

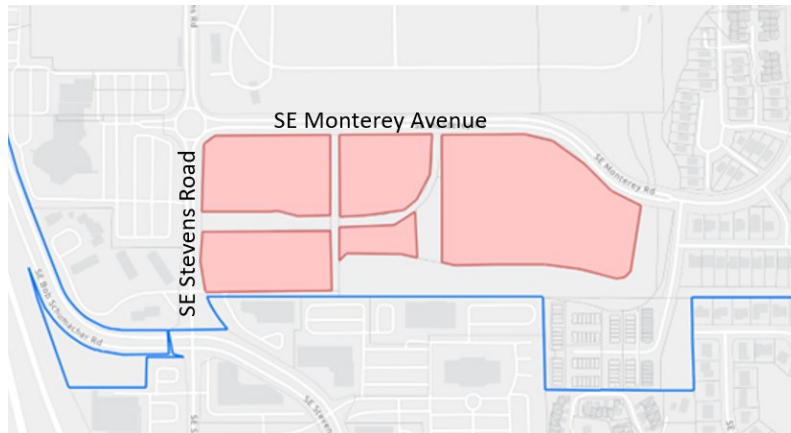


To: Board of County Commissioners
From: Michael D. Walter, AICP, Economic & Community Development Director
RE: Proposed Vertical Housing Development Zone
Date: April 11, 2024

The Happy Valley City Council will consider adoption of a resolution designating a Vertical Housing Development Zone (VHDZ) to encourage multi-unit housing above active nonresidential spaces in designated locations. A VHDZ provides a partial tax exemption on increased building value and potentially property value associated for new development or significant rehabilitation. The City believes that without designation authorized by ORS 307.841 to 307.867, the properties may not otherwise develop in a timely manner or of as high quality.

Special Districts (as designated in ORS 198.010 or 198.180) can opt out of participation in the VHDZ. If a 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 District is interested in opting out of the VHDZ designation, notice of such interest must be submitted to the City of Happy Valley in writing, with documentation of the decision to opt out by 5pm on April 18, 2024.

Proposed Properties to be Designated.



Clackamas County Tax Lots within the Vertical Housing Development Zone:

- 12E33DA01100
- 12E33DA01200
- 12E33DA01300
- 12E33DA01400
- 12E33DA01500
- 12E33DA01600

The City of Happy Valley would like to designate the Eagle Landing Development for VHDZ. The Eagle Landing Master Plan encompasses 38-acres near Stevens Road and Monterey Avenue. The approved Master Plan envisions 2.1 million square feet of development designed around a town square, including a mix of market rate housing, condominiums, hotel, retail, office, and a civic center. Though the first phase of development received approval and a preliminary grading permit was initiated, the project has been unable to be constructed and it is unlikely to proceed.

Developing a larger base of mixed-use property is vital to the continued activation of the Clackamas Regional Center and this area within the City of Happy Valley. The VHDZ designation encourages such development by offering partial property tax exemption to qualified projects. This abatement reduces operating costs in the early years of a mixed-use development area when commercial rents and demand are lower.

The partial tax exemption applies to qualifying new buildings as well as rehabilitation. The amount of the partial tax exemption is based on the number of equalized floors of residential use proposed in a mixed-use project as well as the amount of affordable housing units. Generally, the project receives a 20% tax exemption *on the structure improvements* for each residential floor above a commercial ground floor (up to 80%). An additional 20% tax exemption *for the land* is also available for each floor dedicated to affordable residential housing (up to 80%). During the 10-year period, the project will continue to pay at least 20% of the building improvement value and 20% of the land value. If a project does not include affordable units, it would continue to be taxed on 100% of the land value. After 10 years, the partial tax exemption ends and Districts receive taxes on the full value of the property.

We are hopeful that a VHDZ will:

- Encourage new mixed-use development in designated areas.
- Promote density, increasing assessed value per acre.
- Create higher quality development.
- Support new and 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.

ECONorthwest performed the attached analysis to determine the impact of the VHDZ designation on taxing entities over the next 30 years. Though several assumptions were made to complete the analysis, the analysis demonstrated that the County, and your associated taxing districts will receive increased revenue from the VHDZ if the project proceeds.

District	Taxes Collected	Taxes Abated
County Clackamas	\$10,767,610	\$3,830,531
County Extension & 4-H	\$223,187	\$79,398
County Library	\$1,770,678	\$629,911
	\$12,761,475	\$4,539,840

Clackamas County cities such as Lake Oswego, Wilsonville, Oregon City, Milwaukie, and Estacada have already adopted VHDZ to support development and it appears to have been an effective economic development tool to advance projects that may not otherwise succeeded. We are looking forward to offering an incentive for development with the Clackamas Regional Center which promotes commercial development and housing near amenities such as the MAX and the Clackamas Town Center. I look forward to further discussing this exciting opportunity at your next meeting.



