the total potential revenue from the division of taxes. The increment value multiplied by the tax rates of districts in the UR plan areas equaled the total authority to tax. The difference between the real market and frozen value within the UR plan boundary was the increment value. During the 1990s, the UR authority to tax increased each year from sustained growth in the real market increment value and districts' tax rates.

An urban renewal agency could levy less than their tax authority but could not exceed it. Before the changes in the urban renewal program in 1997, many UR agencies chose to levy less than their tax authority. In some cases, total revenue from the division of tax could not equal the level of the authority to tax. Compression losses from the Measure 5 government tax limit reduced the division of tax revenues allocated to UR agencies.

Measure 50 created a maximum tax authority for all existing plans. For tax year 1997-98, the authority to tax amount that could have been generated under the Measure 5 system established each existing plan's maximum tax authority. For subsequent years, an existing UR plan's maximum tax authority changes each year at the same rate as the increment value. New UR plans will not have a maximum tax authority because they must annually collect their entire division of tax amount.

### Special Levies

Measure 50 property tax changes reduced the division of tax authority for most UR plans from what it would have been without Measure 50. The 1997 legislature responded by allowing existing UR plans special levy authority. Prior to Measure 50, special levy authority did not exist for UR agencies.

#### **UR Plan Maximum Tax Authority**

<b>Special Levy Amount</b>
<b>Division of Tax Amount</b>

Special levies allow certain UR plans to collect additional revenues above the division of tax amount. The maximum tax authority provides a limit on the size of the special levy imposed. Annually, the maximum special levy for an UR plan is the amount of the maximum tax authority less the division of tax amount.

\* For further information on different types of property tax authority see LRO Research Report #6-99 titled The New Direction of the Oregon Property Tax System Under Measure 50

In 1998-99, 54 existing plans had special levy tax authority. The special levy is placed on all taxpayers in the municipality/county and on any property in the UR plan area outside the municipality/county. The special levy tax rate appears on most counties' property owners' tax statements. These levies are not allowed for new plans.

