

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Policy Session Worksheet

Presentation Date: 4/20/21 **Approx. Start Time:** 2:30pm **Approx. Length:** 30 min

Presentation Title: Estacada Vertical Housing Development Zone

Department: County Counsel and Business and Community Services

Presenters: Nathan Boderman, Assistant County Counsel; Jon Legarza, Economic Development Coordinator.

Other Invitees: Lynn Longfellow, Appraisal Manager; Sarah Eckman, BCS Interim Director; Matt Lorenzen, Economic Development Manager, City of Estacada.

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

- Provide an opportunity for the City of Estacada to brief the Board with respect to a proposed vertical housing development zone that would apply to new development in downtown Estacada.
- Direction from the Board, in its capacity as the Board for various districts in the County, regarding whether to participate in the vertical housing development zone.

EXECUTIVE SUMMARY: The City of Estacada is in the process of establishing a vertical housing development zone (VHDZ) that would apply to new development in downtown Estacada. The purpose of the VHDZ is to encourage development of mixed-use multi-unit housing above commercial spaces by providing a partial tax exemption on the increased property value for qualifying projects. Attached to this report are materials provided by the City of Estacada that provide details around the VHDZ, a more in depth summary of the specific proposal, and a map of the area that would be subject to the VHDZ.

ORS 307.864 authorizes the partial property tax exemption that applies to a qualifying project within a VHDZ. The tax benefit applicable to a qualifying project is equal to an exemption of 20% for each floor allocated to residential housing. This is capped at a maximum exemption of 80% (for projects consisting of 4 or more floors of residential housing) and the exemption expires after 10 years. Currently, there are three active VHDZ's in Clackamas County. The cities of Canby, Milwaukie, and Oregon City each have established a VHDZ, and there is currently one qualifying project receiving a tax exemption in each city.

ORS 307.844(6)(c) allows for an election by a "... district listed in ORS 198.010 to 198.180 not to participate in the vertical housing development zone...." The Board of County Commissioners sit as the governing body for certain special districts (such as the library district and the extension and 4-H service district) that would be impacted by the vertical housing development zone tax exemption. While the issues underlying participation in the VHDZ apply equally to all special districts in the County, the tax exemption would impact each district relative to its taxing rate and the Board should make a determination as to whether to participate in the VHDZ for each special district that the Board represents. If the Board determines that it is the interest of any specific special district not to participate in the VHDZ, the Board will need to provide written notice to the City of its election to opt out.

FINANCIAL IMPLICATIONS (current year and ongoing):

The City and the County Assessor's office have summarized the impact to the various special districts using a theoretical project that could be developed in the City's VHDZ. This analysis has been attached to this report. The City anticipates that a relatively small number of projects would be developed in a way that would qualify for the partial tax exemption. Also of note is the fact that the boundary of the VHDZ would coincide with the City's Urban Renewal district. Taxing districts are already subject to the limits imposed by the urban renewal district, and will be for at least the next 7 years, which is the anticipated remaining life of the district.

STRATEGIC PLAN ALIGNMENT:

- How does this item align with the County's Performance Clackamas goals?
 - Build public trust through good government.

LEGAL/POLICY REQUIREMENTS: ORS 307.844 & 307.864.

PUBLIC/GOVERNMENTAL PARTICIPATION: None.

OPTIONS:

1. Participate in the vertical housing development zone on behalf of all County districts in which the Board of County Commissioners is the governing body.
2. Participate in the vertical housing development zone on behalf of some, but not all County districts in which the Board of County Commissioners is the governing body.
3. Decline to participate in the vertical housing development zone on behalf of all County districts in which the Board of County Commissioners is the governing body.
4. Defer any decision at this time with direction to County staff or City representatives to provide more information to assist with a future decision.

RECOMMENDATION:

The City of Estacada recommends Option #1: Participate in the vertical housing development zone on behalf of all County districts in which the Board of County Commissioners is the governing body.