Happy Valley Vertical Housing Development Zone (VHDZ)

VHDZ Overview



10 Year Tax Abatement *on Building Improvements* if:

- Within a Designated VHDZ
- Contains Ground Floor Commercial Along Street
- Residential Above

- Extra abatement *on land* if housing is affordable



Abatement on Building Improvements for 10 Years

Ground Floor Commercial +

1 Story Residential = 20%

2 Stories Residential = 40%

3 Stories Residential = 60%

4 Stories Residential = 80%

80% Maximum

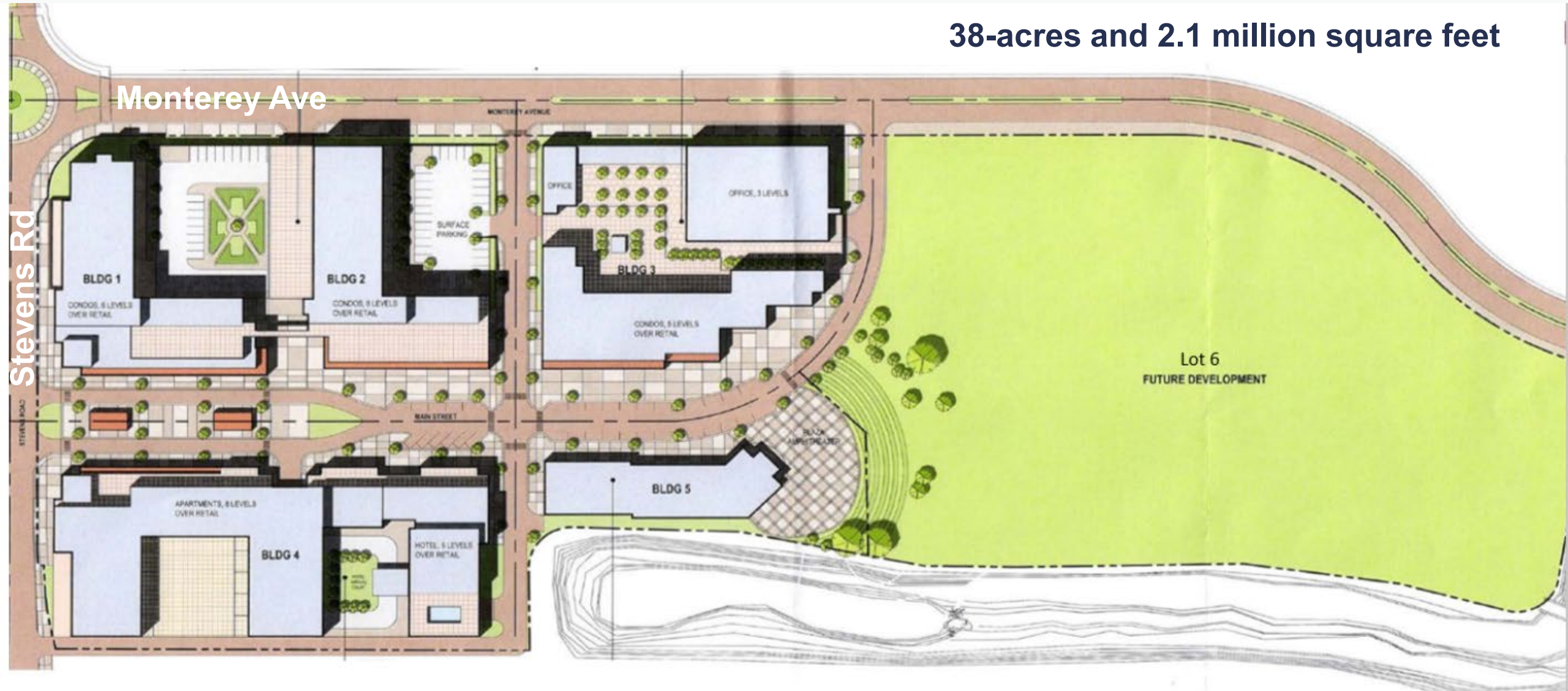


+ 20% Abatement on Land for Each Residential Floor that is Affordable



Case Study: Eagle Landing

38-acres and 2.1 million square feet



Example: Eagle Landing

Planned Development	Equalized Floors of Residential	Percent of Improvement Value Abated
8-story mixed-use building with retail, residential, and hotel rooms	5	80%
6-story mixed-use building with ground-floor retail and residential on the upper floors	5	80%
7-story mixed-use building with ground-floor retail, and office and residential units on the upper floors	4	80%
6-story mixed-use building with ground-floor retail and 199 residential units on the upper floors	4	80%
2-story commercial building with retail on both floors	0	0%
Unknown, assumed similar mix to Parcel 4 (6-story mixed use building with ground-floor retail and residential on the upper floors)	4	80%

Total Collected Over 30 Year Time Frame

Taxing District	Effective Property Tax Rate	Taxes Collected	Taxes Abated, Total
COM COLL CLACK	0.05%	\$ 2,479,597	\$ 882,106
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Total Excluded from Limitations	0.30%	\$ 13,931,123	\$ 4,955,936
Total Rate	1.89%	\$ 87,383,691	\$ 31,086,369
City of Happy Valley Total	0.26%	\$ 11,897,436	\$ 4,232,461
Other Districts Total	1.63%	\$ 75,486,255	\$ 26,853,908

Eagle Landing
30 Year Estimate

Example: Eagle Landing

Forgone Tax Revenue

Over the Abatement Period

\$31M - All Entities



~\$4.5M

Increased Tax Revenue

Relative to Vacant Land over a 30 Year Period

+\$87M - All Entities (+\$7.7M in Abatement)



~\$12.8M

District	Forgone Tax Revenue	Increased Tax Revenue
County Clackamas	\$3,830,531	\$10,767,610
County Extension & 4-H	\$79,398	\$223,187
County Library	\$629,911	\$1,770,678
	\$4,539,840	\$12,761,475

Questions?



