



## MEMORANDUM

TO: Clackamas County Board of County Commissioners (BCC)  
FROM: Gary Schmidt, County Administrator  
RE: Lake Oswego Vertical Housing Development Zone Pilot Program  
DATE: November 2, 2023

**REQUEST:** Does the Board wish to opt out of the property tax abatement provisions of the Vertical Housing Development Zone Pilot Project being implemented by the City of Lake Oswego, in its capacity as the Board of County Commissioners, and/or as the governing body for the Extension & 4-H District, the Library District, and the Urban Renewal District.

**BACKGROUND:** Lake Oswego has initiated the creation of a Vertical Housing Development Zone in their downtown core as a pilot project. As part of that creation process, Lake Oswego has submitted notice to Clackamas County (and all other affected taxing districts). The Board has discretion whether to opt out of the tax abatement offered by the Vertical Housing Development Zone. Lake Oswego staff are not able to attend today's discussion, and as of the writing of this memo, staff do not have a response from Lake Oswego to questions raised by the Board in last week's discussion.

Based on information provided by Lake Oswego to the County Assessor in mid-2023, the estimated construction costs of the development are approximately \$35-40MM. The Assessor's office estimates an assessed value of \$18.560MM for the portion of the property eligible for the abatement. Assuming the County's present tax rates and a 60% abatement, the forecasted collections are summarized below:

District	Assessment	Abatement	Net Collections
County Clackamas - City	≈\$44,621/year	≈\$26,773/year	≈\$17,848/year
County Extension & 4-H District	≈\$928/year	≈\$557/year	≈\$371/year
County Library District	≈\$7,376/year	≈\$4,426/year	≈\$2,950/year
County Public Safety Local Option	≈\$6,830/year	≈\$4,098/year	≈\$2,732/year
	≈\$59,755/year	≈\$35,854/year	≈\$23,901/year

The abatement would be a one-time election for 10 years, no earlier than the first year that the property is certified as ready for occupancy as of the annual assessment date.

The Disposition and Development Agreement contemplates selling the property to the developer for approximately \$4.5MM, and the Lake Oswego Redevelopment Agency will contribute approximately \$2MM of those proceeds toward the project in the form of construction costs, systems development charges, and permitting fees.

Included in the 67 residential units are 8 units intended to be affordable to those earning 80% or less of area median income, which the Disposition and Development Agreement contemplates would be maintained as affordable housing for at least 50 years. Staff do not know, at this time, the rationale for the 80% AMI election. Additionally, the site is presently served by 3 TriMet routes with regular service 7 days a week on two of the routes.

Respectfully Submitted,

Gary Schmidt  
County Administrator

Attachments:

Attachment A - City of Lake Oswego Response to Staff Inquiries

Attachment B - City of Lake Oswego Notice of Intent to Establish a Vertical Housing Development Zone



## PLANNING AND BUILDING SERVICES

November 3, 2023

Mr. Anthony Mayernik  
Clerk to the Clackamas County Board of Commissioners  
Clackamas County Administration  
2051 Kaen Road  
Oregon City, OR 97045

Dear Mr. Mayernik:

Thank you for reaching out to me about this; I'm happy to provide you with the information requested by the County Board of Commissioners.

I'll start with a bit of background about the site – the North Anchor Project has been a long-standing City Council goal to complete for many years. In 2001, the Lake Oswego Redevelopment Agency (LORA) began working with a developer to redevelop the one-acre property at the corner of First St and B Ave with a boutique hotel and 67 residential units (8 workforce housing) with ground floor retail. LORA has committed to investing up to \$2.2m toward the cost of permit fees and construction costs. This project is significant to the downtown's redevelopment efforts to create a pedestrian-friendly compact shopping district and encourage economic vitality because it complements the "south anchor" developments comprising of Lake View Village, the Windward and Millennium Plaza Park. Like many other construction projects since the pandemic, the challenge has been to make the project financially feasible in light of escalation of construction costs, interest rates, supply chain delays, etc. The VHDZ pilot program helps bridge the funding gap to help bring the project to fruition.

Based on the estimates we were able to put together with help from the County Tax Assessor's Office, assuming an approximately \$35 million construction cost and maximum assessed value of ~\$16 million, it looks like Clackamas County alone would forego somewhere between \$22-\$38K per year over the next ten years, depending on how much abatement is provided to the North Anchor development (between 60-80%). This comes out to a total of ~\$250K at 60% or ~\$333K at 80% over the full ten-year time period.