ATTACHMENTS:

Memo from City of Estacada

Estimate Related to Potential Project in Vertical Housing Development Zone

Letters from City of Estacada related to the Vertical Housing Development Zone proposal dated February 24, 2021.

Response from County Administrator Schmidt dated April 1, 2021

SUBMITTED BY:

Division Director/Head Approval _____

Department Director/Head Approval _____

County Administrator Approval _____

For information on this issue or copies of attachments, please contact Nathan Boderman @ 503-655-8364

Clackamas County

Board of County Commissioners, Chair Tootie Smith
2051 Kaen Road
Oregon City, OR 97045
bcc@clackamas.us

MEMO: Vertical Housing Development Zone

Chair Smith and Commissioners:

We appreciate the opportunity to discuss with you the potential establishment of a Vertical Housing Development Zone (VHDZ) in Downtown Estacada. We earnestly hope for your support as past commissions have supported the establishment of VHDZ in Canby, Milwaukie, and Oregon City.

VHDZ designation encourages mixed-use development by offering partial property tax exemption to qualified projects for a limited duration. This is not a low-income housing program since it applies equally to all levels of housing. It does not sacrifice commercial space in favor of residential use.

Although this program offers tax exemptions to qualified projects, it is designed to ensure that taxing districts will not be negatively impacted. ORS 307.864 (Partial property tax exemption) fully explains the partial tax exemption. Typically, the 20% tax exemption applies only to the additional value created by the addition of the first four floors of residential development in a multi-story building. Projects classified as affordable housing do receive a larger exemption. For market rate housing projects, tax districts receive taxes on 100% of the “pre-project” value of the property and taxes on the increased property value of the first story non-residential development.

Districts receive partial taxes on the additional value created by the first four floors or residential development of a qualified project when those floors are built above a non-residential first floor. Multi-story development that adds more floors of residential above the first four floors of residential are fully taxed on those additional floors (for example floors six and seven of a multi-story building would be taxed fully).

After 10 years, the exemption to the project expires and taxing districts receive taxes on the full value of the property. Developers of eligible projects apply directly to the City of Estacada for the tax exemption. If approved, the City will provide the County Tax Assessor’s Office with the necessary information for the qualified project.

The City of Estacada can, at any time, terminate the VHDZ by Resolution of the City Council. If that occurred, existing exemptions would run their normal course, but no new projects would be able to utilize the exemption.

We are hopeful that a VHDZ in Estacada will:

- Encourage new mixed-use development (housing and commercial) in Estacada's core.
- Stimulate more commercial growth in the area, increasing the value of surrounding properties.
- Support the existing commercial development by increasing the number of residents/consumers.
- Create long-term community wealth through larger, mixed use buildings that will be fully taxed after the partial abatement expires.

The Estacada City Council has set a priority to oversee the implementation of new programs and policies that will fuel the development of more multifamily housing across price ranges and built forms. Indeed, they have recently commissioned a new committee to study this issue and make recommendations to Council: the Committee on Housing Affordability and Diversity. As a first step, the Council has directed staff to introduce a VHDZ in Downtown Estacada. A VHDZ has been on the "to-do" list in Estacada for several years, but was recently moved up the list, prompted by a local developer seeking to construct a new mixed-use building downtown, but who could not make the project pencil without some sort of subsidy. The Estacada Urban Renewal Agency has committed to contribute to the worthy project. The VHDZ tax abatement combined with urban renewal funding would move the project from the red to the black.

Special Districts (as designated in ORS 198.010 or 198.180) can opt out of participation in the VHDZ. If a special district does opt out, it means the exemption possible for a developer will be smaller than it would be if the district did not opt out.