## **Recent History**

### Pre-Measure 5

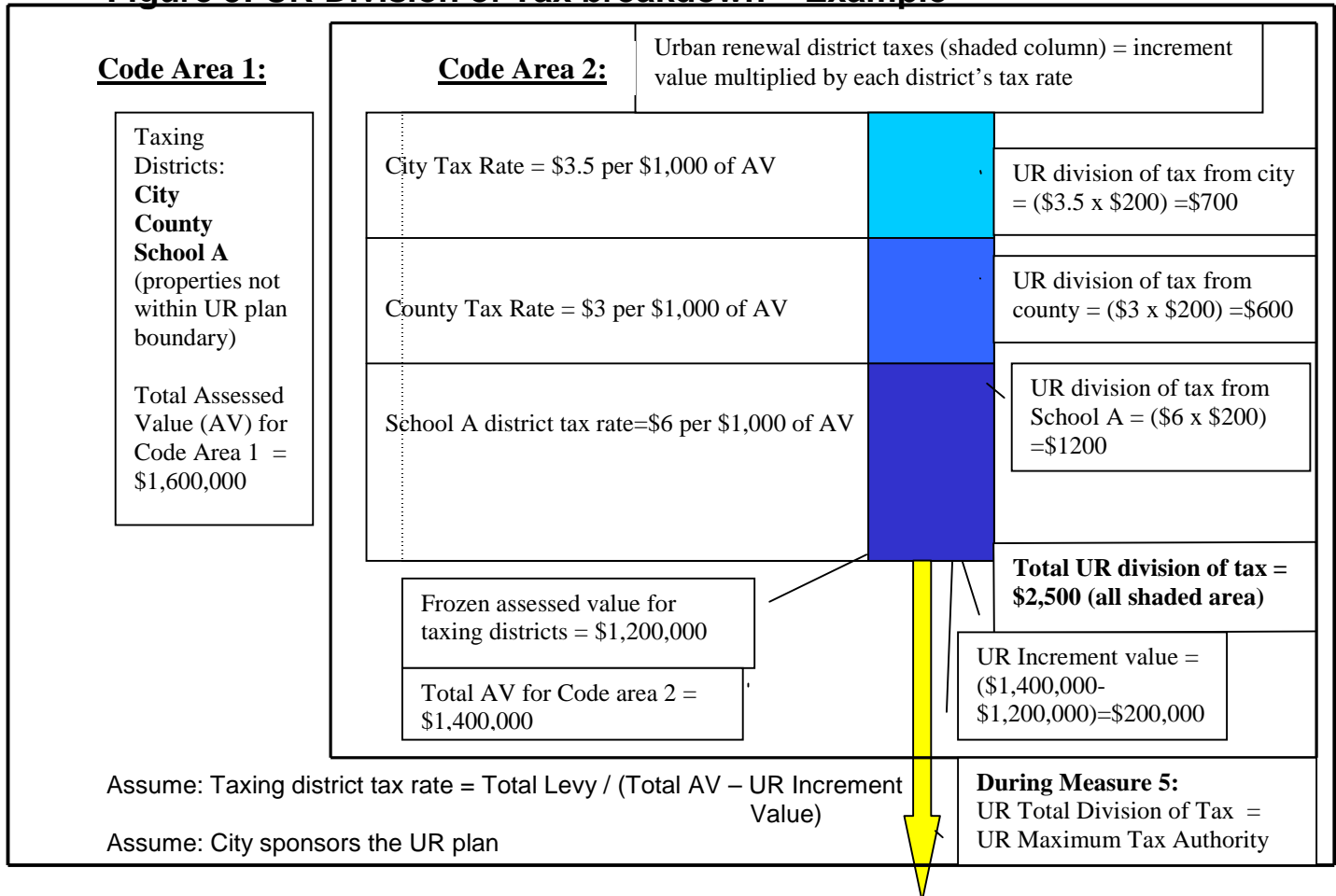
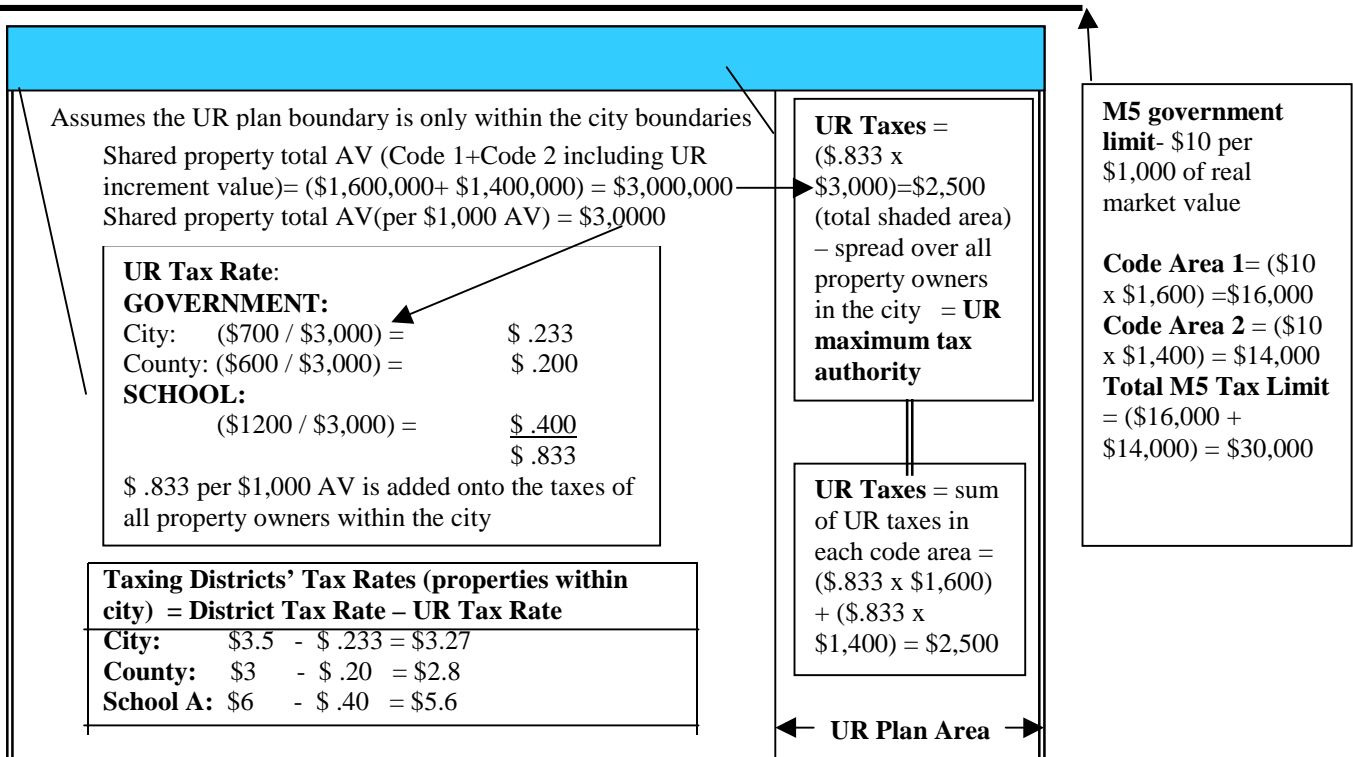
Prior to the passage of Measure 5 in 1991, urban renewal agencies generated their taxes on the increment value of property within each urban renewal plan area. For taxing districts' within an UR plan area, the increment value was reduced from each taxing districts' total assessed value. This assessed value was used to compute the entire districts' tax rate. Therefore, districts' tax rates were higher because their total tax authority was divided by a smaller assessed value. The property owners within an UR plan area paid the UR taxes but the property owners outside the plan area also indirectly compensated urban renewal agencies by paying a higher tax rate.