DATE: September 29, 2022
TO: Laura Terway; City of Happy Valley
FROM: Oscar Saucedo-Andrade, Becky Hewitt, Max Tejera; ECONorthwest
SUBJECT: Eagle Landing Potential VHDZ Tax Revenue Impact Evaluation

Introduction

Overview

The City of Happy Valley is considering implementing a Vertical Housing Development Zone (VHDZ) for the Eagle Landing Master Plan area. VHDZ is a state-authorized, locally-adopted program that encourages the construction of mixed-use developments in designated areas of a city through a 10-year partial property tax exemption. This memorandum summarizes how the tax abatement program works, the property owner's current vision of future development in the Eagle Landing Master Plan area, and ECONorthwest's estimates of the potential foregone property tax revenue if the City adopts VHDZ for this area based on the applicant's vision.

The projected forecasts conclude that though the City and other taxing entities would lose a portion of the tax revenue during the life of a VHDZ (\$31M overall including \$4.2M to the City), the development would provide a significant overall increase in revenue from the current collection both during the life of the VHDZ as well as at completion. The total additional taxes collected for the development relative to vacant land would total roughly \$7.7 million during the abatement periods for all parcels, and \$87.3 million over 30 years—across all taxing districts. The additional revenue to the City could be roughly \$1 million during the abatement periods and roughly \$11.9 million over 30 years if the area builds out fully.

How VHDZ Works

VHDZ offers a partial property tax exemption for 10 years on building improvement value for new developments that include housing with non-residential use on the ground floor, with the amount of tax exemption increasing based on the size and number of floors of the project. Generally, each residential floor above a commercial ground floor receives a 20% tax exemption for the value of the structure, up to 80%. (The statute provides for an additional partial abatement on the land value for projects that include affordable housing units, but it provides little additional savings in practice and has rarely, if ever, been used in other jurisdictions. This memorandum focuses on the abatement that applies to market-rate mixed use development.)

Exhibit 1 illustrates the percent of tax abatement that a project is eligible to receive based on the number of residential floors.

Exhibit 1: VHDZ Tax Abatement Amount by Building Use and Height

Source: ORS 307.857 (4)(b)

Proposed New Construction	Building Value Tax Exemption
Nonresidential only	N/A
1 Equalized Floor* Residential plus ground floor commercial	20% of Building Value
2 Equalized Floors* Residential plus ground floor commercial	40% of Building Value

3 Equalized Floors* Residential plus ground floor commercial	60% of Building Value
4+ Equalized Floors* Residential plus ground floor commercial	80% of Building Value

* An equalized floor is residential square footage equivalent to the average floor area per occupied floor of the building (excluding parking areas)

State statute requires that at least 50 percent of the project’s ground floor that fronts on the primary public street must be constructed to building code standards for commercial use or planned for commercial use upon completion.¹ Residential common areas and amenity space that is associated with the residential use do not count toward the commercial space required. Commercial space on upper levels would also not count towards the requirements.

Eagle Landing Master Plan

The Eagle Landing Master Plan encompasses 38-acres and 2.1 million square feet of proposed development that is intended to become a premier mixed-use community in Happy Valley. Designed around a town square, the development is envisioned to include a mix of market rate housing, condominiums, hotels, retail, office, and a civic center. Eagle Landing is being developed in phases and early grading for the first building was initiated. The first phase will comprise of 800,000 square feet of new development that will include apartments, retail, and structured parking amongst other uses.²

Phase 1 includes five parcels. A brief overview of the planned development on each of the five parcels is provided in Exhibit 2 based on summary information provided by the developer, along with a summary of the equalized floors of residential use and percent of value abated based on ECONorthwest’s calculations. Phase 2 is a single parcel (Parcel 6) at present, and the developer has less certainty about the future use of the site. ECONorthwest used the planned development on Parcel 4 as an example and scaled it to reflect the larger site area of Parcel 6. Detailed land use program assumptions by parcel can be found in the appendix of this memorandum.