Based on these same estimates and assumptions, all Clackamas County tax districts – including the County Extension & 4-H, the Library, Public Safety, Urban Renewal funds, the Soil Conservation District, and Vector Control in addition to the general County taxing district – would likely forego somewhere between \$30-\$52K per year over the next ten years, depending

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on how much abatement is provided (60-80%). This comes out to a total of \$342K at 60% or \$457K at 80% over the full ten-year time period for all of the tax districts under County jurisdiction (again, this includes the County Extension & 4-H, the Library, Public Safety, Urban Renewal funds, and the Soil Conservation District in addition to the more general County taxing district).

The City - including LORA - would forego somewhere between \$56-\$97K per year over the next ten years, depending on how much abatement is provided. This comes out to a total of \$640K at 60% or \$854K at 80% over the full ten-year time period.

The abatement would only apply for 10 years, after which the full value of the property would be placed on the tax rolls for all tax districts. The buildings on the North Anchor site are generating \$0 in tax revenue for the City right now. If the site is not developed, the County alone could ultimately be foregoing anywhere from \$83K to \$166K in tax revenue (or \$114K to \$228K for all County tax districts) over the course of the 10-year abatement period.

The developer is only applying for the tax abatement for the residential floors (59 units) above the ground floor retail, not the 8 workforce housing units. It is worth clarifying that the taxing districts would still generate property tax revenue from the land value and ground floor retail improvement value. While not a direct buy-down on the workforce units, the VHDZ is important because it makes the project financially feasible resulting in more housing options in the downtown core, of which 8 of those units would be workforce housing.

The affordability threshold was set at 80% AMI for a couple of reasons; this is the first time that LORA was able to negotiate workforce housing units into a public-private partnership, so they wanted to slowly venture into that space. In addition, 80% AMI was more financially feasible, where going with 60% AMI would have had a greater financial impact on the overall project.

I recently sent over a Power Point presentation on the City's proposed VHDZ pilot program, which may help provide a bit more context for Commissioners. As you can see in the slides, Clackamas County cities such as Oregon City, Milwaukie, and Estacada have already adopted more broadly-mapped (non-pilot program) versions of VHDZ in their downtown areas. We would be interested to hear if the Board has identified any negative impacts that have resulted from these VHDZ programs since they were adopted, or why VHDZ would not be appropriate to use to promote housing development in a high-opportunity area such as downtown Lake Oswego.

Please feel free to reach out to me if there are any follow-up questions or additional information needed for your discussion with the County Commissioners.

Sincerely,



**Erik Olson**  
Long Range Planning Manager

## PLANNING AND BUILDING SERVICES



October 20, 2023

Elizabeth Comfort, Finance Director  
Clackamas County Department of Finance  
2051 Kaen Road  
Oregon City, OR 97045

Dear Ms. Comfort:

The purpose of this letter is to notify Clackamas County, pursuant to ORS 307.844(6), of the City of Lake Oswego's intent to establish a new Vertical Housing Development Zone (VHDZ) program. The proposed pilot program would create a new VHDZ at a catalytic development site in Lake Oswego's downtown core.

**A. Background and Overview.**

The VHDZ program is a partial property tax abatement program intended to encourage the private sector to build mixed-use development and affordable housing units in targeted areas. As a jurisdiction that obtains revenue from property taxes collected within the City of Lake Oswego, the City's proposal may affect Clackamas County.

The proposed VHDZ pilot program would help the Lake Oswego City Council accomplish its 2023 Goal to, "Support business investment and job creation in Lake Oswego," and advance the related initiative to, "Ensure the North Anchor redevelopment stays on track." More specifically, the VHDZ pilot program at the North Anchor location would help to facilitate the development of 67 housing units in the downtown core as a part of the North Anchor project, eight of which are workforce housing units affordable to those earning 80% or less of area median income.

The City will analyze the broader implementation of VHDZ as a potential housing production tool as a part of the City's work to develop a Housing Production Strategy per ORS 197.290 [a part of House Bill 2003 (2019)]. This VHDZ pilot program will provide the City with the opportunity to assess VHDZ as a housing production tool and to identify any issues with the program components and/or its implementation prior to considering potential expansion to other areas in the city.