### Measure 5 (1991-1997) – Shared Property UR Program

In November 1990, Measure 5 passed. All property taxes in the state were categorized as educational, government or taxes to pay for bonds. All UR tax revenue was classified as a government tax. Annually, the source of revenue for UR plans consisted of the amount generated from the increment value. The increment value equaled the difference between the total real market and the frozen value in the urban renewal area. Each UR plan's authority to tax consisted of the maximum division of tax amount.

Figure 5 provides an example of the division of tax process. The figure has two code areas, code area 1, outside the UR plan boundary but within the city limits and code area 2, inside the UR plan boundary. The shaded area, representing the division of tax amount, equals the sum of the UR increment value of \$200,000 multiplied by each taxing district's tax rate. Each district's UR tax is summed together to establish the total taxes generated off the increment value for this UR plan. The total UR tax authority generated from the division of tax in code area 2 is \$2,500.

An Oregon Supreme Court ruling in 1992, *City of Portland v. Smith*, held that increment financing revenue used to pay urban renewal bonded debt was not exempt from the Measure 5 tax limit. The conclusion drawn from this court case was that UR division of tax revenue should be categorized as a government tax and subject to the \$10 government property tax limitation of Measure 5. This court decision led some local governments to choose between funding urban renewal agencies at their full authority and facing potential tax compression losses or not collecting a portion of the UR division of tax revenue. In essence, local governments competed with urban renewal districts for a fixed amount of revenue under the \$10 limit for government agencies.

**Figure 5: UR Division of Tax breakdown – Example****Figure 6: Urban Renewal Taxes – Under Measure 5 (pre-Measure 50)**



Property owners, within a city or county with an urban renewal plan area, had the UR tax rate reported on their property tax statements. One problem, that resulted in allocating urban renewal revenue, was local districts' tax rates inside and outside the city/county, sponsoring the UR plan, were different. Districts' tax rates on properties, within the plan area, were reduced by the amount of the UR tax rate. Districts had higher tax rates for properties, outside the city, than those inside the city.

Figure 6 illustrates the process of converting UR division of tax authority to a tax rate. After establishing the UR maximum tax authority, the shared property value is estimated. In this example, it is the sum of the assessed value of code areas within the city boundary. Then the urban renewal tax authority from each district is divided by the total shared property value and summed together to estimate the total UR tax rate. In this example, the total UR tax rate places an additional \$.833 per \$1,000 of assessed value on the city property owners.

Districts' tax rates, within the city, were reduced by the amount of the UR tax rate. Figure 6 provides an illustration of the adjustment in tax rates for properties within the UR plan area of the city. For properties outside the UR plan area, the districts' tax rates were not adjusted and remained higher than in the UR area of the city. Both city taxpayers and property owners outside the municipality paid for a portion of the urban renewal projects because in calculating the districts' tax rates the assessed value to compute the rates removed the UR increment value. This raised the tax rates on property owners. One characteristic of the UR program under Measure 5 was local districts' tax rates within the municipality, which activated the UR plan, differed from the tax rates on properties outside the city.