Exhibit 2: Summary of Land Use Assumptions and Tax Abatement Percentage by Parcel

Source: Eagle’s Landing Developer (Planned Development), ECONorthwest

Parcel	Planned Development	Equalized Floors of Residential	Percent of Improvement Value Abated	Timing
1	8-story mixed-use building with retail, residential, and hotel rooms	5	80%	Unknown, assumed to follow Parcel 4
2	6-story mixed-use building with ground-floor retail and residential on the upper floors	5	80%	Unknown, assumed to follow Parcel 1
3	7-story mixed-use building with ground-floor retail, and office and residential units on the upper floors	4	80%	Unknown, assumed to follow Parcel 2
4	6-story mixed-use building with ground-floor retail and 199 residential units on the upper floors	4	80%	Early grading has begun but the structure has not

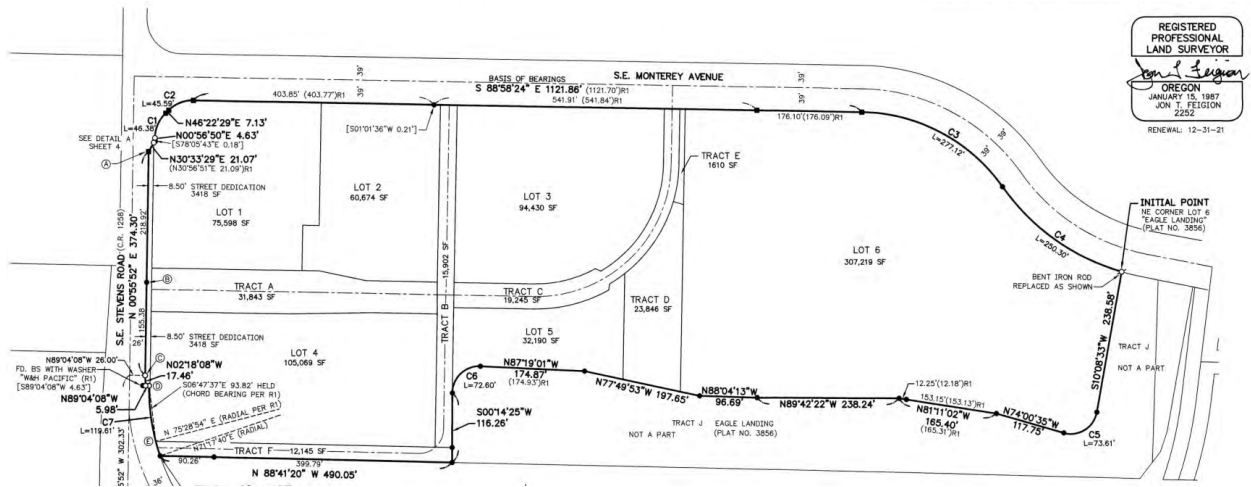
¹ ORS 307.858 (5)(a) and (b)

² <https://www.otak.com/about/projects/eagle-landing-mixed-use/>

				been permitted, assumed to start in Year 0
5	2-story commercial building with retail on both floors	0	0%	Unknown, assumed to follow Parcel 3
6	Unknown, assumed similar mix to Parcel 4 (6-story mixed use building with ground-floor retail and residential on the upper floors)	4	80%	Unknown, assumed to follow Parcels 1-5

Exhibit 3: Eagle Landing Master Plan Map

Source: Eagle Landing Owner/ Developer



Tax Revenue Impact Analysis

To understand the tax revenue implications of enabling VHDZ for the Eagle Landing development, ECONorthwest analyzed potential future development on the site based on preliminary development assumptions provided to the City by the property owner and developer. While the timing of development is uncertain, we have made generic assumptions

about timing for illustrative purposes, given the scale of the development. We used the following development assumptions to analyze the potential abatement amount and impact to the associated taxing districts in Happy Valley:

- Total development project value by parcel (based on developer estimates)
- Square feet by use and by floor area (based on developer estimates)
- Land value (from the Clackamas County assessor)
- Improvement value (estimated based on the difference between total development project value and land value)
- Estimated construction start year (based on illustrative phasing assumptions except for the parcel that is currently under construction)
- Estimated construction time frame (in years, based on typical construction timelines for similar development)
- Taxing district mill rates (from the Clackamas County assessor)
- Assessed value growth limits (based on Measure 50)
- Tax abatement amount (based on the square footages, values, and statutory criteria for exemption)

Detailed assumptions can be found in the appendix of this memorandum.

Summary of Findings

Exhibit 4 shows the assumed total taxes collected and abated across six parcels in the Eagle Landing development. For this analysis we assumed that development would be spread over time with parcels beginning construction at two-year intervals. For example, development of Parcel 4 is assumed to start in year 0 with construction completed in year 3, and development on the next parcel would start in year 2 and be completed in year 4. This assumes that the full site would build out over the course of 12 years.

The colored bars shown in Exhibit 4 represent the taxes collected on the improvement value of each parcel once it is developed, while the grey bars represent the taxes abated due to VHDZ. The black bars represent the taxes collected on the land, which are unaffected by development or by the VHDZ abatement.