Finally, we would like to share 5 points that address what we believe are the potential concerns with the establishment of a VHDZ:

- 1) Something like a tax abatement incentive is worthy of scrutiny, so we accept that this exercise is necessary and important. As a concept, we do not believe incentive-driven economic development is viable in perpetuity. Economic development incentives in communities/districts where the economy is already vibrant, is particularly wasteful. However, there is an appropriate role for incentives in communities and districts where economic activity really needs a shot in the arm. Estacada is such a place.
- 2) The potential impact of the VHDZ/VHTC on any single taxing district is almost certainly negligible and therefore any concern about tax districts facing a revenue shortfall as a result of this program is, in our view, unwarranted. Although we believe there are some 30 parcels that could be developed/redeveloped in the next 20 years, realistically only a small fraction of those lots will actually develop and take advantage of the VHDZ incentive.
- 3) The County and indeed the region/state talk often and at length about the importance of bringing more and diverse forms of housing online. The CC Housing Authority is working to do

more in Estacada, which we welcome with open arms, but supporting this incentive is one additional way the County can support local efforts.

- 4) While the tax abatement available to eligible development projects in a VHDZ does represent *temporary foregone* revenue, the abatement does not constitute a *loss* of revenue, as discussed above. The existing (pre-development) assessed value is still assessed at the full rate.
- 5) The reality is that there is a large disconnect between development/construction costs and the rents that can be collected in rural (and even suburban) communities. In other words, the market rents are too low and cannot generate an acceptable rate of return on an investor/developer's investment. Construction costs in Estacada are the same as they are in Portland, if not higher because of the distance/drive for contractors and subcontractors. Yet, rents are significantly lower here. A project that pencils in SE Portland simply does not work in Estacada. There has to be a way to decrease the development and/or operating costs for an investor/developer to build a project in Estacada. The abatement available through the VHDZ lowers operating costs. It is one tool in the toolbox with a negligible impact on any single taxing district.

Again, we appreciate the opportunity to present on this important matter, and we hope for your support as we work to encourage housing affordability and diversity in the heart of our community. We welcome your questions and hope for your support.

Respectfully submitted,



Matt Lorenzen
Economic Development Manager
City of Estacada
503.630.8270 x 206 // lorenzen@cityofestacada.org

Cc: Sean Drinkwine, Mayor, City of Estacada
Katy Dunsmuir, City Councilor, City of Estacada
Denise Carey, City Manager, City of Estacada
Gary Schmidt, County Administrator, Clackamas County
Jill Smith, Director of Housing and Housing Services, Clackamas County
Jon Legarza, Interim Economic Development Manager, Clackamas County
Elizabeth Comfort, Director of Finance, Clackamas County
Lynn Longfellow, Appraiser Supervisor, Clackamas County Assessor
Christina Terwilliger, Clerk to the Board, Clackamas County

Enclosures: Map, depicting the proposed VHDZ boundary and potential development sites



	Parcel No.
1	00949291
2	00936152
3	00936143
4	00949237
5	00949264
6	00937954
7	00948700
8	00938230
9	00948489
10	00948292
11	00948309
12	00948318
13	00948336
14	00948327
15	00948274
16	00948247
17	00948149
18	00948167
19	00947596
20	00947603
21	00947587
22	00947658
23	00947667
24	00947676
25	00949040
26	00949077
27	00949102
28	00949166
29	00949086
30	00949175

 Downtown Zone Boundary
 Proposed VHDZ Boundary

 Potential development/
redevelopment sites

Estimate for City of Estacada
Proposed Vertical Housing Zone

	Estimated RMV Land & Bldgs	Estimated Assessed Value
Taxable Values	\$1,131,744	\$ 585,112
Exempt Values	\$ 245,295	\$ 126,818