### ***The Post-Measure 50 System***

One objective of Measure 50 (1997) was to simplify the calculation and distribution of the division of tax for urban renewal plans. For new UR plans, the division of tax provides the only source of revenue. A key difference between Measure 5 and Measure 50 is that existing urban renewal agencies are also allowed to impose special levies under certain circumstances starting in 1997-98.

### **Permanent Tax Rate Calculations**

The conversion of the property tax system in 1997 from a levy-based to a tax rate-based system entailed calculating permanent tax rates by dividing the levy authority of each local taxing district by the assessed value of the district. If an urban renewal agency and plan were in existence in 1997-98, the local taxing districts within the UR plan area had their taxes divided. The assessed value, used to determine local taxing districts' permanent tax rates, was the total assessed value less the UR increment value. This method was also used to calculate the value to compute the tax rates prior to Measure 50. Removing the UR increment value from the permanent tax rate limit calculation produced higher permanent tax rates, for those taxing districts within an UR plan area, than if the rate limit calculation had included the UR increment value.

Now, in a property tax rate system, the permanent rates do not change. Once an UR plan area is dissolved and the UR increment value is given back to the local taxing districts, each district's permanent tax rate is not adjusted. In years when certain UR agencies give local taxing districts a portion of the UR increment value for generating tax revenue, local districts do not have an adjustment in their permanent tax rates due to an increase in their assessed value.

### Existing UR plans - Three Urban Renewal Funding Options

By July 1, 1998, local UR agencies chose one of the following three options for imposing urban renewal taxes:

**Option 1:** Continue collecting taxes from the division of taxes and have the option to collect revenues from a special levy.

**Option 2:** Collect urban renewal taxes as special levies up to the maximum tax authority; This returns the increment value to other taxing districts which increases their property tax revenues.

**Option 3:** Raise a fixed amount for urban renewal from the division of taxes and the remaining tax authority from the special levy; This shifts some UR taxes to special levies and increases the revenue of local taxing districts.

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Option 1 urban renewal agencies must continue to collect their entire division of tax authority. Existing plans have the option of collecting revenue from a special levy if their maximum authority is greater than the taxes collected from the division of taxes. Each year, the division of tax and special levy amount will change. Local taxing districts do not receive UR increment value until the plan is terminated. The agency can choose to impose a smaller special levy than is allowed by their maximum authority. In 1997-98, before UR agencies had a chance to choose a plan option, all UR plans were treated like Option 1 plans. Currently, 85% of the UR plans are under this option.

In option 2, the local taxing districts receive the increment value and can impose taxes on the increment value in the urban renewal plan area. The UR agency does not collect any revenues from the division of tax for this UR plan. A special levy, up to the size of the maximum tax authority, can be assessed to pay for urban renewal projects each year. There is only one plan, Cascade Locks, which has chosen option 2 and it did not collect revenue from a special levy in 1998-99.

Option 3 UR plans fix an amount of tax to be raised each year from the division of tax calculation for an urban renewal plan. A special levy amount may be certified upon all of the taxable property of the municipality/county. Each year, the total division of tax and the special levy amounts can not exceed the maximum tax authority for the plan. If the increment value grows and the division of tax amount is fixed, the percent of increment

value used falls. Consequently, increment value will be given back to local taxing districts. In 1998-99, there were 7 UR plans choosing option 3. 4 of those 7 plans were in Portland and administered by the Portland Development Commission.

UR agencies, with option 3 plans, have the following incentives to levy a smaller division of tax and a larger special levy amount.

1. Special levies can be placed over all taxpayers in the city/county and in the past there has been less Measure 5 compression of government taxes.
2. A portion of the division of tax revenues is classified as education taxes, subject to the Measure 5 educational tax limit. School district taxes often experience more compression losses than local government taxes.
3. Collecting a smaller division of tax amount allows a share of the increment value and taxes to be given back to local districts in the plan area. Local districts can potentially have higher property tax revenues.