Exhibit 4: Total Taxes Collected and Abated with VHDZ for Eagle Landing Master Plan, All Taxing Districts

Source: ECONorthwest analysis

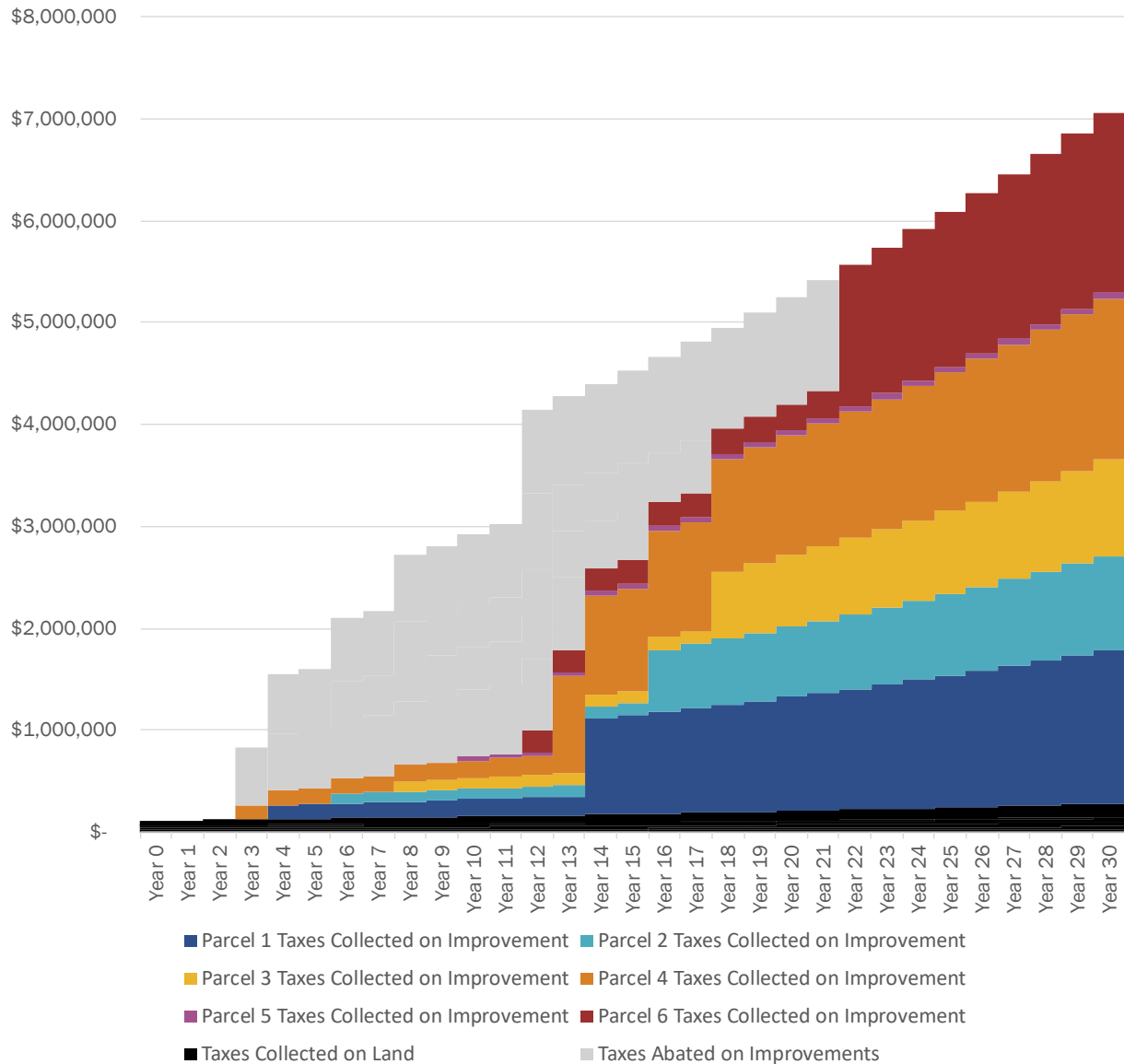


Exhibit 5 on the following page shows the total amount of taxes abated, total taxes collected overall, and total taxes collected for the City of Happy Valley using the assumptions shown in Exhibit 4 above. Our analysis shows that the projected forgone revenue due to VHDZ would total just over \$31 million for the full build-out of the Eagle Landing Master Plan. The City’s share of the abatement would total roughly \$4.2 million (including both the City’s permanent rate and its Local Option Levy). However, the total additional taxes collected for the development relative to vacant land would total roughly \$7.7 million during the abatement periods for each parcel, and close to \$89 million over 30 years. The additional revenue to the City could be roughly \$1 million during the abatement periods and roughly \$12.1 million over 30 years if the area builds out fully.

Exhibit 5: Taxes Abated and Taxes Collected by Parcel, Total and for City of Happy Valley

Source: ECONorthwest calculations

	Total (30 Years)	Total during abatement period only	City Total (30 Years)	City Total (During Abatement Period Only)
Total Taxes Abated on Total Improvement	\$31,086,369	\$31,086,369	\$4,232,461	\$4,232,461
Taxes Collected on Improvement	\$87,383,691	\$7,771,592	\$11,897,436	\$1,058,115
Total Taxes Collected on Land	\$5,797,795	\$1,634,005	\$789,379	\$222,473

Parcel 1

Parcel 1 Taxes Abated	\$6,392,822	\$6,392,822	\$870,393	\$870,393
Parcel 1 Taxes Collected on Improvement	\$21,984,292	\$1,598,206	\$2,993,198	\$217,598
Parcel 1 Taxes Collected on Land	\$649,163	\$167,510	\$88,385	\$22,807