	2020 Tax Rate	1 Year Estimated Imposed Tax	1 Year Estimated Abated Tax	1 Year Total Tax
Tax Code: 108-031				
COM CALL CLACK	0.5145	\$ 301.04	\$ 65.25	\$ 366.29
ESD CLACKAMAS	0.3404	\$ 199.17	\$ 43.17	\$ 242.34
SCH ESTACADA	3.8516	\$ 2,253.62	\$ 488.45	\$ 2,742.07
Total Education	4.7065			
CEMETERY DIST	0.055	\$ 32.18	\$ 6.97	\$ 39.16
CITY ESTACADA	2.484	\$ 1,453.42	\$ 315.01	\$ 1,768.43
COUNTY CLACKAMAS R	2.7315	\$ 1,598.23	\$ 346.40	\$ 1,944.63
COUNTY EXTENSION & 4-H	0.0463	\$ 27.09	\$ 5.87	\$ 32.96
COUNTY LIBRARY	0.3671	\$ 214.79	\$ 46.55	\$ 261.35
COUNTY PUBLIC SAFETY LOC OPT	0.248	\$ 145.11	\$ 31.45	\$ 176.56
COUNTY SOIL CONS	0.0463	\$ 27.09	\$ 5.87	\$ 32.96
FD69 ESTACADA	2.2314	\$ 1,305.62	\$ 282.98	\$ 1,588.60
PORT OF PTLD	0.0648	\$ 37.92	\$ 8.22	\$ 46.13
ROAD DIST 7 EST	0	\$ -	\$ -	\$ -
URBAN RENEWAL COUNTY	0.0413	\$ 24.17	\$ 5.24	\$ 29.40
URBAN RENEWAL ESTACADA	1.084	\$ 634.26	\$ 137.47	\$ 771.73
VECTOR CONTROL	0.0061	\$ 3.57	\$ 0.77	\$ 4.34
VECTOR CONTROL LOC OPT	0.025	\$ 14.63	\$ 3.17	\$ 17.80
Total General Government	9.4308			
CITY ESTACADA BOND	0.1826	\$ 106.84	\$ 23.16	\$ 130.00
COM COLL CLACK BOND (AFTER)	0.1777	\$ 103.97	\$ 22.54	\$ 126.51
COUNTY EMERG RADIO BOND (AFTER)	0.0965	\$ 56.46	\$ 12.24	\$ 68.70
SCH ESTACADA BOND	1.1483	\$ 671.88	\$ 145.62	\$ 817.51
Total Excluded from Limitations	1.6051			
Total Rate	15.7424	\$ 9,211.06	\$ 1,996.41	\$ 11,207.47

Assumptions:

1. The project is 100% complete.
2. The land zoning changed from C1 to Downtown and a zone and use change occurred. The entire account is CPR'd
3. The CPR used was the 2020 CPR for Multifamily
4. This is a hypothetical "project" consisting of 6 - 2 bedroom units and 1,925 sf of commercial space used as retail.
5. The rates used for the estimated income approach came from the Assessor's 2020 Rent Study
6. There will be no low income units
7. The tax rate used is the 2020 tax rate for tax code 108-031
8. A 20% exemption was applied to the improvement value only for 1 equalized floor above commercial space.



02.24.2021

Clackamas County Library District
Dept. of Finance
Attn: Elizabeth Comfort
2051 Kaen Rd
Oregon City, OR 97045

Dear Ms. Comfort,

On May 10, 2021 at 7:00pm the City of Estacada City Council will consider adoption of a resolution to designate a Vertical Housing Development Zone (VHDZ) in Downtown Estacada. The purpose of a VHDZ is to encourage development of mixed-use multi-unit housing above commercial spaces in urban cores. A VHDZ provides a partial tax exemption on increased property value for specific qualified projects.

Special Districts (as designated in ORS 198.010 or 198.180) can opt out of participation in the VHDZ. If a special district does opt out, it means the exemption possible for a developer will be smaller than it would be if the district did not opt out.

If the taxing district for which you are responsible is interested in opting out of the VHDZ designation, you must inform the City of Estacada in writing of your decision to opt out. For such consideration, please provide any correspondence and comments by end of the business day on April 5, 2021. Submission should be made to: City of Estacada, Attn. Matt Lorenzen, Economic Development Manager, PO BOX 958, Estacada, OR 97023. If you are considering opting out, we would appreciate a phone call to discuss the matter.

BACKGROUND INFORMATION

The Vertical Housing Program was adopted into state law in 2001. A Vertical Housing Development Zone (VHDZ) is an area designated by a city or county under ORS 307.844. The attached map describes the proposed VHDZ in the City of Estacada. Its boundaries will be the same as the City's urban renewal area as shown in the attached map.