In 1998-99 and 1999-00, the Portland Development Commission's option 3 UR plans did not collect 100% of the division of tax amount and a portion of the increment value was given back to local taxing districts. Additional tax revenue for the UR agency was generated by a special levy to compensate for the smaller amount of revenue from the division of taxes. When UR increment value is given back to local districts and UR agencies use special levies to generate their property tax revenue, there is greater potential for property owners to pay higher total property taxes.

Once an UR agency has chosen an option for a plan, that selection can not be changed. New UR plans do not elect one of the funding alternatives. New plans' revenue source is only the division of taxes. They can not collect less than the division of tax amount.

#### Urban Renewal Maximum Tax Authority

Since the 1997 policy modifications, each UR plan's maximum tax authority annually changes by the same amount that the incremental assessed value fluctuates from the prior year. Between 1997 and 1999, the average percentage growth in maximum tax authority for all UR agencies was 13%, which is less than the average annual growth rate between 1991-99. The largest increase in maximum tax authority for an UR plan between 1997-99 was the City of Salem's, Fairview UR, which had a 116% increase in their maximum tax authority. Usually, large increases in tax authority in one year are explained by a large amount of new construction within the UR plan area coming on the tax rolls. Newer UR plans are more likely to have large increases in their tax authority due to completion of more new construction than older, established plans.

Only 2 of 39 UR agencies (Coos County and the City of Eugene) had a reduction in the percentage change in maximum tax authority between 1997-99. An UR agency can

have their maximum tax authority decrease for the following reasons: if new UR projects are slow in completion, buildings depreciate annually and a few businesses could leave the UR area. Each year, any or all of these events could trigger a drop in the UR plan area's assessed value, which also lowers an agency's maximum tax authority.

Measure 50 did not reduce the tax authority of existing urban renewal plans to collect revenues but it has slowed the growth rate of the maximum tax authority. The 1997 policy changes allowed existing UR agencies an additional tax tool, special levies, to use more of their tax authority than the urban renewal system prior to Measure 50.

### Division of Tax

Figure 2 indicates that in the first year of implementation of Measure 50, 1997-98, total division of taxes statewide grew by 25% over 1996-97 UR revenues. This result occurred for four main reasons:

- ◆ Prior to Measure 50, some UR agencies did not collect 100% of their division of tax authority
- ◆ Increase in real market value between 1996-98 increased the Measure 5 tax limit and allowed more tax authority to be used by urban renewal agencies
- ◆ In 1997-98, urban renewal agencies did not share in compression losses
- ◆ Since Measure 50, the division of tax revenue is categorized as both education and government taxes thus resulting in less compression than the pre-Measure 50 tax system, which categorized all division of taxes as local government taxes

### Classification and Compression Losses Under Measure 50

Measure 50 simplified the division of tax calculation. A portion of each local district's taxes will go to an urban renewal agency if there is UR increment value within the taxing districts' jurisdiction. Since Measure 50, it is less clear who is actually paying the division of taxes since the calculation for the portion of tax going to UR agencies is performed at the taxing district level.

#### **UR portion of each local districts' taxes =**

$$\left( \frac{\text{Increment Assessed Value}}{\text{Total Assessed Value}} \right) \times \text{Total Taxes Extended by that district}$$

The portion of taxes given to UR agencies is still based on the amount of increment value to total assessed value at the taxing district level. Currently, tax compression is performed at the code area level. The increment value is only found in certain code areas that represent the UR plan area.

Table 1 gives an example of the division of tax calculation for a K-12 school and community college for one code area. This example is assuming there is one property tax account in this code area. The K-12 school district extends a tax rate of \$5 per

\$1,000 assessed value. The total assessed value of this code area is \$1.2 million with 17% of the total assessed value and taxes allocated to the UR agency. The K-12 school district collects \$6,000 and distributes \$1,000 to the UR agency. The Community College collects \$2,400 and distributes \$400 to the UR agency. In this example, tax compression occurs so each taxing district receives less than the amount that is extended in this code area.