Parcel 2

Parcel 2 Taxes Abated	\$4,175,026	\$4,175,026	\$568,437	\$568,437
Parcel 2 Taxes Collected on Improvement	\$12,422,583	\$1,043,757	\$1,691,356	\$142,109
Parcel 2 Taxes Collected on Land	\$521,010	\$142,629	\$70,936	\$19,419

Parcel 3

Parcel 3 Taxes Abated	\$4,509,546	\$4,509,546	\$613,982	\$613,982
Parcel 3 Taxes Collected on Improvement	\$11,447,942	\$1,127,387	\$1,558,657	\$153,496
Parcel 3 Taxes Collected on Land	\$810,874	\$235,499	\$110,402	\$32,064

Parcel 4

Parcel 4 Taxes Abated	\$6,497,845	\$6,497,845	\$884,693	\$884,693
Parcel 4 Taxes Collected on Improvement	\$23,919,269	\$1,624,461	\$3,256,649	\$221,173
Parcel 4 Taxes Collected on Land	\$902,231	\$226,031	\$122,840	\$30,774

Parcel 5 (Nonresidential)

Parcel 5 Taxes Abated	\$0	\$0	\$0	\$0
Parcel 5 Taxes Collected on Improvement	\$1,072,640	\$0	\$146,042	\$0
Parcel 5 Taxes Collected on Land	\$276,416	\$0	\$37,635	\$0

Parcel 6 (Phase 2)

Parcel 6 Taxes Abated	\$9,511,129	\$9,511,129	\$1,294,956	\$1,294,956
Parcel 6 Taxes Collected on Improvement	\$16,536,966	\$2,377,782	\$2,251,536	\$323,739
Parcel 6 Taxes Collected on Land	\$2,638,101	\$862,336	\$359,182	\$117,408

Technical Appendix

This appendix provides additional details on the development assumptions for the property and fiscal impacts by taxing district.

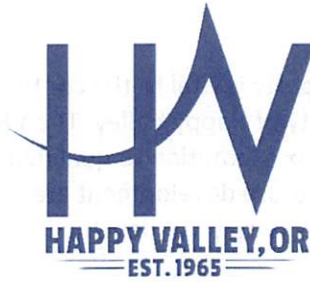
Development assumptions

Parcel Assumptions	Parcel 1	Parcel 2	Parcel 3	Parcel 4	Parcel 5	Parcel 6
Improvement Value	\$105,534,453	\$68,922,476	\$74,444,820	\$107,268,206	\$5,663,062	\$157,012,308
Land Value	\$1,965,547	\$1,577,524	\$2,455,180	\$2,731,794	\$836,938	\$7,987,692
Total Constructed Parcel Value	\$107,500,000	\$70,500,000	\$76,900,000	\$110,000,000	\$6,500,000	\$165,000,000
Construction Start Year	Year 2	Year 4	Year 6	Year 0	Year 8	Year 10
Construction Time Frame	2 Year	2 Year	2 Year	3 Year	2 Year	2 Year
Abatement Length	10 Year	10 Year	10 Year	10 Year	10 Year	10 Year
Changed Property Ratio	35%	35%	35%	35%	35%	35%
Assessed Value Growth Rate	3%	3%	3%	3%	3%	3%
Percent Tax Exempt	80%	80%	80%	80%	0%	80%

Summary of total taxes abated and collected by taxing district

Total Collected Over 30 Year Time Frame			
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Other Districts Total	1.63%	\$ 75,486,255	\$ 26,853,908

Mayor
Honorable Tom Ellis



City Manager
Jason A. Tuck, ICMA-CM

March 20, 2024

County City
2051 Kean Rd
Oregon City, OR 97045
Attn: Elizabeth Comfort

The Happy Valley City Council will consider adoption of a resolution designating a Vertical Housing Development Zone (VHDZ). The purpose of a VHDZ is to encourage development of mixed-use multi-unit housing above active nonresidential spaces in mixed-use districts. A VHDZ provides a partial tax exemption on increased property value associated with new mixed-use development or significant rehabilitation of qualified projects.

Special Districts (as designated in ORS 198.010 or 198.180) can opt out of participation in the VHDZ. If a 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.

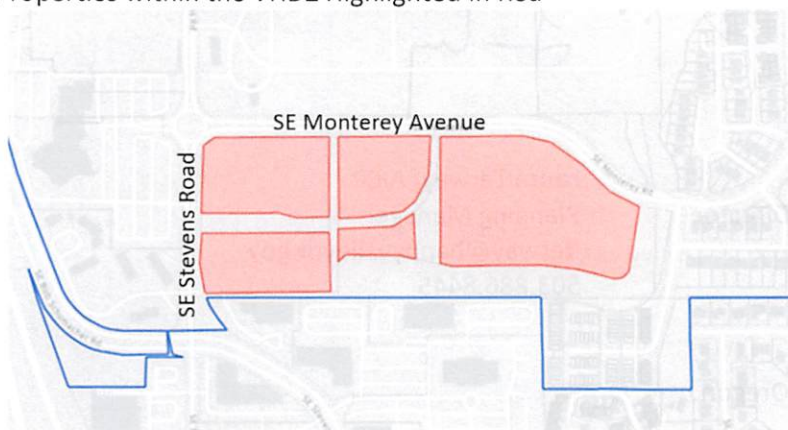
If the District is interested in opting out of the VHDZ designation, notice of such interest must be submitted to the City of Happy Valley in writing, with documentation of the decision to opt out. If you are considering opting out, we would appreciate an opportunity to discuss the matter and/or brief your governing body. If the District would like to opt out notice must be received by 5pm on April 18, 2024, at:

City of Happy Valley
c/o Laura Terway, Planning Manager
16000 SE Misty Drive
Happy Valley, Oregon 97086

The Vertical Housing Program was adopted into state law in 2001. A VHDZ is an area designated under ORS 307.841 to 307.867 for temporary partial tax exemption. The City believes that without designation, the properties may not otherwise develop in a timely manner.

