SINCE 1982

KEIZER PLANNING COMMISSION
KEIZER URBAN RENEWAL BOARD
JOINT MEETING MINUTES
Wednesday, November 9, 2011 @ 6:00 p.m.
Keizer Civic Center

CALL TO ORDER
Planning Commission Chair Jim Jacks called the meeting to order at 6:00 pm.

ROLL CALL

Commissioners Present:
Jim Jacks, Chair
Jonathan Thompson, Vice Chair
John Rizzo
Jared Choc
Matt Chappell
Albert Castaneda
Greg Rands
David McKane, Council Liaison

KURB Members Present:
Greg McLeod, Chair
Robert Hendricks, Vice Chair
Erick Peterson
Tyler Clark
Mike Hickman, KPIC Rep.
Joe Egli, Council Liaison

Absent:
Rich Duncan
Doug Tookey
Joe VanMeter

Staff Present:
Nate Brown, Community Development Director
Sam Litke, Senior Planner
Shannon Johnson, City Attorney
Susan Gahlsdorf, Finance Director
Debbie Lockhart, Deputy City Recorder

APPEARANCE OF INTERESTED CITIZENS
Christine Dieker, Executive Director of the Keizer Chamber of Commerce, thanked Commissioners and Board members for the opportunity to provide input on the decision being considered. She explained that the Chamber had done on "unscientific" survey of the business community which indicated that the majority of the 21 businesses that responded did not support extending the Urban Renewal District. She distributed statistics compiled from the survey and explained that there were only 21 responses to the 302 surveys that were sent out.

Councilor Cathy Clark, Keizer, reported that she and Councilors Taylor and Egli had put together a series of questions by which to survey committee members for feedback on what is working, what is not, and how committees could be used better. She explained that the survey will be emailed and the feedback compiled so that Council can decide on possible changes based on the information received.

Bill Quinn, Keizer, expressed disappointment in the City because urban renewal funds were recently used to purchase land at Keizer Rapids Park and almost used to fund a tourist center when "folks" had to know that they were in trouble but they were still trying to spend the money.

City Attorney Shannon Johnson responded to Mr. Quinn explaining that when the land was purchased at Keizer Rapids Park, the City was not aware that Urban Renewal funds could be used to pay on the Local Improvement District at Keizer Station. He noted that the City had invested a few hundred thousand dollars in option money and that would have been lost if they didn't close. As to the tourist facility, he explained that at that point the City was made aware that they might be able to use Urban Renewal funds for the LID and therefore expressed conservatism toward the visitor center.

NEW BUSINESS –

- **Information Regarding Local Improvement District Default** ~ Community Development Director Nate Brown explained that it is a requirement that the Planning Commission is presented with this information and he felt it was important for the Urban Renewal Board to be part of the discussion. He expressed disappointment because after all the work done by the Board it was hard to contemplate setting that aside but added that this was a way for the City to provide for its citizens.

  Mr. Brown then introduced Urban Renewal Consultant Elaine Howard who explained that the City is proposing a substantial amendment to the Urban Renewal Plan and that there are statutory requirements that must be met in order to do this. She explained how urban renewal dollars are assessed to properties adding that that the role of the Planning Commission is to make a recommendation to Council on whether or not the amendment conforms to the Comprehensive Plan and reviewed updates she had made to this end.

  - **Presentation by Finance Department:** Finance Director Susan Gahlsdorf explained that the Urban Renewal District has had a direct benefit to all jurisdictions:
    - Keizer Station Area A alone generates over $1,000,000 in annual tax revenues.
    - Significant numbers of jobs have been created.
    - Transportation improvements have been established.
    - Public services have increased.
    - Quality of life has improved including parks, aesthetics, and convenience.
    - In the District as a whole, the tax base has been increased from $45,000,000 to $345,000,000.
    - It is believed that there is an interrelation to a healthy local economy and successful schools.

    She noted that Keizer has been a good steward of Urban Renewal:
    - In 2005 the Urban Renewal District was reduced by 1/3 to free up revenues.
    - $940,000 has been returned annually to partners.
    - Keizer established the largest LID in Oregon and has shouldered the risk.
    - The City will receive 14% of the tax revenues generated from tax increment.