Developing a larger base of mixed-use property is vital to the continued revitalization of Downtown Estacada. Additional residential development provides support to commercial enterprises in the area, enhances public safety, adds to the diversity of the city's housing stock, and ultimately increases taxable value. The VHDZ designation encourages such development by offering partial property tax exemption to qualified projects for a limited duration. This is not a low-income housing program since it applies equally to all levels of housing. It does not sacrifice commercial space in favor of residential use.

Although this program offers tax exemptions to qualified projects, it is designed to ensure that taxing districts will not be negatively impacted. ORS 307.864 (Partial property tax exemption) fully

explains the partial tax exemption. Typically, the 20% tax exemption applies only to the additional value created by the addition of the first four floors of residential development in a multi-story building. Projects classified as affordable housing do receive a larger exemption. For market rate housing projects, tax districts receive taxes on 100% of the "pre-project" value of the property and taxes on the increased property value of the first story non-residential development.

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After 10 years, the exemption to the project expires and taxing districts receive taxes on the full value of the property. Developers of eligible projects apply directly to the City of Estacada for the tax exemption. If approved, the City will provide the County Tax Assessor's Office with the necessary information for the qualified project.

The City of Estacada can, at any time, terminate the VHDZ by Resolution of the City Council. If that occurred, existing exemptions would run their normal course, but no new projects would be able to utilize the exemption.

We are hopeful that a VHDZ in Estacada will:

- Encourage new mixed-use development (housing and commercial) in Estacada's core.
- Stimulate more commercial growth in the area, increasing the value of surrounding properties.
- Support the existing commercial development by increasing the number of residents/consumers.
- Create long-term community wealth through larger, mixed use buildings that will be fully taxed after the partial abatement expires.

If you have any questions about this notice, a Vertical Housing Development Zone in Estacada, or the attached map, please contact Matt Lorenzen, Economic Development Manager at 503.630.8270 x 206.

Respectfully submitted,







Matt Lorenzen

Economic Development Manager
City of Estacada
503.630.8270 x 206 // lorenzen@cityofestacada.org