Designated Properties

Properties within the VHDZ Highlighted in Red



*Clackamas County Tax Lots within
the Vertical Housing Development
Zone:*

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12E33DA01200
12E33DA01300
12E33DA01400
12E33DA01500
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Developers of eligible projects apply directly to the City 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 Happy Valley can, at any time, terminate the VHDZ by Resolution of the City Council. If that occurs, existing exemptions will run their normal course, but no new projects will be able to utilize the exemption after the effective termination date.

We are hopeful that a VHDZ will:

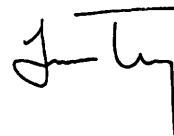
- Encourage new mixed-use development in designated areas.
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- Support new and existing commercial development by increasing the number of residents/consumers.
- Create long-term community wealth through larger, mixed-use buildings that will be fully taxed after the partial abatement expires.

If you have any questions about this notice or the attached maps, please contact Michael Walter or Laura Terway.

Regards,



Michael D. Walter, AICP
Economic & Community Development Director
michaelw@happyvalleyor.gov
503.886.8439



Laura Terway, AICP
Planning Manager
lterway@happyvalleyor.gov
503.886.8445

cc: Special Districts Association of Oregon

Mayor
Honorable Tom Ellis



City Manager
Jason A. Tuck, ICMA-CM

March 20, 2024

County Emergency Radio Bond
2051 Kean Rd
Oregon City, OR 97045
Attn: Elizabeth Comfort

The Happy Valley City Council will consider adoption of a resolution designating a Vertical Housing Development Zone (VHDZ). The purpose of a VHDZ is to encourage development of mixed-use multi-unit housing above active nonresidential spaces in mixed-use districts. A VHDZ provides a partial tax exemption on increased property value associated with new mixed-use development or significant rehabilitation of qualified projects.

Special Districts (as designated in ORS 198.010 or 198.180) can opt out of participation in the VHDZ. If a 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.

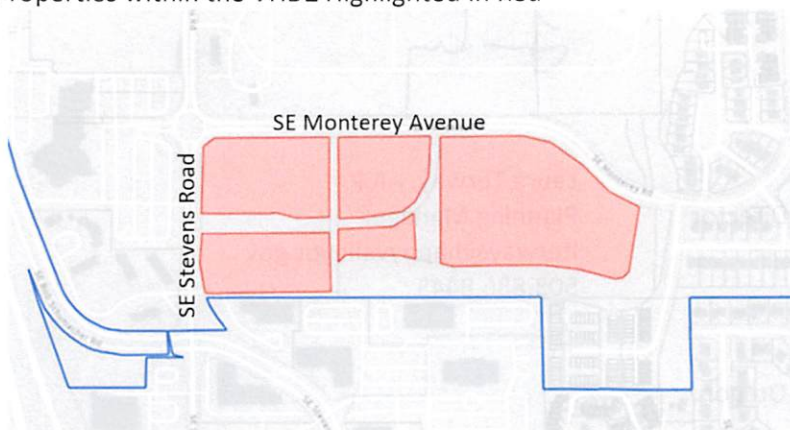
If the District is interested in opting out of the VHDZ designation, notice of such interest must be submitted to the City of Happy Valley in writing, with documentation of the decision to opt out. If you are considering opting out, we would appreciate an opportunity to discuss the matter and/or brief your governing body. If the District would like to opt out notice must be received by 5pm on April 18, 2024, at:

City of Happy Valley
c/o Laura Terway, Planning Manager
16000 SE Misty Drive
Happy Valley, Oregon 97086

The Vertical Housing Program was adopted into state law in 2001. A VHDZ is an area designated under ORS 307.841 to 307.867 for temporary partial tax exemption. The City believes that without designation, the properties may not otherwise develop in a timely manner.

Designated Properties

Properties within the VHDZ Highlighted in Red



*Clackamas County Tax Lots within
the Vertical Housing Development
Zone:*

12E33DA01100
12E33DA01200
12E33DA01300
12E33DA01400
12E33DA01500
12E33DA01600

Developing a larger base of mixed-use property is vital to the continued activation of the Clackamas Regional Center and this area within the City of Happy Valley. The VHDZ designation encourages such development by offering partial property tax exemption to qualified projects. This abatement reduces operating costs in the early years of a mixed-use development area when commercial rents and demand are lower. Without such an incentive, projects may not develop in the short term or of as high quality.