**Table 1: An Example: Division of Tax and Measure 5 Compression Losses Calculations for School Districts**

<b>Assumptions for this code area within an urban renewal (UR) plan boundary:</b>				
Total Assessed Value (TAV) = \$1.2 million				
\$1 million = frozen value for K-12 and community college (83% of TAV)				
\$200,000 = increment value designated for UR agency (17% of TAV)				
Total Real Market Value (RMV) = \$1.5 million				
K-12 School District has permanent tax rate = \$5 per \$1,000 AV				
Community College has permanent tax rate = \$2 per \$1,000 AV				
Total Education permanent tax rate = \$7 per \$1,000 AV				
<b>Taxing District</b>	<b>Total Taxes Extended + School &amp; UR Portion</b>	<b>Taxes as % of total school taxes</b>	<b>Compression Losses</b>	<b>Actual Taxes Imposed</b>
K-12 School	(\$1,200 x \$5) = \$6,000 (\$6,000 x 83%) = \$5,000	(\$5,000/\$8,400) = 60%	(\$900 x 60%) = \$536	\$4,464
UR (from K-12)	(\$6,000 x 17%) = \$1,000	(\$1,000/\$8400) = 12%	(\$900 x 12%) = \$107	\$ 893
Community College (CC)	(\$1,200 x \$2) = \$2,400 (\$2,400 x 83%) = \$2,000	(\$2,000/\$8400) = 24%	(\$900 x 24%) = \$214	\$1,786
UR (from CC)	(\$2,400 x 17%) = \$ 400	(\$400/\$8400) = 4.8%	(\$900 x 4.8%) = \$ 43	\$ 357
<b>TOTAL</b>	<b>(\$1,200 x \$7) = \$8,400</b>	<b>100%</b>	<b>\$ 900</b>	<b>\$ 7,500</b>
M5 School Tax Limit	<b>(\$1,500 x \$5) = \$7,500</b>			
Total Taxes Under Compression	<b>\$ 900</b>			

After Measure 5 but before Measure 50, all urban renewal taxes were considered government taxes and subject to the Measure 5 tax limit of \$10 per \$1,000 of real market property value. In that same light, urban renewal taxes generated from special levies are categorized and limited by the Measure 5 local government tax limit. UR agencies share compression losses caused by UR special levies.

Post Measure 50 UR taxes, collected from the division of tax, are being classified as education, government or exempt bond taxes. If the taxing district that levied the tax is a school, ESD or community college, then the UR taxes are considered education taxes and subject to the \$5 per \$1,000 real market value education Measure 5 limit. All other UR revenue, except taxes collected from exempt bonds, is considered government tax and subject to the \$10 per \$1,000 real market value government Measure 5 limit.

Table 1 gives an example of the Division of Tax calculation and compression for school districts in one code area with UR increment value. In this example, UR taxes, divided from both the K-12 school and community college, are categorized as school taxes and subject to the limit of \$5 per \$1,000 real market value. The total school taxes extended exceeded the Measure 5 school tax limit by \$900. Each school district and UR revenue source has a portion of their taxes reduced through tax compression. Each district's share of compression loss equals the total tax amount to be compressed multiplied by the percent of the district's tax to total taxes. The K-12 school district had the highest compression losses because that taxing district extended 60% of all the taxes in the example.

After the 1997 policy changes, in the first year of implementation of Measure 50, the division of taxes for UR plans did not share in compression losses. In 1998-99, in order to try to equitably distribute compression losses, UR division of taxes shared in compression losses. The 1999 legislature discussed compression of UR taxes in public hearings on HB 2129. The House Revenue Committee felt it was important that UR agencies share compression losses. The committee supported the approach taken by the Department of Revenue in 1998-99 but they did not make any changes statutorily to reflect this policy. The committee directed an interim study be conducted on this and other urban renewal issues.

The 1998-99 estimate of the amount of compression losses for UR division of taxes and special levies statewide were \$46,169 and \$246,220 respectively. The amount of compression losses of all UR taxes is 1.4% of total compression losses for all taxing districts statewide. These compression loss estimates understate the actual losses because not all counties that have UR agencies provided this information to the Department of Revenue.

#### Court Case – Shilo Inn v. Multnomah County, City of Portland and Portland Development Commission

A motion for summary judgment in the case of Shilo Inn vs Multnomah County et al... was decided in favor of Multnomah County et al... in July, 1999. The petitioners claimed that the 1997-98 UR taxes in the Airport Way UR plan in Multnomah County collected taxes in excess of the Measure 5 tax limits. The Oregon Tax Court decided that current law allows UR division of tax to be categorized as education, government or exempt taxes depending on the type of local district imposing the taxes. The division of tax is limited by both the Measure 5 limits:

- 1) Measure 5 educational tax limit, if the local district imposing taxes is a school district
- 2) The non-educational tax limit, if the local district, imposing taxes, is a local government.