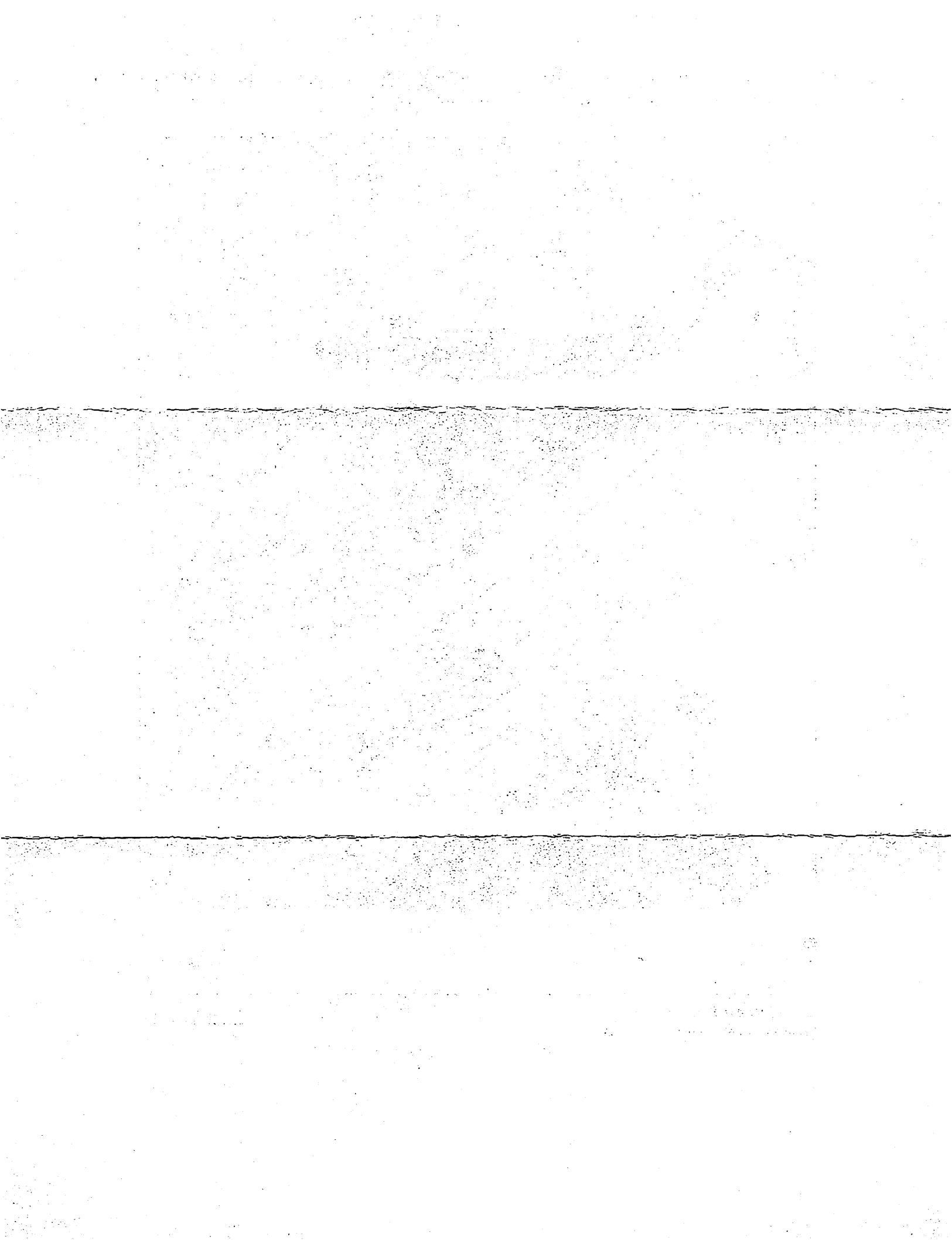
Proposed Vertical Housing Development Zone is shown in orange below. The proposed boundaries align with those of the existing Estacada urban renewal area.



-  proposed urban renewal boundary
-  estacada city limits
-  proposed urban renewal area taxlots
-  urban growth boundary