And that Keizer is proceeding as a good partner:

- Impact to partner jurisdictions is to be limited and spread over time in order to release some income immediately.
- 69% of Income (taxing district vs. URA) over 4 years will result in additional revenue:
  - $627,000 to Marion County
  - $937,500 to the School Fund (with much smaller or no net increase to Salem-Keizer School District because of the State's backfill formula).
  - $432,000 to City of Keizer
- The reality is that urban renewal and school funding are both financed through the same resource: property taxes. Urban renewal is really the only local tool for encouraging economic development, and the result of economic development is the increase of the property tax base for all. The City has already "released 1/3 of the growth in the urban renewal area to the local taxing jurisdictions, providing them with an additional $940,000 in property taxes each year.
- Actions are being pursued, including foreclosure and other monetary penalties, to address the issue with the defaulting developer.
- This action in no way releases the defaulting property owners from their debt to the City.
- Extending the District addresses the 'worst-case scenario' and preserves all options, with other measures being pursued at the same time.
- Exercising the option to extend may be pulled back if other opportunities become available.

Ms. Gahlsdorf explained that Keizer has taken the heaviest impact and that funds being used include:

- $1,000,000 in existing tax increment revenue intended for River Road Renaissance is being held for future debt service.
- $620,000 in land sale proceeds is being held instead of being used for other community projects.

o **Explanation of Proposed Actions:** Ms. Gahlsdorf then reviewed other measures being pursued which include:

- Using future proceeds from the sale of other URA owned land parcels as they occur;
- Sale of foreclosed properties used for debt service; and
- Use of general fund to pay debt service which would impact ability to provide service.

Director Gahlsdorf explained that the City's Long Range Plan provides a net $332,000 from urban renewal next year. This could be used for debt service payments. However, the Long Range Plan shows expenditures outpacing revenues that year by $61,300. With $315,000 for debt service, this will increase the disparity to $376,300. Over four years it is $1.456 million. Adding $315,000 annually for debt service brings the Revenue/Expenditure disparity to $2.716 million.

This alternative will cost the City more in interest payments than using urban renewal funds because those funds can be collected much quicker. Using the General fund to make these payments drives up the interest expense because debt repayment will be slower. That is taxpayer money going into investor pockets versus money that could stay in the community to support City services.

Ms. Gahlsdorf explained that the City is proceeding as a good partner; that if this is spread out over four years it will be less impactful to other jurisdictions. She noted that the reality is that Urban Renewal and school funds are funded through property taxes. The City is pursuing other actions including foreclosure of the defaulting developer but this in no way will release the developer from his obligations. The City has a balloon payment due 2031, which is rapidly accruing interest, but cannot sell the foreclosed property until the market turns around; however, it will pay the taxing entities back with interest. The City cannot guarantee the full amount because the real estate market is unpredictable but it does not expect to repay itself. Mr. Johnson clarified that over the next four years jurisdictions will get 70% of what they would get if the urban renewal district went away totally.

- **Discussion of Recommendation to Council:** Ms. Gahlsdorf then fielded questions regarding frequency of bond holder payments, interest rates, funds that can be used to pay on the bond and comparisons of jurisdiction percentages. Ms. Gahlsdorf noted that originally this Local Improvement District was designed to pay the City back for the risk and the time and effort of staff, but that is not likely to happen now. Now the City is just trying to break even and get the debt paid off.

  Ms. Gahlsdorf then reviewed options being considered:

  1. <u>Do nothing and wait for payments to come in.</u> Though there have been some indications that payments will be brought current, there is concern that no payments will be forthcoming on the delinquent properties in the near future. The other possibility is that payments are brought current, but with no income coming in on the bare land, that payments become delinquent again immediately. This option leaves no funds at all (if payments are not made) to pay down principal and results in significant interest costs and an unsolvable balloon payment.

  2. <u>Rely only on foreclosure and resell delinquent properties.</u> In a normal real estate market, this would be the recommended option with the City taking the risk that the proceeds from the sales of the properties would be sufficient to make the assessments. This is not a normal real estate market. Staff is concerned that the proceeds will be significantly less than the total assessments owed. Another large concern is how long it would take to sell the properties in today's market. With thousands of dollars in interest costs each month, time becomes critical.

3. Wait and refinance the bonds in 2018. The current bond covenants do not allow refinancing of the bonds until 2018. If no additional principal calls are made, there will be hundreds of thousands dollars of interest costs lost. In addition, there is no guarantee that the interest rate in 2018 will be favorable or lower than the current rate of 5.2%. Simply waiting until 2018 to refinance the bonds is a large risk considering these interest costs and not knowing if refinancing is a viable option.

4. Use the City's general fund to make principal calls. To pay enough principal calls each year to retire the bonds in 2031, assuming the continued default, the City would have to use over $300,000 of general funds each year. There is no other available source of funds. Use of these funds would require layoffs of four or five full time equivalent positions. This would be in addition to the six unfilled and unfunded positions currently in place. These lost General Fund positions would have to remain vacant through the term of the debt defeasance. At the minimal staffing level already in place, this option would significantly reduce the City's capacity to meet its mission in the program areas identified to absorb the staffing cuts.