The petitioners have appealed the case to the Oregon Supreme Court. The outcome of the Shilo Inn v. Multnomah County is important for school districts, which now have the ability to ask their voters for a local option levy. If the decision is overturned, it could increase the Measure 5 tax gap amount available for a school local option levy. It would also change the total revenues distributed to urban renewal agencies from the division of tax. For more discussion on how the urban renewal program affects the Measure 5 tax gap amount for a local option see LRO Research Report 5-99 titled, School Local Property Tax Option 1999 Legislation.

## Glossary

**Authority to tax:** Establishes the amount of tax authority allowed for an existing UR plan area. This authority was established during the implementation of Measure 5 in 1991. It was calculated as the total taxes generated off the increment value and it annually changed at the same rate as real market value. In 1997-98, this authority was given to existing UR plans and it became a plan's maximum tax authority.

**Assessed value (AV):** the value set on real and personal property as a basis for imposing taxes. It is the lesser of the property's maximum assessed value or real market value.

**Billing tax rate:** The tax rate used to compute ad valorem taxes for each property. It is found by subtracting the timber offset rate from the permanent or operating tax rate.

**Code area:** This is a unique and distinct geographic grouping of taxing districts in a county.

**Compression:** This is the process of reducing taxes extended on a property so that the total taxes fall within the Measure 5 limits of \$5 per \$1,000 real market value for school districts and \$10 per \$1,000 real market value for general government.

**Division of tax:** This is the process of distributing a portion of the taxes, collected by taxing districts within an urban renewal plan area, for urban renewal agencies. The portion of taxes distributed to UR agencies is based on the ratio of increment to total assessed value.

**Existing plan:** An urban renewal plan that existed on December 6, 1996. By July 1998, each UR agency chose an option for every plan and established a maximum amount of indebtedness.

**Frozen value:** Assessed value of the property within an urban renewal plan area established at the time the urban renewal plan was formed. Local taxing districts within the UR plan area have their taxes based on the frozen value each year.

**Increment value:** Total assessed value of property in an urban renewal plan area in excess of the frozen value. This is also referred to as the excess value.

**Maximum assessed value:** The taxable value limitation placed on real or personal property by Measure 50. The value growth is limited to 3% each year with a few exceptions. The 3% increase can be exceeded in certain circumstances if there are qualifying improvements made to the property. There can be less than 3% growth if there is depreciation in certain non-residential property accounts.

**Maximum tax authority:** Limits the amount of tax authority allowed for an existing urban renewal plan. This term was established during the 1997 legislative changes. The



maximum tax authority in 1997-98 for each existing plan was based on what funds each urban renewal plan area would have been entitled to under the property tax system prior to Measure 50. New plans will not have a maximum authority.

**Maximum indebtedness:** The amount of indebtedness that may be incurred under an urban renewal plan. It does not include interest or charges to refinance existing debt.

**Real market value:** The amount in cash that could reasonably be expected by an informed seller from an informed buyer in a transaction between a willing buyer and willing seller as of the assessment date. It is the value used to test the Measure 5 constitutional limits.

**Special levy:** An ad valorem tax imposed for an urban renewal agency with an existing plan. It is not the result of a division of tax but rather imposed directly for the UR agency over all taxpayers in the county/city or in territory outside the municipality but within the UR plan area. In most counties, it appears on each property owner's tax statement. Annually, the special levy for a UR plan can not exceed the maximum tax authority less the division of tax revenue.

**Urban renewal agency:** The agency responsible for administering urban renewal programs. Urban renewal agencies are formed by cities or counties and administered by a governing body. They can administer and oversee multiple UR plans and activities within the urban renewal plan area.

**Urban renewal plan area:** The geographic area in which the urban renewal projects are implemented. The boundaries of the plan area are established when the plan is formed. The increment value generated in this geographical area is one key component in determining the amount of the division of tax revenue for urban renewal agencies.