Estacada Urban Renewal Plan
Proposed Urban Renewal Boundary







02.24.2021

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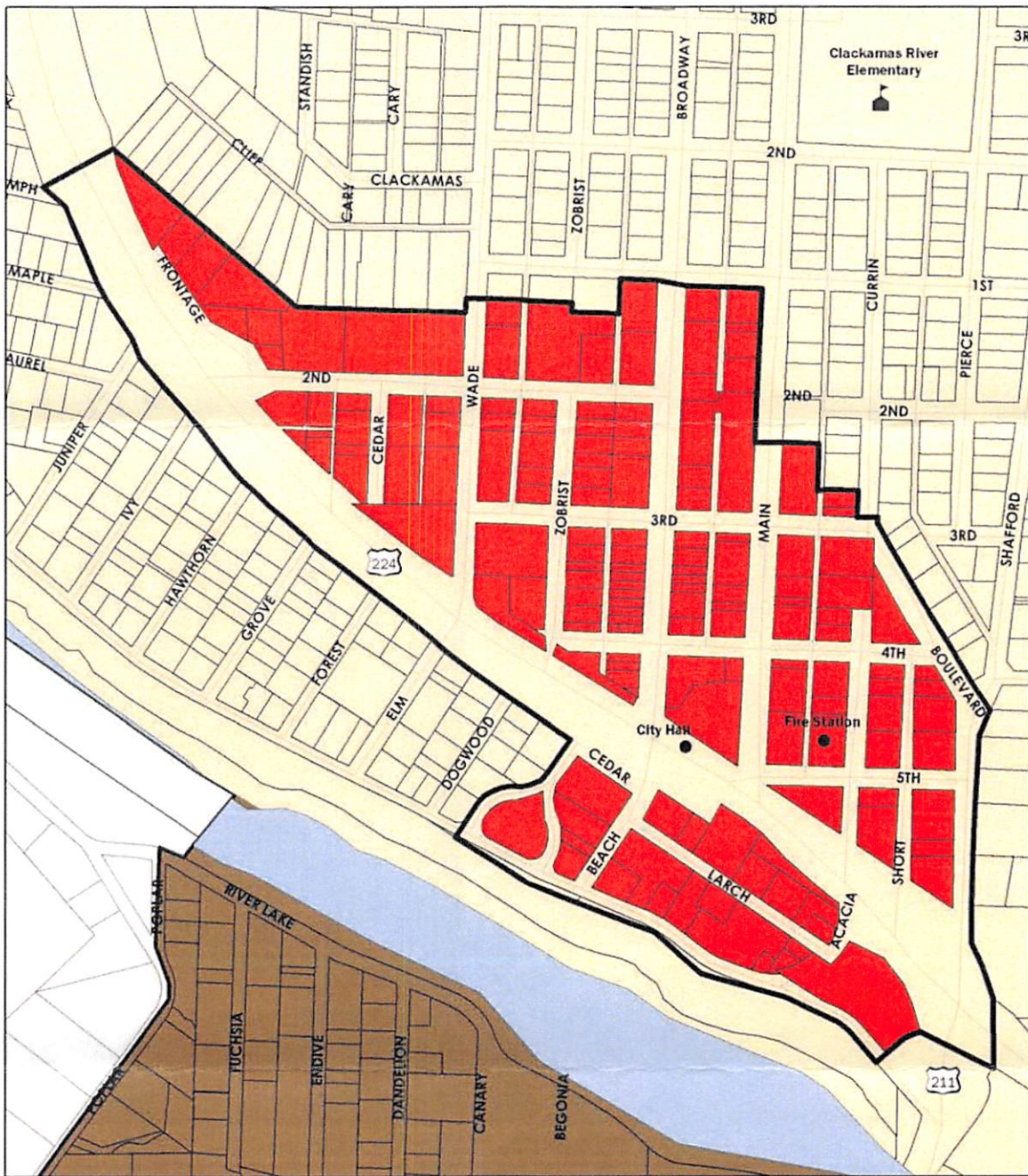
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Matt Lorenzen

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-  proposed urban renewal area taxlots
-  urban growth boundary

Estacada Urban Renewal Plan
Proposed Urban Renewal Boundary







APRIL 1, 2021

VIA FIRST CLASS MAIL AND E-MAIL: LORENZEN@CITYOFESTACADA.ORG

Matt Lorenzen
City of Estacada
PO Box 958
Estacada, OR 97023

Re: Estacada Vertical Housing Development Zone

Dear Mr. Lorenzen:

The County is in receipt of your letters dated February 24, 2021 related to the City's proposal to establish a vertical housing development zone in Downtown Estacada. Since taxing districts may be affected by the establishment of such a zone, which provides a partial tax exemption for qualifying projects, state law provides these districts may opt out of participating in the program. You have requested that the County and associated taxing districts respond to you no later than April 5, 2021 in the event there are taxing districts that would like to opt out of the program.

Given the timing of your request, the need to gather more information to fully inform the Board of the City's proposal, and the Board's schedule, the Board of County Commissioners will be considering the City's request at a policy session on April 20, 2021. Under the circumstances, this letter is to confirm the County's understanding that the City does not object to the timing summarized above and that the taxing districts reserve the right to opt out after considering the presentation on April 20, 2021.

I understand that you have been coordinating with County Counsel's office and Business and Community Services and are amenable to this schedule even though it exceeds the timeline set forth in your request and in state law. If you have any questions, or if the City has any objection to this schedule, please let me know.

Sincerely,

Gary Schmidt
County Administrator

cc: Mayor Sean Drinkwine