



## Staff Report

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**TO:** Mayor and City Council  
**THROUGH:** Steve Powers, City Manager  
**FROM:** Kristin Retherford, Urban Development Director

### **SUBJECT:**

Work Session on Financial Incentives

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

Result Area(s): Strong and Diverse Economy; Welcoming and Livable Community

### **ISSUE:**

City Council Work Session on Financial Incentives.

### **RECOMMENDATION:**

Information only.

### **SUMMARY:**

The City and its Urban Renewal Agency currently provide business and development incentives that include Enterprise Zone incentives, Urban Renewal incentives, and the Multi Unit Housing Tax Incentive Program. Additionally, the City has four federally-designated Opportunity Zones which provide federal income tax incentives.

This work session will provide an update on activities in the Fairview Urban Renewal Area and a proposed new single-property urban renewal program to incentivize affordable units within new market rate multi-family developments. A second work session will be conducted early in 2020 to discuss the City's remaining incentive programs and urban renewal areas.

### **FACTS AND FINDINGS:**

The City and its Urban Renewal Agency provide financial incentives through grants, property tax rebates, and property tax exemptions.

The City currently has seven urban renewal areas (URAs). The Fairview Urban Renewal Area is no longer collecting tax increment and is the subject of a proposed Substantial Amendment to facilitate closure of this urban renewal area.

The Fairview Urban Renewal Area consists of 390 acres in southeast Salem consisting primarily of industrial land. This URA was established in 1984 with an original assessed value, referred to as a "frozen base" of \$368,369. The current assessed value within the URA boundary is approximately \$198,581,148. The Urban Renewal Agency reached its maximum indebtedness of \$6.2 million and stopped collecting tax increment a number of years ago. However, while tax revenue now flows to taxing districts, including the City, the URA has not yet been officially closed down. This URA still has \$2 million cash available that can only be used on projects within the URA boundary. This URA also has three outstanding business loans.

There are no identified projects remaining within the existing URA boundary. Staff is proposing that prior to formally closing the URA, the Urban Renewal Agency and City Council consider a substantial amendment to add acreage to the URA boundary to include parts of the Salem Municipal Airport and to reduce acreage in other areas of the URA. Doing so would allow the remaining \$2 million cash balance to be expended on needed airport projects, to incentivize new development, and generate new airport revenue. The alternative would be to return these funds to the County Tax Assessor to be distributed to all affected taxing districts. The acreage that would be removed from the URA would create capacity within the City for future URAs in other areas.

As a part of the process of moving towards the ultimate closure of this URA, three outstanding business loans will need to be addressed. The Fairview URA has not operated a grant program like those found in other URAs. Instead, it had a unique, partially-forgivable loan program designed to induce job creation. The total outstanding balance of these three loans is approximately \$296,000, and there are several years of remaining loan deferrals and future payments. Loan repayments are considered to be program income and the resulting revenue can only be used within the urban renewal boundary, or returned to the County Tax Assessor for distribution to affected taxing districts. The job-creation goals associated with these loans have been met and had these businesses been located in the Riverfront-Downtown, North Gateway, or West Salem URAs, they would have qualified for urban renewal grants. Staff recommends forgiving the outstanding balances in conjunction with processing the proposed Substantial Amendment.

Staff is also exploring a new urban renewal concept to incentive developers to include affordable units in new market-rate multi-family projects. Affordable housing and homelessness are high priorities within the City according to both community survey results and the City's Strategic Plan. The Salem Housing Authority (SHA) currently has a waiting list of approximately 6,000 individuals and families in need of affordable housing.

The City currently incentivizes transit-oriented multi-family housing through the Multi-Unit Housing Tax Incentive Program (MUHTIP), which provides up to ten years of property tax abatement within a

specific geographic area in downtown and central Salem. The City also incentivizes affordable housing through its Low Income Rental Housing Property Tax Exemption program (LIRHPTE) for non-profit owners and operators of low-income housing developments, while the SHA operates a Community Partners Property Tax Exemption program to incentive the inclusion of affordable units in market rate developments. Each of these programs has its own opportunities, limitations, and guidelines. The proposed urban renewal program would add to the options currently available to create more affordable units within the community.

The proposed program would allow the creation of single-property or single tax lot URAs in areas of the City currently not included in an existing URA. Taxes on new development (tax increment) would be rebated to the property owner in exchange for affordable units within the development.

The actual rebate amount and number of affordable units in the development would be subject to an agreement between the Urban Renewal Agency and the property owner and based on a menu of options. The goal would be to have a certain amount of flexibility in affordability levels to achieve an average of 60% AMI.

The program would be similar in many ways to the SHA program, but with a few notable differences. The SHA program provides a tax exemption while the URA program would have to provide a rebate after taxes have been paid. The SHA program requires that the housing authority be designated as General Manager in a partnership agreement (5 year term and renewable) for the purposes of achieving the tax exemption (i.e., SHA does not become a partial owner or an active manager of the property). Lastly, the SHA program provides for six different combinations of exemption levels, affordability levels, and unit numbers. The urban renewal program being proposed would have a more limited mix of options.

The following are examples for a 200 unit development:

Average Affordable AMI	Affordable % of Units	Affordable # of Units	Maximum Years Affordable	Admin Fee	Rebate
60%	20%	40	30	3%	97%
60%	12%	24	30	3%	77%
60%	8%	16	30	3%	57%

Both urban renewal efforts will be back to the Urban Renewal Agency and City Council in upcoming months for formal process initiation and then in early 2020 for public hearings and adoption.

## **BACKGROUND:**

Further information on the Enterprise Zone incentive program, the City's other URAs and incentive programs, and Opportunity Zones will be presented in greater depth at a second work session to be scheduled in early 2020.

The Enterprise Zone program is a State-sanctioned program that has been in existence since 1986. Enterprise Zones are intended to foster employment opportunities, development, and local competitiveness through three-year or five-year property tax exemptions on qualified investments. Enterprise Zones have to go through a periodic renewal process with the State. The City will be undertaking this process shortly.

The City also has four areas designated as Opportunity Zones by the federal government. Opportunity Zones can provide income tax relief on capital gains on qualifying investments within an Opportunity Zone.

Incentives are a valuable tool for stimulating investment in the community, revitalizing blighted areas, creating jobs, and building affordable housing. The range and variety of the City's incentive programs are complex and intended to meet community needs on many levels. Unfortunately, there are limitations on these programs that restrict them from being available city-wide. The current and subsequent work sessions will provide further context on how these incentives are used, why they are available in certain locations and not others, what they have accomplished, and the future vision for these programs.

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