5. Amend the Urban Renewal District. This option would amend the existing Urban Renewal District for a period of 2 to 4 years depending on the strategy ultimately agreed upon to increase the maximum indebtedness by $5,763,507 to $51,653,891. This additional increment would be combined with existing unspent Urban Renewal District authority and program income to pay down the LID principal in sufficient amounts so that the payments from those properties not in default would be sufficient to stay on the debt defeasance model and secure the City's General Fund from risk. This strategy would be combined with foreclosure or voluntary conveyance of the delinquent parcels so that they can be liquidated at an advantageous time and pay back the overlapping districts within the Urban Renewal District area for foregone revenues caused by the amendment. In this scenario, the use of Urban Renewal funds acts only as a prudent method to assure the solvency of the City.

   Staff believes option #5 to be the most prudent as it is the only identified method in which the City is in control of the outcome. All other options have unmanageable risks or significant negative impacts associated with them. It should be noted that foreclosure or voluntary conveyance of the delinquent properties will occur whether or not the Urban Renewal Plan is approved. The Urban Renewal funds can only be used for assessments if the City/Urban Renewal Agency owns the properties.

   She explained that if the City moves forward with the amendment and collects the $5.8 million, a plan will be set up so that the money can only be used to pay the LID assessments, back taxes and administrative costs involved with the foreclosure of the properties; if it is not needed it will go back to the other districts. The payout may be different for the school district because their system is complicated, but generally the proceeds of the sale of property would be divided up proportional to what was lost with a percentage going back to the various jurisdictions. The beauty of this plan is the "bridge" nature of it. It allows the City the luxury of waiting for a better market to recover losses. There is some likelihood that jurisdictions will receive 100% of their money back.

Discussion then took place regarding what would happen if the defaulting developer paid the assessment, how the figure of 5.8 million was determined, what would happen if the City did not take any action, and the effect of the amendment on the average citizen. Mr. Brown explained that if the Urban Renewal District sunsets, owners of a $120,000 home would see a decrease of property tax of $7; if the amendment goes through the decrease would only be $3. The major difference in the distribution of the tax revenues is that overlapping districts would not see the full increase.

Commissioner Rizzo moved that the Planning Commission recommend approval of the findings supporting the Proposed Substantial Amendment to the North River Road Economic Development Area Urban Renewal Plan conforming with the Keizer Comprehensive Plan and further recommend that the Keizer City Council adopt the Proposed Substantial Amendment to the North River Road Economic Development Area Urban Renewal Plan. Commissioner Rands seconded.

Commissioner Thompson noted that he supported the motion but was upset that the City is put in this position. He thanked staff for the work they did to come up with the options noting that the City must protect its credit rating.

Commissioner Jacks added that even though the Planning Commission role is to look at the amendment in terms of the Comprehensive Plan, the meeting has offered a lot of financial discussion for informational purposes and he realized that the City is not paying the obligations of the properties that have not paid their obligations but is doing what must be done to honor bond obligations and in the process will end up owning the properties.

Motion passed unanimously as follows: Rands, Jacks, Rizzo, Castaneda, Choc, Thompson and Chappell in favor.

KURB Chair, Greg McLeod, asked Board members for a consensus of opinion that they acknowledge the fact that the staff recommendation meets the criteria for the extension of the Urban Renewal District to cover the amount of indebtedness and that they acknowledge the need.

Erick Peterson noted that this was the best of several bad options. He added that he had taken on urban renewal as a personal project and was sad to see it go so soon. He voiced the hope that something would come back in the future.

Speaking for the Board, Chair McLeod noted that the Board agreed with the Planning Commission.

- **Future of Keizer Urban Renewal Board** ~ Mr. Brown explained that staff will be discussing the desire of the Council and that he was torn because he did not see a need for further meetings. He explained that it is the intent that the program will be reestablished but he struggled with asking citizen volunteers to come to a meeting to find out if anything had happened when he could keep everyone informed through email. Mr. Johnson added that he did not see a reason to formally disband the Board, this is simply a stop-gap measure; staff does not want to spend money until the outcome is determined but there are many possibilities that might get the program back on track quicker so it would be inappropriate to disband.

COUNCIL LIAISON REPORT ~ Councilor McKane had nothing to report. Councilor Egli noted that Council had approved moving forward with the amendment 6 to 1 at the last meeting. He also urged everyone to watch for and complete the committee survey.

COUNCIL REPRESENTATIVE ~ Greg Rands will report at the November Council meeting.

NEXT MEETING ~ Commissioners agreed by consensus to cancel the December meeting and meet in January.

ADJOURN ~ The meeting adjourned at 8:05 p.m.

Next Meeting: January 11, 2012

Minutes approved: 1-11-2012