The partial tax exemption applies to qualifying new buildings as well as rehabilitation. The amount of the partial tax exemption is based on the number of equalized floors of residential use proposed in a mixed-use project as well as the amount of affordable housing units. Generally, the project receives a 20% tax exemption *on the structure improvements* for each residential floor above a commercial ground floor (up to 80%). An additional 20% tax exemption *for the land* is also available for each floor dedicated to affordable residential housing (up to 80%). During the 10-year period, the project will continue to pay at least 20% of the building improvement value and 20% of the land value. If a project does not include affordable units, it would continue to be taxed on 100% of the land value. After 10 years, the partial tax exemption ends and Districts receive taxes on the full value of the property.

Developers of eligible projects apply directly to the City 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 Happy Valley can, at any time, terminate the VHDZ by Resolution of the City Council. If that occurs, existing exemptions will run their normal course, but no new projects will be able to utilize the exemption after the effective termination date.

We are hopeful that a VHDZ will:

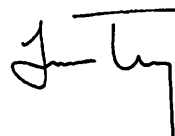
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March 20, 2024

County Extension & 4H
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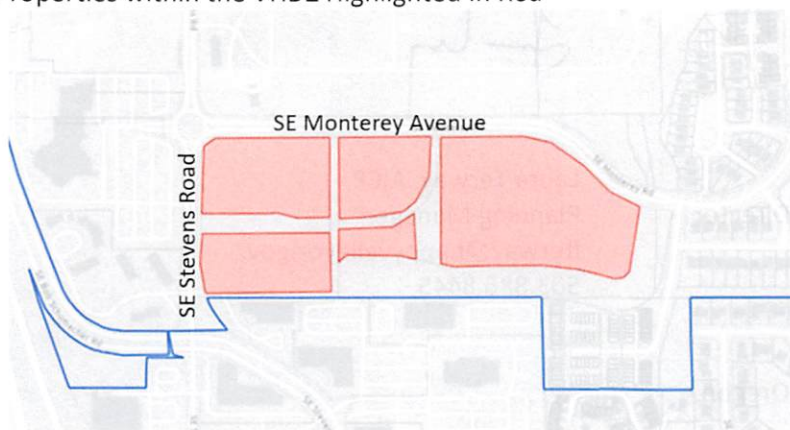
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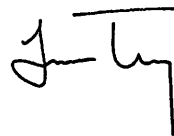
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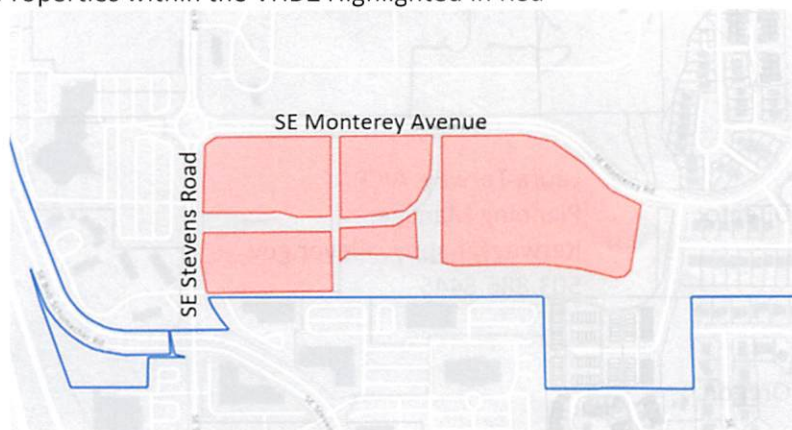
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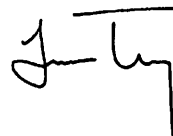
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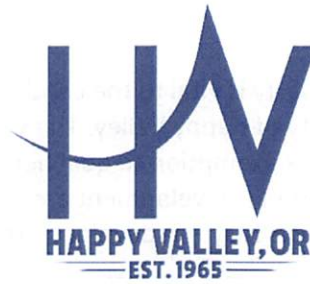
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March 20, 2024

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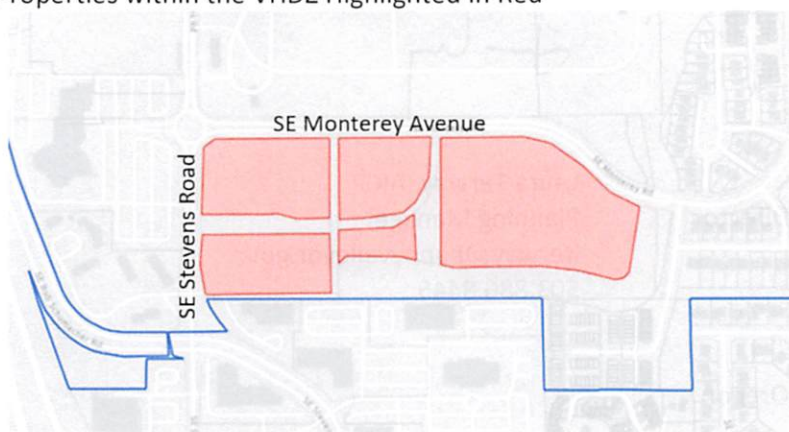
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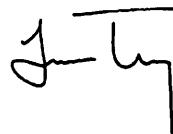
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