**B. Explanation of Partial Tax Exemption if VHDZ is Designated.**

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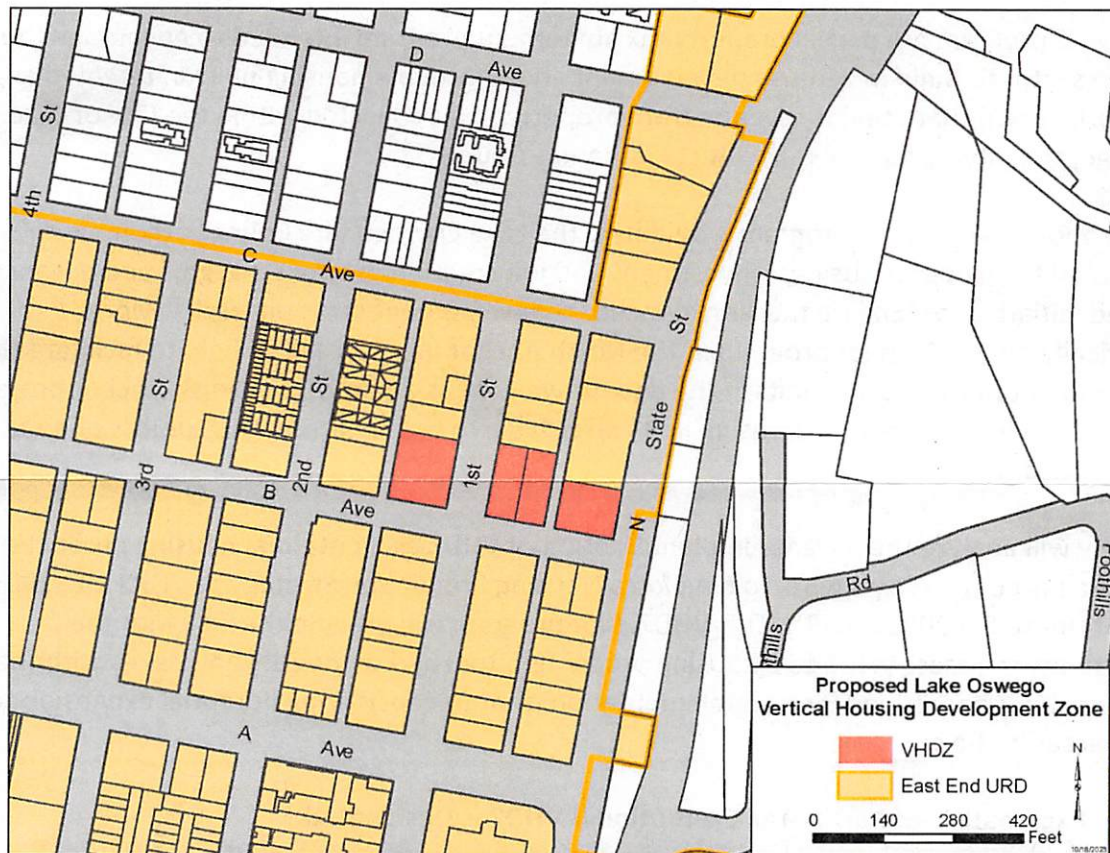


The proposed VHDZ pilot program allows property owners to apply for a partial property tax abatement for up to 10 years. To qualify for the partial property tax abatement, the development must have commercial use on the ground floor and residential units must be located on the levels above. The VHDZ program provides partial tax exemptions on the value of new construction or rehabilitation for 20% per eligible residential floor(s) above a commercial ground floor, with a maximum total tax exemption limit of 80% - or four (4) floors of residential use.

For a market-rate project, the partial abatement applies only to the value of the *building* —that is, no portion of the assessed value of the land under an eligible project is exempted from any amount or percentage of taxation. However, assessed value associated with *land* may be exempted where the project has an affordable housing component.

**C. Proposed VHDZ Boundaries**

This VHDZ pilot program would be mapped to apply specifically to the “North Anchor” development site in downtown Lake Oswego: Block 30, Lots 7-11, and Block 31, southerly 40 ft. of Lot 6 and Lots 7 and 8, First Addition to the Town of Oswego. This consists of the following street addresses: 500-520 & 525 1st St.; 27, 33-41 & 95 B Ave.; & 504 N State St.



**D. Process for Local Taxing District to Elect Not to Participate in VHDZ**

Under ORS 307.844, related to VHDZ designation, local taxing districts may elect not to participate in the partial property tax abatement of the proposed VHDZ. As a local taxing district, Clackamas County may elect to opt out of the proposed VHDZ in Lake Oswego. If Clackamas County elects to opt out of the VHDZ, it will be able to continue to impose property taxes on properties that may otherwise be exempt.

If Clackamas County decides to participate in the VHDZ, no response to this letter is needed. To officially opt out of the City of Lake Oswego's VHDZ designations, the City must receive from Clackamas County a letter informing the City of the decision to opt out, accompanied by a resolution or other appropriate official instrument affirming the decision to opt out of the VHDZ designation. If Clackamas County elects to opt out of participating in the VHDZ, the City must receive notice of that decision within 30 days of receipt of this letter at the following address:

*City of Lake Oswego  
c/o Iris McCaleb  
P.O. Box 369  
380 A Avenue  
Lake Oswego OR 97034*

If you have any questions about the City's VHDZ proposal, please feel free to contact Erik Olson, Long Range Planning Manager, at 503-697-6524 or [eolson@lakeoswego.city](mailto:eolson@lakeoswego.city).

Sincerely,



Martha Bennett  
City Manager